

Towards Economic Prosperity in Nepal: Some Considerations for Policy Making

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A Concept Paper

By the

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Table of Contents

No.	Title	Page
1.	Introduction	4
2.	Economic Prosperity	6
2.1	What, Why and How	6
2.2	Basic Considerations to Achieve Prosperity	7
3.	Sector Specific Analysis	11
3.1	Education and Skill Development	11
3.2	Energy (Hydropower)	14
3.3	Infrastructure Development	16
3.4	Tourism	19
3.5	Banking and Financial Sector	20
3.6	Investment Policy, Taxation and Regulation	21
3.7	Regional Economy	22
3.8	Agriculture: Market Based Solutions for Farmers	24
3.9	Sustainable Development: Environmental, Economic and Social	25
4.	Conclusions and Recommendations	27

1. Introduction

- 1.1 This paper aims to present matters for the consideration of the Government of Nepal (GON) to devise effective policies, plans and mechanisms aimed at achieving accelerated economic prosperity mainly by addressing the issues affecting critical aspects of Nepalese economy and society. It plans to analyze current situation, identify key challenges, measures to be considered in policy making to address current challenges, strengths and weaknesses of proposed measures and the potential role of the Non-Resident Nepali Association (NRNA), as applicable.
- 1.2 The paper is divided into four parts. The part 1 is introduction. In part 2, we will discuss briefly about and highlight points to create conditions conducive to achieve it. In part 3, we attempt to address the key economic issues which warrant priority treatment by the GON and suggest implementation strategies. In Part 4 contains summary and conclusions.
- 1.3 The CIA fact book, presents an alarming picture of 46 percent of the working age population of Nepal was unemployed in 2008 which ranked Nepal in 189th position in world. Each year, more than 250,000 additional Nepali enter the labor market where the prospects of employment are very slim. According to the Department of Foreign Employment the number of people leaving Nepal in search of employment was increased by approximately 9 percent in the first eight of the fiscal year 2009/10 compared to the same period of the fiscal year 2008/09.¹ As large number of Nepali youths travel foreign countries every year in search of job, suitable skill development programs and pursue higher studies. Continuous outflow of economically active population has serious economic and social ramifications. Creating jobs for the increasing working age population has been a major challenge to Nepal. Building human capital capable to face global competitiveness needs serious attention.
- 1.4 Nepal's economic performance since the turn of the century lagged behind compared to her South Asian neighbors despite some reforms during 1990s and 2000s. While the immediate overall economic challenges look daunting, Nepal can address them with strong political commitment and will power, by making policy environment predictable, building capacity of public institutions, improving governance and developing skills of people. There are possibilities of creating employment by encouraging investment in hydropower, tourism, communication and information technology and agriculture. The challenge lies on how we make use of opportunities. Mobilization of internal resources in productive activities and strengthening public institutions are clearly the necessary conditions for achieving economic prosperity.
- 1.5 The NRNA strongly believes that the primary responsibility of a government is to create conducive environment for economic and social progress and equitable

¹ Kantipur Daily – 23 March 2010.

distribution of the benefits of such progress. For this, government must pay serious attention *inter alia* on the following:

- set the policies and parameters of the social and economic progress so that citizens can play their roles within those parameters;
- enforce established parameters equitably, fairly and strictly so that no one gets an unfair advantage and precludes other from expressing talent and entrepreneurship;
- provide good governance by strengthening public institutions, promoting accountability, transparency and ensuring rule of law;
- formulate rules and procedure and modify them as the situation demands and respond to the changes taking place in national and international environment; and
- invest in key areas such as development of infrastructures and building human capital.

The NRNA also considers that an ossified government or an inflexible allegiance to any set of principles narrows the ability to make choices and eventually reduces the ability to deliver goods and services for public welfare.

- 1.6 NRNA is committed to be a responsible partner in Nepal's' socio-economic development. It is guided by the motto "BY NEPALI FOR NEPALI". NRNA has formed task forces to work on specific areas with Nepali partners. NRNA fully understands that rejuvenating a fragile economy is not an easy task and requires in-depth study of whole range of issues and challenges the country is facing currently and which have deep root in our culture, society, work ethics and mind set. The policy measures and actions which are proposing in this paper are not based on any extensive academic research. These are based on our understanding and good practice that we come across in the countries of our residence. Work ethics, predictable policy environment, protection of property rights, accountable and transparent management process are the common expectations of potential foreign and Nepali investors. The NRNA wishes to offer its perspectives on the economic prosperity of Nepal and emphasizes that government should create an environment for broad based economic growth for strong and sustainable economy. Economic growth and economic security must be mutually reinforcing. The primary condition for economic prosperity is presence of strong government that is dedicated to improve economic performance and to distribute its results in a just and fair manner.

2. Economic Prosperity

2.1 What, Why and How

- 2.1.1 Our common aspirations are prosperity, peace and security. They are mutually inclusive. Economic prosperity (EP) implies enabling people to live with dignity. It is not just an economic phenomenon but also the improvement in social and mental status where people feel secured of their life through the provision of basic amenities and access to education, health, decent work environment and social protection. It assumes moderate living condition to everyone and fair distribution of opportunities for progress. The GON must play a dynamic role in providing suitable environment to achieve prosperity i.e., physical infrastructure, educational opportunities, security, rule of law, clear and predictable policy environment as a minimum requirement. Citizen will endeavor to make best of their ability if favorable environment is created and sustained to flourish. The NRNA strongly believes that achieving prosperity is crucial to make our identity as a Nepali dignified. Individual prosperity alone does not provide us the comfortable dignity unless we work hard to make our economy strong and sustainable.
- 2.1.2 EP is largely influenced by the plan and the capacity to use talent, optimum use of national resources, advancement of technology, equitable distribution of resources and opportunities. "A country's prosperity and the welfare of its people are determined by the pace of accumulating physical and human capital, by how efficiently the capital is used, and how equitable access is to opportunities that growth and development generate".² EP cannot be achieved amidst insecurity of life and properties and unstable and unpredictable policy environment. The prerequisites to achieve and sustain prosperity include among others innovative thinking, broad-based economic growth, savings for productive investment, economic security, effective government, strong political will, education, work opportunity, sound physical and financial infrastructures.
- 2.1.3 Nepal has its unique strengths to build economy and ensure prosperity to its citizens. The need is to identify those strengths, prepare realistic plans and strategies to promote and implement them with serious commitment. The government should create a favorable environment to promote entrepreneurship, utilize skills and talents, encourage innovation, entrepreneurship and be open to new ideas. The most critical challenge today we noticed in Nepal is that the opportunity to achieve prosperity is at risk and government is not serious to address this issue.
- 2.1.4 Nepal faces enormous challenges in boosting economic growth and development and achieving prosperity. In our view, the major challenges of Nepal are as follows:
- (a) Low productivity of agriculture sector. Adequate attention (from the perspective of investment, promote agro-based industries and marketing of

² Country Diagnostic Studies – Nepal Critical Development Constraints Highlights – ADB, DFID and ILO, p.3

- products and recognizing the contribution of farmers to uplift their morale) was not given to boost productivity;
- (b) Weak and inadequate infrastructure especially related to electricity supply, irrigation and transport;
 - (c) Politically backed industrial relations;
 - (d) Lack of evidence based policy development process;
 - (e) Lack of transparency and competition among the financial infrastructures; and
 - (f) Lack of service motives with existing administrative system, weak governance and slow recovery from civil war/conflict.
- 2.1.5 The GON has to work in a difficult situation (weak economy, broken public institutions, lack of rule of law and little immediate internal resources) to generate employment and increase production to achieve economic prosperity. The country must, in short order, establish conditions to attract outside capital. This requires clarity of the role of the government in creating conditions by which citizens could participate in economic renewal of the nation, attract investment and increase employment. It gave limited attention to rejuvenate national economy which raised public frustration.
- 2.1.6 The NRNA recognizes that, given the legacy of the conflict, mindset of rivalries and the lack of respect for public institutions, it will take some time to fully restore the primacy of law and order. The government can, however, demonstrate its seriousness in this regard by starting to enforce legal action consistently against those who break the law. We believe politicization of the students, civil service and labor unions must stop immediately. Politicization of these groups may serve some immediate and petty interests but is setting bad trend which could make all political parties worrisome in the future. Therefore, the practice of looking at all issues from political perspective must be stopped and objectivity should prevail.
- 2.2 Basic Considerations to Achieve Prosperity**
- 2.2.1 The NRNA is proposes that immediate attention should be focused on the following four areas to increase the overall welfare of people and create an environment conducive to attract foreign investment and mobilize domestic savings for long term investment. The list is not exhaustive and is not meant to contradict any positions in the election manifestos of the ruling parties, but we consider them to be the bare minimum to achieve this.
- (a) Maintenance of the rule of law**
- 2.2.2 A growing trend of lack of respect for law and order is one of the major challenges. This has resulted in people taking drastic actions such as blocking highways over even minor issues and otherwise being impulsive, irrational and inconsiderate towards others. When individuals lose hope in a society and public system, they

tend to try to accomplish as much as possible from unilateral actions, hurting society, decreasing societal welfare, and undermining the cumulative achievements of civilization developed over years. Existence of such a state of affairs has made it difficult to sustain cooperation among individuals for the common good. People cooperate with each other and the government when they perceive the existence of a strong legal system enforcing laws and regulations that encourage such cooperation. Law and order is paramount to protect individual dignity, nurture a belief in society and government as well as to assure people of their appropriate place in society. In the absence of such assurances, individuals generally seek likeminded people within their own kin, or within ethnic or interest groups and form coalitions frequently challenging the government. Constant initiatives to weaken government and support to such initiatives to achieve political motives have been detrimental to the capacity building. This undermines government authority and compromises the government, which may even fall as a result.

- 2.2.3 The flagrant violation of laws by organized student unions, trade unions and paramilitary groups associated with political parties, including those in power, discourages investors and aid donors. In an environment where even the police and the judiciary feel threatened by such groups, investors and donors could not be confident that their contractual agreements with the government or with other parties will be honored.
- 2.2.4 A precondition for attracting investor and donor support is, therefore, the government's determination and action to tame and restrain the so-called fraternal organizations of different political parties, to empower law enforcement officials and guarantee the independence of the judiciary.
- 2.2.5 In addition to the law and order situation, NRNA emphasizes the need to safeguard individual property rights in Nepal. It is particularly concerned about situations where property rights violations are coupled with the snail-paced judiciary process. Existing rules already protect property rights but enforcement agencies have been emasculated. Government should not be a passive witness to extortion but should be a firm deterrent. Government could address this problem either by setting up a property dispute arbitration committee that expedites the dispute resolution process or by establishing a special judiciary committee to look at the disputes related to investors.

(b) Avoid hyper-politicization

- 2.2.6 Nepal today is hyper-politicized, where nothing seems off-limits from the influence of party politics. Political party influence or affiliation is, or assumed to be, widespread even among non-governmental organizations, professional associations, civil servants, and even the security forces. For example, party affiliation becomes a factor in appointment of university professors and administrators. Political pressure is put to grant permanent employment contracts to employees en masse without consideration to the impact of such decision on productivity and financial sustainability. Civil servants often get automatic promotions, regardless of their

merit and qualifications and now creating a chaos in administrative process. Student and teachers unions frequently make political demands that are barely related to educational issues. There is a common practice to hire people of political affiliation and fire others even at the lower rungs of technical and clerical positions with the change of ministers. The country is regularly paralyzed by strikes, *chakka-jams* and demonstrations on 'principle' - not necessarily targeted at any particular offending group. This causes great inconvenience to innocent, ordinary citizens and a huge loss in the productivity of private enterprises. While people's right to protest peacefully must be respected in a democracy, ways must be found to end such hyper-politicization which distorts national priorities, subverts rational decision-making, and erodes people's faith in institutions. Continued mistrust in public institutions leads us to a failed state. This situation must be avoided with collective wisdom.

- 2.2.7 Political parties must stop using civil servants, students and labor unions to advance their political agenda. Civil service appointments must be based on the basis of merit, capacity and fitness to deliver the requirements of the job- not on the basis of the political affiliation of potential candidates. Civil servants should be empowered to challenge the government for unlawful dismissal. A culture of public service and ownership must be inculcated in the civil service. Students should be encouraged to study, and not to politicize academic institutions. Continued disturbance in educational institutions have resulted lack of trust on quality and care for the precious time of students and increasing disappointment. Political parties should stop taking sides in labor disputes, when a dispute cannot be resolved by dialogue between the stake holders; they should be settled through a process of binding arbitration or a court of law and parties proven to be involved in labor disputes should be penalized.

(c) Consistency in policy messages and actions

- 2.2.8 To secure and retain investor and donor confidence the government and the ruling political parties must not transmit mixed messages. Instances of one responsible leader proclaiming a belief in public-private partnerships, or competitive multi-party democracy at one forum while another leader (or the same leader in another forum) saying something to the contrary or acting to undermine the original commitment are deeply unsettling to investors, and even to the general public. It is unusual in established democracies for government ministers to make public statements with serious policy ramifications about ministries outside their jurisdiction. This seems to be a common practice in Nepal. Such practices result in confusion and a loss of confidence in the government.
- 2.2.9 Responsible leaders/public officials must have the maturity to give consistent messages on important policy issues - regardless of their audience to attract and sustain investor and donor support,

(d) Building capacity of public institutions

- 2.2.10 Restoring public trust in the ability of the government to uphold law and order is as important to maintain political stability, protect individuals and mutual trust among

individuals as it is to instill faith among investors. Even after the end of the decade-long conflict and advent of the heralded "dawn of peace and democracy", the law and order situation in Nepal continues to be very fragile.

- 2.2.11 Capacity building of public institutions including government is critical to alleviate poverty, manage available resources economically, efficiently, effectively, control corrupt practices and secure public trust. "Both public and private sectors are constrained by a lack of capacity, authority and leadership. Corruption and rent seeking impose high costs on delays in decision making".³ Well articulated and liberal public policies cannot produce desired results if capacity is weak. This has been apparent to achieve significant progress for more than five decades of planned development process.
- 2.2.12 Capacity building encompasses among others providing training and skill development opportunities to employees to enable them to perform efficiently, establishing clear rules and procedures to be followed, empowering officials to exercise authorities delegated to them diligently without undue influence and strong performance monitoring mechanism. Public institutions lose their value if they fail to deliver what they are supposed to. It is happening because undue political influence, lack of will power to make managers accountable for their decisions, actions and clearly defined roles and responsibilities.

³ Country Diagnostic Studies – Nepal Critical Development Constraints Highlights, ADB, DFID and ILO, p. 4

3. Sector Specific Analysis and Considerations

In this section, we plan to outline nine sectors where NRNA thinks the government's active role can make significant improvement and propose measures and the role of the NRNA as applicable. Our proposals for consideration for policy making are not based on extensive research but on our understanding of the major motives and expectations of investors.

3.1 Education and Skill Development

3.1.1 Education is the basic means of acquiring knowledge, building technical and professional capability, improving social status, improving character and living standards. Historically, education has been the best equalizer in many societies. It contributes to bring economic wealth, social prosperity and political stability. Economists have long emphasized the importance of human capital for growth and prosperity. Economic prosperity is generally measured in terms of living standard which is closely linked to the growth in the productivity of labor, that is, how much is produced per hour of work. The productivity of individuals must increase in order to improve living standards. Education affects productivity in two critical ways. First, it supports innovation that creates new technologies, which, in turn, enhance the productivity of workers. Second, education improves worker's skills, which allow them not only to use new technologies but also to use existing technology more efficiently and effectively. Thus, education, we believe, is at the heart of productivity improvements and at the center of all the initiatives we undertake to achieve economic prosperity.

3.1.2 There has been considerable progress in the participation of private sector and investment in primary, secondary and higher education in Nepal in recent decades. According to the Economic Survey 2009/10, there are 31,655, 11341 and 6,928 primary, lower secondary and secondary schools respectively in the country. This has significantly increased the opportunity to pursue higher studies in technical subjects such as medicine, engineering, computer science inside Nepal. This is definitely a welcome achievement. According to statistics provided by the Ministry of Education, there currently are approximately nine thousand boarding schools and almost four hundred colleges offering degrees in numerous fields such as business, engineering, medicine, and other fields. At a higher level, there are five universities that offer a wide range of academic degrees. Despite this rapid progress, the main areas of concern are as follows:

- ◆ First, a dangerous segregation is taking place between the rich and the poor in their ability to access quality education. Affluent 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 institutions.
- ◆ Second, the rapid expansion in the education sector lacks a coherent plan. That is, there must be recognition of the need for a diverse system that caters to

different need groups. As a result, students find difficulty to secure suitable to suitable job upon completion of higher studies.

- ◆ Third, adequate attention has not been given to utilize well-trained researchers, managers, scientists and policy analysts to guide Nepali students. This will have negative consequence in initiating and sustaining a robust development program.

3.1.3 The main challenge Nepal faces today is to give her poor population an opportunity to have a fair access to quality education. The solution does not lie in shutting down the private educational institutions. In the meantime, we should not allow continue difference in access to quality education. For this, one alternative could be to create a trust fund, instead, to provide college vouchers for students graduating from public schools to go to the colleges of their choice (public or private). Such fund will be proportionately disbursed across the federated states/regions based on population. Another possible option is introduction of student loan. Government should plan to provide interest free loan to poor students with the provision of certain rebate for securing best marks in examinations.

3.1.4 There is a need to assess the structuring of higher educational institutions in Nepal to align qualifications gained from Nepali educational institutions with the qualification from foreign educational institutions especially universities. Regarding structuring of Nepal's higher educational institutions, those institutions can be categorized as follows:

- Technical and vocational institutions;
- General education (providing bachelor degree to masses; academic and professional Master's degrees for those who achieve higher marks and most deserving); and
- Distinct research and educational institutions.

Each federal state should have an autonomous public university system encompassing all of these tiers within a chancellorship umbrella.

3.1.5 Improving the quality of education and skill development training programs should be the top agenda of the government. This can be done not only by allocating more resources but also establishing an effective mechanism of quality monitoring and preventing from politicizing educational institutions.

3.1.6 The political parties of Nepal should also take the responsibility of making the academic institutions free of political activism. Importantly, the practice of appointing officials along party lines (e.g., Vice Chancellor, Deans) must be stopped immediately. This trend has serious negative consequences of merit, performance, credibility of education system and stability. Dividing teachers and professors along political lines in academic institutions is detrimental to our objective of making education qualitative.

- 3.1.7 The reform plan must be undertaken in partnership with relevant stakeholders in the education sector so that all of them can understand the ideal structure, the different roles to be played within that structure, and an appreciation for what can be done with hard work, good ideas, and patience. Improvement in education needs persistent approach and commitment of all stakeholders.
- 3.1.8 The GON should take initiatives in tapping the NRN skill and knowledge pool for the development of education sector. There is high possibility of using NRN skills and knowledge in teaching, research, professional consulting, patents, transfer of development ideas e.g., *tele-health*, e-learning, *tele-microfinance*, and renewable energy technology).
- 3.1.9 A suggestion supported by many NRNs has been a Ministry must be assigned to work closely with the NRN to recognize and mobilize their skills and knowledge by making concerted effort to tap into this vast pool of intellectual capital. The GON can approach international financing institutions and urge them to fund appropriate initiatives, and share the knowledge gained from other international diasporas exchange programs. This is in line with some other knowledge transfer-related initiatives (e.g., African Diaspora in EU) currently being supported by the World Bank's program, Knowledge for Development (K4D).
- 3.1.10 There should be some government level emphasis on using computers to provide quality education in public schools even in remote areas. One way to achieve this could be via e- learning and e-education (or tele-education). For example, a public school student in Jumla could use teaching materials (for example, for a class in Anatomy) from an elite school within the country, through the computer (either from a disc or through the internet) even if the teacher in Jumla may not be highly qualified. Government could provide incentives to such elite schools to create their teaching materials and self-explanatory notes for dissemination to the rest of the country.
- 3.1.11 The NRNA through its Public Libraries Project (PLP) has already taken some initiatives in development of e-libraries and learning centers. The Government could develop this further by working with NRNA's PLP managers. The role of the government would thus be in creating a mechanism for these exchanges and also to create infrastructure such as information highways which could have multiple uses. For example, they could be used to promote remote medicine, and also in producing skilled manpower around the country.
- 3.1.12 The GON should encourage and promote innovation in Nepal to ensure quality education and enhance entrepreneurship. Innovation leads to success and expenditures on innovation should enhance the quality of locally produced merchandise, create employment, retain educated people within the country and develop a competitive edge for domestic industries.
- 3.1.13 The last two decades saw a lot of interdisciplinary research and education initiatives around the world. For example, economists and hydrologist have

worked together to solve bio-diversity issues on a riparian system by designing a water market mechanism. Nepal, however, still follows a compartmentalized approach in its educational system with business, pharmacy, nursing, engineering, environmental science and so forth treated as separate and even unrelated disciplines. There exist no decent social science departments and the value of interdisciplinary policy research is yet to be realized. One way to promote cross-fertilization across disciplines is to create incentives for interdisciplinary research. This could be done by establishing a National Science Foundation-type funding agency in Nepal. The benefit of this approach is that different academic disciplines would not have to give up their core teaching and research, but could respond to demands and incentives to mingle with other disciplines.

- 3.1.14 There are many medical schools that follow curricula similar to western medical schools. It appears, therefore, that the main purpose of those schools is to produce physicians to send them outside the country. While that may benefit individuals, Nepal may not gain much. Nepal also needs to address the issues related to local diseases, target Nepali research towards them and develop a competitive proficiency in research into local diseases. Instead of Nepalese going abroad to study tropical disease and medicine at renowned institutions like the London School of Hygiene and Tropical Medicine, they should remain in Nepal to study tropical and subtropical disease and medicine thus developing international expertise right in Nepal. Locally targeted research is most relevant and beneficial to the local population, and we need only point out that developed countries tend to fund the research they care about most.
- 3.1.15 Nepal should learn lessons from successful eye hospitals which attract many foreigners. The hospitals along the Indo Nepal border are sustained by a steady influx of Indian patients. This example can be taken further and developed into the notion of "Medical Tourism". It is proposed that an institute tentatively called the Himalayan Institute of Subtropical Medicine be established in coordination with existing Nepali medical schools. This institute will conduct further research to assess the viability of operating "Medical Tourism".

3.2 Energy (Hydropower) development

- 3.2.1 Hydropower is the major natural resource of Nepal and should be utilized for economic growth and prosperity of Nepali people. Current situation is far less than potentiality and the demand for electricity in Nepal. Lack of affordable and reliable electricity supply and poor transport system have been seriously impairing economic growth. Electricity consumption per capita is lowest in Nepal compared to her South Asian neighbors. The lack of infrastructure, higher production cost for a variety of reasons including the misuse of properties and taxation had deterred investors.
- 3.2.2 The GON should work with prospective electricity producers in creating conducive environment so that then can construct power stations in a hassle free environment. It should consider providing project owners all possible financial assistance and

incentives during the initial stage such as tax exemption for certain years and partially waiving tax for reinvestment. The government also needs to have a sound policy on the kind of royalty levied on hydroelectric projects, with royalty from projects producing power for export being higher than the royalty from the projects producing power intended for domestic consumption. Nepal desperately needs to identify the fields in which she could have a truly multinational corporation, and hydropower is a potential area for that purpose. We suggest that hydropower project owners be given incentives to expand worldwide if they so desire. For example, allowing them to open letters of credit in US dollars even when they buy the requisite machinery from India could lower the cost of equipment, as Indian firms tend to sell the equipment at cheaper prices if paid in US dollars.

- 3.2.3 The GON should also strive to create a situation where local development committees or local administrative units compete to get hydroelectric projects, rather than oppose them. There should be laws to provide equitable compensation to local people affected by projects, and government must take a proactive approach in resolving conflicts between hydroelectric project owners and local residents. Vested interests are likely to oppose many of these projects and, for example, any impact of population displacement could be blown out of proportion. Investors should also not have to bother with politics or have to handle all these issues on their own. Existing hydroelectric projects have also faced uncertainty regarding the use of forests and riparian materials such as sand during the construction phase. There should be a clear policy guiding the use of nearby resources for hydroelectric projects.
- 3.2.4 It is imperative that the government prepare a transmission line master plan, and build 440 kilo volt (KV) east west transmission lines and 220 KV north south transmission lines. An extensive road network linking all potential sites to reduce the cost of construction of hydroelectric projects is also needed.
- 3.2.5 A regulatory body be formed that can standardize and expedite the approval process for hydropower projects while ensuring that the adverse environmental impacts are properly mitigated. This body should also standardize the environmental cost assessment process and streamline the power purchasing agreement (PPA) process. To help the regulatory body and the government make informed decision on a variety of issues, including setting regional energy trading agenda for multilateral meetings, it is suggested that the government establish a Hydropower Development Research Institute that would accurately identify and analyze electricity related policy questions and conduct research in social, environmental, financial, technological and other aspects of hydropower development.
- 3.2.6 There should be a provision regarding the sharing of potential carbon sequestration benefits from hydropower generation in new hydropower agreements. Under the Clean Development Mechanism (CDM) of the Kyoto Protocol, it is possible that under certain conditions, hydropower projects could be eligible to generate certified

emission reductions (CERs) for the amount of greenhouse gas emissions avoided through such projects. As the CERs can be traded either through a bilateral agreement or through the international carbon market, the Government of Nepal should make it a requirement to have an explicit provision on sharing with the government the potential carbon benefits from new hydropower projects in the project agreements (especially in the case of export oriented hydro projects).

- 3.2.7 In many respects, hydropower development and the energy security of Nepal are interrelated. As such, there must be a long term strategy to reduce the dependence on imported energy and to increase as well as diversify the use of domestic hydroelectricity in the country. The development of electricity based transport systems offers such an opportunity. Nepal spends about 54% of its total export revenue to import petroleum products. This is a huge amount for a country to spend only on any commodity. About one third of the petroleum products imported are used in the transport sector while a similar amount is imported to meet the kerosene demand of the household sector (mainly for lighting). With population growth and rapid urbanization, the demand for petroleum products is expected to be ever increasing, which implies growing vulnerability to oil price rises and supply disruptions. In order to enhance both the energy security and national security, it is suggested that the government adopt the strategy to develop electric mass transport system (i.e., railways, trolley bus, MRTs) which could yield several dividends, i.e. increase/diversify the use of indigenous hydropower and promote economic development, improve energy security, and enhance national security by reducing vulnerability to supply disruptions (e.g. the oil embargo imposed by India against Nepal in the late 1980s).
- 3.2.8 Impacts of hydropower development on the environment, conservation of natural resources, and the local population are important elements to consider while developing hydro-projects. NRNA feels that Nepal has reasonable safeguards in this regard, which should be enhanced.
- 3.2.9 The United Nations Environmental Program (UNEP) reports that the water shortage currently affecting at least 400 million people today (2003 report) will affect 4 billion people by 2050. Nepal also needs a national policy to protect her precious resource - fresh water. The reservoir of frozen water within the Himalayan range may be the next likely resources battle ground - at the regional level - as it transpired for the oil fields in the Middle East and minerals in Africa. India's fresh water shortage is considered to be around 30%, and China's unbridled urban growth will also raise the demand for water. Protection of Nepali waters should be considered a national security issue. Appropriate policies to harness this precious resource (in addition to using it for hydro, irrigation, and flood control) should be the next immediate priority of the government.

3.3 Infrastructure Development

- 3.3.1 Economic research has shown that better infrastructure promotes foreign direct investment (FDI). A good infrastructure not only brings people closer and promotes

national integration but also facilitates trade and investment. Nepal must heed this and the government must enact and enforce policies that encourage investment in infrastructure development. This is high time to consider the means of promoting the concept of public private partnership for the development and expansion of infrastructure to boost growth.

- 3.3.2 Infrastructure development is also necessary from the standpoint of trans-Himalayan trade. However, no measures have been taken to widen the road that links Nepal with China nor has she made an efficient road network from northern border to the southern border. Already, the opening up of the Nathu La pass for direct trade between India and China presages the threat of losing the dominance in trans-Himalayan trade. To address that problem, we suggest that the country emphasize the north-south network of roads and rail lines with the goal that Nepali highways and train links provide a safe and fast route from the northern Nepal to Indian metropolises such as New Delhi or Calcutta. The Lhasa-Kathmandu high speed railway link and promotion of electricity run transportation system are two other aspects for consideration.
- 3.3.3 NRNs understand that the GON is planning to construct an express highway from Kathmandu to Birganj. As it will inevitably increase Nepal's dependency on foreign oil, a better alternative would be to link the critical towns in Nepal by hydropower driven rail lines. A rectangular link, Biratnagar to Tatopani to Kathmandu to Birganj and back, should be the first step to integrate the current industrial and trade base. Local banks should be encouraged to invest in infrastructures projects focusing joint venture contract model instead of offering contracts exclusively to foreign contractors. This will help technology transfer and creating jobs for Nepali.
- 3.3.4 Investment on information infrastructure, especially information technology with a focus on constructing a nation-wide Information Highway should be another priority of government. Nepal currently has an East west optical fiber Highway built by Indian Government and more than 600 KM optical fiber laid by NEA with their transmission lines. Nepal Telecom (NT) code division multiple access (CDMA) has coverage in 72 districts as well as private optical fiber and Wi-Fi networks. The government should encourage public/private sector schools, colleges, rural tele-centers, libraries and hospital/health post to use the existing infrastructure. One way to encourage IT infrastructure is to continue to use IT parks as incubation centers. Government might also be able to convince bankers associations to create some basket funds for soft loans so that young technopreneurs could get soft loans for their project to start up their companies. The Computer Association Nepal (CAN) estimates that this could create more than 500 ICT related software companies.
- 3.3.5 Nepal can draw lessons in technology infrastructure development from India. Indian investment in that sector has, over the long run, helped it retain its graduates within the country and attract others from abroad. This reversal of intellectual flight has helped India to become the IT destination in the world. India achieved this by

following policies such as: 1) investing in fiber optics, 2) welcoming the NRIs (Non-resident Indians) with an open arm, and 3) creating a favorable investment environment. Once necessary infrastructures are laid, Nepal could then promote herself as a financial services mini-capital for the two rising economies - China and India - along the line of the Hong Kong financial market. As another example, IT sector has transformed Ireland from a rural enclave to modern knowledge economy. Nepal has a potential to do the same, especially given the proximity to the two rising economic giants. Nepal also needs to look into the cost effective but equally efficient option such as the virtual fiber optics that uses laser beams rather than the land-based underground wires in remote mountainous areas.

3.4 Tourism

- 3.4.1 Nepal has successfully attracted both high-spending tourists and those on a budget. However, the perception of Nepal as largely a budget travel destination is a hindrance on the potential earnings for Nepal, and it can only change when high-level amenities, services, conveniences, and recreational facilities are available to meet and satisfy the requirements of affluent travelers. No doubt the budget travelers sustain the tourism industries, but wealthy travelers would greatly enhance the revenue base for Nepal. The government should invest a portion of the earnings from tourism into tourism infrastructure to make Nepal a recreational destination for more tourists. To target the high-spending tourist market, government must create tax incentives for relevant entrepreneurs and facilitate the influx of capital investment in related infrastructure. Promotional activities must be designed in a way that visitors repeat their trips. Nepal had always been a safe place to visit but negative publicity from the recent political turmoil has tarnished that image. Projecting a positive image again is vital, but any claims must be substantiated with real changes within the country. This requires support of all groups and political leaders playing a coordinating role.
- 3.4.2 The growth of the middle class in the two neighboring nations is the potential markets for Nepal's tourism sector. In addition to promoting traditional tour packages like eco-tourism, river rafting, trekking, safari, and recreational sightseeing, tourism entrepreneurs should cultural tourism with a focus to attract pilgrimages. Nepal has a unique history and the country itself was purportedly created to protect the local religions from what its creators thought to be non-believing aggressors. More than 100 million Buddhists in China could be the source of a steady influx of tourists. This requires that the Government stop politicizing Nepali cultural practices and instead, nurture this rich heritage by investing in its management and preservation. The construction of Lhasa-Kathmandu high speed railway link might merit a higher priority.
- 3.4.3 Nepal should make utmost effort to popularize Nepal as a popular tourist destination in North America. People who have visited Nepal often seem to be very delighted with their experience in Nepal and many revisit Nepal to help improve the conditions of the people especially in the rural areas, because they were touched

by the country and the simplicity and hospitality of rural people. With such potential Nepal could flourish within this target group. Nepal could benefit immensely by promoting itself more effectively in North America, Western Europe and other developed countries.

3.4.4 The NRNA proposes the following measures to strengthen tourism sector taking into consideration of current situation, perception of people in countries we live and experience in promoting tourism in other countries.

- (a) Political instability may be hard to overcome in the short run, but a nationwide commitment to restraint in expressing dissent is urgently needed from all sides. Political agitations frequently degenerate into messy, aimless protests that hurt everyone, especially the unwitting tourists. Tourists are often seen stranded in the road or taking rickshaws to the airport. This situation must end. As we are targeting to receive more than one million tourists in Nepal Tourism Year (NTY) 2011, it is very important for us to prevent any hurdle to achieve that target.
- (b) We often experience bad publicity of the air accidents in Nepal. Although we cannot quantify the impact of such publicity, but we strongly believe that improvement in aviation safety is crucial for the promotion of tourism and the GON play stronger role in regulating air safety standards. It must rein in the unscrupulous air companies who force pilots to fly in adverse conditions. One way to do so would be to ground all the planes of the airline for a few days after one of its planes crashes. There should also be steep financial penalties on any guilty airlines.
- (c) One of the main complains visitors have of Nepal is the lack of cleanliness especially in populated areas. Local municipalities and townships must prioritize cleanliness and provide timely street cleaning and garbage collection. Even though tourism is affected by the dirty streets and shabby cities, this issue is bigger than that. The adverse effect of environmental degradation on citizen health is high, and a concerted effort is necessary to find a long term solution.
- (d) Government needs to identify successful hospitality industry entrepreneurs and promote them, so that they can expand their business outside Kathmandu, and possibly go global. It is the job of the Ministry of Tourism ministry and these entrepreneurs to coordinate with each other in terms of charting out strategies to expand the tourism market. Every year, almost 500 thousand tourists arrive on Nepali soil from around the world, and there are about 10 million potential customers around the world. It is important to move aggressively to tap that potential market. Like the customers of all other commodities, these potential tourists too need to be convinced that a trip to Nepal is more valuable than any other trip they may be thinking of. Whether by running a continuous and concerted advertising campaign, or by inviting authors of different travel related journals, magazines or newspapers, we

need to continuously push for extra coverage of Nepal. Otherwise, it is natural for foreign media to cover Nepal only when calamities strike our country.

- (e) To attract more high-spending tourists, it is important to understand their interests of these tourists. They generally prefer not to travel to risky areas, seek an atmosphere of security and luxury and are amenable to upgrading their tourist experience for a price. Apart from that, a mechanism is necessary to separate and maximize the number of high value travelers from budget travelers.
- (f) To provide an incentive to trekkers, who are likely to stay longer in Nepal and are more likely to contribute directly to the welfare of villagers, the government could issue a 'T-visa', waive their visa fee and, put them on a fast track in issuing visas. A sanitary restroom network along the trekking routes and locally manned visitor centers which provide directions to local village attractions could be some other good investments.
- (g) The GON, Nepal Tourism Board and tourism entrepreneurs should consider allocating resources in villages and in the areas with tourism potential. For example, the airport urgently needs modernization and within-country transportation must be improved to relieve traffic congestion and to improve the air quality. Basic services like electric power and water supply must be reliable. The importance of banking and financial sectors to meet with the demand of the growth of tourism cannot be over emphasized.
- (h) There have been significant improvements and advancements in hotel and recreational facilities over the years but they are mainly in the Kathmandu and other well-known areas. Other regions too need such facilities. This will require encouragement and targeted help from the government and other outside sources.

3.4.5 Nepal Tourism Board (NTB) must play a central role and the Government needs to provide it an adequate budget for the long-term development of tourism. It should be free of government interference with the chairman of the Board answerable to a parliamentary committee, not only to the Tourism Minister. There must be a concerted effort by NTB, Nepal Chamber of Commerce, national and international travel agents based in North America, western Europe and other developed countries. Effective presence of the NTB in those countries by establishing an office or representative with greater interest in tourism in conjunction with the Embassy or the Consulate must be taken into consideration. There must be regular promotion fairs in various cities in those countries in collaboration with local travel agencies. Promotion should be for all areas of Nepal and not just the popular destinations.

3.5 Banking and Financial Sector

3.5.1 The importance of an effective banking sector in a country's economy can be hardly overestimated. Nepal has done well in the banking sector in the last fifteen years,

but it has been primarily urban based. The growth of commercial and development banks and finance companies within Nepal has helped mitigate the problem of credit availability. Government needs to be vigilant that the full potential of these banks is being utilized for the common good. For example, instead of seeing a proportionate increase in entrepreneurs if it sees an increase in distressed people being harassed by bank loan collectors, then the banks are probably not doing all they could to improve the economic status of the country. Government must simultaneously encourage the growth of the banking sector while making sure that the banks are not shying away from the sections of the population in need. As the affluent population in India and China increases, Nepal needs to strive to make sure that Nepali banks are competitive and are manned by people skilled enough to take advantage of the rising wealth of these neighbors, they are ready and capable should there be an opportunity. NRNA would like to see the government move aggressively to take advantage of remittance sent to Nepal, and do all it can to stop the illegal and insecure ways of sending money back to Nepal.

- 3.5.2 Rather than being able to invest in promising and creative firms, many have ended up investing in nonproductive sectors, often with insignificant returns. The government needs to encourage banking sectors or other private entrepreneurs to develop a system so that NRN can invest electronically in NEPSE. This could also be a good source of income for the government, as it can track and tax the capital gain relatively easily.

The following measures may help to improve bank and finance sector.

- (a) Finance Ombudsman - Establish Ombudsman for banking and financial sector for independent investigation of complaints and grievances against them by customers.
- (b) Promote banking behavior - A large part of financial transaction is still based on cash. It is essential to take measures that encourage dealing through banks. This will contribute to banking sector profitability, improve financial transparency and reduce the incidence of financial crimes.
- (c) Expand bank in rural areas - Despite significant growth in bank and financial institutions in country, a large section of rural population is still not able to use banking service. Government must encourage growth of banks in rural areas to provide service to the population in need.

3.6 Investment Policy, Taxation and Regulation

- 3.6.1 NRNs have a variety of experiences of observing examples of very successful and not so successful foreign investment strategies. Nepal should do good home work to ensure that foreign investment is attractive in Nepal and put in place measures to minimize the possible negative impacts. It should create conducive environment to attract foreign investment but without compromising to its sovereignty and financial independence.

- 3.6.2 The GON should offer more incentives in terms of increasing certainty and predictability to prospective foreign investors (it does not necessarily mean offering more tax incentives and tax holidays but a sound legal framework that ensures property rights and good industrial relations). NRNA is willing to offer its assistance to the GON in formulating policies and drafting investment and double taxation treaties.
- 3.6.3 Promotion of a sound corporate governance (CG) culture is crucial to build the trust of investors. There is a growing interest on CG in international field because of its significance in promoting investment and developing corporate culture. CG is the distribution of rights and responsibilities among different participants in an organization, such as the board managers, shareholders and other stakeholders. It spells out rules and procedures for making decisions on corporate affairs and the incentives by which the management of the board of a company is directed and controlled so as to maximize profits and value of the company. It is embodied in seven characteristics i.e., corporate discipline, transparency, independence, accountability, responsibility, fairness and social responsibility.
- 3.6.4 In Nepal, corporate governance itself is a somewhat new concept without well-defined principles, codes or practice. Recently, the new Nepalese Company Act 2006 and the Banking and Financial Institution Act 2006 came into force containing many provisions towards proper corporate governance but also some discrepancies and ambiguity as all the actors' functions have neither been properly defined nor well-accepted.
- 3.6.5 The cost of poor public sector governance can be substantial, as it can lead to significant levels of irregularities and corruption. The case for good public sector governance is even more compelling than that for good corporate governance, although they are both largely complementary. Importantly, efforts to improve corporate governance are likely to fail unless they are accompanied by measures to improve public sector governance. Extensive work has been done by the IMF in developing principles of disclosure and accountability for the public sector, which could usefully be extended to all types and sectors of corporation.

3.7 Regional Economy

- 3.7.1 This discussion is premised on the fact that Nepal's interim constitution unequivocally mandates the country to adopt a federal political structure in the future assembly, which is now writing a new constitution.
- 3.7.2 Political stability and good governance are intertwined with economic prosperity. Having achieved a degree of political stability, Nepal might soon expect to realize economic prosperity. For the Nepali leaders, therefore, the question that begs immediate attention is how to revive the economy and launch the country on the road to long-term economic prosperity, with minimal adverse impact on the environment. One way to boost the economy is to create opportunities for employment through public/private partnership (PPP). So, any overall economic

package for creating wealth for the nation should include and implement policies to generate employment for its citizens.

- 3.7.3 NRNA proposes a regional economic model with clusters of economic nodes within each of the states of the federal republic. An economic node is defined here as a center or geographic area with certain existing or potential economic activities. A linkage between two different economic nodes will let the economy flow from one node to another. The ideas in the proposed nodal economy include aspects of Comparative Advantages of Robert Torrens and David Ricardo as well as the concept of opportunity cost found in neoclassical economic thought. It is also encountered in some of the plans of the governments in the 1990s to take development to local level.
- 3.7.4 For example, Biratnagar could be a rice node with rice related economic activities at a higher level and a node with orange production at a lower level. But Dhankuta, another node, will be at a higher level for tangerines/oranges and at a lower level for rice. Once a linking mechanism is established between these two nodes then rice from Biratnagar will flow towards Dhankuta, while orange will flow towards Biratnagar from Dhankuta. This process of flow or circulation will generate more economic activities owing to a snowball effect. This is analogous to flow of water or circulation of electric current from one point to other. The state and central government should help identify and develop nodes, and create links between the nodes. For example, if there were means to transport apples from Jumla to Nepalganj (and beyond), the farmers of Jumla would earn income, and people of Nepalganj and border Indians will have fresh apple from the Himalayas. Government could help in creating links such as by building a ropeway or a highway. This is not to suggest that government be engaged in business, but it should certainly facilitate, provide incentives to and encourage local businesses and firms to develop necessary infrastructure to bring these nodes to life and make them fully functional.
- 3.7.5 One can envisage this model with nodes, sub-nodes, super-nodes, and regional production nodes. The country will consist of a network of nodes big and small. A bigger (super) node may consist of cluster of smaller nodes with each smaller node linked to the super node.
- 3.7.6 It makes sense for local/regional governments to collect taxes on local property (land), and the local/regional governments spend locally increasing local (nodal) economic activities. Additionally, the regional governments working with the national government should implement their own economic policies, develop their own nodes and link them. Various linkages need to be developed for the flow of goods and services from node to node and beyond. In Tarai, an east-west grand canal linking all the rivers flowing north to south could be constructed. This mother canal will provide irrigation to fertile Tarai, be a water way to various nodes in Tarai, ease the transportation burden, and generate additional business. An east west railway could also connect various economic nodes. Similarly, roads and

railways linking China and India, economic nodes from a global perspective, passing through several Nepali nodes will allow commercial flows to and from these countries generating employment and income in Nepal.

3.8 Agriculture: Market Based Solution for Farmers

- 3.8.1 Nepali farmers face many uncertainties during the crop production lifecycle. Uncertainties regarding the price of crops and rainfall patterns and the random occurrence of natural calamities such as floods are two good examples. This leads to situations where farmers may not make optimal decisions. Faced with risk, farmers may spend as little as possible during the crop planting and tending phase and only pray for a good harvest.
- 3.8.2 We can illustrate this problem by taking rice harvesting as an example. Farmers plant rice in June-July with their only guidance about the future harvest coming from the history of previous harvests, and their guidance for future price coming from the history of previous prices. In this context, they are likely to use less fertilizer because traditionally the price of rice fluctuates wildly and is the lowest during December. If a farmer is credit constrained, he is charged significantly higher interest rate in the local market, forcing him/her to sell the harvest in December, when the price of rice is the lowest. Farmers who anticipate this will also spend less money on fertilizer and thus get even lower harvests.
- 3.8.3 There are several consequences related to this. Farmers are likely to get hit very harshly if calamity strikes because most are uninsured, and they are likely to be in chronic poverty. The gross agriculture product of the country is likely to be depressed as a result of the cumulative suboptimal decisions made by agents such as this farmer.
- 3.8.4 There are many ways to solve this problem. One is to put the government in charge of everything, and make sure that price is stabilized. However, wherever this was done in the past, farmers had been on the losing side. For example, in the former USSR, the price was stabilized, but this was done primarily to protect the interest of city dwellers. In Nepal, however, farmers' interest must come first.
- 3.8.5 We recommend a consortium of banks and insurance companies underwriting a variety of agricultural options markets and insurance markets. The options market would serve as hedging institutions, charging a certain amount of money to sell options to the farmers and merchants alike. In this way, farmers will be able to buy these options, which are often set to eliminate the arbitrage opportunity between Nepali, Indian and Chinese commodity options market. While options markets will not eliminate fluctuations in prices, they are likely to provide much needed price stability for farmers. On the other hand, having insurance markets for farmers eliminates the risks associated with the floods and other natural calamities.
- 3.8.6 Benefits of the market based solution are aplenty. It helps farmers without requiring any direct government involvement and generates jobs within the country. It helps banks penetrate the market, enhancing the banking and insurance sector and also

has potential to help other related sectors such as finance. In some ways it is a truly a win-win situation for everyone involved: banks, farmers and the government if implemented carefully. More importantly, it can be done within a realistic short timeframe.

Promotion of herbal industry

- 3.8.7 Nepal's terrain and its ecological diversity are well-suited to make Nepal a leader in the production of various herbs. With the US herbal market reaching \$40-50 billion mark, both India and China are investing heavily in this sector by eyeing to export processed herbal products (supplemental vitamins, pharmaceutical, home remedies) to the US market. Currently, the Indian herbal market is about IRs. 5,000 crore, and China's herbal export figure is just over IRs. 2,000 crore (2004 figures). Nepal should adopt a targeted strategy and enact appropriate government policies to reach these markets - tax breaks for herbal industries and low interest loans to farmers. The idea of *fair trade* with a focus on the small farmers and organic farming will also be very attractive in the world market.
- 3.8.8 To achieve benefits from medicinal plants, Nepal should leverage provisions of the Convention on Bio-diversity (CBD), which Nepal has ratified. The CBD provisions can help Nepal patent her indigenous and endemic bio-resources, obtain international funds for the protection of her medicinal resources, and sustainably harvest high-value medicinal plants and sell them in the world markets.

3.9 Sustainable Development: Environmental, Economic and Social

- 3.9.1 Nepal must balance her economic development initiatives with the needs to protect the environment and conserve natural resources while ensuring social equity and fairness. All development programs must meet these criteria, so that the future generations will also have a similar resource base for development, as Nepal now has. Curbing deforestation, protecting top-soil, protecting water, conserving bio-diversity and mitigating green house gas emissions should remain the guiding principles in any economic development programs Nepal undertakes. Further, the fair resettlement of citizens affected by development projects, such as hydropower, and ensuring adequate social and health protection for particularly the poor and marginalized groups must remain central objectives in Nepal's development pursuits. In the predominantly agrarian and rural Nepali society, rural development is also a key to sustainability.
- 3.9.2 Programs and priorities for economic development need to take consideration of Nepal's fragile but unique environmental resources. For example, ecotourism and conservation are compatible programs that satisfy the requirements of both economic development and environmental conservation. Similarly, sustainable harnessing of water resources, including hydro-power, for economic development can also be generally environment-friendly while exploiting Nepal's comparative economic advantages. The harvesting and the commercialization of medicinal plants is yet another example where economic development can be simultaneously achieved while conserving the environment.

- 3.9.3 In financial and business matters, for example, providing credit to the poorest without any collateral is the essence of the concept, known as microfinance. For millions of poor and destitute, small loans are the only ways to possibly break out of poverty. The micro-financing idea has opened up small business opportunities for millions of poor people in the developing world. The World Bank estimated in 2004 that there were over 7,000 microfinance institutions worldwide, serving over 16 million poor people. The combined turnover of these institutions was estimated at US\$2.5 billion." (*Source: Global Education*).
- 3.9.4 Incorporating information technology and people-to-people microfinance mechanism can also facilitate the generation of financial resources, sharing environmental knowledge, tele-health, public health dissemination, and distance education. To promote rural development initiatives, the Government of Nepal should give tax incentive to industries for relocation to the rural areas, and for hiring local residents. In India, some industries have begun to shift their operations in villages by attracting the local graduates away from the cities.
- 3.9.5 On the political and social front, Nepal has made a commendable beginning in promoting ethnic unity by electing the first President and vice-President of the new Republic and the Chair of the Constituent Assembly from marginalized communities. The success of the Constituent Assembly now will depend on creating a political structure that inspires people to see their economic, ethnic, regional, linguistic and cultural identities as coexisting rather than in conflict with the new Nepali State.
- 3.9.6 Crafting a viable federal system that is acceptable to all will be the most challenging and complex exercise for the nation. The New Nepal must keep in mind that a country with over 100 ethnic groups and 80 languages, will have to find a sustainable federal system that goes beyond ethnic lines. While, Nepal cannot continue to ignore the plight of the ethnic and political minorities who have not had a fair share of the Nepali pie, she should also make pragmatic choices in creating financially viable and resource-wise balanced federated units.
- 3.9.7 Thus, the federal restructuring mechanism must be long-lasting and economically sustainable and should incorporate many other vital factors such as: ecological interdependence, economies of scale, ethnic harmony, and comparative resource endowments. The new constitution must also clearly articulate the division of rights, powers and economic development and social protection tasks among the center, federal unit and local government.

4. Conclusions and Recommendations

- 4.1 We have had the opportunity to make a good start to pull Nepal out of the economic and political malaises. But for a number of reasons, Nepal missed multiple waves of international industrial revolutions of the past, and now lies near the bottom of all economic indicators among Asian countries. Current situation does not provide reasonable assurance to the people of Nepal that the GON is seriously endeavoring to achieve economic prosperity. However, it is never late to make a good start. It will be wise to focus on critical issues that requires to make Nepal prosperous than criticizing the past. The most immediate attention should be focused on the maintenance of the rule-of-law, avoiding hyper-politicization and adherence to consistency in policy messages and actions to create an environment conducive to attract investment in productive sector.
- 4.2 Nepal must strive for sustainable development that advances economic prosperity and ensure an equitable well-being of her citizens. She should ensure that the general stock of natural, environmental and cultural resources is maintained intact for the coming generations.
- 4.3 NRNA is committed to be a partner in Nepal's' socio-economic development. We present in this proposal our suggestions on the policy and infrastructure development required to attract investment in Nepal. It urges to give more priority to development and public policies over politics and power. Nepal needs to make bold choices to amend labor laws, protect property rights, reform the education sector, promote investment friendly rules and regulations, to restore and maintain law and order and at the same time protect the environment for future generations. The time has come to recognize the NRN knowledge and skill pool as a national asset. Growing Nepali intellectual capital around the globe should be considered a "brain bank" rather than a "brain drain".
- 4.4 In globalized world, all the countries are competing for capital. The productivity of capital is generally positively correlated with the available human skill and existing infrastructure. Nepal is at a disadvantage in terms of attracting investment compared to her neighbors who have better human capital and infrastructure. This leads us to think ways and means of developing human capital and building physical infrastructures. It is crucial for us to create favorable environment for investment by minimizing uncertainty.
- 4.5 As a way forward to enhance effectiveness of this paper, we recommend the following:
 - ◆ The President, NRNA submit this paper to appropriate official of the GON.
 - ◆ NRNA nominate a team of NRN scholars (including a Coordinator) to establish contact with the GON to provide further information to implement the recommendations contained in this paper.

- ◆ The GON nominate a contact person and organization and inform to the NRNA within two weeks of submission of this paper in order to streamline further communications in the process of the implementation of this paper.
- ◆ The Coordinator of the NRNA nominated team submits half yearly report to the ICC on the progress made in the implementation of the recommendations contained in this paper.