FOREWORD

We all are aware that the current year's budget was presented to the Parliament last year ahead of the month of Ashad (July). It was our maiden endeavor to depart from the age-old practice. This time, despite our preparadeness, budget presentation could not take place prior to Ashad due to various episodes of the recent past. Nevertheless, His Majesty's Government is firm in its commitment to present budget of fiscal year 2002/03 prior to Ashad next year.

His Majesty's Government has continued its effort to focus on poverty alleviation through effective implementation of the development programs. I have the honor to present Economic Survey of fiscal year 2000/01 to this Twentieth Session of the Parliament. As a prelude to the budget, this document encompasses the progress achieved under the budget of the fiscal year 2000/01 in important sectors of the economy and analytical review of the changes observed. The survey includes the economic indicators based on the estimates for the first eight months of the fiscal year 2000/01 and actual figures for preceding fiscal year 1999/00. While reading this Economic Survey, following departures from the previous reports should be noted:

a. Data prior to fiscal year 1984/85 have been dropped.
b. In presenting the data, amounts and the percentages have been rounded to double and single digit respectively.
c. Ratios/percentages have been calculated as appropriate.
d. List of charts includes main indicators only.

To conclude, this Survey has truly reflected the observed trends and the tasks ahead underlying the economy of the country. I sincerely believe that it will be of use to all the representatives of the people, intelligensia, economists, researchers, teachers, students and the people at large who are keenly interested in Nepal's economic activities.

Dr. Ram Sharan Mahat
Finance Minister

July, 2001

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LIST OF CHARTS

LIST OF ACRONYMS

ADB/N	Agriculture Development Bank, Nepal
AEPC	Alternative Energy Promotion Center
AI C	Agriculture Inputs Corporation
AOC	Air Operator Certificate
APP	Agriculture Perspective Plan
ARI	Acute Respiratory Infection
ASEAN	Association of South East Asian Nations
BOP	Balance of Payments
BOT	Build-Operate-Transfer
BPEP	Basic and Primary Education Project
CDD	Control of Diarrhoeal Disease
CEDA	Center for Economic Development and Administration
COSCAP	Cooperative Development of Operational Safety and Continue Air Worthiness Program
CSI	Cottage and Small Industries
CTEVT	Center for Technical Education and Vocational Training
DOR	Department of Roads
EFEA	Environment and Forestry Enterprise Activity
EMS	Express Mail Service
EPI	Expanded Program on Immunization
ESAP	Energy Sector Assistance Program
FDI	Foreign Direct Investment
FM	Frequency Modulation
FUG	Forest User Group
FY	Fiscal Year
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
GPS	Global Positioning System
GSM	Global System for Mobile Communication
HMG	His Majesty's Government
HMIS	Highway Management Information System
ICAO	International Civil Aviation Organization
I-PRSP	Interim Poverty Reduction Strategy Paper
KL	Kiloliter
KM	Kilometer
KU	Kathmandu University
KW	Kilowatt
LPG	Liquefied Petroleum Gas
MEDEP	Micro Enterprise Development Program
MSU	Mahendra Sanskrit University
MW	Megawatt

NEA	Nepal Electricity Authority
NGO	Non-governmental Organization
NIDC	Nepal Industrial Development Corporation
NIE	Newly Industrialized Economy
NPC	National Planning Commission
NRB	Nepal Rastra Bank
NTC	Nepal Telecommunications Corporation
NTV	Nepal Television
NUCP	National Urban Consumer Price
NWSSC	Nepal Water Supply and Sewerage Corporation
PE	Public Enterprise
POL	Petroleum, Oil and Lubricants
PPA	Power Purchase Agreement
RNAC	Royal Nepal Airlines Corporation
RSSDU	Road Sector Skill Development Unit
SFC	Small Farmers Cooperative
SFDP	Small Farmers Development Program
SHS	Solar Home System
SLC	School Leaving Certificate
SRTP	Special Rural Telecommunication Service
TESU	Traffic Engineering and Safety Unit
TIA	Tribhuvan International Airport
TOE	Tons of Oil Equivalent
TU	Tribhuvan University
UG	Users' Group
UNDP	United Nations Development Program
USD	US Dollars
VAT	Value-added Tax
VDC	Village Development Committee
V-SAT	Very Small Apparatus Terminal
WLL	Wireless Local Loop

Explanatory Notes

Unless otherwise mentioned in the text of the Survey,

1. Fiscal year means the year beginning from July 16 of the international calendar year to July 15 of the following such calendar year.
2. Current fiscal year means the fiscal year 2000/01
3. Estimate of the current year means the preliminary estimate.
4. Review period means the first eight months of the corresponding fiscal year

I. OVERVIEW OF NATIONAL ECONOMIC PERFORMANCE

Global Economy at a Glance

1.1 Growth rate of the world economy rebounded in 1999 and it grew by 3.5 percent. The Japanese economy, however, recorded its growth at 0.8 percent while that of the United States of America grew by 4.2 percent. Major developed countries as a whole (member of G7 which include the United States of America, Japan, Federal Republic of Germany, France, Italy, the United Kingdom and Canada) achieved 3.0 percent growth. Combined growth rate of other developed countries during the same period was posted at 4.8 percent and that of the four newly industrialized economies (NIEs) in Asia (Republic of Korea, Taiwan, Hong Kong and Singapore) that were in financial crisis grew by 7.9 percent. These growth rates together contributed to the recovery in the world economy. During the year, growth rate of the developed economies (G7 countries included) posted at 3.4 percent, the developing economies at 3.8 percent and that of the economies in transition (formerly centrally planned) at 2.6 percent. The economies of developing Asian countries enjoyed a high growth rate (6.1 percent) while the four economies (Indonesia, Malaysia, the Philippines and Thailand) that were the victims of the Asian financial crisis grew only by 2.8 percent. During the year, consumer price in developed countries grew by 1.4 percent and it increased by 6.7 percent and 43.9 percent in developing economies and economies in transition, respectively.

1.2 As compared to the year 1999, the world economy as well as major developed and developing economies achieved a high economic growth rate during the year 2000. The world economy registered the growth rate of 4.8 percent and developed economies attained the growth rate of 4.1 percent. The economy of the United States of America grew by 5.0 percent while that of the developing countries and economies in transition each posted the growth rate of 5.8 percent. Newly industrialized economies (NIEs) in Asia grew by 8.2 percent. During the period, consumer price went up by 2.3 percent in the developed economies and in the case of developing countries and the economies in transition it rose by 6.1 percent and 20.1 percent, respectively.

1.3 Looking ahead for the year 2001, the economy of the United States of America is estimated to grow at 1.5 percent and that of Japan at 0.6 percent only. Growth of other economies is also estimated to slacken. As a consequence, the world economy is projected to grow by 3.2 percent. Of this, developed economies are estimated to grow by 1.9 percent and the developing economies and economies in transition are projected to register the growth rates of 5.0 percent and 4.0 percent, respectively. The NIEs in Asia are estimated to grow by 3.8 percent and the rest of the developing Asian countries are projected to grow by 5.9 percent. The stated four ASEAN economies that were embroiled in financial crisis are projected to grow by 3.4 percent. The consumer price is estimated to go up by 2.1 percent and 5.7 percent in developed and developing countries, respectively during the year 2001 while it is projected to rise by 15.3 percent in economies in transition.

1.4 As for the neighboring countries of Nepal, the People's Republic of China attained the growth rate of 7.1 percent and India, Bangladesh and Pakistan recorded the growth rate of 6.6 percent, 5.2 percent and 4.3 percent, respectively during the year 1999. Likewise, the economies of People's Republic of China, India, Bangladesh and Pakistan sustained the growth rate of 8.0 percent, 6.4 percent, 4.5 percent and 4.4 percent, respectively in the year 2000. In 2001, these economies are projected grow by 7.0 percent, 5.6 percent, 4.5 percent and 4.4 percent, respectively. With regards to the consumer price, it decelerated by 1.4 percent in the year 1999 and increased by 0.4 percent in 2000. It is estimated to rise by 1.0 percent in 2001 in the People's Republic of China. Whereas, in India it increased by 4.7 percent and 4.0 percent in 1999 and 2000, respectively and is estimated to rise by 3.8 percent in 2001.

1.5 Other South Asian economies (Bangladesh, India, Maldives, Nepal, Pakistan and Sri Lanka) posted the growth rate of 6.2 percent in both the years 1999 and 2000. However, they are estimated to decelerate somewhat in the 2001 and to grow by 5.4 percent. As regards the consumer price in these economies, it went up by 4.8 percent and 4.1 percent in the years 1999 and 2000, respectively and is expected to increase by 4.1 percent in the year 2001.

Present Economic Situation in Nepal

1.6 Some structural and economic changes have taken place in the national economy during the current fiscal year (FY). In this year, gross domestic product (GDP) (at factor cost at the constant price of

1984/85) is estimated to record a growth rate of 5.8 percent. Agriculture and non-agriculture sectors are expected to register the growth rate of 4.0 percent and 6.9 percent, respectively. As for the last FY, GDP grew by 6.4 percent of which agriculture and non-agriculture sectors posted the growth rate of 5.0 percent and 7.4 percent, correspondingly. During the current FY, community and social service witnessed the notable growth rate of 16.4 percent. This, on the one hand, contributed to achieve higher GDP growth rate and, on the other, its relative contribution to the GDP increased noticeably (11.8 percent), second only to the agriculture sector. As a result, the contribution of agriculture sector declined to 38.1 percent and that of non-agriculture increased to 61.9 percent.

1.7 During the review period of the current FY, national urban consumer price index (in relation to the base year 1995/96) went up only marginally (2.1 percent). This is attributable mainly to the fall in price of food grains. Of the monetary indicators, credit flow from banking sector to the Government registered higher growth rate as compared to the last FY. Whereas, in the case of credit flow from banking sector to the private sector, it remained at par with that of the last FY. Of total outstanding loan owed to the banks, the share of private sector grew considerably. On account of the slackness in the growth rate of import, export to import ratio improved. In the area of foreign exchange reserve, reserve of convertible currency increased only marginally while that of inconvertible currency almost doubled. As a result, overall foreign exchange increased. Despite the fact that private investment did not increase significantly, public investment increased at a higher rate. As a result, gross investment in relation to GDP increased. Similarly, national saving to GDP ratio also improved and helped reduce the saving investment gap. As a result, dependency on external resources for investible funds has lessened to some extent. Due to the slowdown in the growth of developed countries, our export, particularly the woolen carpets and readymade garments, has been adversely affected. Consequently, the economy witnessed a downturn in export growth rate. Of the transfer income, income from travel plummeted and contributed to negative growth in the net private transfer. In total, net capital inflow declined and growth of balance of payment (BOP) surplus turned negative. This led to the decrease in amount of BOP surplus against that of the last FY. In spite of improvements in revenue effort, regular expenditure surged and volume of overdraft amount did not go down. This remained a major structural weakness of the public finance sector.

National Income, Investment, Consumption and Saving

1.8 Even though the growth rate of agriculture sector during the first two years of the Ninth Plan was less than projected, revised estimates indicate that during the third year of the Plan (FY 1999/00) it grew by 5.0 percent. According to the revised estimate, GDP at real price at factor cost (before deducting bank service charge) during FYs 1998/99 and 1999/00 is believed to have grown by 4.5 percent and 6.4 percent, respectively.

1.9 As indicated by the preliminary estimates, GDP (at factor cost) at constant price of FY 1984/85 increased by 5.8 percent during the current FY to total Rs. 96,612.0 million. Of this, agriculture and non-agriculture sectors are estimated to have grown by 4.0 percent and 6.9 percent, respectively corresponding to the total of Rs. 36,853.0 million and Rs. 59,759.0 million. As regards the non-agriculture sector, electricity, gas and water sector is projected to grow by 19.1 percent contributing Rs. 906.0 million to the GDP. Similarly, the growth of other sectors viz. community and social service, transport, communication and storage, manufacturing industry, finance and real estate are estimated to go up by 16.4 percent, 6.8 percent, 6.5 percent, 4.9 percent, respectively corresponding to the total of Rs. 11,423.0 million, Rs. 8,251.0 million, Rs. 9,224.0 million and Rs. 9,653.0 million. Likewise, mining, trade, restaurant and hotel, and construction sectors are projected to increase by 3.9 percent, 3.3 percent, and 2.6 percent, respectively.

1.10 GDP at current price is estimated to grow by 7.8 percent during the current FY amounting to Rs. 409,252.0 million. According to the revised estimates, it grew by 11.0 percent during the last FY. As per the preliminary estimate, GDP at factor cost, is estimated to grow by 7.4 percent during the current FY totaling to Rs. 392,532.0 million whereas, according to the revised estimates, such growth rate was 10.8 percent during the last FY. According to the preliminary estimates, per capita GDP is believed to increase by 5.3 percent during the current FY to reach Rs. 17,711.0 In terms of US dollars (USD) it declined only marginally by 1.6 percent to USD 240.

1.11 Gross national product (GNP), at current price, as per the preliminary estimates, will grow by 8.5 percent during the current FY totaling to Rs. 426,346.0 million. The revised estimate indicated it to have grown by 11.3 percent in FY 1999/00. Per capita national product during the current FY is estimated to grow by 6.0 percent to reach Rs. 18,451.0 relative to 8.7 percent in the last FY.

1.12 During the current FY, total investment at current price is estimated to grow by 13.7 percent (as per preliminary estimates) amounting to Rs. 105,015.0 million. It grew by 32.0 percent during the last FY. Similarly, gross fixed capital formation at current price is estimated (as preliminary) to increase by 10.4 percent reaching Rs. 78,463.0 million during the current FY whereas the revised estimates indicate that it grew by 8.9 percent in the last FY.

1.13 During the current FY, preliminary estimate of total consumption at current price will increase by 6.5 percent to the total of Rs. 343,578.0 million against revised estimates of 9.2 percent in the FY 1999/00. Consumption at slower growth in this FY would help mobilize more resources for economic development. In relation to the GDP at current price (at producer's price), total consumption is estimated to decline to 83.9 percent from 84.9 percent in the last FY.

1.14 Preliminary estimates indicate that gross domestic investment at current price increased by 14.9 percent to the total of Rs. 65,675.0 million during the current FY against 22.8 percent last year. Likewise, gross national saving is estimated (as per preliminary estimates) to grow by 17.2 percent during the current FY amounting to Rs. 83,883.0 million. Revised estimates indicate that such investment experienced the growth rate of 22.2 percent during the last FY. Proportions of total investment in relation to GDP (at producer's price) are estimated to be 25.7 percent and 24.3 percent during current FY and the previous FY, respectively while the proportions of total domestic saving to GDP during the same period are estimated to be 16.1 percent and 15.1 percent, respectively. Thus, the difference between saving and investment is estimated to stand at 9.6 percent and 9.2 percent respectively, during both the FYs.

1.15 The Ninth Plan in the perspective aims at reducing the present level of population living below the poverty line (42 percent) to 10 percent by the end of fiscal year 2016/17. Towards this end, the plan envisages to reduce the incidence of poverty through the gradual up-liftment of the living standard of such people. The measures to be taken to alleviate poverty include: developing physical, social and economic infrastructure in backward areas, empowering the weaker and backward section of the society, carrying out various programs targeting to raise the living standard of people lacking access to productive and income earning resources, and enlisting the participation of these people in the process. Moreover, controlling population growth rate, increasing employment opportunities, raising the level of productivity, developing human resource are some other measures aimed at reducing poverty. The backward and weak sections of the society would be provided more opportunities to participate in such programs.

1.16 Even though various programs have been launched, we have not been able to reduce the incidence of poverty as targeted. There are many reasons that can be attributed to this situation. They include; low economic growth rate, stationary productivity of agriculture, lack of proper mechanism to percolate the benefits of economic growth achieved in non-agriculture sector down to the rural poor, limited access of the poor to the social services like health, education, drinking water, etc. Similarly, high population growth rate, ineffective public expenditure management, limited employment opportunities and inadequate rural infrastructure have also impeded our efforts for poverty alleviation.

1.17 Hitherto, various programs for poverty alleviation are in place with the emphasis on macroeconomic stability. The programs in operation include: modernization of agriculture, community participation in rural development, women empowerment, creation of employment opportunities, development of rural infrastructure. To reduce poverty in institutional way, social security schemes, programs for indigenous people and ethnic groups, provisions for girls scholarship and women teachers, facilitation of rural banking access to concessional loan through rural banking to deprived segment of the society are being implemented. To launch poverty alleviation campaign on national level programs like “Bishweshwor with the Poor”, “Ganesh Man Singh Peace Movement”, Women Awakening are being carried out. These programs and institutional reforms would help mitigate poverty and associated anomalies. In a bid to accelerate poverty alleviation process, the His Majesty’s Government (HMG) has prepared an Interim Poverty Reduction Strategy (I-PRSP) in tune with the major objective of alleviating poverty of the Ninth Plan.

Employment

1.18 High population growth rate has hindered unemployment and underemployment abatement efforts. The population has been growing at the rate of 2.4 percent per annum and 300,000 labor force enters the labor market every year. Underemployment remains pitched at 47 percent of the population. As the employment opportunities continues to be out of line with the increase in labor force, poverty has accentuated. Likewise, owing to the marketable education, vocational training and easy access to training, the job opportunities under infrastructure development activities remain underutilized.

1.19 Lacking proper development of human resources, wasted labor force has further aggravated poverty to pose a major challenge. Liberalized and market friendly economic policy has helped create employment opportunities of highly intelligent, skilled, healthy and dutiful nature for which the available labor force attributes are less than adequate. This needs to be addressed by properly interfacing the supply of and demand for labor force.

1.20 With the implementation of liberal economic policies by the Government, participation of the private sector in the economy has increased. As a result of investor-friendly policy pursued by the government, new employment opportunities have been generated in larger industrial establishments, bank and finance companies, insurance companies, non-governmental organizations (NGOs), educational and health institutions, hotels and airlines services. This has helped contain the problem of unemployment to a significant extent. The problem of underemployment is being addressed, to some extent, by the generation of self-employment opportunities in rural areas through easier access to financial resources under the Grameen Vikas Banks and banking services provided by NGOs. This worked as an effective base for mitigation of poverty and unemployment in local level.

Agriculture

1.21 In FY 1999/00, the yield of major food crops increased considerably as a result of favorable weather condition. It posted the growth rate of 8.0 percent to reach a total of 6.98 million metric tons. In the current FY, it is estimated at 2.7 percent to total 7.17 million metric tons. Over the same period, the total area covered by food crops declined by 0.2 percent compared to the last FY to total 3.31 million hectares.

1.22 In the last FY, the production of major cash crops increased by 7.0 percent and reached to 3.43 million metric tons. During the current FY, its growth is estimated at 7.3 percent and total output is expected to reach 3.68 million metric tons. The total area covered by the cash crops was 0.39 million hectares in the last FY and it is expected to have increased by 0.3 percent during the current FY.

1.23 Irrigation development projects are being carried out by the government and the Agriculture Development Bank (ADB/N). In FY 1999/00, irrigation facility was expanded to an area of 35,702 hectares. Of which, a total of 27,562 hectares was expanded by the government projects and 8,140 hectares by the ADB/N. During the review period of the current FY, irrigation facility has been provided to an area of 1,732 hectares, government projects and the Bank schemes contributing 1,530 hectares and 202 hectares, correspondingly. Over the same period of the last FY, additional irrigation facility was extended to a total area of 1,650 hectares. It has been aimed at expanding the irrigation facility to an area of 57,405 hectares including 48,787 hectares by the projects being carried out under the Department of Irrigation and 8,618 hectares by the ADB/N during the current FY.

1.24 In FY 1999/00, the ADB/N disbursed credit worth Rs. 6,989.6 million and recovered Rs. 5,180.9 million. Over the review period of the current FY, it disbursed Rs. 4,647.2 million and recovered Rs. 3,275.1 million as against the disbursement of Rs. 3,880.6 million and recovery of Rs. 2,688.5 million during corresponding period of the previous FY. As in the past several years, of the total loan disbursement during the review period of the current FY, the biggest of share went to agro-industry followed by marketing and go-down construction. By the end of the previous FY, the total outstanding loan of the Bank had been Rs.12,883.1 million which witnessed the growth rate of 16.0 percent over the period of eight months of the current FY to a total of Rs. 14,255.2 million.

1.25 Under the ADB/N, 357 Small Farmers Development Programs (SFDPs) are being carried out throughout the Kingdom. Till the end of FY 1999/00, SFDPs and Small Farmers Cooperatives (SFCs) have served a total of 192,147 people associated in 25,083 Groups. In terms of area, they have covered 625 village development committees (VDCs) 40 by SFDPs and 85 by SGCs. As of the and of the previous FY, a total of Rs. 591.2 million was disbursed and Rs. 493.1 million was recovered through SFDPs. Whereas the total amount of loan disbursement and recovery through SFCs was Rs. 323.5 million and

Rs. 345.3 million, respectively during the same period. During the review period of the current FY, the SFDPs distributed a total of Rs. 254.2 million and recovered Rs. 284.3 million. By the end of the previous FY, the Groups had collected Rs. 180.0 million as group savings. As of the end of the review period, total outstanding loan disbursed by the SFDPs was Rs. 1187.8 million.

Industry, Tourism and Public Enterprise

1.26 Industry plays an important role for an accelerated economic development of a country. The government has recognized private sector’s role as inveitable to accelerate the pace of industrial development. Accordingly, the Government has assumed its role to be an efficient facilitator and promoter. Moreover, with a view to contributing to the industrialization of the country through investment and technology transfer, foreign investment has been regarded as an essential strategy for industrial development. Foreign investment is a vehicle not only to import capital but also for management and technology, skill, and competitive professional qualities in our corporate culture which will help contribute significantly to the overall economic development of the country. Keeping these things in mind, approval has been given to establish 649 industries as of mid-March 2001 under foreign investment. Total project cost of these industries has been Rs. 71,234.6 million. A total of Rs. 17,342.9 million has been invested in the form of foreign investment in these industries. Once these industries become operational, 81,536 people will get employment opportunities.

1.27 While assessing the major industrial products, composite industrial production index increased by 8.7 percent during the FY 1999/00 relative to the FY 1998/99. According to the preliminary estimates, the index is believed to have increased by 3.6 percent during the current FY as compared to 8.7 percent last year. In the FY 1999/00, capacity utilization of some industries like beer, matches and jute increased and that of sugar, cigarettes and cement decreased as compared to that of FY 1998/99.

1.28 As of now, 11 industrial estates are in operation in which a total of Rs. 150.0 million has been invested as fixed capital. Of the total 432 industries registered to establish in the industrial estates, 332 (77 percent) are operational, 43 (10 percent) are under construction and 57 (13 percent) have been shut down. Nepal Industrial Development Corporation (NIDC) disbursed Rs. 48.2 million for 30 industrial schemes during the period under review. It recovered Rs. 170.1 million during the same period. With regards to cottage and small industries (CSIs) with a total 6,587 industries have been registered over the review period with a total investment of Rs. 4820.0 million and these industries will provide employment opportunities to 47,425 people.

1.29 With its natural beauty, geographical diversity and cultural and artistic distinction, Nepal carries immense potential for the promotion of tourism industry. With its comparative advantage over other sectors, it has been instrumental in promoting employment and income generation and prop to BOP. The analysis of the number of tourists visiting Nepal, its growth rate and duration of stay revealed that the number of tourist visiting Nepal dropped by 9.1 percent from mid-January 1999 to mid-January 2000, relative to the corresponding period last year and average duration of stay also went down slightly from 12.8 days to 12 days. During the period the highest number of tourists came from Asia and the lowest from Africa. The main purpose of the majority of the tourists to visit Nepal has been recreation, trekking and mountaineering.

1.30 In terms of earning of foreign currency by tourism industry, the total amount during the FY 1999/00 had been Rs. 12,073.9 million. The amount thus earned during the first six months of the current FY amounted to Rs. 5,308.1 million. As regards the number of hotels, there were 848 hotels of which 99 were star hotels and 749 non-stars. The total number of beds in these hotels is estimated to be 34,958. From mid-January 1999 to mid-January 2000 a total of 132 mountaineering expedition teams were allowed to scale various mountains and 773 mountaineers are estimated to have scaled them. Nepal Tourism and Hotel Management Academy provided training to 1,197 trainees in various subjects in the FY 1999/00. Thus, the number of trainees trained since the establishment of the Academy as of the review period of the current FY reached 15,716.

Energy, Forest and Environment

1.31 In spite of Nepal’s huge potential of generating hydro-electricity up to 83,000 MW, by the end of FY 1999/00, only 323.2 MW (0.4 percent of the total capacity) electricity was generated. In the current FY, Upper Bhotekoshi Hydro-electricity Project (36,000 KW) and Modikhola Hydro-electricity Project (14,000 KW) started their generations and total electricity generation, thus, reached 367.1 MW (0.5 percent of total capacity). Of the total electricity generated, 373.2 MW has been linked to national grid, the rest (5 MW) generated through small hydro-electricity projects uses local grids to serve local communities. Likewise, thermal power plants and solar energy centers have been generating 56.8 MW and 100 KW electricity, respectively. By the current FY, all the districts of the Kingdom have been electrified.

1.32 Every year the consumption of petroleum products has been on the rise. In the FY 1998/99 petroleum products worth Rs. 11,136.1 million were consumed witnessing the double digit growth rate (19.7 percent) during the FY 1999/00 to total Rs. 13,332.4 million. During the review period of the current FY, the consumption totaled Rs. 10,335.9 million as against Rs 8,888.3 million during the comparable period of the last FY. The total import bill rose by 16.0 percent during the review period of the current FY, which can be attributed to the increased import of means of transportation and exchange rate change of Nepalese currency vis-à-vis the convertible currencies.

1.33 Among the natural resources, the role of forest is second only to water resource. Various programs are being carried out both by the government and private sectors in order to develop the forest. Promotion, extension and conservation of forest are inevitable for environmental balance and cleanliness, meeting daily energy requirement of people, promoting revenue mobilization and supplying essential materials for construction works. The major programs being run for the conservation of forest include, *inter alia*, community forest development, forest products development, and lease-hold forestry, botanical research, national parks and wildlife conservation, land and watershed conservation, herbs production and processing, environment and forest industry etc. For the successful implementation of the said programs private forest entrepreneurs are being encouraged to participate in forest management.

1.34 Since there has been excessive pressure on traditional sources of energy for consumption appropriate conservation of it has become the matter of urgency. Towards this end, alternate energy sources like biogas, micro-hydro projects, solar energy and wind energy have to be developed in proper way. Identification and production of new energy sources is equally important. Moreover, preventing degradation of forest resource, and reversing the negative impact upon environment and productivity caused by deforestation are also the concerns for priority attention. For this, concerted effort on the part of both government and private sector is essential.

Transport and Communication

1.35 Keeping in view the difficult terrains and large number of rural community living there, transport sector has been accorded priority. Transport plays an important role for overall development of the country. Hence, priority is being accorded for the development and expansion of this sector. The Ninth Plan envisages to extend transport facility to 68 district headquarters leaving 7 remote and inaccessible districts in Himalayan region. So far, 65 districts have been linked to transportation system.

1.36 Under the current FY allocation, 170 projects are under implementation. During the review period of the current FY, construction of 55 KM blacktopped, 50 KM graveled and 45 KM jeepable road has been completed. Similarly, 15 motorable bridges have been built. Including the roads completed during the period under review, the total length of road network has reached 15,458 KM, of which 4,577 KM (30 percent) is black topped, 3,696 KM (24 percent) is graveled and 7,185 KM (46 percent) is jeepable. By the end of FY 1999/00, the total number of vehicles in the Kingdom was 263,516. It increased by 10.3 percent during the review period of the current FY to total 290,644. Thus, the number of vehicles per KM of road has been 19.

1.37 Given the remoteness and difficult topography, extension of air transport is equally important along with the development and expansion of road transport. Altogether, there are 44 airports. Nepal Civil Aviation Authority has allowed 120 helipads to operate in different places. To upgrade the facilities of the Tribhuvan International Airport (TIA) to international level, six package programs are in place. To introduce Communication, Navigation, Surveillance/Air Traffic Management based upon satellite gradually, a ten-year work plan has been prepared. Memorandum of Understanding/Air Service Agreements have been concluded with 31 different countries. Of them, some have been finalized and some initial agreement has been reached The Royal Nepal Airlines Corporation has initiated its service to Banglore of India and number of flights in Kathmandu-Shanghai-Osaka route has been increased to 3 per week. Singapore Airlines has increased its flight from 3 to 4, Qatar Airways from 6 to 7 and Gulf Air from 3 to 5 per week. Dragon Airlines of Hong Kong has resumed its regular service. Similarly, in the case of domestic services, Necon Air has added 2 ATR-42, Cosmic Air 2

SAAB-340, Shangrila Air 1 BE-1900c, Mountain Air 2 BE- 1900c and Buddha Air has added 2 BE-1900d aeroplanes.

1.38 Postal service has been country's the oldest and leading means of information and communication. As of the end of the review period, 1 general post office, 5 regional post offices, 70 district post offices, 827 area post offices and 3,130 additional post offices are in operation. In addition, 519 post offices have been providing money order service and 116 post offices are also serving as saving banks. Express mail service (EMS) is available for 26 countries. Pursuant to the policy of operating telecommunication services with the participation of private sector, 61 licenses have been issued to provide various services. They include; 15 internet service providers (including email), 7 V-SAT providers and 23 user of services, 8 radio paging network, 1 video conferencing, 6 fax mail and 1 for cellular phone. Out of 3913 VDCs, 1726 VDCs (44 percent) enjoyed telephone service as of mid-March 2001. By the end of the same period, 275,558 telephone lines have been distributed through 142 exchanges. A total of 131 countries can be accessed by direct dialing through 1,019 circuits.

1.39 As of mid April 2001, a total of 2,870 newspapers and magazines were registered. Of these, 193 were dailies, 9 bi-weeklies, 1,008 weeklies, 220 fortnightlies, 787 monthlies, 205 bi-monthlies, 334 quarterlies, 15 four monthlies, 49 bi-annuals and 50 annuals.

1.40 Nepal Television (NTV) has been providing its service since 1985. Presently, it broadcasts 16.30 hours a day through 3 studios, 1 regional program production and broadcasting center and 11 other broadcasting centers. Its service is believed to have covered 32 percent of total area of the country. Participation of private sector in broadcasting television through cable service has been encouraging. So far, 165 cable television operators have been licensed.

1.41 Short wave service of Radio Nepal covers the whole country whereas medium wave transmission service covers only 80 percent of the population. To expand the medium wave service works are underway to extend service through frequency modulation (FM) with the participation of local people. In order to make radio broadcast more clear V-SAT technology is being used. A total of 20 licenses have been issued to broadcast radio service through FM, of which 15 FM services are in operation.

Foreign Trade, Balance of Payments and Foreign Exchange

1.42 During the review period of the current FY, foreign trade rose by 12.1 percent against the comparable period of the last FY and amounted to Rs. 114,084.8 million. Of the total trade, the trade with India went up by 18.3 percent to total Rs. 47,669.1 million, with other countries, it increased by 8.0 percent to reach Rs. 66,415.7 million. As regards the total composition of trade, trade with India accounted for 41.8 percent compared to 39.6 percent during the review period of last FY. Trade with other countries declined to 58.2 percent of the total trade against 60.4 percent of the review period of the previous FY.

1.43 Over the review period, export trade grew by 19.7 percent in relation to the same period last FY to Rs. 38,900.0 million. Of the total export, export to India and other countries was Rs. 17,692.3 million and Rs. 21,207.7 million, respectively. During review period of the current FY, export to India soared by 27.2 percent and that to other countries increased by 14.0 percent as compared to the corresponding period the last FY.

1.44 Import trade increased by 8.5 percent during the review period as compared to the same period of last FY to total of Rs. 75,184.8 million. Of this total, Rs. 29,976.8 million was from India and Rs. 45,208.0 million from other countries. During the review period of the current FY, import from India grew by 13.5 percent and that from other countries grew by 5.4 percent in comparison to the same period last year.

1.45 Export trade posted higher growth rate than that of import trade during the review period. As a result, total trade deficit declined by 1.4 percent during the review period of the current FY in relation to the same period last year and it amounted to Rs. 36,284.8 million. Trade deficit with India and other countries declined by 1.7 percent and 1.3 percent, respectively.

1.46 BOP during the first six months of the current FY, continued to be favorable by Rs. 3,510.9 million. Total trade deficit declined by 3.5 percent during the same period of current FY compared to the corresponding period last FY which amounted Rs. 27,399.9 million. During the period, income from service declined by 9.4 percent to Rs. 19,631.7 million and payments for service increased only marginally by 1.2 percent to Rs. 8,550.6. Thus, the net amount totaled to Rs. 11,081.1 million. Likewise, the transfer income increased marginally by 0.7 percent to Rs. 12,175.5 million. In contrast, transfer payment plummeted by 53.7 percent to Rs. 610.0 million. Consequently, net increase in income was by 7.3 percent to the total of Rs. 11,565.5 million. As income from services and transfer could not offset the volume of trade deficit, current account deficit amounted to Rs. 4,753.3 million during the review period.

1.47 From July 2000 through April 2001, gold and foreign currency reserve with the banking system increased at the rate of 14.5 percent to Rs. 108,629.1 million. Foreign currency alone grew by 14.7 percent to Rs. 107,608.0 million. Of the foreign currency, convertible currency rose by 6.0 percent to total of Rs. 85,115.4 million and the non-convertibles increased by 66.2 percent to Rs. 22,492.6 million. Foreign currency reserve held by the banking system, as of the end of the review period, is enough to meet the import bill of eleven and a half months.

Money, Banking and Credit

1.48 Growth rate of both narrow and broad money, during the period under review, dropped. Narrow money grew by 10.1 percent and the broad one grew by 7.6 to reach their respective total of Rs. 67,140.0 million and Rs. 200,250.0 million. During the review period of the FY 1999/00, narrow and broad money had increased by 14.4 percent and 15.2 percent, respectively.

1.49 Over the review period, net foreign asset of the monetary sector amounted to Rs. 90,990.0 million with an increase of 13.1 percent and total internal loan rose by 10.3 percent to Rs. 17,4260.0 million. Net credit flow from the banking system to the Government totaled Rs. 41,940.0 million, an increase of 9.7 percent in relation to the same period last FY. Whereas, credit flow to the public enterprises (PEs) and the private sector recorded Rs. 10,530.0 million and Rs. 12,1780.0 million, respectively with the corresponding growth rates 2.1 percent and 11.3 percent. As for the composition of domestic credit, the Government, PEs and the private sector each accounted for 24.1 percent, 6.0 percent and 69.9 percent correspondingly.

1.50 During the review period of the current FY, total resources of the commercial banks rose by 10.9 percent to Rs. 20,1150.0 million. The total deposit collection of commercial banks, during the review period, rose by 8.4 percent to Rs. 167,500.0 million. Total liquid assets of the commercial banks increased by 9.1 percent to Rs. 49,280.0 million. Total credit and investment of commercial banks went up by 11.5

percent to Rs. 151,880.0 million during the current year's review period. Foreign bills purchased by these banks boosted by 27.8 percent to Rs. 2,530.0 million.

1.51 The total number of commercial bank branches reached 447 as of mid-April 2001 from 439 at the end of the last FY. If 39 branches of the ADB/N operating banking transactions are to be included, the number totals 486. At present, the ratio of operational branch to people served works out to be 47,665.

1.52 Five Grameen Bikas Banks have been established in all the development regions with the objective of providing credit without collateral to the deprived people in the rural areas to enable them to carry out income generating activities. A total of 139,541 members under 27,975 groups in 819 VDCs of 38 districts of have been directly benefited through various programs launched through 4,183 centers as of mid-January 2001. A total of Rs. 4,230.3 million as credit has been disbursed to 127,107 members during the same period. Under these banks 28 regional offices and 165 branch offices are in operation.

1.53 The total number of finance companies by mid-January 2001 has reached 48. Their total resource amounts to Rs. 14,351.0 million, an increase of 17.2 percent over that of the comparable period the last FY. During the period under review, the amount borrowed by the finance companies skyrocketed by 88.1 percent to total Rs. 252.0 million. In terms of other resources, it declined by 10.6 percent during the same period to stand at Rs. 1,616.0 million. As regards the utilization of resources, flow of credit/borrowings increased by 24.8 percent as compared to the previous year amounting to Rs. 10,254.0 million.

Public Finance

1.54 As a result of persistent rise in the government expenditure, it has been difficult to contain budget deficit to a desired level. In spite of the positive trends in revenue mobilization and receipt of foreign grants, the economy has been experiencing budget deficit as a result of regular surge in government expenditure. During the FY 1998/99, the budget deficit rose by 1.2 percent as compared to that of FY 1997/98 and the trend was reversed during the FY 1999/00 when it declined by 1.8 percent. In the FY 1999/00, the total government expenditure grew by 11.2 percent relative to FY 1998/99 and stood at Rs. 66,272.5 million. Of the total expenditure, the regular expenditure and development expenditure grew by 11.2 percent and 11.3 percent, respectively as compared to FY 1998/99 registering the total as Rs. 34,523.3 million and Rs. 31,749.2 million, respectively. Desirably, the proportion of development expenditure should be more than that of the regular expenditure in total expenditure. However, as in the case of FY 1998/99, regular expenditure outpaced development expenditure in FY 1999/00 as well and it declined to 47.9 percent of total expenditure. As regards the sources of meeting total expenditures in FY 1999/00, domestic revenue met Rs. 42,893.8 million and foreign grants, foreign loan and domestic borrowings met Rs. 5,711.7 million, Rs 11,812.2 million, Rs. 5,500.0 million, respectively. The remaining Rs. 354.8 million was met from the change in cash balance.

1.55 Domestic revenue plays an important role in budget expenditures. In FY 1999/00, it increased by 15.1 percent compared to 13.1 percent in FY 1998/99 standing at Rs. 42,893.8 million. In terms of the composition of the revenue, 77.3 percent (Rs. 33,152.2 million) was accounted for by the tax revenue and 22.7 percent (Rs. 9,741.6 million) by non-tax revenue. During the FY 1999/00, tax and non-tax revenues grew by 15.3 percent and 14.6 percent respectively in comparison to FY 1998/99.

1.56 In the first 8 months of the current FY, the total tax revenue collection stood at Rs. 22,834.4 million. During this period, the revenue collection grew by 14.8 percent in comparison to the corresponding period last year. Non-tax revenue collection stood at of Rs 5,470.5 million, which is higher by 43.2 percent compared to the same period of last FY. Thus, the total revenue collection during the review period has been Rs. 28,304.9 million, which is higher by 19.4 percent compared to the corresponding period last FY.

1.57 In the area of foreign assistance, in FY 1999/00, a total of Rs. 20,448.0 was approved, an increase of 11.4 percent over the same period of FY 1998/99. Of the total amount, grant and loan contributed 62.9 percent and 37.1 percent, respectively. In terms of types of donor, bilateral assistance accounted for Rs. 11,293.4 million (55.2 percent) and multilateral accounted for Rs. 9,154.6 million (44.8 percent).

1.58 During the review period of the current FY, total foreign assistance amounted Rs. 19,209.0 million a marked increase of 55.3 percent as compared to the same period last year. Out of the total amount approved, grant totaled Rs. 5507.7 million (28.7 percent) and loan totaled Rs. 13,701.3 million (71.3 percent). If loan and grant are to be compared between the two periods, i.e. review period of current and last FYs, grant decreased and loan increased sharply during the review period.

1.59 In FY 1999/00, total disbursement of foreign assistance amounted to Rs. 17,523.9 million, an increase by 8.2 percent, in relation to FY 1998/99. Of this amount, loan and grant accounted for Rs. 11,812.2 million and Rs. 5,711.7 million, respectively. In the FY 1998/99, a total of Rs. 16,189.0 million was disbursed of which loan and grant contributed Rs. 11,852.4 million and Rs. 4,336.6 million, respectively. In the FY 1999/00, grant increased by 31.7 percent as compared to FY 1998/99. In contrast, foreign loan declined by 0.3 percent over the same period. On account of the devaluation of Nepalese currency vis-à-vis the convertible currency, the foreign debt service liability has been increasing every year. During FY 1999/00, as compared to the FY 1998/99, the total outstanding loan increased by 12.5 percent to the total of Rs. 190,691.2 million.

1.60 Internal debt increased by 9.4 percent between FY 1998/99 and FY 1999/00 to a total of Rs. 54,357.0 million. Of the total internal loan, portion owed to the Nepal Rastra Bank (NRB) is 37.5 percent (Rs 20,362.7 million), to the commercial banks 33.4 percent (Rs 18,176.6 million) and to other institutions and private sector is 29.1 percent (Rs 15,817.7 million). It further increased by 14.1 percent to Rs. 58,306.9 million as of mid-March 2001. Of this, NRB owns 35.9 percent, the commercial banks 34.0 percent and other institutions and private sector 30.1 percent. Among the debt instruments, the lead role is being played by the Treasury Bills (45.1 percent) followed by special bonds (23.6 percent), national saving certificate (22.3 percent) and development bond (9.0 percent).

Price and Supply Situation

1.61 The National Urban Consumer's Price (NUCP) Index rose by 3.5 percent during FY 1999/00 as compared to the base year 1995/96. Average price increased by 2.1 percent during the review period of the current FY in relation to 4.3 percent of the same period last year.

1.62 Regionwise price analysis indicated that Kathmandu Valley witnessed 3.7 percent increase in FY 1999/00. It increased by 3.4 percent during the review period of the current FY as against 4.0 percent in the same period last FY.

1.63 During FY 1999/00, the Hills and the Terai witnessed average price rise of 3.7 percent and 3.1 percent, respectively. During the review period of the current FY, such increases corresponded to 4.4 percent and 0.6 percent, respectively. The regionwise analysis of average price index during the review period indicates that Hills witnessed more average price rise than Kathmandu valley and the Terai.

1.64 The NUCP Index rose by 2.1 percent during the review period. Over the period of eight months of the current FY, the price index of food and beverages declined by 3.4 percent in contrast to the rise of price index of non food items and services by 9.0 percent.

1.65 An analysis of point-to-point average urban price index of consumer goods by groups on regional basis indicated that the price rose only marginally (0.3 percent) in Kathmandu valley during the review period as against 3.3 percent rise in the hills and 1.7 percent decline in the Terai.

1.66 Over the review period, point-to-point price index of most of the items under food and beverage group is found to have declined. Specially, price of food grains and items made thereof, rice, wheat and its flour, vegetables and fruits declined considerably, whereas price index of non-food and service group increased.

1.67 During the period under review, monthly average national retail price of some agricultural products as compared to the corresponding period last year has declined while that of some other items has increased. Goods that showed declining average retail price include: coarse rice (16.4 percent), Rahar lentil (11.7 percent), ginger (13.2 percent), dry onion (8.4 percent), mustard oil (10.7 percent) and potato (9.2 percent). On the contrary, the goods that witnessed increasing average retail price are: wheat (16.3 percent), black gram (9.1 percent) ghee (6.4 percent) and mutton (3.7 percent).

1.68 An analysis of price situation of some of the petroleum products during the FY 1999/00 indicated that price of petrol rose by 13.5 percent, that of diesel by 2.6 percent, kerosene by 17.4 percent, aviation fuel by 5.6 percent, and L. P. gas by 22.4 percent as compared to those of FY 1998/99. As regards the supply of petroleum products during the review period of the current FY, 39,572 kl of petrol, 211,923 kl of diesel, 202,270 kl of kerosene, 43,344 kl of aviation fuel and 25,772 metric tons of L. P. G. were supplied.

Social Services

1.69 By the end of the academic year 2000/01, the total number of schools, that of students enrolled in those schools and that of teachers working in those schools are estimated to have reached 38,476, 5,560,777 and 148,062, respectively. A total of 25,087 public schools are in operation and a total of 4,656,470 students have been enrolled in those schools. The number of teachers serving in those schools has reached 106,744. Similarly, a total of 13,389 private schools are in operation throughout the Kingdom and the number of students and teachers in those schools are estimated to be 904,308 and 41,318, respectively.

1.70 At present five universities viz. Tribhuvan University (TU), Mahendra Sanskrit University (MSU), Kathmandu University (KU), Eastern Regional University and Pokhara University, are in operation. As of academic year 2000/01, there are 61 campuses under the TU and 177 are affiliated with it. During the current FY, altogether 11,4682 students are enrolled in campuses under the TU and 50,000 students are enrolled in campuses affiliated with it.

1.71 In the area of health, a number of programs are being carried out in order to materialize the slogan "Health for All" by availing health services to all the people by producing healthy and efficient manpower through gradual development and extension of hospitals and health institutions. In this regard, it is estimated that the total number of health institutions, hospital beds and that of skilled manpower in health sector is estimated to reach 4,433, 5,318 and 87,188, respectively, by the end of the current FY. In terms of per capita health facilities, each health institute has to serve 5,225 people, each skilled health worker has to take care of 265 patients. and 4,356 patients have to share one bed.

1.72 Proper development of drinking water and sanitation brings about improvement in public health which, in turn, helps contribute to socio-economic development of the country. Accordingly, the Government has shown its commitment to provide clean drinking water in adequate amount to all people and promote awareness for minimum level of cleanliness. Various programs on drinking water and sewerage are being implemented through the Department of Drinking Water and Sewerage. During current FY, a total of 1,532 projects in drinking water and sewerage are being carried out, of which 126 are at the central level and 1406 are at the district level. It has been envisaged that during this FY, 227 projects will be completed to the benefit of additional 466,000 people. As of the end of the review period, 90 percent works of these projects have been completed and drinking water has been provided to 160,000 people through these projects. Aiming at solving the problem of drinking water in Kathmandu valley in a long term basis, works are underway on Melamchi Water Supply Project with the target of supplying 170 million liter water a day during the first phase.

1.73 With a view to meeting national needs of housing in rural areas, housing and rural towns are being developed. To cater to the needs of low and middle-income people by providing housing plots at fair price, Rural Housing Company Limited has been established. During the period under review the Company provided 371 housing plots.

1.74 With a view to uplift and develop indigenous people, various ethnic groups and women and to make them self reliant through the generation of self-employment opportunities and ultimately to improve their income earning capacity, a number of programs are being undertaken. In this regard, over the review period, 75 persons of "*Praja*" and other tribes have been trained in sewing and bamboo craft in Dhading, Chitwan, Makawanpur and Gorkha districts. Goats (144 nos.) have also been distributed as a part of income generating activities. The government has pursued the policy of promoting employment opportunities for the Nepalese ensuring such employment is systematic, decent and reliable. Nepalese laborers are being sent abroad including to Gulf region. During the period under review, 25,840 persons have got additional employment opportunities abroad.

Challenges

1.75 On the positive side, total consumption as the proportion of GDP (at current producer's price) has shown declining trend during the later years of the Ninth Plan. Conversely, government consumption soared during the current FY. As a result, we have not been able to save adequate amount for investment which may have lasting effect in economic development. Reversing this trend in favor of total saving remains a challenge in that the unnecessary government and private consumption has to be curtailed and the investment has to be channeled to areas of higher return potential. Broadening of tax net as well as its base to increase its contribution to development expenditure is yet another challenge.

1.76 Achieving broad based economic growth rate is essential to alleviate poverty. For this, public institutions need to be made accountable and responsible towards poor people and investment has to be made in education, health and rural infrastructure to develop human resource. Moreover, launching various programs to reduce inequality in terms of social and human resource development, seeking participation of local people in decision making, and promoting investment of private sector and that of NGOs in social sector in coordinated way also remains as challenge.

1.77 The problems of unemployment and underemployment have been a major challenge to our effort of poverty alleviation. In this context, population growth has to be controlled. Special attention has to be paid to enhance access of domestic labor to employment opportunities. In the interest of improving productivity of labor, education needs to be structured to make technical and vocational training easily accessible for which steps to develop an enabling environment are called for. In order to make rural poor active in economic pursuits and to develop labor-intensive agro-industries, prompt access to credit, technology, management and training facilities needs to be availed to them.

1.78 To enhance production and productivity of agriculture and hence ensure high return from it, agriculture sector has to be commercialized and modernized. In this regard, products yielding higher return have to be identified and production of cash crops, livestock products, fruits and vegetables have to be commercialized.

1.79 Privatization program is being carried out with the objectives of rendering the investments made in PEs effective, enhancing their productivity and promoting participation of private sector in their operation. However, to materialize these objectives, a wide range of related policies have to be reformed. Moreover, the PEs that are not viable to be privatized in immediate future, have to be run professional and efficient way.

1.80 As government expenditure to GDP ratio has been higher than revenue to GDP ratio, it will have long-term impact on the economy. Even though some improvements have been witnessed in revenue front, regular expenditure has outpaced development expenditure over the last two years. As a result, less resource has been available for developmental works. Thus, to introduce austerity measures in regular expenditure, to mobilize development expenditure in areas that ensure high return, to intensify revenue mobilization efforts and to maintain macroeconomic stability continue to pose a challenge.

1.81 To contain price rise to a desirable limit, balanced fiscal and monetary policies have to be pursued. Moreover, production and market systems have to be well managed. Furthermore, fiscal deficit has to be contained to a desired level. Development of competitive market forces by giving the private sector an enabling environment for the production of goods and services is a difficult task ahead.

1.82 For overcoming the trade imbalance through export promotion and import substitution, locally available resource is not sufficient and hence inflow of foreign direct investment (FDI) has to be promoted. In addition, more internal investment is required to bolster their confidence in financial sector.

II. GROSS DOMESTIC PRODUCT, NATIONAL INCOME, INVESTMENT, CONSUMPTION AND SAVINGS

2.1 Ninth Plan has targeted to achieve annual 4.0 percent growth in agriculture at factor cost. Since agriculture sector could not grow as anticipated due mainly to unfavorable monsoon, the rate of economic growth could not be achieved as envisaged during first two years of the Plan. The actual growth rates in agriculture sector in FY 1997/98 and 1998/99 were 1.0 percent and 2.7 percent respectively. According to revised estimates, agriculture sector grew at 5.0 percent in FY 1999/00 i.e. the third year of the Ninth Plan. As a result, the real GDP at factor cost (before deducting the Bank service charge) increased by 4.5 percent in FY 1998/99, and 6.4 percent in FY 1999/00 as per the revised estimates.

Gross Domestic Product at Constant Prices

2.2 Preliminary estimates shows the rate of real GDP growth at factor cost staying around 5.8 percent in FY 2000/01, the fourth year of the Ninth Plan, which is close to Ninth Plan's targeted growth rate of 6.0 percent. During this period agriculture sector is estimated to grow by 4.0 percent and non-agriculture by 6.9 percent. In FY 1999/00, real GDP growth stood at 6.4 percent and the rate of growth in agriculture and non-agricultural sector were 5.0 percent and 7.4 percent, respectively.

2.3 At the constant prices of FY 1984/85, GDP at producer's prices is preliminarily estimated to increase by 5.9 percent and reach Rs. 100,586.0 million in FY 2000/01. This is an increase by Rs. 5,570.0 million over that of FY 1999/00. The revised estimate shows that, GDP at producer's prices had increased by 6.5 percent or by Rs. 5,761.0 million over its level in previous FY and had reached Rs. 95,016.0 million in FY 1999/00.

2.4 At constant prices of FY 1984/85, GDP at factor cost has been preliminarily estimated to increase by 5.8 percent and reach Rs. 96,612.0 million in FY 2000/01. Of this, share of agriculture is estimated to increase by 4.0 percent to Rs. 36,853.0 million and share of non-agriculture sector to increase by 6.9 percent to Rs. 59,759.0 million. Among sub-sectors within non-agriculture sector, 3.9 percent growth in mining is estimated totaling Rs. 453.0 million, 6.5 percent in manufacturing industry totaling Rs. 9,224.0 million, electricity, gas and water put together 19.1 contributing Rs. 906.0 million to GDP. Similarly, according to the preliminary estimates, Community and Social services will grow by 16.4 percent and its contribution to GDP will reach Rs. 11,423.0 million and Transport, Communications and Storage will grow by 6.8 percent contributing Rs. 8,251.0 million to GDP. Likewise, Finance and Real Estate sub-sector is estimated to grow by 4.9 percent and its contribution will amount to Rs. 9,653.0 million. Among other sub-sectors Trade, Restaurant and Hotels will grow by 3.3 percent to Rs. 10,522.0 million; and Construction will grow by 2.6 percent to Rs. 9,327.0 million.

2.5 Preliminary estimate for the current FY 2000/01 shows that contribution of agriculture sector to GDP at constant prices of FY 1984/85 will decrease to 38.1 percent whereas that of non-agriculture sectors will increase to 61.9 percent. In the last FY 1999/00, figures for agriculture and non-agriculture sectors were 38.8 percent and 61.2 percent respectively.

Gross Domestic Product at Current Prices

2.6 At current prices, GDP at producer's prices is expected to grow by 7.8 percent and reach Rs .409,252.0 million in FY 2000/01. According to revised estimates, it grew by 11.0 percent and reached Rs. 379,655.0 million in last FY. The growth of GDP at producer's prices registered a decline in both current prices as well as constant prices. However, difference between the GDP growth rate of current FY and that of last FY is lower at constant prices in comparison to that at current prices implying relatively low pressure on prices in current FY.

2.7 In the current FY 2000/01, GDP at current prices (at factor cost) is estimated to grow by 7.4 percent and reach Rs. 392,532.0 million. According to revised estimate, GDP in FY 1999/00 grew by 10.8 percent and reached Rs. 365,465.0 million. Preliminary estimate shows that the agriculture sector will grow by 1.1 percent in the current FY whereas, according to the revised estimate, it grew by a high rate of 7.9 percent in FY 1999/00. Likewise, non-agriculture sectors will register 11.5 percent growth rate in FY 2000/01 against the revised estimate of 12.6 percent growth in these sectors in the last FY. Growth rate in agriculture in current FY seems to be low at constant prices in comparison to current prices indicating a low pressure on the prices of agricultural products whereas a marginal increase over these prices were observed in FY 1999/00 as compared to FY 1998/99.

2.8 Of the current year's preliminarily estimated total GDP of Rs. 392,532.0 million at current prices (at factor cost), the shares of agriculture and non-agriculture sectors are estimated at Rs. 144,420.0 million and Rs. 248,112.0 million, respectively. According to the revised estimates, GDP at current prices (at factor cost) in FY 1999/00 stood at Rs. 365,465.0 of which the shares of agriculture and non-agriculture sector were estimated at Rs. 142,908.0 million and Rs. 222,557.0 million. The contributions of agriculture sector and non-agriculture sectors to GDP in current FY are 36.8 percent and 63.2 percent respectively whereas the figures were 39.1 percent and 60.9 respectively in FY 1999/00.

2.9 According to the preliminary estimate, per capita GDP at current prices (at producer's prices) increased by 5.3 percent and reached to Rs. 17,712 in FY 2000/01 from the level of Rs. 16,836 in the last FY. It stood at Rs. 16,195 in FY 1999/00 according to the revised estimate. If expressed in terms of USD, the preliminary estimate shows that per capita GDP at producer prices in FY 2000/01 has marginally decreased by 1.7 percent to USD 240 in comparison to the corresponding amount of USD 244 in the previous FY. However, as indicated by the revised estimate, it had registered an increase of 7.5 percent in FY 1999/00 to USD 244 from its level of USD 227 in FY1998/99.

Gross National Income

2.10 The preliminary estimate indicates that the Gross National Income (GNI) at current prices increased by 8.5 percent to Rs. 426,346.0 million in FY 2000/01. According to revised estimate, it increased by 11.3 percent and reached to Rs. 392,780.0 million in last FY. Preliminary estimate shows that net factor income will be Rs. 17,094.0 million registering a 30.2 percent increase in current FY whereas it had reached to Rs. 13,125.0 million with an increase of 20.6 percent in last FY as per the revised estimate.

2.11 According to the preliminary estimate for the current FY 2000/01, per capita GNI at current prices will increase by 6.0 percent and will reach to Rs. 18,451 whereas, as the revised estimate indicates, it increased by 8.7 percent and had reached Rs. 17,405 in FY 1999/00. Preliminary estimate suggests that the per capita GNI in terms of United States Dollar will witness a marginal decline of 0.8 percent in current FY against an increase of 7.7 percent in last FY. Thus, it will decrease to USD 250 in FY2000/01 from its level of USD 252 in last FY.

Investment and Capital Formation

2.12 Gross investment at current prices, as indicated by the preliminary estimates, will increase by 13.7 percent and will reach Rs. 105,015.0 million in current FY whereas, as suggested by revised estimates, it increased by 32.0 percent over its level in FY 1998/99 and had reached Rs. 92,383.0 million in the last FY 1999/00. Although the growth of gross investment in current FY is less than that of the previous FY, the gross investment as a ratio to GDP at producers' price in FY 2000/01 is expected to record a slight increase over that of FY 1999/00. As per the preliminary estimates, the ratio will stand at 25.7 in the current FY percent whereas, according to the revised estimate, it stood at 24.3 percent for FY 1999/00. The recent trend in the gross investment, as a ratio to GDP at producers' price, seems to be moving positively. The ratio stood at 24.8 percent in FY 1997/98, dropped to 20.5 percent in FY 1998/99 and has shown an increase in FY 1999/00 as well as in FY 2000/01.

2.13 The preliminary estimate of gross capital formation (at the current prices) in the current FY will reach Rs. 78,463.0 million. It is a 10.4 percent increase over the level of gross capital formation in FY 1999/00. Revised estimate shows that the gross capital formation increased by 8.9 percent over that of previous FY and reached Rs. 71,047.0 in FY1999/00. In current FY, the preliminary estimate suggests that government sector gross fixed capital formation will reach Rs. 31,322.0 million with an increase of 18.5 percent over its level in FY 1999/00 whereas that of non-government sector will reach Rs. 47, 141 million by increasing at the rate of 5.7 percent over its level in FY 1999/00. Therefore, the share of government sector in total gross capital formation will increase to 39.9 percent in FY 2000/01 from its level of 37.2 (as suggested by revised estimate) in FY 1999/00 whereas the share of non-government sector will decrease to 60.1 percent from its level of 62.8 percent (as per revised estimate) in FY 1999/00.

Consumption

2.14 According to preliminary estimates, gross consumption at current prices will increase by 6.5 percent over its level in FY 1999/00 and will reach Rs. 343,578.0 in FY 2000/01. The revised estimate shows that it increased by 9.2 percent as compared to that of previous FY and had reached Rs. 322,526 million in FY1999/00. As suggested by the preliminary estimate, government consumption will increase at the rate of 20.5 percent over that of FY 1999/00 and will amount to Rs. 41,673 million whereas consumption of non-government sector will go up 4.8 percent over its level in FY 1999/00 and will reach Rs. 301,905 million in FY 2000/01. Increments in government and non-government sector consumption stood at 13.3 percent and 8.7 percent respectively in FY 1999/00 as indicated by the revised estimates. It appears that the decline in consumption in current FY would help release additional resources for economic development. A constant review of rising government consumption is essential to release such resources to development.

2.15 The ratio of gross consumption to GDP at current prices (at producers' prices) seems to be declining over the years. It was 86.2 percent in FY 1997/98 (the first year of Ninth Plan), which remained almost at the same level (86.4 percent) in FY 1998/99. However, it declined to 84.9 percent in FY 1999/00 (according to the revised estimate) and 83.9 percent in FY 2000/01 (according to preliminary estimate). According to the preliminary estimate, the ratio of private sector consumption to GDP will stand at 73.7 percent and that of government sector at 10.2 percent in FY 2000/01. These ratios stood at 75.8 percent and 9.1 percent respectively in FY 1999/00 as indicated by the revised estimates.

Savings

2.16 According to preliminary estimate, gross domestic savings at current prices will increase by 14.9 percent over its level in FY 1999/00 and will reach Rs. 65,675.0 in FY 2000/01. The revised estimate shows that it increased by 22.8 percent over that of previous FY and had reached to Rs. 57,129.0 in FY 1999/00. Similarly, FY 1998/99 witnessed a 12.2 percent growth in gross domestic savings over its level in previous FY. In relation to GDP, gross domestic savings stood at 13.8 percent in FY 1997/98, which marginally declined, to

13.6 percent in FY 1998/99. However it rose to 15.1 percent in FY 1999/00 (according to revised estimate) and is expected to rise to 16.1 percent (according to preliminary estimate) in current FY 2000/01.

2.17 The preliminary estimate suggests that gross national savings will increase by 17.2 percent over its level in FY 1999/00 and will reach Rs. 83,883.0 million in FY 2000/01. It increased by 22.2 percent over its level in previous FY and reached Rs. 71,572 million in FY 1999/00 as suggested by the revised estimate.

2.18 According to revised estimate for FY 1999/00 and preliminary estimate for FY 2000/01, the share of gross domestic investment in GDP at current prices (at producers' prices) is estimated at 24.3 percent and 25.7 percent respectively whereas that of gross savings is estimated at 15.1 and 16.1 percent respectively. It indicates a slight increase in the investment savings gap from 9.2 percent in FY 1999/00 to 9.6 percent in FY 2000/01. The gap stood at 11.1 percent in FY 1997/98 and 6.9 percent in FY 1998/99.

2.19 GNI at current prices will rise by 8.5 percent over its level in FY 1999/00 to Rs. 426,346.0 million in FY 2000/01 (according to preliminary estimate) whereas it rose by 11.3 percent over its level in previous FY and reached Rs. 392,780.0 million in last FY 1999/00 (according to revised estimate). The ratio of gross national savings to GNI will stand at 19.7 percent in year 2000/01 as indicated by the preliminary estimate against the ratio of 18.2 percent estimated (revised) for FY 1999/00.

Challenges

2.20 On one hand, a positive trend is emerging with the decline in the share of gross consumption to GDP at current prices (at producers' prices) in recent years in comparison to the level it stood in initial years of the Ninth Plan. On the other, the substantial increase in government consumption in current FY may have long-term negative impact on economic development due to insufficient savings for investment. In this situation, there is a need of mobilizing resources for development by controlling consumption of non-governmental sectors especially that of government sector.

2.21 In the current FY 2000/01, the growth rate in agriculture sector is lower at current prices than the growth rate at constant prices of FY 1984/85 indicating a negative impact on prices of agricultural products. To mitigate the likely pessimistic outlook of the farmer community in future years, efforts are warranted in stabilizing the prices of agricultural products to improve the economic conditions of farmers.

2.22 The traumatic and tragic events that took place at the national level during the last half of the current FY have adversely affected the national economy. As sectors like industry, trade, tourism have witnessed slackness, it is likely that GDP growth rate will experience some deceleration. To mitigate the negative impacts, the Government has to come up with appropriate fiscal and monetary measures immediately.

III. POVERTY ALLEVIATION

3.1 In the past, various agencies had conducted surveys and studies to identify the level of poverty in Nepal applying different bases and definitions. The results of these studies are not comparable due to lack of identical methodology. Thirty-six percent of the total population of Nepal for instance, was found to be under the poverty line according to the study done by the National Planning Commission (NPC) in 1979, whereas the study done in 1985 by the NRB concluded that 42 percent of Nepali people were below the poverty level. Similarly the study done by the NPC again in 1996 estimated that 42 percent of the total population was below the poverty level. According to the survey of 1996, 56 percent, 42 percent and 41 percent were found to be very poor in the Himalayan, Terai and Hilly regions respectively. As compared to 23 percent in the urban areas 44 percent were very poor in rural areas.

3.2 In order to reduce the level of poverty and to raise gradually the living standard of the poor people, the Ninth Plan has set a long term target of reducing the absolute poverty level down to 10 percent from 42 percent by the end of FY 2016/17. To attain this target, the Ninth Plan has envisaged several pro-poor activities to be undertaken in the backward areas to raise the living standard of the poor people and income starved weaker section of the people. These activities include such as development of physical and socio-economic infrastructures and the implementation of such activities which help make backward and weaker poor people economically sound. Special targeted activities such as population control, employment promotion, productivity growth and development of human resources will be carried out with the participation of backward and weaker group of poor people.

3.3 In the past, developmental approaches like modernization of agriculture, community participation in the rural development, women empowerment, employment creation and development of rural infrastructure were followed to strengthen the economy and thereby alleviate poverty. Social safety net measures carried out to reduce the poverty include pensions for elders, widows and disabled people, special program for ethnic groups and indigenous people; scholarship for girl students, provision for women teachers; rural banking services and concessional credit facilities for destitute people. Poverty alleviation program such as abolition of dual ownership of land, abolition of bonded labor system and debt relief measures for bonded labor (Kamaiya) are being implemented. Steps are being taken to give opportunity to provide land ownership to bonded labor.

3.4 Efforts have been made to increase employment and to alleviate poverty through attaining increased agriculture growth rate as envisaged in the Agricultural Perspective Plan. Economic reforms measures are also underway in an effort to increase the economic growth rate and to reduce the unemployment level either fully or partially. Likewise economic program aiming for macro-economic stability in the country, including economic and fiscal reforms, export oriented investment and trade policy, competition and promotion of investment and competitiveness in the private sector and privatization of public corporations are also afoot.

3.5 Public investment in the social and infrastructure development sectors has increased. HMG's investment in social sector was only 22 percent of the total public investment in 1992 whereas in 2000 it stood at 36 percent. Non-governmental and private sector's investment in education has also increased. As a result, enrollment rate at the primary level has increased and the literacy rate has increased significantly from 40 percent in 1991 to 58 percent in 2000.

3.6 In spite of substantially increased investment in the targeted program including local development in the 1990s, end result is mixed. Very small portion of the total expenditure on targeted program has reached to the poor and backward people.

3.7 Expansion of economic activities is indispensable for poverty alleviation. Thus, making financial resources available to the poorer segments of the people is necessary. In this direction, financial resources and other production inputs are being made available to the poor people through SFDP, Grameen Vikas Banks and Intensive Banking Program at the government level. In FY 1999/00, such services were provided to the small farmers of 540 VDCs through 375 centers in 75 districts by the Small Farmers Development Project. Twenty-nine SFCs have been constituted in 29 districts under SFDP. By the end of FY 1999/00, a total of 1,92,147 small farmers have been associated under the 25,083 groups formed by SFDP and SFCs. Its total investment has reached to Rs 591.2 million. For the first eight months of this current FY Rs. 254.2 million was invested. Under this program investment credit has totaled Rs. 1187.8 million by March 13,

2001. In FY 1999/00, Rs. 499.6 million was loaned to 5,450 persons under the Intensive Banking Program. During the first six months of the current FY, Rs. 394.2 million was loaned to 3,955 persons. In FY 1999/00, 1,75,566 persons of 1,206 VDCs in 53 districts have received Rs. 447.0 million as a loan assistance from the Grameen Vikas Banks. Similarly Banks and Finance Companies in the private sector have been providing services to various rural areas. It is hoped that the resources made available to the rural and backward areas would help contribute to reduce the poverty by encouraging the rural poor in the income generating activities.

3.8 In an effort to launch the poverty alleviation program effectively, and thereby to get rid of anomalies associated with poverty, "Bishweshwor with the Poor", "Ganesh Man Singh Peace Movement" and Women Awareness Program have been implemented. In FY 1999/00, introductory meetings in 30 districts and 10 basic training courses for social mobilizers were organized in 205 constituencies under the "Bishweshwor with the Poor" program. The Western Terai Poverty Alleviation Project had conducted basic and skill trainings in community health, education, sanitation, agriculture, livestock and forest nursery in eight Terai districts of the west. During the first eight months of FY 2000/01, 423 training courses and workshops were organized under the "Bishweshwor with the Poor" program. During the same period, 1,610 persons were trained under the West Terai Poverty Alleviation Project.

3.9 Various activities implemented under the Rural Infrastructure Development Program have helped to reach the target growth with the increased access of destitute people, backward community, ethnic groups and women. In this context, scope of work under the District Development Planning and Local Self-Governance Program, have been widened. In FY 2000/01, 33 drinking water projects, 66 small irrigation projects, 17 suspension bridges, 9 electrification projects have been completed and 316 km long mule track was constructed locally. Similarly 798 km rural roads, 283 km mule track, 29 km small irrigation canal have been constructed. Fishponds in 11 hectors were dug and agro-forestry program was launched in15 hectors of land under the Rural Community Infrastructure Development Program.

3.10 Regardless of several pro-poverty alleviation program implemented over the years, poverty level remains unchanged. The main factors contributing to the non-reduction of poverty as targeted include low economic growth rate, low agricultural production and its productivity, no trickle down impact of non-agricultural growth on the rural poor, and low access of poor to the social services such as education, health and drinking water. Likewise, high population growth rate, lack of effective public expenditure management, low opportunity of employment due to decline in industrial production, lack of adequate basic rural infrastructure and etc. have also hindered the poverty alleviation endeavors.

3.11 HMG, has, therefore, attempted to focus on the poverty alleviation program as an overarching objective of the periodic plan in accordance with the concept submitted at the Paris Meeting of Nepal Development Forum also consistent with objective of the Ninth Plan. HMG has prepared an I-PRSP focusing on the rapid poverty reduction program. The working paper includes detailed working plan and three year economic and policy statement on poverty reduction. The strategy emphasizes the following points:

a. broad based economic growth;

b. social sector development, and

c. pro-oppressed and most backward groups targeted program and social safety nets.

Challenges

3.12 Development of socio-economic infrastructure is essential in the rural areas in order to alleviate the absolute poverty of a large number of rural people. Construction of permanent rural roads, supply of drinking water and electricity, mobilization of local resources, delivery of education and health services and ensuring employment opportunities for the rural people within this infrastructure development program and creating sense of ownership are very important.

3.13 Delivering of easy, adequate and concessional financial services through Grameen Vikas Banks and other financial institutions to the rural areas, backed by group collateral is a very challenging task. Integration of informal credit system into the formal financial system with the involvement of non -governmental financial institutions is also equally a daunting task.

3.14 For the reduction of poverty, it is essential to provide education, health and drinking water facilities for the development of human resources. Hence, to increase investment in these sectors, to involve poor people in the decision making process at the local level, to eliminate social discrimination and increase the private and non-governmental sector's investment in the social sector remain as prime challenge to the economy.

3.15 Fruits of development can be delivered to the poor people only when agriculture is commercialized, appropriate return on agro-products is fixed and agro-based industries are established in the rural areas based on appropriate technology. Ongoing projects like community forestry, roads constructed by users groups and Food for Work Program need to be implemented extensively and effectively.

3.16 Population control, family planning awareness, easy availability of family planning devices and effective implementation of special program could also help alleviate poverty to a greater extent.

3.17 To uplift the economic status of a large number of people below the poverty line living in the Himalayan and Hill regions, to identify particularly the backward areas and community and to expand the existing poverty related activities continue as a major challenge. It is also equally important to make sure that the limited government subsidy reaches to the targeted groups and cost-effective program are formulated.

3.18 Poverty alleviation program have covered a very few number of poor families. The lack of information dissemination accompanied by duplication of activities has made the task challenging in bringing all targeted program under one umbrella. This has also made difficult to provide social safety nets and to make expenditure management effective through creating an independent Poverty Alleviation Fund.

IV. EMPLOYMENT

4.1 The situation of unemployment and underemployment prevailing in the country has not improved as desired due mainly to high rate of population growth. By the end of the Eighth Plan, 4.9 percent of the 11.7 million economically active labor force remained completely unemployed. Given the estimated population growth of 2.4 percent per annum, about 300 thousand of labor force enters into the labor market for employment every year. Of the total employed labor force, 47.0 percent was found to be underemployed with majority of it being dependent on Agriculture. Instead of the entry of competitive, qualitative, skilful and capable labor force into the labor market in line with the economic liberalization policy, vast majority of the labor force is unskilled. Similarly, the lack of proper analysis of the demand for and supply of human resource has hindered the balance and adjustment between the job opportunities and the human resource developed. Due to the lack of quality education, vocational skills development and training, adequate human resource has not been available in the market for opportunities created in infrastructure development sector. The situation of underemployment is widespread mainly due to the absence of alternative fulltime employment opportunity for agricultural labor force at local level. As long as their dependency on traditional agriculture lingers on, there are little chances of agriculture bound laborers' income and living standard to improve.

4.2 In this situation of lacking appropriate development of human resource, and redundancy of labor, the task of reducing poverty poses a daunting challenge. The emergence of employment opportunities after economic liberalization demand professional, skilled and dedicated manpower. However, the attributes of existing labor force can't match fully as demanded by the job opportunities. Thus the mismatch that exists between demand and supply needs to be addressed.

4.3 Private sector participation in the economy has increased due to the economic liberalization policy of the government. The investment-friendly environment induced by this policy has helped additions of employment opportunities in private sector particularly in industrial establishments, banks and insurance and finance companies, cooperatives, NGOs, airlines and health and education institutions. With the expansion of Grameen Vikas Banks and other rural banking operations by NGOs in rural sector, the increased availability of financial resources has created opportunities for income-generating activities through self-employment. This has served as a reliable basis for poverty alleviation and reducing unemployment at local level.

4.4 Increasing number of Nepalese youth are being attracted to foreign employment in recent years. As the return to their labor in there is higher than the minimum wage in the domestic market and it does not demand for high education, the foreign employment has positive impact absorption of semi-skilled and unskilled labor force of the country. The government has regularized the foreign employment by implementing the Foreign Employment Regulation, 1998 and the Foreign Employment Internal Operational Manual. Nepalese Diplomatic missions abroad have been mobilized for promotion of foreign employment, now there are 17 different countries including Israel, Latvia and Macao opened for employment. Job seekers are allowed to go for work in these countries through foreign employment agencies. In FY 1999/00 a total of 34,591 of Nepali workers went for foreign employment. Of this, 19,357 went through the employment agencies while rest of them went on personal basis. During the first eight months of current FY 25,840 Nepali workers have left for such jobs. Of this, 14,358 went through employment agencies and 11,482 went on their own.

4.5 Recognizing the important role of the private sector investment in creating employment opportunities, government has continued its commitment and efforts to attract foreign and domestic investment by appropriate amendments in laws and regulations, development of capital market, export promotion and expansion of tourism sector. Both the government and the private sector can play a positive role to enable foreign employment seekers by imparting vocational training and accessing to such opportunities.

4.6 There is a need of proper identification of poor families in rural as well as urban areas and providing them with skill-oriented training. To ensure employment opportunity for at least one member per poor family of rural and urban areas under the national campaign, identification of such families and training for appropriate skill are essential. To help this campaign succeed, government, NGOs and other parties should pay attention to creating such jobs in development activities they are engaged.

4.7 Various institutions have been organizing training programs in order to curb the unemployment and underemployment by producing skilled and semiskilled manpower. In this context, the number of skilled workforce in health sector totaled 81,381 persons in FY 1999/00. Similarly, a total of 5072 men and women have already received training under the Technical Education and Vocational Training Council. Number of persons trained during the first eight months of FY 2000/01 stood at 3322. The number of trainees trained in the area of tourism and hotel management has reached 1197 and the number of trainees receiving skill-oriented and technical training in the area of cottage and small industries stood at 16,768. Likewise, various private institutions and NGOs are also conducting skill-oriented training in different fields. Such technical and skill-oriented training have been found helpful for job seekers in occupying foreign as well as domestic employment opportunities.

Table 4.a : Proportion of Economically Active Population Involved in Various Sectors of Economy

S. No	Economic Sectors	1991 census		Labor Survey 1999	
		Active Population (In number)	Percentage of Total Population	Active Population (In number)	Percentage of Total Population
1	Agriculture, Fisheries & Forestry	5,961,788	81.2	7,203,000	76.1
2	Mining & Quarrying	2,361	-	8,000	0.1
3	Manufacturing	150,051	2.0	552,000	5.8
4	Electricity, Gas & Water	11,734	0.2	26,000	0.3
5	Construction	35,658	0.5	344,000	3.7
6	Trade, Restaurant & Hotel	256,012	3.5	522,000	5.5
7	Transport, Communication & Storage	50,808	0.7	135,000	1.4
8	Finance & Real Estate	20,847	0.3	51,000	0.5
9	Community & Social Services	752,019	10.2	614,000	6.5
10	Others	28,004	0.4	8,000*	0.1
11	Unidentified Sector	70,298	1.0	-	-
	Grand Total	7,339,580	100.0	9,463,000	100.0

Source: 1. Statistical Pocket Book- 1998, Central Bureau of Statistics
2. Nepal Labor Force Survey- 1999, Central Bureau of Statistics
3. Those employed in national or foreign diplomatic missions

4.8 Table 4(a) shows the distribution of economically active labor-force in various sectors of the economy. A gradual change in proportion of economically active labor-force in different sectors between the year 1991 and 1999 has become noticeable. The share of Agriculture, Aquaculture, and Forestry sectors put together has declined from 81.2 percent to 76.1 percent whereas that of manufacturing sector has gone up from 2 percent to 5.8 percent between 1991 to 1999. In this period, the share of community and social services has declined form 10.2 percent to 6.5 percent while the share of trade, restaurant, and hotel sectors has increased from 3.5 percent to 5.5 and that of construction sector has increased from 0.5 percent to 3.7 percent. The number of economically active labor-force rose from 8,340,000 or 39.7 percent of total population (18,491,000) in 1991 to 9,463,000 or 42.9 percent of the total estimated population (22,000,000) in 1999. Thus, the proportion of economically active labor-force to the total population has increased by 3.2 percentage point. The result of 2001 census is awaited for a clearer picture of this change in employment structure.

The Challenges

4.9 The problem of unemployment and underemployment remain a challenge for poverty reduction. It is certain that the high rate of population growth has to be brought down in order for solving the problem. Enhancement in access and supply of domestic labor force to the opportunity created is also equally needed. In order for improving the productivity of the labor, there remains a challenge of creating the education structure in such way that it could ensure the appropriate environment for providing technical and vocational training without any difficulties.

4.10 There is an increasing need of promoting tourism in rural and remote areas having good prospects for it. Likewise, there is a challenge of making unemployed and underemployed people economically active through mobilization of local resources as well as by identifying and developing labor oriented agro-based and cottage industries by making the provisions of loan, technical input and training.

4.11 There is a need to emphasize on commercialization of agriculture in order to lower the prevailing high underemployment rate of 47 percent. Additional employment opportunities in agriculture has to be created by making increased provision of concessional agricultural loans and supply of input for labor oriented agricultural industries like livestock, aquaculture, horticulture, herbs-farming, agro-forestry and high yielding seeds production.

4.12 Majority of the poor and disadvantaged people has remained far from the state's decision-making process. Therefore, it is necessary to enhance their access to the services provided by the state; and to make their participation and role more effective through empowerment campaigns like "Food for Works" and "One Family One Employment Opportunity".

V. AGRICULTURE

5.1 Agriculture is the backbone of the Nepalese economy. Its potential needs to be exploited to improve living standard of the people at large. To alleviate poverty of the mass, this sector requires change from subsistence status to industrial process and profitable venture so that productive employment and income are generated for the benefit of the poor mass. In the process, domestic market for the industrial and other non-agricultural products will expand. To be self-sufficient in food supply, promoting export and augmenting supply of raw materials essential for agro-based industry, development of agriculture to its full potential will play a significant role. Adequate supply of chemical fertilizer, high-yielding variety of seeds, improved animal breed, and access to agricultural credit are the vital inputs for the desired changes in agricultural system. Irrigation water is yet another critical input to extend rapidly with a view to reduce dependency of agriculture on erratic monsoon rains. To overcome these deficiencies, agriculture sector has continued to receive high priority in the public sector development program.

5.2 The 20 years Agriculture Perspective Plan (APP) has been adopted as a basis of poverty alleviation through agriculture sector development. The plan envisages increase in the annual growth rate of agriculture production from 3 percent to 5 percent, agricultural per capita income to grow from 0.5 percent to 3.0 percent, per capita food availability from 270 kg to 426 kg. Narrowing regional imbalance adequate upliftment of the population living below absolute poverty line is also included. Effective land management, adequate and timely supply of agricultural inputs, use of appropriate technology, expansion of reliable and adequate irrigation facilities, access to rural credit, agriculture market expansion and extension of infrastructure needed for commercialization are the strategies in place. As the scope of increase in agricultural production by expansion of arable land is limited, productivity needs to be enhanced by crop intensification. Accordingly, a package program need to be in place consisting of expansion of irrigation to additional cultivated land, intensive use of available irrigation water through farmer managed irrigation system, appropriate technology development and extension backed by adequate supply of inputs, marketing and crop management matching with the climatic cycle.

Monsoon Activities and Production

5.3 In the absence of reliable and regular supply of irrigation water, agriculture production is highly vulnerable to monsoon rains. Due to the favorable monsoon during the current fiscal year, production of paddy, maize, and major cash crops is expected to increase while production of wheat and millet is estimated to drop due to reduction in area under these crops. On the whole, a preliminary estimate suggests that production of the major food crops will increase by 2.7 percent to a total of 7.17 million metric tons and major cash crops by 7.3 percent to a total of 3.68 million metric tons in current FY over that of the last FY. Production performance of individual crops under the major categories follows in the subsequent paragraphs.

Major Food Crops

5.4 In FY 1998/99 production of major food crops had increased by 2.1 percent to a total of 6.47 million metric tons as compared to the previous year. In FY 1999/00, with a substantial increase of 8.0 percent, production totaled 6.99 million metric tons due to the favorable climatic condition. As mentioned in foregoing paragraph, another increase of 2.7 percent to the total of 7.17 million metric tons is expected in the current fiscal year despite the fact that total area under these crops is estimated to have declined by 0.2 percent to 3.31 million hectares. Totally dry winter season and the low market price of rice are the apparent reasons for the wheat farmers to reduce the area of cultivation.

Cash Crops

5.5 Cash crops production is expected to continue its upward trend in the current FY. In FY1998/99, production stood at 3.20 million metric tons. It had increased by 7.0 percent reaching a total of 3.43 million metric tons in FY 1999/00. With a production gain of estimated 7.3 percent, a total of 3.68 million metric tons is expected during the current FY. The area under cash crops cultivation is also expected to increase by 0.3 percent to reach 391,000 hectares as compared to 390,000 hectares in the previous FY.

5.6 The combined total production of the major food crops and the cash crops in FY 1999/00 was 10.41 million metric tons with food crops contributing 67.0 percent and the cash crop 33.0 percent. In the current FY, this total is expected to go up to 10.85 million metric tons with food crops' share of 66.1 percent, and 33.9 percent of the cash crops. In terms of area of cultivation in FY1999/00, the food crops and cash crops covered 89.7 percent and 10.3 percent respectively. In the current FY, corresponding coverage is estimated to be 89.4 percent and 10.6 percent. Apparently, farmers are motivated towards cash crops.

Other Crops

5.7 Pulse, fruits and vegetable production is recorded under the Other Crops category. It's contribution remains significant from the standpoint of self-sufficiency and exportable surplus. Combined production of other crops is expected to increase by 9.4 percent totaling to 2.38 million metric tons in the current FY as against 2.17 million metric tons in FY 1999/00.

Production of Food Crops

Paddy

5.8 Paddy production increased by 8.6 percent and stood at 4.03 million metric tons during FY 1999/00 compared to 3.71 million metric tons in the previous FY 1998/99. It is expected to increase by 4.6 percent resulting 4.22 million metric tons in the current fiscal year. The productivity of paddy had increased by 5.7 percent and stood at 2.6 metric tons per hectare in the fiscal year 1999/00 as compared to the 2.5 metric tons per hectare in the previous FY. Productivity is expected to increase further by 4.3 percent yielding 2.7 metric tons per hectare in the current FY. Area under paddy crop in the current FY is expected to increase by 0.6 percent totaling to 1.56 million hectares as against 1.55 million hectares of FY1999/00.

Maize

5.9 Production of maize in FY1999/00 had increased by 7.3 percent and reached the level of 1.45 million metric tons compared to the total of 1.35 million metric tons in FY1998/99. In the current FY, production is expected to increase by 2.7 percent to the total of 1.48 million metric tons compared to that of the previous FY. Area under this crop is expected to increase by 0.6 percent to the level of 0.82 million hectares while productivity is expected to rise by 2.3 percent yielding 1.8 metric tons per hectare in the current FY against that of the last FY.

Wheat

5.10 Total wheat production in the FY 1999/00 was increased by 9.0 percent to the level of 1.18 million metric tons against 1.09 million metric tons in FY1998/99. In this FY it is expected to decline by 2.2 percent to the level of 1.16 million metric tons in relation to that of the last FY. Cultivation area under this crop, however, reduced by 2.9 percent to the level of 0.64 million hectares but the productivity is expected to increase by 1.1 percent yielding 1.8 metric tons per hectare compared to the previous FY.

Barley

5.11 Barley production, which stood at 32,000 metric tons in FY1998/99, had declined by 3.1 percent to the total of 31,000 metric tons in FY 1999/00. Its production is estimated to further decrease by 3.2 percent to the level of 30,000 metric tons in the current FY. The area covered and the productivity are expected to remain unchanged in the current FY.

Millet

5.12 Millet production had registered 1.4 percent growth and stood at 0.3 million metric tons in the fiscal year 1999/00 compared to 0.29 million metric tons in the FY 1998/99 . It is estimated to decrease by 4.0 percent compared to that of the last FY to 0.28 million metric tons in the current FY, while the area covered is expected to decrease by 1.1 percent to stand at 0.26 million hectares only. Productivity as well is estimated to decrease by 1.8 percent as compared to the preceding FY.

Production of Cash Crops

Sugarcane

5.13 Sugarcane is one of the main cash crops. The upward trend in cropping area, production and productivity are expected to be maintained in the current FY. Production increased by 6.6 percent to the level of 2.13 million metric tons in the FY 1999/00 compared to 1.97 million metric tons in FY 1998/99. In the current FY, production is estimated to reach 2.21 million metric tons, a 5.2 percent increase over that of the previous FY. Similarly, the area covered has increased by 1.7 percent to the total of 59,000 hectares in the current FY against 58,000 hectares in the previous FY. Productivity is expected to rise by 2.9 percent yielding 37.2 metric tons per hectare in the current FY.

Oilseed

5.14 Oilseed production has continued to increase robustly both in terms of total production and productivity. In FY1998/99, production was registered 120,000 metric tons. It increased by 2.5 percent and reached to 123,000 metric tons in FY 1999/00. Yet another increase of 7.3 percent is estimated to register total production of 132,000 metric tons in current FY despite the fact that the area of cultivation is expected to decline by 1.0 percent to the level of 188,000 hectares as against 190,000 hectares covered in the last FY. Productivity is estimated to rise by 7.7 percent yielding 0.70 metric tons per hectare in the current FY as compared to 0.65 metric tons per hectare in the preceding FY.

Tobacco

5.15 Tobacco production dropped by 2.6 percent in FY1999/00 and stood at 3,800 metric tons compared to 3,900 metric tons in FY 1998/99. In the current FY, production is estimated to slide to 4,000 metric tons with an increase of 5.3 percent. Area covered is expected to be reduced by 7.0 percent to the level of 4,000 hectares in the current fiscal year as compared to the 4,300 hectares covered during FY 1999/00. Nevertheless, there will be productivity gain of 5.6 percent contributing to 940 kg per hectare compared to that of the last FY.

Potato

5.16 An increase of 8.3 percent in the production of the potato was recorded in the fiscal year 1999/00 resulting in the total production of 1.18 million metric tons compared to 1.09 million metric tons in FY 1998/99. In the current FY, further 11.2 percent rise to give a total of 1.31 million metric tons has been estimated. Area covered is also estimated to increase by 4.9 percent to the total of 129,000 hectares. Productivity expected to go up by 5.6 resulting in 10.18 metric tons per hectare in the current FY.

Jute

5.17 Jute production recorded 15,200 metric tons in FY 1999/00 against 15,100 metric tons of FY1998/99. It is estimated to increase by 5.0 percent in the current FY reaching to16,000 metric tons. Area of jute cultivation is estimated to drop by 24.6 percent to the level of 11,000 hectares but the productivity seems to be up significantly by 39.0 percent resulting in the yield of 1.45 metric tons per hectare in the current FY against that of preceding FY.

Tea

5.18 Tea cultivation as a cash crop has continued to expand every year mainly in the districts of Ilam, Jhapa, Panchthar, Dhankuta and Terhathum of Eastern Development Region. Currently, the now privatised Nepal Tea Development Corporation, private sector tea estates and the small farmers are engaged in tea production. Of the total 5.09 million kg of manufactured tea in FY1999/00, contribution of Nepal Tea Development Corporation was 496,881 kg. private tea estates produced 3.58 million kg. and small farmers produced 1.01 million kg. Total production increase corresponds to 13.2 percent increase as compared to that of previous FY. For the current FY, it is targeted to produce manufactured tea of 4.68 million kg and 1.17 million kg by the private sector tea estates and small farmers respectively. Altogether 5,090 farmers are engaged in tea growing. Tea plantation in 67,954 Ropanies of land has been carried out in the review period of the current FY. Contribution of the National Tea and Coffee Development Board is significant for the development of tea sector in recent years. It organizes various activities such as tea growing feasibility studies, publishing Tea and Coffee Booklets, collection of tea statistics and Tea Days, etc.for the promotion and expansion of tea and coffee cultivation.

Coffee

5.19 Coffee cultivation at commercial scale is developing in the Western Region. The National Coffee and Tea Development Board provides technical training in coffee cultivation to coffee-farmers. Coffee cultivation area covered 6,286 Ropanies of land. Production in FY 1999/00 totaled 72,400 kg. which is expected to reach 85,000 kg in the current FY.

Production of Other Crops

Pulses

5.20 The contribution of pulse has been important in the export trade for many years. Its production in FY 1999/00 was recorded as 237,320 metric tons due to 3.7 percent increase over above total production of 228,840 metric tons in FY1998/99. An increase by 2.5 percent to the level of 243,240 metric tons is expected in the current FY.

Fruits

5.21 Fruit production dropped by 1.9 percent to the level of 447,330 metric tons in FY1999/00 compared to 456,000 metric tons in the FY 1998/99. However, it is expected to increase by 9.1 percent to the total of 487,950 metric tons in the current FY.

Vegetables

5.22 The production of vegetables had gone up by 11.0 percent and stood at 1.49 million metric tons in the FY 1999/00 as compared to 1.34 million metric tons in FY 1998/99. It is expected to rise by 10.7 percent to a total of 1.65 million metric tons in the current FY.

Livestock Production

5.23 Total meat prduction was increased by 2.2 percent to 189,160 metric tons in FY1999/00 against 185,030 metric tons of FY1998/99. In the current FY, production is expected to increase by 2.7 percent to the level of 194,260 metric tons. Milk and dairy products increased by 2.2 percent to 1.10 million metric tons in FY 1999/00 as compared to 1.07 million metric tons in FY 1998/99. In the current fiscal year, these products combined are expected to increase by 2.5 percent to a total of 1.12 million metric tons. Egg production in FY1999/00 reached 480,800 units by increasing at 4.4 percent as against that of previous FY. It is expected to increase by 5.5 percent totaling 507,320 units in the current FY 2000/01. Similarly, fish production in FY 1999/00 increased by 23.2 percent to 31,720 metric tons as against that of the previous FY. During the current fiscal year, it is expected to increase by 8.7 percent to 34,470 metric tons as compared to the previous FY.

Chemical Fertilizer

5.24 According to the policy of HMG, different measures for institutional reforms have been adopted to increase the participation of private sector in the supply of chemical fertilizer as well as to gradually phase out the subsidy regime. Agriculture Inputs Corporation (AIC) had distributed 37,250 metric tons (nutrients) in FY 1999/00, which was 18.4 percent lower than the last year. During the review period of the current fiscal year, distribution of chemical fertilizer dropped by 45.5 percent reseach to 12,260 metric tons as compared to 22,508 metric tons in the same period of preceding year. Substantial decline in the supply of chemical fertilizer by AIC is noticeable due to the growing participation of private sector. As regards to the prices of Sulfate and Potash remained unchanged, while Urea and D.A.P. prices were up to some extent.

Improved Seeds

5.25 AIC's role in the supply of improved seeds is waning in recent years. During the review period of the current FY, 1 metric tons of paddy, 3 metric tons of maize, and 1,311 metric tons of wheat have been distributed by the AIC compared to 326 metric tons of paddy, 25 metric tons of maize and 2,234 metric tons of wheat seeds distributed in FY 1999/00.Three metric tons of paddy, 18 metric tons of maize and 2,234 metric tons of wheat seeds were distributed during the same period of the last FY.

Insecticides

5.26 Like in the previous FY, no transaction of pesticides took place during the review period of the current FY under AIC indicating predominance of private sector in insecticide trade.

Irrigation

5.27 Dependable irrigation facility is essential for the sustainable development of agriculture sector. Integration of institutional development of irrigation with agriculture development is underway. HMG has continued the policy of last year to involve local consumers in the selection, implementation, maintenance and management of irrigation projects. The HMG and the ADB/N are the main parties currently engaged in irrigation development. In FY1999/00, irrigation facilities were expanded to additional area of 35,702 hectares, of which 27,562 hectares were under projects launched by the government and 8,140 hectares under ADB/N. During the review period of the current FY, additional 1,732 hectares of land has been irrigated by the projects launched by government sector (1,530 hectares) and ADB/N (202 hectares) which compares to additional 2,592 hectares of land receiving irrigation in the corresponding period of the last FY. By the end of FY 2000/01,a total of 57,405 hectares of land will have been covered by irrigation facilities comprising of 48,787 hectares and

8,618 hectares under the Department of Irrigation, and the ADB/N respectively.

Agricultural Credit

5.28 Access to agricultural credit is vital for agriculture and rural development. During the review period of the current FY, ADB/N disbursed a credit worth Rs.4647.2 million and recovered Rs. 3275.1 million compared against the agricultural credit of Rs. 6969.6 million and recovery of Rs. 5180.9 million in FY 1999/00. The credit disbursement was Rs. 3880.6 million and recovery was Rs. 2688.5 million in the same period of previous FY. As in the past several years, major portion (41.2 percent) of the investment went to agro-industry, marketing and godown construction. The outstanding loan stood at Rs. 12883.1 million in FY 1999/00. During the review period of the current FY, outstanding loan went up by 16.0 percent to the total of Rs. 14255.2 million as against Rs. 12286.5 million in the corresponding period of the previous FY.

Small Farmers Development Program

5.29 There are 357 SFDP being implemented by ADB/N in 75 districts of the country. Altogether 1,92,147 small farmers associated in 25,083 organized groups of 625 VDCs were benefited by the execution of 540 projects in addition to 85 projects in 29 districts being managed by the SFCs transferred from the ADB/N in FY 1999/00. ADB/N's investment in SFDP amounted to Rs.591.2 million and Rs. 493.1 million has been recovered in FY1999/00. During the same year, SFCs invested Rs. 323.5 million recovered Rs. 345.3 million. As of the review period of the current FY, investment in SFDPs stood at Rs. 254.2 million and recovery at Rs.284.3 million. Groups' savings at the end of FY 1999/00 reached Rs. 180.0 million. At the end of the review period of the current FY, total credit investment amounted to Rs. 1187.8 million in SFDPs.

Challenges

5.30 Substantial increase in agriculture production and productivity is not yet visible due to geographical diversity, continued dependency on monsoon rains and traditional farming system of the country. The main challenge is to gear up return on investment by enhancing production through agriculture extension, modernization and commercialization.

5.31 Despite the huge investment on irrigation sector, monsoon still rules the agriculture. Standing irrigation facilities lack proper maintenance and capacity improvement. Timely completion of irrigation projects under construction is rare. Addressing these problems and implementation of small and medium scale irrigation projects through consumers' participation to ensure higher and sustainable return on investment of limited resource remain as challenges of this sub-sector.

5.32 To Facilitate farmers access to the market and sell their products at reasonable prices, development of rural infrastructures, particularly rural and agricultural roads, has become all the more important. Well managed and efficient agricultural products collection centers, stores including cold stores especially for perishable farm products are equally important. To make agriculture a commercially profitable venture, it is high time that high value cash crops, animal products, fruits , vegetables and herbs are identified and developed ensuring reasonable value to the farmers.

5.33 Livestock farming is an integral part of agriculture. To catch up with the ever increasing demand of milk, meat, eggs and fish, a break-through in their production scale has become a matter of urgency, It calls for accessing high breed animals, well staffed animal health centers and wider coverage of livestock insurance schemes.

5.34 In order to diversify and commercialize agriculture, research programs should be more effective and production oriented with special focus to the Hills and Mountain regions and dry weather crops. As there is limited scope of expanding cultivable land to increase agricultural production, research should take into account the option of appropriate technology development and its extension with due attention to supply of attendant inputs. It should also focus on identification and development of agricultural items of not too long gestation period demanding a simpler technology propped on available agricultural inputs.

VI. INDUSTRY, TOURISM AND PUBLIC ENTERPRISES

Industry

6.1 Industry plays an important role in the rapid economic development of the country. Development of the industrial sector is important in mitigating the problems of growing unemployment and poverty. In Nepal, 80 percent people earn their livelihood from agriculture and the contribution of the manufacturing sector to GDP is estimated to be around 10 percent. In this context, concrete steps need to be taken to develop industrial sector in Nepal. Major proportion of agriculturally dependent population needs to be diverted to non-agriculture sector to solve the problems of unemployment and underemployment. Public sector initiatives alone will not be sufficient and active participation of the private sector is indispensable. In an open economy, conducive institutional and policy regime greatly helps the private sector play its role effectively. Considering the private sector as a vehicle of economic development, the Government has defined its role as a promoter and facilitator for attracting domestic and foreign investment in the country. In order to make the policy environment more congenial, government has set a mode of inviting private sector for its broader participation in the preparation of policy framework and improvements to existing regulations in a bid to create an investment friendly environment. Accordingly the private sector representation are included in the higher level bodies commissioned for the promotion of industry.

Industries Operating under Private Foreign Investment

6.2 The flow of foreign capital and technology is an effective means of meeting the growing demand for these and for the technology transfer as well. Together, they contribute to the process of industrialization. Accordingly, government has recognized these factors as part of its strategy for industrial development. To promote FDI, attention has been given to create basic infrastructure as expected by the international investor community. Guarantee of protection of investment and repatriation of returns, provision of granting commercial visa to investors in an easy process, settlement of disputes under the conciliation rules of the United Nations Commission on International Trade Law, Industrial Promotion Board, Fast Track Committee and One Window Committee to provide facilities and privileges are the major ones among the institutionalized facilities. Foreign investment not only facilitates inflow of capital and modern technology but also competitive corporate and technical skill and access to the international market, which are equally important factors for the industrial development. In the FY 1999/00, 66 enterprises were given permission for foreign investment worth Rs. 2,526.7 million. Similarly, as of the first eight months of the current FY, 59 enterprises with total project cost of Rs. 4,138.9 million and fixed capital investment of Rs. 3,515.0 million were given permission. As of mid March of the current FY, 649 foreign investment industries were given permission to establish. These industries have the total fixed capital of Rs. 61,451.0 million and the total project cost amounts to Rs. 71,234.6 million. Foreign investment in these industries totals Rs.17,342.9 million, which will create employment opportunities for 81,536 people after these industries become operational.

Industrial Production in FY 1999/00

6.3 Category wise industrial production index in FY 1999/00 had increased by 8.7 percent as compared to the previous FY. This increase included that of sugar by 51.2 percent, tea by 216.2 percent, vegetable ghee by 2.0 percent, soft drinks by 2.2 percent, beer by 15.8 percent, alcohol by 15.0 percent, synthetic cloth by 36.1 percent, shoes by 7.4 percent, plywood by 478.4 percent, straw board by 24.8 percent, paper by 105.9 percent, soap by 4.0 percent, detergent powder by 40.7 percent, matches by 16.1 percent , cement by 8.0 percent, bricks and tiles by 10.0 percent, iron rod and angles by 23.2 percent, cable by 1.6 percent, ACSR conductor by 25.8 percent and batteries by 90.8 percent. Declines in production also were registered in noodles by 1.0 percent, biscuits by 22.7 percent, soft drinks by 6.1 percent, animal feed by 0.6 percent, cigarette by 10.0 percent, bidi by 57.3 percent, textiles by 1.8 percent, jute goods by 32.8 percent, processed leather by 41.4 percent, sandals by 13.6 percent, plastic goods by 41.9 percent and steel utensils by 34.0. There was a marginal surge in the production of GI/HB wire.

Industrial Production in FY 2000/01

6.4 Evaluation of the industrial production of the current FY 2000/01 indicates that the group industrial production index is estimated to increase by 3.6 percent as compared to the previous FY. Among the products that are expected to record rise in production during this year are noodles by 8.0 percent, biscuits by 9.1 percent, tea by 2.7 percent, vegetable ghee by 16.0 percent, bidi by 7.5 percent, beer by 9.5 percent, alcohol by 9.4 percent, textiles by 4.6 percent, jute goods by 3.3 percent, shoes by 28.0 percent, straw board by 14.0 percent, paper by 11.0 percent, cement by 8.0 percent, bricks and tiles by 11.5 percent, iron rod and angle by 9.0 percent, steel utensils by 11.0 percent, ACSR conductor by 15.0 percent, and battery by 8.0percent. The products expected to decline are: soft drinks by 7.3 percent, sugar by 5.6 percent, animal feed by 7.5 percent, cigarette by 10.9 percent, synthetic cloth by 60.8 percent, processed leather by 12.0 percent, plywood by 1.9 percent, detergent powder by 4.6 percent, plastic goods by 5.0 percent, wire by 46.3 percent, GI/HB wire by 52.1 percent. Production of agriculture equipment is expected to remain nil in the current FY.

Production Capacity Utilization of Some Selected Industries

6.5 Some selected industries were studied to assess the utilization of their production capacity. It was found that the capacity utilization of cigarette increased to 85.0 percent from 83.0 percent, beer to 48.0 percent from 45.0 percent and jute goods to 46.0 percent from 45.0 percent in FY 1998/99 as compared to FY 1997/1998. On the other hand, the capacity utilization of sugar decreased to 55.0 percent from 57.0 percent, matches to 53.0 from 59.0 percent, and cement to 47.0 percent from 48.0 percent. As compared to FY1998/99 the capacity utilization of beer, matches and jute goods had increased from 48.0 percent to 57.0 percent, 53.0 percent to 60.0 percent and 46.0 percent to 70.0 percent respectively. During the same period, the capacity utilization of sugar, cigarette and cement had declined from 55.0 percent to 54.0 percent, 85.0 percent to 77.0 percent and 47.0 percent to 43.0 percent, respectively.

Industrial Estates

6.6 Industrial estates have been established with a view to contribute to industrialization by providing physical infrastructure and other facilities for industrial enterprises at one spot. The history of industrial estates dates back to 1959, when Balaju Industrial Estate was established with the American assistance. Thereafter, with the assistance from other friendly nations and by mobilizing its own resources of HMG established industrial estates are located at Balaju, Patan, Bhaktapur, Hetauda, Dharan, Pokhara, Butawal, Nepalganj, Rajbiraj, Birendranagar, and Dhanakuta. The industrial estate in Dhanakuta is under construction. Total fixed capital of Rs. 150 million has been invested in these 11 established industrial estates. Out of total areas of 5705 ropanies (app. 713 Ha) of land under these estates, 5,080 ropanies (app. 254 Ha) of land have been fully developed and 3,353 ropanies (app. 168 Ha) have been leased to different industries. Altogether 332 industries are in operation and 57 industries have been shut down, while 43 industries are under construction. As of mid March of the current FY, industries operating in these industrial estates have generated direct employment to 14392 people. Feasibility studies for the establishment of industrial estates in more than 16 additional locations of Nuwakot, Janakpur, Ilam, Chitwan, Jhapa, Kailali, Kanchanpur, Dang, Kavrepalanchowk, and Tanahu have been completed. In the context of expanding activities of the industrial estates, necessary measures have been taken for the institutional reform and organizational development of these industrial estates. Action has been initiated to prepare an operational manual as per needs, location and situation of these industrial estates. Moreover, steps are initiated to evaluate the resources used (particularly land use, buildings, electricity, water etc.) in these estates and their capacity utilization.

Nepal Industrial Development Corporation

6.7 NIDC was established in 1959 as a development bank. The main objective of NIDC is to provide financial resources to the ongoing and new industries on an institutional basis for the rapid industrial development of the country. NIDC had disbursed Rs. 292.1 million as loans to 15 industrial projects in FY 1998/99 and in FY 1999/00, it had disbursed Rs. 107.7 million as loans to 41 industrial projects. In the first eight months of the current FY, loan disbursed amounted to Rs. 48.2 million to 30 industrial projects. On the loan recovery side, NIDC recovered principal worth Rs. 611.4 million in FY 1998/99, and Rs. 531.2 million in FY 1999/00. Similarly, in the first eight months of the current FY, such recovery amounted to Rs. 170.01million.

6.8 As NIDC lends long-term capital, it faces the shortage of investment fund lacking long term external funding and inadequate internal sources. Despite all these, NIDC has accorded top priority to loan recovery and provide concessions to the industries. To mobilize capital from internal resources, NIDC has a program to operate commercial banking to collect deposits from the public, issue industrial development bond and sell shares it has invested in various industrial and financial institutions.

Cottage and Small Industry

6.9 Promotion of Cottage and Small Industry (CSI) can play a positive role in mitigating the problems of rising unemployment and rural poverty. CSI makes it possible to create employment opportunities outside agriculture and promote interrelationship between urban and rural areas by developing agriculture enterprises and involving more people in industrial occupation. Development and promotion of CSIs based on indigenous raw materials skills utilization and transfer of appropriate technology has become the need of the day. Moreover, these industries could contribute to import substitution, increasing the national productivity and foreign exchange earning. Altogether 10,127 CSIs with the total capital investment of Rs. 10,340 million were registered in the FY 1999/00 to generate additional employment to 79,618 people. In the first eight months of the current FY, 6,587 CSIs with a total capital investment of Rs. 4820 million were registered employing additional 47,425 people.

6.10 That the policy measures and legal and structural reform initiated during FY 1999/00 and 2000/01 have conducive impact is evident from more people are interested in the CSI activities. To further vitalize this sub sector, upgraded skills training to those who have already received primary training needs to be conducted to make them competitive and qualified for the coming years.

Industrial Enterprise Development Institute

6.11 Entrepreneurship and managerial efficiency are essential for running small enterprises as well as the big ones. With the objective of entrepreneurship development and small business promotion in Nepal through training in business creation, business management, research and consultancy services, the Small Business Promotion Project was launched in FY 1982/83. Replacing this project the Industrial Business Development Center came into existence in 1995/1996. In 1996 it was restructured under the Industrial Enterprise Development Institute Act, 2053 and was renamed. Its efforts are focused to provide institutional support to the industries and related organizations. Measures are being initiated to make this organization a center of excellence. The Institute provided entrepreneurship development training to 469 persons, and business promotion trainer's training to 104 persons in the FY 1999/00. Likewise it has accomplished 83 regular consulting services, 27 management improvement training, 15 manpower development programs and 92 technical information services. In the first eight months of the current FY, the institute has already overachieved its target of performance.

Micro Enterprise Development Program

6.12 Micro Enterprise Development Program (MEDEP) was implemented in 1998 in a phase-wise manner in ten districts with the technical and financial support from United Nations Development Program (UNDP) and the Ministry of Industries, Commerce and Supplies as the implementing agency. This program was launched to support Ninth Plan's overarching goal of poverty alleviation. The main objective of this program is to create employment opportunities through creation and development of micro enterprises for the rural poor living below absolute poverty line. The project has implemented skill training, micro finance entrepreneurship training, market promotion for its target population for creation and development of micro enterprises in cooperation with the government organizations and NGOs. The program has a target of creating 6,000 micro entrepreneurs in five years and out of this 70 percent will be women. MEDEP's activities are result oriented and demand driven. As of mid March of 2001, feasibility study in ten districts, household survey of 18,183 households, and identification of 11,252 potential participants, have been completed. During the same period, 3,273 people were trained in creation of micro enterprises out of 4,862 selected participants. During this period, 1,769 micro enterprises were established and Rs. 5.88 million loan has been provided to 965 micro entrepreneurs.

Mines and Geology

6.13 Various programs are being implemented under the policy of collecting geological and mineral data and cater to those concerned with the development of mineral resources and physical infrastructure. Promotion of mines and mineral based industries with a view to contributing to the national production and employment opportunities exploration of non ferrous minerals on priority basis particularly to promote cement industries and to establish and manage laboratory logistic support necessary for the development of mineral industries are also the operating policies of this sub- sector. At present, there are 21 seismic stations in operation. The engineering and environmental geological map of Pokhara and Kathmandu valley had been published with the help of Remote Sensing and Geographic Information System which have been helpful in publishing geological maps. Based on assessment of cement grade limestone deposit in Arghakhanchi district, the private sector has been given permission to explore limestone deposits for the establishment of a cement industry with the production capacity of 800 metric tons per day. Similarly, homework is underway to set up a cement industry in Salyan district in the private sector on the basis of the completed exploration of high-grade cement lime stone deposit. Natural disaster map of Nepal is under preparation on the basis of disasters that already occurred in the past. Proposals submitted by the private sector for the establishment of a natural gas plant in the Kathmandu Valley is under evaluation.

Tourism

6.14. There is an unlimited potential of development of tourism industry in Nepal due to its natural beauties, geographical diversities and cultural and artistic heritages. Nepal has become the destination of tourists all over the world due to the existence of world's highest mountain Mt. Everest and other peaks, temple of Lord Pashupatinath, birthplace of Lord Buddha, a number of lakes and rivers and a number of natural and cultural values. Ample scope of study and observation of various cultural heritages also attract tourists. So tourism has been an industry of comparative advantage and it has contributed to growth in employment and income generation as well as to improve balance of payment of the country. Long term goal underlying HMG policy of developing and extending tourism industry is to exploit its potential for the benefit of rural areas.

6.15 A study of number of tourist arrival, growth rate and duration of their stay in Nepal reveals that their arrival in Nepal has varied from year to year. By the end of 1997, such arrivals had increased by 9.9 percent and in the following year 1998, growth dropped to 6.0 percent to the total number of tourists arrival to 491,504 at the end of 1998. At the following year-end 1999, the growth in tourist arrival estimated to have further slid down by 9.1 percent to 447,000. As regards the tourist stay it averaged 12.8 days in 1998 with the marginal drop to 12 days in 1999.

6.16 Analysis of the purpose of tourists visit to Nepal reveals that majority of tourists come to Nepal for pleasure, trekking and mountaineering. During 1998, 59.2 percent came for pleasure, 22.0 percent for trekking and mountaineering, 4.8 percent for trade 4.9 percent for official visit, 3.9 percent for pilgrimage, 1.2 percent for conference and seminars and 4.0 percent for other purposes. Purpose-wise distribution of arriving tourists in the year 1999 is also believed to be same as that of the year 1998.

6.17 Regional analysis of total tourists arrival in 1998 reveals that 9.5 percent were from North America, 1.2 percent from Central and South America, 33.6 percent from Western Europe, 1.4 percent from Eastern Europe, 0.4 percent from Africa, 3.1 percent from Australia and the Pacific Region and 50.8 percent from various Asian countries including India. The total number of tourists arrivals from these regions turned out to be 491504. In 1999 among the estimated 447,000 tourists arrivals11 percent were from North America, 1.5 percent from Central and South America, 36.4 from Western Europe, 1.6 from Eastern Europe, 0.4 percent from Africa, 3.6 percent from Australia and the Pacific Region and 45.5 percent from various Asian Countries including India.

Foreign Exchange Earning from Tourism Industry

6.18 Foreign exchange earning from tourism sector in the FY1999/00 was equivalent to Rs 12,073.9 million .In the first six months of the current FY, the earning reached Rs. 5,308.1 million. In the FY 1999/00, foreign exchange earnings from the tourism sector represented 23.4 percent of the total foreign exchange earning from the export of goods, 15.5 percent of the export of goods and services. In the first six months of the current FY, the ratios turn out to be 18.5 percent and 13.3 percent respectively. In the FY1999/00 foreign exchange earnings from the tourism sector represented 12.9 percent of the total foreign exchange earning. Earnings of the six months of the current FY works out to be 5.1 percent of the total foreign exchange earnings.

6.19 By the end of 1999, the country had 785 hotels out of which 95 were star hotels and 690 were non-star hotels. By the year 2000, the total number of hotels is expected to total 848 out of which 99 are star and 749 non-star hotels. By the end of 1998, there were 32,214 hotel beds and the figure is expected to increase by 8.5 percent by the end of 2001 to total of 34,958.

6.20 As regards the mountaineering, 115 mountaineering expeditions received climbing permit and a total of 857 mountaineers scaled Himalayan peaks in 1998. During the year, 9,690 people got employment opportunity and Rs 84.989 million worth of revenue was collected in the form of royalties. In the year 2000, 132 mountaineering expedition teams were issued climbing permit and 773 climbers were expected to scale different mountains. During this period 11,587 people benefited from employment opportunities and the government collected the revenue of Rs. 119.896 million in the form of royalties. During the year 1999 the number of expedition teams, employment generation and the revenue from royalty increased in comparison to those of the previous year.

6.21 With the objective of producing efficient man power for the tourism industry through well designed training programs, the Hotel Management and Tourism Training Center was reorganized as the Nepal Academy of Tourism and Hotel Management. During FY 1998/99, the Academy provided training to 1071 people in different 16 subjects and in FY 1999/00, 1197 people were trained in 13 subjects. From 1972/73 to mid-March of current FY, 15,716 people related with tourism sector have received training in 26 different subjects.

6.22 The organizational and institutional reform of the academy has resulted in improvement in its image and the discharge of its responsibilities. Internal decoration of training hotel club building of the Academy is expected to complete in FY 2000/01. The Academy has been conducting regular basic and supervisory training courses but from FY 1997/98, it has started one year Diploma course in accommodation operation, and beginning from FY 1999/00 it has been conducting three years course in Baccalaureate in Hotel Management. The skill and corporate oriented training courses have directly benefited the educated and semi-educated people and tourism industry in the private sector. In totality it has contributed to the economic development of the country.

Nepal Tourism Board

6.23 For qualitative improvement in tourism industry, to introduce Nepal as one of the World's major travel destination, promotion and conservation of natural and cultural heritages and promotion and maintenance of the infrastructure in the tourism sector, Nepal Tourism Board was established as an autonomous body. This Board is an attempt to embody government leadership and policies and corporate culture and experiences of the private sector. Since its establishment in 1999, it has been moving ahead with a defined vision in international tourism market promotion and management. Various programs have been launched in tourist origination locations abroad. For promotion of tourism, it has been involved in various international fairs, production and distribution of publicity materials, direct correspondence and maintaining institutional relation. During short span of its life it has already been awarded 4 international awards contributing to national pride. For promotion of domestic and international tourism, the Board has developed various materials.

Public Enterprises

6.24 The role played by the public enterprises in the social and economic development and in providing goods and services in a regular basis which were not attractive to the private sector is important. General public continue to benefit from the services of these enterprises. These enterprises have failed to perform on a sound and business like manner. As a result, their financial position continue to become weaker and return to government investment to diminish.

6.25 In FY 1999/00, HMG invested Rs. 1373.0 million in the form of share investment. In the current FY, the share capital investment is estimated to reach Rs. 1,080.0 million. In FY 1999/00, the loan capital investment amounted to Rs. 5,945.0 million and the figure is expected to reach Rs. 9,390.0 million in current FY. Similarly the enterprises were provided Rs. 577.5 million in the form of transport and operating subsidies in FY 1999/00. It is estimated to decrease to Rs. 332.1 million in the current FY. The enterprises paid Rs. 1,568.0 million and Rs. 2142.0 million in the form of interest and principal payment respectively to the government in FY 1999/00. In the current FY, the figure of interest and principal payment to the government is estimated to increase by 11.6 percent and 9.7 percent amounting to Rs. 1750.0 million and Rs. 2,350.0 million respectively.

6.26 In FY 1999/00 the enterprises earned a net profit of Rs. 2,404.4 million. In the current FY, it is estimated to incur a loss of Rs. 746.7 million. In FY 1999/00 the net capital investment in these enterprises amounted to Rs. 83,420.6 million. It is expected to reach Rs. 101,828.3 million in the current FY. The net return on capital investment was 2.9 in FY 1999/00 percent and to suffer a loss by 0.7 percent in the current FY.

6.27 The analysis of fund flow from these enterprises to HMG reveals that in FY 1999/00, HMG received Rs. 2,190.2 million in the form of income tax and the figure is expected to rise by 5.0 percent to Rs. 2,300.0 million in the current FY. In FY 1999/00, Rs. 2,623.0 million was received as dividend which is estimated to increase by 10.6 percent to Rs. 2,900.0 million in current FY.

Privatization of Public Enterprises

6.28 With the objectives of increasing productivity and efficiency of investment in the public enterprises, promoting private sector initiative and participation in the operation of these enterprises, mitigating burden of unproductive expenditure on the government treasury and thereby release resources for the economic development HMG has recognized privatization of these enterprises as appropriate and timely. In the current FY, among the different public enterprises under the process of privatization, process is under way to hand over the Nepal Tea Development Corporation to the private sector under the contract. The call for retendering of Butwal Power Company has already been completed and the process of privatization is underway. Similarly, the studies of some enterprises targeted for privatization in the Ninth Plan has been completed. Of such enterprises, the privatization process of some enterprises on the priority basis has already been initiated

Challenges

6.29 Industry is a leading sector for economic development of a country and to promote industrial investment private sector participation has to be enhanced. Therefore, strengthening of policy and institutional framework consistent with the liberal and market oriented economy is the need of the day. A sound policy implemented weakly hardly ensures expected returns. Similarly, guarantee of the protection of investment among others is a precondition. With the globalization the national frontiers have been eliminated by the economic activities and flow of capital and technology can take place without any barriers. For this to happen protection of investment and investment friendly atmosphere is the challenge of paramount importance.

6.30 Lack of wider publicity in the highly competitive world and development of tourist infrastructure in limited geographical regions have remained a limiting factor for many years. In recent years lacking guarantee of security of tourists particularly the Indians, environmental pollution, recurrence of mass strikes including transport strikes and tragic episodes in recent days have played directly counterproductive role detrimental to the tourism sector. The contribution of Indian tourists in the total tourists arrival in Nepal turns out to be one third and if conducive environment for the Indian tourist cannot be created sooner the industry will have to suffer for a long period.

6.31 The program of privatization has been initiated with the objectives of enhancing the productivity of public enterprises by making efficient utilization of investment, encouraging wider participation and initiative of the private sector in their operation and by speeding up the process of economic development by mitigating burden on the government treasury. These objectives demand appropriate and timely amendment and reforms of legal procedures and responsive macro level policies and mitigation of sectoral problems have posed themselves as the challenges ahead at present. Similarly, the role of enterprises whose privatization is considered as untimely, needs to be redefined and efficiency drive measures are to be put in place.

6.32 The share of FDI has been decreasing in Nepal. There is competition all over the world for this kind of investment. It is therefore important to review the investment-friendly policy to attract this kind of investment. Similarly, in the context of increasing number of sick industries in the country, operating trade, monetary and fiscal policies needs review to revive such industries in the interest of generating employment opportunities and national production.

VII. ENERGY, FORESTRY AND ENVIRONMENT

Energy

7.1 Energy consumption has been on the rise as a result of rapid population growth, increased construction and development activities and industrial expansion. During FY 1999/00, a total of 7.746 million Tons of Oil Equivalent (TOE) of energy was consumed as compared to 7.35 million TOE in FY 1998/99, an increase of 5.4 percent during the period. Consumption of energy in the current FY (2000/01) is estimated to increase by 3.1 percent reaching 7.99 million TOE.

7.2 Observation of energy consumption pattern by dividing it into traditional and commercial sources reveals that traditional energy is consumed in very high proportion. Of the total energy consumed in FY 1999/00, share of traditional energy was 87.0 percent leaving 12.0 percent to commercial sources, which was 87.9 and 12.1 percent in the previous FY respectively. There has been a 0.9 percentage point increase in commercial energy consumption during this period. Of the total energy consumption in FY 1999/00, share of fuel wood was 77.7 percent while that of agricultural and cattle residue was 3.5 percent and 5.8 percent respectively. Under commercial energy sources, share of petroleum products, coal and electricity was 9.1 percent, 2.6 percent and 1.1 percent respectively. Generation of electrical energy and development and expansion of alternative energy sources is necessary for the abatement of pressure on traditional energy sources.

7.3 Consumption of energy during the current FY 2000/01 is estimated to increase by 3.1 percent reaching 7.987 million TOE. Of this total, consumption of traditional and commercial energy sources are estimated to increase by 2.3 percent and 8.4 percent respectively. Out of the estimated energy consumption from traditional sources, fuel wood, agricultural residues and cattle residues are estimated to occupy 77.2, percent, 3.5 percent and 5.7 percent respectively. Under commercial energy sources, consumption of petroleum products, coal and electricity are estimated to occupy 9.5 percent, 2.8 percent and 1.4 percent respectively.

Electricity

7.4 The nation could benefit most if hydropower, which is one of the major natural resources of the country, could be developed properly. Out of hydroelectricity generation potential of 83,000 MW, installed capacity by the end of FY 1999/00 totaled 323.2 MW or 0.4 percent of the total potential. With the completion of 36 MW Upper Bhote Koshi and 14 MW Modi Khola hydroelectric projects in the current FY, total installed hydropower generation capacity reached 367.9 MW or 0.5 percent of the total potential. Of the total installed capacity, 367.9 MW is connected to the national grid, while small hydropower plants supply 5.33 MW of electricity at the local level. Similarly, installed thermal centers generate 56.8 MW and 100 MW is generated by solar energy centers. By current FY all the 75 districts have access to electricity.

7.5 In continuation of adding up hydroelectric generation capacity, construction of Nepal's largest 144 MW Kali Gandaki 'A', is in its full swing with the target of completing it by next FY. This project is being funded through joint investment of HMG and Nepal Electricity Authority (NEA) and loan funding by the Asian Development Bank and the Government of Japan, Construction of Chilime Khola at Rasuwa (20 MW), Indrawati III at Sindhupalchok (7.5 MW) private sector are underway. For construction of 70 MW Middle Marsyangdi in Lamjung district preparation is underway. Construction of 500 kW Heldung hydro in Humla and 400 kW Gamgad hydro in Mugu, two districts currently solar energy server, are in progress.

7.6 Private sector enthusiasm to invest in hydropower development continued in this FY also. Among projects under Power Purchase Agreement (PPA) in the previous FY, construction of Piluwa Khola was initiated in the same year. Also, preparatory work for the construction of Sange Khola hydropower station, for which PPA was concluded in current FY, has begun.

7.7 In power transmission expansion front, a total of 4228 KM of transmission lines are in operation by the end of FY 1999/00 including 2392 KM of 132 kV, 330 KM of 66 kV, and 1506 KM of 33 kV. During the current FY, erection of 132 kV between Modi-Pokhara (40 KM); and 66 kV Chilime-Trishuli-Devighat (39 KM) and Mirchaiya-Katari (30 KM), has been completed. Currently, erection of 132 kV transmission lines between Kaligandaki 'A'- Pokhara (66 KM), Kaligandaki 'A'–Butwal (44 KM), second circuit Hetauda–Dhalkebar and Butwal – Bardghat (174 KM), are underway. In addition, 33 kV transmission lines between Ilam-Phidim-Taplejung (81 KM), Sitalpati-Musikot (39 KM), Duipa-Okhaldhunga (33 KM), Tatopani-Larjung (20 KM), Basantapur-Terhathum (15 KM), and Chhinchu-Jajarkot (85 KM) are under construction. As agreed between Nepal and India to raise the level of existing 50 MW power exchange agreement to 150 MW, it has also been agreed in principle to extend transmission lines at 3 border points between two countries. Accordingly, studies and other preparatory works are underway for the construction of 132 kV transmission lines between Butwal-Sunauli (25 KM), Parwanipur-Birganj (25 KM) and Dhalkebar-Bhitthamod (45 KM).

7.8 On distribution side, electrification in 970 villages have been carried out under ADB assisted Seventh Power Project in the VDCs of 22 districts without electricity connection in the past along with distribution of consumer connection in within those VDCs already having access to electricity. A total of 200,520 persons have benefited from this rural electrification. Extension of connection, in all those districts having access to electricity, is being carried out through domestic resources of HMG and NEA. Agreement has already been concluded with the Asian Development Bank for electrification of additional areas of 35 districts. Also, negotiation with the World Bank is underway for the electrification of more areas of some districts including Lalitpur, Bhaktapur and Kavrepalanchok.

7.9 Upgrading and strengthening of electric infrastructure is being carried out continuously. Load Dispatch Center expansion project is under implementation to link up major sub stations and power houses of the Kingdom with that Center through communication arrangement for systems control and raise efficiency in energy generation.

7.10 A number of feasibility and detailed design studies are being carried out for the expansion of hydroelectricity. Detailed design studies and works on the creation of necessary infrastructure of Kulekhani III and Chameliya Gad are underway. On the basis of studies carried out on reservoir based hydroelectric plants, 102 such projects have been identified. Initially four projects found attractive in this category, namely: Upper Seti (Tanahun), Madi Isaneshwar (Kaski, Lamjung), Langtang (Rasuwa), and Madi and Begnas (Kaski), have been selected and feasibility studies of two out of these four are being carried out. Feasibility studies at different levels are underway for hydropower plants below 5 MW under the Small Hydropower Studies Master Plan.

7.11 In FY 1999/00 supply of electricity totaled 1701.5 GWH consisting of 1402.5 GWH hydro-electricity and 66.7 GWH thermal power produced by the system, while 232.2 GWH was imported from India. Out of this total, 1174.3 GWH was consumed domestically while 95 GWH was exported to India. During FY 2000/01, total electricity supply is estimated to reach 1989.7 GWH including 1832.4 GWH hydro, 37.3 thermal, and 120 GWH imported from India. Out of the total available electricity, 1351.5 GWH will be consumed domestically and 180 GWH will be exported to India.

7.12 Sector-wide consumption pattern of energy during FY 1999/00 reveals that industry, domestic and commerce sectors consumed 40.1 percent, 36.8 percent and 6.4 percent respectively, while 7.5 percent was exported and other sectors consumed 9.2 percent. In FY 2000/01 the consumption pattern is estimated to remain at 38.3 for industries, 33.9 for domestic, 7.1 for commerce, with export touching double digits with 11.8 and other sectors remaining at 9.4 percent respectively.

7.13 Number of electricity consumers is swelling up year by year. By the end of FY 1999/00 number of consumers totaled 670,000 which is estimated to reach 750,000 by the end of the current FY. By the end of FY 1999/00, a total of 3,580,000 persons had access to electricity, which is estimated to total 4 million by the end of current FY 2000/01.

Petroleum Products

7.14 Demand of Petroleum Oil and Lubricant (POL) products is continuously rising. In FY 1998/99, POL products equivalent to Rs. 11,136.1 million was consumed. In FY 1999/00, consumption of these products totaled Rs. 13,332.5 million, which is an increase of 19.7 percent over that of the previous year. Total worth of such consumption during the first eight months of FY 2000/01 increased by 16.2 percent to Rs. 10,335.9 million against Rs. 8,888.3 million worth of consumption during corresponding period FY 1999/00. The Reason for this rise in the consumption of POL can be attributed mainly to sharp rise in the number of transport vehicles and appreciation of foreign currency used to bear the importation of POL products.

7.15 Among all POL products, diesel consumption continued to be the highest. Out of the total POL products consumed during the first eight months of FY 2000/01, individual share of these products (in percentage) was as follows: diesel 39.2, kerosene 37.7, aviation fuel 8.0, petrol 7.3, LP Gas 4.8, furnace oil 2.6, and light diesel oil 0.4.

Coal

7.16 Coal is another important source of energy. The role of private sector has intensified in the supply of coal with its involvement in import and distribution of this commodity. For instance, coal equivalent to 205,000 TOE was consumed, which is 20.4 percent of commercial energy consumption in FY 1999/00. In n the current FY 2000/01, consumption of coal is estimated to increase by 8.8 percent and reach 223,000 TOE.

Forestry

7.17 Forest is second water resource in terms of Nepal's most valuable natural resource. A number of programs are being carried out in public as well as in the private sector for the conservation and preservation of forestry. It has become necessary to improve, expand and conserve forests for fulfilling daily fuel wood and construction requirements, enhance revenue mobilization, and to maintain clean environment and ecological balance at the same time. Among major programs in implementation for the conservation of forests are: Community Forestry Development; Forestry Products Development; National and Leasehold Forestry; Plants Research; National Parks and Wildlife Conservation; Soil and Watershed Conservation; Herbs Production and Processing; and Environment and Forestry Enterprises. Private forest entrepreneurs are encouraged to participate in forestry management for the successful implementation of above-mentioned programs.

7.18 A total of 758,363 hectares of community forest have been handed over to the local level under the Community Forestry Development Program. The program has benefited 1,087,297 families from the implementation of 9,951 community forestry operation plans. Similarly, such plans for 19 districts are in operation under the National and Leasehold Forestry Program.

7.19 Various forestry programs including Community Forestry Development Program, National and Leasehold Forestry Project and Hill Leasehold Forestry Project are being implemented in order to protect the environment through conservation and management of forests. Altogether 1,316 Forest User Groups (FUGs) were formed in FY 1999/00 against the target of forming 1,269 FUGs. A total of 447 FUGs have been formed during the first eight months of the current FY 2000/01,.

7.20 In FY 1999/00, a total of 6,266,000 tree saplings were produced against the target of producing 6,726,000 saplings under various programs and projects. Of this total, 6,063,000 saplings were produced by projects under the Department of Forests including 1,494,000 by the Community Forestry Program (target 1,550,000); 1,672,000 by the National and Leasehold Forestry Project (target 1,900,000); 1,650,000 by Hill Leasehold Forestry Project (target 1,608,000); and 1,227,000 by other various projects (target 1,303,000). Besides, Forestry Product Development Board produced 223,655 saplings against the target of producing 365,000 saplings. Preparation of Nurseries and other necessary arrangements have been completed during the first eight months of the current FY 2000/01 to produce 9,315,325 saplings targeted for the FY.

7.21 In FY 1999/00, aforestation was carried out in 2,158 hectares against the target of covering 2,514 hectares under programs and projects completed by Department of Forests and the Forestry Products Development Board, an achievement of 85.1 percent of the target. In the current FY, necessary preparations have been completed to meet the target of covering 2,725 hectares through sapling plantations.

7.22 A number of soil conservation and watershed management programs aimed at conservation and protection of key watersheds to mitigate problem of natural disasters like floods, landslides and soil erosion, are in operation. Among projects in this area, Watershed Management Projects cover whole Kindgom; Chure Soil and Watershed Conservation Project in Siraha, Saptari and Udayapur; Sindhu-Kavre Soil Conservation Program in Sindhupalchok and Kavre districts are under implementation. Moreover, Nepal-Denmark Watershed Management Project in Rasuwa, Nuwakot and Dhading; Bagmati Watershed Management Project covering Kathmandu, Lalitpur, Kavre, Makwanpur and Sindhuli; Upper Andhikhola Forest and Watershed Program in Syangja; and Community Development and Forest Watershed Conservation Project in Kaski and Parbat are some other programs and projects in operation in this area. Also, Environment and Forestry Enterprise Activities program in five districts; Shiwalik-Bhawar Watershed Conservation Program in nine districts; Natural Resource Management Sector Support Project in 17 districts; and Sustainable Soil Management Program in four districts are being implemented. The Policy of carrying out watershed management by User Groups (UG) through public participation will be continued.

7.23 Expansion of herbs farming in 120 hectares was carried out in FY 2000/01 (with the achievement of 100 percent target) for raising income of local people under the program of involving them for the conservation and promotion of natural herbs and medicinal plants. The target of expanding herbal farming in 180 hectares during current FY 2000/01 has been achieved in its first eight months. Herbal products amounting to Rs. 35,611,000 were sold in FY 1999/00 against the annual target of Rs. 49,948,000. During the first eight months of FY 2000/01, herbal products equivalent to Rs. 24,038,000 were sold against targeted annual sale of Rs. 68,572,930.

National Parks and Wildlife Conservation

7.24 Various activities are in operation for the conservation of wild animals and plants under the National Parks and Wild Life Conservation Program. Under the target of expanding National Parks and Wildlife conservation area from 14 percent (of the total land area of the country), to 20 to 25 percent to enable it to represent various ecological zones of the country, has now been expanded to 18.1 percent.

7.25 As per the revenue sharing policy of the Government, fifty percent of the revenue raised from Royal Chitwan and Royal Bardia National Park is being made available to user groups through respective Buffer Zone Management Committees since last two years for spending in their social development programs.

7.26 In pursuance of the policy of promoting tourism in conservation areas, Tourism Management Plan for Royal Bardia National Park is already complete. A similar plan for Chitwan is in its final stage. Completion and approval of similar management plans for the remaining National Parks and Conservation areas is expected to provide support in the promotion of tourism.

7.27 Parks and People Program, Buffer Zone Development Program, Bardia Integrated Conservation Program, and Kanchanjanga Conservation Area Project are part of programs aimed at income generation and skill development involving local communities around the conservation areas.

7.28 The Timber Corporation of Nepal, entrusted with institutional marketing of fuel wood and timber, sold 466,740 cu. ft. of logs, 29,723 cu. ft. of sawn timber, and 96,011 piles of fuel wood in FY 1999/00. During eight months of the current FY, the corporation sold 436,175 cu. ft of logs, 15,670 cu. ft. of sawn timber and 62.17 piles of fuel wood.

Population and Environment

7.29 A number of efforts are underway through the mass media like AM and FM radio programs, television, and newspapers since FY 1999/00 for creating public awareness in the areas of population management and environmental protection. Besides, extension of population related information is carried out through informal education programs, publication and free of cost distribution of four monthly 'Tuki' magazine and calendars (with key information in simple and easy to understand Nepali language). Such extension activities are carried out through the distribution of those materials in VDCs and secondary schools of the Kingdom where mass media is out of reach of the people.

7.30 A basic report for preparing long-term action on population management is ready on the basis of a seminar conducted In FY 1999/00. Report on economic, social and demographic study on Muslim and Tharu community has been translated and published both in English and Nepali. During the same period, studies on migration in Kathmandu valley, age of marriage, reproductive health of bachelors and married youths, have been completed. Also, Center for Economic Development and Administration (CEDA) has been assigned to conduct a study on unemployed persons with educational qualification of S.L.C. and above in the municipalities of Far-western development region. Work is in progress for the establishment, management and operation of a demographic data bank after the appointment of a consultant to design and install the software required for the purpose.

7.31 As targeted in the current FY to set water quality standard, limit of industrial affluent discharge to surface water has been fixed. Measures have been taken for the gradual mitigation of environmental problem caused by smoke emission from ever-growing number of transport vehicles in municipal areas within and outside Kathmandu valley. Standard has been set for the examination and testing of emission from LPG and CNG operated vehicles. Besides, the Consumption (Control) of Ozone Depleting Substances Regulation 2000 has already been introduced. Civil servants of HMG have been imparted the training to raise awareness on environmental issues. Similarly, other trainings have been conducted with the aim of sharing theoretical as well as practical knowledge on Environmental Impact Assessment. Traffic police and drivers have also been provided with the training on ways to control pollution. Other programs like work on Basel Convention on Harmful Solid Waste; Program on Convention on Climate Change; Program on Convention on Checking Desertification; establishment of a Center for Environmental Promotion, Management and Information; evaluation and recommendation on the Impact of Fiscal Policy Decisions on Environment are being implemented under agreements signed with academic institutions and consultants, agencies and organizations.

Alternative Energy

7.32 Development of alternative energy technology has become necessary in the present context of negligible share of commercial energy among total energy consumption. A "Renewable Energy Subsidy System 2000" has been put into operation, which was developed in association with the Alternative Energy Promotion Center (AEPC), established to solve the rural energy problem by developing sustainable rural energy technology and mitigate the environmental problem in rural areas caused by depletion of forests. The Center has extended its service to the people of Nepalganj and Biratnagar by establishing its regional offices in those places.

Biogas

7.33 Promotion of Biogas as an alternative source of energy could make substantial contribution to checking rapid depletion of forest resource and maintaining ecological balance. Both private and public sectors are putting their efforts for its promotion. Attraction of rural people toward the biogas is on the increase. In FY 1999/00, target was set to construct 10,275 biogas plants by investing Rs.137.12 million. However, 3,936 plants were constructed with the loan investment of Rs. 87.77 million. Subsidy amounting to Rs. 35.64 million was provided through ADB/N for the same. During first eight months of current FY 2000/01, Rs. 19.418 million was invested for the installation of 2,170 plants against the annual target of investing Rs. 127.12 million for 15,800 plants. By the end of the year, total bio-gas subsidy is estimated to amount to Rs. 31.8 million.

Micro-hydropower

7.34 HMG recognizes that execution and operation of micro hydro projects is necessary to relieve local forests from heavy pressure for energy requirements as such plants could make best use of unutilized water source and yield quick returns to investors. For this reason, the Government has been providing subsidy through ADB/N to support the installation of micro hydro stations. In FY 1999/00, micro hydro plants totaling 687.5 KW generating capacity were installed with the investment of Rs. 24.405 million against the target to invest Rs. 7.49 for 438 KW. In current FY 2000/01, however, investment has yet to be made as yet against the target of investing Rs. 91.642 million for the installation of 2,000 KW. micro hydro stations.

Solar Energy

7.35 Exploitation of solar energy source has not materialized to the desired extent despite potential of generating 26.6 million MW of energy in Nepal. An interim Rural Energy Fund has been established with the financial assistance of Denmark government under the Energy Sector Assistance Program (ESAP) meant for the provision of direct subsidy for the promotion of micro hydro and solar energy. The fund will be used to provide subsidy to increase access of rural people to renewable and sustainable rural energy source. On Solar Home System (SHS) front, ADB/N provided subsidy amounting to Rs. 15 million for 1,000 such systems against the target of investing Rs. 13 million for the same number. In current FY 2000/01 ADB/N targeted to invest Rs. 45 million for 3,000 SHS, however, no investment is made so far during these first eight months. AEPC installed 100 SHS during the last FY. Out of the targeted 100 SHS for this year, the Center has installed 39 SHS during these first eight months.

Challenges

7.36 In comparison to ever increasing demand and high potential, generation of electricity is insignificant. On the one hand early completion of ongoing projects is necessary to meet immediate energy demand, while on the other, measures are necessary to enhancing domestic foreign investment to meet domestic as well as external demand in the long run. The imminent challenge is to arrest leakage of electricity and bring down per unit cost of energy.

7.37 Alternative sources of energy, e.g. micro hydro, solar energy, micro hydro and biogas could not be harnessed to their full potentials. It is imperative that the current situation of the uses of these sources must improve o bring changes in the lifestyles of the rural communities and thereby mitigate adverse impact on the environment. Moreover, apart from improving usage of energy, it is also necessary to explore and develop new sources.

7.38 Because of the excessive pressure being exerted on traditional source of energy, proper conservation of this source is a great challenge ahead of us. Serious effort on the part of the government as well as private sector is necessary to boost the production of commercial energy and also to check the depletion of forests and reduce the adverse impact on environment and productivity.

VIII. TRANSPORT AND COMMUNICATIONS

8.1 The development and extension of transport sector continue to receive priority in Nepal, where the hills and villages dominate most part of the country. This sector has been receiving priority for the infrastructural development in the process of overall development of the country. At the end of the Ninth Plan, it is targeted to link all the district headquarters by road transport except seven remote districts in mountain region. Up to now 65 districts have been already linked by road network. The status of road transport network by the end of eight months of the current FY (2000/01) is as follows:

Completed Projects

8.2 As against the target of constructing 42 motorable bridges in FY 2000/01, following bridges have been completed: Raising Bridge (Jhapa), Pathari Bridge (Morang), Sunsari Bridge (on the Pakali Bharol road), Tengra Bridge (Sunsari), Bhariya Bridge (Devangung, Sunsari), Bataha Bridge (Siraha), Jogiyara Bridge (Dhanusha), Jhim Bridge (Sarlahi), Nakkhu Bridge (Lalitpur), Paklihawa Bridge (Rupandehi), Chirkauwa Bridge (Rupandehi), Duduwa Bridge (Banke), Syali Bridge (Kanchanpur), Bishnumati Bridge (Tokha, Kathmandu), Rishti Kalasti Bridge have been completed. Two bridges namely, Syali Bridge (Kanchanpur) and Bharda Bridge (Mohotari) among 22 bridges of Kohalpur - Mahakali sector are under construction.

Projects under Construction

8.3 In the current fiscal year, 400 km. motorable road (100 km black topped, 200 km. graveled and 100 km. dirt) has been targeted for construction under 170 ongoing projects including north -south highway and other important road projects. Up to now, a total of 150 km. road (55 km black topped, 50 km graveled and 45 km. dirt road) has been constructed. Following ongoing projects have achieved 75 percent or more progress:

Table No. 8.a
Projects Accomplishing 75 Percent or More of the Annual Target

1. Mechi Highway (Phidim - Taplejung sector).
2. B. P. Koirala Highway (Banepa- Sindhuli, Bardibas).

3. Kanti Rajpath (Tikabhairav Bridge).
4. Ilam-Maipokhari, Sandakpur.
5. Basantapur - Terathum, Athrai.
6. Bhedetar - Dandabazar - Ravi - Ranke.
7. Basantapur - Chainpur - Khandbari.
8. Naradmuni Thulung Road (Hile Leguwaghat - Bhojpur).
9. Katari - Okhaldhunga.
10. Saljhandi - Juthapauwa - Sundardhunga - Palpa.
11. (Ridhi) Rudra beni-Burtibang Dhorpatan.
12. Lumbini Park Road.
13. Tulsipur - Purandhara - Surkhet.
14. Sahajpur - Dipayal.
15. Sanfebagar - Martadi.
16. Sanfe Bagar - Mangalsen.
17. Ugratara - Melauli Road.
18. Mahendranagar - Daiji - Jogbudha - Budar Road.
19. Amaldangi - Kherkha - Panchgachi - Dhudhe.
20. Duwagadhi - Mangaledanda Dhaijan Road.
21. Dhudhe - Mahauara -Baigunddara.
22. Jhapa Anarmani - Sangam Chowk - Birtabazar.
23. Chandragadhi - Kechana.
24. Mulghat - Tribeni - Bhojpur.
25. Kurtha - Mahadaiya - Toja - Gumgopalpar - Samsi.
26. Sauraha Chowk - Saurahabazar - Bharatpur Road.
27. Kalinjaur M. R. M. Harpur - Sangrampur Sarlahi.
28. Dasharathpur - Neradhaha Road.
29. Chuche Pati - Thinchule (Baudha) - Arubari Black topped.
30. Bele - Chandanpur.
31. Dhangadhi - Lalbojhi Road (including bridge)
32. Chutrabasi - Asurkot - Jogetar - Khalanga.
33. Pokhara - Kisti Nirmal Pokhari Bharatpokhari Leknath Municipility.
34. Kathowa - Tribeni.
35. Dhuliabhit - Bhedabari - Malarani (Surkhet).
36. Gumi - Parihalna Chaur (Surkhet).

37. Madan - Aashrit Road (Kanchanpur -Bellauri Kalawa).
38. Dhodhara - Chadani Road.
39. M.R.M. (Jeetpur - Taulihawa).
40. Tankpur Link Road.
41. Greater Janakpur Road Project.
42. Arniko Highway Barahbise- Kodari Road.
43. Burtibang (Baglung) - Musikot (Rukum).
44. Other city road.
45. Third Road Improvement Project.
46. Strengthening and Maintenance Co-ordination Unit.
47. Araniko Highway Project.
48. Kalupande Road (Malekhu - Dhading).
49. Nepalgunj - Baghauda Road.

Road Transport

8.4 At the end of FY 1999/00, there was altogether 15,308 km road, (4,522 km black topped, 3,646 km gravel and 7,140 km fair weather). During the first eight months of FY 2000/01, altogether 150 km road (55 km black topped, 50 km gravel, 45 km fair weather) has been completed. The total length of road in Nepal has reached to 15,458 km including the above mentioned new construction (4,577 black topped, 3,696 km gravel and 7,185 km fair weather) by mid-March 2001.

Table 8.b: Road Network up to mid-March 2001

S. No	Type	End of FY 1999/00 (km)	Newly Constructed up to March 2001. (km.)	FY 2000/01 Mid-March	
				km	Proportion
1	Black Topped	4522	55	4577	29.61
2	Gravel	3646	50	3696	23.91
3	Fair Weather	7140	45	7185	46.48
	Total	15308	150	15458	100.00

Source: Department of Roads.

Vehicles

8.5 By the end of FY 1999/00, the total number of vehicles in the kingdom was 2,63,516, which increased by 10.3 percent during review period of FY 2000/01 and reached 2,90,644 number of registered vehicles.

Table 8.c: Total Number of Registered Vehicles.

S. No	Type	Till FY 1999/00	Addition during review period of FY 2000/01	Total	% increased
1	Bus	9343	869	10212	9.30
2	Minibus	2711	61	2772	2.25
3	Truck, Tanker	20011	781	20792	3.9
4	Car, Jeep, Van	53073	3949	57022	7.44
5	Tractor	20469	2430	22899	2.29
6	Motorcycle	147157	18839	165996	12.80
7	Three wheeler	6702	154	6856	11.87
8	Dozer, Crane and other	4050	45	4095	1.17
	Total	263516	27128	290644	10.29

Source: Department of Transport Management.

Other Transport

Railway

8.6 The only railway service in Nepal is Janakpur-Jayanagar Railway established in 1936 AD. Now it is in operation in 51 km. It served 15,89,490 passengers and transported 13,470 metric tons of goods during FY 1999/00. During the first eight months of current FY 2000/01 this railway served 11,93,410 passengers and transported 8,744 metric tons of cargo.

Ropeway

8.7 The Ropeway between Kathmandu- Hetauda, established in 1964 is out of service due to lack of proper repair and maintenance. In line with Government's policy of encouraging private sector participation in transport development, a private company is operating a cable car service from Kurintar (Chitwan) to Manakamana (Gorkha) spanning 3.1 km.

Trolley Bus

8.8 The trolley bus service (13 km.) established in 1974 AD. is providing services to the people of east of Kathmandu Valley operating between Tripureswor to Sooryabinayak. In FY 1999/00, a total of 3,275,618 passengers were served and in the review period of FY 2000/01, some 13,04,562 passengers used its service.

Policy and Institutional Progress

8.9 HMG has decided to decentralize the management of local roads to the Local Development Ministry and subsequently to District Development Committees and Village Development Committees. Accordingly, the implementation process is underway.

8.10 There has been a satisfactory progress in planning and monitoring capacity of the Department of Roads (DOR). A Highway Management Information System (HMIS) cell is established in DOR for main highways planning and maintain updated traffic data. Necessary pre-requisite has been completed to prepare a ten year Road Master Plan, whereas twenty year Road Plan is under preparation. A separate unit for projects monitoring has been set up. Global Monitoring System has been developed and implemented.

8.11 In order to strengthen the maintenance capability of roads of different Divisions of DOR, roads maintenance work plan has been implemented in 28 Division Offices of DOR. Accordingly regular and onetime maintenance works are being done efficiently. Length worker has been appointed for regular maintenance work. A maintenance manual has been prepared for periodic maintenance of main highways, bridge maintenance and improvement in roadside support.

8.12 The draft Road Board Act is in parliament for discussion. A revision is proposed on some clauses of Local Self-Governance Act to avoid any ambiguity. A new bill is proposed to raise road maintenance fund. Necessary preparation is underway to include additional highways in the list of collecting tolls. A Task Force is working on national standards drafting.

8.13 A Data base system is created for Plant management. Mechanical Training Center is conducting various training program. Road Sector Skill Development unit is established (RSSDU) for the manpower development in the DOR. RSSDU has started preparing database of personnel. Training and seminar are also being carried out. A traffic engineering and safety unit (TESU) is established to standardize traffic sign and to keep traffic accident and casualty record. In addition different traffic safety measures are also being pursued.

Air Transport Service

8.14 There is a distinct need of developing air transport as well as land transport infrastructure in a remote, mountainous and hilly country like Nepal. Developing and strengthening of air transport services in the mountainous and hilly regions is necessary to provide access to the people living in these regions and to promote tourism.

8.15 So far, the total number of airfields including small and large, in the Kingdom has reached 44 which comprises 1 TIA, 3 hub airports (Nepalgunj, Bhairahawa, Biratnagar), 6 tourist traffic airports (Lukla, Pokhara, Jomsom, Jumla, Bharatpur, Meghauli), 2 inroute navigation airports (Simra, Janakpur), 18 medium and low schedule traffic ariports (Dhangadi, Tumlingtar, Sanfebagar, Lamidanda, Dolpa, Bajhang, Bajura, Bhojpur, Simikot, Phaplu, Chandragadi, Taplejung, Manang, Rumjhatar, Surkhet, Chaurjhari, Rukumkot, Remechhap, Salley of Rukum) and 14 non schedule traffic airports (Dipayal of Doti, Patan of Baitadi, Syangboche, Tulsipur of Dang, Rajbiraj, Palungtar of Gorkha, Rolpa, Darchula, Jiri, Dhorpatan, Baleba of Baglung Langtang, Mahendranagar and Tikapur. Six airfields are under construction at Talcha of Mugu, Kalikot, Kamalbazar of Accham, Thamkharka of Khotang, Kangeldanda of Solukhumbhu and Masinechor of Dolpa. The total number of helipads authorized by Nepal Civil Aviation Authority for operation by private sector has reached 120.

8.16 In order to improve, expand and strengthen Tribhuvan International Airport as good as an international airport, necessary equipment and materials are being provided and construction works are underway under the Tribhuvan International Airport Improvement Project. At the same time, Government is exploring interested donor agencies to provide safety and security equipment and to conduct training programs. Six tourist airports are being improved and are expected to be completed by the end of FY 2001-2002.

8.17 As a result of government's policy to encourage private airlines, 31 private airlines were provided air operator certificate (AOC) for the domestic flight, of which 19 airlines are operating. Three private airlines are in the process a getting air operator certificate. On the other hand, National flag carrier RNAC and Necon Airline (Private) are operating the international flight.

8.18 The fire extinguisher and rescue operation services at TIA are being provided under the eight categories, according to the standard fixed by the International Civil Aviation Organization. Other four major domestic airports have been upgraded to provide fifth category services. The fire fighting vehicles are being provided gradually to these airports.

8.19 Government is encouraging private sector's involvement in operation of airport related services. Preliminary study is underway for the purpose of constructing Lord Budhha Airport in Bhairahawa under Build-Operate-Transfer (BOT) arrangement.

8.20 A proposal is being prepared for the development of new air route in order to maximize the utilization of Nepalese air space in the Trans-Himalayan and the east - west international flights zone. International Civil Aviation Organization has agreed in principle for the Delhi - Kathmandu - Beijing air route. A long-term plan (CNS/ATM), Communication Navigation Surveillance/Air Traffic Management based on satellite is under implementation.

8.21 As per the policy of Government to encourage general aviation activities like flying club, ballooning etc., air operating certificates were issued for operating ballooning and ultra light glider services. Like wise, Sun-rise para gliding services in Pokhara is in the process of getting AOC.

8.22 A ten-year work plan has been completed for the gradual introduction of Communication Navigation Surveillance/ Air Traffic Management (CNS/ATM) system through the V-SAT communication. The approach procedure based on global positioning system (GPS) for the airfields of Biratnagar, Nepalgunj, Bhairahawa, Bharatpur, Pokhara and Janakpur has been prepared and flight evaluation work has been accomplished accordingly. A feasibility study on the establishment of Very Small Apparatus Terminal (VSAT) communication system has been concluded. Communication equipment system has been installed in Taplejung airport. Solar communication equipment system has been installed in Manang ariport. Likewise, installation of solar equipment system in Surkhet, Bharatpur and Chandragadi have been accomplished.

8.23 ICAO has completed the safety oversight audit of Nepal. Nepal Civil Aviation Authority is regularly performing safety audit of the airlines. The airworthiness program such as ICAO Universal Safety Oversight

Audit Program and the Controlled Flight into Terrain are being implemented on priority basis. In order to promote security of regional civil aviation, Nepal, in the capacity of chairperson of the steering committee of the Nepal based office of the South Asia Project for Cooperative Development of Operational Safety and Continue Air Worthiness Program (COSCAP), is working efficiently.

8.24 Air Service Agreement/ Memorandum of Understanding (ASA/MOU) have been signed with a total of 31 nations. RNAC has extended its flight to Banglore. It has also extended number of flights from 2 to 3 for the Kathmandu-Sanghai-Osaka route. Singapore airlines have increased number of flights from 3 to 4 per week, Quatar Airways from 6 to 7 per week and Gulf Air has increased its number of flights from 3 to 5 per week. Dragon Air resumed its flight in regular basis. Necon Air, Cosmic Air, Shangrila Air, Mountain Air and Buddha Air have imported two ATR-42, two SAAB-340, one BE-1900c two BE 1900c and two BE 1900d aircrafts, respectively and are in operation in domestic flights.

8.25 Feasibility study is going on for the second international airport. Improvements have been made on airport communication, air traffic service equipment and tower control system at TIA.

8.26 Newly constructed terminal building at Bhadrapur airport is in operation. One thousand meter of the airport runway has been paved. Runways at Lukla and Jumla airports are also being improved.

8.27 Provision has been made for the collection of service charges for the sake of ensuring reliable and sustainable security system at the airport. As per the guidelines of International Civil Aviation Organization (ICAO), a Bird Control and Prevention Committee has been constituted to prevent the birds movement at TIA and other airports. Civil aviation safety protection activities recommended by ICAO will be strictly followed for further improvements of safety measures at the airports with the assistance of the COSCAP South Asia.

8.28 During FY 1999/00, a total of 1,771,000 passengers used domestic flights while during the first eight months of FY 2000/01 passengers using this service were 862,000. In FY 1999/00, 1,254,000 passengers took international flights, whereas 721,000 passengers traveled by international flights in the first eight months of the current FY.

8.29 In FY 1999/00 some 10,871 metric tons of goods was transported through domestic flights, while in the review period of current FY 2000/01 some 2,571 tons of goods was transported. In the international sector last year 18,621 mt. was transported, whereas 11,155 tons is transported in the review period of the current FY.

Information and Communication

Postal Services

8.30 Postal service, the oldest and foremost means of nation's information and communications has been expanding its quality services. By the end of FY 1999/00, postal services are available through a total of 4,033 post offices, which include one General Post office, 5 regional post offices, 70 district post offices and 827 area post offices, 3,130 additional post offices. The money order service is being offered through 519 post offices. The revolving fund established for the money order services has been increased to 13.5 million rupees. The postal saving bank service is available from 116 post offices. Against the target of gradually providing domestic express mail service in the urban areas, 43 towns have been facilitated with this service in various municipalities. Express Mail service (EMS) has also been started in 26 foreign countries. The Department of Postal Services has more than 17,500 post boxes. In accordance with government policy of providing postal services to all municipalities and VDCs, a postal network has been extended to all but a few VDCs. To make the postal services more professional, competitive and self-reliant, a legal framework for its autonomy is in the anvil.

Telecommunication

8.31 In accordance with the government's economic liberalization policy, the Nepal Telecommunications Authority has been established as a regulatory body in order to develop the telecommunications sector effective and competitive. Till now 61 licenses have been issued to private sector. These include 15 internet (including e-mail), 7 V-SAT (Very Small Apparatus Terminal) service providers and 23 service providers, 8 Radio paging network, 1 video conferencing, 6 fax mail services, and one cellular mobile service. License has been issued to Nepal Telecommunications Corporation (NTC) to operate basic telephone services. One private operator in each VDC has been selected to operate telephone services in the villages of the Eastern Development Region where the telephone services have not yet reached, and to operate cellular mobile services based on the Global System for Mobile Communication (GSM) technology. One wireless in local loop (WLL) operator has also been selected to introduce competitiveness. It is thus hoped that this will help to increase local and foreign private investor's involvement and reduce the gap between supply of and demand for telephone lines.

8.32 As of mid-March 2001, 1,726 VDCs among 3,913 VDCs, in the Kingdom are facilitated by telephone services. The remaining 2,187 VDCs will be facilitated through V-SAT and wireless local loop (WLL) technology within FY 2002/03, under the Special Rural Telecommunications Program (SRTP). The Nepal Telecommunications Authority has selected private operator to provide services in the VDCs of Eastern Development Region by the end of 2002/03. NTC has already started providing services to the rest of the development regions.

8.33 As of mid-March 2001, NTC is providing telephone services through its 142 exchanges. A total of 275,558 telephone lines are in operation out of the total capacity of 3,17,296 lines. A total of 11,117 cellular mobile lines are in operation in Kathmandu Valley, Biratnagar, Birgunj and Pokhara. The circuit capacity has reached to 1019, enabling direct dialing access to 131 countries. The number of customers in waiting for new telephone lines has reached to about 2,89,586. During the review period of FY 2000/01, a total of 19,781 telephone lines have been distributed.

Table 8.d: Installed Telephone Service Facilities

S.N	2000 June		As of Mid March 2001
1.	urban areas	58	58
2.	Telephone line distributed	255,777	275,558

Note: All exchanges are in digital automatic.

Newspapers

8.34. By mid-April 2001, the total number of newspaper registered in various districts of the Kingdom reached 2870. Among these are 193 daily, 9 half-weekly, 1008 weekly, 220 bi-weekly, 787 monthly, 205 bi-monthly, 334 quarterly, 15 four-monthly, 49 half-yearly and 50 yearly publications. As HMG was providing subsidy on newsprint for news publications, the Government has changed its policy on subsidy from February 2001, and adopted a policy of cash subsidy based on advertisement of public interest.

Television Broadcasts

8.35 Television Broadcast has been the most effective and powerful electronic media, which started in Nepal in 1985. When Nepal Television started telecasting it had very limited resources. Now NTV program is on the air for 16:30 hours every day through its 3 studios, 1 regional program production and broadcasting centers in Kohalpur of Banke and 11 transmitting centers located at Murtidanda (Ilam), Namjedanda, Bhedetar (Dhankuta), Jaleswor (Mahottari), Hetauda (Makawanpur), Daunne (Nawalparasi), Phulchowki (Lalitpur), Kakani (Nuwakot), Sarangkot (Kaski), Tansen (Palpa), Butwal (Rupendehi) and Harre (Surkhet). The work on transmitting centers at Gorkha, Chaupatta (Dang) and Budhitola (Kailali) is in progress. It is estimated that 32 percent of total area of the Kingdom is receving the television broadcast. Necessary arrangements are underway to increase its receptive coverage area and its televising capacity. To make Nepal Television broadcast viewable throughout the kingdom through Satellite, arrangement has been made to use Sagarmatha satellite earth station of NTC. Necessary equipment at the earth station is being installed. Leasing of earth station is complete. The feasibility study of metro channel (a second channel of NTV) has been completed. The private sector involvement in Cable Television transmission is encouraging and up to now 165 cable operators have obtained licensees.

Radio Broadcasting Services

8.36 Radio Nepal, established in 1950 A.D, is the oldest mass communication media with countrywide coverage. Its broadcast under short-wave transmission can be heard all over the country. About 80 percent of the population can now enjoy its service under the medium-wave transmission. For those segments, not covered by the medium-wave transmission, FM system with local participation has commenced operations. Radio Nepal is also using V-SAT to make its broadcast audible throughout the country. Since FY 1995, Radio Nepal has been broadcasting songs and music in national language through its medium wave transmission centers established in all five-development regions of the Kingdom. In addition, Radio Nepal is broadcasting news in Nepali, English, Sanskrit, Hindi, Maithali, Bhojpuri, Tharu, Tamang, Newari, Rai-Bantawa, Gurung, Awadhi, Limbu, Magar, Sherpa and Urdu languages. The target to establish FM relay station in five places is in progress. Necessary land has been procured for 4 stations. Out of 20 private companies licensed to operate radio centers through FM system, 15 agencies have already started their operations.

Printing Services

8.37 In order to perform all printing jobs of HMG, Department of Printing is gradually developing, expanding and strengthening its capability in transforming it into a security press. The department has already started printing check books of NRB, and cooperative banks as well as revenue stickers. Construction of building for security printing press is underway.

Cinemas

8.38 For the consolidated development of cinema, HMG has formed a Motion Pictures Development Board. HMG has initiated participation of experts in this field. It is hoped that, by such activities there will be a positive impact on development and promotion of cinemas.

Challenges

8.39 Due to lack of sufficient mobilization of resources to catch up the fast developing new information and communication technology, its full advantages remain untapped. This happens to be a major constraint and challenge in the field of information and communications.

8.40 The road network especially in urban areas has not been expanded to cope with the increased volume of traffic congestion. Due to limited resources all district headquarters are not linked with national transport system yet. Integration of the national highway, feeder roads, district roads and rural roads etc. is still lacking and consequently the road network in totality is under-utilized. These are the areas that warrant top priority.

8.41 It has been felt necessary to opt for investment required for the construction of a new International Airport in order to facilitate wide body jet aircrafts to operate 24 hours a day.

8.42 Similarly the infrastructure for internal airports should also be developed to provide a sound base for better domestic services which is equally important for the promotion of tourism as well.

8.43 Postal Service, which is used by majority of population, should be developed and extended and its increased reliability needs to be assured. It is also opportune time that the new technology of communications should also be availed for the efficiency of the communication sector.

X. MONEY, BANKING AND CREDIT SITUATION

Monetary Policy

10.1 Main objective of monetary and credit policy is to attain economic growth with stability and manage credit to stimulate economic activities. Due to the flexible monetary and credit policy followed by the country, balance of payment has continued to be favorable and inflation has remained under control. To achieve higher economic growth, initiatives to maintain liquidity through downward adjustment of interest rate structure are in place. In the same vein, reduction in the bank rate and compulsory cash reserve have been continued and short–term liquidity is under constant review for better management.

Policies in Effect During the Review Period of FY 2000/01

Commercial Banks

Capital of the Commercial Banks

10.2 For the commercial banks allowed to be established and operated in Kathmandu Valley, it has been made compulsory to keep the maintain a minimum capital of Rs. 500.0 million by FY 2000/01. Such capital includes: paid-up capital, general reserve, share premium, non-redeemable preference share and retained earning. Retained earning so included in the capital cannot be used if such use reduces the mandatory capital requirement. Net loss incurred is to be deducted and the equivalent amount should be restored to maintain mandatory level of capital

Interest

10.3 NRB has issued the following directives to all the commercial banks regarding interest rate on February 14, 2001.

(a) Commercial banks may vary interest rate offered from the published rate to all kinds of deposits by 0.5 percentage points on the deposit amount not exceeding Rs. 200.0 million and by 1.0 percent on such amounts above Rs.200 million on the basis of the understanding with the depositors.

(b) The interest rates charged on all types of loans (including the loan under same heading and the purpose) may vary up to a maximum of 0.5 percentage point on the basis of the understanding with the customer.

Limitation of Loan and Facility

10.4 For the purpose of minimizing concentration risk encountered by commercial banks while floating loans to a customer or a group of customers having mutual relation or to a single sector of the economy, a limit has been set. Accordingly, the banks may extend a fund-based loan to a customer or group of customers having mutual relation, up to a maximum of 25 percent of its primary capital and in the case of non-fund based or off-balance sheet items, amount may not exceed 50 percent of the primary capital loans like guarantee and commitments.

Establishment of New Commercial Banks

10.5 Machhapuchhre Bank Limited established with a paid up capital of Rs 120.0 million with its main office at Pokhara has started its transactions from October 3, 2000. Similarly, Kumari Bank with its main office in Kathmandu established with a paid of capital of Rs. 350.0 million has also started its operations from May 3, 2001.

Development Banks

Approval for the Establishment of Development Banks

10.6 Among applicants for the development banks, operating permission to to operate micro financing, Diprox Development Bank, Nawalparasi with the paid up capital of Rs. 11.6 million has been given provisional approval. Similar approval has been given to Small Farmer Development Bank Limited, Kathmandu to be established with the investment of Rs.120.0 million of HMG and ADB/N.

Establishment of New Development Bank

10.7 Siddhartha Development Bank Limited has been established with a paid up capital of Rs.5.0 million with its head office at Butwal of Rupandehi district. It has started its operations from July 15, 2000. Similarly Development Credit Bank Ltd. with its main office in Kathmandu was established with paid up capital of Rs. 160.0 million. It has started its transactions from January 30, 2001.

Cooperatives

Arrangements made for the Financial Transaction of Cooperatives

10.8 Cooperative (First Amendment) Act 2048 became effective from November 16, 2001. According to this Act, those cooperatives authorized to operate banking by the NRB are required to limit their transaction to their members only and to stop transaction with non-members by December 6, 2001. Those cooperatives registered and operating banking service prior to effectiveness of the present Act are required to obtain permission from NRB to continue such operations.

Monetary Situation

10.9 During review period of current FY 2000/01, rate of growth of the narrow money and broad money slowed down in comparison with the same period of FY 1999/00. During the review period of current FY, the narrow money increased by 10.1 percent (Rs. 6,160.0 million) and reached Rs. 67,140.0 million. The broad money increased by 7.6 percent (Rs. 1,4130.0 million) and reached Rs. 200,250.0 million. During the same period of the last FY, the narrow money had increased by 14.4 percent (Rs. 7,360.0 million) and broad money had increased by 15.2 percent (Rs. 23,250.0 million). Slowdown in the growth of both money during the review period of the current FY was due to slow growth in the net internal assets and net foreign assets.

10.10 Net foreign assets, one of the expansionary factors affecting the money supply, had increased by 13.1 percent (Rs. 10,530.0 million) during the review period of the current FY and reached Rs. 90,990.0 million compared to the increase by 21.3 percent (Rs. 13,840.0 million) during the review period of the previous FY.

10.11 The rate of growth of total internal borrowing, another expansionary factor affecting the money supply was 10.6 percent (Rs. 14,320.0 million) during the review period of the FY 1999/00. Such increase was posted at 10.3 percent (Rs. 16,260.0 million) to a total of Rs. 174,260.0 million during the same period of the current FY.

10.12 Government borrowing from the banking sector during the review period of FY 2000/01 increased by 9.7 percent (Rs. 3,700.0 million) reaching Rs. 41,940.0 million against 9.2 percent (Rs. 3,200.0 million) during the corresponding period of FY 1999/00.

10.13 Credit flow to the PEs during the review period of the current FY increased only by 2.1 percent (Rs. 220.0 million) and reached Rs. 10,530.0 million as compared to 9.3 percent (Rs. 850.0 million) review period of last FY. Among the PEs, the credit flow to the financial ones had increased by 6.7 percent (Rs. 510.0 million) during the review period of last FY. It increased by 3.4 percent (Rs. 290.0 million) only during review period of current FY. The credit flow to non-financial corporations decreased by 3.7 percent (Rs. 70.0 million) during the review period of current FY compared to the increase by 21.7 percent (Rs.340.0 million) during the last FY.

10.14 The credit flow to the private sector during the review period of FY 1999/00 had increased by 11.3 percent (Rs. 10,280.0 million). During the same period of the current FY also such flow increased by 11.3 percent (Rs. 12,330.0 million) and reached Rs. 121,780.0 million. The ratio of internal credit channeled during the review period of the current FY to the government, PEs and private sector stood at 24.1 percent, 6.0 percent and 69.9 percent respectively as compared to 25.5 percent, 6.7 percent and 67.8 percent during the previous FY.

10.15 The contractionary factor of the narrow money supply, that is time deposits, had increased by 15.6 percent (Rs. 15,890.0 million) during the review of period previous FY. During the such period of current FY, it increased by 6.4 percent (Rs. 7970.0 million) to the total of Rs. 133,110.0 million. The main reasons for the sluggish growth of narrow money can be attributed to the reduction in the interest on time deposit and preference of foreign currency earners to deposit their earnings in foreign currency account.

10.16 Unclassified net liability during the review period of the last FY had increased by 10.4 percent (Rs 4,910.0 million). During the corresponding period of the current FY it increased by 24.2 percent (Rs 12,660.0 million) and reached Rs. 6,500.0 million.

Commercial Bank Resources and their Uses

10.17 During the review period of current FY, the total resources of commercial banks rose by 10.9 percent (Rs. 1,9810.0 million) to the total of Rs. 20,1150.0 million compared to the growth by 14.4 percent (Rs. 21,600.0 million) of the last FY to reach Rs. 171,210.0 million.

10.18 The total deposit of commercial banks during the review period of the current FY increased by 8.4 percent (Rs. 12,970.0 million) to the total of Rs. 167,500.0 million against the increase of 14.0 percent (Rs. 17,710.0 million) to the total of Rs. 144,490.0 million during the last FY.

10.19 Out of the total deposit, the current deposit during the review period of the current FY increased by 14.3 percent (Rs. 2,910.0 million) against 9.4 percent (Rs. 1670.0 million) of the same period of previous FY. Similarly, saving and fixed deposits during the review period of current FY rose by 11.6 percent (Rs. 7,630.0 million) and 2.4 percent (Rs. 1,620.0 million) respectively compared to the increase of 18.8 percent (Rs. 9,450.0 million) and 10.7 percent (Rs. 6,090.0 million) respectively during the review period of last FY. The increase of margin deposit was 25.4 percent (Rs. 510.0 million) during the review period of last FY. Increase soared to 40.7 percent (Rs. 810.0 million) during the review period of the current FY.

10.20. The total liquid assets of commercial banks increased by 9.1 percent (Rs. 4,120.0 million) and reached Rs. 49,280.0 million during the review period of the current FY. It had increased by 13.7 percent (Rs. 5,180.0 million) to the total of Rs. 42,890.0 million during the same period of the last FY. Of the total liquid assets, the domestic cash deposit of commercial banks increased by 10.7 percent (Rs. 380.0 million) during the review period of the current FY. During the same period of last FY, such deposits had decreased by 2.5 percent (Rs. 80.0 million). The mandatory cash reserve required by NRB foreign currency cash reserve and foreign bank reserve increased by 15.4 percent (Rs. 2,310.0 million), 38.2 percent (Rs. 240.0 million) and 6.2 percent (Rs. 1,590.0 million), respectively during the review period of the current FY. During the same period of the previous FY, such reserves had increased by 17.2 percent (Rs.2,290.0 million), 6.0 percent (Rs. 40.0 million) and 14.4 percent (Rs. 2,930.0 million), respectively.

10.21. During the review period of last FY, total credit and investment of commercial banks expanded by 14.6 percent (Rs. 16,350.0) million). In the review period of current FY, it rose by 11.5 percent (Rs. 15,690.0 million) to the total of Rs.151,880.0 million.

10.22. Of the total credit and investment of commercial banks, the credit flow to HMG had increased by 35.4 percent (Rs. 4,480.0 million) during the review period of last FY. It rose by 15.0 percent (Rs. 2,720.0 million) to the total of Rs. 20,900.0 million during the same period of the current FY.

10.23. The credit flow to the PEs from commercial banks had increased by 11.6 percent (Rs. 860.0 million) during the review period of FY. During the same period of current FY, it increased by 3.2 percent (Rs. 280.0 million) and reached Rs. 8960.0 million.)

10.24. The credit flow of commercial banks to private sector increased by 11.3 percent (Rs. 12,140.0 million) and reached Rs. 119,480.0 million during the review period of the current FY. Such flow during the same period of previous FY had increased by 11.3 percent (Rs.10,090.0 million).

10.25. Foreign bills purchased by the commercial banks during the review period of the current FY increased by 27.8 percent (Rs. 550.0 million) and reached Rs. 2,530.0 million. During the same period of the last FY it had increased by 37.8 percent (Rs. 910.0 million).

Expansion of Commercial Bank Branches

10.26. NRB has adopted flexible policy pertaining to expansion, merger and closure of branches of commercial banks since FY1990/91. The total branches of the commercial banks have reached 447 in the mid- April 2001 with an increase of 8 branches from mid-July 2000. In addition of 39 branches of the ADB/N, which perform banking transactions, are taken into account it totals to 486. By the current FY, the ratio of each commercial bank branch to no. of customers served works at to be 47,665.

10.27. Distribution of the total commercial bank branches during the review period of the current FY is as follows: Rastriya Banijya Bank has 210 branches followed by Nepal Bank Limited with 159 branches Nepal Arab Bank has 12 branches, Nepal Bangladesh Bank has 10, Himalayan Bank Ltd and Everest Bank Ltd 9 each, Nepal Grindleys Bank Ltd. and Nepal SBI Bank Ltd 8 each, Nepal Indo-Suez Bank 6, Nepal Bank of Ceylon and Nepal Industrial and Commercial Bank 5 each Bank of Kathmandu Ltd. and Lumbini Bank 2 each.

Credit Disbursement of Financial Institutions

10.28 Aggregate of credit flows from NIDC, ADB/N and Employees Provident Fund during FY 1999/00 increased by 25.3 percent (Rs. 1,750.0 million) against that of FY1998/99 and reached Rs. 8,660.0 million. As compared to review period of the previous FY credit flow during the same period of current FY increased by 18.3 percent (Rs.

870.0 million) to the total of Rs. 5,610.0 million. Recovery by these institutions in FY 1999/00 increased by 17.9 percent (Rs. 880.0 million) and totaled Rs. 5,770.0 million as compared to the recovery rate of corresponding period of FY 1998/99. The total credit flow during FY 1999/00 increased by 43.5 percent (Rs. 870.0 million) and reached Rs. 2,890.0 million as compared to the corresponding period of previous FY. During the same period, the outstanding loan of these financial institutions increased by 17.2 percent (Rs. 2,890.0 million) and totaled Rs. 19,630.0 million. The recovery during the review period of the current FY has increased by 15.2 percent (Rs. 470.0 million) resulting in the collection of Rs. 3,540.0 million as compared to the same period of last FY. During the same period, the net credit flow of these institutions increased by 24.2 percent (Rs. 400.0 million) and reached Rs. 2,070.0 million. The outstanding loan during the review period of the current FY increased by 17.9 percent (Rs. 3,290.0 million) and totaled Rs. 21,700.0 million. An analysis of the loan investment portfolio for the review period of the current FY reveals that the share of NIDC stood at 0.9 percent followed by 82.8 percent that of ADB/N and Employees Provident Fund 16.3 percent. Distribution of outstanding loan during the same period was 9.9 percent, 65.7 percent and 24.4 percent respectively.

10.29 NIDC invested Rs. 48.20 million during the review period of current FY against Rs.77.8 million invested in the corresponding period of the last FY. The loan recovery during the review period of the current FY amounted to Rs. 84.3 million as compared to Rs. 152.1 million during the same period of last FY, and the outstanding loan decreased by 9 percent to Rs. 2,145.7 million compared to the corresponding period of the last FY.

10.30 The loan investment of ADB/N has reached Rs. 4,647.2 million during the review period of the current FY against Rs. 3,880.6 million during the review period of the last FY. In comparison to the review period the last FY, the loan recovery during the same period of the current FY increased by 21.8 percent and reached Rs. 3,275.1 million. The outstanding loan increased by 16.0 percent and reached Rs 14,255.2 million during the review period of the current FY as compared to the same period of the last FY.

10.31 Employees Provident Fund disbursed loan amounted to Rs. 9,14.7 million during the review period of the current FY which was Rs. 782.4 million during the review period of the last FY. Recovery during the current FY has slackened to 22.4 percent to the total of Rs. 182.6

million as compared to the corresponding period of last FY. Outstanding loan balance totaled Rs. 5,300.1 million in the review period of the current FY against Rs. 3,768.1 million in the corresponding period of the last FY.

Grameen Vikas Banks

10.32 Grameen Vikas Banks have been established in all the five development regions of the country with the objective of providing credit without collateral to the deprived rural people especially for women in group for income generation activities. By the end of mid-January 2001, these five Banks through their 4,183 centers, served under various income generation activities 139,541 members under 27,975 groups. Total number of VDCs covered to the direct benefit of the members was 819 under 38 districts of the Kingdom. During this period, a total of Rs. 4230.30 million worth of credit was disbursed to 127,107 members. Out of the disbursed credit, Rs. 3,415.7 million was recovered and Rs. 814.7 million remained outstanding by that period. By the same period, total savings amounted to Rs. 240 million comprising of collective savings of Rs. 220.7 million and individual savings of Rs. 19.3 million. Grameen Vikas Banks are currently in operation through its 28 regional offices and 165 branch offices.

Purbanchal (Eastern Region) Grameen Vikas Bank

10.33 By mid-January 2001, the Bank disbursed a total credit of Rs. 2,010.0 million to its 44,232 members. Its total of 46593 members belong to 9,869 groups living in VDCs of Jhapa, Morang, Sunsari, Saptari, Siraha and Udaypur served by its 1,308 centers. By mid-January 2001, of the total credit disbursed, Rs. 1,726.7 million has been recovered remaining Rs. 283.2 million outstanding. During this period, total savings deposit reached Rs. 91.1 million out of which Rs.87.9 million was deposited as community savings and Rs. 3.2 million as personal savings. This Bank is operating with its 7 regional offices and 47 branch offices.

Madhyamanchal (Middle Region) Grameen Vikas Bank

10.34 By mid-January 2001, the Bank had disbursed a total credit of Rs. 375.2 million through its 775 centers to 21,490 members out of the total members 22,269 organized under 4,663 groups. These members lived in 159 VDCs of Dhanusa, Mahottarai, Rautahat, Bara, Parsa, Chitwan, Lalitpur, Sarlahi, Makawanpur and Nuwakot districts. By mid-January 2001, of the total credit disbursement, Rs. 2,53.1 million had been recovered and Rs.122.1 million remained outstanding. During this period, total savings deposit reached Rs. 25.7 million including community savings of Rs.21.2 million and personal savings of Rs. 4.5 million. This Bank is operating with its 4 regional offices and 30 branch offices.

Paschimanchal (Western Region) Grameen Vikas Bank

10.35 By mid-January 2001, out of its total 34,864 members, the Bank has disbursed a total credit of Rs. 789.0 million to 34,022 members under 6,820 groups residing in 230 VDCs of the districts of Rupandehi, Nawalparasi, Kapilvastu, Palpa, Syangja, Kaski, Tanahu, Gulmi, Parbat, Banglung, Lamjung, Gorkha and Aragakachi. A total of 1016 centers of the Bank served these groups by providing a total of m Rs. 789.0 million as loans to them by mid-January 2001. Of this, Rs. 583.7 million has been recovered and Rs. 205.3 million remained outstanding. During the review period the total deposit amounted to Rs. 53.6 million. Of this the share of community savings stood at Rs. 45.6 and that of personal savings stood at Rs. 8.0 million. The Bank is operating with its 12 regional offices and 44 branch offices.

Madhya Pashchimanchal (Mid-Western Region) Grameen Vikas Bank

10.36 By mid-January 2001, the Bank disbursed a total credit of Rs.450 million to 15,380 members. There were a total of 17,270 members divided in 3,454 groups of 94 VDCs. The districts covered were; Banke, Bardia,Dang and Surkhet. The Bank served those members through 524 centers. By mid-January 2001, of the total disbursed credit, Rs. 346.3 million was recovered and Rs. 103.7 million remained outstanding. During the same period, Rs. 29.3 million and Rs. 2.1 million were deposited as community savings and personal savings respectively totaling Rs. 31.4 million. This Bank is operating with its 2 regional offices and 21 branch offices.

Sudur Pashchimanchal (Far Western Region) Grameen Vikas Bank

10.37 The Bank, out of its 17,545 members of 3,169 groups, has disbursed Rs. 606.2 million to 11,983 members through 560 centers. Number of VDCs covered was 78 in the districts of Kailali, Daldeldhura, Kanchanpur, Doti and Achham. By mid-January 2001, out of the total disbursement, Rs. 505.8 million was recovered and Rs. 100.4 million remained outstanding. The Bank collected total savings of Rs. 38.1

million. Of this, community savings shared Rs.36.6 million and personal savings shared Rs. 1.5 million. This Bank is operating with 3 regional offices and 23 branch offices.

Citizen Investment Trust (CIT)

10.38 Under the Employees Savings Development Program being implemented with the objective of mobilization of savings through unitary and group savings scheme, CIT has already collected Rs. 559.1 million including Rs. 115.0 million generated in the review period of FY 2000/01 against an annual target of Rs.591.6 million including Rs. 180.0 million from incremental generation. It is estimated that an additional amount of Rs. 65.0 million will be collected in the remaining 4 months, which will result in the total of Rs. 624.1 million by the end of the current FY. By mid–March 2001, there were 32,000 regular members participating in this scheme from 3,050 offices. Rs. 411.6 million was deposited under this scheme by the end of FY 1999/00.

10.39 The Citizen’s Unitary Trust Scheme, 2052, operated for the general public collected a total of Rs. 187.3 million in FY 1999/00. During review period of the current FY, Rs. 115.6 million has been added amounting to Rs. 302.9 million as total cumulative deposit. It is estimated that an additional amount of Rs. 450.0 million will be collected in the remaining 4 months of the current FY. Under this scheme, the total number of participants has reached 5,965, which will be reduced to 2,775 after repurchasing of the units.

10.40 In order to mobilize corporate savings under the Investors Account Scheme of CIT, Rs. 20.0 million is estimated to be collected in the remaining period of the current FY, amounting to Rs 71.8 million in total. Rs. 51.8 million worth of savings was mobilized. CIT has collected Rs. 19.7 million under its pension/gratuity program during the review period of the current FY against the annual target of Rs. 35.0 million. Rs 17.5 million is estimated to be collected during the remaining period of the current FY.

10.41 In order to collect Rs. 655.0 million worth of capital during the review period of current FY, CIT has signed contract with 8 companies to this effect to deliver services of share issue and sales management. During the remaining period of the current FY, it is effortful to collect around Rs. 300.0 million as capital by offering similar services to the companies. CIT has also mobilized and managed a total investment of

Rs 238.0 million through saving schemes, share capital and reserves during the review period of the current FY. Rs. 120.0 million is estimated to be mobilized through investment management during the remaining period of the current FY.

Securities Board

10.42 The Board authorized 9 organized institutions to raise Rs. 537.1 million worth of capital in FY 1999/00 in order to grant approval by registering different types of share paper, debenture, mutual and unitary savings trust through public announcement or circulation method. Approved securities consist of general share equivalent of Rs. 412.5 million and preferential share worth Rs 124.6 million. One bank, five finance companies, one insurance company and one hotel from organized entities obtained authorization to issue share capital.

10.43 During the review period of current FY, the Board has registered and approved the issuance of different securities to raise capital worth Rs. 83.1 million to 5 organized entities. The Board has approved securities such as general shares equivalent to Rs. 70.5 million and preferential shares worth of Rs. 12.6 million. During this period, only finance companies were registered at the Board and obtained permission to issue share capital. The Board had registered and approved the issuance of different securities to raise the capital worth Rs. 361.9 million for 6 organized entities during the same period of the last FY.

10.44 During the review period of the current FY, the number of listed organized entities in the securities market totaled 112. The market value of listed shares amounts to Rs. 50,230.0 million. During the same period of the last FY, the value of listed shares stood at Rs. 37,210.0 million.

10.45 The transactions of shares of various companies in the secondary market of securities registered a turn-over of 2.5 million with shares worth of Rs. 1858.5 million during the review period of the current FY against the turn-over of 2.1 million with shares worth of Rs. 517.7 million during the review period of the last FY.

10.46 During the review period of the current FY, the NEPSE index increased by 66.7 points and reached 395.8, which was 329.2 by the end of the same period of previous FY.

10.47 As per the provisions under the Securities Listing Bye-Laws, 2053 which came into effect from the beginning of FY 1996/97, companies are categorized on the basis of paid up capital worth Rs. 20.0 million having number of share holders not less than 1,000, having book value of shares not less than paid-up capital, profitable operation for three preceding consecutive years and submission of fiscal report within six months of the closing of the FY. Companies listed in the stock exchange fulfilling the above criteria are classified under category A while others are classified under category B. During the review period of the current FY, 26 out of the 112 listed companies were classified under category A whereas during the reference period of the last FY, 23 out of the 108 listed companies were under category A.

Table 10.a: Transactions in the Securities Market

(Rs. in million)

Head	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01 mid-March
New Issuance	344.40	254.21	293.74	332.20	462.36	258	537.06	83.10
Securities Transaction (Rs.)	441.56	1054.27	215.61	416.23	202.61	1499.98	1155.78	1858.51
Number of transaction (Thousand)		3901	2954	9103	1195	4857	7674	2483.49
No. of companies under transaction	38	53	59	67	68	69	69	64
No. of transaction	-	-	18482	12395	16104	15814	29136	31042
Market capitalization (Rs.)	13872.00	12963.00	12295.00	12698.00	14289.00	23508.0	43123.32	50229.67
Paid up capital (Rs.)	2368.00	2962.00	3358.47	4476.52	4959.75	6487.36	7482.20	7770.65
NEPSE Index Point	226.03	195.48	185.61	176.31	163.35	216.92	360.70	395.85

Source: Securities Board

10.48 As per the new provisions under second amendment of Securities Business Act, 2040, brokers are required to register with the Board to operate securities business and to renew their licenses every FY. The Board has registered and issued licenses to 27 institutional security brokers, 10 securities issue and sales management institutions, 2 securities dealers and market makers in the review period of the current FY. During the reference period of the last FY, 27 institutional security brokers, 9 securities issue and sales management institutions, 2 security dealers and 2 market makers have renewed their licenses.

Insurance Companies

10.49 During the review period of the current FY the number of insurance companies reached 14, against the number of 13 during the review period of the previous FY. Out of them, 2 companies are operating life and non-life insurances while other 12 companies are operating non-life insurance businesses only. The total premium earnings were around Rs.1,867.0 million in FY 1999/00. During the review period of the current FY, total premium earning increased by 22.1 percent and is expected to total Rs.1,520.0 million against Rs. 1,244.7 million in the corresponding period of the previous FY.

10.50 During FY 1998/99, the financial resources of insurance companies amounted to Rs. 6,233.9 million which increased by 17.4 percent and reached Rs. 7,318.8 million in FY 1999/00. Such resources of insurance companies is estimated to total Rs. 6167.3 million during the review period of current FY 2000/01 compared to Rs. 5489.1 million in the corresponding period of FY 1999/00.

10.51 Of the total financial resources, the paid up capital increased by 80.0 million to Rs. 703.0 million during the review period of the current FY against Rs. 623.0 million of the corresponding period of the previous FY. In FY 1999/00, the reserve fund totaled Rs. 5,466.0 million. During the review period of current FY this amount totaled Rs. 4242.9 million compared to Rs. 4,099.5 million in the corresponding period of the last FY. The other resource totaled Rs. 1,229.8 million in the FY 1999/00. The other resource is estimated to amount to Rs. 1,221.4 million in review period of the current FY compared to Rs. 766.6 million during the corresponding period of the previous FY.

10.52 As regards the utilization of recourses in FY 1999/00, disbursement of investment reached Rs. 6,598.0 million. During the review period of current FY, investment is estimated to be Rs. 5,358.5 million compared to Rs. 4,940.5 million in the corresponding period of the previous FY. During the review period of the current FY, the fixed assets of insurance companies is expected to reach Rs. 232.2 million compared to Rs. 228.0 million in the corresponding period of the last FY. Similarly the insurance companies had Rs. 492.8 million in FY 1999/00 as other assets. For comparison, such assets during the review period of current FY is expected to reach Rs. 576.6 million compared to Rs. 312.6 million in the corresponding period of the FY 1999/00.

Deposit Insurance and Credit Guarantee Corporation Pvt. Ltd.

10.53 This Corporation guarantees the credit advanced by the commercial banks to the priority sectors under the directives of HMG to support and supplement the policy of enhancing the living standard of deprived class by encouraging the occupational businesses based on local skills and resources. During FY 1999/00, the Corporation provided guarantee to credit worth Rs. 3,637.1 million extended to 87,609 debtors by commercial banks. During the review period of current FY, Rs. 3,628.8 million worth of credit to 84,660 debtors has been guaranteed.

10.54 The Corporation is providing compensation to the commercial banks for defaulters. Such payments amounted to Rs. 36.3 million in FY 2000/01 as compared to Rs.70.4 million in the FY 1999/00.

10.55 Under the Livestock Insurance Program, the Corporation had guaranteed 12,034 heads of livestock purchased with the credit worth Rs. 126.5 million extended to 9,726 livestock farmers by Nepal Bank Ltd, Rastiya Banijya Bank, ADB/N, Rural Development Bank, Nirdhan Utthan Bank and other institutions in FY 1999/00. During the review period of the current FY, guarantee coverage has been provided to 7,124 heads of livestock purchased with credit worth Rs. 87.0 million extended to 6,043 farmers. In the FY 1999/00, a total amount of Rs. 3.4 million was paid as compensation on account of death of 465 heads of livestock belonging to 439 farmers. Such payments by Corporation amounted to Rs. 1.8 million on account of death of 188 heads of livestock belonging to 187 farmers during the review period of the current FY. In order to diversify livestock insurance program, the Corporation aims at extending guarantee services to livestock purchased under the credit extended through rural development banks, NGO's or purchased by farmers on their own.

Financial Position of the Finance Companies

10.56 The number of finance companies reached 48 in mid-January 2001 which were 45 in mid-January 2000. In comparison to mid-January 2000, total financial resources of finance companies substantially increased by 17.2 percent (Rs. 2,106.0 million) and reached Rs. 14,351.0 million in mid-January 2001. In mid-January 2000, the total resources of finance companies had reached Rs. 12,245.0 million. Of the resources, the deposits increased by 18.7 percent (Rs. 1661.0 million) as compared to mid-January 2000 and reached Rs. 10,531.0 million in mid-January 2001. Similarly, the capital has registered a significant increase of 36.2 percent (Rs. 519.0 million) and reached Rs 1,952.0 million. In corresponding period of the last FY, the deposit and capital stood at Rs 8,870 million and Rs 1,433.0 million, respectively. The borrowings by the finance companies as of mid-January 2001 registered an increase of 88.1 percent (Rs. 118.0 million) and stood at

Rs. 252.0 million. As compared to the previous FY, other resources of finance companies decreased by 10.6 percent (Rs. 192.0 million) and reduced from its level of Rs. 1,808.0 million in the same reference period of previous FY to Rs. 1,616.0 million in mid-January 2001.

10.57 With regard to the utilization of resources, flow of credit /borrowing increased by 24.8 percent (Rs. 2,040.0 million) and reached Rs. 10,254.0 million by mid-January 2001 compared to was Rs. 8,214.0 million by mid-January 2000. Investment in saving certificates by the finance companies in mid-January 2001 decreased by 6.7 percent (Rs. 85.0 million) and stood at Rs. 1,179.0 million compared to Rs. 1264.0 million by mid-January 2000. The liquid assets decreased by 10.9 percent (Rs. 174.0 million) and reached Rs. 1,421.0 million against Rs. 1,595.0 million by mid-January 2001. With the inclusion of investment in government securities, the overall liquidity to deposit ratio is calculated to be 21.7 percent against 27.7 percent as of mid-January 2000. Likewise, utilization of other resources increased by 27.7 percent (Rs. 325.0 million) and reached Rs. 1,497.0 million by mid-January 2001 as compared to mid-January 2000.

Challenges

10.58 Banking sector has a serious responsibility of mobilizing financial resources essential for economic and social development. This sector needs to invest accumulated resources for the returns on the one hand and to protect the assets of the depositors on the other. Lacking effective regulations, bad debt is mounting and the capital is eroding. It is, therefore, imperative that prudential regulation is put in place and ensure that the NRB exercises its regulatory role to best protect the interest of the depositors at large.

10.59 To enable the rural community improve living standard, their access to the banking services needs to be enhanced. This implies that the banking services needs to be expanded to more of the rural communities by opening branches of commercial banks while such branches also need to be viable. There is a challenge for the NRB that its responsibility to facilitate the expansion is discharged by taking appropriate measures.

10.60 Delivering efficient services to the common people by enhancing efficiency of the commercial banks and improving their management style pose a challenge to the banks and financial institutions. The existing condition of the liquidity of the banking and financial institutions also needs to be reduced through an appropriate investment policies. Equally important is the challenge to minimize the margin of interest rates these institutions charge by minimizing their intermediation cost.

10.61 At present, as the outstanding loan amount is increasing, these institutions need to give special attention towards loan recovery. It is also necessary that sound regulatory and supervision system is put in place for timely recovery of outstanding loans.

10.62 In order to help realize the goal of poverty alleviation, access to increased flow of credit and investment in the economic activities of direct benefit to the maximum number of low-income people through micro and medium size loan needs a serious attention in the days to come. It is also necessary that activities that ensure quick return of investment are identified.

XI. PUBLIC FINANCE

11.1 Emerging issue of public finance has become a matter of urgent concern to HMG. Continued increase in expenditures, revenue collection shortfalls and its increasing liability towards the public enterprises are some of such issues.

11.2 HMG has endeavored to control undesirable and unproductive expenses and increase revenue collection. As a consequence, there are some improvements in economic indicators. Total revenue mobilization, which was 11 percent of the GDP (at current prices) in FY 1998/99, increased to 11.3 percent in FY 1999/00. On the expenditures side, because of government efforts, total government expenditures could be maintained at the previous year's level of 17.6 percent. As a result, the amount of total expenditures over the total revenue collection decreased by 0.3 percentage point to the level of 6.2 percent in FY 1999/00 from the level of 6.6 percent in the previous FY 1999/00.

Table 11.a: Proportion of Government Expenditure and Revenue to GDP (in percentage at producer's current price)

FY	**Government Expenditure**			**Revenue**	**Difference**
	Total	**Regular**	**Development**		
1993/94	16.9	6.2	10.6	9.8	7.1
1994/95	17.8	8.8	9.0	11.2	6.6
1995/96	18.7	8.7	10.0	11.2	7.5
1996/97	18.1	8.6	9.5	10.8	7.3
1997/98	18.6	9.0	9.6	10.9	7.7
1998/99	17.4	9.1	8.3	10.9	6.5
1999/00	17.5	9.1	8.4	11.3	6.2

11.3 Revenue surplus as a percentage of total development expenditures in FY 1999/00 increased to the level of 26.4 percent as compared to 21.7 percent in FY 1998/99. This increase in revenue surplus has become possible due to 15.1 percent increment in revenue collection as compared to increment by 11.2 percent in regular expenditures.

11.4 In FY 1998/99, the deficit financing for the development expenditure was 63.1 percent, whereas in FY 1999/00, it dropped by 7.5 percent point to the level of 55.6 percent, which is considered as a positive indicator in FY 1999/00.

Government Finance

11.5 During FY 1999/00, government expenditures increased by 11.2 percent as compared to the corresponding figure of the previous FY and reached Rs.66,272.5 million. Of the total expenditures, regular expenditures increased by 11.2 percent over the corresponding figure in FY 1998/99 and reached Rs.34,523.3 million. Development expenditures increased by 11.3 percent and reached Rs.31,749.2 million. Share of development expenditure, however, remained at the level of 47.9 percent as in the previous year.

Table 11.b
Sources of Development Expenditure

Headings/FY	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00
A. Development Expenditures							
(Rs. in million)	21188.2	19744.9	24980.5	26542.6	28943.9	28531.3	31749.2
(In percentage)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
B. Sources of Financing							
1. Revenue Surplus (%)	33.8	26.9	25.3	23.3	19.9	21.7	26.4
2. Foreign Grant (%)	11.3	19.9	19.3	22.4	18.7	15.2	18.0
3. Deficit Financing	54.9	53.2	55.4	54.3	61.3	63.1	55.6
a. Foreign Loan (%)	(43.2)	(38.0)	(37.9)	(34.1)	(38.2)	(41.5)	(37.2)
b. Domestic Borrowing (%)	(8.6)	(9.5)	(8.8)	(11.3)	(11.7)	(16.5)	(17.3)
c. Change in Cash Balance (%)	(3.1)	(6.7)	(8.7)	(8.9)	(11.5)	(5.1)	(1.1)

11.6 On the resources mobilization front, Rs.42,893.8 million was met from revenue, Rs.5,711.7 million from foreign grant, Rs.11,893.8 million from external loan, Rs.5,500.0 million from internal loan, and Rs.354.8 million from cash balances.

Regular Expenditure

11.7 Regular expenditure in FY 1999/00 increased by 11.2 percent against the corresponding figure in the previous year and reached Rs.34,523.3 million. During FY 1999/00, expenditure on debt service stood at Rs.10,032.8 million. This figure is higher by 15 percent over the corresponding figure in the previous year. Of the total regular expenditure, share of debt service accounts for 29.1 percent, Social Services 24.1 percent, Loan Investment 0.1 percent, Economic Services 6.4 percent and Miscellaneous Items 13.0 percent respectively. Similarly, share of General Administration accounts for 11.8 percent, Defense 10.1 percent and Other sectors 5.4 percent.

11.8 In comparison to FY 1998/99, expenditure in Social Services in FY 1999/00 increased by 12.9 percent to Rs. 8,327.9 million; Defense by 16.3 percent to Rs.3,482.1 million; Economic Services by 2.6 percent to Rs. 2,224.8 million. Expenditures on constitutional bodies, foreign services, revenue administration, judicial administration, fiscal administration and planning, loan and investment and miscellaneous heading put together increased by 3.5 percent and reached Rs.6, 385.3 million.

11.9 In FY 1999/00, debt service was 2.6 percent of the GDP. It was 2.6 percent of the GDP in FY 1998/99 as well. Principal payments in FY 1999/00 increased by 12.3 percent over the corresponding figure in FY 1998/99 and reached Rs.5,212.7 million. However, in terms of GDP, principal payment remained at the previous year's level of 1.4 percent. During the reference period, interest payment increased by 18.1 percent and reached Rs.4,820.1 million, which is 1.3 percent of the GDP.

Development Expenditure

11.10 As compared to FY 1998/99, development expenditure increased by 11.3 percent in FY 1999/00 and reached Rs. 31,749.2 million. Thus, development expenditure in FY 1999/00 fell behind the regular expenditure for the second consecutive year.

11.11 On the development expenditure front, expenditures on Economic Services in FY 1999/00 increased by 7.4 percent to Rs.18,648.6 million, Social Services by 20.9 percent to Rs.12,406.2 million, fiscal administration and planning by 39.5 percent to Rs28.6 million and general administration by 36.5 percent to Rs.108.1 million. Expenditure on Economic Services accounts for 58.7 percent of total development expenditure, Social Services 39.1 percent and other sectors 2.2 percent.

11.12 Under Social Services, development expenditures in FY 1999/00 on education, health, drinking water and local development increased by 56.8 percent, 26.8 percent, 29.8 percent and 4.2 percent, respectively as compared to their corresponding figures in FY 1998/1999. Total expenditures incurred for these sectors in FY 1999/00 amounted to Rs. 2,573.7 million, Rs. 2,126.7 million and Rs. 4,136.7 million respectively.

11.13 On the economic services front, expenditures on Agriculture, Irrigation and Power in FY 1999/00 increased by 7.4 percent, 3.6 percent and 15.1 percent respectively over the corresponding figures in FY 1998/99. But expenditure on Transport sector, however, decreased by 8.1 percent as compared to that of previous year.

Revenue

11.14 Revenue collection has improved in FY 1999/00 with growth rate of 15.1 percent compared to 13.1 percent of FY 1998/99.

11.15 As to the composition of revenue, of the total revenue of Rs.42,893.8 million collected in FY 1999/00, tax revenue and non-tax revenue stood at Rs. 33,152.2 million (77.3 percent) and Rs.9,741.6 million (22.7 percent). In the previous FY 1998/99 also, the ratio was more or less the same (77.2 percent and 22.8 percent respectively).

11.16 During FY 1998/99, tax revenue increased by 15.3 percent as compared to the previous year. Of this, customs revenue increased by 13.6 percent and reached Rs.10,813.3 million. Similarly, tax on production and consumption of goods and services increased by 14.2 percent and reached Rs.13,387.4 million. Value-added tax (VAT) increased by 25 percent and reached Rs, 9,854.9 million. Tax on profit and property increased by 21.8 percent and reached Rs. 7,935.6 million, whereas income tax collection increased by 19.6 percent and reached Rs. 6,996.2 million.

11.17 As compared to FY 1998/99, non-tax revenue collection in the FY 1999/00 increased by 14.6 percent and reached Rs.9,741.6 million. Of this, dividend receipt increased by 40.6 percent to Rs. 2,507.5 million, while receipts as payment of principal and interest decreased by 4.5 percent and reached Rs. 3,751.0 million. Receipts as principal and interest in FY 1998/99 was Rs. 3,927.5 million.

Revenue During the First Eight Months of FY 2000/01

11.18 During the review period of FY 2000/01, total revenue collection stood at Rs. 28,304.9 million. The figure is equivalent to 53.4 percent of the annual target for revenue collection, which is less by 1.9 percentage point as compared to the revenue collected during the corresponding period in the previous year. Of the total revenue collection, tax revenue totaled Rs. 22,834.4 million, and non-tax revenue Rs. 5,470.5 million.

11.19 Revenue collected as customs tax during the review period of current FY 2000/01 stood at Rs. 7,814.3 million. The figure is equivalent to 58.8 percent of the annual collection target of the current FY, and is higher by 16.3 percentage points than the corresponding figure in the previous year. Similarly, revenue from income tax met 48.4 percent of its annual collection target and reached Rs. 4,228.6 million. The figure is higher by 18.8 percent over the tax revenue of Rs. 3,558.1 million collected during the reference period in the previous year.

11.20 VAT collected during the review period of the current FY stood at Rs. 7,373.9 million, which is 54.6 percent of its collection target. It is 20.3 percent higher than the corresponding figure in the previous figure. In the reference period, tax on production and consumption of goods and services reached Rs. 9,882.5 million, which is 19.2 percent higher than the corresponding figure in the previous year. Similarly, at land revenue front, revenue from registration of land and houses during the reference period in the previous year was Rs.578.7 million, whereas it stood at Rs.306.3 million in the current FY, which is only 23.8 percent of its annual collection target. The figure has thus a setback by 47.1 percent over the corresponding figure in the previous year.

11.21 Non-tax revenue increased by 43.2 percent in the review period of the current FY as compared to the corresponding period of the previous year and reached Rs. 5,470.5 million. In FY 1998/99 it was Rs. 3,820.7 million only. Similarly, there is a significant increase in receipts as dividend, principal and interest payments and receipts from royalty and sales of government property in the current FY. Such receipts accounts for 52.1 percent of the annual target.

Foreign Aid Commitment and Its Utilization

11.22 As compared to FY 1998/99, foreign aid commitment in FY 1999/00 increased by 11.4 percent and reached Rs. 20,448.0 million. Of this, the portion of grant was 62.9 percent and remaining 37.1 was the loan assistance.

11.23 Of the total foreign aid committed in FY 1999/00, Rs. 11,293.4 million (55.2 percent) was from bilateral sources and Rs.9,154.6 million (44.8 percent) from multilateral sources. Foreign aid commitment in FY 1998/99 from bilateral and multilateral sources were Rs. 13,787.4 million (75.1 percent) and Rs. 4,565.0 million (24.9 percent), respectively.

11.24 As compared to the previous FY, foreign aid commitment during the review period of the current FY increased by 55.3 percent and reached Rs.19,209.0 million. Of the committed assistance, grant consists of Rs.5,507.7 million (28.7 percent) and loan Rs. 13,701.3 million (71.3 percent). Of the total committed foreign aid, Rs. 5,418.2 million (28.2 percent) was from bilateral sources, and Rs. 13,790.8 million (71.8 percent) from multilateral source. On the contrary, in FY 1999/00, the portions of grant and loan were 67.1 percent and 32.9 percent, while the percentage shares of bilateral and multilateral sources were 55.6 percent and 44.4 percent, respectively. As compared to the foreign aid committed in the review period of FY 1999/00, the ratio of loan to grant in the foreign aid commitment has considerably increased during the corresponding period in FY 2000/01.

11.25 The sectorwise composition of the foreign aid committed during the review period of the current FY shows Rs. 12,060.5 million (62.8 percent) for Drinking Water; Rs.1,673.9 million (8.7 percent) for Agriculture, Irrigation and Forestry; Rs.980.1 million (5.1 percent) for Transport, Communications and Power; Rs. 540.3 million (2.8 percent) for Education; and the remaining Rs. 3,954.2 (20.6 percent) for Miscellaneous sectors.

11.26 Utilization of foreign assistance in FY 1999/00 increased by 8.2 percent as compared to FY 1998/99 and reached Rs. 17,523.9 million. During the period, loan assistance amounting Rs. 11,812.2 million and grant amounting Rs. 5,711.7 million had been utilized. Total foreign aid disbursement during FY 1998/99 was Rs. 16,189.0 million, of which Rs. 11,852.4 million was in loan and Rs. 4,336.6 million was in grant assistance. As compared to the FY 1998/99, utilization of foreign grant in FY 1999/00 increased by 31.7 percent. In the total foreign aid utilized in 1998/99, the shares of assistance from bilateral and multilateral sources were 25.7 percent and 74.3 percent, respectively. In FY 1999/00, the shares of the foreign aid utilization coming from bilateral and multilateral sources were Rs. 4,929.1 million (28.1 percent) and Rs. 12,594.8 million.

11.27 As compared to FY 1998/99, utilization of foreign assistance in FY 1999/00 for Agriculture, Irrigation and Forestry dropped by 5.1 percent to Rs. 3,209.8 million, whereas it increased by 3.4 percent to Rs. 8,159.3 million in Transport, Power and Communications and by 30.3 percent to Rs. 5,794.0 million in Social Services. Similarly, within the Social Services sector, foreign aid utilization in Education in FY 1999/00 increased from the level of Rs.941.5 million to Rs. 1,960.1 million (108.2 percent). However, foreign aid utilization in Industry and Commerce dropped by 26.2 percent to the level of Rs. 298.5 million.

Outstanding Foreign Debt

11.28 As revenue surplus is not enough for financing development expenditures, foreign grant as well as foreign loan and internal borrowing are used to bridge the gap. In this context, role of foreign loan has become more and more prominent since the recent past. Moreover, due to devaluation of Nepalese currency vis-à-vis other convertible currencies, debt burden is becoming heavier each year. The outstanding foreign debt in FY 1999/00 increased by 12.5 percent over the level of FY 1998/99 and reached Rs. 190,691.2 million.

11.29 Total outstanding foreign debt, after the adjustment of the incurred foreign loan and its repayment during the first nine of the current FY 1999/00, has reached the level of Rs. 196,377.5 million. The outstanding foreign debt increased by 3.0 percent during the first nine months of FY 1999/00 from the level of previous year's figure. During this period, new foreign loan amounted to Rs. 8,156.8 million, principal repayment Rs. 2,699.3 million, and interest payments Rs. 1,018.5 million.

Outstanding Internal Loans

11.30 Internal loan as of July 2000 increased by 9.4 percent from its previous level a year before and reached Rs. 54,357.0 million. Of this, Rs. 20,362.7 million (37.5 percent) owed to NRB, Rs. 18,176.6 million (33.4 percent) to commercial banks and Rs. 15,817.7 million (29.1 percent) to various institutions and private individuals. These loans consisted of Development Bonds amounting Rs. 4,262.2 million (7.8 percent), National Saving Bonds Rs. 11,526.5 million (21.2 percent), Special Bonds Rs. 17,541.4 million (32.3 percent), and Treasury Bills Rs. 21,026.9 million (38.7 percent). Internal loan by mid-March, 2000 stood at Rs. 58,306.9 million.

11.31 During the review period of the current FY 1999/00, internal loan increased by 14.1 percent and stood at Rs. 58,306.9 million. Of this, 35.9 percent owed to NRB, 34.0 percent to commercial banks, and 30.1 percent to various institutions and individuals. Of all sorts of domestic loan instruments, Treasury Bills top the list with 45.1 percent share, Special Bonds with 23.6 percent , National Savings Bond with 22.3 percent and Development Bonds with 9.0 percent shares.

Budget Deficit and Sources of Financing

11.32 Budget deficit in FY 1999/00 was Rs. 17,667.0 million, which was almost at the same level as in FY 1998/99. The deficit was met by Rs. 11,812.2 million from foreign loan, Rs. 5,500.0 million from internal borrowing and Rs. 354.8 million from change in cash balance.

Challenges

11.33 Since government expenditures as a ratio of GDP (at current producers prices) is continuously exceeding revenue collection ratio, the economy will be adversely affected in the long term. Even though there is some improvement in the revenue collection, the situation of downturn in development expenditures as compared to regular expenditure for the past two years has declining use of resources in development activities. So, in the present context, our challenge is in maintaining stability in the economy downsizing the regular expenditures, redirecting investment towards productive sector and increasing production, further broadening revenue mobilization and minimizing deficit.

11.34 Similarly, more foreign assistance has to be utilized by reducing the gap between foreign aid commitment and disbursement and make it more productive in order to quicken poverty reduction and achieve national goal.

11.35 Major portion of revenue is being utilized for maintaining peace and security, pension, payment of principal and interest. These expenditures are most likely to increase in the years to come. To mitigate rising expenditure problem of such nature, it is high time that options and alternatives, such as, participatory pension scheme, waive of foreign loan or conversion of foreign loan into grant, use of resources in a quick-return oriented sectors, are devised on time, reviewed and acted upon. If revenue base is not broadened and higher level of revenue is not collected, the economy will be in jeopardy.

11.36 At present, public project management is characterized by overly selection of projects than what the public resources can sustain, weak expenditure management, lack of ownership of project and weak monitoring and supervision etc. Therefore, prioritizing of projects on the basis of their overall benefit and output and managing expenditures in a rational way are the challenges before HMG.

11.37 Public sector's role in the economy needs a review and redefinition. Private sector should be enabled to invest in sectors of their competitive advantage, while the public enterprises are privatized in a phased manner. In sum, the issue of public resources management calls for urgent attention.

XII. PRICE AND SUPPLY SITUATION

12.1 Prices mirror demand and supply situation. They also reflect the performance and the efficiency of the economy. While reviewing prices, role of internal and external factors should be kept in perspective. Internal factors relate to production level, supply position and the effect of macro economic policy while the external factors relate to status of import based supply, prices of other countries including India and inflation therein.

12.2 FY 19995/96 based NUCP index increased by 3.5 percent in FY 1999/00 against 11.4 percent in FY 1998/99. Point-to-point analysis shows that such price index fell by 0.9 percent and 0.1 percent in the review period (mid-June to mid-March) in FY 1999/00 and in current FY (2000/01), respectively against 4.3 percent increase of corresponding period of FY 1998/99. Price rose by 4.3 percent in the review period of FY 1999/00 against 12.2 percent increase in the corresponding period of FY 1998/99. Price increase during review period of the current FY was 2.1 percent.

Region-wise Prices

12.3 Region-wise analysis of price level indicates that the rate of increase in price index dropped in FY 1999/00 against that of the previous year. Price index of Kathmandu Valley had increased by an average of 8.1 percent in FY 1998/99 but it dropped to an average increasing rate of 3.7 percent in FY 1999/00. Point-to-point price index of review period of FY 1998/99 had recorded increase of 2.2 percent, it dropped to 1.4 percent in the corresponding period of FY 1999/00. It further fell to 0.3 percent in the same corresponding period of FY 2000/01. Price increased at an average of 9.1 percent and 4.0 percent in FY 1998/99 and FY 1999/00 but such increase dropped to 3.4 percent during first eight months of FY 2000/01.

12.4 Price index of the Hills and the Terai region increased by 3.7 percent and 3.1 percent in FY 1999/00 while those were 11.7 percent and 13.3 percent, respectively in FY 1998/99. Point-to-point analysis of price index shows that it fell by 1.8 percent in the Hills area and 2.0 percent in the Terai in the review period (mid-June to mid-March) of FY 1999/00. Such index for the Hills hiked by 3.3 percent whereas that for Terai dropped by 1.7 percent during the review period of FY 2000/01.

First eight months of the fiscal year based price index in the Hills rose by 5.0 percent in FY 1999/00 and by 4.4 percent and in current FY. In the Terai, the price index increased by 0.6 percent in the current FY against the increase of 4.1 percent in FY 1999/00. Above region-wise analysis indicates that the Hills area witnessed price increase at higher rate relative to the Terai and Kathmandu Valley.

Consumption Category Wise Price

12.5 In the NUCP index, price of food and beverages items increased by 0.4 percent and that of Non-food and service items registered an increase of 7.1 percent in FY 1999/00 over their respective level in FY 1998/99. Under food and beverage category, food grains price increased by 8.6 percent, that of meat, fish, and eggs by 4.3 percent, milk and dairy products by 3.6 percent, beverages by 3.7 percent and snacks by 7.9 percent in FY 1999/00. Some of the items under the food and beverages category witnessed decline in their prices. Among them, price of pulse decreased by 4.0 percent, that of vegetables and fruits by 16.9 percent, that of edible oil and ghee by 22.6 percent and that of sugar and sweets by 3.9 percent. Under non-food and service categories, price index of cloths and ready-made garments increased by 4.7 percent, house-hold goods by 7.1 percent, fuel, electricity and water by 13.3 percent, communication and transport by 12.5 percent, medicine and the personal care items by 6.4 percent, education/ educational materials and recreation by 9.9 percent and that of cigarette by 5.5 percent.

NUCP Index, FY 2000/01

12.6 NUCP index increased by 2.1 percent in the review period of FY 2000/01 compared to that of the corresponding period of FY 1999/00. Price level of food and beverages decreased by 3.4 percent but that of non-food and service items increased by 9.0 percent in the review period of the current FY.

12.7 Under food and beverages, price of cereals and its product decreased by 14.4 percent, rice by 15.2 percent, and edible oil and ghee by 9.1 percent while the price of pulse increased by 2.3 percent, spices by 10.2 percent, meat, fish, and eggs by 2.7 percent, milk and dairy products by 5.1 percent, sugar and sweats by 8.7 percent, beverages by 1.1 percent and snacks by 7.5 percent in the review period of current FY 2000/01.

12.8 Under the non-food and services, the price of cloth and ready-made garments increased by 2.0 percent, cloth by 2.2 percent, and ready-made garments by 2.2 percent, shoes by 1.5 percent, house-hold goods by 14.2 percent, oil, electricity and water by 26.9 percent, communication and transport by 8.4 percent, medicine and the personal care items by 5.7 percent, education/educational materials and recreation by 15.1 percent and that of cigarette by 2.1 percent in the review period of current FY 2000/01.

Consumption Category-Wise

12.9 Point-to-point analysis of NUCP index reveals that price level decreased by 0.1 percent in the review period (mid-June to mid-March) of current FY 2000/01 while it had decreased by 0.9 percent in the corresponding period of FY 1999/00. Price of food and beverages decreased by 6.0 percent but that of non-food and service items increased by 6.6 percent in the review period of current FY. Under food and beverages, price of cereals and its products decreased by 15.1 percent, rice by 18.0 percent, pulse by 1.9 percent, fruits and vegetables by 18.4 percent, and edible oil and ghee by 1.4 percent while that of meat, fish and eggs increased by 1.8 percent, milk and dairy products by 6.0 percent, sugar and sweets by 7.8 percent, beverages by 2.1 percent and snacks by 7.4 percent in the review period.

12.10 Under the non-food and services, price of cloth and ready-made garments increased by 3.2 percent, that of cloth by 4.7 percent, ready-made garments by 2.8 percent, similarly the price of footwear increased by 0.6 percent, house-hold goods by 7.5 percent, oil, electricity and water by 11.7 percent, transport and communication by 6.1 percent, medicine and the cost of personal care by 3.9 percent, education/educational materials and recreation by 15.1 percent and cigarette by 0.7 percent in the review period (mid-June to mid-March) of the current FY.

Region-Wise Point-to-Point NUCP Index, FY 2000/01

12.11 Point-to-point analysis of NUCP Index for mid-June to mid-March period of FY 2000/01 reveals that the price increased marginally by 0.3 percent in Kathmandu Valley whereas it increased by 3.3 percent in the Hills area. The Terai region witnessed price decrease of 1.7 percent.

12.12 In Kathmandu Valley, price level of food and beverages decreased by 5.0 percent and that of non-food and service increased by 5.8 percent during the review period (mid-June to mid-March) of FY 2000/01 compared to the decrease of 3.2 percent and increase of 6.8 percent respectively in the corresponding period of FY 1999/00. Under the food and beverages, price of cereals and its product decreased by 14.2 percent, rice by 17.1 percent, and wheat and wheat flour by 11.2 percent, pulse by 5.8 percent and fruits and vegetables by 16.8 percent in the review period of 2000/01 while the price of spices increased by 3.2 percent, meat, fish and eggs by 6.3 percent, milk and milk products by 9.1 percent, sugar and sweets by 7.0 percent and snacks by 6.4 percent in the same period. Under non-food and services, price of cloth and ready-made garments has increased by 0.8 percent, housing materials by 8.7 percent, fuel, electricity and water by 13.4 percent, transport and communication by 8.6 percent, medicine and personal care items by 4.8 percent, education and educational materials and recreation by 8.4 percent and that of cigarette by 2.5 percent during the review period.

In the Terai Region

12.13 Price of Food and beverages decreased by 8.0 percent whereas that of Non-food and service increased by 5.7 percent in the review period of current FY 2000/01. Under this category, price of cereals and its product decreased by 17.9 percent, rice by 21.0 percent, and wheat and wheat floor by 10.6 percent, pulse by 1.2 percent, fruits and vegetables by 20.8 percent and spices by 3.7 percent. However, the price of some other items under this category had increased during the review period. Accordingly, price of milk and milk products increased by 5.2 percent, sugar and sweets by 7.2 percent, beverages by 3.5 percent, and snacks by 5.3 percent. Under non-food and service, prices of cloth and readymade garments increased by 4.9 percent, shoes by 1.3 percent, household items by 5.4 percent, fuel, electricity and water by 8.2 percent, transport and communication by 4.5 percent, medicine and the personal care items by 2.8 percent, education, educational material and recreation by 15.5 percent while the price of cigarette decreased by 1.1 percent during the review period.

In the Hills

12.14 Price of food and beverage during this review period decreased by 2.2 percent while that of non-food and service increased by 9.8 percent. Under the food and beverage category, prices of cereals and cereal products decreased by 8.9 percent, rice by 11.1 percent, wheat and wheat flour by 10.7 percent, fruits and vegetables by 14.7 percent, meat, fish, and eggs by 0.2 percent, edible oil and ghee by 4.2. Some of the commodities under this category witnessed increase in prices. Accordingly, the prices of pulse increased by 2.6 percent, spices by 6.1 percent, milk and dairy products by 4.3 percent, sugar and sweets by 10.4 percent, beverages by 3.1 percent and snacks by 13.8 percent. Under the Non-food and service, price of cloth and ready-made garments increased by 2.5 percent, readymade clothes by 4.3 percent, footwear by 1.5 percent, household items by 11.3 percent, fuel, electricity and water by 19.1 percent, transport and communication by 6.9 percent, medicine and the personal care items by 5.6 percent, education, educational material and recreation by 23.6 percent and cigarette by 3.9 percent but that of clothes decreased by 1.8 percent. `

12.15 In the review period (mid-June to mid-March) of current FY 2000/01, in summary, point-to-point price index of majority of commodities under food and beverage category has decreased. Especially, the price index of cereals and cereals product, rice, wheat and wheat flour, fruits and vegetables has dropped significantly. In terms of regions, price index of cereals and cereals products decreased by 14.2 percent in Kathmandu Valley, by 17.9 percent in Terai and by 8.9 percent in Hills. In terms of consumption category, price of rice decreased by 17.1 percent in Kathmandu Valley, by 21.0 percent in Terai and by 11.1 percent in Hills. Similarly, the price index of wheat and wheat flour decreased by 11.2 percent in Kathmandu Valley, by 10.6 percent in Terai and by 10.7 percent in the Hills. Likewise, the price of fruits and vegetables also decreased by 16.8 percent, 20.8 percent and 14.7 percent in Kathmandu Valley, Terai, and Hills respectively. Among the items that witnessed increase in prices, the prices of sugar and sweets increased by 7.0 percent, by 7.2 percent and by 10.4 percent whereas the prices of milk and milk products increased by 9.1 percent, 5.2 percent and 4.3 percent in Kathmandu Valley, Terai and Hills respectively. Under non-food and service, most of the items registered increase in their prices. Under this category, prices of household items increased by 8.7 percent, by 5.4 percent and by 11.3 percent and that of fuel, electricity and water increased by 13.4 percent by 8.2 percent and by 19.1 percent in Kathmandu Valley, Terai, and Hills respectively. Likewise, the prices of education, educational material and recreation increased by 8.4 percent, by 15.5 percent and by 23.6 percent and that of medicine and personal care items increased by 4.8 percent, by 2.8 percent and by 5.6 percent in Kathmandu Valley, Terai and Hills.

Similarly, the price index of transport and communication and clothes and ready-made wear has also increased in the three regions.

Average Retail Price of Some Major Commodities

12.16 Point-to-point analysis of retail prices in the review period (mid-June to mid-March) of current FY 2000/01 shows that there is a mixed effect in the retail price. In the review period, retail price of black grams increased by 3.9 percent to Rs. 47.94 per kg, that of mutton by 8.0 percent to Rs. 176.08 per kg, dry onion by 55.5 percent to Rs. 20.73 per kg, mustard oil by 7.6 percent to Rs. 70.31 per litre. In the same review period, retail prices of coarse rice decreased by 10.3 percent to Rs. 15.68 per kg, wheat by 1.3 percent to Rs. 16.08 per kg., Rahar lentil by 4.5 percent to Rs. 47.43 per kg., purified ghee by 3.6 percent to Rs. 215.4 per kg., potato by 38.9 percent to Rs. 8.39 per kg. and ginger by 26.5 percent to Rs. 32.56 per kg.

12.17 In the Hills, the retail prices of coarse rice increased by 1.3 percent to Rs. 19.24, that of wheat by 9.9 percent to Rs. 20.08 and that of black grams by 10.1 percent to Rs. 53.71. Similarly, the price of mutton increased by 7.1 percent to Rs. 173.69 and that of dry onion by 70.0 percent to Rs. 27.06 per kg. Among the items experiencing fall in prices, the price of Rahar lentil decreased by 3.5 percent to Rs. 51.53, that of refined ghee by 12.1 percent to Rs. 196.63 and that of potato by 21.7 percent to Rs. 11.03.

12.18 In Terai, price of coarse rice decreased by 24.2 percent to Rs. 12.12 per kg, wheat by 15.7 percent to Rs. 12.08 per kg, black grams by 2.9 percent to Rs. 42.17 per kg, Rahar lentil by 5.7 percent to Rs. 43.33 per kg, potato by 41.5 percent to Rs. 7.75 per kg and ginger by 24.1 percent to Rs. 32.25 per kg whereas that of mustard oil increased by 3.6 percent to Rs. 64.6 per litre, ghee by 4.9 percent to Rs. 234.17 per kg, mutton by 9.0 percent to Rs. 178.47 per kg and dry onion by 34.0 percent to Rs. 14.4 per kg. In sum, retail prices of mustard oil, mutton and dry onion increased in all three regions while that of Rahar lentil, potato and ginger dropped.

12.19 In comparison to the first eight months of current FY, monthly average national retail prices of some agricultural commodities in comparison to the corresponding period of previous FY decreased. Retail prices of coarse rice decreased by 16.4 percent to Rs. 17.13 per kg, that of Rahar lentil by 11.7 percent to Rs. 47.99 per kg., ginger by 13.2 percent to Rs. 36.66 per kg., dry onion by 8.4 percent to Rs. 20.23, potato by 9.2

percent to Rs. 11.5 per kg and mustard oil by 10.7 to Rs. 68.05 per litre. In the same review period, however, retail price of wheat increased by 16.3 percent to Rs. 16.77 per kg, black lentil by 9.1 percent to Rs. 47.8 per kg, ghee by 6.4 percent to Rs. 226.45 per kg and mutton by 3.7 to Rs. 167.97 per kg.

12.20 Retail price of petroleum product during the review period of the current FY 2000/01 in comparison with the corresponding period of previous FY 1999/00 increased by 15.0 percent to Rs. 46.0 per litre, that of diesel by 15.2 percent to Rs. 26.50 per litre and kerosene oil by 30.8 percent to Rs. 17 per litre.

12.21 Supply of petroleum products in FY 1999/00 in comparison with that of FY 1998/99 increased by 13.5 percent to 58,570 kl, that of diesel by 2.6 percent to 327,427 kl, kerosene by 17.4 percent to 350,196 kl, aviation fuel by 5.6 percent to 59,123 kl and LP Gas by 22.4 percent to 30,627 mt. During the first eight months of current FY, the supply of petrol, diesel, kerosene, aviation fuel and LP Gas were 39,572 kl, 211,923 kl, 202,270 kl, 43,344 kl and 25,772 mt. respectively.

Challenges

12.22 Price structure reflects efficiency of the economy. To maintain the price at a desirable limit, balanced role of fiscal and monetary policies is inevitable. To ensure efficiency in production and market system, regulatory and monitoring system should be in place and their implementation should be effective.

12.23 Rise in price level has direct impact on macro-economic management. Fiscal deficit should be kept to the desirable limit to maintain price stability. The fiscal and monetary policies should be designed to contain pressure on inflation. Timely projection of demand and supply of goods and services is also necessary with a view to better manage the supply through domestic production and timely imports.

12.24 Consumer should be benefited by the competitive market situation where private sector plays a vital role. Accordingly, their participation should be maximized in the expansion of production and services by creation of enabling environment.