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**PAPERS, ABSTRACTS AND PROCEEDINGS**

**OF**

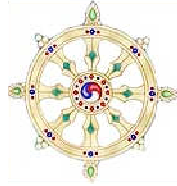
**The Third Annual Himalayan Policy Research Conference**

**Madison, Wisconsin, October 16, 2008**

**Nepal Study Center  
The University of New Mexico**

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OF  
The Third Annual  
Himalayan Policy Research Conference

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### **Session 3B: Public Institution Reforms**

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Satis Devkota, Wayne State University  
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**Session 4B: Poverty, Food Security and Infrastructure**

Chair: Joel Heinen, Florida International University  
Discussants: Ben Briese, Saint John's University  
Uddhab Bhandary, University of Colorado at Boulder  
Steven Archambault, University of New Mexico

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## **Welcome Note from Editors**

On behalf of the editorial board of the *Himalayan Journal of Development and Democracy (HJDD)* and the Conference organizing committee, I would like to thank all the participants at the Third Annual Himalayan Policy Research Conference held at the venue of the University of Wisconsin's 36th Annual South Asian Conference.

Nepal Study Center (NSC) was established at the University of New Mexico four years ago with an objective to promote policy research activities related to Nepal, the Himalayan region, and the countries in South Asia. We remain dedicated to creating platforms to enhance knowledge sharing, particularly in the areas of development, democracy, conflict and the environment. Among its other prominent activities, NSC publishes two e-journals (*Himalayan Journal of Development and Democracy* and *Liberal Democracy Nepal Bulletin*), organizes an annual Himalayan Policy Research Conference (HPRC), and maintains an electronic repository to allow scholars to upload, store, and disseminate policy research.

Our inaugural HPRC in 2006 was ambitious in ensuring a significant convergence of researchers working on policy relevant issues on Nepal and South Asia. That foundation work led to further success in 2007 while the third and most recent HPRC held in 2008 has made our annual event even more durable. We hope that these conferences, together with research activities performed at NSC and by its research affiliates, will facilitate the creation of an Association for Himalayan Policy Research within the next few years.

*Association for Himalayan Policy Research:* Through its activities, NSC aims to create a global network of scholars, professionals, and policy practitioners interested in the development of Nepal and the Himalayan region. This should culminate in the formation of an Association for Himalayan Policy Research soon in the future. Journal publications and the Himalayan-focused conferences at the University of Wisconsin are important elements of the support needed to sustain such a network and association. Appreciating these activities, many scholars from North America, Europe, the Far East, Australia, and Nepal are joining this network.



We are grateful to the University of Wisconsin's 36th Annual South Asian Conference for giving us the pre-conference venue. We are also thankful to those who have, as listed in the acknowledgement section, provided financial support to conduct this conference. We appreciate the help from the staff and graduate students of the Department of Economics, UNM, and the goodwill and support of many friends of NSC. Finally, we would like to thank our guest editors Vijaya R Sharma, Gyan Pradhan, and Jeffrey Drope for their help in preparing this issue of *HJDD*.

NSC has had some successes in undertaking some endeavors. It was successful in organizing an official UNM visit by the Kathmandu Vice Chancellor Dr. Suresh R. Sharma and Professor Subas KC (Dean of School of Management) in April of 2008. NSC has also put together a Himalayan Study Abroad Program in collaboration with Kathmandu University as a summer program. The aim of this program is to study various aspects of the Bagmati River. In addition, UNM students plan to implement some sustainable development programs in a model village near the Lalitpur District. Most exciting part has been the establishment of a branch office of the UNM's NSC at KU. We will keep you posted about these developments.

Sincerely,



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Alok K. Bohara, PhD  
Editor, HJDD  
Professor, Department of Economics, University of New Mexico

## **Acknowledgement**

The Nepal Study Center and the Conference organizing committee acknowledge the financial contribution made by the following individuals and organizations:

Ambika Adhikari, Gaury Adhikary, Alok K. Bohara, Dharmendra Dhakal, Girija Gautam, Gyan Pradhan, Vijaya Sharma, Rajendra Shrestha, Samantha Thapa, Mukti Upadhya, Kamal Upadhyaya, and UNM College of Arts and Sciences.

NSC would also like to thank Maria Daw (Department of Economics), Prakash Adhikari (graduate student), and Bishal KC (IT advisor) for their help. Special thanks go to Vijaya R. Sharma, for putting together the program outline and, with the help of Jeffrey Drope and Mukti Upadhyay for abstract compilation and evaluations. Mukti Upadhyay helped organize the refreshment and venue setup, and James Timberlake and Prakash Adhikari handled registration at the Conference.

Above all, NSC is grateful to all the participants, and especially those coming from outside the US, for making the event highly successful.

**PAPERS AND ABSTRACTS**

## **Conflict Resolution and Democratic Transitions**

### **Political conflict and migration: How has violence and political instability affected migration patterns in Nepal?**

**Nathalie Williams and Meeta S. Pradhan**

University of Michigan

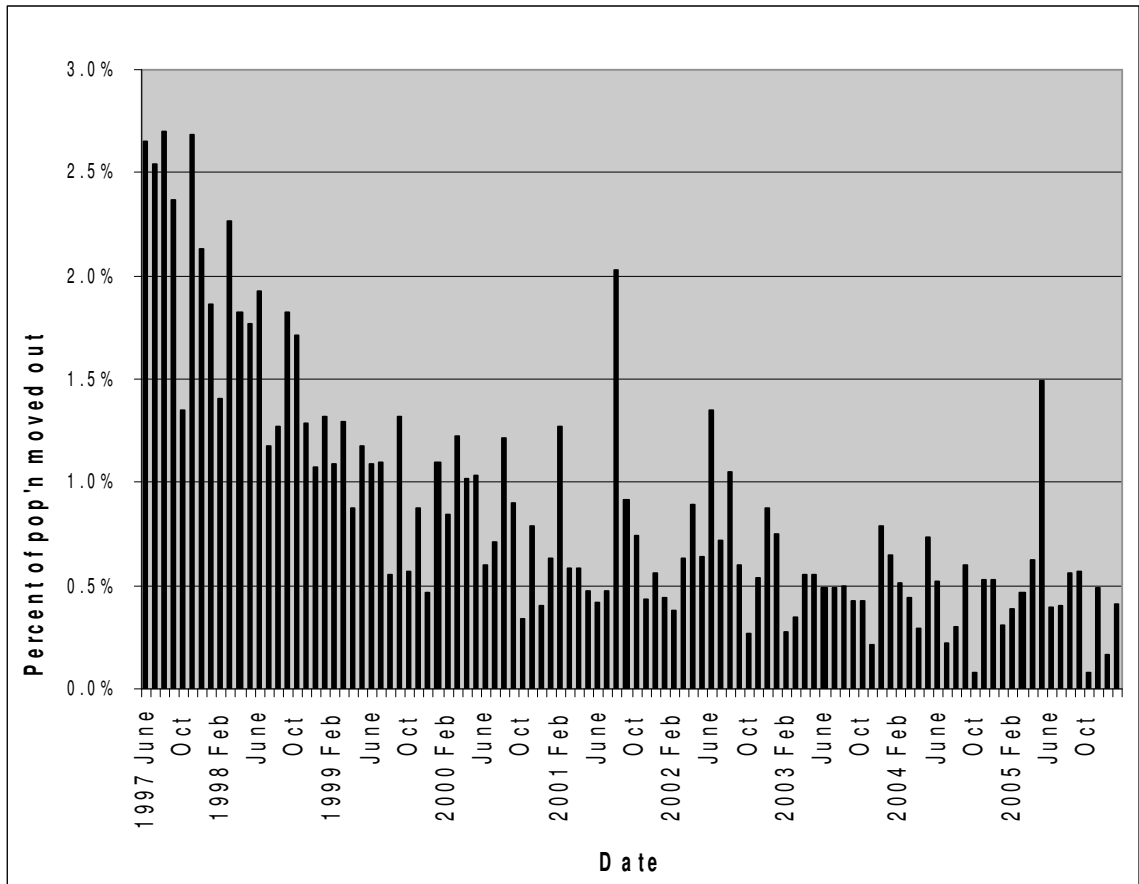
This paper is a study of migration during a period of violent political conflict in Nepal. Past studies of conflict-induced migration have generally treated conflict as a homogenous event and focused largely on the violent aspects of conflict. In this study, we examine how specific political and violent events, as well as the general context of conflict, affect migration on a monthly basis. Violent events, such as bomb blasts, gun battles, and abductions can instigate people to migrate in response to perceived physical threat in the future and disruptions in social and economic life. Alternately, political events, such as strikes and protests, government instability, and ceasefires can instigate people to migrate in response to the perceived instability and vulnerability of the weakening political order and government control, apart from its effect on their livelihoods. Preliminary results from our event history models that are based on data from Chitwan District indicate that individuals are more likely to migrate in response to gun battles and less likely to migrate in response to the less threatening events of bomb blasts and the general context of the conflict. In addition, we find higher rates of migration following events signaling government instability and during the state of emergency periods. Table and figure with preliminary results are presented below.

Table 1: Logistic Regression Estimates of Discrete-Time Hazard Models of Out-Migration from Chitwan Valley Study Area

| <b>Variable</b>                 | <b>Odds Ratio</b> | <b>Z-ratio</b> |
|---------------------------------|-------------------|----------------|
| <b>Violent Event</b>            |                   |                |
| Major Gun Battles (# per month) | 1.11 *            | (1.909)        |
| Bomb Blasts (# per month)       | 0.96 *            | (1.933)        |
| Abductions (#/10 per month)     | 1.00              | (0.430)        |
| During War (0,1)                | 0.52 ***          | (8.945)        |
| <b>Political Events</b>         |                   |                |
| State of Emergencies (0,1)      | 1.25 *            | (2.166)        |
| Political Instability (0,1)     | 1.44 ***          | (3.488)        |
| Strikes and Protests (0,1)      | 0.93              | (0.408)        |

|  |           |         |
|--|-----------|---------|
| <b>Control Variables</b>   |           |         |
| Gender (female)  | 0.83 **   | (3.084) |
| <b>Age</b>   |           |         |
| 18-20 years old  | 0.84      | (1.225) |
| 21-25 years old  | 0.90 ***  | (3.913) |
| 26-30 years old  | 0.93 ***  | (3.191) |
| 31-40 years old  | 0.94 ***  | (5.297) |
| 41-50 years old  | 1.02 *    | (1.749) |
| 51 + years old   | 1.00      | (0.040) |
| <b>Marital Status</b>  |           |         |
| Never married  | 0.79 **   | (2.369) |
| Married, living with spouse  | reference |         |
| Married, not living with spouse  | 1.35 ***  | (4.147) |
| Divorced, separated, or widowed  | 1.48 ***  | (3.440) |
| Have any children (in 1996)  | 0.61 ***  | (6.089) |
| Educational Attainment (in 1996)   | 1.04 ***  | (6.039) |
| Working wage or salary job (in 1996)   | 1.06      | (1.186) |
| Own any land (in 1996)   | 0.53 ***  | (8.117) |
| Ever migrated (by 1996)  | 1.71 ***  | (9.706) |
| <b>Caste/Ethnicity</b>   |           |         |
| Upper Caste Hindu  | Reference |         |
| Lower Caste Hindu  | 0.99      | (0.091) |
| Hill Tibeto-Burmese  | 1.25 ***  | (3.304) |
| Terai Tibeto-Burmese   | 0.77 ***  | (3.749) |
| Newar  | 0.79 *    | (2.261) |
| <b>Months of the year</b>  |           |         |
| January  | 0.95      | (0.304) |
| February   | 0.84 ^    | (1.452) |
| March  | 1.01      | (0.093) |
| April  | 0.84 ^    | (1.457) |
| May  | 1.05      | (0.450) |
| June   | Reference |         |
| July   | 0.94      | (0.573) |
| August   | 1.17 ^    | (1.546) |
| September  | 1.19 *    | (1.690) |
| October  | 0.75 **   | (2.415) |
| November   | 1.03      | (0.243) |
| December   | 0.89      | (1.035) |
| No. of person-months   | 181,398   |         |
| -2 log likelihood  | 19,193    |         |
| Note: Estimates are presented as odds ratios. Z-statistics are given in parentheses. |           |         |
| ^ p<.10 *p<.05 **p<.01 ***p<.001   |           |         |

Figure 1: Monthly Rates of Out-migration from Chitwan Valley Study Area (1997-2005).



**Nepal's democratic transition and the rule of law: Will the judiciary stay on probation?**

**Pramod K. Kantha**\*

Wright State University

As Nepal's Constituent Assembly (CA) goes to work on drafting a new constitution, the role it assigns to the country's judiciary will be critical to establishing the rule of law and constitutionalism, the bedrocks of a modern democracy. The relationship between Nepal's judicial and political leaders remains strained. The political leaders allege that the judiciary failed to fulfill its constitutional obligations to defend the country's 1990 constitution against transgressions by the former King Gyanendra, by refusing to consider any of the challenges to the royal move brought to the court's door steps. Under the 1990 constitution, Nepal's judiciary had the power of judicial review. As the USAID report indicates, the 1990 Constitution was well respected by the people (USAID 2002: 163).

In my interviews in Kathmandu, people often mentioned the judiciary's failure to uphold the 1990 constitution as the reason for backlash against the judiciary. I talked to four members of the Legislative-Parliament in December. All of them indicated that the politicians had a deep distrust of the judiciary and wanted to exercise effective control over it. Dr. Banshidhar Jha's remark that during the transitional phase the politicians wanted to leave "nothing beyond the political arena," echoed the feelings of his other colleagues.<sup>†</sup> Since their ascendance to power following the successful popular movement of April 2006, Nepal's political leaders have insulated against the judiciary by keeping the acts of Interim Parliament beyond the power of judicial review. Furthermore, under the Interim Constitution, the incumbent judges were made to take a fresh oath of office. The judicial leaders also resented a new provision of parliamentary hearings for new appointment to High Court judges, a practice not typical of parliamentary systems. The Communist Party of Nepal, Maoists (CPN-M) has been openly scornful of Nepal's judicial system; they ran their own courts in areas that they controlled during

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\* I thank Research Council, Wright State University and the Department of Political Science for their support for field study in Nepal during November-December 2007.

<sup>†</sup> Members I talked to were Bimlendra Nidhi ( General Secretary of NC-D); Dr. Banshidhar Jha (UML); Chitra Lekha Yadav (Deputy Speaker, NC-D); and Harihar Dahal (NC and also a member of Interim Constitution Drafting Committee).

almost a decade long insurgency. The Maoists hold the largest number of seats in the CA and currently lead the coalition government. How are these developments likely to influence the role that the judiciary is assigned under the new constitution? How likely is it that the new political leaders will coalesce to restrain the judiciary to avoid judicial scrutiny of their acts? Will the Maoists seek to refashion Nepal's judiciary as a promoter and defender of its revolutionary ideology? Will Nepali politicians view a commitment to an independent judiciary as an asset or a liability?

My paper answers some of these questions by drawing on more than twenty interviews conducted during a two-week long field work in Kathmandu in December 2007 with the members of Nepal's legal community (lawyers, judges, judicial officials, and politicians) on their perception of the past, present and future role of judiciary. Each interview was conducted separately. Individuals were asked to respond to ten open-ended questions pertaining to their perceptions of the role of judiciary in the governing process, the state of the rule of law, political context, executive interference in the judiciary, popular perception of the judiciary, and variation in the attitude of major political stakeholders towards the judiciary.

*The broader context of judicial reform:* My paper drew on literature on judicial reforms in emerging democracies to relate Nepal's case to the broader contexts. In view of Nepal's long history of centralized/autocratic governance and the leading role of popular movements in the democratic transformation, studies of democracies in the post-communist societies appeared especially relevant to Nepali case. For example, in her case studies of Bulgaria, Hungary and Poland Meghalhaes (1999) has reached two very insightful conclusions. One, in an environment of political uncertainty political stakeholders favor full insulation of judiciaries against future majorities. Two, the balance of power between the actors becomes important to the stability of judicial institutions well after the transition to democracy and the establishment of political institutions. Her studies underline the political context of judicial reforms by observing that the major political stakeholders while crafting the judiciary seek to "maximize the congruence of the judiciary with their interests and its responsiveness to their priorities" (p. 43). Meghalhes's findings have been corroborated by other studies summarized by Trochev (2004). He reports a study by Thomas Ginsburg comparing the politics of creating constitutional courts in Taiwan, Korea, and Mongolia; the study concludes that politicians afraid of electoral loss favored a strong and



independent judiciary “to protect themselves from the tyranny of election-winners in the future” (p. 514). The following quote from this study further illuminates this point:

*Weak political parties or several deadlocked ones are likely to produce powerful, independent, and accessible judicial review. Strong dominant political actors are likely to design limited judicial review with restricted access. Similarly, by drawing on the 220-year history of state supreme courts in the United States, Epstein and Knight (2003) theorize that when political uncertainty is high, constitution makers are less likely to constrain judicial review bodies. Constitutional courts, then, protect political minorities by providing them with a forum to obstruct majoritarian decisionmaking (Trochev, 2004: 514).*

Studies of democratic transitions in Latin America highlight the inadequacy of government agencies alone in advancing the tradition of rule of law in new democracies. Stotzky (2004)’s finding that “the failure to follow the rule of law by government agents validates the failure of the people to believe in, live by and endorse it,” mirrors the reality in many developing nations (p. 114). Even more important is Stotzky remedy: “broad popular participation in governmental decision making and its consequent actions led by strong participative and ideologically committed political parties and parliamentary bodies” as a means to secure greater adherence to a rule by what he calls “universal and impersonal principles” (p. 116).

Pereira (2003)’s study on judicial reform concludes that “judicial reform may be more likely to succeed where the prior authoritarian regime was both repressive and legalistic, as in Chile, Poland, and South Africa, than where high degrees of repression were applied largely extrajudicially, as in Argentina, Cambodia, and Guatemala, or where the authoritarian regime was legalistic but not highly repressive, as in Brazil, Mexico, and the Philippines” (p. 3). Finally, O’Donnell (2000) raises a fundamental and under studied question: Is it possible for a democratic rule of law to be implanted first in the sphere of politics and legislation and to spread from there into society and into the hearts of the citizens?

This brief review of literature paints a mixed picture. The odds against establishing the rule of law and a system of constitutional governance in new democracies are simply too many. Yet, political developments in many emerging democracies do produce forces of positive change like intense political competition and growing

popular/sectoral participation. Both factors point to the changing landscape of democratic politics. Because the leaders have failed to show accountability and maturity, the people are increasingly taking control.

*The past, present and the future of Nepali judiciary:* The above findings do speak very well to the Nepali situation. Just like Stotzky's cases in Latin America, Nepal's transition confronts the odds of an authoritarian and abusive past. Emerging from more than three decades of rampant corruption and repression under the restrictive royal regime followed by a decade of massive violence and bloodshed caused by both the insurgent Maoists and the security forces, the people of Nepal have lost faith in government. During the period of insurgency (1996-2005), Nepal's judiciary along with other branches of government ceased to function in large parts of the country controlled by the Maoists. The Maoists entry into the government has not stopped its Youth Communist League (YCL)'s involvement in acts of extortion and violence. The CPN-M has drawn condemnation for the recent murder of a businessman by its cadres. In the meantime, Nepal's Terai region, the country's breadbasket, has descended into lawlessness and anarchy as a result of regional uprising against the government in 2007 and the rise of many armed groups involved in extortion, intimidation and killings. Resort to such extrajudicial violence, as noted by Pereira's study, raises further complications for a successful transition to a regime based on the rule of law.

The record of Nepal's judiciary is equally to blame. Dispute resolution, judicial review, administration of criminal justice and rights protection are the four major functions of a judiciary (J. L. Waltman cited in Domingo 2004: 107). The performance of Nepal's courts leaves a lot to be desired in all these areas. Corruption in the judiciary is rampant. In September 2008, the President of Nepal Bar Association was banned by the highest court from legal practice for saying that for lack of effective system of accountability, the "position of judge becomes like a license for corruption" (nepalnews.com, September 18, 2008). The delay in the delivery of justice is phenomenal. In 2006, ReMac (2007) reported more than 59,000 pending cases in Nepali courts (p. 117-119). The court, of course, has been accused of timidity in confronting transgression of the constitution by the late king: two Chief Justices, Hari Prasad Sharma and Dilip Paudel, who served during the King's direct rule between February 2005 and April 2006, refused to hear any challenge to the King's usurpation of power.

Moving forward, Nepal's current political milieu does contain some positive forces that could potentially strengthen the case for an independent judiciary and judicial reforms. Even the critics of Nepal's courts have been appreciative of the court's stand in defending human rights and press freedom, undoubtedly the bright sides of Nepal's judiciary. For example, in December 2005 the authorities refused to obey a court order on a habeas corpus petition for hours; once they complied, the police lurked around the court for hours to re-arrest the detainee whom the court had ordered released. The person could evade arrest only with the help of human rights lawyers and activists, including the Office of the High Commission for Human Rights in Nepal (Kantipuronline, December 4, 2005). The Court also came to the defense of the media against the government's draconian measures. In the high profile case of Kantipur F. M., the court took on the government and ordered it to restore the broadcast's license and equipment, making Brad Adams, the Asia Director of Human Rights Watches, to remark that the judiciary in Nepal had become "the last best hope for the future of the free press in Nepal," (Pokharel 2005). The Court also ordered the government not to ban any F. M. radio station from broadcasting news. In its first bold move since the April 2006 movement, the court ordered the government in June 2007 to form an all-powerful commission to probe the whereabouts of disappeared persons and enact an anti-disappearance law. The court also ordered the Home Ministry to start murder cases against army and police officials and bureaucrats implicated in the custodial death of Chakra Katwal, a school teacher (Chapagain, 2007).

A Supreme Court verdict in February 2006 abrogating the Royal Commission for Corruption Control (RCCC) brought enormous praise for the court. RCCC was formed by the ousted King as an instrument to harass his critics. In this ground breaking decision, the Supreme Court declared the formation of RCCC unconstitutional and declared all its acts null and void.

As a result of its role in the cases discussed above, the judiciary in Nepal retains considerable support among the intellectuals, common people, and even some politicians.

Competitive political arena has emerged as a continuing feature of democratic transition in Nepali ever since the first national elections in 1991. Since the 1991 elections, political parties have remained fiercely competitive with the Nepali Congress (NC) and the Nepali Communist Party, Unified Marxist-Leninist (UML) as the two leading parties. By joining the mainstream politics, the CPN-M has intensified the

competition. April 2008 CA elections catapulted the Maoists as the largest party in the CA with 220/601 seats. However, the Maoists lack even a simple majority allowing the other parliamentary parties significant clouts in the Maoists-led coalition as well as the constitution making process. The requirement of a two-thirds majority for incorporating any provision in the new constitution will force further compromise. The renewed competition in Nepal's political arena further validates my central thesis that the expansion of political pluralism in Nepal both between and within political parties is a qualitatively new stage of political competition that conditions the nature of the ongoing democratic transitions (Kantha 2000). The looming electoral uncertainty, as indicated by other studies, is likely to make Nepal's political parties favor independent judiciary. Moreover, massive mobilization of different groups of Nepali population in support of greater equality and autonomy will further support the need for the rule of law. Last but not the least, Nepal's adoption of a federal system and the resulting need for frequent adjudication of intergovernmental disputes will make the case for an independent judiciary even more pressing.

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**Abdicate or consolidate? Comparing the strategic decision making of the Nepali and Bhutanese monarchies**

**Prakash Adhikari and James D. Timberlake**

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Why did the Bhutanese king unilaterally decide to give democracy to his subjects, while the Nepali king tried to take it away? Why cling to absolute monarchy when popular demand for democracy is strong? Why democratize when there is seemingly no demand for it? Who is more of a *gandu*: Jigme or Gyanendra? This paper addresses a question of strategic decision making. Our method for answering these questions is a paired case study using a most-similar-systems design. Bhutan and Nepal are natural cases for comparison because they share many similar features. They are both landlocked, mountainous countries, heavily dependent on their economic relations with India. And until very recently, they were the two remaining monarchies in South Asia. While the Wangchuk dynasty seems to be making a smooth transition to modern times, the turn of the twenty first century marked the beginning of the end for the Shah dynasty in Nepal. What explains the divergent political trajectories of the past decade?

## **Water, Energy, Environment and Sustainability**

### **Demand for Environmental Quality: Evidence on Drinking Water from Kathmandu, Nepal**

**Hari Katuwal and Alok Bohara**

University of New Mexico

This paper examines the demand for environmental quality - clean drinking water in particular - in Kathmandu, Nepal. Water supply is inadequate, unreliable, low quality and not directly potable. Residents engage in several strategies to cope with unreliable and low quality water supplies. Some of the major strategies are: hauling, storing, boiling and filtering. A Report on the Water Survey of Kathmandu Valley 2005 suggested that over 45 per cent of households filter water to make it potable, while about 39 per cent of households boil water. Use of Uro Guard and the Solar Disinfection System (SODIS) are other purification methods. To date, there has been little empirical analysis of such purification behaviors. This paper investigates these purification behaviors and the factors influencing them. We consider different types of treatments as demand for environmental quality. Using the Water Survey of Kathmandu, we estimate the effect of education level of household head, exposure to the media, gender, caste, ethnicity and opinion of water quality on drinking water purification. Treatment costs are calculated from respondents' answers on treatment types, market price and value of time. We also estimate expected willingness to pay for environmental quality from the average cost for different types of treatment. Moreover, the impact of education level of household head, exposure to media, gender, caste, and ethnicity on willingness to pay is also evaluated.

**Can the experience of sewerage development from Orangi Pilot Project in Pakistan be transferred to squatter settlements in Kathmandu, Nepal?**

**Padmendra Shrestha**

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Generally, basic urban services such as water supply and sanitation are provided by the government, but access to such services cannot be guaranteed for everyone in many large cities in developing countries. The Orangi Pilot Project (OPP) in Pakistan is an example of an alternative way to provide these services through partnerships among non-governmental organizations (NGOs), communities, and government agencies. It is considered to be one of the most successful community based urban services programs. OPP was started in the 1980s by Akhtar Hameed Khan in the *katchi abadis* (unplanned or squatter settlements) of Karachi. Currently, OPP's works have extended far beyond the neighborhood level to many other parts of Pakistan. Projects in Orangi and in 248 other locations in Pakistan have demonstrated that communities can finance, manage and build internal sewerage development provided they are organized and supported with technical support and managerial guidance.

The squatter settlements in Kathmandu are illegal and are completely neglected by both the local and central governments. People living in these settlements are most vulnerable to preventable communicable and non-communicable diseases and suffer high rates of mortality mainly due to the lack of proper sanitation. This paper focuses on the success of the sewerage development component of OPP and analyzes whether such success can be transferred to the squatter settlements in Kathmandu. The information on the success of OPP is based on websites, journals and books written mostly by people involved in the project, whereas the information on the squatter settlements in Kathmandu is based on my own research concerning the improvement of conditions in 2005/06, and from various websites.

The analysis shows that, for the sewerage development component of OPP to be transferred, the squatter settlements in Kathmandu have good social capital; have community leaders to take responsibility of the project, and have several different mechanisms of financing and the technical support required from NGOs and universities. The paper argues that the experience of sewerage development in OPP can be transferred to squatter communities in Kathmandu given that there is a serious



commitment from both the local and national governments in terms of 1) support through the implementation of the project, 2) defining what the land tenure of the squatters would be, 3) providing safe drinking water to all households, 4) creating waste water treatment plants before river discharge and 5) properly planning squatter settlements.

## **Religion, Gender and Dalit Issues**

### **Religious sites and practices as economic indicators: A consideration of the rural and urban Nepal**

**Charis Boke**

USEF Fulbright Scholar

The aim of this paper is to further discussion on the changing landscape of Nepal's socioeconomic world as seen through the lens of religious worship sites and practices. Anthropologists of religion in Nepal have a long history of exploring worship sites, practices, and the ways in which those sites and practices integrate, and integrate into, Nepali cultures and societies. As Nepal is increasingly connected to an economically, politically and socially globalizing world, a fresh review of worship sites and practices is in order — not only from a strictly ethnographic, documentary perspective, but from a perspective which considers how the rapid changes in the structure of Nepal's economic, political and social structures are affecting, and being affected by, religious realities.

This paper will address two major connected themes. The first looks at the effects that urbanization and urban sprawl have had on the religious landscape (both physical and metaphorical), and how urban socioeconomic conditions interact with religiosity to turn religious practice, at some points, into a leisure-time activity.

The second theme explores the different approaches to religious site organization and worship practice from urban areas (Kathmandu, Pokhara) through ex-urban areas (Pharping, Nagarkot) to rural areas (Dolakha district, Mustang district, parts of Gorkha district) with an eye towards how socioeconomic factors, such as time spent engaging in secondary economic activities and related observed cash flow, may affect the sites, practices, and local attitudes.

**Vote for change and effect of intimidation-fear: The Maoist electoral victory in the Constituent Assembly election**

**Mahendra Lawoti**

Western Michigan University

The Communist Party of Nepal-Maoist emerged as the largest party in the Constituent Assembly election in April 2008, becoming the first Maoist party to win in a national election in the world, surprising most political observers and analysts. It achieved the feat after giving up insurgency just two years ago. This paper argues that people's aspirations for change, effect of Maoist intimidation and threats, and disconnect of the other political parties with the people contributed to Maoist win. The paper will also discuss other trends the election produced such as the emergence of identity parties, weakening of 'democratic parties' and growth of communist parties, domination of communist parties in the Constituent Assembly, and reward to movement parties and other outcomes. The analysis employs an innovative approach of comparing outlier results of the Constituent Assembly election with previous parliamentary election results and a case study of pre and post election violence in a district to establish the effect of intimidation, and it compares performance of established older parties in districts that were considered as strongholds but lost to Maoist and also compares performance of Maoists in urban areas where the election was relatively free and fair to verify the change hypothesis.

## **Forestry Issues**

### **Monitoring the successes and failures of community forestry in Nepal using remote sensing and GIS technologies: 1976-2000**

**Keshav Bhattarai**

University of Central Missouri

Nepal's forest policy changed in 1978 from top-down control to bottom-up forms of governance and management. Since then, management responsibilities of local forests have been transferred to many local community user groups, which essentially assume that community forestry may be a panacea for sustainable forest management. In many developing countries, community forest management has been claimed to be the most effective and successful approach to forestry use and development. However, such blanket assumptions have been questioned as forest products became valuable commodities with various forms of development. This paper examines the forestry scenarios of Nepal from 1976 to 2000 using remote sensing and geographic information systems (GIS) technologies. It utilizes Landsat Multispectral Scanner (MSS) data of 1975-76, Thematic Mapper (TM) data of 1989-90, and Enhanced Thematic data of 1999-2000. It also uses 30 m digital elevation data from the Advanced Spaceborne Thermal Emission and Reflection Radiometer (ASTER) sensor. All these data sources are used to examine how successful community forestry is in three ecological regions: the Terai (30 m- 999.99 m), the mid-hills (1,000-3,999.99 m), and the mountains (>4,000 m). It examines the driving forces of deforestation such as roads, urbanization and distances from roads to forests and settlements at various elevations. Separate regression models are developed for each ecological region using area deforested as a dependent variable for the transition periods 1975-1990 and 1990-2000. This study includes all the Village Development Committees of Nepal, but excludes metropolitan, municipal, and national park and wildlife reserve areas. Using statistical analyses, this research will answer whether resource degradation is more marked in community forests than in non-community forests, and if there is any effect of elevation and development infrastructure on forestry development.

**Why will investment in clean energy technology at the household level in Nepal offer co-benefits for global climate and local people's health?**

**Amod K Pokhrel and Biswo Poudel**

University of California at Berkeley

In its fourth assessment report (most recent), the world's most authoritative voice on climate change, the United Nations Intergovernmental Panel on Climate Change (IPCC), has loudly and clearly said that warming of the earth's climate is "unequivocal," and human activity, particularly the burning of fossil fuels, is a major cause.<sup>‡</sup> IPCC scientists now accept that if the trend of anthropogenic emission continues, earth's average temperature could rise 1.5 to 6 degrees Celsius or higher by 2100. There is already evidence of increases in average temperatures of air and oceans around the world. For example, years 1995-2006 have had 11 of 12 warmest years on record since 1850.

Carbon dioxide (CO<sub>2</sub>), methane, nitrous oxide, ozone and water vapor are all greenhouse gases (GHGs) that can lead to global warming. Just before the industrial revolution (1850), atmospheric CO<sub>2</sub> levels were about 280 parts per million (ppm) by volume, but since then the concentration of CO<sub>2</sub> has increased by a bit over 100 ppm (383 ppm in 2008). Of that 100 ppm concentration, the first 50 ppm increase happened in over 100 years, but the next 50 ppm increase happened within 35 years (1973-2008)<sup>§</sup>. In his recent interview to New York Times (May 29 2008), Professor F. Sherwood Rowland, who shared the Nobel prize for his groundbreaking work on threats to the ozone layer from chloroflourocarbons (CFC's), has predicted that concentrations of CO<sub>2</sub> could rise to 1,000 ppm if multi-trillion-dollar energy systems are not introduced immediately. IPCC scientists have predicted higher risk to life, ecosystems and the global economy when CO<sub>2</sub> concentrations surpass 450 ppm. Thus, according to the IPCC, to avoid any climate related disasters, global efforts should be made to turn the atmospheric concentration of CO<sub>2</sub> to 350 ppm, the mean CO<sub>2</sub> level of 1988. And for this, global collective efforts and cooperation are essential.

**Nepal's situation:** Nepal's climate records show that temperature has increased dramatically in upland regions. From 1977 to 1994, mean annual maximum temperatures in the northern part of the country have increased by more than 0.06 C<sup>o</sup> per year above the long-term mean, with

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<sup>‡</sup> <http://www.ipcc.ch/>

<sup>§</sup> Barnola, JM, D Raynaud, S Korotkevich & C Lorius, 1987. Vostok Ice Core provides 160,000-year record of atmospheric CO<sub>2</sub>, *Nature*, 329, 408-414

some regions recording increases of up to 0.12 C ° per year. This contrasts with the Siwalik and Terai regions in the lowlands that warmed less than 0.03 C ° per year<sup>\*\*</sup>. Rising average temperatures in the higher elevations have already caused a massive retreat of glaciers, which are sources of headwaters of many large rivers in South Asia<sup>††</sup>. And there are possibilities of shifting disease vectors and epidemics such as malaria upwards in elevation, along with shifting of agriculture patterns leading to over or under production depending on the region. Compared to developed countries, climate change will have different repercussions in Nepal, although its average per capita CO<sub>2</sub> emission is only about 0.2 metric ton/year compared with USA at 6 metric ton/year, with Canada and Australia not far behind<sup>‡‡</sup>. Since the average Nepali's per capita contribution of CO<sub>2</sub> is 30 times less than that of the average American, Canadian or Australian, Nepal does not currently have any obligations under the climate change convention to reduce its CO<sub>2</sub> or GHGs. However, Nepal's effort to reduce these gases is tremendous and working further on this will not only help combat global warming but will also offer clear co-benefits for other aspects of its development, particularly in improvement of the health of millions of its people.

**Nepal's major sources of CO<sub>2</sub> and GHGs:** The national green house gas inventory conducted in 1994-95 by the Government of Nepal shows that the net emission of CO<sub>2</sub> is about 9747 Gigagrams (Gg) of carbon. Emission of two other global GHGs, methane (CH<sub>4</sub>) and nitrous oxide (N<sub>2</sub>O), are 948 Gg and 31 Gg respectively. Of total CO<sub>2</sub> emission, the share contributed by fossil fuels is 1465 Gg, and the transport, industrial and residential sectors account for 31%, 22% and 22% of emissions respectively<sup>§§</sup>. The remaining emissions come from residential and commercial uses of traditional energy, mainly biomass. Similarly in the case of methane emissions, the bulk (91%) comes from traditional activities such as rice cultivation and enteric fermentation (livestock). Thus, measures to reduce methane will not be viable as they will

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<sup>\*\*</sup> Shrestha Arun B, 1999. Maximum Temperature Trends in the Himalaya and Its Vicinity: An Analysis Based on Temperature Records from Nepal for the Period 1971–94. American Meteorological Society

<sup>††</sup> Mool PK, Bajracharya Samjwal BR & Joshi SP, 2001. Inventory of Glaciers, Glacial Lakes and Glacial Lake Outburst Floods: Monitoring and Early Warning Systems in the Hindu Kush-Himalayan Region. ICIMOD and UNEP.

<sup>‡‡</sup> Patz JA, Gibbs HK, Foley JA, Rogers JV & Smith KR, 2007. Climate Change and Global Health: Quantifying a Growing Ethical Crisis. *EcoHealth* 4, 397-405.

<sup>§§</sup> Initial National Communication to the Conference of the Parties of United Nations Framework Convention on Climate Change. Ministry of Population and Environment, July 2004.

jeopardize the socio-economic conditions of millions of people. But reduction of CO<sub>2</sub> in the energy sector by promoting clean energy technology at the household level and within the transportation sector will clearly offer benefits.

**How?** Traditional sources of energy such as biomass fuel dominate the energy supply in Nepal. The share of traditional, commercial and renewable energy was 87.7 percent, 11.75 percent 0.53 percent respectively during FY 2004/05. Of the total traditional energy consumed, 89.0 % was fuel wood, 4.34% was agriculture residue and 6.57 % was cattle residue (i.e. dried dung used for cooking and heating).\*\*\* This clearly shows that energy consumption is dominated by household uses and almost all are supplied by traditional sources, mainly fuel wood and other biomass. Similarly, energy consumption growth over the last 15 years (until 2005) is almost linear, with an annual average increase of 2.7 percent. The annual average growth rate of traditional energy consumption is 2.2 percent. The contribution of alternative energy technologies including hydropower is increasing rapidly but, as it started from a small base, alternative energy still contributes only about 0.6 percent of the current total energy demand for the country. Although the share of traditional sources of energy is gradually decreasing in total energy consumption, its utilization is still increasing at a steady pace.

Burning of traditional biomass fuels indoors generates indoor air pollution (IAP) and exposes millions of people, especially women and small children, to harmful pollutants. Studies conducted in developing countries have provided evidence of associations between IAP and acute lower respiratory infections (ALRI), low birth weights in children, chronic obstructive pulmonary diseases (COPD), asthma, cataracts and tuberculosis in adult women.††† ALRI, COPD, cataracts and tuberculosis are the four most common diseases associated with IAP in Nepal. These diseases account for more than 6% of all OPD visits to health institutions.‡‡‡ Similarly, Nepal has a childhood mortality rate (under 5 years old) of 91/1,000 live births. It has been estimated that, on average, of 1,000 children below 5 years of age who visit health facilities, 90 have

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\*\*\* Ministry of Finance. 2006. Economic Survey.

††† Smith KR, Desai MA, Mehta S. Indoor Smoke from solid fuels: Assessing the environmental burden of disease at national and local levels. WHO, 2004; 1-15.

‡‡‡ Annual Report 2004/05, Department of Health Services 2006, Ministry of Health and Population, Government of Nepal, Kathmandu.

pneumonia and four of those cases are severe.<sup>§§§</sup> According to a recent report of the World Health Organization (WHO) concerning the global burden of diseases from traditional fuel sources, 5,000 deaths per year from ALRI and 3,000 death per year from COPD are attributable to traditional fuel use in Nepal.<sup>\*\*\*\*</sup> The national burden of diseases attributable to the use of traditional fuels is about 3 percent using the Disability Adjusted Life Years (DALYs) measure, which is a combined metric of lifetimes lost due to premature mortality and morbidity from particular diseases.

Along with indoor air pollution, combustion of one gram of wood fuel in traditional stoves produces approximately 1.7 grams of CO<sub>2</sub> as emissions.<sup>††††</sup> A six member family's house burns about 10 Kg of wood every day, which means in one year one traditional wood stove generates about 7 tons of CO<sub>2</sub>. Even with conservative estimates of fifty percent efficiency of improved stove (wood stoves with a grate and chimney), replacement of one traditional woodstove by an improved stove in rural areas will emit 3.5 tons less CO<sub>2</sub>/year per stove. A robust improved stove cost ~\$ 20 and they last for at least 4 years. Thus, 100,000 improved stoves disseminated in rural areas would reduce CO<sub>2</sub> emission by about 350,000 tons. Assuming improved stoves will avert half of the total DALY, the crude cost-effectiveness of such a program will be about \$ 20/DALY and about \$6/ ton equivalent of CO<sub>2</sub>, respectively. Currently the market value of one ton of CO<sub>2</sub> equivalent in Europe is about \$26,<sup>‡‡‡‡</sup> market threshold for health intervention is \$1,500/DALY.<sup>§§§§</sup> Similarly, compared to traditional stoves, one small biogas plant emits 7 tons less CO<sub>2</sub>. If 100,000 such plants are used, then 700,000 tons less CO<sub>2</sub> will be emitted, with additional health benefits. Unfortunately, currently improved cooking stoves are omitted from the Clean Development Mechanism (CDM) approved projects, and hence our efforts should be to lobby CDM because Nepal has already introduced more than 100,000 improved stoves. However, biogas plants are approved as CDM projects and currently 19,396 biogas plants have been included in the first two Biogas CDM

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<sup>§§§</sup> *ibid*

<sup>\*\*\*\*</sup> Indoor Air Pollution: National Burden of Disease Estimate. WHO/SDE/PHE/07.01, 2007.

<sup>††††</sup> MacCarty N, Ogle D, Still D, Bond T, Roden C & Willson B, 2007. Laboratory Comparison of the Global-Warming Potential of Six Categories of Biomass Cooking Stoves. Aprovecho Research Center, OR, USA.

<sup>‡‡‡‡</sup> <http://www.carbonpositive.net/>

<sup>§§§§</sup> Smith KR & Haigler Evan, 2007. Cobenefits of climate mitigation and health protection in energy

systems: scoping methods. *Annu.Rev.Public Health* 2008. 29:18.1-18.5



projects by the World Bank. This will translate into more than \$6.5 million within the first 10-year crediting period at US\$ 7 per ton CO<sub>2</sub>. This revenue will then be used to develop more biogas plants, which in turn will generate more revenue. In the end, although the calculations made above are rather crude, the assumptions are fair estimates and call attention to this type of intervention for co-benefits investment in Nepal.

## **Religion, Education and Health Issues**

### **Determinants of familiarity of infant and maternal health care facilities among pregnant women and mothers in some selected rural areas of Nepal**

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**Tirshana Sharma**

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Rural areas of developing countries like Nepal are characterized by subsistence living, low level of income, low literacy and schooling, very thinly spread and professionally and materially least equipped multiple types of health care facilities that range from traditional faith healing to western medicine-based facilities. Add to these characteristics the generally inferior status of women in the society and their household. The problems of high infant mortality rate, lower-than-males' female life expectancy, and other measures of women's low health status are generally attributed to the above and few other characteristics of rural areas. In spite of gradual expansion of modern health care facilities, many pregnant women and mothers in rural areas of Nepal seek services of traditional birth attendants and private practitioners of questionable qualifications. Often the physical and financial access is a contributory factor, but lack of familiarity or awareness of the availability of modern facilities could also be a factor. Women may be placed in a hierarchy of levels of familiarity about a facility. Some women may have only heard of a facility, with no clue about the type and quality of its services. Some women may be aware and yet for some reason they may carry a negative image of the facility and hence may have never used its services. Some women may be aware and may have even used the services of a facility, but may have made up a negative or positive image, and therefore could be repeatedly using or not using its services any more. It can be argued that the demand for services of a health care facility is a function of level of familiarity with the facility. In the proposed paper we intend to examine the determinants of level of familiarity of infant and maternal health care facilities among pregnant women and mothers in some selected rural areas of Nepal, especially the role of formal schooling and informal education in a society.

We intend to collect data from a sample of women in four to six villages of Nepal, who have been or were pregnant and/or had a successful or unsuccessful outcome of pregnancy within the last one year. We plan to use a snowball sampling technique, beginning with one sample subject from one of each type of health care facility in that area and then reaching the village of each initial sample subject and following up with the survey of more women in that village. We plan to regress the levels of familiarity with pre-identified explanatory variables for estimating an ordered probit model.

**Reproductive health services: An entry point to reach labor migrants and their wives for providing HIV and STI services in Nepal**

**Laxmi Bilas Acharya**

Family Health International

**Background:** In 2007 National Centre for AIDS and STD Control (NCASC) estimated about 65,000 HIV infections among adults in Nepal. Out of them about two in five infections were from labor migrants, particularly those, who go to India for labor type of work. NCASC also has estimated that 1,140,000 to 1,710,000 adult Nepali males migrated abroad in 2007. In the far western hill districts of Nepal almost 80 percent adult male from about 80 to 90 percent households migrate to India for labor type of work. Poor socio-economic condition in these districts is the major push factor for such high level of migration in the far west. These are short term migrations and people come back home in six months to one year intervals. In the far west HIV prevalence among labor type of migrants who visit sex workers in India is as high as 8 percent. It is anticipated that migrants visiting sex workers in India may suffer relatively high level of sexually transmitted infection (STI) also but no studies are conducted so far to measure STI infection among migrants.

**Objective:** Main objective of this paper is to discuss and recommend program options to reach and provide HIV and STI services to labor type of migrants and their spouses.

**Program issues:** From all districts of Nepal mostly economically active adult males migrate abroad. Integrated bio-behavioral surveys (IBBS) conducted for NCASC by New ERA and SACTS with technical assistance from Family Health International Nepal show that about 17 to 27 percent of migrants from western to far western hills of Nepal practice unsafe sex with female sex workers when they are abroad. When they come back home with HIV or STI infection their spouses also are directly exposed to the risk of infection. Most of the time migrants are not found in their place of origin. So it is very difficult to reach them by the health programs. Moreover, HIV and STI programs are not like general health services providing programs. Because of the stigma and discrimination associated with HIV and STI infection people should be offered services in a confidential way. In the first place it is very difficult to screen out the individuals who are in the risk of HIV and STI. Principally those who have multiple sex partners are in the risk but people do not want to

disclose their sexual behavior without analyzing the risk associated with the discloser of the behavior.

**Discussion and conclusion:** HIV and STI services can be introduced as components of the on going reproductive health (RH) services. Use of reproductive health services by Nepali women is low. The last Demographic and Health Survey (DHS) of Nepal conducted in 2006 has shown that only about 40 percent of women of age 15-49 use antenatal care (ANC) services which is one of the RH services provide through local Health Posts. ANC services may be the first contact point to the HIV and STI services to the wives of migrants in the districts. Opt out voluntary HIV and STI screening service can be integrated in the services provided by the local health posts. Introduction of voluntary counseling and testing (VCT) services is one option. As percentage of women using ANC service is low integrated program can focus on increasing the use of such service which is relatively easy as no stigma is associated with it. Through the wives of labor migrants coming to ANC services their husbands can be reached and provided HIV and STI services. For the effective response to HIV and STI infection cross country programs can be initiated to provide HIV and STI services to labor migrants when they are abroad. This could be a challenging intervention in the sense that women should be encouraged to talk about their and their husband's sexual behaviors. However, it is worth doing as a large number of men and women from economically active age groups can be protected from HIV and STI an infection which ultimately has economic impact in the country. Mainly the risk of HIV infection is found to be higher among the migrants who originate from western and far western region of Nepal. So as a pilot study such integration of services can start from the selected districts in the far west Nepal.

## **Public Institution Reforms**

### **Heritage conservation in Nepal: Policies, stakeholders and challenges**

**Neel Kamal Chapagain**

University of Wisconsin-Milwaukee

Introduction of Ancient Monuments Preservation Act in 2013 B.S. (1956 A.D.) institutionalized the modern concept of heritage conservation in Nepal. UNESCO's mission of restoring the Hanuman Dhoka Durbar and the enlisting of three Durbar Squares, Pashupatinath, Bouddha, Changu Narayan and Swoyambhu in the UNESCO's World Heritage Sites brought Nepal to international attention in Heritage Conservation arena. Many national and international agencies interested in culture, heritage, tourism and development have taken various initiatives in this regard. However some conflicts of interests among different stakeholders, for example tourism agencies and the local entrepreneurs, donor agencies and government institutions, conservation works and development projects, have also been observed. The Department of Archaeology (DOA), the central government institution in-charge of cultural heritage conservation in the country is powered by the Ancient Monuments Preservation Act, but lacks resources and mechanism to oversee heritage sites throughout the country. Even within heritage sites in the Kathmandu valley, some conflicts among different stakeholders, particularly between the DOA and local residents, are observed. The complications and "failure" of management of world heritage sites in Kathmandu valley was criticized by UNESCO, which had warned to take these sites off the World Heritage Sites list. Though the warning has been positively resolved now, the complication of heritage management still exists, not only in Kathmandu valley but in other places as well. Often the underlined conservation approach in these policies is contested by residents of heritage zones. One aspect of my ongoing research analyzes the consequences of influence of international conservation movements on the heritage conservation policy in Nepal. The conservation policy in Nepal, most of which is adapted from international frameworks mostly originating in different contexts abroad, needs to be evaluated in local cultural contexts. Responding to Nepal's diverse geographical and cultural contexts, the conservation policy in Nepal should seek participatory approach of integrating local cultural institutions, cultural practices and economic bases.

## **Financial management of the municipalities of Nepal: Sustainability issues**

**Mahesh Baral**

University of Trento

**Local governments in Nepal:** 3915 village level government units named as Village Development Committees (VDCs) are the lower level government institutions in Nepal, whereas 58 semi-urban towns and other cities are characterized by the umbrella term 'Municipalities.' The capital city, Kathmandu is a metropolitan city; four other big cities are sub-metropolitan city and there are 53 municipalities. Furthermore, there are 75 District Development Committees (DDCs), one for each administrative district.

**Laws related with local governments:** Articles 138, 139 and 140 of the Interim Constitution of Nepal, 2006 have provisioned and briefly outlined the modality of local governance for the country, but the constitution failed to give concrete basis for it. The Local Self Governance Act of 1999 is the basic law that deals with the local governance system in Nepal.

**Targeted municipalities:** Instead of the capital city and sub-metropolitan cities, the study focuses on 53 small municipalities; many but not all of them are district headquarters or economic centers of small regions. The size of the population and economic potentialities of these municipalities vary. Few have population size bigger than 100,000, few are smaller than 20,000 people, and most have population between 20,000 and 100,000.

**Revenue assignment of municipalities:** Apart from intergovernmental transfer and borrowing, the municipalities could mobilize local resources by taxing the following sectors within the guidelines given by the central government:

- House and land tax
- Land revenue tax
- Market shop tax
- Vehicle tax
- Entertainment tax
- Rent tax
- Advertisement tax

Business Tax

Commercial Video Tax

Different service charges

On sanitation, drainage and sewage

Entrance charges for tourist points

Charges for gardens and for picnic

- Different types of fees
  - Licensing fees of different equipments
  - Approval fees
  - Recommendation fees
- Income through selling of different things
  - Natural resources like sand and boulders
  - Forest products
  - Products of public ponds and garden

**Composition of revenue mobilization:** The internal resources, inter-governmental transfer, external grants and borrowings make up the financial resources for the municipalities. Prior to the creation of Local Development Fund (LDF), municipalities of Nepal were authorized to collect a tax – *octroi* – on goods entering their territory. This octroi has now been replaced with LDF, which is a tax collected by the central government by imposing a 1.5% tax on the total invoice value of goods imported into the country through the custom offices; the central government distributes the collected revenue among municipalities. Since LDF replaces the initially internally generated octroi revenue of municipalities, the LDF is considered an internal resource of municipalities.

The share of LDF in the total amount of internal resources of municipalities is around 67.5%. Internal resources of municipalities could be sub-divided as local tax (83.4%), fees & fine (8.74%), rent from property (4.7%), and other incomes (3.2%). The local tax component of internal resource could be subdivided as: LDF (79.69%), home, land and integrated property tax (11.4%), vehicles tax (2.7%), professional tax (2.8%), and others (3%). It is evident that LDF plays significantly important role for the municipalities, which truly is not internally generated by them; hence, the internal resource base of municipalities is very weak.

**Expenditure assignment of municipalities:** Following the principle of subsidiary, the Local Self Governance Act has identified



various roles and responsibilities to be fulfilled by municipalities. Many of them are related with providing municipal services to the people. Following are the sectors entrusted to municipalities to provide services to the people:

- Drinking water
- Education
- Public health services
- Language and culture
- Agriculture
- Tourism and cottage industries
- Infrastructure and transport
- Sports
- Irrigation
- River and soil erosion control
- Forest and environment protection
- Human resource development
- Implement the cooperative movement
- Records keeping
- Disaster management
- Various programs of social security
- Private sector promotion and development
- Promote peoples participation

**Composition of expenditure:** Municipalities are spending significant amounts of money to run their offices and for regular expenditures, which make up 47 percent of the total expenditure of municipalities. The share of capital investment is only 45 percent, 3 percent goes for loan repayment and the rest 5 percent for social programs.

**Basic problems of municipalities:** The Local Self Governance Act has basically followed the principle of subsidiary to allocate different roles to different tiers of government and to authorize elected representatives of the local people to serve their voters or tax payers for the betterment of the society and the people. Municipalities generally face large levels of urban poverty, absence of urban services, and infrastructure; they also tend to have heavy environmental pollution.

Municipalities are not properly funded. Firstly they don't have proper basis for internal resources mobilization, whereas the central government is not providing sufficient resources to fulfill their expenditure assignments. So, there is a huge gap between revenue assignment and expenditure assignment. The financial gap is getting even

bigger due to internal migration from villages to cities and due to increasing trend for demanding municipal services. Unfunded mandates further add scarcity of resources. Though the size of revenue is growing in incremental way, it has failed to match increase in expenditure. The expenditure increase ratio is more rapid than revenue increase ratio. The present internal revenue mobilization of municipalities is not sustainable. For example, 44.86 percent of resources of municipalities come from LDF, which is not a reliable source of income due to the membership of Nepal to WTO.

**Intergovernmental transfers:** Intergovernmental transfer in Nepal can be broadly divided into two categories - grants and revenue sharing. The local governments receive three types of grants from the central government through the Ministry of Local Government: 1) Administrative Grant, 2) General Purpose Block Grant, and 3) Conditional Grant. The revenue sharing between central government and local governments has both top-down and bottom up approaches.

**Research target and questions:** By conducting a qualitative study and/or a case study of at least two municipalities, I will try to identify some sustainable sources of income for municipalities. For example, a proper mobilization of house and land tax could create the best sustainable revenue base. In addition, the research will try to estimate the exact gap between expenditure assignment and revenue assignment, allowing the increasing trends of both of them, and it will try to answer the following questions:

What is the size of the gap between revenue assignment and expenditure assignment?

What is the growing trend of those assignments?

Is the gap getting wider or narrower?

What would be the best solution to narrow-down the gap?

What would be the best alternative to LDF?

**Methods:** Two municipalities will be selected on the basis of institutional capabilities and availability of data. Key persons from municipalities, the ministry, political parties and from civil society including the Municipal Association of Nepal will be interviewed. Local residents and tax payers will be interviewed with focus questions. The expenditure assignment will be identified in monetary terms for the past few years. In the same way the revenue assignment will also be identified and these two figures will be analyzed.

**Tentative division of chapters:** The first part of the research paper would be a brief summary of the international experiences on local financial management with special focus on revenue assignment, expenditure assignment and intergovernmental transfer. One important part of it would be a comparative analysis of the experiences of developing and transitional countries. In order to fulfill this task I will be doing some critical reading.

The second part of the paper would give a critical overview of the existing system in order to understand the limits and possibilities. The chapter shall briefly explain the working of the Nepalese system, local capacity to manage local resources (institutional capabilities), and other relevant issues.

The third part would be the empirical research. In this part the study will be focused on concrete subject matter. The data will be analyzed and after the analysis, some concrete suggestions will be given.

## **Trade, Income and Finance**

### **Monetary integration of Nepal with India: A road to faster growth?**

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#### **Introduction**

Nepal has had a strong trade relationship with India which, during the year ending mid-July 2007, accounted for 69 percent of its exports and 62 percent of its imports. The country has long maintained a fixed exchange rate of its rupee vis-à-vis the Indian rupee at NR1.60 = IR1.00. Since IR floats against the major currencies of the world, NR's exchange value against them also fluctuates in the same proportion. This can create a problem for the small economy of Nepal, particularly at a time when the dominant IR appreciates significantly vis-à-vis the US dollar, as has happened in the last several years. The effective appreciation of the NR raises the price of Nepal's exports to third countries and lowers the value of dollar earnings of Nepali workers when remitted to Nepal.

These disadvantages of the NR peg with the IR go with an important benefit that Nepal receives from such an arrangement. The unilateral peg avoids uncertainty arising from exchange rate fluctuations between the two rupees. Since transport costs and tariffs have fallen in recent years, the law of one price is expected to be operating more smoothly between the two countries making bilateral trade freer of obstructions. While this benefit is shared by both the countries, the cost of stability arising from such a fixed exchange system is borne entirely by Nepal. The larger country is free to pursue stabilization policies in its own interests, whereas the currency peg denies Nepal independence in setting its own monetary policy or using it to offset any adverse policy shock coming from India.

A likely complication in the not too distant future is the introduction of capital account liberalization in India. A large foreign exchange reserve and a sustained and robust output growth give India a high degree of confidence in its ability to manage full rupee convertibility.

How Nepal will cope with this likely scenario has emerged as an important policy question. If Nepal is to avoid any strain in its currency peg with India, would it be easier if Nepal drops its currency completely by adopting IR as its monetary unit? Or, would it still be beneficial or even feasible to continue its current practice in the face of capital account convertibility in India?

Our research examines if conditions necessary for an India-Nepal optimum currency area (OCA) currently exist. We do not address the more difficult questions of political feasibility of such a scheme for Nepal, a country in which the nature of a new political order is just being debated. The OCA literature has gained prominence in the wake of the expansion of European Union where several newer member nations have adopted Euro as their new currency. The basic theory (Mundell, 1961; Krugman, 1993, Obstfeld, 1997) emphasizes labor mobility, large interregional trade, similarity of shocks, and smooth fiscal redistribution as conditions that are necessary for a region to meet to become an OCA. We analyze the strength of these conditions between Nepal and India over time to determine if the conditions have become more or less conducive to the formation of an OCA today compared to 10 or 20 years ago. The conditions of high labor mobility and large bilateral trade seem favorable to an OCA whereas other criteria look more divergent. We examine some of them in this paper.

Frankel (1999) gives a greater emphasis to two properties to evaluate whether the benefits from an OCA will exceed costs—the openness to trade, i.e., the extent to which countries in the region trade within the region, and correlation of income changes among countries. If countries score high in each criterion, costs from the loss of monetary independence should not outweigh the gains from the OCA.

The more recent empirical literature suggests that benefits from the elimination of currency fluctuations may not be large. If so, this would place a larger burden on the cost of joining a monetary union to assess the desirability of a membership. However, in the context of EU, fiscal policy has gained prominence as a more practical local tool for a small economy to deal with shocks originating in the larger members of a region (Padoa-Schioppa, 2004; Corsetti, 2008). If internal operation of fiscal policy is smooth, the attractiveness of an OCA increases. On the other hand, there are limits to fiscal deficit and increase in public debt that an OCA member is normally required to observe. Even in Nepal, the Rastra Bank Act prevents a large scale monetization of public debt. This does not mean fiscal policies of India and Nepal are well harmonized, yet it indicates another aspect of Nepal's policy similarity, within a broad range, with

India. Among other aspects of economic trends, the money supply growth in the country has stayed moderate as in India, and most of Nepal's trade already occurs with India as well.

A major difference between economic performances in the two countries is the GDP growth itself. Per capita income in Nepal has grown on average at a low rate of 1 percent a year for the last five years and 3 percent in the last 10, compared to about 5 percent in India over the last decade. Whether incomes in Nepal and India are likely to converge in the medium run is yet to be seen. It should be highly interesting to see if relinquishing monetary autonomy more completely to India is likely to give a much needed boost to Nepal in terms of trade, foreign direct investment, and income growth.

## **II. Methodology**

We first examine if price shocks in India transfer to Nepal easily and quickly. The following equation identifies the primary determinants of the price level in Nepal.

$$\log P = b_0 + b_1 \log M + b_2 \log Y + b_3 \log P^* + u \quad (1)$$

where,

$\log P$  = logarithm of the consumer price index (CPI) in Nepal,

$\log P^*$  = logarithm of the foreign price level proxied by CPI in India,

$\log Y$  = logarithm of real per capita GDP in Nepal in 1995 prices, and

$\log M$  = logarithm of money supply, defined as M1, in Nepal in 1995 prices.

The quantity theory of money suggests that an increase in the money supply leads to increase in the general price level as long as the output level does not increase in the same proportion. Therefore the coefficient of money supply is expected to be positive. If there is an increase in output level given the money supply, the overall price level decreases. The coefficient of  $\log Y$  should then carry a negative sign. The significance and size of the coefficient of  $\log P^*$  is a main focus of our study. If it is positive and statistically significant, it indicates that inflation in India is one of the main determinants of inflation in Nepal.

Next, in order to see how the rate of economic growth in Nepal is related with economic growth in India, we can estimate the following equation:

$$grth = c_0 + b_1 M2 + b_2 open + b_3 inv_{-1} + b_4 grth^* + b_5 ygrth^*_{-1} + v \quad (2)$$

where,

*grth* = per capita real GDP growth,

*M2* = broad money supply normalized by nominal GDP,

*inv* = total domestic investment as a proportion of GDP,

*open* = openness, total trade to GDP ratio, and

*grth\** = per capita real GDP growth in India.

In an equation such as (2), *M2* is commonly used as a measure of the degree of financial development in a country. In particular, in poor countries this variable captures financial depth as monetization of their economies proceeds with growth. Thus, *M2* is expected to have a positive coefficient. Likewise, the coefficient of *open* is also expected to be positive as historical evidence generally shows that the more open an economy, *ceteris paribus*, higher its economic growth and vice versa. Further, it is well established that one of the primary determinants of economic growth in any country is its level of investment as a proportion of output. Since the effect of investment on output can take some time to materialize, we work with one year lagged, as well as contemporaneous, investment.

To examine if economic growth in India has an effect on growth in Nepal, we include *grth\** in our model. Since such effect is likely to appear with some lag, we include a one-year lagged growth in India in equation 2.

Annual time series data from 1975 to 2006 that we use are derived from the World Development Indicators database (World Bank, 2008).

### **III. Results and Discussion**

Most of the macroeconomic time series data are non-stationary. The regression using non-stationary data series can produce spurious results. In order to establish the stationarity of the data series we conducted the unit root test of all the data series in both equations using Augmented Dickey-Fuller and Phillips Perron tests. We find all the data series to be integrated of order one and hence are stationary only at the first difference level.

Next, Johansen's (Johansen and Juselius 1990) cointegration test shows if the variables in this equation are cointegrated. We find the null hypothesis of no cointegration is rejected for equation 1 but could not be rejected for equation 2. Therefore, following Engle and Granger, equation (1) is estimated in the first difference form with an error correction term whereas equation (2) is estimated only in the first difference form (without an error correction term).

$$\Delta \log P = b_0 + b_1 \Delta \log M + b_2 \Delta \log Y + b_3 \Delta \log P^* + e \quad (3)$$

$$\Delta grth = c_0 + b_1 \Delta M2 + b_2 \Delta open + b_3 \Delta inv_{-1} + b_4 grth^* + b_5 grth^*_{-1} + \varepsilon \quad (4)$$

The estimated results from equations (3) and (4) appear below:

$$\Delta \log P = 0.019 + 0.015 \Delta \log M - 0.303 \Delta \log Y + 0.909 \Delta \log P^* \quad (5)$$

(1.234) (0.196) (1.502)# (5.649)\*\*\*

$$R^2 = 0.634 \quad D.W. = 1.731 \quad F = 11.284 \quad n = 31$$

$$grth = 0.47 + 9.07E-13 \Delta M2 + 11.58 \Delta open + 21.19 \Delta inv_{-1} - 0.02 grth^* + 0.39 grth^*_{-1} \quad (6)$$

(0.48) (0.01) (0.85) (0.61) (0.14) (2.01)\*

$$R^2 = 0.22 \quad D.W. = 2.46 \quad ARCH F = 1.54 \quad F = 1.35 \quad n = 30$$

where figures in parentheses are t-values for the corresponding coefficients, and \*\*\*, \*, # indicate significance at 1%, 10% and 15% levels respectively.

The coefficient of money supply in equation (5) is not significant indicating that any growth in money supply does not significantly affect the price level in Nepal. Instead, given open borders with India and free convertibility of the Nepali rupee, an increase in Nepal's money supply tends to worsen its current account balance and reduce its foreign exchange reserve. The coefficient of changes in log Y is negative as expected, however, it is only significant at 15 percent. Supply factors do tend to exert a downward pressure on prices, but their effects and significance seem weak.

The most interesting finding in equation (5) is the coefficient of changes in the Indian price level. This coefficient is positive as expected and statistically significant. The coefficient suggests that a 1 percent increase in the price level in India leads to a 0.91 percent increase in the price level in Nepal. Clearly price level in Nepal is strongly linked to the overall price level in India.

Equation (6) shows how growth rate in Nepal is related to various domestic and international factors. We find all the domestic variables to be positively related to growth in Nepal, but none of them seems to influence a significant impact. On the other hand, the coefficient of lagged economic growth in India is positive and statistically significant. This suggests that Nepal's economic growth is positively affected by Indian economic growth. The coefficient suggests that a 1 percent increase in Indian economic growth, *ceteris paribus*, helps the Nepalese economy to grow by 0.4 percent.



Once again, a large degree of Nepal's openness to India in trade and in the mobility of labor and capital appears to be augmented by interlinkage of the real sectors more broadly between the two countries. Both the  $R^2$  and F-ratio call for a better specification for the real sector of Nepal. Yet, the large and significant impact of the Indian growth on growth in Nepal stands out in our results.

#### **IV. Conclusion**

Strong trade relations of Nepal with India and a fixed exchange rate of its rupee vis-à-vis the Indian rupee create both advantages and disadvantages for Nepal. The value of NR in the world market depends completely on the behavior of IR. An appreciation of the IR thus creates a loss of competitiveness for Nepal's exports and reduces domestic currency value of remittances sent by Nepali workers from outside India. Stabilization policies taken by India may not consider existing conditions in Nepal and may harm Nepal's interests. Also, India may not be too far from liberalizing the capital account in its balance of payments. How Nepal can cope with this likely scenario has emerged as an important policy question.

Our research examines if Nepal meets conditions for an optimum currency area with India. We find that most of inflation in Nepal is explained by inflation in India in the same year. Further, the rate of economic growth in Nepal is also influenced by Indian growth, but this effect on the real sector occurs with a one year lag. In addition, a large labor and capital mobility between these countries seems to indicate the desirability of OCA formation. For a clearer evaluation of such a hypothesis, however, the findings of this study need to be supplemented with research on at least two more issues. One is the nature and goals of fiscal policies in these countries and the other is the outstanding trade policy issues that have kept the bilateral trade from being completely open.

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## **Natural disaster and sickness shocks: evidence of informal insurance**

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Bangladesh, one of the world's poorest countries, is prone to large-scale natural disasters with consequent impact on human health and survival because of its geographical location and topographical features. Poverty, demographic pressure and rapid urbanization are forcing a vast majority of people to migrate to high risk areas (e.g. flood plains and islands). The vulnerability is further exacerbated by the increasing threat of a rising sea level. In 1998, Bangladesh experienced the "flood of the century" and households exposed to this flood had major crop failure, suffered from various water-borne diseases, lost shelter, assets and ability to meet their basic needs. Based on multiple rounds of household survey data from rural Bangladesh collected after the 1998 flooding, this paper investigates the factors that contribute to reducing sickness shocks after a massive natural disaster. Of particular interest, we take advantage of the well-known joint liability scheme of microfinance programs offered by non-governmental organizations (NGOs) to investigate if such a scheme reduces sickness shocks after a major natural disaster. The microfinance program initiated by the Grameen Bank in Bangladesh is considered a major innovation in the credit delivery system. In offering credit to the poor, it has largely replaced the traditional system of physical collateral requirement with group responsibility (the group members are mutual granters of each other). The successful model of group-based credit delivery system encouraged many NGOs to introduce similar programs. The role of group-based microfinance program in coping with natural disasters is yet to be explored. There are some preliminary discussions on exploring the pathways through which microfinance may affect the recovery from natural disasters, but it still lacks empirical investigations.

The degree of post-disaster recovery is significantly affected by the incidence of sickness. On the other hand, borrowers under a group-based microfinance program have incentive to provide mutual insurance by exchanging health-related information (e.g., use of oral re-hydration therapy, avoiding contaminated water, taking vaccination immediately), preventive medicine (e.g. water purification pills), loans to cover instant medical expenses, networks of personalized contacts with health workers and doctors, as well as by providing nursing and sharing the workload for those who fall ill. Motivated by some earlier theoretical studies, we

empirically investigate if there is any evidence of mutual insurance due to joint liability scheme of microfinance programs in the face of a massive natural disaster shock. We use a panel data set compiled from household surveys conducted by the International Food Policy Research Institute (IFPRI). The data was collected from 757 households in rural areas in Bangladesh at three points in time over a period of a year following the 1998 flood. Households were selected through a stratified random sampling, and survey responses included households' income, consumption expenditure, number of sick days, medical expenditure, assets, credit availability, and household level flood exposure. Empirical analysis indicates that microfinance programs may provide an informal mutual insurance mechanism to reduce sickness shocks. This result holds after addressing the potential selectivity bias due to nonrandom placement of microfinance programs. Simply put, panel data analysis reveals that households participated in microfinance programs suffer less from sickness. Thus, group-based microfinance program has the ability (though may be partially) to provide peer monitoring and mutual insurance in times of sickness after a major natural disaster.

**The limits of success? AKRSP, microfinance and economic development in Pakistan's northern areas**

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For its advocates in economic development circles, microfinance has become a near-panacea for ensuring that the developing world's poor benefit from growth and development. In short, microfinance would ensure that trickle down would actually trickle down. Microfinance became more than 'just' a development policy option when its staunchest proponent spoke of it in moral and social justice terms; Muhammad Yunus, the Nobel-laureate founder of Bangladesh's Grameen Bank, declared access to credit as a basic human right.

One of the largest and most successful rural development non-governmental organizations (NGOs) in the world is the Aga Khan Rural Support Program (AKRSP), operating since 1982 in Pakistan's Northern Areas (NAs). Despite covering over 85% of the NA's million-plus rural population and offering a full range of rural development services (credit, agricultural, forestry and veterinary extension training, business consulting services, civil engineering, etc), the AKRSP has been relatively unsuccessful in facilitating a successful transition to a market-oriented focus among its overwhelmingly subsistence-farmer beneficiary base. The AKRSP has devoted substantial time, money and other resources in attempting to create a successful and self-sustaining microenterprise culture among its beneficiaries, but its results have been far from encouraging.

Given how few NGOs fall into the 'successful' category and how few have AKRSP's resources and institutional resources, AKRSP's relative failure to promote successful microenterprises in the NAs of Pakistan is a clear sign of the limits of microfinance success. While microfinance may well provide hope for poverty alleviation and improving social welfare indicators, it cannot provide all of the conditions necessary for sustainable economic development and long-term success for the poor.

**Estimation of maximum willingness to pay for improved quality of trekking in Manang, Nepal by international trekkers**

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Valuation of trekking in mountain landscape as a non-market good is quite challenging especially when considered international trekking. This paper estimates the valuation of trekking in mountain landscape as a non-market good considering international trekking to Manang in Nepal. The paper looks at international trekkers' maximum willingness to pay (WTP) for improved quality of trekking which include longer nature walk in and around conservation area, extended village tour for cultural understanding, improved quality of museum, and enhanced quality of evening live cultural show. The study employs open-ended questionnaire to estimate maximum WTP. The study shows a positive relation between stated values of WTPs and income and their choices for quality improvement. The results demonstrate that international trekkers are attracted for extended nature walk, village tour and improved museum quality.

## **Income Convergence among Districts of Nepal**

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### **I. Introduction**

We study absolute and conditional convergence of real income per capita in Nepal using cross-section data. Lack of detailed data precludes estimations based on long time series for districts, development zones or topographical regions. A similar constraint exists in estimating the  $\sigma$ -convergence which indicates if the dispersion of incomes is narrowing over time. Yet data available from Nepal over the last decade do permit investigation of some convergence issues. We use the results of the National Living Standard Survey (NLSS) I and II (Central Bureau of Statistics) to examine if the initially poorer districts have displayed a tendency to catch up with the initially richer districts.

This is simply  $\beta$ -convergence (Barro and Sala-i-Martin, 2004). While it indicates to some extent whether the catch-up process is operating in Nepal, there are other related issues that we could examine with sufficient data. One is polarization (Duclos, Esteban and Ray, 2004; Bandyopadhyay, 2006). An economy has likely become more polarized if several convergences occur among a limited number of regions within a country around levels of income that have grown further apart from each other. These multiple peaks in income distribution indicate different dynamics compared to a single-peaked distribution (Quah, 1996). This is of enormous interest in countries such as Nepal where an egalitarian distribution remains a highly important goal of development.

Finally, we study if some of the districts have shown a tendency to leapfrog to a higher income level by overtaking originally richer districts. This is an issue that is best analyzed separately from convergence.

We use cross-section econometrics to estimate our models. Since we are not aware of any studies on Nepal that examine economic convergence, our goal in this paper is primarily to understand first whether incomes are converging, diverging, or distributionally constant. Second, we would like to identify the determinants of convergence or the lack of it.

The neoclassical growth model emphasizes physical and human capital accumulation, and population growth as the prime determinants of the steady state of an economy (Mankiw, Romer and Weil, 1992; Islam, 1995). By controlling for similar factors, we focus on the coefficient of the initial income to see if convergence exists in the data. Some of these other factors important for convergence, particularly in the Nepali context, would be related to physical infrastructure such as road network, percentage of irrigated land, and access to electricity and telephones. Finally, an understanding of the degree of polarization among income classes would also be helpful in thinking about the importance of a broad-based policy for development.

Regional convergence literature documents two opposing views on convergence among regions. The first holds that an integrated market economy creates pressures that over time give rise to convergence of incomes among regions. A greater productivity of capital in regions where it has not been used much should attract more capital and help income grow faster as these regions proceed to attain a long-run equilibrium. Thus regional disparities should remain a short term phenomenon. A second approach says there is no compelling reason why regions should converge in either growth or income even in the long run (Myrdal 1957, and Kaldor 1970, 1981). Agglomeration and scale economies in more prosperous regions (Krugman, 1995) can indeed lead to greater concentration of capital and skilled labor. Spatial disequilibrium and significant divergence of incomes can thus result even in the long run.

## **II. Theoretical framework**

To test the convergence of income, our baseline model looks at growth of regions conditional on initial incomes:

$$\frac{\Delta \log y_i}{T} = \alpha + \gamma \log y_{0i} + u_i \quad (1)$$

where  $y$  is real income per capita,  $i$  is an index for regions, 0 refers to the initial value of a variable, and  $T$  is the number of periods in the sample. In equation 1, if  $\gamma$  is negative, we say that initially poorer regions grow faster than those initially richer. Hence the absolute convergence applies. However, if regions are different in some fundamental ways so that their long-run equilibrium incomes are different, then equation (1) is misspecified. Those differences must be accounted for explicitly in the regression according to the neoclassical growth theory. The modified version appears in equation (2):



$$\frac{\Delta \log y_i}{T} = \alpha + \gamma \log y_{0i} + \eta \log y_i^* + u_i \quad (2)$$

where  $\eta = -\gamma = \frac{1 - e^{-\beta T}}{T}$ , a term that, given  $\beta$ , declines as  $T$  increases, and  $y_i^*$  is the steady-state level of income. Thus, the relevant concept for investigation is conditional convergence, i.e., convergence among regions conditional on the steady-state incomes. Growth theory requires the inclusion in the regression of a set of factors that determine the steady-state income. Most important of these factors are investment as a proportion of output, the rate of population growth, the rate of capital depreciation, and technological progress which raises the productivity of labor. In empirical models, a host of variables including institutional and policy-related variables are generally incorporated as controls.

In addition to absolute and conditional convergences, called  $\beta$ -convergence, we can test for sigma-convergence which looks for shrinking of the standard deviation of log per capita income over time. The presence of  $\Sigma$ -convergence implies the presence of  $\beta$ -convergence but its converse is not true because of the possibility of leapfrogging for some regions.

### **III. Data and summary statistics**

Data availability has remained a serious problem with this project. Districtwise macro data for Nepal have been conspicuous by their near absence. Indeed, it was comforting to find the income data for 1995/96 from the Nepal Living Standards Survey as used in the Human Development Report Nepal (HDRN). The per capita income for districts from the more recent survey conducted in 2003/04 have not, however, been published yet. The HDRN does report income for all districts for 2000/01. We adjust these data for the subsequent national growth until 2004 for further analysis.

Among our control variables for which data collection eventually turned successful are roads and telephone lines. We work with population adjusted road length (population per kilometer of road) and population per phone line. More recent years have seen mobile phones become highly popular in some of the remote districts as well, but we did not have enough information on such phones. Data on education, health and sanitation were also unavailable.\*\*\*\*\*

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\*\*\*\*\* These data are in the process of collection and will help in the extension of our model.

Among the basic properties of our income variables, the mean income in 1996 was about Rs 6800 (just above \$100 per person). Income grew in real terms at 3.1 percent per year on average during the eight year period. The mean-median difference widened somewhat with time; as a result income distribution became somewhat more positively skewed in 2004 than it was in 1996. Kavre, Lalitpur, and Kathmandu were the three positive outliers in 1996 with income greater than Rs 11656 per person and there were no negative outliers (less than Rs 694). After eight years, six districts had pulled away with incomes in 2004 greater than the upper quartile by over 1.5 times the interquartile range. These districts are Bhaktapur, Bara, Lalitpur, Mustang, Makwanpur, and Kavre where Kavre's average income of Rs 25298 is well above the cutoff for even the extreme outlier (Rs 17131). The basic statistics for the natural logarithms of income for 1996 and 2004 show distributions much closer to normal with an insignificant difference between the mean and the median, a smaller skewness, and thinner tails.

Income statistics by topographical regions reveal that while Hills are at the bottom of the income ladder in both 1996 and 2004, the mean for the Terai also stays within 10 percent of the Hills. Only the Kathmandu Valley outperforms the rest of the country on average income by wide margins. Finally, in terms of the five development regions in the country, the Central region is by far the richest but it also has the largest variance.

#### **IV. Convergence results:**

The results of the estimation of equation (1) are as follows:

$$\widehat{growth} = 0.567 - 0.061y_{96}$$

(5.73) (-5.42)

$$N = 75, R^2 = 0.287, F_{1,73} = 29.34$$

(3)

The coefficient of  $y_{96}$  (-0.061) implies a high rate of absolute convergence of 7.9 percent per year. At this rate it only takes 11 years to close 50 percent of the gap and 31 years to close 95 percent. This is obviously too high a rate for convergence. In any case, as stated earlier, this model excludes the determinants of income in the steady state, such as investment in real capital. Investment data on districts could not be obtained despite serious efforts. Searching for proxies, we settled on the density of roads and telephones. These variables are measured as the

length of roads per 100,000 population and the number of phone lines per 100,000 population. Both are respective averages of data in the initial and final years. Including these variables in the model, we obtain the following results:

$$\widehat{growth}_i = 0.642 - 0.075y_{i,96} - 0.003road_i + .010phon_i$$

(6.40) (-6.30) (-0.69) (3.16) (4)

$$N = 64, R^2 = .403, F_{3,60} = 13.48$$

The overall fit of the regression in equation (4) shows improvement over the result for equation (3). The road variable does not, however, provide a positive impact on income growth, nor is its coefficient statistically significant. Note that roads are only one of the constraints in development. For the given sample period of eight years, the Maoist rebellion, for instance, may have played a larger role in growth slowdown by raising uncertainty in return to investment, and placing physical barriers on the movement of goods and services. The phone access performs better with the expected positive sign and high statistical significance for its coefficient. Since the phon variable is measured in logarithms of the number of phone lines per hundred thousand population, its estimated coefficient indicates that a doubling of phone lines increases the overall growth by one percentage point above the mean growth. This seems to be a significant result given enormous potential for growth of telephone network in Nepal.

Dropping the insignificant road variable does not change our results substantially as shown in equation (5):

$$\widehat{growth}_i = 0.646 - 0.076y_{i,96} + .0096phon_i$$

(6.52) (-6.42) (3.34) (5)

$$N = 69, R^2 = .388, F_{2,66} = 20.93$$

We note that neither the White nor the Bruce-Pagan test rejected the null of no heteroscedasticity. For the last specification (equation 5), for example, the White test showed the probability greater than  $\chi^2$  to be 0.21. A plot of the residuals against the estimated growth also failed to show a clear picture of changing residual variances.

A common problem with all the estimated equations (3)-(5) is the high speed of convergence. It seems implausible that poorer districts are closing the gap between their current and steady state incomes at a rate of

7 to 10 percent a year. Our data show that development of infrastructure, particularly roads, has occurred faster in districts with slower income growth (also see Mahat, 2005). The correlation between income and road growth rates is negative although not very high ( $-0.11$ ) in the 80 percent of the districts for which we have data for both rates. The question that remains unresolved at this point is whether, despite some progress in infrastructure development, the determinants of the steady state income in many districts are too poor to allow a catch up with income in richer districts. In other words, while poorer districts may be moving closer to their own steady states at a relatively rapid pace, their steady state incomes are themselves too low to permit absolute convergence with richer districts.

We test to see if Hills and Tarai display income divergence or differing significance of the infrastructure variables. The national results of convergence, however, go through for topographical regions as well. The initial income remains highly significant and negative and the speed of convergence continues to stay high and similar for the two regions. On the other hand, the phone variable fails to attain statistical significance at conventional levels for the Tarai. Among the development regions, the West and the Midwest display the most rapid rate of convergence while the Farwest stays below the national trend. It is important to point out that the rate of convergence for the Central region is closer to that of the Farwest than to the rate for the West. It is likely that higher prevailing per capita income in the Central region places it closer to its steady state income than are others to their own incomes, and hence its convergence is slower. On the contrary, the Farwest may be closer to its steady state because of relatively poor indicators for the determinants of its long-run income.

## **V. Conclusion**

We study whether per capita incomes in the districts of Nepal are converging. That is, whether districts that were poorer in the mid-1990s have shown a tendency to grow faster subsequently than districts that were initially richer. We test for absolute  $\beta$ -convergence and conditional convergence. Incomes pass both the tests. However, there are some dissimilarities across topographical regions (Hills and Tarai) and across development regions.

Our study indicates problems that must be resolved before proceeding with attempts to obtain a clear picture about the convergence process in Nepal. The first and major limitation is the short-term nature of

our data, for eight years, while convergence is best studied on long-term data. Second, more data on factors that determine the income in the long run, particularly human capital, would be important for a more complete test of convergence. Our data on education and health variables remained incomplete for most districts which precluded a study of another dimension to the process of convergence. Using these data, we hope to perform in the near future a better and more complete analysis of the income convergence issues in Nepal.

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## **Poverty, Food Security and Infrastructure**

### **Rural poverty analysis: A case study of Kaski District of Nepal**

**Uddhab Bhandary**

University of Colorado at Boulder

Although rural development is the main focus of the National Development Plan of Nepal, there are no objective methods of ranking small administrative areas, known as Village Development Committees (VDCs) in Nepal, in order to allocate development resources to the neediest. Several poverty measurement methods are available, but commonly used methods are difficult to apply at the VDC level due to data limitations.

Available poverty measurement methods can be divided into three types: non-normative, semi-normative and normative. Non-normative methods use a fraction of per capita income for the poverty threshold. Some European countries use this technique. Semi-normative methods use social and economic aspects. The notion behind a semi-normative method is that increased income cannot ensure a better quality of life for people. The Physical Quality of Life Index and the Human Development Index are the examples of such methods. Normative methods apply a threshold that is derived on the basis of the notion of a minimum living standard that includes food, shelter and other household necessities. In this research a method has been devised which falls within the semi-normative type and is applied to the Kaski district of Nepal as a case study.

Kaski district is a typical mid-hill district with mixed income and development levels. The VDC is the unit of analysis for this study. Variables were selected through a series of meetings including local planning officials and people's representatives. Most of the socioeconomic data for the selected variables were collected from the District Development Committee and its line agencies. Natural resources data were extracted from the Land Resources Mapping Project Data, using Geographic Information Systems (GIS). From the available variables and their data, five indices were designed: the poverty index, the social index, the women's empowerment index, the infrastructure and institutional index, and the natural resource index. The poverty index was designed as a proxy for income poverty. These indices were frequently used in development planning at the local level. A simple correlation test was

applied between income data and the indices and also among the indices themselves. The indices were mapped in GIS.

In the analysis, the correlation between income data and the poverty index was statistically significant. However, there was no significant correlation between income and other indices. The first result showed that income poverty could be reflected by that index in rural areas. However, the second result suggested two possibilities: 1) income data could not fully represent all relevant social aspects, or 2) resources did not go to the neediest people.

Regarding GIS maps depicting indices and indicators, local planners and policy makers can easily understand them. Through these maps, concerned planners and policy makers can compare the situation of their VDC with other VDCs in terms of a given index. This knowledge offers them power to bargain for more resources with higher authorities.

## **Improving food security in Nepal: Analyzing the results of a World Food Program survey**

**Steven Archambault**

University of New Mexico

The World Food Program carried out a national household food security survey in Nepal in 2005. This research analyzes the data collected in this survey to better understand the activities and characteristics of households that improve or diminish food security levels. An ordered logit econometric model was used to analyze the nearly 1800 data points collected in the survey. GIS maps were used to carry out a spatial analysis of food security and deforestation and various land use variables. The analysis particularly focuses on social capital, natural capital, human capital, and financial variables that influence food security. The analysis finds that membership in lower castes, living in areas with more conflict, poor soil quality, deforestation, and less access to agriculture training were indicative of a higher probability of food insecurity. Variables associated with higher food security include receiving remittances from family members abroad, higher educational levels, access to governmental and non-governmental aid, better access to clean drinking water, and access to irrigation systems. Food security was determined by the household's food basket and the frequency at which household members consumed carbohydrates, fruits, vegetables, and protein. Such results are important for both governmental agencies and non-governmental organizations designing policies to strengthen food security, which is often considered vital for breaking poverty cycles and improving the welfare of households and communities.



## **Socio-economic impacts of rural road development in South Asia**

**Ben Briese**

Saint John's University

Started in 1994 by the 16 village development committees (VDCs) of Mustang District, the motor road connecting the district headquarters of Beni, Jomsom, and Lo Manthang in north-central Nepal is nearing completion. When completed in the fall of 2008, this road will provide jeep, motorcycle and tractor service to the 15,000 residents of Mustang from Pokhara to the Chinese border. Well-documented case studies, such as that of the Karakoram Highway in Pakistan, show that rural road development projects affect virtually all aspects of life in nearby communities. Using a holistic approach, this paper examines societal changes in agriculture, migration, health, education, environment and culture, to assemble a comprehensive picture of change caused by road development projects in these affected rural societies. Preliminary findings show that as modern forms of transportation become more available and convenient, traditional forms of transportation inextricably linked to community culture and heritage, such as horses, are rapidly replaced. Due to significant decreases in the cost of transportation, agriculture has become much more profitable. This encourages an expansion and diversification of crops and increases property values and migration to the region. Decreases in transportation costs also result in an expansion of health care in the region including ambulance service and a greater variety and quantity of available medicines. Educational professionals expect to see shifting patterns of attendance and a consolidation of students attending larger schools in the district. While various government regulations are being enacted such as vehicle efficiency standards and checkpoints, pollution and poaching are still expected to be exacerbated by the presence of the road. Tourism, a major economic activity in the region, is expected to undergo radical changes with a steep decline of foreign tourism and a steady increase in domestic tourism. This paper will use the road development project in Mustang as a case study and a lens for more general patterns of societal change caused by road creation projects in the greater scope of South Asia.

### **Third Himalayan Policy Research Conference: Survey Feedback Report**

21 survey forms were filled out. Overall satisfaction (10 being the highest): mean = 8.6; median = 9. On Conference Venue question: No answer =1; indifferent or South Asian Conference of the U. of Wisconsin Madison venue = 11, In favor of changing the venue = 9 (Many graduate students showed concern about the room/board and travel cost). On providing teaching service to NSC-supported program like the KU's prospective Graduate School of Economics and Public Policy at Kathmandu University and also to Security Management program at KU School of Management: 10 faculty or doctoral students showed interest -- demography; survey methods; economics; democracy; international economics; GIS/remote sensing; bio-diversity; environmental science and policy; governance; rule of law; public policy and planning; economics.

**Comments:** rooms could have been better; Expand time for sessions; Great work; Attracting more women scholars for participation; sharing only 2/3 program revisions would be better to reduce confusion; changing the venue to UNM or other universities would be nice.

**Observation:** Some scholars attending the 37th South Asian main event presented at our HPRC conference too. Some scholars flying in from India for the main event expressed great interest to attend our conference next year. This complementarity between our HPRC conference and the main South Asian Conference of the U. of Wisconsin has been recognized as a draw for scholars who are interested on the broader issues related to South Asia. This has been cited as one of the main reasons for holding our HPRC conference at Madison to enhance our scholarly network.

**Friday morning brainstorming at Michelangelo's Coffee House (9AM - 11AM):** A group of participants gathered over coffee and bagel to discuss the following: how to expand participation from other South Asian nations; increasing the North American graduate student participation; seminar format; e-seminar option; peer-to-peer graduate student interaction, identifying sources for funds to supplement cost for junior scholars' expenses especially those flying in from South Asia. The group also looked at the NSC's brochure and provided feedback.

**Lunch break discussion:** NSC provided complimentary lunch to our participants. During the lunch break, Dr. Bohara gave a brief introduction to various NSC-related activities -- e-journals, summer program, HPRC conference, and Dspace archive. Dr. M. Upadhyay talked about our long-run goal of creating a Himalayan Policy Research Association and filing for a membership with the ASSA. Dr. Mahendra Lawoti informed us of a meeting, and Ms. Meeta Pradhan made quick announcement about a dataset.

**Appendix A: Survey Questionnaire**

Name (optional): \_\_\_\_\_ Affiliation (optional):  
\_\_\_\_\_

Presenter \_\_\_\_\_ Discussant \_\_\_\_\_ Chair of session \_\_\_\_\_  
Audience \_\_\_\_\_

Current Status: Faculty \_\_\_\_\_ Student \_\_\_\_\_ Other \_\_\_\_\_

1. This is our Third annual HPRC conference. What is your opinion about continuing this event in future on a scale of 1 to 10 (10: strongly in favor)? \_\_\_\_\_
2. NSC is thinking about putting together a proceedings volume of the conference. Would you be willing to contribute your expanded version of the abstract?  
Yes \_\_\_\_\_ No \_\_\_\_\_ Not Sure \_\_\_\_\_ Not Applicable \_\_\_\_\_
3. On a scale of 1 to 10 (10 being highest), what is your likelihood of attending the HPRC in Madison next year:
4. Should we think about changing the venue for our conference? A) Definitely Yes \_\_ B) Yes \_\_ C) Indifferent \_\_ C) Let's stick with the U. of W. Madison venue \_\_.
5. Rate the overall satisfaction with the 2008 conference on a scale of 1 to 10 (10 highest): \_\_\_\_\_
6. NSC is taking a knowledge transfer initiative sending faculty/doctoral students to Nepal to teach at the Kathmandu University's prospective programs like Graduate School of Economics and Public Policy, and an existing diploma program in Security Management. Would you like to help and be contacted for this?  
Yes \_\_ (email: \_\_\_\_\_) No \_\_ N/A \_\_

If yes, what would be the area of your skill-set?  
\_\_\_\_\_

What time frame would you prefer? Summer \_\_ Fall \_\_ Spring \_\_

Or other/all (please indicate future interest beyond one year) \_\_\_\_\_

[Additional comments on back]

Additional Comments or Feedback (on how such a conference could be made better): \_\_\_\_\_  
\_\_\_\_\_

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Comments that discuss material published in previous issues.

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4. The second page should include the title of the paper, and an abstract of around 100 words, and some keywords on a separate line.
5. The third page should begin with the title at the top followed by the body of the manuscript. Do not include the name(s) of the author(s). This allows us to expedite our blind reviewing process.

6. The References should be presented at the end of the manuscript in an alphabetical order. Do not number the references.

*Books should be cited as given in the following example:*

Yates, D. (1982). *Bureaucratic Democracy: The Search for Democracy and Efficiency in American Government*. Cambridge MA: Harvard University Press.

*Journal articles should be cited as follows:*

Bertelli, A.M. and L.E. Lynn (2003). "Managerial Responsibility." *Public Administration Review*, 63(3):259-268.

*A reference in the text could be cited in various ways:*

According to Douglas Yates (1982, p. 151), the state can wield power to.....that links policymaking to the democratic popular will (Bertelli and Lynn, 1998) .... and magnitude of substantive delegations (e.g., Bawn, 1995; Epstein and O'Halloran, 1995, 1999).

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When you submit your revised manuscript, you should also submit a cover letter explaining how you addressed the reviewer's points -- comment by comment-- by citing the page number, and paragraph location where you have made the changes. For example, a portion of your cover letter to the editor may contain:

Referee # 1, comment #1:

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Author's response:

The reviewer's comment has been addressed on page 13 (second paragraph) with the line that begins with "The negative effect of GR could be interpreted as ...." A foot number 5 at the end of the manuscript has also been added to further clarify the seemingly contradictory effect of GR by citing two other similar findings in the literature.

Referee #1, comment #2:

[Referee's comment reproduced.]

Author's response:

[Author's explanation.]

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