

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 #6)**

April 2006

## **I. Introduction**

Workshop 6 of the Economic Policy Network was held on April 2, 2006 at Nepal Administrative Staff College, Jawalakhel. Three policy papers were presented at the workshop in sessions.

As per the decision of the Steering Committee meeting on January 23, 2006, the policy papers, with the incorporation of comments from the workshop, are taken to the respective Advisory Committee for final validation. The final report is then forwarded to all concerned ministries and agencies for implementation. The drafts as well as finalized reports are also posted under the 'Economic Policy Network' link within the Ministry of Finance for accessibility of the general public.

The policy papers presented at the workshop were: (i) Operational modality for pocket-package approach to APP implementation; (ii) Effective and efficient utilization of contractual savings (employee provident fund and citizen investment trust); and (iii) Constraints and approach for developing market access and vertical linkages in high value agriculture. The workshop was divided into three sessions to discuss each paper. Each session followed (i) a presentation by the consultant, (ii) comments by the reviewer, and (iii) open floor discussion. The sessions were chaired by former Vice Chairman of the National Planning Commission (NPC), Mr. Prithvi Raj Ligal. The Guest of Honor was Dr. Champak Prasad Pokharel, Member, NPC and also the Chairman of the EPN Steering Committee.

## **II. Operational modality for pocket-package approach to APP implementation**

### **A. Presentation of Paper**

The study was carried out by Dr. Ram Prakash Yadav. The commentator on Dr. Yadav's paper was Dr. Devendra Chapgain.

The presentation basically summarized the chapters as per the TOR of the consultant:

- Background of the Agricultural Perspective Plan (APP)
- Successful cases of pocket-package approach
- Distortions in the concept of pocket-package program
- Comments on the implementation guidelines of pocket-package strategy of agriculture development as issued by the Ministry of Agriculture and Cooperatives (MoAC) in B.S. 2055

### **B. Commentators' Remarks**

Dr. Chapgain expressed that Dr. Yadav has clearly discussed the problems facing the effective implementation of the APP. He expressed the need to give national priority to agriculture, which is a major contributor to the gross domestic product (GDP). And in order to achieve growth in agriculture, APP is still the best strategy. He agreed with Dr. Yadav on the discussions on the "pocket-package approach" developed by MoAC—which is a deviation from the "prioritized productivity package" concept envisaged in the APP.

He also cited lack of coordination among line ministries and holistic approach to agriculture development to be the reasons for the slow implementation of the APP. Implementation and monitoring guidelines and practical action plans were stressed. The APP clearly mentions the priorities for effective agricultural growth in Nepal. However, there

has not been enough support at the policy level to achieve the goals of APP. The guidelines of the NPC are not enough for agricultural development—coordination of various ministries is a must.

Expressing that the previous arrangement of the Independent Analytical Unit in the NPC under the chairmanship of the Vice Chairman had not been able to enjoy desired autonomy, he explained that a well-resourced autonomous body outside the Government, to carry out analysis is necessary. Dr. Chaggain concurred with the proposed National Implementation Committee. Political and bureaucratic meddling should be avoided. Similarly, the Prime Minister or a senior Minister should take charge and form a separate secretariat for the implementation of APP as a national agenda.

The opportunity to benefit from APP has been missed as the real investment since implementation of APP has been on a decreasing trend. However, he opined that it is still not too late to implement it and receive the economic benefits envisaged by it. Our agricultural sector has to develop much for our products to be able to compete in the global market.

While the Government took sole responsibility for the implementation of the APP in the beginning concerned stakeholders were also involved in later stages. He stressed that the APP is the best option we have for agricultural development. Hence, it should no longer remain a priority within the MoAC only but be taken up as a national agenda.

### **C. Deliberation from the audience**

Following the commentator's remarks, the chairperson opened the floor for discussion.

- Mr. Chiranjibi Nepal recalled that the interim APP document, had provided valuable recommendations but it was not adopted by the Government. He also expressed that the discussions held within the NPC regarding APP were never disseminated and the meeting under the Chairmanship of the Vice Chairman of the NPC was held only twice. He therefore questioned the effectiveness of the proposed National Implementation Committee chaired by the Deputy Prime Minister if such a high level committee cannot meet regularly. Similarly, he also suggested to judge the situation in view of the roles of the District Development Committee and coordination with the central government regarding decentralized framework. Since the pockets may spread over more than one district, this also has to be addressed. Mr. Nepal also suggested exploring the involvement of cooperatives in this endeavor.
- Dr. Krishna Prasad Pant expressed that stakeholder participation is weak when discussing the APP. Farmers, marketers, and all other stakeholders should have been actively involved when discussing APP as they are all essential stakeholders. But APP seems to have ignored the perspectives of all stakeholders who have contributed to add value in agricultural products and its marketing. Decision-making has to be strengthened at the grass-root level. He also expressed that no one has ever taken the responsibility for the failures related to the APP. According to him, access is certainly a prerequisite but not the only sufficient condition. Hence, all supportive areas and aspects like electricity, private sector, nongovernmental organizations, and farmers have to be dealt addressed adequately.
- Mr. Balaram Rajbhandari expressed that land fragmentation is an important factor in the development of agriculture in Nepal. He suggested representation of the private sector in the proposed National Implementation Committee. He also pointed out the risk of political interference under the chairmanship of the Deputy Prime Minister. He suggested keeping the committee within the NPC or within the bureaucratic framework. He also expressed that research and development component was lacking.

- Mr. Madhab Ghimire, speaking in the context of decentralized framework, expressed the need for coordination between the central budgetary division and district level needs and demands keeping in view national action plans and strategies. Stating that the cost of production of agricultural commodities is much higher in Nepal than in India, he questioned the competitive edge that Nepal has in exports to India.

#### **D. Insight from the Guest of Honor**

Dr. Pokharel expressed that the APP is the best policy direction we have for agricultural development in Nepal. Recalling that the Independent Analytical Unit in the NPC was operational even during the post-TA period, it was commendable that HMG had accepted to observe the forthcoming 10 years of agricultural development as the APP decade. The APP was highlighted in the Tenth Five-Year Plan document to keep the vision alive. He pointed out that the discussions have pointed out lack of national coordination between line ministries to implement the various priorities identified by the APP. Thus, the focus must now be on the administrative and institutional framework for its effective implementation in coming days and the policy paper must focus on these aspects.

He also opined that the Deputy Prime Minister should give utmost priority to the proposed National Implementation Committee as agriculture is the backbone of the Nepali economy.

#### **E. Last Words by the Consultant**

Dr. Yadav expressed that the Deputy Prime Minister should be the Minister of Agriculture as this is the most important sector in the economy. He also expressed that ownership is the most important factor for the effective implementation of the APP.

The Chairman thanked everyone for the discussions and requested the next presentation to begin before the tea break.

### **III. Effective and efficient utilization of contractual savings**

#### **A. Paper Presentation**

The policy study was carried out by Dr. Tilak Rawal on behalf of the Nepal Economic Association (NEA). The commentator on Dr. Rawal's paper was Mr. Mukunda Aryal.

The presentation basically summarized the chapters as per the TOR of the consultant:

- Review of Employee Provident Fund (EPF) and Citizen Investment Trust (CIT)
- Trend of deposits, sources, capital structure and investment portfolio of EPF and CIT
- Earning analysis from investments
- Issues in effective and efficient utilization of funds
- Recommendations

## **B. Commentator's Remarks**

Mr. Mukunda Aryal suggested to have Nepal Rastra Bank (NRB) a regulatory body to look over the EPF and CIT. He also emphasized on disclosure of information.

He expressed that the EPF was allowed to invest in individual projects from 1992/93 and today it pays more interest than commercial banks. Participation in hydropower development in partnership with the private sector may be feasible but due to lack of legal safeguards, one must proceed with caution in this area. He again stressed the need for disclosure laws and reminded that EPF was not constituted with the motive of profitability.

Institutional reforms and capacity building within NRB was also stressed to strengthen it to regulate the contractual savings institutions. The NRB was suggested to keenly monitor the capital adequacy of these institutions. The Economic Affairs and Policy Analysis Division of Ministry of Finance needs strengthening. NRB must look into regulating Consortium financing.

As for the proposal to unite the EPF, CIT and Postal Savings Bank into a full fledged finance company or bank, he suggested keeping them separate as these institutions are involved in small scale investments and their purpose are different from commercial or development banks. Profitability should not be the priority of EPF and CIT. Protection of employees' rights in EPF and civil societies' rights in CIT should be its primary focus. For example, reducing interest rates on deposits at par with commercial banks would immediately increase profits, but this should not be done. However, regulatory body could be developed as one umbrella body.

He also suggested not setting targeted investments in hydropower and infrastructure in the policy paper as such decisions would have to be based on detailed cost-benefit analysis.

## **C. Deliberation from the audience**

Following the commentator's remarks, the chairperson opened the floor for discussion.

- Dr. Ramesh Citrakar expressed that the negative returns on time deposits as explained in the report is equally applicable to individual's depositing money in commercial banks.
- Mr. Tulsi Uprety expressed that NRB would be the appropriate regulatory body. It would be time consuming and expensive to setup a separate body. On financing hydropower projects, he questioned the share these institutions should be allowed to invest in such ventures. Mr. Uprety also disagreed on developing the EPF and CIT into a full fledged finance company or bank. He suggested them to diversify the portfolio and invest in lucrative areas. In case of the CIT, he suggested allowing capital market equity conversion to increase deposits.
- Citing the rapid expansion of real estate, Mr. Balaram Rajbhandari stressed the need to protect land for agriculture. He also suggested investing in government bonds which are safe investments.
- Mr. Shree Sharma stressed the need to promote private competition.
- Mr. Madhukar SJB Rana expressed that institutions such as EPF and CIT are meant for long-term financing. He opined that investments in infrastructure and hydropower are too risky. He suggested to accelerate bond market and explore Government Bonds for EPF and CIT to invest in. He also suggested to investigate on allowing Indian investors to purchase Government Bonds and securities to attract FDI.

- Dr. Devendra Chapagain expressed that the custodians of the EPF and CIT should be responsible for the benefit of clients. In this regard, where is the voice of the citizen and employees in decision making on EPF and CIT funds.

#### **D. Last Words by the Consultant**

Dr. Rawal expressed that Mr. Aryal's comments are helpful for improving the paper. He expressed that disclosure laws and uniformity in accounting formats are lacking in Nepal. Uniformity and international accounting standards must be adopted for disclosure to work.

He opined that hydro projects have a high rate of return on investment. As for stakeholder decision, he opined that as the owners of the funds, the Government is the manager of the funds. As for issuing government bonds, he opined that it is possible to sell them in the market only when the economy picks up. When borrowing is decreasing, how can bond markets evolve?

The Chairman thanked everyone for the discussions and requested the next presentation to begin.

### **IV. Constraints and approach for developing market access and vertical linkages in high value agriculture**

#### **A. Paper Presentation**

The policy study was carried out by Mr. Jagan Nath Thapliya on behalf of the Confederation of Nepalese Industries (CNI). The commentator on Mr. Thapliya's paper was Mr. Yam Bahadur Thapa.

The presentation basically summarized the chapters as per the TOR of the consultant:

- Scenario of Agriculture in Nepal
- Status of fruits, vegetables, vegetable seeds, NTFPs, milk, and meat products
- Overall recommendations

#### **B. Commentator's Remarks**

Mr. Yam Bahadur Thapa expressed that the paper focuses on marketing aspects of selected high value agricultural products. By focusing on only a select crops/products is there a risk of diluting the necessity to develop policies on overall agricultural sector? He expressed that the high value commodities identified in the paper are all capital intensive. In this regard, will benefits be shared equitably to the poorest of the poor?

He explained that Nepali agricultural products currently contribute only 2–3% of raw material inputs of industries. Exports of high value commodities are also less than 5% of total imports. Therefore, should the debate be focused more on domestic demand?

Market chain is explained very well in the report, but we can't compete with prices in India. Therefore prospects for exports to India are currently limited. The study should analyze the share of benefits that Nepali farmers get when selling products in India. Advocacy of free trade area stressed to increase competitiveness of Nepali products in the region.

He expressed that the constraints are too elaborate in the report making it difficult to read. He suggested narrowing down the recommendations and prioritizing them.

The prospects of marketing NTFPs is very high but the problem lies in insufficient research for commercial farming of NTFPs. The role of the Nepal Agricultural Research Centre (NARC) was highlighted to address this.

### **C. Deliberation from the audience**

Following the commentator's remarks, the chairperson opened the floor for discussion.

- Mr. Siddha Raj Pant expressed that when we talk about public-private partnership in Nepal, private sector is always seen to be represented by FNCCI and CNI, but in reality it is more than these two organizations. He also expressed that the discussions in the workshop have stressed on the government to take on a more proactive role but discussions on specific responsibilities seem lacking. He also expressed that the Government is donor driven. For the private sector to come in we need a level playing field, but policies that allow tax exemption to nongovernment organizations do not foster an environment for corporate houses to make large investments. Similarly, for corporate houses to make large investments, they need large areas of land. How can we consolidate the fragmented landholdings in Nepal for large commercial farming? Who will facilitate this?
- Dr. Ramesh Chitrakar pointed out that spices are not included as high value commodities in the report. He also stressed the need to address the excluded and disadvantaged groups when formulating policies. He expressed that database of commodities and market prices is important while marketing commodities and ensuring equitable benefits.
- Dr. Braja K.P. Shaha explained that milk holiday is cited as a constraint in the report, but milk holidays are there because of low supply during certain seasons. Labor component could come down if taken as farm employment. He also explained that the technology exists to increase the production of ghee but we have not invested in it. Leather products are a viable exportable item. It should be identified as a high value commodity. Similarly, he pointed out that yarsagumba collection provides about NRs. 20,000 income to each individual in Dolpa District.
- Mr. Ram Bahadur Shrestha expressed that failure in implementation rather than policy shortcomings is the problem in Nepal. We should focus on reasons for lack of implementation. Recommendations seem too general. The author should also discuss on jute and sugarcane.
- Mr. Kapil Babu Khanal explained that according to the Third Livestock Development Project data, poultry consumption is 37% of total meat consumption in urban areas. He suggested that the heading of "meat and egg" may be more appropriate while discussing poultry. He also expressed that highway taxes are a major constraint in marketing poultry products. Similarly, bandhs (general strikes) and curfews and excessive checking on the highway are all major constraints. He also expressed that private initiatives and commercial bank financing were the reasons for the successful development of poultry farming in Chitwan District—Government role is absent. "Backyard" and "commercial" poultry farming must be differentiated. Import substitution and export policy was stressed regarding poultry farming. A poultry development board was suggested. He explained that the poultry industry is experiencing a loss of over NRs. 4 crores per month as a result of the Bird Flu scare. It has lost NRs. 120 crores in the past 4 months.
- Mr. Ashwini Agrawal expressed that tea production is twice as much as domestic demand, with high export potential. He suggested including it as a high value commodity

in the report. It is also the most environmentally friendly agricultural crop for the mid hills. It is also a commodity that can provide large benefits to small scale farmers.

- Dr. Krishna Prasad Pant suggested differentiating between constraints and problems. He explained that price constraint is a problem with milk holiday. The constraint with NTFPs is that by legal definition when it is farmed commercially it is not considered a NTFP. Direct selling of milk is caste sensitive. He also stressed the need to develop coordination among research, training and extension wings of the MoAC.
- Mr. Balaram Rajbhandari explained that when there was a demand for Nepali apples in Bangladesh we could not export because of unavailability of packing material at the time. Therefore cross industrial coordination is necessary. He suggested developing commercial scale buffalo farming to meet domestic demand and rely less on imports. He also suggested that the paper should touch upon the prospects of organic farming as this could be a viable export item considering high demand.

The Chairman thanked the participants for a vibrant discussion and adjourned the workshop at 1330 hrs.