

e-Seminar Title: The Nepal PSD

Subject: PSD in Education, Hydropower, Business Environment and Finance – Summary of February 23, 2007 Deliberations

Contributors: Meena Acharya, Keshav Upadyay, Mallika Shakya, Mukti Upadhyay and Dileep Adhikary (Editorial Summary by Vijaya R. Sharma, Co-Moderator)

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Meena Acharya:

(Comments on PSD in Education, Education Trust Fund)

I agree with Prof. Bohara's proposal of a Fund and tapping the remittances. However, a big problem in education in Nepal is the archaic mentality of control rather than problem-solving mindset among our politicians, including the student unions. If you listen carefully to some of the advisors, Maoists and UML, they would allow private sector neither in education nor in health. The idea of a Fund is good, given the private sector is allowed to exist. Fund will be useful only if other aspects of education are also addressed simultaneously.

There is a big quality gap in the private education system in Nepal. The curricula and the textbooks of private sector schools cover histories and issues more relevant to India or developed countries rather than Nepal. The curricula glorify the countries to where these schooled are linked, rather than to Nepal's history and present day realities. All of the private school education is geared to sending students overseas, teaching their lifestyles and social patterns. Further, only a few schools go beyond rote learning. So even if students pass SLC and + 12 with good grades, if they decide to stay in Nepal, often adjustment becomes a problem for them. A large chasm is created between them and the ordinary people. Such students often become misfit in general social environment. Only advantage they have is their good verbal English. I think this is where the problem lies.

The state should have a good regulatory framework and capacity to supervise what is being taught and in what way, but in no way try to impose political partisan view points like in the Communist countries or under the Panchyat Raj. Politicians should cease to use schools as recruitment grounds for their cadres, fill it with their followers as teachers and use them for party politics. There should be a law to ban recruitment of school children not only in army but also their use for party demonstrations.

One more issue pertinent for school education is the role of community managed schools. They could replace the private schools in competition itself given proper environment. The snag is that while parents and students are willing to pay 10 times more for private education, levy of even minimum charges by the community/public schools faces strong opposition, inflamed by politicians. The VDCs could pay for really those unable to pay even the minimum in community/public schools from this Fund. Community schools can probably do a better job on this front.

Keshav Upadhyay:

(Comments on Hydropower, State Regulation, and FDI)

Let me summarize what I wanted to say about the development of hydro power in Nepal.

1. First thing that has to be done by the Government is to establish a regulator who can balance the interests of both sides: investor and consumer. It is very good for the government too, because it takes on the responsibility of often unpopular pricing decisions which have to be taken for the sake of the sector as a whole.
2. Forget India. If they want Nepali hydropower they will come on their own. And the subject has now become so sensitive that no politician wants to be seen selling hydropower to India because then he would be charged of selling the sovereignty.
3. Educate the public that hydropower does not come cheap; massive investments are required upfront to construct the power stations, transmission lines, etc. The only attraction it has for us is that we do not have to be dependent on import of other materials for our energy needs. Stress the security angle that it provides, and say repeatedly that if we tighten the belt now we will be free of the worries of Nakabandi, like the one we had to face in 2046.
4. Do a massive restructuring of NEA. Take away distribution from it, initially. Give it to private companies or local bodies. We started privatization in electricity from the wrong end. The reason obviously is that MNCs are not interested in distribution, it is a messy business. Generation is rather clean.

Mallika Shakya:

(Comments on Business Environment and Financial Development)

1. Dileepji has used the terms 'business environment' and 'legal and institutional frameworks', but some of the State's roles require 'hands-on' actions rather than passive environment-creating. Physical infrastructure and backbone services alone require active engagement from all sides.
2. I agree that the State must not try to lead but facilitate 'activation, innovation and competition' from the private sector. Facilitation of this innovation and competition will require establishment and nurturing of a whole tier of institutions that actively promote and enable good practices from the private sector. For example, 'brand'-building or niche marketing is an area where small countries like Switzerland and Nepal have competitive advantage in products/services like carpets, tourism and handicraft. Such sectors will require massive efforts on physical infrastructure, backbone services and image-building.

The Indian government spent four million dollars to develop 'India Everywhere' brand to entice the foreign investors and convince them of its financial credibility, which was then

extended to 'Incredible India' brand for its tourism market, and now a whole range of Indian products like IT, medical services, etc. capitalize on it. One might say national brand is a big brand; private sector firms can go ahead and develop smaller product brands for their individual products. But, the private sector will need to have the right training/technological institutions to achieve the quality, then certification agencies and harmonization procedures to gain credibility, then promotion agencies to reach out to consumers, a sound legal framework for incentive to innovate.

Bhola ChaliseJi pointed out in his comments, that of a bureaucratic duty drawback for exporters which is too time-consuming to be useful. The only sector which could convert this to a more user-friendly 'bank-guarantee-system' was the garment industry. This shows that name of the game is public-private-partnership or meaningful dialogue between the two. Both of these require very specific knowledge, skills and experience, and of course the right mindset. But this is very much the precursor to PSD.

I very much agree with MuktiJi that the flow of remittance and flow of people might give us a unique window of opportunity in this regard. Does the State have a vision?

Mukti Upadhyay:

(Comments on Business Environment and Financial Development)

Dileep Adhikaryji rightly emphasizes the improvement of legal and institutional framework for PSD. Although there has been a large successful sectoral growth of private sector institutions in education, health, and finance in Nepal, it is important to remember that free markets only cater to people who can vote with money. The result is a gross disparity in access to quality services between Kathmandu and outside, and between the well-off and worse-off even within Kathmandu. While the growth of private activity in these sectors poses no direct problem, the increasing inequality that results from it does.

Alokji has floated a sound proposal, namely the creation of a national fund, to address education inequity. Let me raise a few questions about finance here. How many opportunities do private banks have in Nepal to expand banking services in rural areas? The question is whether institutional credit is getting ready to move into the rural hinterland if and when peace returns in the country more permanently. Do we have enough large and small developmental type banks, including micro-finance organizations (MFIs), to meet a high fraction of credit needs at the going interest rate? And, have the directives and guidelines from the Rastra Bank to commercial banks made a significant contribution to increasing the supply of rural credit? Potential borrowers in rural areas may want to make use of loans but they cannot present their case in a way acceptable to banks. They may know how to produce and where to sell but perhaps cannot fill out forms or prove their creditworthiness by putting up marketable collateral. To what extent have MFIs helped overcome the problem of asymmetric information (high-risk vs. low-risk borrowers that a conventional bank cannot distinguish) in a situation like this?

Another interesting development in Nepal has been the inflow of remittances. It is widely

believed that, because of limited opportunities for investment in real capital, this has ended up either raising the price of real estate or giving some desired consumption boost among poor households. What institutional development will help to induce much of the remittance money toward growth of the rural economy? Is it feasible, for instance, to translate remittances into MFI loans?

Dileep K Adhikary, Consultant & Facilitator, PRAM Associates
(Comments on Business Environment)

First of all, one must appreciate the silent revolution on grass roots economic front that is going on in Nepal since the days of small farmer development programme. Then there came Community Forestry. These innovations must be accredited to the government initiative. Right from the 1990s people have sprang up themselves which saw the mushrooming of self-serving community-based organisations (CBOs) which are still growing on with their saving and credit schemes.

In recent months, I am having several sessions with NIRDHAN Chairman Dr Harihar Dev Pant in promoting One Product One Village (OPOV) in Bara-Parsa terai sections. As Nirdhan is contributing to micro-credit to poor lot in ten districts including these two, the need for graduating the micro-credit takers to micro-enterprise is the idea behind the concept of OPOV. Nirdhan will promote three micro enterprise centres with a plan I should be facilitating in terms of centre identification, market linked product identification and entrepreneurs identification.

Basically, what a state is supposed to do is to improve the business environment, it will not be able to do it if it is politically weak on the one hand and administratively confused on the other. My contention has been that it should be policy making/implementation role for the ministry, regulatory role for the government department, non-commercial services for the public institution/enterprise and commercial activities for the private. Presently, you will find ministry involved at the project level as well.

Activation, innovation and competition should be left to the private sector, and the State should to provide suitable legal and institutional frameworks to create environment for the private sector activation, innovation and competition. The state should cooperate from behind, not try to lead from the front. The thrust required is on the front of infrastructure, and on the arena of marketing and financial dynamics beyond the traditional buy and sell and the traditional production credits. Missing are the services linked to outreaching the market which would demand a specific highway specific to product or services, and missing is the financing (that embodies banking and financing beyond what is practiced or served currently in Nepal).

Integration is the key in the upcoming of the private sector which links it to from source to production (product or service) to market. Assuming that macro policy (of openness and competition) is here to stay, and that objectively we have to attain the economic growth of sustainable magnitude through the expansion of the private sector activities,

then what needs to be pitched obviously is the appropriate legal and institutional frameworks. Unless the government understands how a business happens and that too at competitive terms the private sector will be too weak to raise Nepal. That should be the starting point.