



Sambad

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ECONOMIC STUDY AND POLICY ANALYSIS

Workshop on Promoting Sustainable Growth and Competitiveness of NAM's SMEs

Non-Aligned Movement Centre for South-South Technical Cooperation and Ministry of Industry and Primary Resources, Brunei, jointly organized a workshop, entitled 'Promoting Sustainable Growth and Competitiveness of NAMs' SMEs in a Globalized Market through E-Commerce' on 29-30 October 2001 in Brunei Darussalam. There were more than eighty participants from the member countries of the Non-Aligned Movement (NAM), comprising policy and decision-makers, experts on SME and E-commerce and SME representatives. The main objective of the workshop was to identify the main issues and concerns faced by the NAM member countries in the use of e-commerce as a tool for growth, survival, development and competitiveness of SMEs and to explore strategies and programmes that address the

The government should play a proactive role in creating the right environment for the promotion and development of e-commerce.

current and future problems facing the e-commerce, as well as the issues that impact the growth, survival, development and competitiveness of SMEs in NAM member countries.

Mr Shankar Aryal, Research Associate, participated in that workshop on behalf of IIDS and presented a paper, entitled 'Role of E-Commerce in the Development of Small and Medium Enterprises (SMEs) in Nepal'. Mr Aryal's paper presents a background of SMEs in Nepal and the current status of the policy on Information Technology and E-commerce in the country.

An abridged version of Mr Aryal's paper is produced in this issue of Sambad. Please see page 3.

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“Small and medium enterprises play a big role in the economic development of both developing and developed countries. In spite of their potential to play an important role in the national economy, there exist a number of challenges in the path of their sustained growth.”

Shankar Aryal suggests, the government should play a proactive role in creating the right environment for the promotion and development of e-commerce. See pp 1 and 3-5.

Inside

Editorial

The USA fell victim to an unprecedented terrorist strike in September 2001. The world economy has been facing trouble since that incident. Global financial markets fear the economic consequences will take a toll throughout the globe. The humanitarian impact of USA's 'war on terror' could be tremendous. Given the incidents, Nepal, too, has been caught in the war on terrorism. At this time when the world's attention is focused on the subcontinent, Nepal cannot escape the consequences this region will have to face. Dr Suman Sharma and Mr Shyamal Shrestha, two economists of this institute, have written an article forecasting and outlining the possible economic consequences for Nepal in the aftermath of the terrorist strike.



Small and medium enterprises (SMEs) play a big role in the economic development of any country. In spite of their potential to play an important role in the national economy, there exist a number of challenges in the path of their sustained growth. To sustain and expand in a knowledge-based business environment, SMEs need to utilize Information Technology. The new trends induced by developments in information and technologies (ITC) present immense prospects and challenges for Nepal. A workshop on the relevance of e-commerce for the promotion and sustainable growth of SMEs was recently organized in Brunei. Mr Shankar Aryal, Research Associate, participated in that workshop and presented a paper. This issue of Sambād carries an abridged version of the paper, which, we hope, will be of interest to our readers.



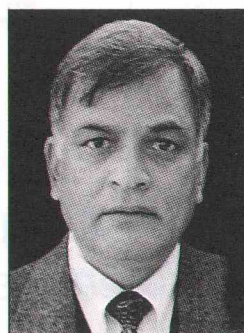
IIDS and HELVETAS have been implementing the SRDPP, an action research programme, in Nawalparasi district since January 1996. After three years of its implementation, the programme can be said to be successful. Formation of self-propelled IGGs after the handover of the programme to the communities and their interest to join the cooperative can be said to be two of the major indicators of the success of the programme. For the first time in the history of the SRDPP programme, the numbers of IGGs and participants have increased after programme handover.



IIDS has recently had a change in its executive head. Dr Dwarika Nath Dhungana, who was a teacher and an administrator, has taken over the prestigious post of Executive Director of this institute. We, the members of IIDS family, take pleasure in welcoming Dr Dhungel and wish him all success during his tenure at the Institute.

TRANSITION

Dr Dwarika N Dhungel Takes Over as Executive Director of IIDS



Dr D N Dhungel

Dr Dwarika Nath Dhungel has taken over as Executive Director of the Institute, effective 17 September 2001.

He replaced Dr Mohan Man Sainju, Executive Chairman of the Institute, who has relinquished his executive position but continues as Chairman of the Institute's Governing Board.

Dr Dhungel has done MA in Political Science from the

Tribhuvan University, Nepal, and PhD in Social Sciences from Nagpur University, India. He was also a Graduate Student, Department of Urban Studies and Planning, MIT, Massachusetts, USA, for 1984-85.

Dr Dhungel started his career in March 1968 as Lecturer in Political Science at Tri-chandra College, Kathmandu. He was also a lecturer in Political Science at the National College, Kathmandu, for three years. He entered government's administrative service in July 1970 as Training and Programme Officer, Training Section, Home and Panchayat Ministry. He continued in this post till December 1971. Thereafter, he has served various positions in the government, which include: Senior Instructor (Trainer), Panchayat Training Institute, Home and Panchayat Ministry; Under Secretary/In-charge, Local Resources Section, Home Panchayat Ministry; Chief District Officer, District Office, Darchula; Project Coordinator/Project Manager, Rasuwa-Nuwakot Integrated Development Project, Sagarmatha Integrated Rural Development Project, Ministry of Panchayat and Local Development; Joint Secretary/Division Chief, Coordination and Planning Division, Ministry of Panchayat and Local Development Ministry; Member Secretary, High level Administrative Reforms Commission; Permanent Secretary to the Ministry of Land Reforms and Management, Ministry of General Administration and Ministry of Water Resources. He quit the permanent job in June 1998 and became a freelance and social activist.

He has also participated in various taskforces and undertaken and completed various assignments as consultant/researcher.



Role of E-Commerce in the Development of Small and Medium Enterprises in Nepal

Small and medium enterprises (SMEs) have a big role to play in the economic development of both developing and developed countries. In spite of their potential to play an important role in the national economy, there exist a number of challenges in the path of their sustained growth. These challenges have become more acute due to the recent trends of globalization and economic liberalization, which, if not addressed properly, is likely to result in a situation where SMEs face the possibility of losing out to global players.

Many countries across the globe consider SMEs as an engine of growth in the evolving knowledge-based economies. In the Non-Aligned Movement (NAM) member countries, SMEs are also seen as a potential contributor to economic growth and prosperity of the country. To sustain and expand in a knowledge-based business environment, SMEs need to utilize Information Technology (IT). The new trends induced by developments in information and communication technologies (ITC) present immense prospects and challenges for Nepal. For SMEs, electronic commerce, or e-commerce as it is popularly known—one of the applications in the field of IT—is becoming an important avenue for expanding the market reach and competing with larger companies world wide.

SMEs in Nepal

In Nepal, the SME sector accounts for 98 per cent of the industrial establishments and provides 87 per cent of the total industrial employment in the country. The government of Nepal has realized the important role the SMEs can play in alleviating poverty and enhancing employment opportunities in the country. SMEs have the potential for utilizing local materials, in addition to being labour intensive and employment generating. Hence, development of SMEs seems to be necessary for accelerating the growth process and for alleviating poverty in the country.

Realizing the importance of SMEs in the economic development of the country, the government of Nepal has been emphasizing the promotion of SMEs for a long time. Although the process of development has been steady, it has been very slow, despite efforts from different organizations, including government and non-government sectors. Over the past few years, the number of small enterprises has been declining. Therefore, there is an urgent need to find out what has gone wrong with the development of SMEs in Nepal.

Critical Factors in SME Development

It is generally recognized that SMEs are facing unique problems, which has affected their growth and profitability and thus diminished their ability to effectively contribute to the process of sustainable development. These problems include lack of access to credit, inadequate managerial and technical skills, low level of education, poor market information, inhibitive regulatory environment and lack of access to technology. Many SME owners or managers lack managerial training and experience.

Information Technology in Nepal

Information Technology (IT) is a newly emerging area in the SME sector. Technology has been playing an increasingly important role in various facets of development. For a country like Nepal, the IT sector offers tremendous potentials as it is something that is not constrained by the landlocked nature of the country. With the availability of new technologies like VSAT and Internet, a company in a village in Nepal connected with electricity can compete equally with a company in Europe. Internet makes geographical and political boundaries ineffective.

Although recent years have seen a remarkable increase in awareness and application of IT resources, it has mainly been limited to private sector banks and financial institutions, NGOs and INGOs. The government and corporate sectors have yet to accept the use and application of IT on a large scale. There has been a remarkable increase in the number of personal computers and computer peripherals sold and installed in Nepal, especially after 1992. Of late, Nepal has seen emergence of Internet Service Providers (ISPs), which has resulted in increased use of Internet and worldwide webs.

E-Commerce and SMEs in Nepal

The computer and the Internet are creating a new economy. One of the main components of the Internet economy is e-commerce. E-commerce, broadly defined, is the process of using electronic methods and procedures to conduct all forms of business activities to achieve organizational goals. E-commerce uses different technologies and embraces a wide range of financial forms such as electronic banking, electronic trading, electronic data interchange, electronic mail (e-mail) and all forms of messages between enterprises. IT can bring unprecedented opportunities to the poorest person in the world.

As the role of SMEs is critical to the economic development of Nepal, it is important to create a conducive climate where the levels of productivity and competitiveness are continually upgraded. IT in general, and e-commerce in particular, are perceived as important tools in creating such an environment. However, their application in Nepalese SME sector poses big challenges. Even though e-commerce offers a good deal of prospects, the need to address the issues involved from national and international perspectives cannot be overlooked.

The number of Internet accounts in Nepal is estimated to be around 100,000, the majority of the users being within the Kathmandu Valley. Since the potential of e-commerce within and outside Nepal also depends on the number of users having access to the Internet, one of the priorities must obviously be on increasing this number. But this alone is not sufficient to guarantee the development of e-commerce in the country. The development of e-commerce is dependant on factors like the number of Internet users internationally who could have a *prima facie* interest in Nepal, quality and types of products and services offered by Nepalese companies, the skills and creativity employed in designing websites and the bandwidth available for users and service providers.

Key Issues in E-commerce in Strengthening SMEs

The development of e-commerce and its role in SMEs in the country depend on the following key factors:

Issues related to HRD

The effectiveness of SMEs largely depends on the performance of human resources employed by them. SMEs in Nepal are human-resource intensive. However, most SMEs are family owned and managed; decision-making is highly centralized; and lack professional management. HRD is the essence of performance improvement of SMEs in Nepal.

The government's attitude towards SMEs should change. Appropriate changes should be made in labour policies and laws. Training and development programmes offered by the government and educational institutions should be demand driven. They should effectively fulfil the HRD needs of SMEs. FNCCI, Chambers of Commerce and HMG should play a catalytic role in facilitating human resource development in SMEs. HMG should have a clear-cut policy and coordinate efforts for human resource development of SMEs.

Issues related to Strategic Alliances

Strategic Alliance (SA) practices in SMEs have been in existence in Nepal, primarily at the initiative of the private sector. This is mostly practised through informal communication and understanding. The policy and programme pursued in the SME sector did not emphasize elements

such as strategic affiliations and alliances, resource sharing, sub-contracting arrangements and ancillarization between bigger and organized units and SMEs. Handicraft industries, micro and cottage-scale enterprises and producer groups, and buying, marketing and supplying organizations have taken the lead in SA practices in Nepal for long.

Networking arrangements and tie-ups between the producers/importers and distributors in USA, Japan and Europe for woollen carpets, handicrafts, leather products, herbal products and readymade garments are some of the emerging examples of SA practices in Nepal. Strategic alliances and partnerships among government, non-government and private sector agencies are equally important for the development of SMEs in Nepal.

Issues related to Access to Information

SMEs in Nepal generally face more marketing problems. They are less informed about the present and potential markets for their products. They should, therefore, be provided with required marketing information. The SMEs themselves should also try and look for the required information. As the present linkages of SMEs with large domestic enterprises and multinational enterprises are very weak, the SMEs should try to increase such linkages. Small enterprises also face problems due to lack of infrastructure that is required to access market.

In recent years, many business enterprises have started using e-commerce as a tool in marketing strategy. The capability of large enterprises to use e-marketing is certainly greater than that of SMEs. The government must design a policy for e-commerce accordingly. The Nepalese SMEs should also try to reap benefits from this new innovation.

Issues related to Infrastructure

The basic and unifying infrastructure that enables Internet and e-commerce, namely telecommunication network, is still in short supply in Nepal. Operating through nearly 142 exchange offices, the NTC has been able to provide only 286,675 telephone connections, including mobile telephone connections. Even though recent years have seen extension of telecommunication services to 1,726 VDCs of seventy-five districts of Nepal, there is still a lot to be achieved in terms of quality and outreach. High communication tariffs, shortage of bandwidth and the poor quality of connection present a disappointing picture. E-commerce cannot be promoted in the absence of IT infrastructure. Efforts are needed to establish Internet in all seventy-five districts of the country.

Issues related to Policy and Legal Framework

The Nepalese customs levy relatively high rates of duty on the import of hardware. Because of this, SMEs cannot afford to procure computer equipment and Internet connectivity remains costly. This is a major issue in e-commerce.

merce. Government policies and legal frameworks are not conducive to the promotion of SMEs, most of which lack access to financial resources from banks and other financial institutions on flexible terms and conditions.

Unless there is legislation on cyber law, no buyer, financial institution or seller can be protected. For e-commerce to grow, we need laws and their effective implementation.

Though policies sound mature, they are not generally executed. The government is committed to reduce the customs duties under liberal policies, but it has not been able to do so due to heavy dependence on indirect taxes. Implementation problems owing to contradictory policy provisions have delayed and affected the smooth operation of VAT. Even if the government is committed to policy reforms, practical problems have inhibited proper implementation. Moreover, frequent change in government has delayed the implementation of even the Acts passed by the parliament. This has adversely affected the growth of SMEs.

IT Policy

The government has adopted an aggressive policy for the creation of a huge employment opportunity in the country through the development of IT and an investment-friendly IT policy. The main objective of the policy is to make IT accessible to the general public and increase employment through this means, to build a knowledge-based society and to establish knowledge-based industries. The policy also envisages a national IT centre whose job will be to act as a databank, computerize government offices, build websites for them and work as a regulator for the smooth functioning of this sector. The government seems to have understood the importance of promoting IT-enabled services. The recently-released IT policy has also opened point-to-point voice communication for the private sector without their having to affiliate to the public Switched Telephone Network. Some companies have started IT-enabled services like Geographic Information Service, call centres and medical transcription.

Realizing the need for support in IT, the government is planning to introduce an IT Bill, popularly known as cyber laws, in the parliament soon. The final draft of the Bill is ready. It mainly deals with digital signature verification and cyber crimes. In the absence of regulations on IT, e-commerce has suffered. As it involves electronic payment, the question of security is vital and so is the mechanism to punish the defaulters. Hopefully, the forthcoming bill will address these problems and pave the way for the progress of e-commerce in a big way.

Current Approaches of Nepalese SMEs to E-commerce

As far as Nepalese business sector and SMEs are concerned, barring a few isolated initiatives, the level of penetration by e-commerce, or e-trade, is almost non-existent.

Apart from isolated efforts undertaken by a few *pashmina* traders, the Handicrafts Association of Nepal has begun a vertical portal. More recently, a number of websites have emerged, seeking to use the Internet as a medium to sell goods and services both within and outside the country.

Possible Areas of E-commerce Application in Nepal

E-commerce is a new medium to promote sales. The quality of products and services continues to be the key element of success in this business. This could refer to the areas in which Nepal has a competitive advantage or can cash in on the *prima facie* interest that many people have in Nepal. SMEs stand to benefit a lot from e-trade. Nepal has tremendous potential for increased level of production in readymade garments, woollen carpets, *pashmina*, handicrafts for export. Digital products like Nepalese music, computer programming and other IT-related services, food products, spices and herbal products and hotel- and tourism-related services are the other potential areas for e-commerce business. The biodiversity of Nepal can help to grow high-value flowers like orchids and other cut and tissue flowers for international market.

Suggestions and Recommendations

Based on the above discussion, the following recommendations are suggested to utilize e-commerce for the development of SMEs:

- * The government should play a proactive role in creating the right environment for the promotion and development of e-commerce.
- * Issues such as the legal framework, access to capital and protection of intellectual property call for an active role for the government in promoting e-commerce.
- * Business-to-Business transactions should be encouraged, with emphasis on awareness raising. E-commerce should come as a benefit for SMEs.
- * Easy availability of telephone connections and Internet service at affordable rates and promotion of e-commerce and e-business need to be emphasized.
- * Help should be provided to knowledge-based industries.
- * Tele-centres should be established in rural and semi-urban areas to facilitate access to IT facilities and services as well as to introduce e-commerce facilities in the area.
- * Necessary steps to create a conducive environment for Foreign Direct Investment and Venture Capital initiatives should be taken.
- * Regulatory and legislative information should be made easily available locally.
- * Bureaucratic and political influences on implementation of policies need to be minimized, while the existing support services for entrepreneurship development need to be steadily developed.

THOUGHT PIECE

TERRORIST ATTACK ON THE USA

Implications for Nepalese Economy

SUMAN SHARMA & SHYAMAL SHRESTHA

The USA fell victim to an unprecedented terrorist strike on 11 September 2001, killing around 4,000 people. The USA retaliated by waging military attacks on Taliban-ruled Afghanistan--the hideout of the alleged mastermind behind the attacks, Osama bin Laden, and his Al Qaeda organization.

The world economy has been facing trouble since the 11 September incident. The World Trade Centre epitomized global trade and commerce; it was home to many of the largest companies, including insurance and banking companies. Global financial markets fear the economic consequences will take a toll throughout the globe. New York's Wall Street experienced a plunge after it reopened a week after the strike. The Dow Jones index fell, leading stock markets elsewhere to fall. Even prior to the events of September 11, the world was bordering on a recession. Although Europe has not been growing at its potential, it was only American economic growth, driven by consumer confidence which was keeping the global economy on track. But now it is feared that all this has been shaken up by the recent events, thereby leading to adverse economic consequences. Americans have yet to come to terms with the tragedy and airlines companies have reported losses due to a sharp decline in passenger travel. Layoffs in those industries have resulted in unemployment.

The humanitarian impact of the USA's 'war on terror' in Afghanistan could be tremendous. Millions of Afghan refugees are moving to neighbouring countries like Pakistan. In a country that has witnessed devastation due to foreign occupation and civil war for much of its modern and recent histories, an armed conflict would only exacerbate the crises that the country has been facing. Unlike previous conflicts that were waged between sovereign states, the war on terrorism would be difficult to sustain in the absence of a visible foe. The current crisis is likely, therefore, to affect peace, stability and development in the world in general and Asia in particular. Given the incidents, Nepal too has been caught in the war on terrorism. At this time when the world's attention is focused on the subcontinent, Nepal cannot escape the consequences this region will have to face. In this light, this paper describes the possible economic consequences for Nepal in the aftermath of the terrorist strikes.

Impact

Macro-economy and Tourism Industry

The Nepalese economy is characterized by an export sector that makes up for almost a quarter as a component of aggregate demand. In 1999, exports of goods and services amounted to 22 per cent of GDP. Therefore, a slowdown in export growth (arising from, among others, a shortfall in consumer spending) would affect national income growth. In Nepal's primarily subsistence economy, the organized sector is a vital source of growth and productivity. In recent years, services, including the travel and tourism industry, account for 50 per cent of the GDP. Given that GDP grew at an annual average rate of 14 per cent during 1990-99 with an annual average value added of 6 per cent during the same period, shocks to this sector spell trouble for the entire economy.

In the aftermath of the incident, mass cancellations by travellers all over the world could herald the worst crisis to hit global tourism. Airlines companies in the USA are bearing the brunt of the recent events as occupancy has fallen sharply. The American airlines industry has already slashed close to 100,000 jobs in anticipation of multibillion-dollar losses stemming from the terrorist attacks and low demand from travellers due to insecurity. This has been made worse by a number of other factors like fear of growing recession, suffering of stock markets and inevitable NATO-led military action on Afghanistan, thereby scaling back schedules. Bankruptcies in the travel and tourism business look likely.

Given this depressing global trend in tourism industry, the situation in Nepal has emerged as one that is badly wounded in the aftermath of the recent events in the USA. A general consensus prevails that, in the context of Nepal, the most adverse impact of this terrorist attack will be borne by the tourism industry. This is also being strongly substantiated by a number of factors. For instance, anticipated travel plans into the country are reflected in cancellations of airline bookings and hotel rooms. Industry experts estimate that the average dropout rate of tourists will be as high as 50 per cent. This is based on recent reports that bookings (airlines plus accommodation) that had been made prior to the attacks have been cancelled. Also, there is a possibility that visitors from other countries will also

Following the terrorist attack on the World Trader Centre, global financial markets fear the economic consequences will take a toll throughout the globe.

cancel their trips to our part of the world owing to uncertainty and fear of war, thereby further adversely impacting the tourism industry of Nepal.

Americans comprise 8 per cent of the total number of tourists who visited Nepal during 1999 and their spending brings revenue and foreign exchange. Nepal's tourism industry was already suffering from the past events like the December 1999 hijacking of an Indian Airlines plane from Kathmandu, tarnishing its security image and affecting tourism for almost a year. Domestic disturbances following the national tragedy (arising from the deaths of the royal family) in June 2001 have also eroded the nation's image. As tourist inflow targets become unmet, there is a domino effect on the entire economy. Losses of the tourism sector would also entail losses to banks and financial institutions, which provide funds to meet tourism demands. In a bid to cut costs by job cuts and layoffs, economic agents would lose opportunities for income generation.

Already, global insurance markets have increased premiums for airlines. Since 26 September 2001, there has been a rise in insurance premium (surcharge) by US\$1.25 per person per flight, a 0.05 per cent increase in haul insurance by insurance companies to aeroplane companies and a 0.25 per cent rise in insurance in the premium for light aeroplanes and helicopters. As costs rise, closure of loss-making companies as well as filing of bankruptcy claims by many others may be expected. Although governments in the USA, the EU and Indonesia have promised tax breaks and paying of surcharge to rescue such companies, the possibility of the government of Nepal, already burdened with loss-making airlines, is unlikely to incur additional costs in bailing them out.

Financial Sector

Post-11 September 2001, world financial markets have crashed. The Nepal Stock Exchange (NEPSE), on account of domestic disturbances and other factors during the past year, fell by 182 points from 422 in the last week of September 2000 to 280 exactly a year later. A rapid spurt in violent activities by the Maoists targeted towards industries, loss of investor confidence and withdrawal of some joint-venture foreign investments are incidents that could affect industrial growth. Immediately after the attacks, Nepal's stock market exhibited a further fall. For instance, during the week after the incident, the NEPSE slipped by over 11 points. Further, during that week, in terms of group-wise performance of the NEPSE trading floor, the index of commercial banking sector showed a considerable fall, followed by indexes for other sectors like manufacturing, insurance and finance. This

added to investors' hesitation to invest in shares following the government's recent decision to lower landholdings and the demand by opposition political parties for ceilings on property too. Nepal's stock market was already uncertain for investors mainly due to political and economic instability and the recent incidents made it worse. Investors, both existing and potential, do not seem to find much reason to be optimistic due to dwindling returns on investment on the one hand and increasing risks on the other. As no sign of recovery is visible yet, investors are inclined to dispose of their assets, thereby liquidating investment rather than maintaining optimism about the future.

As for the foreign exchange rate, the Nepalese rupee has been devalued frequently against the US dollar as the official selling rate stands at more than Rs76 per US dollar now. The major cause of such depreciation is the weakening of the Indian currency vis-à-vis the US dollar. As Nepal maintains fixed exchange rate with the Indian currency, any depreciation of the latter directly affects the domestic exchange rate with the greenback. During the first seven days after the US crisis, the value of the NC depreciated by one rupee. Considering the volatility of the Indian Currency (IC) against the dollar, NC was devalued a few times. Experts fear further devaluation of NC due to the instability of IC. In general, the depreciation of IC depends on the value of stocks in the Bombay stock market, which is further determined by the New York Stock Exchange (NYSE). Consequently, some experts believe that if NYSE tumbles, its ripples will be felt worldwide and the Mumbai stock market will be affected significantly, thereby further intensifying IC devaluation. Ultimately, NC will be forced to devalue against dollar.

However, not everyone believes that the depreciating effect on NC will be terrible. It is argued that as the Nepal Rastra Bank (NRB) has adequate foreign currency reserves at present, the government will not necessarily be forced to devalue NC each and every time IC falls. Also, there is another saving grace as Nepal's stock market is not directly linked with the global one, we need not fear the global stock market crash that much. This could mean that we could, to some extent, look at the NEPSE in isolation and work towards creating an appropriate environment [legislative and institutional] so that the market can withstand future disasters. The ideal scenario would be for market operations to exist with government being the regulator.

Exports

Nepal's narrow export basket comprises mainly primary goods and some manufactures. Carpets, garments and

pashmina shawls are the major export items to the USA, which, after Germany, is the second largest importer of handicrafts from Nepal. In 1997-98, Nepal's total volume of exports to the USA was equivalent to Rs716,375 thousand with readymade garments, carpet and handicrafts being the major items. Data indicate that, during the last several years, at least one-fourth of the total exports of Nepal was directed towards the USA; during 1999/2000, the USA's share in total exports was 26.5 per cent whereas imports from that country comprised 2 per cent of total imports. Thus, any loss in exports to the USA will have a significant downturn in the total exports of the country, affecting a prime source of employment, output and revenues. Carpet and garment industries employ thousands of people and their real wages would fall in the event of continuing shortfall in demand. It could also intensify urban poverty where most of these industries are based.

From the business sector, the Federation of Nepalese Chambers of Commerce and Industries formed a team to study the fallout of the possible conflict and request the government's support in preparing a rescue package to remedy the potential adverse impact on trade. Business experts believe that all this would slow down the productive efficiency of the business sector of Nepal, thereby reducing productivity gains. Further, the supply chain efficiencies that had been generated in a globalized system of production and improved communication, computational and transportation systems would also be hurt. Henceforth, transport systems like aviation and shipping will slow down due to strict security checks. This, in turn, would compel manufacturers to stock up inventory and if the situation continues or exacerbates, they would rethink of outsourcing the manufacture. Due to negative consequences on productivity gains, there is a possibility that disruption to the global production and delivery systems will occur. This, compounded by curtail on imports by the US, will lead to a downward spiral in the Nepalese context as well.

Foreign Aid

In the post-Cold War era, there was considerable optimism that resources arising from cutbacks in defence spending after the end of the arms race would be channelled towards development cooperation. There were hopes that the much talked-about 'peace dividend' would reflect in greater aid flow to developing countries. However, in the current scenario of intra-nation conflicts and new security challenges like global terrorism, resources could be re-routed in the provision of security needs (of the industrialized nations themselves) and defence cooperation. Thus, Overseas Development Assistance to poor overwhelmingly aid-dependent nations like Nepal could dwindle even further. The lifting of earlier sanctions imposed on India and Pakistan (since 1998) to support the military campaign in Af-

ghanistan, commitment of greater aid to Pakistan by the USA and the Bretton Woods institutions—the International Monetary Fund and the World Bank—is symbolic of this endeavour. Strategically vital nations in Central Asia are also being given liberal financial assistance. With shortfalls in the flow and level of external assistance, developing countries will be poised in a vulnerable position with regard to financing development so that the existing resources will have to be effectively utilized.

Postscript

By the end of December 2001, significant changes had occurred in the region's geopolitics as well as in world politics and economy. For instance, on the external front, NATO's military campaign in Afghanistan has resulted in the rout of the Taliban government which was in power since 1996 (although the prime suspect, Osama bin Laden, has not been found and brought to justice). After talks between representatives of Afghanistan's various ethnic groups and tribes, an interim government headed by Hamid Karzai was sworn in on December 21, 2001 at the Afghan capital, Kabul. The new administration has as its prime task the enormous responsibility of rebuilding the war-ravaged nation.

On the domestic front, a state of national emergency was imposed in Nepal on 26 November 2001 after the Maoists broke away from negotiations and attacked the army and other institutions of the state. The insurgents have now been declared as 'terrorists', their party banned and the Nepalese Government has deployed the Royal Nepalese Army for disarming them. Since the insurgency began six years ago, around 2,100 lives have been lost and it is feared that the death toll could rise further in the wake of current developments. In a recent estimate by the Asian Development Bank, Nepal's GDP grew by just 2.5 per cent (lowest during the past decade) during 2000-01. Slowdown in the industrial and services growth (mainly tourism) and increased violence in recent years have taken a toll on the economy. The Government has also purchased arms in its military operation against the Maoists terrorists. Securing additional resources from donors in view of the emergency is now a priority. Moreover, it is feared that development spending could be curtailed for meeting the nation's security needs. It is estimated that close to one-third of the development budget for the current fiscal year will be allocated to defence expenses. To spur growth, a recent monetary policy announcement of the NRB decided to lower the bank rate. An industrial security force is also being formed to safeguard industries.

(The above article, including data, is based on news reports, national and international.)

Dr Suman Sharma is Sr Research Associate and Shyamal Shrestha is Research Associate.

ACTION NOTES

SRDPP-NAWALPARASI

Increasing Outreach

IIDS has been implementing the Self-reliant Development of the Poor by the Poor (SRDPP), an action research programme, in Nawalparasi district since January 1996, with the financial support of HELVETAS.

The first batch of the programme was initiated in six VDCs in January 1996. The programme was handed over to the cooperatives established in each of the six VDCs during 1999. Since then, IIDS has limited its role to monitoring the activities of the cooperatives and providing necessary technical backstopping for their institutional development. The second batch programme was initiated in six new VDCs in January 1999 and the full-fledged implementation of the programme started in early 2000.

An update on the progress achieved in these VDCs is given below for each batch.

PROGRAMME IN FIRST BATCH VDCs

Even after the handover of the programme, the cooperatives have been increasing their coverage and outreach. The cooperatives have formed nine new IGGs. The total number of IGGs has now reached 47, up from 38 at the time of handover. The total number of IGG members has reached 771, of which 425 are female. This is the first time in the history of the SRDPP programme when the numbers of IGGs and the participants have increased after programme handover.

The increment in the number of IGGs and members has also helped to raise the number of shareholders in the cooperatives. However, the ratio of female shareholders to female IGG members is still very low compared to that for male shareholders. This shows that men have more opportunities to join the cooperatives than women. The citizenship certificate may be the reason behind. Citizenship certificate is a necessary requirement to become a shareholder of cooperative institutions whereas not all eligible women members have taken citizenship certificate.

A network of the six cooperatives has also been established. The cooperatives have developed linkages with members of parliament (MPs), DDC, VDC, District Agricul-

For the first time in the history of SRDPP programme, the numbers of IGGs and the participants have increased after the handover of the programme.

ture Office, District Cooperative Office, etc.

The SCCs are involved in various social and community development activities such as village cleaning, *Khutruke* (piggy bank) savings scheme

(which has become one of the most effective ways of savings generation).

PROGRAMME IN SECOND BATCH VDCs

There are sixty-one IGGs in the six VDCs. A total of 1,161 households from underprivileged and downtrodden communities are directly involved in self-reliant development efforts. The participation of women has now increased significantly once they understood the concept and importance of the programme.

With a view to developing a savings habit among the participating members, all the IGGs/SCCs under SRDPP-Nawalparasi were encouraged to open and operate their own bank accounts.

Excellent relationship has been established between the coordination committee in the six new programme VDCs and the VDCs concerned.

In general, the Nawalparasi programme can be said to be successful. Formation of self-propelled IGGs after the handover of the programme and their interest to join the cooperative are two of the major indicators of the success of the programme. However, to make the programme more effective, it is suggested that emphasis should be given to generation of internal resources. Similarly, the cooperatives must diversify their income-generating activities and the savings and credit component should focus on market-driven activities. It is equally necessary to develop second tier leadership. Furthermore, as the programme aims to make the poor self-reliant, the participating IGG/SCC members should be made responsible for the overall execution of the programme instead of the motivator shouldering all the responsibilities. Last but not the least, the relationship between the various programme units such as IGG/CC/SCC and the VDC and the DCC needs to be formalized so that the latter bodies can consider the SRDPP programme while developing their annual plan of action. ❖

GENDER AND DEVELOPMENT

INSTITUTIONAL DEVELOPMENT OF PCRW GROUPS
Improving Women's Status

IIDS, with the financial support of the United Nations Children's Fund (UNICEF), Eastern Region Field Office (ER-FO), has been working for developing the institutional capabilities of the federations formed under the Production Credit for Rural Women (PCRW) programme in five districts of the Eastern Development Region, viz Udayapur, Saptari, Sunsari, Ilam and Jhapa. The project, entitled 'Institutional Development of PCRW Federated Groups with Advocacy Capacity Building in Eastern Development Region', was implemented in fourteen VDCs of the five districts for one year effective October 2000. The main objective of the programme was to strengthen the capabilities of the women members of the PCRW programme to establish grass roots institutions and to undertake women and child development activities.

The programme has helped the participating PCRW federated groups and their members to identify their advocacy needs and possible solutions for improving women's socio-economic conditions and position; understand the importance of the parenting role for child development; and

the importance of institutional development of women's organizations. The federation members carried out various activities such as awareness-raising campaigns, street drama and other cultural programmes, development of linkages with different development agencies, advocacy actions against pertinent issues, etc.

The institutional support has helped the women members to enhance their access to economic opportunities and resources; increase their decision-making ability; build up the capacity of women to advocate for their rights; equip them with advocacy skills; and sensitize the male members of the community towards their parenting role. The participating women have registered the federated groups under the Cooperative Act and have established cooperative institutions. The women have become able to identify different advocacy issues relevant to their lives as well as their solutions. They feel confident to undertake community development activities with greater participation.



STAFF PARTICIPATION/
HUMAN RESOURCE DEVELOPMENT

TRAINING

Environment Impact Assessment

Ms Sabita Shrestha, Research Associate, participated in a one-month training in Environment Impact Assessment (EIA), organized by the School of Environmental Management and Sustainable Development from 19 September 2001 to 19 October 2001. The aim of the training is to impart to the participants both theoretical and practical knowledge of EIA. The training covered topics such as the key environmental concept, evolution, principles and processes of EIA, project screening and Initial Environmental Examination (IEE), preparation of a terms of reference, baseline data collection in the context of EIA, scoping of project, environmental management plan, environmental auditing and so forth.

GDN 01: Blending Local and Global Knowledge

GDN 2001, the Third Annual Global Development Conference was organized at Rio de Janeiro, Brazil, on 9-12 December 2001. The theme for this year was 'Blending Local and Global Knowledge'.

GDN 2001 explored ways of blending local and global knowledge in pursuit of development. The conference had two tracks: research and business. In the research track, which included four plenaries, world-renowned leaders from government, policy institutes and academia addressed key challenges facing the development community. The business track focused on GDN's future work programme. Complementing the research and business tracks, a Knowledge Fair was organized.

Dr Yuvaraj Khatriwada, Dr Suman Sharma and Mr Aswosthama Pokhrel from IIDS participated in the conference.

ONGOING STUDIES

World Governance Survey

The United Nations University (UNU), in partnership with local institutions in more than forty countries, conducted the World Governance Survey (WGS). Nepal is one of the countries that participated in that survey. IIDS undertook the survey work as a local partner institute.

The goal of the survey was to have better understanding of the aspects of governance that matter most and to provide more informed policy advice to public at large. The survey covered the various dimensions of the governance situation in the country for the years 1995 and 2000 and is based on interviews with persons belonging to different walks of life such as academics, judges and lawyers, high-ranking civil servants, entrepreneurs, policy advisors, journalists and others knowledgeable in the field.

Dr Dwarika N Dhungel has prepared a country report of Nepal on the basis of the results of the survey. He was assisted by Mr Shankar Aryal, Research Associate.



Impact Study of Agriculture and Livestock Programme in Gulmi District

The Gulmi-Arghakhanchi Rural Development Project (GARDP II) has entrusted IIDS the responsibility to carry out a study, 'Impact Study of Agricultural and Livestock Programmes of Gulmi-Arghakhanchi Rural Development Project in Gulmi District'. The study will evaluate different agricultural and livestock sub-projects conducted in Gulmi District by GARDP II, especially a general review of the implementation status of the agricultural and livestock initiatives of GARDP to examine output and efficiency at the field level.

The one-month study started in September 2001. The study team comprises Mr Jagadish Gautam and Mr Kali Bahadur Shrestha.



Background Document for Tenth Plan

At the invitation of the Alternative Energy Promotion Centre, Energy Sector Assistance Programme, IIDS has submitted a concept paper, Issues in Strengthening and Enhancing People's Participation (including gender issues) in AET Development and Issues in Integrating AET in Rural Development, to the Centre.

The concept paper has been prepared in connection with the Tenth Five-Year Plan.

It was been prepared by Mr Shyam Prasad Adhikari.

Population, Gender Advocacy and Development

IIDS is undertaking a study, Component Project Document on Population, Gender Advocacy and Development' under the project, Strengthening the Capacity of Nodal Agencies for Integration, Coordination and Gender-sensitive Population and Development Policies and Programmes and Advocacy for Gender Equity, Equality and Empowerment. The study is being funded by the UNFPA.

The study will provide a Component Project Document 'according to and consistent with the already available PDS subprogramme logframe' and will include two sub-components, policy and coordination and advocacy.

UNFPA, in close consultation with HMG/Nepal line agencies, is currently developing the 5th country programme for 2002-2006. The development made in the line includes the draft 5th Country Programme, Reproductive Health sub-Programme and Population and Development sub-Programme.



Status and Dimension of Trafficking within Nepal

UNIFEM-Nepal has assigned IIDS to conduct a research study, 'Status and Dimension of Trafficking within Nepal'.

The study will be conducted in two phases. The objective of the first phase is to prepare an inventory on the status and dimensions of trafficking in women and children. In this phase, the study will, among others, provide detailed profiles of NGOs, bilateral, multilateral, donor agencies and INGOs working towards combating trafficking; document the initiatives that are being undertaken by different organizations and agencies to combat trafficking; and review and analyze the government's responses to the issue in terms of plans and policies, laws and their enforcement, rehabilitation and reintegration, treaties and conventions signed and other efforts to combat trafficking.

On the other hand, the objective of the second phase is to review, analyze and identify the gaps at the policy, programme and implementation levels. This phase will, among other tasks, review and analyze the gaps between policies, programmes and implementation strategies; identify the gaps in the method of information collection; and make recommendation to fill the gaps between policies, programmes and effective implementation.

The yearlong study will be completed in December 2001.

The study team has Dr Meena Acharya as Advisor Ms Bindu Gautam as Principal Investigator and Ms Sabita Shrestha, Ms Muna Nepal, Ms Nina Dhital, Ms Bijaya Shrestha, Ms Binita Rijal and Ms Jyotsna Maskay as members.

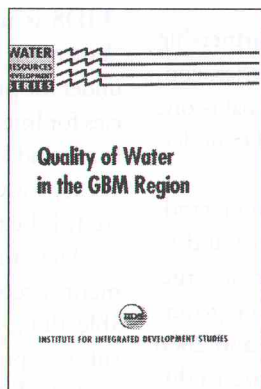


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