The budget message

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CONFLICT & RIGHTS

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The US $1.9 billion budget recently proposed by the Finance Minister Ram Sharan Mahat for 2006-2007 fiscal year seems to be hidebound by traditions and largely based on linear methods. It does not generally put on view any significant intellectual leap from the linear to the nonlinear methods – going beyond the conventional strategies to reenergize the economy. This obviously is a serious remark of a non-economist critique.

Arguably, here and there, one can see some positive moves in the budget which has come after the ceasefire; but mostly these moves are not meant to be strategic budges, going beyond the traditional flow and trying to steer things a little, to jolt the economy in a way that generates quick and confident development ripples everywhere.

The "One-village-one-product" program under public private partnership to increase production of commodities, which has adequate export potentials in foreign countries, is one such modest example. Under this program, the Finance Minister proposes Ramecchap and Sindhuli districts for the production of sweet orange (junar), Banke Bardiya, Raamechhap and Siraha districts for Bel, Bhaktapur district for Lapsi, and Nuwakot and Rasuwa districts for rainbow-trout species of fish.

Unfortunately, this is the only visible program, that can create a production waive in the country. This program should have been extended to the whole country with the determination to establish Nepal as a notable exporter within a few years. Not only that this program has come in isolation, but also without vision.

As expected, the priorities of the budget are to develop economic infrastructures, improve investment climate, and make economic programs pro-poor and inclusive. It is also aimed at increasing investment in social sector, implementing programs for relief, rehabilitation and reconstruction, and expediting capital investment and productivity (by containing consumption expenditures). There are significant allocations under all these priority areas; and these programs by any standards break most of the past records in terms of the allocated amount, program intensity and coverage. This must be noted as another positive comment.

The government is prepared to allocate around $17 million to the Poverty Alleviation Fund, around $54 million for irrigation development, around $122 million for rural infrastructure development, including building roads in 20 remote highland districts; and all in all, around $700 million for education, health and drinking water supply projects. It has

also allocated around $24 million for rural electrification to benefit over 200,000 poor households.

Assuming that this is an all-party budget, and there is a long-term determination to carry on the programs being envisaged, these allocations must be lauded in what they are committed. But these allocations only aim at mitigating the poverty in the country; they do not chart out a way forward for a prosperous Nepal.

For example, special package announced for the development of Karnali region, and the Karnali Illumination Program would have carried a long-term meaning had the finance minister proposed the development of a 'Him-city' in any suitable area in the beautiful Karnali basin. It would have given the local people a confidence in their native place, a purpose in their life, religion and culture, and an agenda for their overall development, and institutionalization of the local tourism. That would have given the proposed road linking Karnali with the rest of the country an economic basis, and the interested national or international entrepreneurs a virgin area to invest in one of the most beautiful parts of the earth, and the local people a number of income-generating opportunities. With the money that has been allocated, we could perhaps kick-start the concept of our outstanding 'Him-cities' in the four beautiful river valleys in the Himalayas.

In fact, the budget is painfully silent about the role of tourism industry to revive Nepal's economy. It is strange how the Ministry of Finance, the National Planning Commission and the leading economists at the disposal of the government could ignore that the Nepal Tourism Board (NTB) launched a new tourism brand just in early 2006 with the slogan 'Naturally Nepal: Once Is not Enough" to reinvent and revamp the falling tourism industry of the country by attracting additional 300,000 tourists every year.

It is sad that with such a huge amount at its disposal, the government is yet to understand the importance of structurally evolving the tourism industry and Nepal's unique position within it. In the absence of such a commitment, it is not clear how (in the instant case) the people of Karnali region can benefit in the lung run by just enjoying the light of 31,000 solar powered lanterns (with 95 per cent financing from the state).

A little help of the government a few years ago enabled the Manakamana Darshan Pvt Ltd to start Nepal's first cable car service with the technical assistance of Doppelmayr, an Austrian Cable Car Company. The 10-minute cable-car ride to Manakamana temple up in the hill overlooking the river valleys of Trisuli (south) and Marshyangdi (west) has become the pride of the nation and its economy since then. It is not understandable what has stopped the finance minister to invite proposals from the private parties to invest in similar ventures in Karnali region, and other viable areas. There is no reason why the government cannot underwrite the loans to the credible investors from leading international financial institutions.

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The present post-conflict budget is probably the first public document in Nepal in the past couple of years that does not have appreciation for the remittance received from abroad from the immigrant workers. It is said that remittances as a share of GDP (Gross Domestic Product) is most significant for Nepal as they account for 14.8 percent at this stage. A variety of carefully tailored smart aid initiatives to the returning wage earners from abroad can help kick-start the productive potential of local economies where high levels of migration have taken place.

In the absence of investment opportunities, large chunks of these remittances are being used by receiving communities to buy land and build houses. The existing environmental, infrastructural, and politico-economic characteristics of the state do not help these immigrant workers to invest in entrepreneurial activities.

There is not really anything in the budget to make Nepal a more attractive place to do business and arguably that is something that should start to drive the way the Nepali tax system is developed in the future. The finance minister has also belittled the importance of financing the anti-corruption moves and the efforts towards consolidating state machinery in the far flung districts.

Simply catching up to where Nepal stood a few years ago is not enough. The winners will be those countries who have the ability to invent fundamentally new strategies for private sector investment, production and manufacturing. If we do not produce, even after equitable distribution, we would still be dirt poor. If we want to produce, then we need to have bold offers to the private sector.

There is very little in the post-conflict reconstruction budget which gives consolation to a critical analyst

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