

Options for Overcoming the Constraints

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Constraints to Inclusive Growth

- I. Political instability
- II. Limited and low quality infrastructure
- III. Labor Market Rigidities and Weak Industrial Relations
- IV. Small and Narrow Industrial Base
- V. Exclusion

I. Political Instability

- Ensure law and order and improve security
- Pursue reconciliation with Madeshis
- Strengthen government's political and technical capacity in tackling corruption and rent seeking
- Withdraw subsidies/subsidies from unproductive groups
- Strengthen central and local governments' political and technical capacities for business promotion and stakeholder dialogue
- Introduce greater dialogue with stakeholders on policy for predictability and policy stability
- Improve industrial relations

II. Limited and Low Quality Infrastructure

A. Power

- Formulate an effective power development policy that can harness its abundant hydropower potential as well as develop other alternative energy sources as substitute for imported petroleum
- Develop other sources of energy (solar, biogas, mini and micro-hydro projects) to meet the electricity needs of remote communities and those not connected to the grid
- Undertake small and medium sized power projects using public funds and if possible harness private sector funding
- Consider smaller thermal projects to back up hydro capacity especially during the dry season
- Expand transmission capacity to enable additional power exchange from India

Limited and Low Quality Infrastructure

A. Power

- Improve capacity to purchase and distribute from private power producers; however this will requires review and adjustment in power tariff
- For large scale power projects:
 - Review planned projects with private sector, draw lessons learned and device effective strategy and policy to exploit potential
 - Need to ensure adequate financing as well as management of various risks
 - Need to develop a nationally agreed, clear and transparent policy framework - clear definition of roles and responsibilities, a national consensus is reached, governance and national security concerns addressed and full public disclosure on key steps and processes

Limited and Low Quality Infrastructure

A. Power

- In the short term:
 - Improve sector planning, coordination and decision making
 - Maximize power production from existing generating plants (NEA and privately owned) and distribution system including connections to India
 - Increase NEA budget for O & M as well as upgrading on emergency basis
- In the medium term:
 - Continue to improve on sector planning, coordination and decision making
 - Expand existing transmission network
 - Improve efficiency of distribution network (budget to NEA)
 - Review tariff policy to encourage private sector participation
- In the long term, measures include:
 - develop large scale hydro power project with storage
 - fast track approval process
 - allocate budget for associated infrastructure requirements

Limited and Low Quality Infrastructure

B. Irrigation

- Accelerate ground water development (shallow tube wells)
- Increase funding for O & M
- Institute mechanisms to improve cost recovery
- Develop surface irrigation potential for longer term irrigation needs

Limited and Low Quality Infrastructure

C. Transport

- Undertake a comprehensive review of the entire transport sector (road, rail and air) and develop a coordinated program for prioritizing investments
- Adopt a phased approach in implementation of projects to address funding shortfalls
 - give priority to completing projects;
 - prioritize and phase in new projects with funding that will be realistically available
 - evaluate and rank projects according to economic feasibility, affordability, expected benefits and to what extent it can address transport constraint
 - Undertake projects that can be completed in an agreed time frame
- Involve/attract private sector (domestic and foreign) in construction, operation and maintenance of road projects

III. Labor Market Rigidities

- Restore industrial peace by significantly reducing labor and transport strikes and bandhs as well as threats to insecurity and unauthorized levies on businesses
- Institute effective mechanisms for resolution of labor disputes in a fair and peaceful manner
- Enact legislations and/or establish procedures that can be flexible in order to adopt to changing market conditions but at the same time effective in their enforcement
- Establish/expand programs for labor retraining and education

IV. Small and Narrow Industrial Base

- Need to rethink and clarify industrial and trade policy with respect to: reviving public enterprises
- Promote growth of industry and trade through:
 - improve connectivity and customs and trade infrastructure
 - streamline and simplify government internal procedures and regulations e.g. strengthening legal arrangements, enforcement of property rights, speedy resolution of disputes, easing freedom of entry and exit, simplifying tax procedures, improving arrangements for approval and licensing of private sector projects
- Remove non-tariff barriers that hamper industry and trade
- Work with neighboring countries to develop alternative routes to their ports to reduce delays in transport of goods
- Promote exports through:
 - Set up export promotion zones that are close to border points and airports
 - Provide incentives but with sunset clauses
 - Strengthen institutional and administrative capacity

V. Exclusion

Promote social and economic inclusion in the following:

A. Agriculture

- Review and update the Agriculture Perspective plan especially in the areas of fertilizer and irrigation policies, marketing and access infrastructure requirements, R & D development, extension services, role of private sector and cooperatives in providing key inputs and
- Adopt a sector-wide program approach for agriculture
- Establish a higher level body that will coordinate the activities of various ministries in delivering the key components of the APP
- Ensure adequate funding for the inputs (irrigation, credit, seeds, extension services) and marketing requirements

Exclusion

Promote social and economic inclusion in the following:

B. Land

In the short term:

- Introduce new land compensation policy
- Strengthen government capacity in negotiation, dialogue, design and implementation
- Pilot the Industrial bond payments for land

In the medium term:

- Update policy on hand-over preferred (rather than discretionary)
- Continue government capacity building
- Hand over of community forest to all communities ahving viable forest management plans

In the long term:

- Review government land ownership
- Transfer decision making to the local level

Exclusion

Promote social and economic inclusion in the following:

C. Access to Credit

- Consider adopting Grameen-type approach in providing credit
- Build capacity of staffs of micro-credit institutions
- Remittances can increase access to formal financial services:
 - Enhance use of remittances by promoting use of formal channels
 - Provide IEC for poor/rural households on available financial services
 - Encourage migrants to direct remittances to productive investments

Exclusion

Promote social and economic inclusion in the following:

D. Education

- Increase school participation rate of poor/excluded groups through provision of targeted scholarships or stipend program
- Improve quality of education through teacher training, provisions of education related infrastructure and materials
- Continue the devolution of school management to communities to improve quality and increase accountability but this has to be accompanied with provision of necessary resources
- Review and revise school curriculums and programs on regular basis to be match the changing needs of domestic and international markets

Exclusion

Promote social and economic inclusion in the following:

E. Social Safety Nets

- Increase and improve provision of social safety nets to ensure inclusive growth
- Continue efforts in developing effective measures to identify most eligible beneficiaries of targeted programs
- Establish an effective and credible monitoring mechanism to ensure effective use of resources
- Address governance related concerns (fraud and corruption, mismanagement of programs, low capacity of implementing units) for better delivery of social safety nets

Exclusion

Promote social and economic inclusion in the following:

F. Migration

- Adopt a more pro-active policy towards out-migration through securing more opportunities for overseas employment and maximizing overseas employment by improving skills and earning capacity of migrant workers to better prepare them in times of global recession
- Protect and promote the rights of workers who seek employment overseas:
 - Regulation of recruitment agencies
 - Reduce opportunities for rent seeking by government officials
 - Post labor attaches in overseas missions
 - Establish social or insurance schemes for migrant workers
- Explore with other countries increase in quota for Nepali workers
- Provide/expand training programs for migrant workers to improve their skills, productivity and earning capacity to be able to secure higher paying job.
- Build capacity of responsible ministries including Nepali embassies and missions to effectively monitor and supervise working conditions and welfare of Nepali workers as well as overseas employment agencies to reduce exploitation of migrant workers

The Way Forward ...

1. Creation of Fiscal Space

- revenue mobilization
 - through improved tax collections and tax administration: e.g. Improving import valuation, controlling tax evasion and collusion, reducing VAT exemption and income taxes, increase VAT rate and coverage as needed, etc.'
 - Continue instituting systematic improvements in the economy to achieve growth to help maintain and increase tax buoyancy
 - Limit domestic borrowing to primarily maintain macroeconomic stability
- allocative and operational efficiency
 - institutionalize a public expenditure management framework
 - focus development and recurrent budget on priority projects/initiatives that promote inclusive growth
 - restructure or retire non performing/non priority initiatives and PEs
 - Undertake regular review of priority projects to ascertain that how efficient fund use is

The Way Forward ...

2. The process is to start with engagement of key stakeholders on the policy options and their sequencing
 - Undertake analysis of why things are the way they are including mapping of institutions, incentives, stakeholder interests and potential drivers of change
 - Undertake a stakeholder wide dialogue to identify realistic priorities for action
 - Undertake the dialogue with businesses and investors to identify practical deliverable measures that will improve business confidence
 - Focus initiatives on re-building of effective institutions for regulating employment relationships and ensure that new legislations is aligned with capacity to implement
 - Explore options for creating a small cadre of highly skilled professionals that can give policy advise to decision makers and to scan horizons for economic opportunities
 - Undertake additional analysis of stakeholder interests and potential drivers of change and explore options on way forward for certain sectors, e.g. power, agriculture