

**TECHNICAL ASSISTANCE TO
THE KINGDOM OF NEPAL
FOR**

**ESTABLISHING ECONOMIC POLICY NETWORK
ADB/TA 4288 – NEP**

**PROCEEDINGS OF THE
WORKSHOP ON THEMATIC POLICY PAPERS
(Workshop #3)**

September 2005

TA Focal Unit/ MoF

Abbreviations

ABTRACO	Agribusiness & Trade Promotion Multipurpose Cooperative
ADB	Asian Development Bank
CNI	Confederation of Nepalese Industries
DEM	Development Engineering and Management (P) Ltd.
EAPAD	Economic Affairs and Policy Analysis Division
EPN	Economic Policy Network
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
GAN	Garment Association – Nepal
HMG	His Majesty's Government of Nepal
HRA	Himalayan Rescue Association
IIDS	Institute of Integrated Development Studies
KBPW	Kathmandu Business and Professional Women
MAN	Management Association of Nepal
MoF	Ministry of Finance
MoICS	Ministry of Industry, Commerce, and Supplies
NATTA	Nepal Association of Tours & Travel Agents
NATO	Nepal Association of Tour Operators
NCC	Nepal Chamber of Commerce
NCTTM	Nepal College of Travel and Tourism Management
NEA	Nepal Engineers' Association
NPEDC	Nepal Productivity and Economic Development Center
NRM	Nepal Resident Mission
NTB	Nepal Tourism Board
TA	Technical Assistance
TU	Tribhuban University
TURGAN	Tourist Guides' Association of Nepal

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I. INTRODUCTION

Workshop 3 of the Economic Policy Network was held on September 23, 2005 at the Grand Hotel, Tahachal. Three policy papers were presented at the workshop in parallel sessions as per the decision made at the 4th Steering Committee meeting held on August 8, 2005.

The program was divided into two sessions – a detailed presentation by the consultant on the report, followed by open floor discussion. The participants provided valuable comments and recommendations for further improvements on the report.

The policy papers are finalized once the comments from the workshop are incorporated in the report and submitted to the Economic Policy Network (EPN).

The drafts as well as finalized reports are posted under the 'Economic Policy Network' link within the Ministry of Finance (MoF) website at www.mof.gov.np. EPN Focal Unit would appreciate receiving comments and observations on these papers.

II. PRESENTATION OF POLICY PAPERS

The three policy papers presented at the workshop were: (i) *Building Confidence in Tourism through Crisis Management* commissioned by the Advisory Committee for Economic Policy on Tourism, Agriculture and Regional Development; (ii) *Strategic Approach for North-South Connectivity with Emphasis on Tourism, Trade, Industry and Agriculture* commissioned by the Advisory Committee for Economic Policy on Infrastructure Development; and (iii) *Supply Management of Essential Commodities* commissioned by the Advisory Committee for Economic Policy on International Trade, Investment and Employment.

A. Building Confidence in Tourism through Crisis Management

The policy study was carried out by Mr. Rabindra Nath Adhikary on behalf of Nepal Association of Tour Operators (NATO).

The session was chaired by Dr. Rabindra Shakya, former Secretary of HMG and presently a freelance economist.

The presentation basically summarized the chapters of the report covering the following core areas (outline of the presentation in annex 2A):

- Overview of the status and trend of tourism in Nepal
- Major causes of crisis (internal and external) and their effect on tourism
- Dynamics of crisis and strategies to deal with crisis
- Major issues in tourism
- Suggested policy improvements for effective response to crisis in the tourism sector
- Policy action matrix with detailed recommendations

B. Strategic Approach for North-South Connectivity with Emphasis on Tourism, Trade, Industry and Agriculture

The policy study was carried out by Mr. Iswer Raj Onta on behalf of Nepal Engineers' Association (NEA).

The session was chaired by Dr. Ram Prakash Yadav, former Vice Chairman of the National Planning Commission (NPC).

The presentation basically summarized the chapters of the report covering the following core areas (outline of the presentation in annex 2B):

- Overview of the existing road network in Nepal
- Overview of policies, Acts and Regulations related to transportation
- Issues in the transport sector
- Argument for the development of north-south connectivity
- Conceptual framework for north-south connectivity
- Approach
- Specific recommendations

C. Supply Management of Essential Commodities

The policy study was carried out by Mr. Rajendra B. Shrestha on behalf of Nepal Chamber of Commerce (NCC).

The session was chaired by Mr. Guna Raj Bhatta, General Manager of Royal Drugs Limited.

The presentation basically summarized the chapters of the report covering the following core areas (outline of the presentation in annex 2B):

- Aim and objective of the study
- Overview of the existing problems in supply management
- Detailed recommendations to raise efficiency in supply management
- Overview of supply management systems in practice in India
- Evaluation of service delivery systems in Bihar and Uttar Pradesh
- Policy action matrix with detailed recommendations

III. DELIBERATIONS FROM THE AUDIENCE

A. Building Confidence in Tourism through Crisis Management

Following the presentation, the chairperson began the open floor discussion by making some observations. He expressed concern over the relationship between the actual issues faced by the sector and the policy action matrix under the study and whether the recommendations address the issues successfully. In the same context, the question on the measures as to whether they are implementable and doable was also raised. On the policy matrix, suggestion was provided on defining partners for each activity, and adopting a practical approach. Immediate application of the policy is required therefore administrative actions must be taken to implement the recommended policy. Clear distinction between the policy and regulation is required for distinctive actions. He requested the author to consider the nature of crisis—long-term or short-term—while preparing the policy and activities. Having expressed his observations, the chairperson opened the floor for discussion. Major interventions in its unedited versions are summarized below.

Mahesh Karki stressed the need to promote domestic tourism citing example of countries like China where the market depends less on international tourism. In the same line, improvement in promotional activities, development of infrastructure for accessibility, domestic tourism facilitation, improvement in the environment of the country, and additional role of civil/society and private sector was also stressed. He opined that if MOF is the responsible government agency, then try on aligning the activities to MTEF or immediate action plan. He also requested the author to provide detailed suggestions on how government can act and bring forward crisis management in tourism effectively and efficiently.

Ms. Chhaya Sharma suggested involving the Ministry of Finance in the development and implementation of crisis conduct. She opined that this could further help in reducing the increased exploitation of hotel rates. She also emphasized the need to establish and incorporate public audits, apart from NTB, and share with wider group of people.

Mr. Badan Lal Nyachhon requested the author to include soft issues such as health and environment under crisis management.

Mr. Tek Chandra Pokharel expressed that the responses to crisis must be outlined and guidance on how it can be handled must also be provided. Citing the positive side of the problem, he stated that crisis could also be seen as an opportunity, especially during the crisis of other countries with clear strategy on detouring the tourist to one's country.

Mr. Basanta Raj Mishra explained that the recently held WTO conference in India decided that every country should have a crisis management cell. He recommended prioritizing the policy matrix in terms of the importance of activities. He also opined that special administrative actions must be identified and rearranged for government adoption. He concluded by asking "What are the conditions that can be adopted in a normal conditions and what is lacking at the present?"

Mr. Bipul Singh requested making the suggested activities clear and specific. He also expressed the need to view the problem in a broader context committing to liberal policy.

Mr. Satyendra Timilsina expressed the importance of establishing a separate crisis management and rescue management cell and suggested preparing a crisis management manual.

Mr. Jyoti Khanna opined that papers prepared by the government or by NTB must be prepared after acquiring good ground knowledge.

The presenter Mr. Rabindra Adhikary provided some clarification to the participants and informed them on incorporating the relevant comments in the report. He advised that there is already a Crisis Management Committee but so far there has been no single meeting of the committee. He also informed that there is a presence of Crisis Management Unit in Nepal Tourism Board.

The chairperson congratulated Mr. Adhikary for the presentation and thanked the participants for their valuable inputs.

B. Strategic Approach for North-South Connectivity

Following the presentation, the chairperson opened the floor for observation, comment and queries from participants. Major interventions in its unedited versions are summarized below.

Mr. Madhab Prasad Ghimire argued that economic development vis-à-vis financial requirement and its arrangement need to be carefully considered while recommending some actions. As often times the conditions of road in the neighboring states of India has direct bearing on the flow of passenger and goods to the kingdom there is a need to prioritize development works accordingly to exploit maximum benefits on the investment. He suggested that multi sectoral benefits should guide the construction of roads in the country.

Mr. Balaram Rajbhandari reminded the author to investigate more on ropeway network. Similarly, low cost and fuel efficient roads should remain on high priority in the government agenda. Development of other infrastructure needs to coincide with the construction or upgradation of roads to promote economic activities including different forms of tourism. Hence, there is a need to assess these potentials as well, before arriving at some recommendations. He also suggested exploring foreign direct investment through such initiatives.

Ms. Laxmi Keshari Manandhar found over emphasis on road component in the study, while the importance should be on maintaining narrow motorable and walking lanes of the cities to promote tourism.

Mr. Min Bahadur Karki was also of the opinion that the report is dominated by road sector. The historical development of roads mostly does not signify point to point development of the areas connected by roads. Citing an example that the Bagmati corridor alignment of road to connect Kathmandu with south eastern part of the country costing around NRs 6 billion and alternative well publicized tunnel road to Hetauda costing around NRs 13 billion, he said that the country has poor experiences in mobilizing public private partnership in constructing roads. As regards the proposed roads in the report, the author needs to investigate further on the items that are exported from India to China and vice versa. To his knowledge, the only item being exported from India to China in major quantity is scrap iron, which is most economical by sea. Hence, as the construction of road incurs huge expenses the feasibility and prospects of recovery as well as uses need to be seriously considered.

Mr. Nabin Pokharel supported the view to emphasize more on ropeways, which will facilitate development of tourism as well as trading of non-timber forest products from the rural regions of the country. He also emphasized on up to date maintenance of roads than going for many new constructions.

Mr. Keshav Kunwar advised the author to revisit the statistics presented—especially on the feeder roads and overall road network etc. Further investigation is needed to assess the kind of existing or prospective products that could be promoted for tourism through this north-south connectivity approach. As per the trading relations, he was of the opinion that in the present age of globalization any exportable commodities could come up to enhance Beijing–New Delhi trade using Nepali routes. Nepal is in need of a firm plan where commitments are not normally altered. Mr. Kunwar also advised the author to look into north-south connectivity within the country.

Dr. Binod Karmacharya stated that cost effectiveness should be the key consideration on developing transit roads. Electric trains could be another viable option to

utilize the country's abundant hydropower resource, which needs to be evaluated mutually with the power sector institutions. More evaluation is necessary as Bangladesh may also be a potential beneficiary of Nepal's transit route.

Dr. Bishnu Dev Pant supported the view to investigate north-south connectivity within the country. As per the connectivity with neighboring countries he advised to base the analysis not necessarily on the centers but also on the adjoining states, provinces and cities and their governments. Assessment of policies adopted in the neighboring countries in public private partnership is also essential to arrive at practical and implementable recommendations.

Mr. Jagan Nath Thapliya viewed that agricultural products have many prospects in increasing trade relations, which has not been adequately addressed in the report. He emphasized in maintaining better coordination among sectoral organizations and further investigating in tourism prospects.

Prof. Dr. Jiba Raj Pokharel realized that further focusing on specific areas is necessary.

Ms. Sushma Maskey opined that the maintenance and upgrading of city roads is necessary.

Mr. Dipendra Purush Dhakal wished to have some recommendations to take up issues for further in depth studies.

Dr. Ram Prakash Yadav spoke from the chair with some of his observations. He stated that any development should be judged with expected benefits. Hence, if the major beneficiaries of these transit facilities are other neighboring nations the approach should be to have their investments in developing such infrastructures because international partners are normally shy on assisting on road constructions. While suggesting on rehabilitations, he warned the author to be careful as the experience in the irrigation sector was quite unimpressive in the country. Viewing over the area of multi-sectoral coverage, he was of the opinion that this study should pose more questions than answers or recommendations. However, Mr. Onta should at least give a sketch of what should be done in each concerned sectors. To Dr. Yadav, the 85 km long Simikot–Yari–Hilsa road in Humla district has high potential for tourism and export of agricultural products. He concluded the workshop by saying that the recommendations in the report need to be revisited and prioritized.

C. Supply Management of Essential Commodities

The chairperson thanked Mr. Rajendra B. Shrestha for developing a clear and detailed report. He explained that the metric system has been adopted by HMG except in the Karnali Zone but expressed that the practice of traditional weights and measures is widely used. He then opened floor for discussion.

Mr. Gopal Tiwari expressed that despite talks of privatization, the public sector is still involved in supply management. He stressed the need to mobilize the private sector more efficiently.

Mr. Shrestha clarified that economic liberalization had the desired effects in the market system till 1996 but after that, reforms slowed down and economic growth did not grow as in the preceding period. He also explained that the private sector is already involved in supply management of commodities except crude oil and transportation of rice to remote districts. However, he agreed that there is a need to raise efficiency.

Next, Mr. Stalin Man Pradhan expressed that despite talks on establishing a Sugar Board since 25 years ago it has still not been implemented. He also expressed that forming committees without the backing of Acts and Rules will be defunct. Therefore, Acts and Rules must accompany any recommendations for formation of committees. E.g. Consumer Protection Act must precede formation of Consumer Protection Committee/Authority.

Mr. Shrestha agreed and clarified that a Consumer Protection Act and Rules is already in place.

The chairperson elaborated that a Consumer Protection Council under chairmanship of the Prime Minister is already there but it has only met a few times due to time constraints of high level officials. He therefore questioned that effectiveness of chairmanship by high level dignitaries.

Next, Mr. Khel B. Shrestha questioned the modality of organized markets, especially in remote areas where people have very little money. He also asked clarification on how to distribute ration cards efficiently in remote areas. Regarding the recommendation on maintaining buffer stock of food grains for 2 months and petroleum products for 1 month in the report, he questioned whether this was related to demand or the current supply quantity. He also clarified that the data presented in the report for 30 remote districts is only a classification of the NFC for the purpose of food grain distribution and explained that other government agencies have their own classification system based on other criteria.

Mr. Shrestha explained that organized markets may be developed specific to a location and the products available in that vicinity. If a certain village does not have sufficient consumers/ producers, a market could be developed in another location that is strategically located to service many smaller units. He also expressed that Salt Trading Limited (STL) is already distributing ration cards in all remote districts therefore NFC and other relevant agencies should coordinate with STL to distribute its ration cards or to access consumers. He also clarified that buffer stock is to be maintained based on realistic demand forecasts for specific commodities. Similarly, he expressed that the government should use its assets to acquire loans to manage business.

Mr. Santosh KC explained that medicines are supplied through the logistics department at the Ministry of Health (MoH).

Mr. Shrestha pointed out that only 30% of essential drugs are manufactured in Nepal and the remaining 70% is imported creating shortages and supply problems. He expressed the need to increase production and explained that this will eradicate the problem of supply management.

The chairperson explained that the logistics department of MoH supplies medicines only to government outlets and there is no mechanism for supplying to private pharmacies which would make the supply more efficient.

Mr. Mahesh K. Agrawal expressed the need to keep in mind the changing context as we enter the WTO regime when making recommendations. He also explained that the private sector, which is a major shareholder in the STL is making only 2% profit through STL, but the government imposes 13% VAT on essential commodities which is the same rate imposed on luxury items. He therefore suggested reducing VAT on essential commodities to around 3-4%. Mr. Agrawal also expressed the need to keep in kind ways to avoid cartels and ensure full competitiveness while formulating the committees. Explaining that the *Mandi* system is working very efficiently in India, he expressed the need for HMG to look into market access. He also explained that storage must be made transparent, avoiding any form of control. Finally, he explained that discussions on opening up markets for essential

commodities will be held during the next round of the WTO meeting in Hong Kong. If this goes through, the demand for essential commodities will rise in the international market so he emphasized the need to increase production in the near future.

Mr. Shrestha explained that compatibility with WTO requirements have been addressed in the report. On the issue of VAT on essential commodities, he pointed out that it is exempted in India and stressed for the same here. He also explained that the function of the recommended *Unified Command* is meant to regulate market prices and manage the supply of essential commodities in remote areas. Regarding market access, he pointed out that a project of the UNDP—PPP in Urban Development—is looking into market access.

Explaining that a partnership between the government and the private sector alone may not ensure consumer protection, Mr. Shree Krishna Shrestha stressed on including representatives of civil society in committees to guarantee competitiveness. He also expressed the need to mobilize consumers to play a part in maintenance of buffer stock. He was also of the opinion that the Government should restrict its role as a facilitator.

Mr. Shrestha expressed that if the consumer forums play an active role it will guarantee the effective role of the third party to ensure competitiveness and consumer protection.

Mr. Ajay Parajuli supported VAT exemption on essential commodities and explained that the current policy of 25% rebate on mustard oil is not functioning properly due to unclear procedures. Therefore he stressed the need to clarify the procedures involved while imposing such policies. He was also of the opinion that local road taxes and other local taxes should be addressed in the report.

Dr. Puspa Kandel expressed the need to deal with the issues of an open border policy with India while discussing supply management. He also requested the author to address transportation issues when dealing with Kathmandu Valley supply management. Dr. Kandel was also of the view that representatives of civil society need to be included in the supply management process. He also stressed the need to make the role of local bodies stronger. Dr. Kandel opposed complete VAT exemption arguing it does not have the desired impacts but supported lowering the rate.

Mr. Keshab Prasad Acharya clarified that the Ministry of Industry, Commerce and Supplies does have its own website, but it is not updated on a regular basis. He also clarified that the 10 metric ton limit on trucks was due to the road capacity and is imposed by the DoR and not the MoICS. He also emphasized the need to clarify the government's role and the private sector's role in supply management. Stating that supply management difficulties in Nepal are due to the geography of the country, he expressed the need to promote production of local food products in remote areas rather than focusing on supplying food grain to these regions.

Mr. Shrestha emphasized the role of government as facilitator and explained that recommendations have been made in report to constitute a Supply Management Recommendation Committee to look into efficient supply management. Expressing that government policies and politics have made people of the remote districts dependent on the center, he stressed the need for local people to take initiative themselves—to get the government to focus on that aspect.

The chairperson expressed that supply of food grains to remote districts is not benefiting local people but is mostly meant for use by government offices. Therefore, he suggested providing subsidies on production of local food grains/ products. Pointing out that NOC only supplies petroleum products up to road heads and that it is the private sector

which transports it to points beyond he expressed the importance of the private sector in supply management and also opined that consumer forums must be used to manage supplies in remote districts. Pointing out that government procurement of nationally produced goods could assist Nepalese industries significantly, he suggested for a policy that made procurement of locally produced goods mandatory by all government institutions.

Mr. Nabin Chandra Shrestha expressed that petroleum dealers are facing difficulties due to rising oil prices and insufficient supply by NOC. He supported reduction in VAT on petroleum products. He also recommended uniform pricing of petrol, diesel and kerosene to discourage adulterations and efficient supply management. He also clarified that reduction in kerosene sales in the past year was due to substitution to LPG and not as a result of rising prices.

The chairperson expressed that subsidy on kerosene is a political issue rather than the justification that it benefits the poor. He also agreed that pricing should be uniform. He requested the consultant to incorporate the suggestions received from the floor and adjourned the meeting.

ANNEX 1: PROGRAM SCHEDULE

Function: Workshop on Policy Papers (#3)
Date: September 23, 2005
Venue: Grand Hotel, Tahachal

Program Schedule

0930 – 1000	Registration
1000 – 1045	Presentation of Policy Papers in Parallel Sessions <ul style="list-style-type: none">- <i>Building Confidence in Tourism through Crisis Management</i> (Mr. Rabindra Nath Adhikary on behalf of NATO) at the Diamond Hall.- <i>Strategies for North-South Connectivity with Emphasis on Tourism, Trade, Industry and Agriculture</i> (Mr. Iswer Raj Onta on behalf of NEA) at the Golden Ballroom.- <i>Supply Management of Essential Commodities</i> (Mr. Rajendra B. Shrestha on behalf of NCC) at the Rendezvous
1045 – 1100	Tea Break
1100 – 1300	Open Floor Discussion
1300	Lunch

ANNEX 2: OUTLINE OF PRESENTATIONS

Annex 2A: Building Confidence in Tourism through Crisis Management

Welcome to the Presentation

Building Confidence in Tourism through Crisis Management.
NATO

Objective of the study

- Analyze the effects of crisis on the tourism Industry,
- Present Crisis Planning and organizational measures,
- Propose Policy action Matrix and
- Propose functions of Crisis Management Teams.

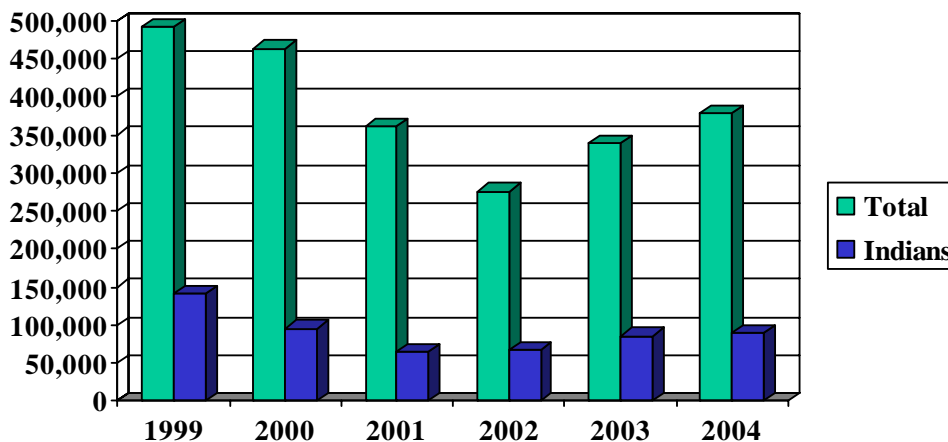
Content

- Concept and Essence
- Brief Sketch of present status of Tourism
- Prospects of forecasting Causes and Effect of Crisis
- Present High Level Crisis Management committee and Cell
- Analysis of Crisis on Tourism
- Crisis Planning and Organizational Measures
- Policy- Action Matrix

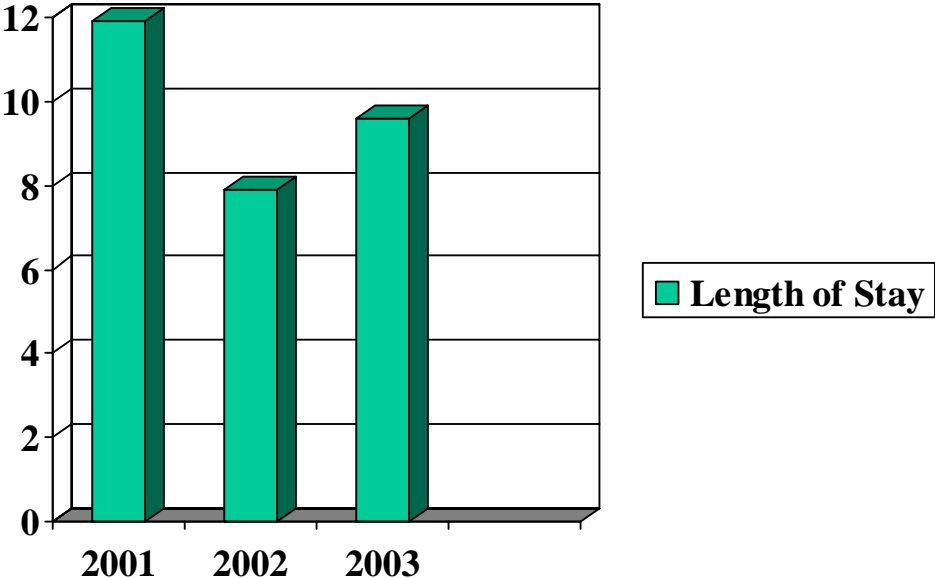
Status of Tourism

- Trend of Tourist Arrivals
- Average length of stay
- Foreign Currency Earning from Tourism
- Purpose of Visit

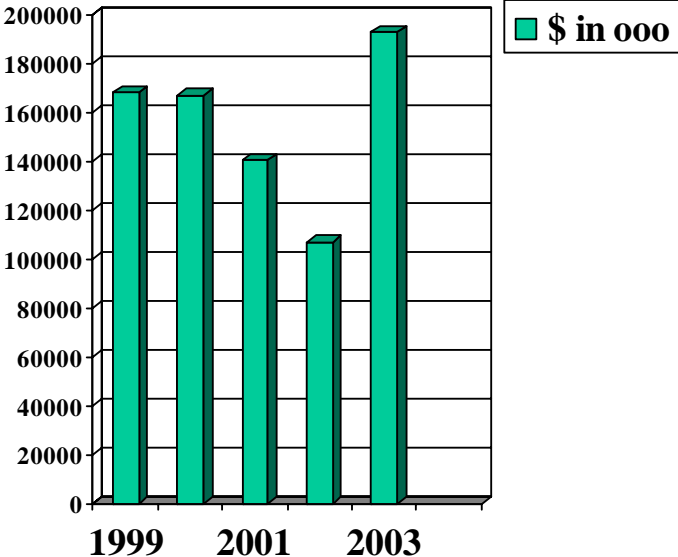
Trend of tourists Arrivals



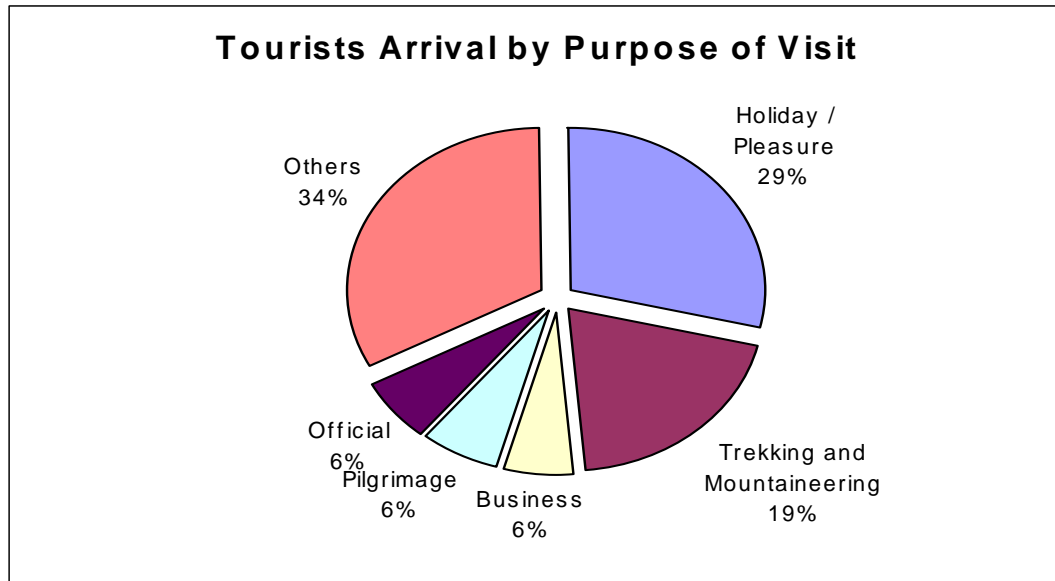
Average Length of Stay



Foreign Currency Earning From Tourism



Purpose of Visit, 2003



Major causes of crisis (Internal)

- Increased sense of Security and Political Instability,
- Restriction in free Mobility; Frequent Bandhas
- Negative perception and exaggerated Press coverage about the law and order situation.
- Poor approach to the press and tour operators
- Threatened Condition of our National Heritage
- Pollution
- Unreliable services of national flag carrier.

Some Major Causes of crisis (External)

To name the few:

- The Afghanistan War
- The Iraq war
- The 9-11 Incident.
- Bali Bombing
- Outbreak of SARS
- Tsunami.

Effect in Tourism

- Tarnished Image of the country
- Loss of market share
- Problem in promoting Destination; many tour operators have removed the country from their list.
- Unhealthy competition among private entrepreneurs in limited market
- Unbalanced cost and quality of services
- Tourist coming for Holiday and pleasure are decreasing

Present Initiatives to restore tourism Business.

- NTB was constituted at the beginning of crisis period in the history of Tourism in Nepal,
- Hosting of SAARC Summit in Kathmandu,
- Destination Nepal Campaign,
- Domestic campaigns such as “let us go to Pokhara. Summer gateway” etc.
- Mt. Everest golden jubilee celebration,
- Liberalization in Visa provision.
- Initiation of TRPAP.

Analytical context on working in crisis

Three options of involvement for development actors when there is crisis, there are, namely:

- Working *in* crisis,
- Working *on* crisis,
- Working *around* crisis.

Working In crisis

This approach is primarily interested in “mitigating crisis-related risks so that programs are not negatively affected by or have an adverse effect on the dynamics of violent conflict.”

Working On Crisis

Activities explicitly focused on crisis mitigation and peace building as distinct from development activities that may have positive benefits for crisis mitigation as a positive side effect.

Working Around crisis

Projects and organizations that adopt a strategy of avoiding crisis issues and the-affected areas including relocating project activities and staff, or not implementing new projects in crisis zones.

Understanding Conflict

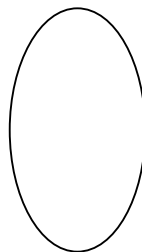
Side A

Structural, historical ethnicity, caste system, languages, geographical, etc.

Side B

The national level

Tri-polar political conflict.



Coin
Conflict coin Model

Conflict Assessment consists of three stages

1. The Conflict Assessment which is the Analysis of :

- Structure
- Actors
- Dynamics.

2. Analysis of Response

- Mapping External Responses
- Mapping Development Policies and Programs
- Assessing Impact on conflict and Peace

3. Strategies / Options

- Influencing other responses to conflict.
- Developing / Refining tourism policy and program approaches

What is PCIA

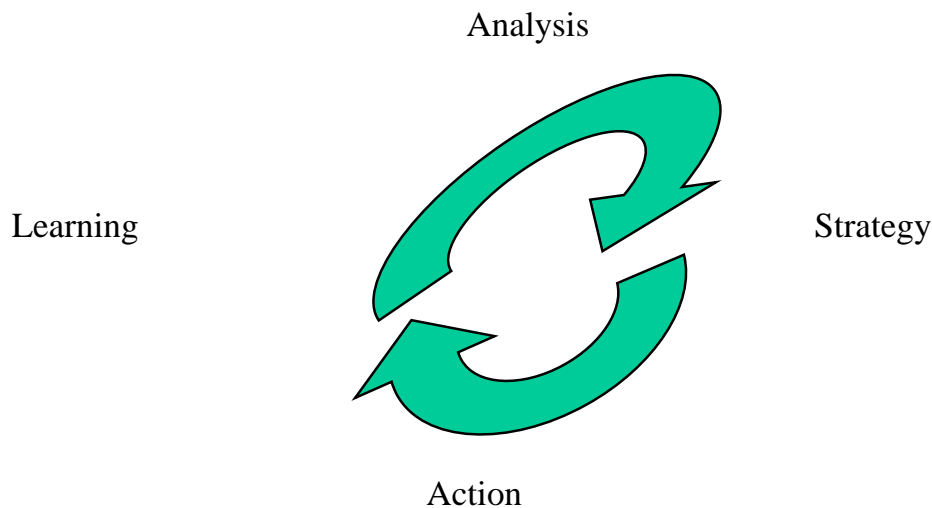
As defined by Kenneth Bush

“Peace and Conflict Impact Assessment” is a means of assessing the ways in which an intervention may affect or has affected the dynamics of peace or conflict prone region“

Steps for PCIA

- Situation Analysis
- Actor’s Analysis
- Benefit and Harm Analysis
- Strategy development
- Action Plan.

Responding to conflict



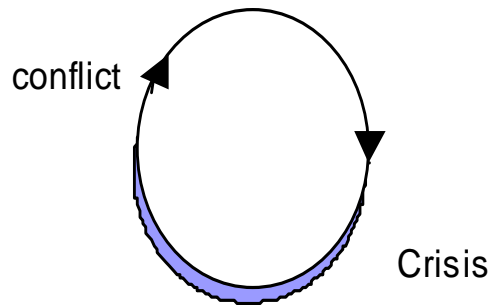
Requirements for meeting Conflict

- Organizational Capacities
- Policy and Programming Capacities
- Relationship Building

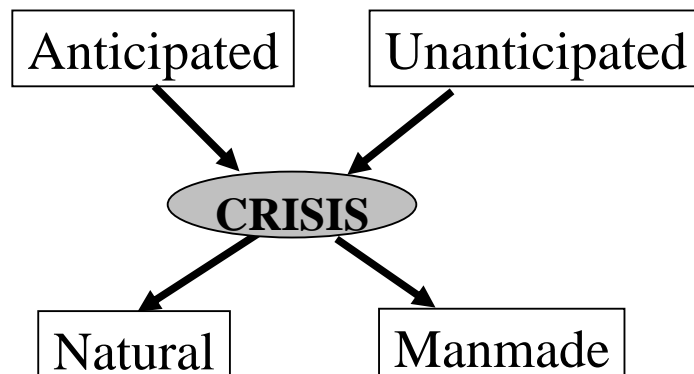
What is Crisis

Crisis, for the purpose, is the situation that has the potential to affect long term confidence in an organization or a product or which may interfere with its ability to continue operating normally.

Crisis-Conflict Cycle



Types of Crisis



Factors that Escalate Crisis

- Number of people Involved
- Vulnerability of people involved
- Prominence of people involved
- Level of media interest and their access to the incident
- Nature of the incident
- Visibility

Phases of Crisis Management

- Identification (Research, vision, Analysis etc)
- Preparation (Capacity enhancement, strategy development, communication plan, anticipation etc)
- Response (prompt action to limit damage and restore normalcy)
- Recovery (Return to pre-crisis situation, provide inputs for future actions)

What is Risk

The perceived extent of possible loss.

“What may be a small risk for one may destroy the livelihood of someone else.”

Risk Analysis

It Covers:

- Reducing Uncertainty
- Focusing attention on high-risk areas
- Exposing risk factors
- Proactively mitigating risk to stay in control
- Tracking risk mitigation and responsibilities.

Risk Management

It Consists:

- Risk Identification / analysis
- Preparedness
- Action
- Track and control
- Information sharing, monitoring and feedback
- Evaluation of the performance

Communication

“Reaching the stakeholders and people in general with authentic, reliable and complete information of an incident through an effective means in earliest possible time.”

Elements of communication

- Structure
- Media
- Receivers.

Major Issues in Tourism

- The political unrest.
- Negative travel advisories
- Sharp decline in tourists visit is observed whenever crisis arises
- Emergency declaration.
- The vulnerable security situation, particularly outside Kathmandu.
- Lack of professional and concentrated effort to capture the competitive market and recapture the lost business

- Lack of implementation strategy
- Under utilization of tourism infrastructures.
- Unhealthy competition among the industries has generated lose-lose situation.
- No branded approach to destination marketing.
- Inadequate investment in market research and promotion.
- Lack of confidence building Programs among the international tour operators and advisors in required amount.
- The hostile attitude of international media
- Majority of the common people in the country have indifferent attitude towards tourism
- Research for tourism promotion is not prioritized
- There are no provisions for enhancing the capacity of people working in private sectors for tourism promotion

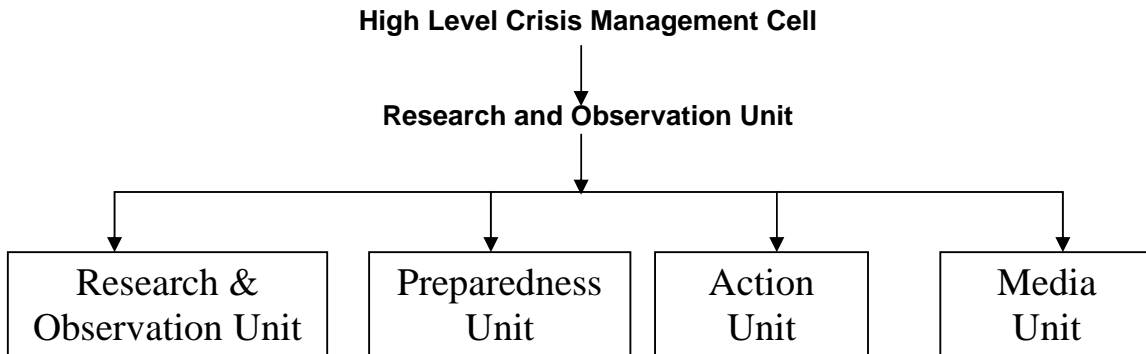
The Way out

- Consolidate existing markets
- Provide information to potential tour operators and visitors to build confidence.
- Establish information networking system to disseminate authentic, reliable and timely information.
- Initiate to develop networking system with global media.
- Avoid ad hoc system of decision making to overcome crisis.
- Institutionalize crisis management system to make it more responsive.
- Implement marketing strategy more effectively.
- Change the program concept to result oriented concept.
- Develop code of conduct to avoid lose-lose situation.
- Expand TRPAP to cover more geographical areas.
- Make Crisis management cell more effective.
- Initiate Research activities.
- Develop Human resource enhancement program.
Prepare set of Manuals including the standard operating manuals.

The Policy Improvements

1. Campaign to regain confidence.
2. Invite foreign media and selected tour operators on FAM trip.
3. Begin economic and tourism diplomacy on war footing.
4. Start effective and efficient functioning of Crisis Management Cell.
5. Disseminate and capitalize Positive News
6. Establish information centers in major generating market.
7. Declare Tourism as a National Industry.
8. Provide equal opportunity and introduce uniform VAT threshold.
9. Separate Tour Operators from Travel Agents by introducing bonding for Tour Operators.
10. Provide necessary and timely facilities to enable Tour Operators to compete globally.
11. Make suitable amendment to the aviation Policy.
12. Strengthen national flag carrier.
13. Strengthen national tourists office.
14. Enable Tour operators to facilitate tourists at the airport
15. Promote Investment through SMEs

Proposed Hierarchy of High Level Crisis Management Cell



1. Assess and Analyse the existing situation.
2. Develop appropriate tools for mitigating conflict
3. Watch national / international rules and regulations and market scenario whether they are sensitive to crisis.
4. Suggest policy reform.

Preparedness Unit

1. Conduct pre assessment of likely nature of rescue operations.
2. Prepare inventory of existing facilities including the list of organizations that are available in the areas.
3. Maintain rapport with security personnel at various levels.
4. Equip with necessary tools.

Action Unit

1. Mobilize and Coordinate Rescue Operation.
2. Monitor the activities of national and international social and professional organizations engaged in operation.
3. Establish Information Flow Channel.
4. Document lesson learnt.

Media Unit

1. Establish network with major information center.
2. Edit and develop a complete news bulletin.
3. Be available round the clock.

Policy Action Matrix

Policy	Activities	Indicators	Time Frame*	Responsible Agencies
1. Campaigning for regaining lost confidence	<p>1.1 Constitute an action committee under NTB to maintain PR at international level and promote destination campaign.</p> <p>1.2 Develop tools to disseminate existing real situation of the country.</p> <p>1.3 Develop confidence among tour operators at the national and international levels through the provision of developed tools and pursue them for selling the destination.</p> <p>1.4 Invite tour operators and prominent media people for FAM tour. Organize their visit to the place of their interest.</p> <p>1.5 Develop system to share the experiences of out going tourists and disseminate their version through different media.</p> <p>1.6 Enhance the capacity of existing media center under NTB so that it can flow information of any incident promptly and reliably and make its services available round the clock.</p> <p>1.7 Gain the confidence of local media so that they do not distort the news of any incident. Use them to maintain good rapport with international media.</p>	1.1.1 A high-level action committee is constituted.	Immediate	MOCTCA and NTB
		1.2.1 Numbers of tools are developed.	Short term	NTB
		1.3.1 Frequent contacts with tour operators are maintained through different information sharing mechanism.	Short term	NTB and NATO.
		1.4.1 Fixed numbers of tours are organized.	Immediate	NTB, NATO, RNAC and HAN.
		1.5.1 Frequent news coverage regarding the experience of out going tourists are published in national and international newspapers or magazines.	Short term	NTB.
		1.6.1 A well-equipped media center with round the clock service is established.	Immediate	NTB
		1.7.1 The attitude of the media is positive. No false or inflated news with intention to defame the country are published	Short term	NTB, HMGN

Annex 2A

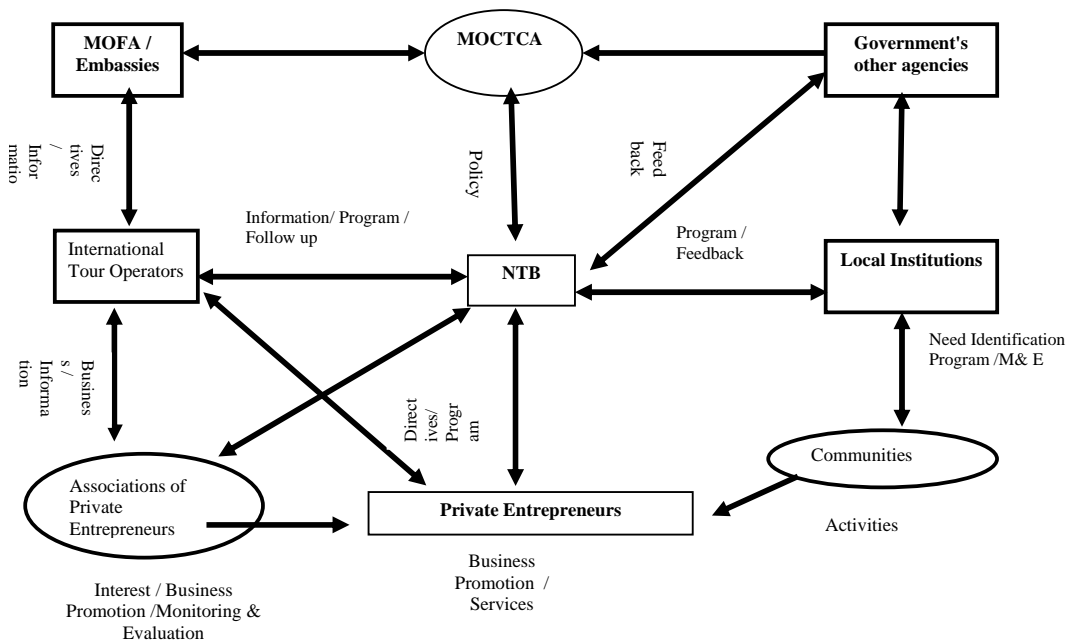
<p>2. Starting Economic and tourism diplomacy</p>	<p>2.1 Develop Nepalese embassy and counselor offices abroad as effective tourism promotion centers. 2.2 Enable the embassy and the counselor offices to organize and participate in tourism marketing activities. 2.3 Support the embassies and counselors offices to develop them as contact points for tour advisors. 2.4 Establish a prompt information networking system between the missions abroad and the media center in Kathmandu. 2.5 Select appropriate organizations or individuals in foreign countries and appoint them as representatives of Nepal with the help of embassies and consulates for tourism promotion.</p>	<p>2.1.1. Tourism cell in the embassies are opened. 2.2.1 Fixed numbers of destination marketing activities begin to take place. 2.3.1 Tourism desk in embassies are installed. 2.4.1 Regular information begin to flow. 2.5.1 Major destination centers will have tourism promoter.</p>	<p>Medium term Medium term Medium term Short term Long term</p>	<p>MOFA, MOCTCA. NTB, NATO, Embassies, MOFA Embassies, MOFA, NTB Embassies, NTB. MOCTCA, MOFA, NTB, NATO.</p>
<p>3. Reorganizing crisis management cell.</p>	<p>3.1 Establish task specific crisis management units under the high-level crisis management committee. 3.2 Establish technical committees under crisis management unit. 3.3 Define functions, roles and responsibilities of each unit and technical committee and empower them for discharging their responsibilities effectively. 3.4 Develop information networking system with tourist centers within the country. 3.5 Enhance the capacity of people under the units and the cells. 3.6 Develop code of conduct applicable to tourism business to discourage unhealthy practice and competition. 3.7 Establish tourist booths in major trunk roads and enable them to share information 3.8 Establish branch offices in all major tourist centers outside Kathmandu. 3.9. Define the role of all concerned agencies and their functions during and after crisis.</p>	<p>3.1.1 The crisis management cell and unit under it are re-organized. 3.2.1 Technical committees are established. 3.3.1 The functions, role and responsibilities of each unit and individual are defined. 3.4.1 Networking system is established. 3.5.1 Training programs are conducted. 3.6.1 A code of conduct is prepared and applied. 3.7.1 Major points are identified and booths are established. 3.8.1. Branch offices are established in major tourist cities. 3.9.1 A work directory is published.</p>	<p>Immediate Short term Short term Medium term Long term Short term Immediate Long term Immediately</p>	<p>MOCTCA, NTB. MOCTCA, NTB. MOCTCA,NT B, NTB NTB MOCTCA, NTB NTB. NTB, MOCTCA, NTB, Tourism Associations</p>

4. Declare tourism as national industry	4.1 Incorporate tourism industry under essential services acts. 4.2 Provide industry status to the tourism sector with all the services and facilities that the industry is entitled to. 4.3 Develop policies to make national development programs more tourism sensitive. 4.4 Develop general policy for the provision of necessary supports to enhance the capacity of private sectors on equal footing	4.1.1 Decision comes into action. 4.2.1 Acts and regulations are amended. 4.3.1 Tourism sensitive factors are considered while implementing development projects. 4.4 The irregularities in the service provision is eliminated and the conflict among the organizations will resolved	Short term Medium term Long term Long term	HMG, MOCTCA HMG, MOCTCA HMG, MOCTCA, NTB MOCTCA, NTB
5. Tying up poverty alleviation with tourism development programs.	5.1 Conduct awareness-raising programs for local community regarding the importance of tourism in major tourist centers and trekking routes. 5.2 Expand the area coverage of TRPAP with more intense activities. 5.3 Develop participatory approach through local community mobilization in producing sellable goods and services locally. 5.4 Mobilize local institutions to create and maintain infrastructures that help to promote tourism in their areas. 5.5 Support to promote tourism investment in small and medium enterprises in order to encourage local investment and capital formation at the local level.	5.1.1 Awareness raising programs in major areas are launched. 5.2.1 TRPAP is expanded to more districts. 5.2.2 More VDCs are covered from the present six districts. 5.3.1. Cottage industries are promoted in tourist centers and around trekking routes. 5.4.1 DDC and VDC incorporate tourism development activities in their annual plan. 5.5.1 Group economic activities begin to produce goods and services.	Short term Long term Long term Long term Long term	NTB (TRPAP), LIs, Communities, NTB, LIs. NTB. HMG, MOCTCA, NTB HMG, LIs HMG, Communities, Tourism Industries
6. Strengthening air services.	6.1 Make suitable amendment to aviation policy. 6.2 Ensure a safe and reliable air services for international and domestic travel with necessary infrastructure development. 6.3 Develop some domestic airports capacity to handle international flights from the region. 6.4 Upgrade the existing conditions of airports in remote areas with priority to those having high tourist movements. 6.5 make RNAC services more reliable and safe by increasing its fleet. 6.6 Encourage private sector to operate air services in the region through the provision of special incentives. 6.7 Provide incentives to bring in more chartered flights in Kathmandu. 6.8 Renew international air agreement to make air seats available as per tourist volume of arrivals.	6.1.1 New aviation policy comes in action. 6.2.1 Reliable safety measures are taken in all the airports. 6.3.1 A new international airport site outside Kathmandu is identified and equipped. 6.4.1 The airports safety measures are upgraded. 6.5.1 New fleets are added and operated. 6.6.1 Number of private sector operating international flight increases. 6.7.1 More chartered flights begin to come. 6.8.1. New agreement with ASA is made.	Short term Medium term Medium term Long term Medium term Long term Short term Medium term	MOCTCA, CAAN CAAN MOCTCA, CAAN CAAN. RNAC CAAN, Pvt. Sectors. CAAN. CAAN

Annex 2A

7. Conserving and preserving historical, cultural, religious and archeological heritages.	7.1 Develop strategy and working modalities to involve local community for initiating the protection of national heritages. 7.2 Develop concept of benefit-cost sharing with local institutions for sustaining the protection process. 7.3 Develop guidelines for the protection of areas under world heritages	7.1.1 Local communities begin to take initiatives to protect national heritages. 7.2.1 Concerned Municipalities, DDC or VDC take responsibility for protection. 7.2.1. Special guideline is prepared and followed.	Short term Medium term Medium term	MOCTCA NTB, VDCs Municipalities Municipalities, VDC, DDC, NTB, DOA, NTB and LIs
8. Strengthening NTB.	8.1 Enable NTB to mobilize national and foreign tour operators and friends of Nepal. 8.2 Conduct programs at the vicinity of the major tourists centers and the trekking routes to promote public awareness towards tourism. 8.3 Provide full authority to make decisions within a broad framework of national policy. 8.4 Enable NTB to initiate satellite accounting system.	8.1.1 NTB increases its international contacts. 8.2.2 Communities level of awareness are increased. 8.3.1 NTB gains full autonomy. 8.4.1 NTB takes initiatives.	Short term Short term Immediate Short term	NTB NTB MOCTCA, NTB, NTB

Organization Chart



Thank You

Annex 2B: Strategy for North-South Connectivity

STRATEGIC APPROACH for NORTH-SOUTH CONNECTIVITY WITH EMPHASIS ON TOURISM, TRADE, INDUSTRY AND AGRICULTURE

Iswer R. Onta

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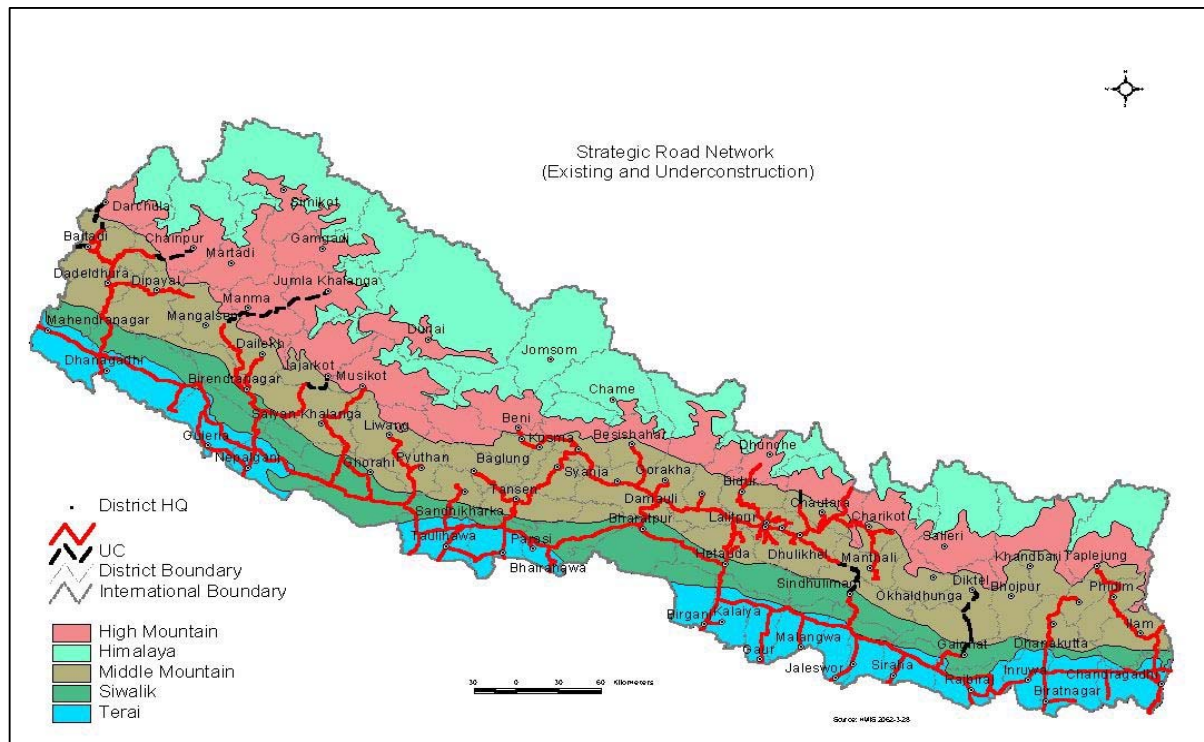
Nepal Engineers' Association

September 2005

Roads and Civil Aviation Play Important Role in Nepal's Transport Infrastructure. Other modes of Transport: Railway, Ropeway, Trails and Track and Waterway-not significant at present

- Total Length of the Road
- 6,706 km in 1989
- 16,834 km in 2002 (Nepal Road Statistics 2002)
- Presently Over 17,000 km
- Plus about 5000 km of Village Roads
- 50 airports/airstrips in the country
- 34 Airports with Air Services

MAP 1



Despite growth in total road network

- Diversification of Agriculture Activities has been slow; limited farm to market road network - major constraint
- Nepal's economy highly dependent in trade,
- India largest trading partner
- After India, China the largest exporter to Nepal
- North-South Connectivity with International link vital for growth in trading activities - An opportunity
- Industrialization must go ahead to
 - Add value to primary commodities
 - Employ people displaced from Agriculture
- Efficient and quality road network fundamental need for development of Industrial activities
- Nepal well known for Tourist destination
 - Transport access needs carefully planned not to have adverse environmental impact in hills and mountains
 - Upgrading of existing facilities will be needed

In 1994, Major Changes in Policy for Development of Roads Network Took Place

Strategic Road Network (SRN)	- National Highway Feeder Roads	DOR
District, Urban & Village Transport Network	District Roads Urban Roads Village Roads	DoLIDAR & Local Govt.

SRN - The basic national road system of Nepal
 - Consist of 15 National Highways and 51 Feeder Roads
 - Total SRN system around 5000 km

District & Urban Roads - Total Around 12,000 km

<u>Regional Distribution</u>	21%	Eastern Region
	40%	Central
	17%	Western
	13%	Mid-West
	9%	Far-West

<u>Ecological Region</u>	4%	Mountain
	45%	Hills
	51%	Terai

<u>Road Density</u>	Overall	11 km / 100 sq.km
	Mountain	0.14
	Hills	12.37
	Terai	25.00

15 District Headquarters still not connected

FIRST NATIONAL TRANSPORT POLICY (NTP) – 2001

NTP Classified - Central Level Transport System
 - Local Level Transport System
 (Needs to Harmonize Classifications)
 NTP/Public Road Acts/Strategy Documents

NTP Emphasized - Maintenance/Improvement based on Traffic Level & EIRR
Other modes also covered including Institution mechanisms etc.
But NTP not well heeded. Lacks implementation and slow response.

DOR Prepared A 20 Year Road Plan-July 2002
It envisages: Addition of 4040 km of SRN Costing Rs. 36 billion (at 2002 price)
: Total SRN Length by 2022 - 9200 km

Identified Road Access to:
Tourism, Trade Centres, Hydropower Potentials and Pilgrimage (needs Review with Stakeholders)

DOR Came up with "Master Plan for SRN"

STRATEGY

- Extension of SRN
- Maintenance Network through Asset Preservation
- Provide and Improve Access to District HQ
- Complement Poverty Reduction Program and improve access to mid-hills and Terai.

DoLIDAR also came up with 'Rural Transport Sector Plan' Based on 'Local Infrastructure Development Policy 2004

LEGAL FRAMEWORK

Legislations related to transport sector are:

- Public Roads Act (2031 B.S., Amendment 2035 B.S.)
- Transport Management Act (2049 B.S.)
- Road Board Act (2055 B.S.)
- Local Self Governance Act (2055 B.S.)
- Civil Aviation Act (2015 B.S., Amendments 2023, 2030, 2034 B.S.)
- Nepal Civil Aviation Authority Act (2053 B.S.)
- Financial Administration Rules, 2056
- Local Body Financial Rules, 2056
- Local Self Governance Rules, 2956
- Road Board Rules, 2060
- Railway Act, 2020 (Amendment 2031)
- Traffic Act, 2020 (Amendment 2033)
- etc.
- Public Road Acts Road Classifications into Four Categories viz Highway, Feeder Roads, District and Urban Roads
- ROW not to exceed 31 meters
- Maintenance, very little said
- Many contemporary issues like, safety environment, traffic etc. not dealt adequately

In general Policy elements are not addressed properly needs Harmonization. Clarity is needed, Rooms for misinterpretation/misrepresentation must be avoided.

ISSUES RELATED TO ROAD SECTOR

- Expansion of Road Network - 7% a year in 1990s. But stalled in recent years.
- Allocation of financial resources declined from 10% of Budget to 5% since 2001.
- Conditions of SRN is declining from 90% as fairly good till 2001 to less than 70% in that category.

- Road Boards Nepal (RBN) operational in 2004 could muster only around 360 million in 2004/05, less than a third required for maintenance of SRN only.
- SRN must be kept in good condition for all round economic and social development.

Major issues:

- Lack of program coordination
- Lack of coherent integrated Road Sector Policy and Implementation Strategy
- Lack of Effective Regulations
- Inadequate Road Sector Resource mobilization
- Weak Institutions capacity and performance constraints
- Lack of Private Sector Participation

(i) Lack of Programme Coordination

- Programs are sectoral oriented
- Sectoral agencies ignores reform and program activities that involves other sectors
- NPC too sectoral oriented (work divisions of NPC members)
- Organization structure need to be changed to reflect coordination activities in all central government offices

(ii) Lack of Coherent and Integrated Road Sector Policy and Implementation Strategy

- Political and administrative objectives of connectivity to district HQ continues despite outcome oriented focus in policy document.
- Connectivity to large settlements (>2,500 population for example) not given proper priority.
- Agriculture potential pockets other economic growth centers along Roads corridors not connected.
- Intra-district transport system not developed.
- Holistic policy framework on transport needs of the population and the economy needs to be developed.
- Transport Act needs reviewed and revised.
- 'Expressway' and 'International Highway' categories needs to be added in revised Roads Classification.

(iii) Lack of Effective Regulations

- Existing Acts and Regulations are general in nature. Specifics are not adequately dealt with.
- Prerogative authorities vested upon Govt. authorities (to be identified when needed).
- Vulnerable to misrepresentation and misinterpretation.
- Acts must address major policy elements adequately including
 - Right of way (more clearly)
 - Maintenance of assets
 - Axle load limitations
 - Traffic Safety
 - Environmental Management etc.
- Acts and Regulations include provisions for
 - Operational standards
 - Procedural Manuals
 - Directives

To be prepared within stipulated Time Frame and to be revised periodically should also be mentioned.

(iv) Inadequate Road Sector Resource Mobilization

- Nepal needs to invest atleast 2.5% of GDP for road expansion and maintenance to achieve 6% GDP growth (amounts to around NRs. 12 billion a year)
- 2004/05 – HMGN allocated NRs. 5.5 billion which is around 5% of total Development Budget.
- Road sector expected to generate revenue at around NRs. 6.00 billion in 2004/05.
- NRB received only Rs. 0.36 billion.
- Must find ways to increase revenue and allocation to NRB.
- Increase fuel levy for NRB
- Policy document include raising of funds for sector development.

(v) Institutional Capacity

- Lacks output oriented performance based assessments.
- Lacks incentives to perform effectively.

(vi) Private Sector Participation

**THE NORTH-SOUTH CONNECTIVITY
GENERAL**

- Basic Road Network in place with 17,000 km
- Policy thrust and priority should now be placed towards connecting potential growth centres of sector like Tourism, Trade, Industry including Hydropower potential corridors (Arun and Dudhkosi) and agriculture.
- Roads development should now follow the programs of those sectors and be proactive.
- Tourism develop tourist destinations looking at Indian and Chinese tourists and Road Sector provide connectivity.
- Agriculture should take bio-diversity and topographical advantages and develop programs to which Road Sector support by providing connectivity.
- Kathmandu should be connected with Terai through 'Fast Track' Expressways. Similarly Kathmandu (Tinkune)-Banepa Expressway developed on the basis of Economic Rate of return alone.

INTERNATIONAL CONNECTIVITY

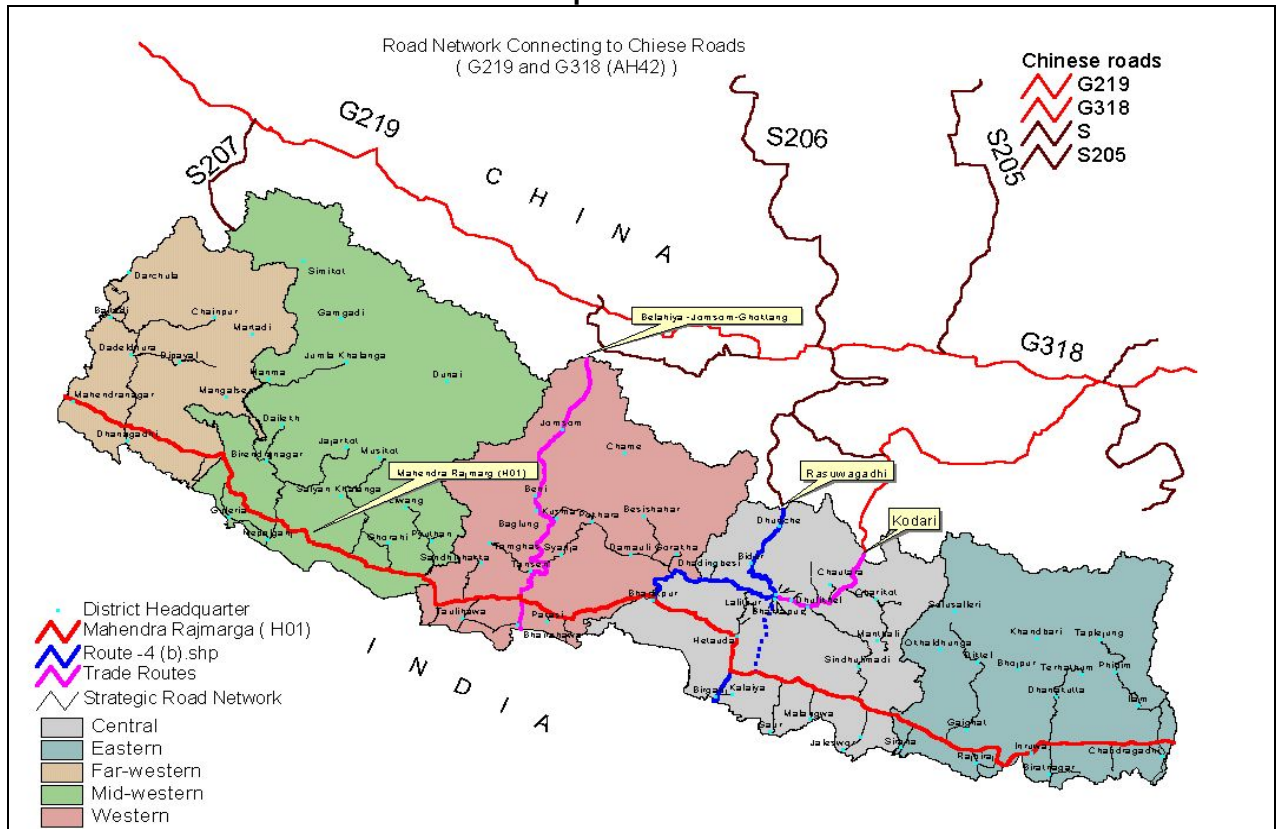
- Nepal has to accord the 'traffic in transit' freedom to India as per Transit Treaty between India and Nepal.
- Trade between India and China is growing and is expected to reach \$ 30 billion a year in 2010.
- Nepal stands to be benefited, therefore Nepal should take this as 'an opportunity' and try to maximize benefit for Nepal.
- Existing Border Crossing at Kodari is presently attractive and adequate trading infrastructure should be developed. Rasuwagadhi Route development should be given high priority immediately.

The Asian Highway

- The Asian Highway network is important in respect to Regional Connectivity within Asia.
- The North-South Asian Highway AH42 Connects Birganj in Nepal to Lhasa in Tibetan Autonomous Region of China via Hetauda, Narayanghat, Mugling, Kathmandu, Dhulikhel, Barabise and Kodari. AH42 in Nepal is 390 km long.
- Nepal's East-West Highway is also AH2, whose length is 1028 km.
- AH1, AH2 and AH5 are three East-West Asian Highway, which are of Sub-regional importance to Nepal.

- AH1 runs South of Nepal, from Dhaka to New Delhi and Islamabad Via Kolkata, Barahi, Varanasi and Kanpur in India.
- AH5 connects Shanghai in China and runs along Lanjhou, north of Lhasa towards central Asia.
- AH42 could be connected to AH1 at Barahi (State of Jharkhand in India) and AH5 at Lanjhou via Lhasa.
- Chinese Highway G219 and G318 runs east to west north of Nepalese border.
- Planned Syabrubesi-Keirung (Rasuwagadhi) road will be connected to G219 of Tibet, which can lead Nepal to connect to Pakistan via Kashghar at western end of China.
- Similarly Jomosom-Korela (Mustang) road will also get connected to G219.

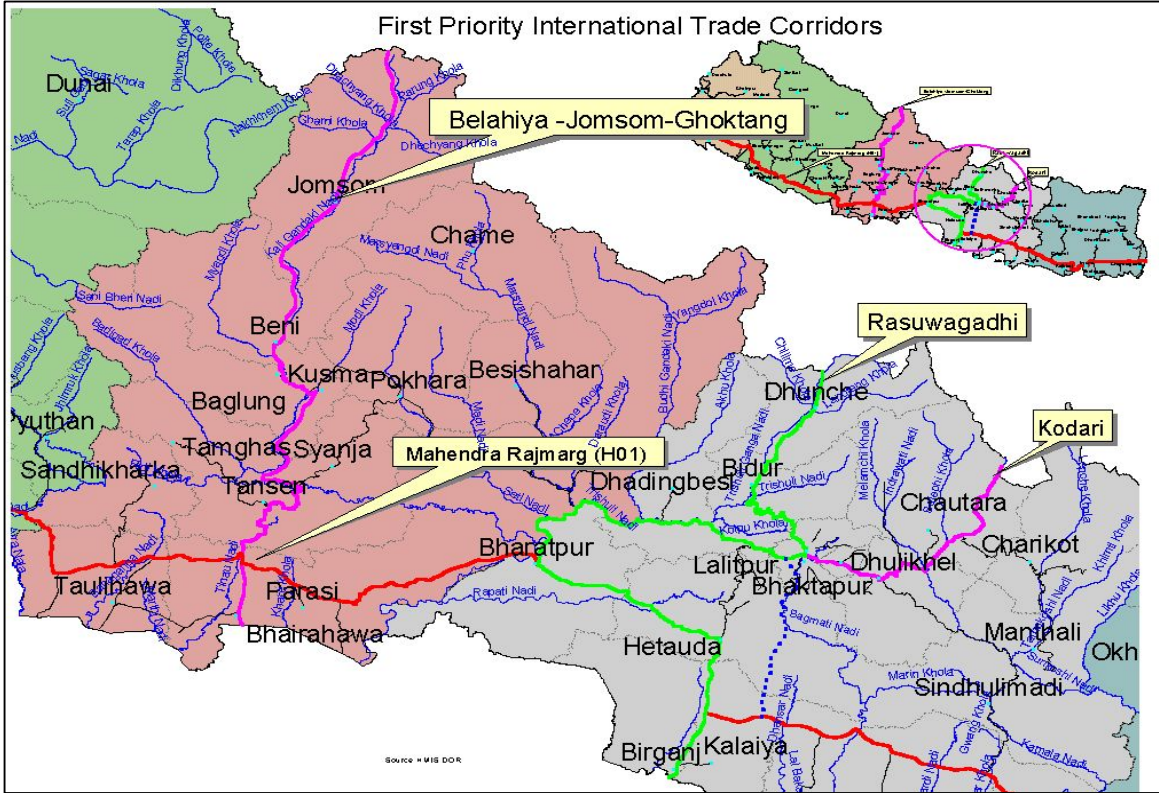
Map 2



Map 3



Map 4



North-South Conceptual Framework and Approach

► Framework:

- Consolidate the effective utilization of existing north-south road network by connecting existing and potential agriculture, trade and market centers, settlements larger than 2500 population, tourist destinations and potential corridors for industrial and hydro development.
- Develop feeder roads to link unconnected District HQ with peoples' participation; with stage construction using Green Road Approaches.
- Improvement and development of identified Asian Highways in Nepal as 'International Trade Route' eventually to link Central Asia with South and South East Asia.

Approach:

The north-south connectivity approach should be based on the following elements:

- Development of Feeder Roads/District roads to link large settlements and agriculture and other potential areas with SRN.
- Development of feeder Roads to link unconnected district HQs with Peoples' Participation.
- Construction of cross-border links with China.
- Construction of a direct link between Kathmandu and the Terai (Fast Track Connection).
- Construction of broad gauge railway link with Indian Railway System and initiation of East-West Electric Railway System.
- Upgrade mountain STOL airfields and provide efficient and dependable communication and navigational facilities.

Conclusion and Recommendations:

Following 14 recommendations have been made:

A. General:

- Review Nepal Transport Policy 2001, and prepare a coherent, integrated and holistic Transport Sector Policy framework focusing on the transport need and wider economic considerations. Two new additional road classification such as 'Expressway' and 'International Highway' has been recommended.
- Promulgate a new Integrated Transport Act, which should include major elements of transport sector policy framework including updated comprehensive road classifications and responsibilities. Detailed regulations be prepared to avoid misinterpretation and misrepresentation.
- Reform organizational strengthening process of implementing organizations like DOR, DoLIDAR and CAAN.
- Restructure NPC and line Ministries to include effective programme coordination mechanisms.
- Prepare enabling environment to attract private sector participation and donor funds in the transport sector.
- Prepare realistic Medium Term Expenditure Framework and 10 year Road Sector Investment Plan showing financial implications of proposed Road Sector Program.
- Include mechanisms to generate financial resources for road network maintenance and development in the Transport Policy and related Acts.

B. North-South Connectivity:

- Improve and maintain Arniko Highway to an 'International Highway' Level.
- DoLIDAR and DDCs identify feasible road links which enhance agriculture, tourism, trade and Industry based on 20 year road plan and DTMPs. DOR give adequate

- priority to link the growth centers (Agriculture, tourism, trade and industry) while completing the on-going SRN network.
- 18 km long, Syabrubesi-Keirung link be started as soon as possible. Jomsom-Mustang-Korela link to be completed as soon as possible. No further investment be made on China border link for another ten years.
 - Improve Galchhi-Trisuli-Syabrubesi road to 'International Highway' level.
 - A comprehensive feasibility study of 'Kathmandu-Terai' Fast Track connectivity be carried out as soon as possible and complete the Detailed Project Report (DPR) of selected route within 18 months time period. In the meantime, reenact BOT laws giving as much concessions as possible to attract private sector developer but without relinquishing the sovereign rights of the State.
 - Initiate earnestly to develop broad gauge railway connections to Indian Railway System and plan for East-West Electric Railway System. Activate/ Establish a 'Railway Cell' in MPPW immediately.
 - Make BOT laws attractive to private sector to develop alternate International Airport(s) as well.
 - Upgrade and equip mountain airports to make it more safe and dependable.

> Thank You <

Annex 2C: Supply Management of Essential Commodities

Introduction

The aim of the study is to: Attain regular & effective supply of essential commodities listed below.

- Petroleum Products (Kerosene, Diesel, Petrol, Aviation Fuel and LPG)
- Sugar
- Salt
- Rice & Pulses
- Edible oils
- Essential medicines

Objective of the study

- Identify problems in supply management of essential commodities
- Suggest mechanisms and information systems for sound national and district level coordination between civil and security administration and wholesale business houses.
- Suggest necessary measures to maintain adequate supply in addressing crisis.
- Suggest prospects for public-private partnership.
- 5. Suggest Policy Action Matrix

Existing 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 program, 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 hilly region 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.

Recommendations

1. In the changed context of market oriented economy, the government should immediately announce its *Long Term Supply Policy (including Oil 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. 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.
5. 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.
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 abolished immediately 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* 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 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.
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.

The 30 Remote Districts announced by HMG/N

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

SUPPLY MANAGEMENT SYSTEM IN INDIA

(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.
- 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.

(Tata Economic Consultancy Report on PDS and TDPS)

- 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.
- Completely decontrol sugar and take it out of PDS.
- Ration cards have tended to be used as ID cards to establish people's identity. Many get ration cards issued only for this purpose.

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's grain stocks 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%.

**Evaluation of Service Delivery System in Bihar and Uttar Pradesh
(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

(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*'.
- 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. 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 co-ordination and low administrative accountability has combined to cripple the delivery machinery.

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

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

Annex 2C

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

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

Annex 2C

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

ANNEX 3: PARTICIPANT NAME LIST**Building Confidence in Tourism through Crisis Management**

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