



Potential of Herbs in Karnali and Role of Private Sector

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Abbreviation

AD	Annoy Domini
B.S	Bikram Sambat
GDP	Gross Domestic Product
IUCN	International Union for Conversation of Nature
Rs	Rupees
NRs	Nepalese Rupees
US	United States

1. Background

The fundamental rights granted by the Constitution of Nepal, 2015 state that every individual has the freedom to practice any profession, carry out any occupation, and establish and operate any industry, trade and business in any part of Nepal. This means that every Nepali citizen has the right to practice any profession, undisturbed, in any part of Nepal. Despite being declared a fundamental right by the constitution, it is important to note whether the state system has been able to create a favorable business environment in the country. According to the latest Annual Doing Business Report of World Bank, Nepal ranks 94th out of 190 economies in terms of business-friendly environment (Doing Business Report, World Bank, 2020).

After the promulgation of The Constitution of Nepal, 2015, Karnali has become one of the seven provinces in the Federal Democratic Republic of Nepal. Despite various plans and programs introduced by the province for the prosperity and development of the region, Karnali has been unable to shed its recognition of a poor and backward region. However, the new provisions in the Constitution, which provides self-determination rights to the province and local level government, have raised hopes for the prosperity of Karnali Province.

Karnali has a total of 79 local levels, among which 25 are municipalities and 54 are rural municipalities. Birendranagar in Surkhet was named the permanent capital of the province. With the formation of local and provincial governments, the roles of different levels are crucial for the governance and prosperity of Karnali. Despite its challenging geography and very low Human Development Index, development across the province is possible if people were to co-operate and appropriate public policies and programs are formulated and implemented.

Karnali Provincial Government has envisioned to make Karnali the most developed province of Nepal within ten years by making significant investment in infrastructure and human resources by utilizing its natural resources effectively and efficiently to improve the economic, social, political and cultural condition of Karnali residents (Policy and Program of Karnali Province, 2019).

For a comprehensive economic development of Karnali and eradication of poverty, the provincial government has placed high priority on education, health, infrastructural development, herbs, hydropower, and industries. In addition, the provincial government plans to set up Karnali Ayurvedic Academy. The Academy will assist in research, production, and processing of herbs. The provincial government has planned to develop and expand Ayurveda treatments along with other medical treatments. The Karnali government will conduct a feasibility study for the same and the results will contribute to the province level Ayurveda hospital (Policies and Programs of Karnali Province, 2019). These policies and programs show that the provincial government has given immense priority to the herbal sector for the prosperity of the state.

Commercialization of herbs which have very high sales potential is believed to be important for the economic development of Karnali province. All districts of Karnali province are rich in natural resources and herbs. In recent times, more people have been attracted to this

occupation due to good income generated from the collection and sale of herbs. Herbs have also played an important role in improving the living standard of Karnali citizens.

Depending on the weather, residents of the Himalayan region of the province also visit the high mountainous region to forage for herbs. They collect and sell herbs. They rely on earnings made in a month for the remainder of the year. Everyone in the region, including the youth, elderly and children are involved in the task of collecting herbs. Schools are closed to allow students and teachers to take part in collection. Herbs have made the livelihoods of many people in the region easier, but they have not been able to collect herbs at a commercial scale to make it a reliable source of income. The private sector has also shown little interest in herbal commercialization due to problems in Nepali laws and market, among others.

2. Herbs in Karnali

Yarsagumba, Paanchaunle (Dactylorhiza Hatagirea), *baghejadi, ninaijadi, pakhanved, kamalved, bikhma, guchhichayau* (morchella mushroom), *katuko, satochini, chiraito, padamchal, wild garlic, bhutkesh, jatamasi*, are some of the most abundantly found herbs in the Karnali. By selling and exporting these herbs, locals of the high mountain region earn NRs 100,000 to NRs 700,000 (1,000 - 7,000 U.S. Dollar) - in a month (Budha, 2017).

The per capita income of Nepal averages a little over a thousand U.S. Dollar. If people cooperate and appropriate policies are formulated and implemented, and since locals of Karnali currently earn a thousand dollars in a month, this demonstrates how herbs can contribute to the economic development of Karnali. Despite the possibilities, none of the locals in the region are commercially cultivating herbs. Farmers are selling available herbs to the consumers at a low price. If the government encourages locals to cultivate herbs at a commercial scale, many of the youth can find employment at home. The herbs can be exported to other countries, including India and China.

There are several reasons to partner with the private sector for the commercialization of herbs in the province. Private sectors are dedicated to earning profit; however their contribution also helps in enhancing the living standards of people. Development of industries can create an entrepreneurial ecosystem, business investment, development of technology, improved human resource skills and creation of skilled employment opportunities. The development of industry and business creates income for social investment, enhances capacity for inclusive growth, improves people's living standards, reduces poverty and reduces migration trends. Thus, the private sector is very important. The private sector can play a vital role in the commercialization of herbs in Karnali province by efficiently using available natural resources; they play a significant role in supporting the goal of building a prosperous Karnali.

Although there is a possibility of reaping high benefits by commercializing the herbal sector, more than half of the entrepreneurs have fled due to the legal hassle of working in the field of plants and herbs. According to entrepreneurs, different papers have to be produced for transporting herbs for each district, and there are no machines of international standards available for lab testing. Due to the customs tariff of up to 35 to 40 percent of the import of packaging materials, herbal products have become expensive in the market (Bhatta, 2075).

Similarly, due to some provisions in the Forest Act and other environmental acts, entrepreneurs are hesitant to commercialize herbs.

Out of all the plants in Nepal, 1500 to 1800 species of plants are used by the local communities for their medicinal properties. Similarly, 100 herbs and their parts are sold and distributed in and outside Nepal (IUCN Nepal, 2000). Most people living in high and mountainous areas use herbs in their daily lives. The main reasons for reliance on herbs are proximity to these resources, insufficient land and limited opportunities for agriculture.

In the Himalayan region, a significant percentage of the populations are involved in herb collection and trade. Herbs trade accounts for five percent of total family income. According to various studies, about seven thousand tons of herbs are traded annually from Nepal to other countries, from which the income is estimated to be 60 million U.S. Dollar. With the expansion of technology and road transport, the processing of herbs has also begun (Gurung & Pyakurel 2017). Herbs are one of the major commodities exported from Nepal.

3. Realities of Industry and Investment in Karnali

The Karnali provincial government has mentioned in its policies and programs that it will operate various industries with the government's investment, but considering Nepal's past investment in the industry, the returns have not been satisfactory. It seems necessary for the government to reconsider its decision of investing in industries.

Last year, about one-third of Nepal's government funded organizations suffered loss. While government funded organizations cannot always be evaluated solely on the basis of turnover, the investment made by the government during the last fiscal year of NRs. 164.42 billion was not fruitful. Due to the ambiguous and repetitive policies of the government in the past, investment in the industry on behalf of the government has not yielded significant benefits.

Financial Status of Public Institutions
Table no. 1: Profit / Loss Status for last five years

Area	Financial year B.S. (Rs. In Lakhs)				
	2070/071	2071/072	2072/073	2073/074	2074/075
Industrial	(7747)	(6089)	2472	(3107)	1620
Commercial	(85903)	150986	192470	120647	38791
Service	13448	14301	18187	17323	47881
Social	(2)	(1205)	(1821)	(3723)	(2085)
People uses	67020	95726	43239	166495	203243
Financial	70857	90345	98061	16643	203243
Total	57673	344065	349610	414277	434489
Annual growth	(52.55)	496.58	1.61	18.5	4.88
	Percentage Average less of five-year				93.80

Source: Annual Condition Review of Public Enterprises (Yellow Book), 2076

Looking at the statistics over a period of five years up to the fiscal year 2074/75, the industrial enterprises that the government invested in have mostly been at a loss. The institutions with government investments related to social issues are also at a loss. Institutions that are related to technology and financial business have gained profits. It has been possible for these companies to make profit due to global developments in the field of technology and banking. Looking at the data from the table above, it seems more sustainable and profitable for the Karnali government to focus on creating a favorable investment environment for the private sector rather than investing in herbal development.

Table no. 2: Financial Status of a Privatized Public Institution

Particulars	Fiscal Year B.S. (Rs. In Lakhs)		
	2073/074	2074/075	Percentage change
Share Capital	22604	26378	16.03
Saving And reserve Account	25731	42030	63.34
Operating Income/ Sales	29894	32050	7.21
Net Profit	3448	3572	126.45
Income tax	99.07	344	224.05
Number of personalization organizations that make a profit	7	5	
Number of personalized organizations that were in loss	2	2	

Source: Annual Condition Review of Public Enterprises (Yellow Book), 2076

Privatized entities, on the other hand, appear to be comparatively advantageous. The rate of income tax paid by such corporations is also very high and the net profit is improving. Taking into account the example of large government investment institutions which had to be privatized due to huge losses for the past several years, it can be seen that it is appropriate for the federal government to move ahead with the development of the industrial sector by cooperating with the private sector.

Let us also look at the financial situation of some industries of the Government of Nepal. The productive industries are Dairy Development Institute and Hetauda Cement Factory. Among various cement factories, there are many competing private industries where the continued presence of the government does not seem to be meaningful. Dairy industry also has a strong presence in the private sector. The government's plan to run the industry through cooperatives does not seem to be working. The most bizarre example is the government's investment in the Janakpur Cigarette Factory: it has harmed the health of the common man on the one hand, and the government investment at a loss on the other. Therefore, it is time the government thought about withdrawing from investing in these industries.

Table no.3: Conditions of Industry in Karnali Province

Types of Industry	Nepal	Karnali Province	In Percentage
Agriculture and Forestry	456	0	0
Energy	350	13	3.7%
Construction	58	0	0
Minerals	69	5	7.2%
Production		6	0.2%
Information, Transmission and communication Technology	2,976	0	0
Tourism	50	6	0.35%
Service	17,055	9	0.41%
Total	2168	39	0.5%

Source: Statistical Data of Karnali, Karnali Province Government(2076)

According to the statistics till the month of Chaitra of fiscal year 2074/75, there are a total of 7,832 industries registered in Nepal. Out of them, only 39 industries are registered in Karnali province. These industries have provided job opportunities to 2,006 people. There are thirteen energy-based industries, five mineral-based industries, six production-based industries, six tourism-based industries and nine service-based industries in Karnali Province.

There were no industries registered for agriculture and forestry, construction and information, broadcasting, and communication technology in the Karnali province until Chaitra of 2074. Out of the total industries operating in Nepal, only 0.5 percent are operating in Karnali.

In the fiscal year 2075/76, there were 436 industries registered in Nepal. In Karnali province, only one industry was registered. Similarly, in fiscal year 2075/76, there were 27 industries registered in Nepal based on agriculture and forest (where herbs are also included), but there was no industry registered in Karnali province. The absolute poverty rate in Karnali province is 28.9 percent while the rate of multi-dimensional poverty is 51.2 percent (Budget for Karnali Provincial Government, 2075/76). Karnali province has been able to contribute only 4.1 percent to the country's Gross Domestic Product (GDP), and it lagged far behind in foreign investment as well.

Table no. 4: Foreign Investment in Industry in Karnali

Types of Industry	Nepal	Karnali	In percentage
Small scale industry	3990	70	1.75
Medium scale industry	411	11	2.67
Large scale Industry	295	4	1.35
Total	4696	85	1.81

Source: Statistical Data of Karnali, Karnali Province Government (2076)

There are 4,696 industries in Nepal which are running with the help of foreign investment. In Karnali province, only 85 industries are running through the foreign investment. This figure is only 1.81 percent of the total number of all types of industries with foreign investment in Nepal.

The company registration in Karnali is very low according to the statistics of companies registered under the Companies Act, 2063. So far, only 2,152 companies have been registered in Karnali province. Only one percent of 209,922 companies registered in Nepal are in Karnali.

4. Herbs in the Policies and Programs and Budget of Karnali Province

In its list of priorities in the policies and priorities in the Fiscal Year 2076/77, presented by Minister for Economic Affairs and Planning Prakash Jwala on behalf of the Karnali State Government, entrepreneurship and increasing herbal production and productivity were placed third and fourth respectively. This shows that the Karnali government has given importance to the extracting and exploiting herbal and other resources found in the province.

The provincial government has stated in its budget that the private and cooperative sectors will be involved in forest development, expansion and allocation of necessary budget for promotion, diversification and marketing of herbs, timber and small domestic enterprises. Similarly, for the production, collection and processing of herbs, it has been mentioned that a necessary budget will be allocated for feasibility study and development of infrastructure for the processing and storage of forest-based products.

Nepal is one of the richest countries in the world for herbs. Karnali province is considered one of the most resource rich provinces of Nepal. However, due to lack of effective management, poor planning, restricting regulatory business environment, natural resources are not utilized effectively. It is necessary to create a large-scale export environment of herbicides in this province and attract the private sector.

5. International Practices

The herbal industry is expanding worldwide. According to the data cited in the analysis of the US global industry, the herb market is expected to amount to 115 billion U.S. Dollar. The fastest growing markets in the herbal sector are China, India and the U.S. About 32 million Americans are very serious about their health and about 23 percent of them are using herbs.

It is estimated that China will be the largest country in the production of commodity products by 2020. India's herbal medicine is thousands of years old and researches conducted recently also support the use of traditional herbs. India earns 2 billion U.S. Dollar from the Ayurvedic market. Major industries are using modern scientific facts to sell and market herbal products in the world.

6. Alternatives

The concept of public-private partnership can be very effective in attracting investment in the herbal sector in Karnali. This concept also helps distribute business risks between the private and public sector. The federal government has also been working on this model for a significant period of time. But the constitution does not allow the local and provincial governments to make laws that conflict with federal law. If the local and provincial level formulate policies to simplify the business registration process, simplify the tax payment process, make the process of obtaining electricity and water simple and inexpensive and provide land to private investors for business purposes, the economic prosperity of Karnali will not be too distant.

Private investment is also needed to minimize exploitation of public property. Farmers and businessmen may be attracted to herbs if laws and regulations related to herbs are amended. Under the current law, some herbs are listed as herbicides. As Nepal's forest laws are stringent, farmers and businessmen find it difficult to conduct business related to herbs. These are some of the factors that the provincial government and local government should consider while formulating the laws.

In order to make a thriving herbal business a reality in Karnali province, it is important to establish a herbal processing center in Karnali that meets international standards. Such an infrastructure will also help reduce various other costs involved in the herbal business.

The Karnali provincial government needs to introduce a policy to develop a long-term farming system in the field of herbs, and adequate study and research is also needed. The government views timber as a sole benefit from the forest, but it is important for the government to understand that herbs are more beneficial than timber. There are many bare hills in the high mountainous region of Karnali with little to no vegetation, local ownership is non-existent and the land there is often left barren. The government needs to give permission and encourage the locals to cultivate herbs on such land.

It is commendable that the Karnali provincial government has given high priority to herbs. However, the government needs to study the situation of Nepal's state-owned enterprises in the past and consider whether it is worth investing in herbal industries. The Karnali government needs to bring the private sector on board as a development partner, especially considering the weak managerial side of government-invested industries, most of which have gone into deficit, have been privatized or completely shut down.

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About Hriti Foundation

Hriti Foundation is an independent public policy institute based in Karnali, Nepal was established with a mission to conduct research on contemporary economic issues and coming up with pragmatic market solutions in order to influence the policy makers of the province to form the policies based on the liberal ideas. Hriti believes that works like that of Hriti are imperative such that policymakers are able to make informed decisions based on a wide public discourse on issues when it comes to policy matters. Our goal is to inform policymakers about the importance of free markets, entrepreneurship, individual property rights and rule law to translate the vision of prosperity into a reality.

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