

Proceedings Report

Linking Market building and Political Economy

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Nepal continues to find itself in a difficult post-conflict transition and nation-building process, and faces the simultaneous challenges of developing state institutions, supporting economic development and balancing individual and groups rights in a way that fosters a sense of common Nepali citizenship. Rhetoric must now be transformed into implementation as the country drafts a constitution and develops a political and economic framework for a New Nepal. Regardless of the composition of the government itself, the country must move to address difficult economic problems through a market-building approach and a nuanced understanding of the political-economy issues that both underpin current constraints and provide the solutions to these difficult problems.

Nepal Economic Forum (NEF) hosted an interactive talk program on 1 December 2020 on how to link market building and the political economy. Blair Glencorse, an associate of The Institute for State Effectiveness (ISE), was the main speaker of the program who shared ISE's experiences in Nepal and ideas on market-building from other country contexts. The 7 key themes he brought up are:

- 1. Balance State, market and civil society:** The state can act as the enabler or provider or regulator. The markets can work with the state or around the state. Civil society can put pressure or engage in project monitoring and implementation. The balance is achieved when there is honest discussion amongst the three stakeholders. This, however, has not happened in Nepal. An interesting illustration of state, corporate agencies and the civil society coming together is the Bangalore Agenda Task Force in 1990s led by Nandan Nilekani where experts from all sectors came together to contribute for urban governance. This group created networks, synergies, benchmarked progress and created a new dynamic to generate positive change.
- 2. Emphasis on Citizenship:** Transformation has to be people centered and inclusive. We should talk about human rights, citizenship rights, and property rights. But at the same time, it is important to talk about our responsibilities. We hear a lot about federalism in Nepal and how the federal state will look like. But we must be careful not to confuse 'form' and 'function'. There are effective federal states but also ineffective ones. So it should be more about the functions of the state. Spanish constitution in 1978 offers few lessons that would be applicable to Nepal. Their constitution writing process placed a lot of emphasis on citizenship and bargaining.
- 3. National Accountability Systems:** On the supply side, there are donors who have good ideas regarding specific aspects of accountability but often cannot put it together in a coherent, holistic manner. For instance, looking at budget, treasury, accounting, procurement, project management

and oversight and how they all fit together in a way that there is a large, coherent approach to accountability is lacking, Countries that have succeeded have given this careful consideration. It is also about the demand side, how you demand for change and external oversight bodies. Mapping where capacities exist within the government systems and how all can come together that can be leveraged to support accountability is required.

4. **Leadership and Management:** It helped countries such as Singapore and Rwanda to have great leaders like Lee Kwan Yew and Paul Kagame, respectively. Although the success seems like a process related to one individual leader, a closer look reveals that it was a team effort, a group of highly efficient managers that helped the leader steer the country toward success. Having a charismatic leader helps but he/she does require a team during the implementation process. Under Kagame's leadership Rwanda has been called Africa's success story. Key 15-20 technical people were rotated around the ministries who practiced a policy of zero tolerance for corruption. The other side is use of technical assistance that supports the leadership rather than undermines it. Sadly a lot of donor driven projects draws away from government capacities and systems rather than supporting them. This undermines the creation of an effective state.
5. **Envisioning process:** It is important to contrast current realities to future possibilities and enhance popular aspirations. The process should be done to get people excited and help think about possibilities. It should be time bound and help benchmark progress. Malaysia did this very well with its 2020 vision. There has to be a sense of forward momentum. Envisioning process is something that can really support positive reform. If you set goals without having a close sense of process, which is something that has happened here where process to some degree has come to a standstill, will create problems in the society.
6. **Market Building:** Often there is too much focus on states and not enough on markets. The mistake is to think that opportunities will spontaneously be created but this does not happen. There has to be a guiding hand that creates opportunities. Issues such as how to create jobs to absorb the young people entering the Nepali labor market every year are important. Financial tools such as diaspora remittance bonds that seem to work well in other countries are not used here. So questions as to how do we think about financial tools and vehicles that support long term job creation should be part of the market building process. Singapore is the classic example where the government came in, created a supply chain and then worked with private sector to generate public housing. This created a place for people to live but also created a basis for a very vibrant construction industry. However in Nepal, there does not seem to be the sense that wealth creation is something positive, it is still seen as something negative.
7. **Capacity Building:** Nepal lacks technical vocational skills to set the country towards the path of development. There has to be an emphasis on vocational skills training. There needs to be a focus on the comparative advantage of Nepal in this globalized world. For instance Chile offers a very good example. The government realized that the state had advantage in copper, fisheries, wine production, timber and created schools that offered vocational schools teaching courses in these areas.

Sujeev Shakya, chairperson of Nepal Economic Forum, commented that this pertinent set of areas could be the foundation for our constitution. He contextualized some the issues for a more Nepali focus. First, one of the issues is political instability, as investors want to know when is a good time to invest in Nepal. However, Sujeev pointed out that that there has not even been three continuous years of stability in Nepal past 60 years. Apart from 1991-1994, we have not seen a semblance of stability post Rana period. We have continuously lived with problems. So, rather than trying to wait for stability, do we have to fit things into this instable environment as this is the way of life in Nepal? Second, we approach issues in Nepal with a fatalistic attitude that is pervasive amongst bureaucrats, politicians, business people who send their kids abroad and tell them not to come back. We look at people leaving the country and say it is due to the political instability. However, migration is not a new phenomenon. During the 1300s the whole Kathmandu valley migrated. Similarly, there were no agricultural workers in the 1800s as all eligible workers went to Assam, Darjeeling to do farming, leaving hardly any workers here. So we need to look at the whole economic movement rather than just the political stability. On a positive note, he then pointed out that there are a lot of good work happening in isolation in Nepal and the challenge would be to bring it all together. Civil society, rather than focusing only on the political side, needs to be engaged into the larger economic thinking.

Nepal Economic Forum and The Institute for State Effectiveness are working together to promote South-South learning. Nepal Economic Forum is a non-profit organization dedicated to being the private sector interface to Nepal's economic development.