

# **ECONOMIC POLICY NETWORK**

**Policy Paper 6**

## **SUPPLY MANAGEMENT OF ESSENTIAL COMMODITIES**

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Inputs from various stakeholders during interactions at the NCC, Advisory Committee meeting, and the workshop organized by the EPN Focal Unit have been incorporated in the report. The names of people met during the interactions are included in annex 4 in this report.

## Foreword

Economic Policy Network (EPN) is an undertaking of His Majesty's Government of Nepal (HMG/N) since August 2004 with an Asian Development Bank (ADB) technical assistance (TA) to develop and institutionalize an open, responsive and result oriented economic policy formulation process based on sound economic analysis and dialogues with the partnership of public and private sector, academia, and independent professionals, to support and consolidate the Government's economic policy reforms on poverty reduction strategy. The initial focus has been in the areas of macroeconomic management, trade, investment, employment, infrastructure, tourism, agriculture, and regional development through four thematic advisory committees chaired by the secretaries of the respective implementing ministries, and guided by a high-level steering committee. The present study is an outcome of the initiative under the Advisory Committee for Economic Policy on International Trade, Investment, and Employment chaired by the Secretary of the Ministry of Industry, Commerce, and Supplies.

The study analyzes the problems facing supplies of essential commodities such as food, essential medicines, petroleum products etc. and provides recommendations for managing such supplies more efficiently. The recommendations are the outcome of consensus reached among major stakeholders through various consultations and the EPN workshop. I hope the findings and recommendations will be helpful for policy makers for future reforms.

I would like to thank the Nepal Chamber of Commerce (NCC) for leading the study, and Mr. Rajendra Bahadur Shrestha for carrying out the study on their behalf. I also thank all those who have provided inputs for the report during the interactions at NCC, the advisory committee meetings, and the EPN workshop. The work of the Advisory Committee for Economic Policy on International Trade, Investment, and Employment is to be commended for selecting the issue and for following through with the study. I would also like to appreciate the entire EPN team for their hard work. I also thank the former Steering Committee chairperson (the then Chief Secretary of HMG/N) Dr. Bimal Prasad Koirala, for his guidance during his tenure. Last but not least, I would like to thank the ADB for supporting this initiative.



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## Abbreviation

ADB	Asian Development Bank
AEC	Agro Enterprise Center
CDO	Chief District Officer
CSR	Corporate Social Responsibility
DDC	District Development Committee
DOC	Department of Commerce
FOB	Free On Board
FO	Furnace Oil
FPS	Free Price Shop
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
HMG/N	His Majesty's Government of Nepal
ICDS	Integrated Child Development Scheme
IOC	Indian Oil Corporation
LDO	Light Diesel Oil
LPG	Liquefied Petroleum Gas
MLD	Ministry of Local Development
MOAC	Ministry of Agriculture and Cooperatives
MOHA	Ministry of Home Affairs
MOICS	Ministry of Industry, Commerce and Supplies
NCC	Nepal Chamber of Commerce
NFC	Nepal Food Corporation
NOC	Nepal Oil Corporation
NTL	National Trading Limited
PDS	Public Distribution System
PPP	Public Private Partnership
PPPUE	Public Private Partnership for Urban Environment
RDL	Royal Drugs Limited
STC	Salt Trading Corporation
SWOT	Strength, Weakness, Opportunity, Threat
TPDS	Targeted Public Distribution System
VAT	Value Added Tax
VDC	Village Development Committee
WFP	World Food Program

## Table of Contents

<b><u>Subject</u></b>	<b><u>Page Number</u></b>
Abbreviation	
<b>Executive Summary</b>	<b>i – v</b>
<b>CHAPTER 1 – INTRODUCTION</b>	<b>1</b>
1. Context of the study	1
2. Objectives of the study	1
3. Methodology of the study	2
4. Limitations of the study	2
<b>CHAPTER II – REVIEW OF THE CURRENT SUPPLY MANAGEMENT SYSTEM &amp; NETWORK</b>	<b>3</b>
1. Classification of Supply Management System	3
2. Classification of Remote Districts	3
3. Present supply and network status of:	3
3.1 Petroleum Products	4
3.2 Sugar	6
3.3 Salt	7
3.4 Rice & Pulses	8
3.5 Edible oils	9
3.6 Essential Medicines	10
4. Demand Projection of essential Commodities	11
<b>CHAPTER III – PROBLEMS IN SUPPLY MANAGEMENT OF ESSENTIAL COMMODITIES</b>	<b>12</b>
1. Legal Problems	12
2. Institutional Problems	12
3. Administrative Problems	13
4. Policy aspect Problems	13
5. Geographical Connectivity Problems	14
6. Problems in Supply Management of three essential commodities	14
6.1 Petroleum Products	15
6.2 Sugar	16
6.3 Rice	18

<b>CHAPTER IV – RECOMMENDATION FOR SMOOTH SUPPLY OF ESSENTIAL COMMODITIES</b>	<b>19</b>
1. Necessary measures to be adopted to maintain adequate supply in addressing current crisis	19
1.1 Monetary measures	19
1.2 Fiscal measures	19
1.3 Administrative measures	20
2. Necessary National and District level coordination to be adopted between Civil Administration, Security Administration, and Wholesale Business Houses	23
3. Prospects of Public – Private Partnership	24
3.1 Public Private Partnership	24
3.2 Present status and perspectives	25
3.3 Public sector perspectives	25
3.4 Private sector perspectives	26
4. Necessary measures to be adopted to streamline the activities of Public Sector Corporations involved in supply management of essential commodities	26
4.1 Nepal Oil Corporation	26
4.2 Nepal Food Corporation	28
4.3 National Trading Limited	29
<b>CHAPTER V – SUPPLY MANAGEMENT SYSTEM IN INDIA</b>	<b>30</b>
1. Public Distribution System (PDS) & Food Security System in India	30
2. Tata Economic Consultancy Report on PDS and TDPS	32
3. Evaluation of Service Delivery System in Bihar and Uttar Pradesh	33
<b>CHAPTER VI – CONCLUSION</b>	<b>35</b>
<b>ANNEXES</b>	<b>36</b>
Annex 1 Terms of Reference	36
Annex 2 Policy Action Matrix	37
Annex 3 List of essential medicines	41
Annex 4 Public and Private sector Stakeholders consulted during the study	43

## Executive Summary

### A. Review

It is essential to attain a regular supply of essential commodities and also to maintain stable prices of such goods. Hence an efficient supply management system is of utmost importance in distributing goods from surplus areas to deficit, remote & conflict prone areas. This study has been conducted with the support of Establishing Economic Policy Network Project, Ministry of Finance, HMG/N with the assistance of Asian Development Bank. This study has identified problems and recommended improvements over the present situation of supply management of essential commodities i.e. *Petroleum Products, Sugar, Salt, Rice & Pulses, Edible oils, and Essential medicines* and mapped out strategic direction. As the supply of all essential goods may not be possible through the public sector, private sector's role is also of equal importance. The suggested improvements should not be taken as mechanical recipes but they essentially require dynamic roles to be played by both public and private sectors.

### B. Problems in Supply Management

1. Progressively drastic reforms are yet to be undertaken in public sector corporations involved in supply of essential commodities like Nepal Food Corporation, National Trading Limited, and Nepal Oil Corporation. These public sector undertakings lack output oriented performance and competitiveness and have also suffered from excessive political interferences. However the existence of the public sector corporations should not be ruled out completely as they, in unusual circumstances like cartelling or dire scarcity of essential commodities can act as a *relief cushion* to augment supply and check price escalation in the open market.
2. In the context of the liberalization of the Nepalese economy accelerated after 1990, private sector's involvement is not encouraged in supply management of essential goods, specially in food grains supply to remote food deficit districts by providing them with transport subsidy as given to NFC.
3. Overall lack of geographical connectivity especially in the 30 remote districts of Nepal is the main problem in supply management of essential commodities.
4. In spite of the existence of *Black-Marketing and Certain Other Social Crimes and Punishment Act, 1975*, unscrupulous hoarding and black marketing are not adequately monitored and enforced by the concerned government agencies.
5. Although *Consumer's Right Protection Act, 1997* and *Consumer's Right Protection Rule, 1999* provide for consumer awareness programme, annual information mechanism and communication, the same have not been effectively administered and enforced. Currently the aforesaid Act and Rules contain diminished rights of Consumer's

Forums/Organizations in playing proactive roles in the areas of consumer's rights and welfare. There is a need to revisit and amend them.

6. Organized Marketing system is not yet established for essential commodities in Nepal, specially in the remote areas
7. The existing wholesale markets, *mandis* and stalls in Nepal are inadequate and ill equipped in various potential areas of the country. The municipalities lack due attention for developing markets for agricultural products.
8. Specialized cooperatives and fair price shops are still not in existence for distribution of essential commodities at subsidized price in the rural and remote areas.
9. Apart from the land locked situation of the country lack of adequate transportation to link hill with Tarai is a major problem in the supply of essential commodities. This has resulted in high cost for the movement of goods.
10. Data Bank of essential commodities does not exist for effective supply management system. Practice of disseminating information on production, shortage, import, export, buying and selling price of essential commodities is not prevalent.
11. Though Ration Card System was practiced partially for distributing subsidized Kerosene a year back, an effective Ration card system has not been introduced specially in the remote areas to ensure supply of essential commodities
12. Lack of proper storage facilities is another major problems faced by all those involved in supply of essential commodities.
13. Retailers in rural and remote areas are not registered in District Development Committee (DDC), Village Development Committee (VDC) or Ward offices of VDCs.
14. The presence of road barriers, which stop free flow, and smooth movement of goods create unnecessary problem including collection of local taxes repeatedly at various locations.
15. At times of need and in unusual circumstances, and despite factual evidences of shortage (both actual and artificial), intervention through government agencies is not done in time in importing, selling and distribution of essential commodities to ensure their effective supply.
16. Food grains are not procured and supplied to the remote districts on time by Nepal Food Corporation.

### **C. Recommendations**

1. In the changed context of market oriented economy, the government should immediately announce its *Long Term Supply Policy* spelling out the private sector involvement in supply management, its own role and role of the public sector institutions, and other important issues such as national food security system, public-private partnership, procurement & distribution of essential commodities. As majority of the essential commodity items are

dealt by the private sector, the Supply Policy should address the government's specific role as a friendly facilitator and methodology of joint initiative of public-private partnership in supply management of specific commodity or commodities especially in remote districts, food deficit and conflict affected areas.

2. A SWOT (Strength, Weakness, Opportunity, Threat) analysis and an in-depth study should be conducted immediately of the public sector corporations i.e. Nepal Oil Corporation (NOC), Nepal Food Corporation (NFC), and National Trading Limited (NTL) in order to enhance the performance of these enterprises. The privatization of business rather than total privatization of these enterprises is recommended, because over a period of time they have played and can still play cautionary role in augmenting supply to help moderate and balance the prices and availabilities of scarce commodities in the open market. Moreover, assets of the public sector corporation are often very huge, it may not be realistically feasible to sell to private parties. A model for privatization of business is suggested as formation of a Public-Private Corporate Entity with participation of general public as shareholders.
3. Form a functional *Unified National Supply Action Committee (UNSAC)* consisting of public/semi-public sector corporations involved in supply management system e.g. National Trading Limited, Nepal Food Corporation, and Salt Trading Corporation. The government is recommended to form *UNSAC* under a high official looking after the supply sector under MOICS with the representation of CEOs of the above corporations to see the effective and efficient functioning of all member corporations. These corporations can float tender or initiate procurement process as per their own Bi-Laws. Best offer should be executed and shared by all the concerned member organizations. For example NTL, STC & NFC can go together for procurement of Rice & Pulses, Sugar etc. Thereby every member corporation can share the benefits. For distribution also, infrastructure of one organization can be shared by another to save cost and provide efficient delivery of services under one window system.
4. For supply management of essential commodities in the Kathmandu Valley specially during natural calamities and blockades, a *Unified Valley Supply Action Committee (UVSAC)* should be formed under the convenorship of Nepal Chamber of Commerce with adequate representation of civil/security administration and related corporations (STC,NFC,NOC, and NTL) and concerned commodity associations.
5. Government should buy rice for its supply to remote districts through an open tender system with full transparency to encourage the private sector in supply management. The necessary terms & conditions are to be devised for smooth, timely and reasonably guaranteed supply.
6. Open tender system with full transparency should be implemented to encourage the private sector for supplying essential commodities like rice, sugar, mustard oil and kerosene to remote district by giving transport subsidy as given to NFC.

7. The task of maintaining buffer stocks should become a responsibility of NFC. The paucity of fund or capital to maintain buffer stock of commodities should be met through Bank Loan by pledging the commodity stock as well as the assets belonging to NFC which is in plenty and mostly kept under-utilized. The government may compensate NFC by paying the incurred interest of the loan amount. NFC should play a more active role in undertaking open market operations within a prescribed price band. It should release stocks in the open market when shortages are prevalent and prices are high. If organizational capacity of NFC is built up, it could also become an active player in the international food grains market.
8. Maintain buffer stocks of minimum two months for essential commodities like food grains, & sugar and in case of petroleum products for one month. The maintenance of buffer stock is recommended on the basis of demand/supply projection of these commodities of last few years. Salt is well taken care by Salt Trading Corporation so far. It's not necessary to maintain buffer stock of edible oils and essential medicines.
9. As regards fixing the Minimum Support Price, there is a need to adhere to detail study rather than fix procurement prices much in excess of estimated costs of production. The prices prevalent across the open Indian border should be considered.
10. VAT should be reduced from current 13% to a much lower level 3 to 4% from all stipulated essential commodities.
11. Provide capital seed money through the Grameen Banks (Rural Banks) and Agriculture Development Bank to women's groups eager to run cooperatives in the remote and rural areas.
12. Provide income tax incentive (50% less income tax) to the transporters dealing specifically in supply of essential goods to remote districts and conflict affected areas.
13. To address the problem of depleting sugar and sugarcane production in the country, it is recommended to constitute a *Sugar Board* as a statutory body consisting of both public and private sector institutions/personnel involved in sugar and sugarcane production, knowledgeable professionals and representatives of Consumer's Forums.
14. Though the prices of the commodities are determined by free market, in unusual circumstances like scarcity and speculative tendency of price escalation, the public sector corporations should float the scarce commodities in the market out of its buffer/ levy / or freshly purchased stock to augment supply and balance the market price. The price of such goods has to be fixed on the basis of survey and research giving prime importance to the interest of domestic producers, consumers and the traders.
15. The under utilized godowns of NFC and NTL should be provided to private sector traders on rental basis for storing essential commodities like rice and sugar during emergency situations like blockades and natural calamities.
16. Constitute a Consumer Protection Council in all the 5 Development Regions mobilizing the public sector corporations like NFC, NTL, and private sector organizations like FNCCI, Chamber of Commerce, Salt Trading Corporation (STC) and recognized Consumer's Forum

for management of food supply. The Consumer Protection Council should truly be a proactive body devoid of any political interference.

17. Create a website in the Ministry of Industry, Commerce & Supplies and other related Departments with daily updating to provide information on market prices of essential commodities across the country. Also include all updated information that may be useful to the public including information relating to the various laws administered by the government, fax/ telephone/ email address of officers dealing with various subjects in the Ministry of Supplies and Departments.
18. No restrictions to be imposed on the domestic transportation of essential goods from one part of the country to another and the current statutory restriction of carrying only 10 tons of goods by the truck should be replaced with stipulated carriage capacity which equals to 15-16 tons..
19. Appoint Supply Commissioner at the regional, zonal and district levels for systematizing and monitoring the supply situation of essential goods.
20. Establish a Data Bank of all essential commodities in the Ministry of Industry, Commerce and Supplies with the cooperation of Ministry of Agriculture, FNCCI (AEC) and Nepal Chamber of Commerce.
21. Organize Consumer cooperative association in the urban and accessible rural areas.
22. It is recommended to form a high level *National Supply Coordination Committee* to facilitate His Majesty's Government on supply management of essential commodities under the coordinatorship of the Secretary of Ministry of Commerce, Industries and Supplies. This committee should have adequate representation from the security administration and National level Commodity Associations like Nepal Rice & Pulses Producer's Association, Nepal Petroleum Dealer's Association, Nepal Sugar Mills Association, and Nepal Pharmaceutical Association. Big players of the wholesale food market should also be included in the committee. This committee should utilize the experiences of private sector organizations like FNCCI, and Nepal Chamber of Commerce.
23. Similarly, a Regional Zonal and District level Committee is recommended to be formed under the Coordinator ship of Regional, Zonal and District Administrators. This committee should have adequate representation from the security administration and identified local business houses. These committees should tap the experiences of Local Chamber of Commerce.
24. Although experience with Public Private Partnership (PPP) is limited in the supply management activities in Nepal, there is ample opportunity of entering into this unique development arrangement. Private sector can come up with strategies on how they are going to work with the local government and public enterprises in the supply management of essential commodities as one of the Corporate Social Responsibility (CSR) components.

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## CHAPTER I - INTRODUCTION

### 1. Context of the study

Nepal is a developing country with an agricultural economy. Eight out of ten Nepalese are engaged in farming providing livelihood for over 80% of the population and accounting for 40% of the GDP. Despite increase in the area of land under crops over the last few decades, agricultural productivity has not increased. As a result, Nepal is facing food deficit, which is being met by imports. Earlier Nepal had surplus of agro products and used to export rice, pulses, and oil seeds, but now it's a net importer of all these products. In an agricultural country like Nepal, this is a big irony. Hence, all efforts should be made in a war footing to increase the production and productivity of the agricultural commodities so that the country need not worry about their supply. Under the present situation of short supply of such commodities, there is a dire necessity of efficient and effective supply management system in the country.

Besides efficient and effective supply of essential commodities, it is also important to maintain stable prices of such goods. An efficient supply management system is of utmost importance in distributing goods from surplus areas to deficit areas. It also assists in timely import of commodities that are partially produced in the country or totally imported and make them available throughout the country, especially in remote & conflict affected areas. As the supply of all essential commodities may not be possible through the government sector, private sector's role is also of equal importance.

This study has been made with a backdrop in mind to help the government chalk out a short/medium and long term supply policy and action plan in supply management of essential commodities to ensure an action based strategy which will be institutionally effective, participatory and sustainable

### 2. Objectives of the study

- Review of the current supply management system & network of essential commodities enlisted below:
  - a) Petroleum Products (Kerosene, Diesel, Petrol, Aviation Fuel and LPG)
  - b) Sugar
  - c) Salt
  - d) Rice & Pulses
  - e) Edible oils
  - f) Essential medicines

- Identify problems in supply management of the priority commodities pertaining to legal, institutional, administrative and policy aspects.
- Suggest mechanisms and information systems needed for their smooth supply and management including sound national and district level coordination between civil and security administration and wholesale business houses.
- Suggest necessary monetary, fiscal and administrative measures to maintain adequate supply in addressing crisis.
- Suggest prospects for public-private partnership.
- Suggest policy-action matrix.

### **3. Methodology**

The following methodology is adopted for the study:

1. Study and analysis of available primary and secondary data
2. Website review
3. Inter-action with the stakeholders of the private sector
4. Consultation with the concerned government officials
5. Response from individuals and different business organizations involved in supply management of essential commodities
6. Inter-action in group with business community and government organizations involved in supply of essential commodities

### **4. Limitations of the study**

The study was done under the following limitations:

- Field study could not be undertaken due to time constraints and inability to travel due to security reasons.
- Very little primary and secondary data were available on supply management issues in Nepal as very little studies have been done in this field..

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## CHAPTER II –REVIEW OF THE CURRENT SUPPLY MANAGEMENT SYSTEM & NETWORK

### 1. Classification of Supply Management System

The current supply management system can be broadly classified in two segments such as Crisis Management and Regular Management and further be sub-classified into two groups:

- **Urban & Rural Supply Management:** The main service providers involved in urban supplies are the agents, wholesale and retail businessmen. The agents are the individual or firms supplying the essential commodities or services from the producers to the wholesalers. The retailers supply the commodities through the wholesalers.
- **Remote Area Supply Management:** The service providers of essential commodities (mainly coarse rice and salt) in the 30 identified remote districts of Nepal are mainly the public and semi-public corporations like Nepal Food Corporation and National Trading Ltd., and Salt Trading Ltd. The agents, wholesalers, retailers and cooperative societies play supportive roles.

### 2. Classification of Remote Districts

The government has classified the following 30 remote Districts as food deficit areas:

*1. Darchula 2. Achham 3. Baitadi 4. Bajhang 5. Bajura 6. Humla 7. Jumla 8. Kalikot 9. Mugu 10. Dolpa 11. Dailekh 12. Rukum 13. Jajarkot 14. Rolpa 15. Pyuthan 16. Baglung 17. Myangdi 18. Mustang 19. Manang 20. Gorkha 21. Dhading 22. Ramechhap 23. Dailekh 24. Sindhuli 25. Sankhuasabha 26. Bhojpur 27. Okhaldhunga 28. Solukhumbu 29. Panchthar 30. Taplejung*

### 3. Present supply and network status of essential commodities

- 3.1 Petroleum Products (Petrol, Diesel, Kerosene, Aviation Fuel and LPG)
- 3.2 Sugar
- 3.3 Salt
- 3.4 Rice & Pulses
- 3.5 Edible oils
- 3.6 Essential medicines

### 3.1 Petroleum Products

Nepal Oil Corporation Ltd. (NOC) is the state monopoly for the imports and distribution of petroleum products in Nepal. NOC is operating in a protectionist environment as it enjoys a monopoly over import and storage of petroleum products. NOC imports these products- kerosene, diesel, petrol and aviation fuel from India and stores it in its storage tanks. Then it supplies these products to dealers all over Nepal. There is an agreement between NOC and Indian Oil Corporation (IOC), the largest oil company of India. NOC has been importing petroleum products from IOC under this agreement. LP gas is brought directly by the gas companies (through NOC) and stored in their tanks. The sale and distribution of petroleum products is being done through the private sector.

It is estimated that per capita consumption of petroleum in Nepal is around 35 litres per year, which is less than half of India's (82 litres) and one fifth of China's (170 litres). The annual growth rate for petroleum demand in Nepal is estimated at 12 to 13%.

#### 3.1.1. Consumption pattern of Petroleum Products:

The annual consumption of Petroleum products is listed in the table provided below\*.

	Petrol (Kilo Litre)	Diesel (Kilo Litre)	Kerosene (Kilo Litre)	Aviation Fuel (Kilo Litre)	LP Gas (Mts.)
Annual Sales (F.Y. 2060/61)	67,586	299,730	310,826	64,041	66,142
Terai Region/Except Kathmandu Valley (% of Total Consumption)	15%	55%	65%	10%	15%
Kathmandu Valley (% of Total Consumption)	85%	45%	35%	90%	85%

\*(Source: NOC-2005)

#### 3.1.2. Current Storage Capacity with NOC (Tankage)

At present the operating storage capacity of NOC is around 65,000 Kilo Litres. Out of this operating storage capacity, around 7% of oil cannot be pumped out for sales and remains as dead stock. NOC has got storage facilities for Petrol, Diesel, Kerosene and Aviation fuel only. The total storage capacity can sustain nation's one-month consumption. NOC does not have storage capacity for LP Gas, Light diesel Oil (LDO) and Furnace Oil (FO). The storage capacity with the 22/23 LPG Bottling plants can sustain only a week's national consumption of LP Gas.

### 3.1.3. Security Storage

In case of exigencies, blockades or national calamities, NOC has not yet ascertained in detail as to how much oil should be kept in the reserve. However for general purpose, if we consider the fact that such blockades or conflict last only for one week, the nation should be able to keep around 15,000 Kilo Litres of Petrol, Diesel, Kerosene and Aviation Fuel besides the dead stock. For LP Gas, the figure comes out to be 1,800 Metric tons.

### 3.1.4. Number of Petroleum Dealers, Capacity and Commission on sales

There are around 2,650 Petroleum dealers of different types scattered in different regions of the Kingdom. The total storage capacity with the dealers is around 40,000 Kilo litres. NOC has stopped the appointment of new Petroleum Dealers since the last three years. The commission on sales of the petroleum products to dealers is 3% on Petrol, Diesel and Kerosene.

### 3.1.5. Border Price parity with India

Since open border prevails almost in totality in the eastern, southern, and western region of Nepal, the flow of petroleum products towards India cannot be ruled out in the event of more retail selling price differences across the border. Currently, the price of Petrol, Diesel and Kerosene in Nepal is cheaper than in India.

### 3.1.6. International price trend.

The trend in the international market price of major processed petroleum products (FOB Singapore) is as under\*: Looking at the current global scenario, the price is expected to touch record high.

S.No.	15 Days Avg Price (FOB Singapore)	15 Days Average Intl Mkt Price (FOB, S'Pore)		
		Petrol (USD/Bbl)	Kerosene (USD/Bbl)	Diesel (USD/Bbl)
1	1-15 Jan '05	44.36	48.78	49.82
2	16-31 Jan'05	49.62	53.24	52.66
3	1-15 Feb'05	50.79	52.22	52.84
4	16-28 Feb'05	56.56	56.86	58.53
5	1-15Mar'05	58.29	64.32	65.91
6	16-31Mar'05	59.09	68.30	68.50
7	1-15 Apr'05	61.85	72.21	69.85
8	16-30 Apr'05	58.47	70.35	66.93
9	1-15 May'05	54.12	65.48	63.83
<b>Total Incr. on 15 Days Avg, USD/Barrel</b>		<b>9.76</b>	<b>16.70</b>	<b>14.00</b>
Total Increase (%)		<b>22.00%</b>	<b>34.20%</b>	<b>28.1%</b>

\*(Source: NOC-2005)

### 3.1.7. Private Sector's involvement in the oil business.

Currently in the NOC's business, most of the value chains have utilized the experience of the private sector. Except the import of Petrol, Diesel, Aviation Fuel and LP Gas, the private sector has already been involved in the transportation and distribution of petroleum products. NOC does not own any petrol pumps and tank lorries meant for retail sale and transportation of the petroleum products are, in the hands of private operators.

### 3.2 Sugar

The annual domestic demand stands at almost 160 thousand tons, while yearly domestic production is approximately 100 thousand tons thus Nepal's sugar supply is hardly adequate to meet the domestic demand. The remaining amount is fulfilled through import.

The private sector is the major supplier of sugar in the market although, National Trading Limited and Salt Trading Ltd. too are involved in sugar procurement and supply.

The government established Birgunj Sugar Mill and Lumbini Sugar Mill in the mid nineties. After the liberalisation of the Nepalese economy in the early nineties, licenses were given to private sector and consequently Sri Ram Sugar Mill, Eastern Sugar Mill, Vashulinga Sugar Mill, Shree Mahalaxmi Sugar Mill and Everest Sugar Mill were established. The following Table gives the list of major sugar industries and their production capacities and market shares.

#### **Production of Sugar Industries and their share** Source: Department of Industry 2005

S.N.	Company Name	Tons Crushed per day	% share
1	Vashulinga Sugar Mill	1750	9
2	Sri Ram Sugar Mill	3000	15
3	Lumbini Sugar Mill (Closed now)	1250	6
4	Everest Sugar Mill	3000	15
5	Shree Mahalaxmi Sugar Mill	2500	13
6	Birgunj Sugar Mill (Closed now)	1250	6
7	Bagmati Sugar Mill	1250	6
8	Indushankar Sugar Mill	3000	15
9	Eastern Sugar Mill	2500	13
<b>Total</b>		<b>19500</b>	<b>100</b>

The liberalization of this sector has however not resulted in optimal competition in the market and the consumers are often forced to buy sugar at high prices due to frequent shortages of sugar in the market.

As of present, sugar imports are subjected to customs tariff of 15 percent. The customs duty on sugar has recently been brought down from 25 per cent to 15 per cent considering the special situation of the supply of sugar running low. With the reduction of the import tariff, it is expected that the private parties will be encouraged to the import of sugar so that there will be no shortage of sugar when the domestic mills cannot supply as per the consumers' demand.

Sugarcane is one of the leading cash and industrial crops of Nepal. It is the vital source of raw material for sugar factory. Sugarcane production of Nepal is around 1622 Thousand metric ton with its productivity of approx.35 metric ton per hectare, which is very low.

### **3.3 Salt**

Salt Trading Corporation (STC) is the sole organization entrusted by the government for the imports and distribution of salt in Nepal. Salt Trading is operating in a protectionist environment as it enjoys a monopoly over import, distribution and storage of salt. STC imports salt from India and stores it in its godowns.

STC was established four decades ago through the joint efforts of HMG/Nepal (21%) and the private sector (79%) to ensure supply and distribution of essential consumer items throughout the country. Its first task was to make edible salt readily available. It also deals with sugar, wheat flour and few other edible items. It has a wide network spread all over the 75 districts of the country with 93 branches/sub-branches, depots & contact offices, 6,000 dealers and 400 chain shop sellers.

STC imports about 150,000 metric tons of salt per year iodized in India. About 25% of above salt is re-iodized at 14 Iodization Plants in its various branches as and when required. All the salt is imported from 20 Salt Manufacturers located in the Gujarat and Rajasthan State of India. The distribution system of iodized salt, as per UNICEF and WHO is reportedly considered as best in the SAARC region.

Salt Trading is providing salt to the consumers at Nepalese Rs. 9/- per kg. The price of salt has been constant since the last four years. Market survey reveals that the Nepalese consumers are getting salt at a cheaper rate compared to other SAARC countries.

A comparative price schedule is given below:

Nepal	: NRs 9/- per kg.
India	: NRs 13/- per kg
Pakistan	: NRs 15/- per kg
Bangladesh	: NRs 17/- per kg
Sri Lanka	: NRs 23/- per kg

### **Monitoring**

A salt iodine internal monitoring mechanism was introduced at the Salt Trading Corporation in 1996, tracking the iodine level in salt from import to repackaging using the semi quantitative test kits. These data comprise a central database, with regular monthly entry. Iodine monitoring in households is being incorporated as part of the national vitamin A program of the Ministry of Health.

Under the transport subsidy program of Goiter Control Project of His Majesty's Government of Nepal, STC is providing iodized salt to 13 remote and 22 semi-remote districts of Nepal.

### **3.4. Rice & Pulses**

The private sector is the major supplier of rice & pulses in the market Nepal Food Corporation (NFC) is the only public sector organization involved in supplying food grain specially in the remote areas of Nepal. NFC supplies a specific quality and quantity of food grain mainly coarse rice in the remote areas with transportation subsidy. The government gives subsidy to the NFC in the food transportation. The NFC, on its part, buys food from some districts and sells it at fair price to the food-deficit districts.

About 30 of the total 75 districts in Nepal are food-deficit areas indicating that the production of food in these districts cannot meet the demand of their residents. The share of food grain distribution of NFC in the Kathmandu valley is only about 10 percent of its deficit. However, this percentage of food grain distribution is in gradual decline with the adoption of economic liberalization policy of HMG and more private sector traders coming to play in the market.

Out of the total consumption of rice, it is estimated that almost 80% of rice is of coarse and semi-coarse quality (Mota and Mansuli). With per capita consumption of rice estimated at 122 kg per year, the total requirement for the country for the current year-2005 comes to 30,20,980 Metric Tonne.

The World Food program (WFP) has come up with the Nepal Country Program (2002-06) aimed at bringing about sustainable improvements in food security for the most

disadvantaged, particularly women and children, in highly food-insecure areas. For the five year period of 2002-06, WFP has set aside US\$ 22.79 million for its Food for Work program.

Rice, is the staple food of the Nepalese diet. 74 percent of total rice production is in the terai region. There is no empirical data available on total rice production in the country. However, when the paddy crop is good, rice is available in abundance and even when the crop is bad, the shortage is met by imports from India. It is not possible to estimate the exact amount and quantity of such goods imported from India due to open borders and social practices in border areas. It is very clear that the deficit of cereals is presently being met by imports from India only.

The main pulses produced in Nepal are Black gram, lentil, gram, soybean and yellow arahar. With per capita consumption of pulses estimated at 9.1 kg per year, the total requirement for the country for the current year - 2005 comes to 225,150 Metric Tonne.

Pulses are cheap source of protein for the majority of the Nepalese population and a useful crop to ameliorate the soil fertility. Because of its great demand in internal and external market, it has the export potential, if produced in necessary quantity and quality.

### **3.5. Edible oil**

The private sector is the major supplier of edible oil in the market. The low-end domestic consumer consumes the domestically produced mustard oil and groundnut oil from the oil mills. Medium and high-end consumers prefer to use soybean, sunflower and corn oil due to health reasons as they have low cholesterol values.

With per capita consumption of edible oil estimated at 4.18 litre per year, the total requirement of the country for the current year-2005 comes to 103,420 Kilolitres.

Oilseed, occupying about 50 percent area of all cash crops, is one of the most important crops. Oilseed crops occupy about 4.5 percent of total cropped area and are ranked sixth after rice, maize, wheat, grain legumes and finger millets. Edible oil is extracted from the following oil seeds: Mustard (Rape Seed), Groundnut, Sunflower, Sesame, Niger and Linseed

Small-scale oil extractors in Nepal consist of screw type oil presses, which are electric-powered. The electric – powered *ghani* (designed upon traditional oil crushers) is also in operation. Solvent extraction process is in use in parts of the country, especially in the Terai regions, and these utilize forest seeds (non-timber forest products), such as sal seeds or oil

cakes from traditional mills for edible oil extraction. The medium-sized edible oil industries use modern technology, including automatic machines for extraction and purification.

### **3.6. Essential Medicines**

There are about 40 private pharmaceutical companies manufacturing medicines in Nepal. Nepal has been able to manufacture generic medicines more than brand name medicines.

There are more than 320 essential drugs, categorized into 28 different sections and sub-sections. All the medicines are supplied to the consumers through whole sellers and retailers of the private sector. Sporadic raids are made at the retailers levels for checking date-expired and banned medicines but even when found guilty, stringent punishment measures are not heard of for the defaulters.

The current pharmaceutical market in Nepal is estimated at NRs. 8 billion. The annual consumption rate of medicine is increasing annually by about 20%. The local pharmaceutical companies, including the public sector company Royal Drug Limited (RDL) have fulfilled about 30 per cent of the national requirement the rest 70 per cent is imported from India. The Central Development Region is the main consumer of pharmaceutical products (30.72 percent). The Kathmandu valley alone consumes about 26.3 percent.

The list of Essential Medicines is given in **Annex-3**

#### 4. Demand Projection of Essential Commodities (Rice, Gram, Sugar, Salt)

Fiscal year	Demand Projection		Estimate of Domestic Production		Deficit		Import Requirement		
	2061/62	2062/63	2061/62	2062/63	2061/62	2062/63	2061/62	2062/63	
Population Projection									
2061/62	2062/63								
24,199,781	24,741,856								
Products	Annual Consumption per head (kg./lit.)	Quantity (MT/KL)	Quantity (MT/KL)	Quantity (MT/KL)	Quantity (MT/KL)	Quantity (MT/KL)	Quantity (MT/KL)	Quantity (MT/KL)	Quantity (MT/KL)
Rice	125.0	3024972	3092732	2894000	2930000	130972	162792	130972	162732
Gram (Dal)	11.0	266197	272160	270000	286000	-	-	-	-
Sugar	5.5	133098	136080	115000	127000	18098	9080	18098	9080
Salt	4.9	118578	121235	-	-	118578	121235	118578	121235

(Source: DOC- Department of Commerce, HMG/N)

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## CHAPTER III – PROBLEMS IN SUPPLY MANAGEMENT OF ESSENTIAL COMMODITIES

### 1. Legal problems

- In spite of the existence of *Black-Marketing and Certain Other Social Crimes and Punishment Act, 1975*, (which provides for detention in certain cases for the purpose of prevention of black-marketing and unscrupulous hoarding) unscrupulous hoarding and black marketing are not adequately monitored and enforced by the enforcing government agencies.
- In spite of the existence of *Consumer's Right Protection Act, 1997*, and *Consumer's Right Protection Rule, 1999* consumer awareness programme, annual information mechanism and communication have not been effectively administered for the protection of consumer's rights and welfare. This Act is an umbrella act aimed at protection of consumer's right as well as restricting unfair trade practices. Currently the Act contains lesser role of Consumer's Forum in disseminating consumer awareness program and playing proactive role in the area of protection of consumer's rights & welfare. There is a need to revisit and amend the Act and the rules.
- The movement of consumer's goods is constrained at times due to the existing Acts, which empowers the district administrator to restrict the movement within and outside the district.
- Although the metric system of *Weights and Measures* is introduced since 1968, yet the non-metric and non-standard measures (Mana, Pathi), prevail leading to undue exploitation in local transactions.

### 2. Institutional problems

- Progressively drastic reforms are yet to be undertaken in public sector corporations involved in supply of essential commodities like Nepal Food Corporation, National Trading Limited, and Nepal Oil Corporation. These public sector undertakings lack output oriented performance and competitiveness and have also suffered from excessive political and administrative interferences.
- Organized Marketing system is not yet established for essential commodities in Nepal. specially in the remote areas

- The existing wholesale markets, mandis and stalls in Nepal are inadequate and ill equipped in various potential areas of the country. The municipalities lack due attention for developing markets for agricultural products.
- Specialized cooperatives and fair price shops are still not in existence for distribution of essential commodities at subsidized price in the rural and remote areas.
- Apart from the land locked situation of the country lack of adequate transportation to link hill with Tarai is a major problem in the supply of essential commodities. This has resulted in high cost for the movement of goods.
- Data bank of essential commodities does not exist for effective supply management system.
- Though Ration Card System was practiced partially for distributing subsidized Kerosene a year back, an effective Ration card system has not been introduced specially in the remote areas to ensure supply of essential commodities
- Lack of proper storage facilities is another major problems faced by all those involved in supply of essential commodities.
- Retailers in rural and remote areas are not registered in District Development Committee (DDC), Village Development Committee (VDC) or Ward offices of VDCs.

### **3. Administrative problems**

- The presence of road barriers, which stop free flow, and smooth movement of goods create unnecessary problem including collection of local taxes repeatedly at various locations.
- At times of need and in unusual circumstances, intervention through government agencies is not done in importing, selling and distribution of essential commodities to ensure their effective supply.
- Improvement in management, procuring and distribution of supply related corporation is not done.

### **4. Policy aspect problems**

- A coordinative mechanism is not developed between the private and public corporations to make the service and goods availability timely and convenient
- Food grains are not procured and supplied to the remote districts on time by Nepal Food Corporation.

- Private sector's involvement is not encouraged in supply management of essential goods by providing them with transport subsidy as given to NFC.
- Export oriented agriculture and cooperative crop farming in hilly and remote areas is not yet implemented
- Information mechanism of price, production and selling is not yet developed.
- Food supply is not adequately ensured seeing the demand projection through the domestic production.

## **5. Geographical Connectivity problem**

- Overall lack of geographical connectivity especially in the 30 remote districts of Nepal is the main problem in supply management of essential commodities. The high level of the isolation of mountain and hill population makes it very difficult to achieve better distribution of essential commodities of daily use. This, together with social exclusion and even ethno-linguistic fractionalization may have contributed to the present crisis of insurgency over time.
- Because of Nepal's 2/3<sup>rd</sup> of difficult geography, transport costs are very high, hindering the growth of commerce and markets, and contributing to regional disparities in economic human development. Given that many disadvantaged groups live in relatively remote regions, the lack of physical connectivity leads to some extent the lack of social connectivity.
- Over-centralization of government in an ethnically and culturally diverse country like Nepal also means that economic opportunities and service delivery are poor in the remote regions. Consequently, the insurgency has planted its base firmly in remote Western regions of the country, further hampering the delivery of public services to those areas.
- Tarai markets are more integrated with markets across the Indian open borders hence there is hardly any shortage in supply of essential commodities in the tarai regions of Nepal.

## **6. Problems in supply management of three essential commodities (Petroleum products, Sugar and Rice)**

By and large the supply position of essential commodities except petroleum products, rice in 30 remote districts of Nepal and to certain extent sugar is fairly manageable. Hence this chapter will deal with problems faced in supply management of only these three essential commodities namely *petroleum products, rice and sugar*.

## **6.1 Petroleum products**

Nepal Oil Corporation is running at a heavy loss, the loss increasing together with the increase in import and distribution. Political considerations overshadowing economic justifications are the main reasons why the prices of petroleum products did not respond properly to the price structure of the international market. The pricing of Petroleum products, especially diesel and kerosene, is a sensitive issue in Nepal. In the past and recent days, the upward revision in pricing of these items has always attracted negative impact leading to political and social dissatisfactions.

Consumers have to pay more prices for kerosene in the remote area of the country than other areas due to heavy cost incurred in transportation of the product. In the remote areas, kerosene is used mostly for lighting purpose, and some for cooking including cooking in the restaurant and hotels.

In the international market, the price changes in Petroleum products are much more frequent. While kerosene and petrol are said to cost almost the same in every country of the world because the production cost for both is almost the same, in Nepal kerosene is quite cheap, thanks to the subsidy on it on the basis of the logic that kerosene is an item for the consumption of the poor. But the subsidy on kerosene has rather benefited the rich more than the poor. For example, while the total amount of subsidy enjoyed by a poor is Rs. 7 only per month (if one litre of kerosene is enough for a year for the poor who use it only for lighting purpose), the rich are enjoying a subsidy of worth several hundred times that of what the poor does because the rich use it for room heating purpose. Moreover, many transporters in terai areas are using kerosene as fuel in their vehicle specially in heavier vehicles like trucks & tractors and enjoying the benefit of low cost kerosene.

Though the consumer activists are demanding dual pricing – a cheaper one (less than the actual cost) for the poor and expensive one (more than the cost price) for the rich by adopting the ration card system that India has been using, the experts do not see this idea as practical. A similar effort of Salt Trading of using ration card system for kerosene last year did not work out. As such a system has proved to be a breeding ground for corruption in India, the economists and other experts in this field are strongly against this idea.

Though the petroleum prices in Nepal are still totally dependent on the prices in India (they are kept nearly equal to what they cost in India so as to avoid the chances of smuggling), they are not so stable in India as in the past. Since the prices in India used to remain fairly stable for a quite long period of time, it was possible for Nepal to follow the Indian price pattern. But now the petroleum business is being deregulated in India and they are currently following the method of fortnightly price adjustments. Therefore, the prices in India change very frequently. As a result, it has become very much difficult for NOC and the Nepali government machinery to respond so quickly to the prices changes in India.

NOC, being a government enterprise, any pricing adjustment it has to make needs the government department's approval. Hence, partial privatization of the petroleum business in Nepal may be a panacea for efficient supply management of petroleum products.

## **6.2 Sugar**

Nepal's sugar supply is hardly adequate to meet the domestic demand. The annual domestic demand currently stands at almost 160 thousand tons, while yearly domestic production is approximately 100 thousand tons. Although the sugar industry has witnessed substantial growth during the last ten years, the capacity utilization is estimated to be mere 60%. The recovery rate of sugar is approx. 8.5% only which is very low.

There has been sugar shortage in the free market occasionally, particularly, during the festival seasons when its consumption soars. The shortage in the free market has forced the consumers to buy the same product at much higher rates in the black market.

To mitigate the problem of shortage of sugar, government should fix a system of collecting certain fixed percentage of production from the sugar manufacturers and then distribute through its agencies to intervene the market at the time of shortage. The balance quantity can be sold by the manufacturers as per their will with prior release order from the government. In case of short domestic production, government can allow import of fixed quantity for fixed period either through the private sector or by its nominated agencies to be sold at fixed price.

There are 10 Sugar Mills in Nepal, out of which 8 are operational under the private sector but recently Vasulinga Sugar Mill has been closed down. Out of the 2 Public Sector

Mills, both Birgunj Sugar Mill and Lumbini Sugar Mill have been closed down. The market has taken a worse turn after Birgunj Sugar Mill, the largest mill run by the state, closed down ostensibly for privatization. The mill has neither been privatized as of today nor is producing sugar.

In view of the depleting sugar and sugarcane production in the country, there is a dire need of constituting a *Sugar Board* of a statutory nature consisting of both public and private sector institutions/personnel involved in sugar and sugarcane production, knowledgeable professionals and representatives of Consumer's Forums.

Among the chief reasons of Sugar Mills not being able to produce sugar as per their capacity are the lack of raw materials and political disturbance. Sugar production is a seasonal industry, which runs for about five months from November to April. The mills, which are to be operational for about 150 days, run for less than 90 days thanks to the lack of sugarcane & frequent strikes. Sugarcane cultivation has decreased largely due to inadequate motivation to the farmers in cane price and buying their products in regular & timely manner.

#### **Sugar Mills under Public Sector\***

<i>Name</i>	<i>Crushing Capacity(TCD)</i>	<i>Annual Crushing Capacity(Tons)</i>
1. Birgunj Sugar factory Ltd., Parsa	2500	375,000 <b>Closed</b>
2. Lumbini Sugar Mills, Nawalparasi	1000	150,000 <b>Closed</b>

#### **Sugar Mills under Private Sector\***

<i>Name</i>	<i>Crushing Capacity(TCD)</i>	<i>Annual Crushing Capacity(tons)</i>
3. Eastern Sugar Mills, Sunsari	2500	375,000
4. Everest Sugar Mills, Mahottari	3000	450,000
5. Indushankar Chini Udyog, Sarlahi	3000	450,000
6. Sri Ram Sugar Mills, Rauthat	3000	450,000
7. Mahendra Sugar Mills, Rupandehi	750	112,500
8. Bagmati Sugar Mills, Nawalparasi	500	75,000
9. Mahalaxmi Sugar Mills, Kapilbastu	2000	300,000
10. Vasulinga Sugar Mills, Kailali	2500	375,000 <b>Closed</b>

\* **Source: Nepal Sugar Mills Association**

Recently, the sugar industry has suffered from low tariff protection and substantial imports from India and high costs of production. However, the mills continue to entertain ambitious plans to make sugar a leading export item from Nepal.

### **6.3 Rice**

Except in the 30 remote districts of Nepal, the supply position of rice is fairly adequate. (The remote food deficit districts as announced by HMG/N are 1. Darchula 2. Achham 3. Baitadi 4. Bajhang 5. Bajura 6. Humla 7. Jumla 8. Kalikot 9. Mugu 10. Dolpa 11. Dailekh 12. Rukum 13. Jajarkot 14. Rolpa 15. Pyuthan 16. Baglung 17. Myangdi 18. Mustang 19. Manang 20. Gorkha 21. Dhading 22. Ramechhap 23. Dailekh 24. Sindhuli 25. Sankhuasabha 26. Bhojpur 27. Okhaldhunga 28. Solukhumbu 29. Panchthar 30. Taplejung).

In villages where rice is not available, people rely on alternative food like wheat, millet, beans and maize. The government has not been able to supply the required quantity of food grains to the above mentioned remote hilly and conflict prone areas, which suffer from acute food scarcity from time to time. Nepal Food Corporation lacks the resources to store food grains on a large scale. It has not been possible also to provide adequate amount of transportation subsidy to transport food grains to these remote areas.

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## **CHAPTER IV – RECOMMENDATION FOR SMOOTH SUPPLY OF ESSENTIAL COMMODITIES**

### **1. Necessary measures to be adopted to maintain adequate supply in addressing current crisis**

#### **1.1 Monetary Measures**

- Though the prices of the commodities are determined by free market, in certain circumstances HMG/N should fix the prices of certain essential goods like coarse rice, and sugar. The prices of such goods, has to be fixed on the basis of survey and research giving prime importance to the interest of producers, consumers and the retailers.
- The following factors have to be taken into account while fixing prices:
  - HMG/N should determine minimum support prices of important food grains such as paddy and sugarcane before planting season in order to protect farmers from the probable fall in prices due to increased production and productivity
  - The sales price of essential commodities to be fixed on the basis of their cost price.
  - Since domestic prices are influenced by the variations in prices in the border markets of India, this factor should be taken into account in determining the domestic prices.
  - The prices prevailing in domestic and foreign markets should be periodically reviewed and monitored.
- Rice being the staple food of the population, the government should give incentives to paddy farmers by reducing the bank interest rates of Agriculture Development Bank to 8 to 10%.

#### **1.2 Fiscal Measures**

- VAT should be reduced from current 13% to a much lower level 3 to 4% from all stipulated essential commodities.

- Open tender system with full transparency should be implemented to encourage the private sector for supplying essential commodities like rice, sugar, mustard oil and kerosene to remote district by giving *transport subsidy* as given to NFC.
- Provide tax exemption on 2 lacks capital to traders and firms dealing in essential commodities in remote areas.
- Provide 50 percent discount on total income to traders and firms involved in supply of essential commodities at discounted price
- Provide capital seed money through the Grameen Banks and Agriculture Development Bank to women's groups eager to run cooperatives in the remote and rural areas.
- Provide income tax incentive (50% less income tax) to the transporters dealing specifically in supply of essential commodities to remote and conflict affected areas.

### **1.3 Administrative Measures**

- The government should announce its long term supply policy spelling out the private sector involvement in supply management in the changed context of market oriented economy, and other issues such as national food security system, public-private partnership, procurement & distribution of essential commodities to food deficit and conflict prone areas
- A SWOT (Strength, Weakness, Opportunity, Threat) analysis and an in-depth study should be conducted immediately to effectively privatize the service providers of public sector i.e. Nepal Oil Corporation (NOC), Nepal Food Corporation (NFC), and National Trading Limited (NTL) in order to enhance the performance of these enterprises.
- Form a functional *Unified National Supply Action Committee* consisting of public sector agencies involved in supply management system e.g. National Trading Limited, Nepal Food Corporation, and Salt Trading Corporation. The government is recommended to form a Unified National Supply Action Committee under a high official looking after the supply sector under MOICS with the representation of CEOs of the above corporations to see the effective and efficient functioning of all member corporations. These corporations can float tender or initiate procurement process as per their own Bi-Laws. Best offer should be executed and shared by all the concerned member organizations. For example NTL, STC & NFC can go together for procurement of Rice & Pulses, Sugar etc. Thereby

every member corporation can share the benefits. For distribution also, infrastructure of one organization can be shared by another to save cost and provide efficient delivery of services under one window system.

- For supply management of essential commodities in the Kathmandu Valley specially during natural calamities and blockades, a *Unified Valley Supply Action Committee* should be formed under the convenorship of Nepal Chamber of Commerce with adequate representation of civil/security administration and related corporations (STC,NFC,NOC, and NTL) and concerned commodity associations.
- Government should buy rice for its supply to remote districts through an open tender system with full transparency to encourage the private sector in supply management. The necessary terms & conditions are to be devised for smooth, timely and reasonably guaranteed supply.
- The task of maintaining buffer stock of food grains should become a prime responsibility of NFC. It should play a more active role in undertaking open market operations within a prescribed price band. It can release stocks in the open market when shortages are prevalent and prices are high. If organizational capacity of NFC is built up, it could also become an active player in the international food grains market.
- As regards fixing the Minimum Support Price, there is a need to adhere to detail study rather than fix procurement prices much in excess of estimated costs of production.
- Maintain buffer stock of minimum two months for essential commodities like food grains, & sugar and in case of petroleum products for one month. The maintenance of buffer stock has to be based on demand/supply projection of these commodities of current as well as last few years. The supply of salt is taken care by Salt Trading Corporation so far. Need has not arisen so far to maintain buffer stock of edible oils and essential medicines.
- The under utilized godowns of Nepal Food Corporation should be provided to private sector traders on rental basis for storing essential commodities like rice and sugar during emergency situations like blockades and natural calamities.
- Create environment whereby the consumers themselves become aware in discouraging black marketing and hoarding.

- Constitute a Consumer Protection Council in all the 5 Development Regions mobilizing the public sector corporations like NFC, NTL, and private sector organizations like FNCCI, Nepal Chamber of Commerce, Salt Trading Ltd. for management of food supply.
- Create a website in the Ministry of Supplies and other related Departments with daily updating to provide information on market prices of essential commodities across the country. Also include all information with regularly update that may be useful to the public including information relating to the various laws administered by the government, fax/ telephone/ email address of officers dealing with various subjects in the Ministry of Supplies and Departments.
- No restrictions to be imposed on the domestic transportation of essential goods from one part of the country to another and the current statutory restriction of carrying only 10 tons of goods by the truck should be replaced with stipulated carriage capacity of truck which equals to 15-16 tons..
- Appoint Supply Commissioner at the regional, zonal and district levels for systematizing and monitoring the supply situation of essential goods. It is suggested to have five Supply Commissioner Offices (in Biratnagar, Kathmandu, Siddharthnagar, Nepalganj, Dhangadi) under the Ministry of Supplies in all the five development regions Under this process, it is suggested to establish 12 Zonal and District level Supply Commissioner Offices in Chandragadhi, Malangawa, Rajbiraj, Janakpurdham, Pokhara, Krishnanagar, Tulsipur, Birendranagar, Musikot (Jumla), Dipayal, and Mahendranagar.
- Establish a Data Bank in the Ministry of industry, Commerce and Supplies with the cooperation of Ministry of Agriculture, FNCCI (AEC) and Nepal Chamber of Commerce.
- In order to protect consumers' welfare and create a disciplined market environment, the monitoring of supply situation, price, quality, weight and cost of goods, the Department of Commerce, Department of Standard and Measurement, Central Food Laboratory, Office of the Supply Commissioner and District level Supply Offices should work in a co-ordinated manner.
- Form Consumers cooperative stores in urban and accessible rural areas
- Organize fair price shops in the urban and accessible rural areas
- Organize Consumer cooperative association in the urban and accessible rural areas
- Organize Rural cooperative shops in the urban and accessible rural areas

## **2. Necessary National and District level coordination to be adopted between Civil Administration, Security Administration, and Wholesale Business Houses**

It is highly essential to have National and District level coordination between civil administration, security administration and wholesale business houses for smooth supply of essential commodities.

It is recommended to form a high level *National Supply Coordination Committee* to facilitate His Majesty's Government on supply management of essential commodities under the coordinator ship of the Secretary of Ministry of Commerce, Industries and Supplies. This committee should have adequate representation from the security administration and National level Commodity Associations like Nepal Rice & Pulses Producer's Association, Nepal Petroleum Dealer's Association, Nepal Sugar Mills Association, and Nepal Pharmaceutical Association. Big players of the wholesale food market should also be included in the committee. This committee should utilize the experiences of private sector organizations like FNCCI, and Nepal Chamber of Commerce.

Similarly, a Regional Zonal and District level Committee is recommended to be formed under the Coordinator ship of Regional, Zonal and District Administrators. This committee should have adequate representation from the security administration and identified local business houses. These committees should tap the experiences of Local Chambers of Commerce.

These Coordination Committees should carry out the following tasks to ensure that the people in each part of the country are provided with the essential goods and services, in a simple, convenient and efficient ways:

- Help His Majesty's Government in formulating necessary policy, rules and regulations in providing essential commodities and services, in a simple, convenient and efficient way in the country.
- Encourage adequate production of indigenous products like rice & pulses, oil seeds and sugarcane.
- Provide adequate security during the movement of goods to deficit areas.

- Fix the maximum and minimum price of essential goods and services as required
- Create a healthy environment between the producer and the retailer
- Help in establishment of a favorable distribution system
- Ensure smooth supply of essential goods by maintaining good relation with the private and the public sectors concerned with the production and supply.
- Help in effective implementation of rules and regulations for the welfare of the consumers and their rights
- Make available qualitative goods and goods at cheaper price to the consumers and also control artificial supply scarcity and black marketing in the market
- Initiate buffer stock and other necessary mechanism, so that the supply of essential goods do not run out of supply due to black marketing, artificial scarcity or any natural calamities
- Formulate a demand forecast of the essential commodities and their production and implement it.

### **3. Prospects of Public – Private Partnership**

#### **3.1 Public Private Partnership**

The term Public Private Partnership (PPP), refers to a wide spectrum of possible relationships between public and private sector for the cooperative action, and is increasingly looked upon as a highly feasible and attractive development modality. Although experience with PPP is limited in the supply management activities in Nepal, there is ample opportunity of entering into this unique development arrangement. One encouraging example of PPP can be cited in case of Salt Trading Corporation where public and private sector holdings are to the tune of 21% & 79% respectively.

The real essence of Public Private Partnership is in taking advantage of the private sector's strength in the fields of innovative ideas, access to finance, technical know how, managerial efficiency, and above all entrepreneurial spirit, combined with the public sector's social responsibility, social justice, and the grasp on local knowledge. The cooperative functioning of these two sectors can allow for effective solutions, or at least address, pressing supply management and service delivery constraints of essential commodities currently faced by Nepal.

### **3.2 Present Status and Perspectives**

Public-Private Partnership PPP can be a viable development partnership program for efficient supply management of essential commodities. PPP is yet to be implemented in the supply management sector Nepal. UNDP Nepal has launched the Public-Private Partnership for Urban Environment (PPPUE) to improve the deteriorating urban environment in Nepal. The first phase of the programme was started in March 2002 and completed in March 2004. The second phase was started in April 2004 and will last until March 2007.

Public-private partnership in supply management of essential commodities can immensely help in providing services at a broader range covering more households with fewer resources. Local governments in Nepal can look for sustainable partnerships by joining hands with other members of the society to address these needs.

### **3.3 Public sector perspective**

The Government has passed the local *Public-Private Partnership Policy*. Though the PPP has been introduced in legal policy form, it has yet to cover the crucial supply sector. The Government is showing increased interest in involving the private sector in upgrading the level of services locally and is in the process of including the concept of Public-Private Partnership (PPP) as part of the tenth five-year development plan.

To a certain extent, the lack of a strong legal regime governing PPP activity now has been mitigated with the introduction of the distinct Local PPP Policy and PPP working guidelines initiated by Ministry of Local Development (MLD) in cooperation with PPPUE. The Policy and the working guideline have been especially beneficial to the private sector as a boost to their confidence to proceed with investments in PPP projects. Ministry of Local Development is also in the process of making amendments in the Local Self-Governance Regulations (1999) and Local Body (Financial Administration) Regulations (1999).

The objective of PPPUE is to increase the access of the urban citizens to basic services, and therewith, to contribute to the creation of a healthy environment and the improvement of living conditions in the urban and semi-urban areas, by promotion of partnerships between public and private sectors for the sustainable provision of urban services.

### **3.4 Private sector perspective**

The Local Autonomy Act 2055 has stated that the private sector participation is essential for development works. The Act also has the provision that municipalities can involve private sector in co-operative, industrial and professional activities of the municipality, or it can work in close coordination with the private sector in the development of basic infrastructure.

The wholesale business houses and local business community (formal as well as informal) are already involved in many philanthropic and community affairs programs. Traditionally, Nepalese businessmen have spent the money they earned from the business on what society deemed as good work. They had been greatly influenced by the process of addressing the concerns of the society.

Private sector can come up with strategies on how they are going to work with the local government and public enterprises in the supply management of essential commodities as one of the Corporate Social Responsibility (CSR) components. The importance of social responsibility has never been as urging as of now.

Proper motivation, support and encouragement from the government can play positive role in involving the private sector in supply management of essential commodities. In the long run, this could be a guideline for the government to speed up the participation of private sector to run the inefficient public enterprises through the privatization process.

## **4. Necessary measures to be adopted to streamline the activities of Public Sector Corporations involved in supply management of essential commodities**

### **4.1 Nepal Oil Corporation**

- 1) Privatization of the business of Nepal Oil Corporation should be given a serious thought. No organization can survive for long by selling products or services at a price lower than its cost. Given the sensitive nature of the energy sector, the government seems uncomfortable with the total privatization of this sector. The time has come now to have a short, medium and long-term strategy to involve the private sector in the supply and distribution of POL products. Besides improving the health of

NOC the government should think seriously to deregulate and open up the petroleum sector. There is neither a political nor an economic logic to sustain losses from this sector. A model for privatization is suggested as formation of a Public-Private Corporate Sector Entity with participation of general public as shareholders.

- 2) Before the implementation of above step, bringing in private sector in the import and supply management of petroleum products need to be initiated. Once there are multiple players in the field, NOC has an opportunity to improve its performance. NOC may act to withstand the competition from the private sector, minimizing the loss and plug the reported malpractices. This may also make the NOC management more accountable and responsible to work in the direction of profitable operation.
- 3) SWOT (Strength, Weakness, Opportunity, and Threat) analysis of NOC should be performed immediately by internationally reputed consultants and immediate measures should be undertaken to mitigate the weaknesses and developing NOC into an efficient and economically viable entity.
- 4) The full-fledged privatization of the business of NOC may be appropriate in about a year time after watching its performance. Major objective of privatization is to bring in private capital and efficient management system to ensure sustained growth of the privatized entity.
- 5) The government should announce its long-term policy of Petroleum Products (Oil Policy). The policy should clearly stipulate the time frame when deal in petroleum products will be completely liberalized and the prices shall be determined by the market forces without government intervention. The policy should also clearly spell out the nature of competition envisaged, role of various players, anti-dumping regulation, consumer grievance handling mechanism, permitted margins, conditions for government intervention.
- 6) A system of revising and adjusting the price of domestic petroleum products and import cost and price cross subsidization scheme every month as recommended by different task forces & committees should be implemented immediately.

- 7) The proposed “Petroleum Act” and “Regulatory and Price Monitoring Entity” should be formalized immediately.
- 8) The public-at-large and the political activists to be sensitized about the international price trend and it is beyond the means of NOC to continue subsidizing petroleum products.
- 9) The storage capacity of Nepal Oil Corporation should be increased to 100,000 kilo litres.

#### **4.2 Nepal Food Corporation**

1. SWOT (Strength, Weakness, Opportunity, and Threat) analysis of Nepal Food Corporation be performed immediately. Measures to be undertaken to mitigate the weaknesses and developing NFC into an efficient and economically viable entity.
2. Bringing in private sector representation in the management will improve the performance of NFC. This will also make the NFC management more accountable and responsible to work in profitable direction.
3. The paucity of fund or capital to maintain buffer stock of commodities should be met through Bank Loan by pledging the commodity stock as well as the assets belonging to NFC which is in plenty and mostly kept under-utilized. The government may compensate NFC by paying the incurred interest of the loan amount.
4. NFC should play a more active role in undertaking open market operations within a prescribed price band. It should release stocks in the open market when shortages are prevalent and prices are high. If organizational capacity of NFC is built up, it could also become an active player in the international food grains market.
5. The supply system to be made simple and effective by keeping buffer stock and supplying adequate quantities of goods in the market whenever there is unexpected rise in market prices, in accordance with the stabilization policy.

6. The unutilized godown of NFC should be rented out to private sector.

#### **4.3 National Trading Limited**

1. SWOT (Strength, Weakness, Opportunity, and Threat) analysis of National Trading Limited be performed immediately.
2. Increasing role of private sector in the management of National Trading Limited should be given a serious thought. The cumbersome beurocratic procedure of procurement system cannot compete with the private sector. A model for privatization could be formation of a Public-Private Corporate Sector Entity with participation of general public as shareholders (as suggested for NOC).
3. Institutional participation in NTL could be a panacea for efficient management of this organization. Financial institutions, the Employee's Provident Fund, Citizen Investment Trust, Wholesale Business Houses and other public and private institutions should be invited to participate in NTL by way of share investment.

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## CHAPTER V – SUPPLY MANAGEMENT SYSTEM IN INDIA

### 1. Public Distribution System (PDS) & Food Security System in India

With a network of more than 400,000 Fair Price Shops (FPS), the Public Distribution System (PDS) in India is perhaps the largest distribution machinery of its type in the world. PDS is said to distribute each year commodities worth more than Indian Rs 15,000 crore to about 16 crore families. One of the issues in the PDS operation has been how to contain the food subsidy within reasonable levels.

Under the new Targeted Public Distribution System (TPDS) each poor family is entitled to 20 kilograms of food grains per month at specially subsidized prices. This is likely to benefit about six crore poor families, to whom a quantity of about 72 lakh tonnes of food grains per year is earmarked. The States, based on state-wise poverty estimates of the Planning Commission, does the identification of the beneficiaries.

The thrust is to limit the benefit to the truly poor and vulnerable sections: landless agricultural laborers, marginal farmers, rural artisans/craftsmen, potters, weavers, blacksmiths, and carpenters in the rural areas; similarly those covered by TPDS in urban areas are slum dwellers and people earning livelihood on a daily basis in the informal sector like the porters and rickshaw pullers and hand cart pullers, fruit and flower sellers on the pavements, etc. The allocation of food grains to States is based on consumption in the past, that is, the average annual off-take.

While provision of food subsidy is an important element of the food security system in India, an equally important role is played by food procurement and buffer stock operations. The agricultural production is subject to climatic swings and market forces and there is likely to be wide fluctuations in food grain prices. To bring about price stability, it is necessary to build and maintain an adequate level of buffer stock. For now, the challenge however is to reduce the present stock level to roughly half without detriment to farmers. This would need several legal and policy changes, which could enhance the role of private sector and make markets less distorted.

### **1.1 Diversion of PDS Commodities:**

In response to complaints, a study was conducted by the Tata Economic Consultancy Services to know how much of PDS supplies were diverted from the system. At the national level, it was found, there was a diversion of 36% of wheat supplies, 31% of rice and 23% sugar. The diversion is more in Northern, Eastern and North Eastern regions; it is comparatively less in Southern and Western regions. A high 64% diversion of rice is estimated in Bihar and Assam. In the case of wheat the diversion is an estimated 100% in Nagaland and 69% in Punjab.

It is significant to note that the diversion is estimated less in the case of sugar as compared to rice and wheat. The PDS is better organized in towns where sugar is consumed while its infrastructure is weak in rural areas, especially in poorer Northern, Eastern and North Eastern States.

### **1.2 Problems associated with the scheme**

- The poor do not have cash to buy 20 kg at a time, and often they are not permitted to buy in installments.
- Low quality of food grains – A World Bank report (June 2000) states that half of FCI - Food Corporation of India's grain stocks (FCI) is at least two years' old, 30% between 2 to 4 years old, and some grain as old as 16 years.
- Weak monitoring, lack of transparency and inadequate accountability of officials implementing the scheme
- Price charged exceeds the official price by 10% to 14%.

### **1.3 Other policy changes**

In new initiatives, several State Governments have initiated their own food procurement operations. More such initiatives are likely in the future. It is conceivable that some of Central agency FCI's godowns (with staff) are transferred to the State Governments. In this context the task of maintaining buffer stocks will become a responsibility of Central and State Governments. There is also a possibility that FCI play a more active role in undertaking open market operations within a prescribed price band. It can release stocks in the open market

when shortages are prevalent and prices are high. The FCI could also become an active player in the international food grains market.

Most storage godowns with FCI are small-scale, low -quality structures; sometimes, grains are also stored in the open (known as covered and plinth storage -- CAP) leading to heavy storage losses. On other issues, the present extraction rates for wheat and rice are about 10 % to 30 % below the international standards due to reservation of agro-processing units for small sector who uses inefficient technologies. Private transporters get a low priority on railway movement forcing them to rely on more expensive truck transport.

As regards the Minimum Support Price, there is a need strictly to adhere to what the Commission for Agricultural Costs and Prices recommends rather than fix procurement prices much in excess of estimated costs of production.

## **2. Tata Economic Consultancy Report on PDS and TDPS**

The Tata report states that in the Northern Region, Uttar Pradesh has more diversion of rice and sugar (compared to Punjab) despite a higher number of raids and convictions. In the West, similarly, Gujarat does not appear to be very much better managed (than Madhya Pradesh and Rajasthan) despite reporting the highest number of detentions in the country under these Acts.

To make implementation of TPDS more effective, following suggestions have been made:

- Items other than rice and wheat need to be excluded from the purview of TDPS. Attempts to include more commodities under food subsidy cover should be resisted.
- Sugar supply through PDS draws well-to-do families to the system.
- Coarse grains are basic commodities purchased by the poor . These grains in any case are available to the poor at low prices. There seems no additional need to supply them through PDS and bring them under the cover of food subsidy.
- Kerosene oil is also a commodity supplied through PDS and is intended for the poor. But there occurs large scale illicit diversion of this item and benefits meant for the poor are cornered by others. Subsidized kerosene is used for adulteration with diesel. Subsidy on kerosene should be gradually phased out and alternate avenues of marketing it needs to be explored.

- The coverage of TPDS and food subsidy should be restricted to the population below poverty line. For others who have the purchasing power, it would do merely to ensure availability of grains at stable price in the market -- no need for food subsidy to this population.
- Ration cards have tended to be used as ID cards to establish people's identity. Many get ration cards issued only for this purpose.
- There is need to amend law to ban controls and restrictions on trade between States. There should be free movement of all kinds of commodities including agricultural produce.
- While it would be expedient to continue with support price for agricultural produce like wheat, paddy, cotton etc, the need to abolish or phase out levy or monopoly purchase should be considered. Levy acts as a tax on the processors, which is then passed on to the producers. Government should buy rice for its public distribution system through an open tender system.
- FCI should be allowed to intervene in the food grains market within a predetermined price band to moderate prices and facilitate management of surplus food stocks.
- Scrap Essential Commodities Act-1955; or at least take wheat, rice and sugar out of its purview.
- Completely decontrol sugar and take it out of PDS.
- Lifting of the ban on Futures Trading of agricultural commodities. This will help in containing the wide fluctuations in commodity prices, besides cutting down the cost of marketing by hedging the risk.

### **3. Evaluation of Service Delivery System in Bihar and Uttar Pradesh**

#### **3.1 Service Delivery System in Bihar**

- Dealership and even membership of vigilance committees are seen as positions where money can be made.
- The procedure to appoint them is highly politicized, and mostly clients of MLAs are appointed.

- Sub-district infrastructure to handle food grains is poor; Ranchi had only 11 godowns for 20 blocks.
- The Civil Supplies Corporation has no working capital to buy from Food Corporation of India (FCI); vans are in poor condition or have no money for petrol, staff does not receive salaries for months.
- On the whole, only Government staff, agents and retailers benefit from the scheme.

### **3.2 Service Delivery System in Uttar Pradesh**

A detailed study on TPDS was published in a paper 'Food Security and the Targeted Public Distribution System in Uttar Pradesh. Mr. Ravi Srivastava in Hyderabad presented it in March 2000. The study was carried out among 2250 households across 120 villages in 25 districts in four economic regions. It showed that savings through TPDS in UP accounts for only 1.3 percent and 1.1 percent of the cereal budget of households in two lowest units. The scheme is seen hardly to help the poor.

This was stated because UP government does not lift its quota due to bad administrative arrangements and a substantial portion of whatever is lifted is often sold in the black market. Pricing provides a hefty incentive for an estimated 41 per cent leakage. Imperfect targeting has led to exclusion of eligible households. The basis for selecting beneficiaries lacks transparency and is too complicated for local officials to administer. There is a lack of political commitment to the TPDS, it was stated, as well as administrative cynicism while the PDS shopkeeper does not have adequate incentive. Multiplicity of agencies, poor coordination and low administrative accountability has combined to cripple the delivery machinery.

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## CHAPTER VI – CONCLUSION

Lack of geographical connectivity especially in the 30 remote districts of Nepal is the main problem in supply management of essential commodities. The high level of the isolation of mountain and hill population makes it very difficult to achieve better distribution of essential commodities of daily use.

By and large the supply position of essential commodities except petroleum products, and rice in 30 remote districts of Nepal and to certain extent sugar is fairly manageable. In spite of the existence of many Acts and Rules i.e. *Black-Marketing and Certain Other Social Crimes and Punishment Act, 1975*, *Consumer's Right Protection Act, 1997*, and *Consumer's Right Protection Rule, 1999*, they have not been effectively administered. There is a dire necessity of progressive reforms to be undertaken in public sector corporations involved in supply of essential commodities like Nepal Food Corporation, National Trading Limited, and Nepal Oil Corporation.

Private sector's involvement should be encouraged in supply management by providing them with incentives like income tax rebate, VAT reduction in essential commodities, and transport subsidy (as given to NFC). The government should form a functional *Unified National Supply Action Committee* consisting of public sector agencies involved in supply management system e.g. National Trading Limited, Nepal Food Corporation, and Salt Trading Corporation. It is also recommended to form a *Supply Coordination Committee* at National, Regional, Zonal and District level for supply management of essential commodities with adequate representation from the security administration and Commodity Associations of the private sector. These committees should utilize the experiences FNCCI, Nepal Chamber of Commerce and local Chambers of Commerce.

Although experience with Public Private Partnership (PPP) is limited in the supply management activities in Nepal, there is ample opportunity of entering into this unique development arrangement. Private sector can come up with strategies on how they are going to work with the local government and public enterprises in the supply management of essential commodities as one of the Corporate Social Responsibility (CSR) components

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## **ANNEX -1**

### **TERMS OF REFERENCE**

#### **STUDY TOPIC: SUPPLY MANAGEMENT OF ESSENTIAL COMMODITIES**

##### Task Details:

1. Identify and prioritize major essential consumer items stipulated in the Consumer Protection Act and Rules (like petroleum products, sugar, salt, rice, pulses, edible oils, and essential medicines) and review their current supply management system and networks;
2. Identify problems in supply management of the priority commodities pertaining to legal, institutional, administrative, and policy aspects;
3. Suggest mechanisms and information systems needed for their smooth supply and management including sound national and district level coordination between civil and security administration and wholesale business houses;
4. Suggest necessary monetary, fiscal and administrative measures to maintain adequate supply in addressing crisis;
5. Suggest prospects for public-private partnership;
6. Suggest policy-action matrix:
  - (a) Constraints (legal, institutional, administrative, policy, and others if applicable);
  - (b) Recommended policy improvements;
  - (c) Activities;
  - (d) Indicators of achievement;
  - (e) Responsible agencies; and
  - (f) Timeframe (immediate, intermediate, and long term)

## ANNEX – 2

### Policy Action Matrix

**Immediate: 6 months      Intermediate: 1 year      Long term: 2 years**

S.N.	Constraints	Recommended Policy improvements	Activities	Indicators of achievement	Time Frame	Responsible Agencies
<b>A</b>	<b>Legal</b>					
1.	Legislative reforms	<ul style="list-style-type: none"> <li>• Enforce <i>Black Marketing and Certain other Social Crimes and Punishment Act, 1975</i></li> <li>• <i>Revisit and amend Consumer's Right Protection Act, 1997 and Enforce Consumer's Right Protection Rule, 1999</i></li> <li>• Enforce metric system of Weights &amp; Measures</li> </ul>	<ul style="list-style-type: none"> <li>• Activate enforcing agency of the government i.e. CDOs</li> <li>• Proactive roles of consumer's Forums &amp; activate enforcing agency of the government i.e. CDOs</li> <li>• Activate enforcing agency of the government i.e. Dept.of Quality Control &amp; Weights and Measures</li> </ul>	<ul style="list-style-type: none"> <li>• Illegal hoarding and black marketing is discouraged</li> <li>• Consumer's rights are protected</li> <li>• Metric system of weighing and measuring is enforced instead of traditional mana/pathi system</li> </ul>	<ul style="list-style-type: none"> <li>• Immediate</li> <li>• Immediate</li> <li>• Immediate</li> </ul>	<ul style="list-style-type: none"> <li>• MOHA/ MOICS/ Consumer's Forums</li> <li>• Dept. of Quality Control &amp; Weights and Measures</li> </ul>
<b>B</b>	<b>Institutional</b>					
2.	Poor performance of Public Sector Enterprises involved in supply management	<ul style="list-style-type: none"> <li>• Enforce progressive reforms in Public Sector Corporations involved in supply management</li> <li>• Form a <i>Unified National Supply Action Committee</i> for efficient supply of essential commodities</li> </ul>	<ul style="list-style-type: none"> <li>• Time bound reform measures in the work culture of NFC, NTL, NOC</li> <li>• Gradual privatization of business of NTL, NOC</li> <li>• Involve STC (Salt Trading), NFC, NTL under one roof for supply works of essential commodities</li> </ul>	<ul style="list-style-type: none"> <li>• Efficiency achieved in the performance of NFC, NTL, NOC</li> <li>• Private sector participation achieved in supply management</li> <li>• Efficiency achieved in availability of essential commodities</li> </ul>	<ul style="list-style-type: none"> <li>• Intermediate</li> <li>• Intermediate</li> <li>• Immediate</li> </ul>	<ul style="list-style-type: none"> <li>• MOICS,NFC,N TL,NOC,STC</li> </ul>

S.N.	Constraints	Recommended Policy improvements	Activities	Indicators of achievement	Time Frame	Responsible Agencies
3.	Organized Marketing System	<ul style="list-style-type: none"> <li>Facilitate Wholesale business houses and local traders to organize wholesale markets, and <i>mandis</i> in potential areas of the country</li> </ul>	<ul style="list-style-type: none"> <li>Involve the identified wholesale business houses and local traders in establishing markets, mandis by facilitating in the infra-structure facilities</li> </ul>	<ul style="list-style-type: none"> <li>Market for essential commodities created</li> </ul>	<ul style="list-style-type: none"> <li>Intermediate</li> </ul>	<ul style="list-style-type: none"> <li>MOICS, MOAC, FNCCI (AEC), NCC</li> </ul>
4.	Sugar Board	<ul style="list-style-type: none"> <li>Constitute a <i>Sugar Board</i> as a statutory body</li> </ul>	<ul style="list-style-type: none"> <li>Include the private &amp; public sector personnel, knowledgeable professionals and representative of Consumer's forum in the Sugar Board</li> </ul>	<ul style="list-style-type: none"> <li>Efficiency achieved in domestic sugar and sugarcane production</li> </ul>	<ul style="list-style-type: none"> <li>Immediate</li> </ul>	MOICS/Sugar Mills Association/ Sugarcane Grower's Association/ Wholesale Business Houses
<b>C</b>						
<b>Administrative</b>						
5.	Tender System	<ul style="list-style-type: none"> <li>Open tender system should be implemented in remote district supply by involving private sector</li> </ul>	<ul style="list-style-type: none"> <li>Encourage private sector participation in remote district supply of commodities like rice, sugar, mustard oil, and kerosene by giving them transport subsidy as given to NFC</li> </ul>	<ul style="list-style-type: none"> <li>Efficiency achieved in availability of essential commodities in remote districts</li> </ul>	<ul style="list-style-type: none"> <li>Immediate</li> </ul>	<ul style="list-style-type: none"> <li>MOICS, NFC, FNCCI, NCC</li> </ul>

S.N.	Constraints	Recommended Policy improvements	Activities	Indicators of achievement	Time Frame	Responsible Agencies
6.	Buffer Stock	<ul style="list-style-type: none"> <li>Maintain at least two months stock of food grains, sugar and one month stock of petroleum products based on demand projection</li> <li>Appoint Supply Commissioner at Regional, Zonal and District levels</li> </ul>	<ul style="list-style-type: none"> <li>NFC and NOC to build capacity to maintain two month and one month of buffer stock respectively</li> <li>Liaison and negotiate with financial institutions for buffer stock capital fund</li> <li>Monitoring to be done by the Supply Commissioners to maintain balance in supply and demand position</li> </ul>	<ul style="list-style-type: none"> <li>Risk reduced during crisis periods</li> <li>Modality maintained in supply management</li> </ul>	<ul style="list-style-type: none"> <li>Immediate</li> <li>Immediate</li> </ul>	<ul style="list-style-type: none"> <li>MOICS, NFC, NOC</li> <li>MOICS</li> </ul>
7.	Consumer's welfare	<ul style="list-style-type: none"> <li>Constitute a Consumer Protection Council in all the five development regions</li> <li>Organize Consumer's Cooperative Stores &amp; Fair price shops for food grains, sugar and salt in urban and accessible rural areas</li> </ul>	<ul style="list-style-type: none"> <li>Mobilize NFC, NTL, Salt Trading and private sector organizations including Consumer's Forums</li> <li>Prepare working modality of the Protection Council</li> <li>Monitoring to be done by government agencies to check price hike, quality and weights &amp; measures</li> <li>Mobilize Dept.of Cooperatives, NFC, NTL, Salt Trading and private sector organizations including Consumer's Forums</li> </ul>	<ul style="list-style-type: none"> <li>Consumers protected from shortage, illicit hoarding</li> <li>Consumers protected from fraudulent practices</li> <li>Increased availability of commodities in fair price to the consumers</li> </ul>	<ul style="list-style-type: none"> <li>Immediate</li> <li>Immediate</li> <li>Immediate</li> </ul>	<ul style="list-style-type: none"> <li>MOICS, NFC, NTL, Salt Trading, FNCCI, NCC</li> <li>DOC, Dept. of Standard &amp; Measurement</li> <li>MOICS, Dept. of Cooperatives, NFC, NTL, Salt Trading, FNCCI, NCC, and Consumer's Forums</li> </ul>

S.N.	Constraints	Recommended Policy improvements	Activities	Indicators of achievement	Time Frame	Responsible Agencies
<b>D</b>	<b>Policy</b>					
8.	National & District level coordination	<ul style="list-style-type: none"> <li>• Establish a high level National Supply Coordination Committee</li> <li>• Establish a Regional, Zonal and District level Supply Coordination Committee</li> </ul>	<ul style="list-style-type: none"> <li>• Under the Coordinatorship of Secretary, MOICS constitute a committee consisting of Security &amp; Civil Administration and Commodity Associations</li> <li>• Constitute a committee under the Coordinatorship of respective Administrators having representation of Security &amp; Civil Administration, local chambers and local wholesale business houses</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthened supply management system</li> <li>• Supply management system is strengthened</li> </ul>	<ul style="list-style-type: none"> <li>• Immediate</li> <li>• Immediate</li> </ul>	<ul style="list-style-type: none"> <li>• MOICS, MOHA</li> </ul>
9.	Public Private Partnership	<ul style="list-style-type: none"> <li>• Revisit Public Private Partnership Policy &amp; Working Guidelines</li> <li>• Involve private sector-wholesale business houses in supply management activities</li> <li>• Encourage private sector to undertake CSR component in supply sector</li> </ul>	<ul style="list-style-type: none"> <li>• Update the PPP Policy &amp; guidelines by including supply sector</li> <li>• Provide incentives in terms of tax rebate, reduction of VAT, transport subsidy for supply to remote districts</li> <li>• Reward private sector for its contribution</li> </ul>	<ul style="list-style-type: none"> <li>• PPP Policy &amp; guidelines updated for partnership in supply sector</li> <li>• Private sector encouraged in supply management</li> <li>• Private sector committed in supply management</li> </ul>	<ul style="list-style-type: none"> <li>• Intermediate</li> <li>• Immediate</li> <li>• Immediate</li> </ul>	<ul style="list-style-type: none"> <li>• MLD, MOICS, UNPPUE</li> </ul>

S.N.	Constraints	Recommended Policy improvements	Activities	Indicators of achievement	Time Frame	Responsible Agencies
10.	Public Sector Corporations involved in supply of essential commodities	<ul style="list-style-type: none"> <li>Increased private sector representation in the management of NOC, NFC, NTL</li> <li>SWOT analysis of NOC, NFC, NTL to be done to immediately to assess the current situation</li> <li>NOC should run as a Public-Private Corporate Sector Entity</li> </ul>	<ul style="list-style-type: none"> <li>Business &amp; sustainability part to be stressed</li> <li>Reputed analyst be hired for SWOT analysis</li> <li>Increased involvement of private sector in the supply management of Petroleum Products</li> </ul>	<ul style="list-style-type: none"> <li>Entrepreneurial acumen achieved in the management</li> <li>Management health of NOC, NFC, NTL identified</li> <li>Efficiency achieved in NOC</li> </ul>	<ul style="list-style-type: none"> <li>Intermediate</li> <li>Immediate</li> <li>Intermediate</li> </ul>	<ul style="list-style-type: none"> <li>MOICS, NOC, NFC, NTL</li> </ul>
11.	Appropriate Policy Adoption	<ul style="list-style-type: none"> <li>Announcement of <i>Long Term Supply Policy</i></li> <li>Announcement of <i>Long term Policy of Petroleum Products (Oil Policy)</i></li> </ul>	<ul style="list-style-type: none"> <li>Spell out the distinct roles to be played by private sector, public corporations involved in supply management and government</li> <li>Spell out private sector involvement, sustainable price determination methodology and role of government</li> </ul>	<ul style="list-style-type: none"> <li>Considerable improvement in supply management</li> <li>Current anomalies avoided in supply management of Petroleum Products</li> </ul>	<ul style="list-style-type: none"> <li>Immediate</li> <li>Immediate</li> </ul>	<ul style="list-style-type: none"> <li>MOICS</li> </ul>

## ANNEX – 3

### List of Essential Medicines:

<b>1. Anaesthetics</b>	6.1 Anthelmintics	8.2.6 Miscellaneous
1.1 General Anaesthetics and Oxygen	6.1.1 Intestinal Anthelmintics	<b>9. Antiparkinsonism Drugs</b>
Intravenous anaesthetics	6.1.2 Antifilirials	<b>10. Drugs affecting the blood</b>
1.2 Local anaesthetics	6.2 Antiamoedic and Antigiardiasis Drugs	10.1 Antianaemia drugs
<b>2. Analgesics, Antipyretics, Non-steroidal Anti-inflammatory Drugs (NSAIDs) and Drugs Used to Treat Gout and Disease-Modifying Agents used in Rheumatic Disorders (DMARDs)</b>	6.3 Antibacterials	10.2 Anticoagulants and Antagonists
2.1 Non-opioids Analgesics and NSAIDs	6.3.1 Penicillins	<b>11. Blood products and Plasma substitutes</b>
2.1 Opioid analgesics	6.3.2 Other Antibacterials	11.1 Plasma substitutes
2.3 Disease-Modifying Agents Used in Rheumatic Disorders	6.3.3 Antileprosy drugs	11.2 Plasma fractions for specific use
2.4 Drugs used to treat Gout	6.3.4 Antitubercular drugs	<b>12. Cardiovascular Drugs</b>
<b>3. Ant allergies and Drugs Used in Anaphylaxis</b>	6.4 Antifungal Drugs	12.1 Antianginal Drugs
3.1 Ant allergies	6.5 Antileishmaniasis Drugs	12.2 Antiarrhythmic Drugs
3.2 Drugs used in shock	6.6 Antimalarial Drugs	12.3 Antihypertensive
<b>4. Antidotes and other substance used in poisonings</b>	<b>7. Antimigraine Drugs</b>	12.4 Drugs Used in Heart Failure
4.1 Non-specific	For Treatment of Acute attack	12.5 Antithrombotic Drugs
4.2 Specific	For Prophylaxis	<b>13. Dermatological Drugs</b>
<b>5. Antiepileptics/Anticonvulsants</b>	<b>8. Antineoplastic and Immunosuppressive Drugs and Drugs used in Palliative Care</b>	13.1 Antifungal Drugs
<b>6. Anti-infective Drugs</b>	8.1 Immuno-suppressant Drugs	13.2 Anti-effective Drugs
	8.2 Cytotoxic drugs	13.3 Anti-inflammatory and Antipyretic Drugs
	8.2.1 Antibiotic	13.4 Astringent Drugs
	8.2.2 Alkalyting Agent	13.5 Keratoplastic and Keratolytic Agents
	8.2.3 Natural products	
	8.2.4 Ant metabolite	
	8.2.5 Hormones and Antihormones	

13.6 Scabicides and Pediculicides	18.3 Contraceptives	21.2 Anti-inflammatory agents
	18.3.1 Hormone contraceptives	21.3 Local Anaesthetics
	18.3.2 Barrier Methods	21.4 Miotics and Antiglaucoma Drugs
<b>14. Diagnostic Agents</b>	18.4 Estrogens	21.5 Mydriatics
14.1 Ophthalmic drugs	18.5 Insulins and Antidiabetic Drugs	
14.2 Radiocontrast media	18.6 Ovulation Inducers	<b>22. Ear, Nose, Throat and Dental Preparations</b>
<b>15. Disinfectant and Antiseptics</b>	18.7 Progestogens	22.1 Dental
<b>16. Diuretics</b>	18.8 Thyroid Hormones and Antithyroid Drugs	<b>23. Oxytocics and Antioxytocics</b>
<b>17. Gastrointestinal Drugs</b>	18.9 Posterior Pituitary Hormone	23.1 Oxytocics
17.1 Antacids and other anti-ulcer drugs	<b>19. Immunologicals</b>	23.2 Anti-oxytocics
17.2 Antiemetic drugs	19.1 Diagnostic agents	24. Peritoneal Dialysis Solution
17.3 Antihaemorrhoidal Drugs	19.2 Sera and immunoglobins	<b>25. Psychotherapeutic Drugs</b>
17.4 Antispasmodic Drugs	19.3 Vaccines	Anti-anxiety
17.5 Laxatives	19.3.1. For universal immunization	<b>26. Drugs acting on respiratory tract</b>
17.6 Drugs Used in Diarrhoea	19.3.2 For specific Groups of Individuals	26.1 Antiasthmatic Drugs
17.6.1 Replacement Solution	<b>20. Muscle Relaxants (peripherally acting) and Cholinesterase Inhibitors</b>	<b>27. Solution correcting water, electrolyte and acid base disturbances</b>
17.6.2 Anti-inflammatory Drugs	20.1 Depolarising	27.1 Oral Component
<b>18. Hormones, other Endocrine Drugs and Contraceptives</b>	20.1.1 Non Depolarising	27.2 Parenteral
18.1 Adrenal Hormones and Synthetic Substitutes	20.2 Cholinesterase Inhibitor	27.3 Miscellaneous
18.2 Androgens	<b>21. Ophthalmological Preparations</b>	<b>28. Vitamins and Minerals</b>
	21.1 Anti-infective agent	

## **ANNEX – 4**

### **Public and Private Sector Stakeholders Consulted during the Study**

#### **Public Sector**

1. Mr. Bharat Bahadur Thapa, Secretary, MOICS
2. Mr. Bimal Wagle, Joint Secretary, MOICS
3. Dr. Bhoj Raj Ghimire, Convenor, Supplies Management Recommendation Committee, HMG/N
4. Mr. Shashi K. Mainali, Member, Supplies Management Recommendation Committee, HMG/N
5. Mr. Narayan Prasad Sanjel, Under Secretary, MOICS
6. Mr. Gobind Dev Pandey, Executive Chairman, NOC
7. Mr. Khel Bahadur Shrestha, General Manager, Nepal Food Corporation
8. Mr. Prabhat Chandra Pandey, Deputy GM, Nepal Food Corporation
9. Mr. Parmeswar Mahaseth, CEO, Salt Trading Ltd.
10. Mr. Bimal Poudel, General Manager, National Trading Ltd.
11. Mr. Rishav Dev Sharma, DGM, National Trading Ltd.
12. Dr. Champak Pokharel, Member, National Planning Commission
13. Mr. Sushil Ghimire, CDO, Kathmandu District
14. Mr. Thaneswar Devkota, CDO, Lalitpur District
15. Ms. Bindra Hada, DG, Dept. of Commerce
16. Mr. Shanta Ram Sharma, Director, Dept. of Commerce
17. Dr. Amriteswari Rajbhandari, DG, Dept. of Food Technology & Quality Control
18. Mr. Saroj KC, Inspector, Drug Dev. Administration, Babarmahal
19. Mr. Gun Raj Bhatta, General Manager, Royal Drugs Ltd.
20. Mr. Krishna Prasad Acharya, Under secretary, MOICS
21. Mr. Santosh KC, Pharmacist Inspector, Dept. of Drug Administration

#### **Private Sector**

##### **Nepal Chamber of Commerce**

1. Mr. Rajesh Kaji Shrestha, President, NCC (Nepal Chamber of Commerce)
2. Mr. Mahesh K. Agrawal, IPP, NCC
3. Mr. Jagdish Prasad Khetan, 1<sup>st</sup> VP, NCC
4. Mr. Surendra Bir Malakar, 2<sup>nd</sup> VP, NCC
5. Mr. Suresh Basnet, Secretary General, NCC
6. Mr. Man Bahadur Shrestha, Treasurer, NCC
7. Mr. Bhakta Bahadur Malla, Secretary, NCC
8. Mr. Devendra Bhakta Shrestha, Executive Member, NCC (Coordinator, Retail Trading and Food Supply Committee)
9. Mr. S. B. Agrawal, Executive Member, NCC
10. Mr. Raja Ratna Tuladhar, Executive Member, NCC
11. Mr. R. B. Chakubaji, Executive Member, NCC

12. Mr. Deepak Bahadur Shrestha, Executive Member, NCC
13. Mr. Shanker Man Singh, Program Coordinator, NBI, C/O, NCC

#### **FNCCI**

14. Mr. Kush Joshi, 2<sup>nd</sup> VP, FNCCI
15. Mr. Kumud Dugar, Executive Member, FNCCI
16. Mr. Pradeep Jung Pandey, Executive Member, FNCCI
17. Mr. Pradeep Man Vaidya, President, Nepal Pharmaceutical Association
18. Mr. Bimal Kedia, Executive Member, FNCCI – Chairperson, Internal Trade & Supply Committee, FNCCI
19. Dr. D. B. Shakya, ED, AEC/FNCCI

#### **Commodity Associations**

20. Mr. Sashi Kant Agrawal, President, Nepal Sugar Mills Association
21. Mr. Tola Ram Dugar, President, Association. of Nep. Rice, Oil & Pulses Industry
22. Mr. Ajaya Parajuli, Secretary, Association. of Nepal Rice, Oil & Pulses Industry
23. Mr. Saroj Prasad Pandey, President, Nepal Petroleum Dealer’s Association, Teku,
24. Mr. Nabin Chandra Shrestha, VP, Nepal Petroleum Dealer’s Association
25. Mr. Ganga Bahadur Manandhar, President, Nepal Khudra Byapar Sangh
26. Mr. Krishna Man Shrestha, President, Kirana Byapar Sangh
27. Mr. Bishnu Bahadur Manandhar, President, Bhaktapur Khudra Byapar Sangh
28. Mr. Baldev Bhakta Karmacharya, VP, Bhaktapur Khudra Byapar Sangh

#### **Others**

29. Mr. Purusottam Man Shrestha, National Prog. Manager, PPUE, UNDP
30. Dr. Pushpa Kandel, Reader, TU
31. Mr. Gopal Tiwari, Journalist, The Himalayan Times
32. Mrs. Urmila Shrestha, DGM, Salt Trading Ltd.
33. Mr. Udbodh Rijal, Research Officer, IIDS
34. Ms. Sunity Shrestha, Assist. Dean, MAN
35. Mr. Stalin Man Pradhan, EPN Consultant
36. Dr. Shree Krishna Shrestha, Chairman, Pro Public
37. Mr. Binod Bahadur, Vice President, ICAW
38. Mr. Hemraj Bhandari, Student, Tribhuban University