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NEPAL COMPETITIVENESS INDEX

NIPoRe and ACI Launch Provincial Competitiveness Report

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Nepal Institute of Policy Research (NIPoRe) and Asia Competitiveness Institute (ACI) launched the Nepal Competitiveness Index 2022 report in Kathmandu on July 5. The report was launched by the Governor of the Central Bank, Mr Maha Prasad Adhikari. In his remarks, Mr Adhikari praised the NIPoRe team for the successful publication of the report. He mentioned that reports such as this are of great importance as they provide additional inputs and provide grassroots data analysis for formulating policies. Dr Swarnim Waglé, an advisor for the project, sent his

congratulatory remarks through a video message. The provincial competitiveness report is the first of its kind to be launched in Nepal. It measures the competitiveness among the seven provinces of Nepal in different aspects of economic, governance, social, education, and health, making a total of 64 indicators. The report has identified places of policy interventions, quantified measures of competitiveness, and justified logical arguments made to serve the betterment of the provinces.

A panel discussion was also hosted after the presentation of the report's findings that revolved around different stakeholders and their views on competitiveness. The panel included Dr Biswas Gauchan, Director of Institute for Integrated Development Studies (IIDS), Dr Ammu George, Research Fellow at Asia Competitive Institute, Mr Rohit Gupta, Vice- President of Confederation of Nepalese Industries (CNI), and Ms Barsha Shrestha, Business Head of ICRA Nepal. Mr Jaya Jung Mahat, the founding director of NIPoRe, moderated the session. Dr George pointed out the significant role local think tanks play in getting information about the provincial level in Nepal. Mr Gupta mentioned that while Nepal is more open to FDI currently, the country has still not been able to take advantage of the decentralised system.

The event was followed by a meeting at the Pokhara Provincial Office of Chief Minister and Council of Ministers with the Chief Secretary Mr Rabi Lal Pantha, who was joined by the Secretary of Finance, and Mr Basanta Tiwari, an undersecretary at the Gandaki Province's Ministry of Finance, on July 7. The short meeting successfully presented the findings of the report with more focus on Gandaki. The report was well received by the Chief Secretary, who commended a job well done and provided additional feedback on what could be included in further iterations of the report. The province has been trying to generate provincial-level data and publish it through various reports, such as the provincial economic survey. The NIPoRe team will likewise be visiting all the other provinces to present the key province-specific findings of the report this month. These kinds of reports help guide policy interventions at the provincial level and will act as a baseline for the provinces to measure their competitiveness.

Executive Summary of Nepal Competitiveness Index 2022 reports that Nepal has witnessed major political and economic events during the past two decades. The governance system has transitioned from a monarchy to a republic and then to a federal structure. In addition, the 2015 Gorkha Earthquake and the ongoing COVID-19 pandemic further altered the country's overall course of policy priorities.

After centuries of a centralised governance system, Nepal adopted a new constitution in 2015 that paved the way for the country to go towards federalism. The prime aim of Nepal's decentralised system of governance has been to govern the economy better while also decentralising economic activities across the country. Two years later, after the 2017 elections, the country formally began practising federalism, with the country divided into seven provinces and 753 local units.

In the light of these recent developments, the Nepal Institute for Policy Research (NIPoRe) and the Asia Competitiveness Institute (ACI) at the Lee Kuan Yew School of Public Policy (LKYSPP), National University of Singapore, have undertaken this study to support key policy stakeholders in Nepal and other countries. The report aims to guide Nepal's current and future economic policies at the provincial and federal levels.

The inaugural issue of the Nepal Competitiveness Index (NCI) takes into consideration 64 indicators across four environments (i. Macroeconomic Stability ii. Government and Institutional Setting iii. Financial, Businesses, and Manpower Conditions and iv. Quality of Life and Infrastructure Development) and 11 sub-environments to assess the performance of Nepal's seven provinces across major economic parameters.

The major findings from our analysis are both obvious and surprising. Obvious because as Nepal began its federal system of governance in 2017, the findings alluded to the larger history of its centralised governance mechanisms. Bagmati has been the most competitive province across both overall competitiveness and environment-wise competitiveness. In terms of overall competitiveness, the provinces that followed Bagmati are, in order, Lumbini, Province 1, Gandaki, Madhesh, Sudurpaschim, and Karnali. Sudurpaschim and Karnali had previously been largely ignored by the central governments and thus remained the least competitive provinces in the current analysis. Interestingly, in 2019, Sudurpaschim managed to increase one rank and reach the fifth position in terms of overall competitiveness. The findings were surprising in some aspects as Madhesh, which should be the industrial hub of the country, does rank second in 2019 in terms of GSDP, primary industry, secondary industry, and tertiary industry, but ranks last in terms of the presence of companies, government revenue, tax revenue, bank credit, bank deposits, and overall labour productivity.

While Bagmati leads the rest of the provinces by a large margin across all the indicators and environments, the disparities among the provinces are found to be narrowing down. The current study attributes an increase in access to finance, better budgetary support, and increasing investments in infrastructure development across all provinces in recent years for these positive developments. Still, the least competitive provinces continue to

suffer from weak revenue sources, limited presence of private, public, and foreign companies, low wages and salaries, and a smaller number of educational institutions.

COVID-19 played a damaging role in the competitiveness of all the provinces. To help policy stakeholders better contextualise NCI findings, the current analysis also incorporates the disproportionate effects of the pandemic on seven provinces' current and future competitiveness across key relevant indicators. NIPoRe and ACI plan to update NCI analysis as new data become available in the future. With this, the policy stakeholders in Nepal and outside will be able to follow the most updated analysis on contemporary economic issues at the provincial level for more intense and realistic evidence-based policymaking in the country.