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1. Global and National Macro Economic Performance

Global economy at a glance

1.1 The economic growth of the world was encouraging in 2005 particularly due to favorable financial market and structural macro economic policies though the world economy experienced escalating petroleum prices and natural havocs in various parts of the world. The world economy is also likely to be favorable in 2006 due to high growth in industrial production, strengthening of service sector, increase in world trade, and increase in the consumer confidence coupled with strong labor market. However, increasing global imbalances and the possibility of further increase in petroleum prices due to political instability in the Middle-east Asian countries and ever-rising demand continue to pose a challenge.

1.2 The world production increased by 5.3 percent in 2004 and in 2005 it has been estimated to have increased by 4.8 percent in spite of dampening effect of rise in petroleum prices and natural calamities like cyclones. For maintaining a high growth rate despite the natural disasters, the growth of the largest economy i.e. that of United States of America has played a key role. Similarly, the expanding Japan economy, improving economies of the Europe, and the high economic growth rates achieved by newly emerging countries like China, India and Russia have also contributed to this growth performance.

1.3 The IMF has estimated that favorable world financial market, significant increase in the investment in major industrial economies and many Asian economies, low inflation rate, and other favorable situation will lead to 4.9 percent growth in the world economy for 2006. It has made a forecast of the highest growth rate of 8.2 percent for the developing Asian countries. It has similarly forecast a growth rate of 3.0 percent for the developed economies. Similarly, South Asia is expected to grow by 7.1 percent.

Table 1 (A): Growth Rates for World Economy
(Annual percentage change)

	2003	2004	2005	Forecasts	
				2006	2007
World output	4.1	5..3	4.8	4.9	4.7
Developed economies	2.0	3.3	2.7	3.0	2.8
Major developed economies*	1.9	3.1	2.6	2.8	2.6
Other developed economies	2.5	4.6	3.7	4.1	3.7
Developing economies	6.7	7.6	7.2	6.9	6.6
Developing Asian economies	8.4	8..8	8.6	8.2	8.0
Emerging European economies	4.6	6.6	5.4	5.3	4.8
African economies	4.6	5.5	5.2	5.7	5.5
Mid east economies	6.6	5.4	5.9	5.7	5.4
Petroleum products exporting economies**	6.9	5.7	6.2	5.8	5.5
Emerging Asian economies***	7.5	8.4	8.2	7.9	7.6
Emerging industrial Asian economies****	3.2	5.8	4.6	5.2	4.5
ASEAN-4*****	5.4	5.8	5.2	5.1	5.7
China	10.0	10.1	9.9	9.5	9.0
South Asia******	7.1	7.7	7.9	7.1	6.9
Bangladesh	5.8	5.9	5.8	6.0	6.3
India	7.2	8.1	8.3	7.3	7.0
Nepal	3.3	3.8	2.7	3.0	3.0
Pakistan	5.7	7.1	7.0	6.4	6.3

**USA, Japan, Germany, France, United Kingdom, Italy and Canada.*
***Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Syria and Yemen*
****Developing Asian countries, emerging industrial Asian countries and Mongolia*
*****Korea, Taiwan, Hong Kong and Singapore*
******Indonesia, Malaysia, Philippines, and Thailand.*
*******Bangladesh, India, Maldives, Nepal, Pakistan and Sri Lanka*
Source: World Economic Outlook, IMF, Washington D.C., Sept. 2005 and April 2006, Page Nos. 2, 16, 35, 43, 52, 177 and 186.

1.4 The volume of world trade that grew by 5.4 percent in 2003 grew by even higher rate of 10.4 percent in 2004. The growth in 2005 has been estimated at 7.3 percent. The growth rate of both import and export is significantly high for developing countries as compared to that for developed countries. IMF has estimated the world trade to grow by 8.0 and 7.5 percent in 2006 and 2007 respectively.

Table 1 (B): World Trade

(Annual percentage change)

	2003	2004	2005	Forecasts	
				2006	2007
World trade volume (goods and services)	5.4	10.4	7.3	8.0	7.5
Import					
Developed economies	4.1	8.9	5.8	6.2	5.6
Developing economies	10.3	15.8	12.4	12.9	11.9
Export					
Developed economies	3.3	8.5	5.3	6.6	6.1
Developing economies	10.6	14.6	11.5	10.9	10.3

Source: World Economic Outlook, IMF, Washington D.C., April, 2006, Pp.205

1.5 Prices of petroleum products increased by 15.8 percent in 2003 and continued rising even further by 30.7 percent in 2004. They were even higher for 2005. Due to the increase in the demand for petroleum products, instability in some of the petroleum exporting countries and supply disruption due to Katrina, petroleum prices in 2005 increased by 41.3 percent. Expecting gradual improvement in the situation in 2006 and 2007, IMF has estimated price increase for these years at 14.8 and 2.9 percent respectively.

1.6 The consumer price increased by 2.3 percent in developed countries as against 5.4 percent for developing countries in 2005. Though price increase is significantly higher for developing countries as compared to those for developed countries, consumer price index is comparatively stable for the last three years. According to IMF forecasts, the increase in consumer prices for 2006 and 2007 in both developing and developed countries will remain more or less at the level of 2005. For South Asia, the price increase is forecasted at 5.3 and 5.2 percent respectively in 2006 and 2007. It was 5.0 percent in 2005.

Table 1 (C): World Price Situation
(Annual percentage change)

	2003	2004	2005	Forecasts 2006	Forecasts 2007
Petroleum products (oil) *	15.8	30.7	41.3	14.8	2.9
Non-fuel products	6.9	18.5	10.3	10.2	-5.5
Consumer price					
Developed economies	1.8	2.0	2.3	2.3	2.1
Developing economies	5.8	5.7	5.4	5.4	4.8
Developing Asia	2.5	4.2	3.6	3.9	3.5
Emerging European countries	9.5	6.2	4.9	4.2	3.4
African countries	10.8	8.1	8.5	9.1	7.3
Middle East countries	7.1	8.4	8.4	8.7	8.5
Petroleum products exporting countries**	8.8	8.2	8.1	9.8	9.6
Emerging Asia**	2.4	4.0	3.5	3.8	3.4
Newly industrialized Asian countries**	1.4	2.4	2.2	2.2	2.3
ASEAN-4**	4.1	4.6	7.5	8.8	4.6
China	1.2	3.9	1.8	2.0	2.2
South Asia**	3.9	4.3	5.0	5.3	5.2
Bangladesh	5.4	6.1	7.0	6.1	5.6
India	3.8	3.8	4.2	4.8	4.9
Nepal	4.0	4.5	9.1	5.3	5.5
Pakistan	2.9	7.4	9.1	8.4	6.9

* *Average prices* of Brent crude *and of Dubai and West Texas.*
***as per the listings in the Table 1 (A).*
Source: World Economic Outlook, IMF, Washington D.C., September 2005 (for italics figures) and April 2006. Pp. 2, 16, 43, 52, 189, 191, 194 and 205.

1.7 In 2005, there was a high price rise for the petroleum products, and it is expected to improve in coming days. Considering this improvement and the price rise expected at less than 5 percent for India in 2006 and 2007, consumer prices in Nepal is expected to rise by 5.3 and 5.5 percent in 2006 and 2007 respectively.

National Economic Activities

1.8 FY 2005/06 could not be a satisfactory year from the standpoint of national economic performance. Drought at the time of rice plantation and also at the time of wheat and barley, and rainfall at the time of harvesting led to less than satisfactory performance of agriculture. Non-agriculture sector also could not perform well due to frequent transport blockade and poor security situation in the country posing difficulties in the operation of industries and trading activities.

1.9 Gross Domestic Product at producers' prices increased by 2.7 percent in FY 2004/05 and it is expected to increase by only 1.9 percent in FY 2005/06. Agriculture GDP at factor cost and in constant price grew by 3.0 percent and similarly non-agriculture GDP increased by 2.1 percent with overall GDP before deducting banking service charges growing by 2.4 percent in FY 2004/05. Agriculture, non-agriculture GDP and total GDP before deducting banking service charges at factor cost and in constant prices are expected to grow by 1.7 percent, 2.8 percent and 2.4 percent respectively. GDP at factor cost and in constant price after deducting the banking service charges is expected to grow by the same rate in the FY 2005/06 as well i.e. 2.3 percent.

Table 1 (D) Gross Domestic Product+

(Annual percentage change)

Sectors by Origin		Fiscal Year			
		2002/03	2003/04	2004/05*	2005/06**
1	Agriculture, fishery and forests	2.5	3.9	3.0	1.7
2	Mines	1.9	0.6	2.5	2.2
3	Manufacturing industries	2.0	1.7	2.6	2.1
4	Electricity, gas and water	19.9	3.3	4.8	5.6
5	Construction	1.8	0.2	-0.1	4.2
6	Trade, restaurant, and hotel	3.3	8.0	-2.0	3.9
7	Transport, communication and storage	4.3	5.2	5.1	2.2
8	Financial and real estate	3.3	3.2	4.6	2.2

9	Community and social services	3.1	3.0	2.7	1.3
	Agriculture GDP	*2.5*	*3.9*	*3.0*	*1.7*
	Non-agriculture GDP	*3.4*	*3.4*	*2.1*	*2.8*
10	Gross Domestic Product (at factor cost)	3.0	3.6	2.4	2.4
11	Banking service charges(-)	5.4	5.3	5.4	4.8
12	Gross Domestic Product	3.0	3.5	2.3	2.3
13	Net indirect tax(+)	7.9	6.8	7.4	-3.2
14	Gross Domestic Product (at producers' price)	3.3	3.8	2.7	1.9

\+ *at 1994/95 prices*

* *Revised estimates*

** *Preliminary estimates*

Source: Central Bureau of Statistics

1.10 The major contributor to GDP is agriculture sector which has shown a declining trend in its growth rate in the recent years. It grew by 3.9 percent in FY2003/04 and slipped to 3.0 percent growth rate in 2004/05. It is expected to grow by only 1.7 percent in FY2005/06. The overall low growth of Agriculture GDP is due to the dampening effects of adverse weather on the production of paddy, wheat, and barley despite significant growth in cash crops like potato, jute, sugarcane and vegetables, and also in livestock products.

1.11 The other sector occupying a significant share in the GDP is non-agriculture sector and its performance is also deteriorating. It grew by 3.4 percent in FY 2003/04 which declined to 2.1 percent in FY 2004/05. In the current FY 2005/06, it is expected to improve marginally to register a growth rate of 2.8 percent. Internal conflict and resulting problems in law and order situation had squeezed the non-agriculture economic activities which showed some improvement when the Maoists announced ceasefire for three months that coincided with Dashain and Tihar festival. This led to marginal improvement in the contribution of this sector to the GDP.

1.12 Disaggregating non-agriculture GDP into its other sub-sectors, there is a marked increase in the production in the sub-sectors of Electricity, Gas and Water, and Construction in FY2005/06. Electricity, Gas and Water which grew by 4.8 percent in FY2004/05 is expected to grow by 5.6 percent in FY2005/06 primarily due to increase in domestic production of electricity and also its import. On the other hand, the construction sector which showed a negative growth rate of 0.1 percent in the last fiscal year is set to grow by 4.2 percent because of increase in the domestic production of construction materials and increase in their imports also. Likewise the production of the trade, restaurant and hotel sub-sectors, which experienced a negative growth of -2.0 percent in the last fiscal year, is estimated to grow by 3.9 percent in the current fiscal year. Such an increase can be attributed to increase in: (i) foreign trade, both imports and exports have shown a significant increase, (ii) increase in the number of tourists visiting the country, and (iii) increase in the domestic consumption. A decline in growth rate is expected in the production of mines, manufacturing industries, transport, communication and storage and financial and real estate sub-sectors for the FY2005/06. Their growth rates are expected to be around 2 percent. The community and social services sub-sector is estimated to grow by 1.3 percent only. In FY2004/05, mines grew by 2.5 percent, transport, communication and storage by 5.1 percent, and financial and real estate by 4.6 percent.

1.13 The GDP at current producers' prices is expected to reach to Rs.582.95 billion in 2005/06, an increase of Rs. 49.41 billion from the FY 2004/05 level of Rs.533.54 billion.

1.14 At constant factor cost, the contribution of agriculture and non-agriculture to total GDP was 39.0 and 61.0 percent respectively for FY2004/05. For FY2005/06, such contributing shares are expected to be 38.8 and 61.2 percent respectively for agriculture and non-agriculture sectors. There is a marginal increase in the share of contribution of non-agriculture sector.

1.15 In FY2004/05, per capita GDP at current producers' prices was Rs.21, 091 (USD 297). It is expected to grow by 6.9 percent and reach Rs.22, 540 (USD 311) in FY 2005/06. In USD terms, per capita income increased by 4.7 percent only. Lower growth rate of per capita income in USD terms is mainly due to the devaluation of the Nepalese currency. However, in constant price terms, per capita income which increased by 0.46 percent in FY2004/05 is expected to decrease by 0.25 percent in 2005/06. This negative growth rate of real per capita income in the current year is mainly due to the population growth rate exceeding the GDP growth rate.

National Production

1.16 The GNP at current producers' price was Rs.543.9 billion in FY2004/05 which increased by 9.5 percent and is expected to reach to Rs.595.67 billion in FY2005/06. Per capita GNP thus increased by 7.1 percent during the same period and reached to Rs.23, 032 (USD 322) in 2005/06 from Rs.21, 501 (USD 302) in FY2004/05.

Uses of Resources

1.17 In FY2004/05, consumption in current price increased by 7.6 percent. It is being estimated to grow by 10.9 percent in FY2005/06 and its relative share in GDP has also shown an increase. Total consumption in current price was 87.57 percent of GDP in FY2004/05, and it is estimated to 88.9 percent in FY2005/06. Of the total consumption, private consumption grew by 7.5 percent in FY2004/05 and its growth rate increased further to 11.2 percent in FY2005/06. Likewise, public consumption has shown a growth rate of 8.0 percent in FY2004/05 which is expected to reach to 8.8 percent in FY2005/06. The shares of private and public consumption in total consumption for FY2004/05 were estimated at 88.35 and 11.65 percent respectively. These shares are estimated to be at the level of 88.57 and 11.43 percent for FY2005/06.

1.18 In FY2005/06, Gross Domestic Savings is estimated to have declined by 2.4 percent. In FY2004/05, GDS had increased by 6.3 percent. The proportion of GDS to GDP for FY2004/05 was estimated at 12.43 percent which is expected to slide down to 11.1 percent in FY2005/06. Increasing urbanization, less attraction to savings, and increase in remittances have increased the consumption significantly in FY2005/06.

1.19 Gross investment in FY2004/05 increased by 17.7 percent. But it could increase only by 14.5 percent in FY2005/06. The proportion of gross investment to GDP in FY2004/05 was 28.9 percent and is expected to increase marginally to 30.0 percent in FY2005/06. Increase in consumption and consequent decline in GDS is likely to bring down the investment ratio. Savings-investment gap is expected to grow by 27.3 percent in FY2005/06 which was 28.0 percent in FY2004/05. The difference between Gross National Savings and Gross Investment increased by 27.9 percent in FY2005/06 as compared to 39.1 percent in FY2004/05.

1.20 The export of goods and services constituted 16.1 percent of GDP at current price in 2004/05 which increased to 18.5 percent in FY2005/06. Similarly, the imports of goods and services, which was 32.6 percent of GDP in FY2004/05, increased to 37.7 percent in 2005/06. The ratio of imports to exports in FY2005/06 is expected to remain at the level of last year, i.e. at 49.0 percent.

1.21 Gross capital formation, which increased by 6.3 percent in FY2004/05, is estimated to increase by 6.5 percent in 2005/06. Due to the conflict situation, the private sector capital formation, which grew by 10.0

percent in FY2004/05, is expected to grow only by 6.4 percent in FY2005/06. However, the growth in public sector capital formation, which was -1.4 percent in FY2004/05, is expected to reach to 6.5 percent in FY2005/06. Since there are no marked changes in gross fixed capital formation and GDP between FY2004/05 and FY2005/06, there is no change in the ratio of gross capital formation to GDP too. The ratio of gross fixed capital formation to GDP in current producers' price is estimated at 18.9 percent for FY2004/05 which is estimated to be at the level of to 18.5 percent in FY2005/06.

1.22 Although there was some growth in Gross National Income and total consumption, the overall economy does not show sign of improvement in FY2005/06 because of the slackness in gross domestic savings, investment and also in GDP.

Challenges

1.23 The world economy has displayed encouraging growth despite some unfavorable developments, and Nepal's immediate neighbors China and India have also showed impressive high economic growth. Despite such favorable situation, Nepal could not take benefit due to internal conflict, political instability, and absence of democratic government, ineffective policies and weak implementation. Hence there is a challenge to solve these intricate problems.

1.24 Due to rapid globalization, events in one corner of the world are having their effects on other parts of the world. War, conflict and natural disasters have badly affected the supply situation of essential goods and services. The prices of petroleum products continue to increase due to limited natural stock, and ever increasing demand for these products. On the other hand, wars, conflict and natural disasters have created uncertainty in the price and supply of petroleum products. So, a country like Nepal totally depending upon external supply for petroleum products has to think for formulating a reliable supply system with a long term perspective in mind and go for developing and expanding the use of other alternative sources of energy.

1.25 The overall economic activities gradually shrunk due to the problems of maintaining law and order and weak security situation because of 12-year long internal conflict, which affected the development works, hampered industrial growth and created blockages in transportation much needed for accelerated economic growth. The successful people's movement '***Jan-Aandolan II***' in FY2005/06 has led to the restoration of peace which can now pave the way for favorable environment for undertaking development works and other economic activities. If the peace cannot be restored and the country is pushed to further conflict, the economy will further plunge into problems. Hence, the challenge is to restore sustainable peace in the country.

1.26 Agriculture, which is the main contributor to GDP, is still dependent upon monsoon. The global climatic changes have disturbed the world climatic system causing uncertainty. There is now a cycle of drought in the interval of few years and in the last two years the country experienced drought. The agriculture production thus was adversely affected. So there is a need for strengthening irrigation system and also bringing about a change in farming system suitable to changing weather and climatic pattern.

1.27 The continued conflict not only stalled the creation of additional new physical infrastructures but also destroyed many of such infrastructures. Consequently, people in the rural areas are deprived of basic minimum services and facilities and at the same time there is no conducive atmosphere for private sector to establish new plants, businesses and industries. With the possibility of restoration of peace, there is a now a challenge of reconstruction of such destroyed physical infrastructures and at the same time undertake development of new physical infrastructures as rapidly as possible.

1.28 The people have to bear the price rise due to two reasons – one due to rise in prices of goods and services in international market, and second due to unhealthy trading practices, cartel and weak supply system ,creating artificial price hike and scarcity. Besides the need for solving the problem of price rise and scarcity due to natural phenomenon and supply constraints, there is also a challenge of correcting the market imperfections and artificial scarcity so as to keep the prices at reasonable level.

1.29 There is a sharp rise in the current expenditures of the government during the absence of democratic institutions and government while the capital expenditures and rate of revenue growth have been dismal. The increase in current expenditures is of permanent nature and at the same time there is a systematic deterioration in the institutional capacity to undertake capital spending. This has made the task of controlling current expenditure in the changed context more challenging. At the same time, the lack of adequate resources for capital expenditure due to low revenue growth and institutional weaknesses remain as challenges.

2. Public Finance

Financial Composition and Budget

2.1 As government revenue is growing at a lesser rate than the growth in expenditures, the gap between revenue and expenditure is ever widening. In FY2003/04, the revenue to GDP ratio was 12.5 percent, which increased by 0.6 percent percentage point and reached to 13.1 percent in FY2004/05. On the other hand, the ratio of government expenditure to GDP increased by 1.2 percentage point in the same period and reached 19.2 percent in FY2004/05. Analysis of the ratios of revenue and government expenditure to GDP shows that the ratio of government expenditure to GDP has been higher than that for revenue to GDP and hence the difference between revenue and government expenditure has also increased by 0.6 percentage point. In FY2003/04 such difference was 5.5 percent and in FY2004/05, it has reached to 6.1 percent.

Table 2 (A): Ratios of Government Expenditure and Revenue to GDP

(in current producers' price)

(in percent)

Fiscal Year	Government Expenditures				Revenue	Difference between Expenditures and Revenue
	Current Expenditures	Capital Expenditures	Expenditures on Principle and Interest Payment	Total		
1998/99	9.3	6.7	1.4	17.4	10.9	6.5
1999/00	9.4	6.7	1.4	17.5	11.3	6.2
2000/01	11.1	6.9	1.4	19.4	11.9	7.5
2001/02	11.5	5.9	1.5	18.9	11.9	7.0
2002/03	11.4	4.9	2.1	18.4	12.3	6.1
2003/04	11.2	4.6	2.2	18.0	12.5	5.5
2004/05	11.6	5.1	2.5	19.2	13.1	6.1

Source: FCGO and CBS.

2.2 As compared to FY2003/04, revenue surplus has increased by 0.6 percentage point and reached to 20.6 percent in FY2004/05. Revenue surplus is the main source to meet the capital expenditures and debt servicing payments. In FY2004/05, total revenue could not increase in proportion to government expenditures thereby resulting in nominal revenue surplus.

2.3 In FY2003/04, foreign grants have remained as a major contributor with 33.3 percent share to meet the capital expenditures. Likewise, other deficit financing sources contributed 46.7 percent for the repayment of principal. Table 2 (B) shows that in FY2004/05, foreign grants constituted 35.2 percent of capital expenditures and 44.2 percent of deficits that are met by different sources. Due to some marginal improvement in revenue surplus and foreign grants, there is slight decline by 2.5 percentage points in the deficit financing.

Table 2 (B): Capital Expenditures and Principal Payment and Sources to Meet Them

Items	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Total of capital expenditures and principal payment (Rs.in million)	27634.8	30693.4	33997.8	31208.3	31915.6	33890.5	40874.0
a. Capital expenditures	22992.1	25480.7	28307.2	24773.4	22356.1	23095.6	27340.7
b. Principal/payment	4642.7	5212.7	5690.6	6434.9	9559.5	10794.9	13533.3
Sources to meet the expenses (in percent)							
a. Revenue surplus	19.2	23.8	9.0	5.1	13.0	20.0	20.6
b. Foreign grants	15.7	18.6	19.9	21.4	35.5	33.3	35.2
c. Deficit financing	65.1	57.6	71.1	73.5	51.5	46.7	44.2
i) Foreign debt	(42.9)	(38.5)	(35.4)	(24.7)	(14.3)	(22.5)	(22.7)
ii) Domestic debt	(17.0)	(17.9)	(20.6)	(25.6)	(27.8)	(16.5)	(21.9)
iii) Change in cash position	(5.2)	(1.2)	(15.1)	(23.2)	(9.4)	(7.7)	(-0.4)

Source: FCGO.

Government Finance

2.4 The increasing trend of government expenditure continued in FY 2004/05 as well. In FY2004/05 total government expenditure increased by 14.5 percent as compared to an increase of 6.5 percent in FY2003/04. According to the government expenditure classification, the current expenditures increased by 11 per cent in FY2004/05 as compared to an increase of 6.6 percent in FY2003/04. Similarly, the capital expenditures increased by 18.4 per cent in FY2004/05 as compared to an increase of 3.3 per cent in FY2003/04. The Principal

Repayments of debt increased by 25.4 percent in FY2004/05 as compared to 12.9 percent in FY2003/04.

2.5 Of the total government expenditures of Rs.89.44 billion in FY2003/04, 69.7 percent was met by government revenues, 12.6 percent from foreign grants, 8.5 per cent from foreign debt, 6.3 per cent from domestic debt, and 2.9 percent from change in cash position. In FY2004/05, the total government expenditure was Rs. 102.56 billion. Of this, 68.4 percent came from revenue mobilization, 14 percent from foreign grants, 9 percent from foreign debt and 8.7 percent from domestic debt. As compared to FY2003/04, foreign debt increased by 21.5 percent and domestic debt by 59.4 percent in FY2004/05 due to which there is a marginal surplus in the cash balance by Rs.157.7 million.

Current Expenditures

2.6 In comparison to FY2003/04, the current expenditure in FY2004/05 rose by 11.0 percent amounting to Rs.61.68 billion. It was Rs.55.55 billion in FY 2002/03. Of the total current expenditure of FY 2004/05, the share of constitutional bodies was 1.3 per cent, general administration 13.3 per cent, economic administration and revenue 0.9 per cent, financial administration and planning 0.5 per cent, judicial administration 0.8 per cent, foreign service 1.3 per cent. At the same time, the share of defense expenditure was 13.9 per cent, social services 37.6 per cent, economic services 11.6 per cent, debt servicing payments 10.1 per cent and miscellaneous expenses accounted for 8.7 per cent.

2.7 Of the total current expenditures in FY2004/05, the largest amount expenditure, *i.e*. Rs.23.21 billion, was spent on social services like education, health, drinking water, local development and other social services. Similarly, other main current expenditures were made on general administration (Rs. 8.23 billion), on defense (Rs.8.58 billion) and on economic services (Rs.7.17 billion). In this fiscal year, the expenditure on payment of interest was Rs.6.22 billion.

2.8 When comparing the expenditures in FY2004/05 with that of FY2003/04, the expenditure on social service increased by 11.5 percent. In the same line, the expenditure on defense increased by 29.4 percent, general administration expenditures by 12.3 percent, judicial administration by 12.4 percent, foreign service by 11.8 percent, on economic services by 30 per cent, revenue and fiscal administration by 8.9 per cent, economic administration and planning by 21.8 per cent and the increment on constitutional organs was accounted for 10.4 per cent. On the other hand, the expenditure on payment of interest and miscellaneous expenditure decreased by 5.0 percent and 12.6 per cent respectively in FY2004/05 as compared to FY2003/04.

Capital Expenditure

2.9 In FY2004/05 compared to FY2003/04, capital expenditure increased by 18.4 per cent totaling Rs.27.34 billion. The total capital expenditure was Rs. 23.09 billion in FY 2003/04. Of the total capital expenditure, the major expenditures in FY2004/05 were on economic services Rs.15.39 billion (56.3 percent), social services Rs.7.94 billion (29.0 percent) and on defense Rs.2.41 billion (8.8 percent). Similarly, the expenditure on general administration was Rs.0.88 billion (3.2 percent), miscellaneous consumed 0.43 billion (1.6 percent) and judicial administration 0.14 billion (0.5 percent). In FY2004/05 compared to the FY 2003/04, the capital expenditure increased by 11.3 percent in social services, 17.3 percent in economic services, 27.6 per cent in defense and 52.8 percent in general administration. In the same way, the capital expenditure increased by 28.8 percent in revenue and economic administration, 201.9 percent in judicial administration and 171.9 percent in economic administration and planning.

Repayment of Debt Principal

2.10 Expenditure on repayment of debt principal has shown an increasing trend. In FY2004/05, the repayment of principal amounted to Rs.13.53 billion whereas it was Rs.9.56 billion and Rs.10.79 billion in FY 2002/03 and 2003/04 respectively. The principal repayment increased by 25.4 percent in FY 2004/05 as compared to the previous fiscal year.

2.11 Of the principal repayment in FY2004/05, the share of domestic debt principal repayment was 56.0 percent whereas the share for foreign debt principal repayment was 44 percent. The principal repayment amount for foreign debt increased by 3.2 percent in FY2004/05 over FY2003/04. Such an increase for domestic debt is calculated at 50.7 percent.

Expenditure Status of the first 8 months of FY 2005/06

2.12 On the basis of funds released and balance in imprest fund up to mid-March, the total expenditure has increased by 10.7 percent amounting to Rs.68.58 billion in the first 8 months of FY2005/06 in comparison to that of the FY2004/05. The total expenditure was Rs.61.94 billion in

FY 2004/05 in the same period. Of the total first eight months' expenditure, current expenditure accounted for Rs. 48.04 billion, capital expenditure Rs. 13.44 billion and Rs. 7.09 billion was spent on principal repayments. In comparison to the first 8 months of FY 2005/06 with that of the FY 2004/05, the recurrent cost increased by 11.6 percent, capital cost increased by 13.3 percent and principal repayment by 1.1 percent. In the first 8 months of FY 2004/05, the expenditure for recurrent cost accounted for Rs. 43.06 billion, capital expenditure was Rs.11.86 billion and Rs.7.01 billion was spent on principal repayment.

Sources of Financing

2.13 The major sources of public financing are revenues, foreign grants and loan, domestic debt and change in cash reserves.

Revenue

2.14 The main source of public expenditure is revenue. It increased by 12.5 percent amounting to Rs.70.12 billion in FY2004/05 as compared to FY2003/04. This increment was 10.8 percent in FY2003/04 in comparison to the previous fiscal year. The share of revenue in total government expenditure was 68.4 percent in FY2004/05 whereas it was 69.7 per cent in FY2003/04. The revenue constituted 66.9 percent of government expenditure in FY2002/03.

2.15 Of the total revenue collection in FY2004/05, the share of tax revenue was
77.2 percent whereas the share of non-tax revenue was 22.8 percent. This percentage was 77.3 percent and 22.7 percent in FY2003/04.

2.16 In FY2004/05, the tax revenue increased by 12.3 percent in comparison to the previous fiscal year. The increment was 13.1 percent in FY 2003/04 as compared to FY2002/03. Of the total tax revenue, in FY 2004/05, the share of customs was 29.0 percent and the tax levied on the consumption and production of goods and services was 46.8 percent. Similarly, the share of land revenue and registration fee was 3.4 percent and the share of income, profit and property tax was 20.8 percent.

2.17 Under the tax revenue, customs tax increased by 0.9 percent whereas the tax levied on consumption and production of goods and services increased by 22.3 percent in FY 2004/05 as compared to FY 2003/04. Similarly, tax on income, profit and property increased by 10.4 percent and land revenue and registration fee increased by 6 percent. On the customs duty, import duty increased by 15.3 percent, export tax increased by 32.4 percent and Indian Excise Duty Refund (DRP) decreased by 43.6 percent in FY 2004/05. Under the category of taxes levied on production and consumption of goods and services, the excise duty and VAT increased by 3.5 percent and 30.4 percent respectively.

2.18 Non-tax revenue in FY 2004/05 increased by 13.1 percent to Rs. 16.2 billion as compared to FY 2003/04. Of the total non-tax revenue, the share of fees, charges, fines, penalties and forfeitures constituted 8.5 per cent, revenue from the sales of government goods and services 24 percent, dividend 28.7 per cent, royalty and income from sale of public property 12.1 percent, debt service receipts 16.9 percent, and miscellaneous non-tax revenue 9.8 percent in FY 2004/05. Under the non-tax revenue, the registration fees increased by 40.5, fees, charges, fines, penalties and forfeitures increased by 27.6 percent, dividend from public service increased by 118.7 percent and other income of the government section by 20 percent in FY 2004/05 as compared to FY 2003/04. In comparison to FY 2003/04 in FY 2004/05, under the non-tax revenue, the principal and interest received from company and corporations decreased by 32.2 percent and 12.2 percent respectively.

Revenue Collection Status until the end of month 10 of FY 2005/06

2.19 The revenue collection amounted to Rs.52.02 billion up to mid-May 2006. The collection was Rs. 52.18 billion in the same period of FY 2004/05. These two figures indicate that the revenue collection remained low by 0.3 percent in FY2005/06 as compared to the corresponding period of FY2004/05. Of the total revenue collected up to mid-May 2006, the tax revenue accounted for Rs.44.49 billion where as non-tax revenue contributed to Rs.7.53 billion. Tax revenue increased by 5.9 percent while non-tax revenue declined by 26.0 percent in the review period of FY 2005/06 as compared to the corresponding period of FY 2004/05.

2.20 Customs revenue until mid-May 2006 amounted to Rs.11.75 billion which is less by 6.4 percent compared to the same period of FY 2004/05. During this period, tax levied on production and consumption of goods and services increased by 17.6 percent totaling of Rs.17.23 billion in comparison to the last fiscal year. During the review period of FY 2005/06, the collection of duties on imports and exports decreased by 3.1 percent and 10.8 percent respectively. In the same period, excise duty and VAT increased by 0.3 percent and 17.6 percent respectively.

Similarly, the registration fee increased by 18 percent, income tax by 4.3 percent, house and land rental tax by 11.1 percent and transportation vehicle tax by 19.7 percent.

Foreign Aid

2.21 The foreign aid commitment increased in FY 2004/05 as compared to FY 2003/04. In FY 2004/05, the total foreign aid commitment increased by 60.7 percent totaling to Rs.38.15 billion as compared to Rs.23.74 billion in FY 2003/04. Of the total commitment in FY 2004/05, the contribution of bilateral aid was Rs.21.23 billion and multilateral aid contributed Rs.16.93 billion. While categorizing the total foreign aid, the share of grant assistance constituted Rs.25.39 billion and loan assistance Rs.12.76 billion. In FY 2004/05, the foreign grant assistance substantially increased by 183.5 percent whereas foreign loan assistance decreased by 13.7 percent as compared to the previous fiscal year.

2.22 A sectoral analysis of the total foreign aid received in FY 2004/05 reveals that agriculture, irrigation and forestry sector received 4.2 percent, transportation and communication 8.2 percent, rural development sector 8.1 percent, water supply and sanitation 4.9 percent, education sector 28.7 percent, health sector 32.6 percent and other sectors 13.3 percent. Of the total committed foreign aid in FY 2004/05, 98.4 percent totaling of Rs.37.55 billion contributed from the members of the Nepal Development Forum.

Grant and Loan

2.23 In the first 8 months of FY 2004/05, of the total committed foreign aid, i.e.
Rs.35.03 billion, grant assistance constituted Rs.23.02 billion and the share of loan was Rs. 12.01 billion. In this way, of the total committed foreign aid, the share of grant assistance and loan assistance was 65.7 per cent and 34.3 per cent respectively. During the first 8 months of review period of FY 2005/06, receipt of the total foreign aid noticeably decreased by 54.4 percent and remained at Rs.15.97 billion as compared to the corresponding period of FY 2004/05. Of the total committed foreign aid during the review period, the total amount for grant assistance was Rs.14.04 billion (87.9 percent) and for loan assistance was Rs.1.93 billion (12.1 percent).

Commitment and Disbursement

2.24 In the first 8 months of FY 2005/06, out of the total foreign aid receipts, the share of bilateral and multilateral aid was 66.0 per cent and 34.0 percent respectively. Its share was 54.1 percent and 45.9 percent respectively in the same period of FY 2004/05. A sectoral analysis of the total foreign aid commitment in the first 8 months of FY 2005/06 shows that health sector received Rs. 1.10 billion (6.9 percent), education sector received Rs. 0.37 billion (2.3 percent), drinking water and sanitation sector received Rs. 0.69 billion (4.3 percent), rural development sector received Rs. 2.41 billion (15.1 percent), electricity received Rs. 1.23 billion (7.7 percent), agriculture, irrigation and forestry sector received Rs. 3.2 billion (20 percent), industry and mines sector received Rs. 0.05 billion (0.4 percent) and other sector received Rs. 6.91 billion (43.3 percent).

2.25 In FY 2004/05, aid utilization increased by 25.1 percent and reached to Rs.23.66 billion as compared to FY 2003/04. Out of the total aid utilization, Rs.14.39 billion (60.8 per cent) was in the form of foreign grant whereas foreign loan constituted Rs.9.27 billion (39.2 percent). In FY 2003/04, total foreign aid utilization was Rs.18.91 billion. Out of this, foreign grant constituted Rs.11.28 billion (59.7 percent) and the share of loan was Rs.7.63 billion (40.3 percent). Out of the total foreign aid utilization, in FY2004/05, bilateral and multilateral aid constituted Rs.9.23 billion (39.0 percent), and Rs.14.43 billion (61 percent) respectively. It was Rs.9.01 billion (47.7 percent) and Rs.9.90 billion (52.3 percent) in the form of bilateral and multilateral aid respectively in the previous fiscal year.

2.26 Analysis of sectoral utilization of aid reveals that in FY2004/05 social service sector consumed Rs.10.75 billion (45.4 percent) followed by transportation, electricity and communication Rs.9.86 billion (41.7 percent), agriculture, irrigation and forestry Rs.2.6 billion (11 percent), industry and commerce sector 0.12 billion (0.5 percent) and other sectors Rs.0.33 billion (1.4 percent). While comparing foreign aid utilization in FY2004/05 with FY2003/04, the increase was noted in agriculture, irrigation and forestry sector by 6.8 per cent, social sector by 23.1 percent, and transportation, electricity and communication sector by 30.2 percent but the industry and commerce sector declined by 15.6 percent.

Total Foreign Debt

2.27 The foreign debt has been playing an important role in Nepalese economy as the revenue is not enough to meet the government expenditure. In FY2003/04, the outstanding foreign debt was Rs.232.78 billion. It decreased by 5.9 percent to Rs.219.64 billion in FY 2004/05.

2.28 After adjusting for net receipts on account of foreign debt and change in the rate of foreign exchange, the outstanding debt stock by the end of the first 8 months of FY 2005/06 decreased by 6.6 percent totaling to Rs.219.63 billion as compared to Rs.235.20 billion in FY2004/05.

2.29 The ratio of the outstanding foreign debt to GDP (at current producers' price) was 48.9 percent, 46.9 per cent and 41.2 percent in FY2002/03, 2003/04 and 2004/05 respectively.

Total Domestic Debt

2.30 Between mid-July 2004 and mid-July 2005, domestic debt grew by 1.7 percent totaling to Rs.87.56 billion. It was Rs.86.13 billion at the mid-July 2004. Out of the total outstanding debt as of mid-July 2005, the stock held by Nepal Rastra Bank amounted to Rs. 17.45 billion (19.9 percent), the stock held by commercial banks constituted Rs.48.55 billion (55.5 per cent) and other institutions and private sectors constituted share of Rs.21.57 billion (24.6 per cent). As of mid-July 2005, out of the total internal debt, treasury bills accounted for 58.7 per cent (Rs.51.38 billion), share of development bond was 22.8 per cent (Rs.20.0 billion), National Savings Certificate constituted 7.5 percent (Rs.6.58 billion), the share of Citizens' Saving Certificate was 1.6 per cent (Rs.1.43 billion) and the share of Special Bond was 9.4 percent (Rs.8.18 billion).

2.31 In the first 8 months of FY 2005/06 (i.e. by the mid-March 2005), the total outstanding domestic debt stood at Rs.92.94 billion. It was Rs.86.13 billion in the corresponding period of FY2004/05. There was an increment of 7.9 percent of the total outstanding domestic debt in the first 8 months of FY2005/06 compared to the same period of FY 2004/05. Out of the total outstanding debt by mid-March 2005, the stock held by Nepal Rastra Bank was 24 percent (Rs.22.34 billion), the share of commercial banks 53.7 percent (Rs.49.90 billion) and other institutions and private sectors share at 22.3 per cent (Rs.20.69 billion). While analyzing the domestic debt structure, it indicates that the treasury bills accounted for Rs.57.14 billion (61.5 percent), development bonds at Rs.20.75 billion (22.3 percent), National Savings

Certificate constituted Rs.5.19 billion (5.6 percent), the amount of the Citizens' Saving Certificate was Rs.1.68 billion (1.8 percent) and Special Bond accounted for Rs.8.19 billion (8.8 percent)

Fiscal Deficit

2.32 Fiscal deficit has been a regular feature in the context of lower growth of revenue in comparison to the growth in government expenditures. The trend of fiscal deficit in the last few years and its ratio with GDP is presented below.

Table 2 (C): Fiscal Deficit

(Rs. in million)

Fiscal Year	**Fiscal Surplus (Deficit)**	**Ratio of Fiscal Deficit to GDP (in percent)**
1998/99	-17991.4	5.3
1999/00	17667.0	4.7
2000/01	-24188.1	5.9
2001/02	-22940.6	5.4
2002/03	-16437.2	3.6
2003/04	-15828.2	3.2
2004/05	-18046.5	3.4

Source: FCGO and CBS

2.33 In FY 2003/04, the fiscal deficit stood at Rs.15.83 billion, increased by 14 percent and reached to Rs.18.05 billion in FY2004/05. There was a gradual decrease in fiscal deficit since FY2001/02 but it increased in FY2004/05, as a result of which the ratio of fiscal deficit to GDP was up to 3.4 per cent with the increment of 0.2 percentage point.

Sources of Meeting Fiscal Deficit

2.34 Foreign debt, domestic debt and change in cash reserves have been the source of meeting the gap between government expenditure and revenue. In FY2003/04, the amount of total fiscal deficit was Rs.15.83 billion. Rs. 7.63 billion (48.2 per cent) was met by foreign debt, Rs.5.61 billion (35.4 per cent) by domestic debt and remaining Rs.2.59 billion (16.4 per cent) was met by change in cash reserves. In FY2004/05, the total fiscal deficit was Rs.18.05 billion. Of the total, Rs.9.27 billion was met by foreign debt, domestic debt contributed Rs.8.94 billion and Rs. 0.16 billion was contributed from the change in cash reserves.

Challenges

2.35 The revenue mobilization has not been satisfactory in relation to the increasing trend of government expenditure. As a result, the gap between government expenditure and revenue has not been narrowing. In order to reduce the gap, unnecessary government expenditure should be curtailed, and management of public expenditure should be strengthened. The government needs to adopt appropriate policy and mechanism to increase the revenue.

2.36 In order to increase revenue, sectors of comparative advantages need to be identified, prioritized and promoted for import substitution and export promotion so that national economy can expand.

2.37 As a member of WTO, Nepal has a great challenge to enhance professional efficiency, develop entrepreneurship to face the challenges of competition and for understanding the complexities of doing business.

2.38 In order to generate employment, it is necessary to formulate special plans/ programmes for the development and extension of service oriented industries with new dimension of vocational training. Such areas can be tourism, information and communication technology (ICT) etc. It can contribute substantially to increase national income.

2.39 Efficient, competent and improved revenue administration can contribute to increased revenue mobilization. Thus, there is a felt need of skill oriented and refresher training as well as the improvement in organizational structure and administrative procedures. This is one of the challenges for making revenue administration effective.

2.40 Utilization level of foreign aid in contrast to commitment is low. The optimum utilization of foreign aid could contribute to scale up development activities. At the same time, it could contribute to the objective of poverty alleviation through the implementation of social programmes. In this context, it is a challenge to utilize the foreign aid in an efficient and optimum way.

2.41 Tax revenue is the main source of government revenue. In this regard, it is a need to raise the tax revenue by widening the tax base, refining the tariff structures at regular intervals. This can contribute to more revenue mobilization.

3. Price and Supply Situation

Consumer Price Index

3.1 The pressure on price has remained high in the current fiscal year, mainly due to decline in production of paddy, the main food grain of the country, caused by the adverse weather. It has resulted to a high growth in price of rice and rice products. Similarly, the increase in price of the petroleum products twice in the current fiscal year, which resulted into a rise in transportation costs and up-revision of VAT rate also created additional pressure on price. The then government announced frequent curfews and disturbances in the smooth transportation of goods and vehicles to suppress the Popular People's movement that started from 7th April 2006. These obstacles on smooth supply of goods and services created additional pressure on prices. It has been estimated that the production of wheat and barley has been affected due to the adverse weather condition during the winter of the current fiscal year. As a result, it is estimated that the inflation based on consumer price index of the urban areas will reach to 8 percent in FY 2005/06 compared to 4.5 percent in 2004/05.

3.2 Comparing the Consumer Price Index of urban areas (base year 1995/96) of mid-March 2006 with that of the same period of 2005 on annual point to point basis shows a substantial increase in price. The growth was 5.7 per cent and 7.7 per cent in mid-March 2005 and 2006 respectively. In the first 8 months of FY2005/06, the average price increase accounted to 7.6 percent whereas the rate of growth was only 3.7 per cent in the same period of FY 2004/05. In the first eight months of 2004/05, average price rise in Hilly and Terai areas averaged at 8.4 and 8.3 percent respectively while it was 6.1 percent in the Kathmandu Valley. Such price rise during the same period in FY2003/04 was 3.1 percent for Hills, 3.2 percent for Terai and 4.8 percent for the Kathmandu Valley.

3.3 On the ninth month of the current fiscal year, urban consumer price index on annual point basis has shown an increase of 7.9 percent. It was 5.8 percent for the corresponding period of FY204/05. Likewise, price index for food and beverages increased by 6.9 percent this year compared to 4.8 percent in the last FY2004/05. Prices of non-food items increased by 9.0 percent in the review period against the 6.8 percent in the last fiscal year. In FY2004/05, average price rise for the first nine months averaged to 3.9 percent while it reached to 7.7 percent for the corresponding period of this FY2005/06.

Table 3 (A): Urban Price Index

Percentage change*
Base Year 2052/53=100

Area	Weights percentage	Fiscal Year			
		2002/03	2003/04	2004/05	2005/06**
Kathmandu	30.8	2.7	6.5	4.8	6.1
Hill	18.8	2.6	4.4	3.1	8.4
Terai	50.4	4.4	4.6	3.2	8.3
Nepal	100.0	3.6	5.1	3.7	7.6

* *Average price rise of first eight months.*
** *Preliminary.*
Source: Nepal Rastra Bank.

Food and Beverages Group

3.4 This group occupies 53.2 percent in price index. Between mid-March 2005 and mid-March-2006, price of this group increased by 6.2 percent. Food grains and its products, pulses, and beverages showed a maximum increase while prices of sugar and sugar products, milk and milk products, restaurant food, spices, and vegetables and fruits also showed an increase. This led to a significant rise in prices of food and beverage group. During the same period of FY2004/05, price rise of this group was by 4.7 percent only.

3.5 Grains and its products showed a price increase of 13.2 percent in mid-March 2006 compared to the same period of last fiscal year. The adverse weather affected the production of paddy and paddy based products thereby resulting in the high price level of this group. Likewise, prices of pulses and beverages also showed an increase by 12.4 and 10.4 percent respectively. Price rise for other sub groups are: 5.3 percent for sugar and sugar based products, 3.3 percent for restaurant foods, 2.4 percent for spices and 1.5 percent for vegetables and fruits.

Table 3 (B): Point based National Consumer Price Indicators of Urban Areas

(Percent Change)*

(Base Year 2052/53 = 100)

Consumer Goods	Weight in Percent	Fiscal Year			
		2059/60	2060/61	2061/62	2062/63**
Total (A+ B)	**100.0**	**5.2**	**4.4**	**5.7**	**7.7**
A. Food & Beverages	**53.2**	**6.8**	**3.1**	**4.7**	**6.2**
Cereal items and products	18.0	10.6	-0.8	5.8	13.2
Pulses	2.7	0.1	3.7	3.6	12.4
Vegetables and Fruits	7.9	11.5	1.2	4.0	1.5
Spices	1.9	-9.3	7.9	-4.9	2.4
Meat, Fish and Eggs	5.2	3.9	5.6	9.1	-1.2
Milk and Diary Products	4.0	2.1	1.6	0.0	5.1
Oil and Ghee	3.1	22.0	19.7	-7.5	-3.0
Sugar and Sugar Products	1.2	-7.1	6.5	25.5	5.3
Beverages	2.3	5.7	-0.7	3.2	10.4
Restaurant Foods	6.9	3.4	6.1	7.4	3.3
B. Non-food products & Services	**46.8**	**3.6**	**5.7**	**6.8**	**9.1**
Clothes and Ready Made Clothes	8.9	1.8	1.5	2.5	2.9
Shoes	2.2	1.5	-0.1	1.3	2.8
Domestic Products	14.9	3.3	8.8	12.3	14.1
Transportation and Communication	4.0	1.9	11.1	14.1	21.2
Medicine and Individual care	8.0	3.3	4.1	1.1	3.0
Education, Educational Materials and Recreation	7.1	9.3	4.7	4.6	4.8
Tobacco and Tobacco Products	1.7	2.3	1.5	2.5	3.8

* Mid March-Point basis price of mid- March

** Preliminary

Source: Nepal Rastra Bank

3.6 Prices of fish, meat and eggs, with the weight of 5.2 percent in the Price Index, increased by 9.1 percent in mid-March 2004 as compared to that in mid-March 2003. It has declined by 1.2 percent in mid-March 2005 compared to same period of last year. This decline in price for this group can be attributed to improved production of fish in the Terai areas, and improvement in supply of goats, buffalo, pork, hens and ducks in Terai and Hills. The declined consumption of meat of hens and ducks due to the doubt of bird flu epidemic also contributed for the decline of market prices of this group. The price index of oil and ghee products, with 3.1 percent weight in price index, has gone down in review period. The increased domestic production of oil and ghee and the continuous smooth supply from the third world countries have led to decrease in the price of oil and ghee by 3.0 percent in the same review period. In the same period of last fiscal year, the price of this subgroup decreased by 7.5 percent.

Non-food products & service sector:

3.7 The non-food products and service sector has the weight of 46.8 percent in the consumer price index. Its price has shown an increase of 6.8 percent in mid-March 2004 and it further increased to 9.1 percent in mid-March 2005. The price hike in petroleum products in the current year resulted for rise in the prices of transport and communication, household products and services as well as the prices of all other subgroups under this group. This has led to high rise in the prices of non-food products and service group.

3.8 In the current fiscal year, the petroleum price was increased twice in August/September 2005 and March/April 2006 due to which prices of the domestic products and service sector also increased by 14.1 percent in the same review period. At the same time, prices on transportation and communication increased by 21.2 percent. During the same period of last fiscal year, the market price of domestic products and service increased by 12.3 percent and price on transportation and communication increased by 14.1 percent. In the review period, rise in prices of education, educational materials and recreation, tobacco and tobacco products, drugs and personal care items, clothes and readymade clothes and shoes subgroups remained less than 5 percent.

3.9 As the petroleum price hike twice in the same year will have its effects for the 12 months, prices of the household items and services and transport and communication subgroups will experience the same level of pressure in the coming year as well. If situation emerges for further price hike of the petroleum products in coming fiscal year, this will lead to further price rise of these subgroups. This will pose additional pressure on general inflation.

Region-wise Price Index:

3.10 The Terai region experienced the highest price rise during the period of Mid-March of 2005 and mid-March 2006 while it is the least in the Kathmandu Valley. In mid March 2005, the market price in Terai increased by 5.2 percent whereas in the in mid-March 2006, it increased by 9.0 percent. In Mountain- region the market price increased by 6.6 percent, in the mid-March of the last fiscal year, while it remained at 7.6 percent at the same period of this fiscal year. In Kathmandu Valley the price increased by 6.1 percent during the review period of last fiscal year while it was by 5.5 percent in this fiscal year. In Terai region, the market price increased due to the shortfall in the rice production while time to time obstructions on supply to the mountain areas have caused price increment in those areas. Due to internal conflict, most of the people from Hills and Terai region have migrated to the Kathmandu valley and supply of most of the goods and services was being centered and relatively strengthened in the Kathmandu valley, which led to a drop in the market price. On the whole, the level of price rise of non-food products and service group in Terai, Hills and Kathmandu valley was very much similar, whereas there is a huge variation in prices of food and beverage products on the same. In the review period, the price of non-food products and service sector increased by 8.7 percent in Kathmandu valley, 8.9 percent in Terai, 9.8 percent on Hills and the price of food and beverage increased by 2.2 percent in Kathmandu valley, 9.0 percent in Terai and by 5.3 percent in Hills.

Core Inflation:

3.11 The core inflation covers the items not experiencing much fluctuation in their prices. So, that way, core inflation is arrived at by excluding rice, vegetables and fruits, petroleum products and related services like energy and transport. Considering such core inflation, price increased by 3.7 percent in mid-March 2005 and more or less at the same level in mid-March 2006. On the basis of group analysis of the items, the price of food and beverage products increased by 4.5 percent in mid-March 2005 and 3.8 percent for the review period. Price of non-food products and service sector increased by 2.9

percent in mid-March 2005 while it increased by 3.6 percent during the review period of the current fiscal year.

Box : 3 (1)
Core Inflation

Inflation is influenced both by demand and supply of goods and services. Most of the worlds' central banks calculate core inflation rate to trace out the price changes due to changes in demand only for which such items are taken out which could have fluctuating prices due to fluctuation in the supply situation and / or government tax policies or other policies can change the prices. In this regard, the Nepal Rastra Bank has published the core inflation rate while publishing the price index bulletin. The most practical method for calculation of core inflation is exclusion method, weighted median method and trimmed mean method (outline method). The Nepal Rastra Bank has adopted exclusion method for calculating core inflation rate. In this regard, core inflation rate is calculated considering the price indexes of other items of the price index, after taking out 14.16 weight of price index on rice, 7.89 percent weight of vegetables and fruits, 5.92 percent weight of fuels electricity, drinking water and 3.61 percent weight of transportation.

Source: Nepal Rastra Bank

Wholesale rate index:

3.12 Analyzing on annual point to point basis, National Wholesale Price Index, (2056/57=100) increased by 8.5 percent in mid-March 2005 and it increased by 6.2 percent in mid-March 2006. Comparing with the review period of last fiscal year, the whole sale price index dropped slightly due to slight slackness in market price of agricultural products, domestic industrial products and import goods.

3.13 The price of agricultural products, with the weight of 49.6 percent in National Whole Sale Price Index, increased by 7.7 percent in mid-March 2005. It increased by 4.6 percent only in mid-March 2006. The price of cereal crops, cash crops, oil seeds and spices increased but the price of fruits and vegetables as well as the market price of animal products slipped down. Due to this, the prices of this group dropped in the review period of the current fiscal year in comparison to the review period of last fiscal year.

3.14 Comparing mid-March 2005 with mid-March 2006, the wholesale market price index of domestically produced products, with the weight of 20.4 percent in National Wholesale Price Index, displayed a price rise of 3.5 percent due to decline in prices of food products, beverages and tobacco goods, construction goods and other sub-groups. For these items, prices increased by 4.3 percent in the corresponding period of last fiscal year.

Table 3(C): National wholesale price index

(Percent change)*

(Base year 2056/57=100)

Group	Weight percent	Fiscal year			
		2059/60	2060/61	2061/62	2062/63**
Total	100.0	5.9	3.6	8.5	6.2
Agricultural Products	49.6	9.3	-1.3	7.7	4.6
National industrial products	20.4	2.2	7.8	4.3	3.5
Imported items	30.0	3.3	8.6	12.4	10.1

** Point to point change in price in mid-March*
*** Preliminary*
Source: Nepal Rastra Bank

3.15 The price of imported items group, with the weight of 30.0 percent in national wholesale price index, increased by 10.1 percent .During the same period in 2005, it increased by12.4 percent. The imported items' market price was comparatively elevated due to the price increment on petroleum products, coal, chemical fertilizers, chemical goods, transportation items and machinery, drugs and other items though there was marginal drop in market price of electric and electronic goods and clothes items.

National Salary and wages index

3.16 On annual point basis, the national salary and wages index (base year 2004/05) has increased by 4.3 percent in mid-March 2006. The salary index, with a weight of 27.0 percent has increased by 0.4 percent only. Wages index, with a weight of 73.0 percent, increased by 5.7 percent. In the review period, the national salary and wages index increased substantially. Though the wages of laborers increased marginally, increase in wages of agriculture and industrial laborers was significantly high.

Table 3(D) : National Salary and wages index
(percent change)*
(Base year 2004/05=100)

Group/Sub-groups	Weight in percent	Fiscal year	
		2004/05	2005/06
Total	**100.0**	**9.8**	**4.3**
1. Salary Index	**27.0**	**8.6**	**0.4**
1.1 Civil service	2.8	20.0	0.0
1.2 Public enterprises	1.1	11.4	4.4
1.3 Bank & Financial Organizations	0.6	0.2	10.0
1.4 Army and Police	4.0	19.7	0.0
1.5 Education	10.6	9.3	0.0
1.6 Private organizations	7.9	0.0	0.0
2. Wages Index	**73.0**	**10.03**	**5.7**
2.1 Agricultural labour	39.5	10.5	7.3
2.2 Industrial labour	25.2	10.5	5.1
2.3 Labour (Construction labour)	8.3	8.7	0.3

- Point to Point change from mid-March 2005 to mid-March 2006

Source: Nepal Rastra Bank

Box : 3 (2)
National salary and wages index (2061/62 = 100)

Commerce, industries, agriculture and international trade represent the backbone of the economy. These sectors play vital role in GDP estimation. The wages and remuneration of labor, staff and other technical staff involved in these sectors will have relative terms relationship with production cost. As increment in labor input cost effects directly on production cost and effect on inflation and consumption pattern, any increment in the production cost could adversely affect the investment level resulting into a decline in the production also. Increment on internal production cost and slackness on supply could increase import and thus directly affect the external trade of the country by which balance of payment could also get adversely affected. There are opposing forces working: laborers cannot be denied better wages which can result into better efficiency and reward for good works, but at the same time can increase cost of production having implications explained above. It is necessary that the laborers should get reasonable wages based on their capability and on the other the wages should be widely justifiable based on social and economic condition of the country. In this context, it is necessary to publish amended salary information of administrative staff, army, police personnel, and teachers working on different governmental and non-governmental organization.

Earlier, Nepal Rastra Bank used to publish the monthly wages of laborers working on industries, constructional works, and agricultural activities from 1988. From 2000/01 onwards, the Bank published national wages index for its internal uses. However, this national wages index did not include salary of permanent workers working on administrative staff, teachers, army, police personnel, and other workers working on governmental, non-governmental organization, academy and other organization. So, it does not necessarily reflect the real wage as such. Realizing this, the Nepal Rastra Bank started estimating national salary and wages pricing index from 2005/06 (base year 2004/05) with two broad components of wages and salary.

Source: Nepal Rastra Bank

Average Retail Prices of some goods

3.17 While studying 10 agricultural products for mid-March 2006 over mid-March 2005, an average market price of 7 agricultural products increased, constant prices for 2 products and one product experienced a fall in price. The products with increase in market price are Rice coarse (18.2 percent), black lentil (17.2 percent), wheat flour (15.5 percent), ginger (12.6 percent), mutton (10.7 percent), ghee (7.7 percent) and potato (7.7 percent). During the review period, the price was constant for yellow pulse (rahar ko dal) and dried onion. Price of mustard oil declined by 3.6 percent.

3.18 While analyzing retail prices by geographical region between mid-March 2006 and mid-March 2005, 8 out of 10 products experienced price rise in the Hills and for 2 products prices decreased slightly. The items with increased market price are ginger, rice coarse, black lentil, wheat flour, mutton, ghee, onion and potato while the items with the decreased price are yellow lentil and mustard oil .In Terai, the market price of seven items; potato, black lentil, rice coarse, wheat flour, yellow lentil (rahar ko dal), mutton and ghee increased and the price of three items; ginger, oil and dry onion declined.

3.19 The monthly national average retail price of 10 agricultural products in the first eight months of FY2005/06 over the corresponding period of FY2004/05 reveals price increment in onion by 20.4 percent, rice coarse by 14.2 percent, black lentil by 11.5 percent, potato by 9.6 percent, wheat flour by 8.0 percent, ghee by 6.0 percent, mutton by 5.7 percent and yellow pulse by 0.6 percent. Prices declined for ginger by 16.5 percent and mustard oil by 2.9 percent.

3.20 Comparing current fiscal year with FY2004/05, the market price of kerosene increased by 42.1 percent and reached Rs.48.30 per liter, and diesel price increased by 31.7 percent to reach to Rs 54.00 per liter. Similarly, in current fiscal year the market price of petrol increased by 10.5 percent and reached average rate of Rs.68.50 per liter and that of air fuel increased by 14.6 percent and reached to Rs.55.00 per liter. During the review period, the price of LP gas has remained unchanged at Rs.900.00 per cylinder.

Supply Situation

3.21 As compared to the supply situation of first eight months of FY2004/05, the supply situation of diesel in the first eight months of FY2005/06 showed a decline in diesel supply by 5.0% and reached to 173,333 kiloliters; kerosene supply decreased by 1.4% and reached to 146,667 kiloliters; however that of petrol increased by 11.4% and reached to 53,533 kiloliters. During the same period, the supply of LP gas increased by 59.4 percent and reached to 81,025 metric tons. Likewise, the supply of furnace oil increased by 85.0 percent and reached to 4,100 kilo liters. In review period, the Light Diesel Oil (LDO) supply reached to 400 kilo liters, which was not on supply in the last fiscal year. During the same review period, air fuel supply increased by 1.5% and reached to 46,000 kilo liters. The Nepal Oil Corporation had the whole responsibility of supply of petroleum products before mid-March 2006. After mid-March 2006, the private sector involvement in the supply of petroleum products has been initiated.

3.22 As per the policy of the Government of Nepal to provide transportation subsidies for transporting food grains to remote hilly districts deprived of road facilities, in FY2004/05 supply arrangement was made for 56,990 quintals (87.0 percent) out of the targeted 65,200 quintals. In the first eight months of the FY2005/06, 47,390 quintals of food grains (72.0 percent) of targeted 65,950 quintals were supplied to 30 remote districts. In all the districts of Karnali zone, the supply of food grains was made by airplane/helicopter. Some districts that were used to be supplied food grains via road transport such as, Bajhang, Bajura, Jajarkot, Rukum, Khotang, Solukhumbu, and Bhojpur districts were also supplied with air lifted food grains due to unfavorable situation.

3.23 The frequent blockades, strikes are on declining trend compared to the last year and there is a lot of improvement in this regard. This favorable environment in the country will make it possible to transport the food grains to needy districts more speedily and timely. Comparing with last fiscal year to current fiscal year, the rate of the market price of rice coarse which ranged from Rs1310/- to Rs1450/- per quintal in FY 2004/05; it reached to Rs 1,425/- to Rs 1,555/- per quintal in FY 2005/06. Similarly, Fine Rice (Mansuli and Basmati) ranged from Rs.1, 990 to 3,300. The increase in rice price is mainly due low rice production and increasing pressure on price from the last year.

Challenges

3.24 The supply of agricultural products and total income of the country is influenced by the agriculture production and productivity. The agriculture sector is still dependent on monsoon with frequent draughts and floods resulting into low agricultural production and consequently putting pressure on supply and market price. The main challenge is to make alternative means of regular supply of food grains and control market price during the unfavorable climatic conditions and low agricultural production.

3.25 In world market, the petroleum price is increasing gradually and its impact is also visible in the Nepalese market. Because of the failure of Nepal Oil Corporation to adjust its sales price in line with the rise in world petroleum prices, it is accumulating losses. This has made NOC unable to make payments of the supplied petroleum products and the smooth supply is disturbed frequently. In this context, there are challenges to minimize such losses of the corporation and at the same time control the market price to reduce the adverse effects on general people.

3.26 The lack of development and expansion of transport infrastructures in the past has made the transport cost high, created hurdles in timely supply of agricultural products to the market centers, posed difficulty in connecting surplus area with deficit area etc. Likewise, lack of infrastructural development including transportation has posed difficulty to take benefit of bio-diversity of the country and geographical specialization in crop production.

3.27 Even where transport facilities are available, supply of goods and services are marred by frequent blockades, strikes and curfew in the past. Such hindrances have not only disturbed regular supply but also destroyed many agricultural products. The frequent announcement of blockades, strikes by the political parties, their professional, occupational organizations and general people for fulfilling their political purpose has affected the production and supply lines. In this situation, there is a challenge of undertaking such political programs without affecting the economic activities including the supply of essential goods and services.

3.28 Due to varied irregularities in the market, general public is facing artificial shortage of basic items and artificial price hike of the goods. So, there is a great challenge to discourage undesirable influence from the business community through their practices of business cartelling and syndicate system in the market.

4. Money and Banking

Monetary Policy 2005/06

4.1 Nepal Rastra Bank announced the monetary policy for 2005/06 on July 22, 2005. Maintaining price stability and strengthening balance of payment position were continued as the core objective of monetary policy. In view of the adjustment of rise in international prices of petroleum products into the domestic prices and also because of VAT rate increase, there was bound to have some pressure on the domestic price level. The monetary policy had, therefore, emphasized on taking a cautious approach. For FY2005/06, monetary policy targeted to keep the inflation rate within 5 percent and to achieve a balance of payment surplus of Rs.4.5 billion. The target of inflation rate could not be maintained due to the rise in energy prices in August/September 2005 and increase in prices of paddy and other rice products due to unfavorable monsoon, and hence this target is revised at 7 percent. Thereafter also, due to further increase in petroleum prices in February/March 2006 and consequent rise in the public transportation charges, inflation rate is expected to go up to 8 percent. As a result of remarkable growth in remittance the balance of payment surplus in the first eight months of FY 2005/06 has reached Rs.13.65 billion. The BoP surplus is expected to reach to Rs.14 billion by the of the fiscal year.

4.2 The FY2005/06 monetary policy has continued with the strategy of maintaining monetary aggregates in compatibility with the stable exchange rate regime. As an interim target, the rate of growth of broad money was kept at 13 percent while announcing the monetary policy. The target of this monetary aggregate was based on the assumption of an economic growth rate between 4.0 and 4.5 percent. Although the economic growth rate in the first 8 months of FY2005/06 could not be as expected, in view of the inflation and growth in the inflow of remittance, the mid term review of monetary policy maintained the 13 percent target growth in broad money supply.

4.3 The excess liquidity of the commercial banks was continued as the benchmark for monetary policy implementation in FY2005/06, as well. The system for monitoring excess liquidity is further strengthened and modified in FY2005/06. The excess liquidity with the commercial banks is monitored not just weekly but also on a daily basis. On the basis of such monitoring of excess liquidity and its forecasts, open market operations were carried out as usual.

Implementation of monetary policy instruments

4.4 Bank rate is taken as one of the indicators of stable monetary policy instruments. In view of the increasing trend of inflation, bank rate was targeted at 6 percent but was readjusted to 6.25 percent at the time of mid-year review of the monetary policy. Compulsory cash reserve ratio is still continued at 5 percent. The refinancing rates were also adjusted in line with the bank rate. Accordingly, the refinancing rate for export and agriculture credit in the domestic currency was raised to 3.5 percent from 3.0 percent. However, there was no change for refinancing rate for sick industries, which is 1.5 percent.

4.5 Open market operation is one important monetary policy instrument. The tendering process in the sales, purchase, repo auction and reverse repo auction were started in FY2004/05 and continued in FY2005/06 also. In the first nine months of FY2005/06, liquidity of Rs. 6.14 billion is absorbed by auction sales and Rs.6.5 billion through repo auction. On the other, in the same period, through the process of purchase auction and reverse repo auction, Rs.830 million and Rs.450 million of cash respectively was injected to the market. Thus, there is a net absorption of liquidity by Rs.11.36 billion. The increase in liquidity is primarily due to increasing remittances. In the first nine months of FY2005/06, Nepal Rastra Bank intervened 46 times in the market to purchase USD equivalent to Rs.34.99 billion. On two occasions, it sold USD equivalent to Rs.650 million. Through buying and selling of USD, there was a net liquidity injection of Rs.34.34 billion in the economy which was absorbed to a certain extent once again through open market operation and treasury bills. Besides, in this review period, fresh issue of Rs.6.10 billion worth of treasury bills, Rs.750 million worth of development bonds, and Rs.250 million worth of Citizens' Savings Certificates were made. These measures have stabilized short term interest rate.

4.6 The standing liquidity facility initiated in FY2004/05 was continued in FY2005/06. It was introduced to increase the short term liquidity of the commercial banks and under this mechanism loans are provided against the government bonds to a specified limit at the penal interest rates. In FY2004/05, the banks used this facility more often than other alternative means to mobilize the resources, the limit of 90 percent of the face value of the bonds against which this facility was extended is brought down to 50 percent. In FY2004/05, the commercial banks made use of this facility to the extent of Rs.49.30 billion. In order to discourage the commercial banks in making excess use of this facility, the duration of this facility is also brought down to 3 days from 5 days in FY2005/06. Hence, its use in the review period of FY2005/06 was minimal.

4.7 Nepal Rastra Bank has been facilitating the sick industries through refinancing facility since FY2001/02 due to economic depression and adverse effects upon the industries from the conflict. It was continued in FY2005/06 also. For FY2005/06, Rs.2 billion has been earmarked through various banks at existing terms and conditions for the sick industries for this purpose. Interest for this refinancing facility has been retained at 1.5 percent. Banks and other financial institutions are instructed to fix an interest rate of 4.5 percent while providing this facility to sick industries. Until mid-April 2006, 18 hotels and resorts have benefited from this facility to the extent of Rs.220.93 million. Likewise, Rs.50.1 million has gone to two other large and medium industrial establishments thus totaling the amount to Rs.280.2 extended to sick industries under this refinancing facility.

Monetary aggregates

4.8 In the first eight months of FY2005/06, broad money supply increased by 8.4 percent. It increased by 4.5 percent in the same period in the last fiscal year. Increase in the net foreign assets during the review period is the primary reason for this growth in the broad money supply. With the political changes leading to political stability, there is a possibility of an increase in the foreign assistance which together with increasing remittances is expected to increase the net foreign assets considerably. As a result, revised estimate for broad money supply growth rate has been kept at 13.5 percent for the current fiscal year. It is slightly more than original estimate. The narrow money supply increased by 6.3 percent in the first 8 months of this fiscal year, which had increased by 4.0 percent in the last FY2004/05. Looking at the current trend, the growth of narrow money supply will not exceed the targeted 12.0 percent for this FY.

4.9 Net foreign assets is one important component responsible for an increase in money supply. It increased by 5.3 percent in FY2004/05 in the first eight months. In the same period of FY2005/06, it increased by

12.7 percent after adjusting for exchange rate gains and losses. Remittance is the primary reason for this growth. Net foreign assets is likely to grow by 13.0 percent in the whole period of the fiscal year.

4.10 There is a considerable increase in the fixed deposits. It increased by 4.7 percent in FY2004/05. Due to rapid increase in remittances, it increased by 9.5 percent in the first 8 months of FY2005/06. It is likely to grow at the rate of 14.3 percent in the whole period of this FY.

4.11 The other components affecting money supply is the domestic credit. In the first eight months of FY2004/05, it increased by 7.2 percent. However, during the same period of FY2005/06, it could increase by 5.8 percent only. This decline is attributed to low demand for credit from the private sector and conversion of the deposits of local government bodies to government resource.

4.12 Of the domestic credit, net claims on government is one important component. It declined by 3.6 percent in last FY and this FY2005/06 also it continued to decline by 3.0 percent. The growth in credit flow to private sector has also shown a decline. In the last fiscal year, it was found growing by 11 percent while this growth rate came down to 9.5 percent in FY2005/06. This decline in the growth of domestic credit to private sector can be attributed to problems in the industrial activities, and also because of the priority for loan recovery given by two large commercial banks, namely, Nepal Bank Limited and Rastriya Banijya Bank.

4.13 In the review period, the claims over non-financial government institutions have experienced negative growth. In the last FY, it increased by 43.4 percent as against which in this FY2005/06, it declined by 5.0 percent in the first eight months. The loan repayment by Nepal Electricity Authority, Nepal Oil Corporation, National Trading Limited and Hetauda Cement Factory has also caused this decline. Of the total domestic credit from the monetary sector by mid-March 2005, the Government of Nepal, public corporations/enterprises, and private sector have their shares of 22.1, 6.2 and 71.7 percent respectively. At the end of FY2004/05, such a share was 22.4, 6.4 and 71.2 percent respectively.

4.14 Net non-monetary liabilities which could have dampening effect on money supply increased by 5.5 percent in the first eight months of FY2005/06. In the last fiscal year, it increased by 9.1 percent. Likewise, in the first eight months of last fiscal year, net domestic assets increased by 6.1 percent while in this FY2005/06, it increased by 5.9 percent during the same period. There is a decelerated growth rate in gross domestic credit and net non-monetary liabilities due to which net domestic assets also showed a decelerated growth.

Deposits, liquidity and credit situation of the commercial banks

4.15 Total deposits of commercial banks increased by 7.6 percent in the first eight months of FY2005/06. It increased by 2.4 percent only in the same period in the last fiscal year. The high level of remittance has caused this high growth in the bank deposits. Current deposits declined by 5.0 percent in the first eight months of FY2004/05 and this deceleration decreased to 3.1 percent during the same period of this FY2005/06. Savings deposits during the same eight months of both the fiscal years increased by about the same rate, 8.0 percent in FY2004/05 and 7.9 percent in FY2005/06. Fixed deposits on the other had a negative growth rate of 2.2 percent in FY2004/05 which increased by 11.4 percent in the FY2005/06. High level of remittance and absence of suitable investment opportunities resulted into an increase in the deposits with the banks. Likewise, there is an increase in the deposit margin. It increased by 0.9 percent in the FY2004/05 and this growth rate increased to 1.3 percent in FY2005/06.

4.16 In the first eight months of FY2005/06, there was some slackness in the commercial banks' lending and investment. In the last fiscal year, loans and investment increased by 9.7 percent which could increase by 8.1 percent only in this FY2005/06. Such a decline in the growth of commercial banks' loan and investment is due to conflict situation, political disturbance, and consequent slackness in industrial environment. Of the commercial banks' loan and investment, claims on government has shown an increase. Claims on government has increased by 1.5 percent in last FY2004/05 and this growth rate increased to 2.8 percent in this FY2005/06. Similarly, in contrast to 43.5 growth in the first eight months of last fiscal year, the net claims of commercial bank on non-financial public enterprises has declined by 5.1 percent. Mainly because of priority accorded by Nepal Bank Limited and Rastriya Banijya Bank on loan recovery and net repayments by Nepal Oil Corporation, Nepal Electricity Authority, National Trading Limited and Hetauda Textile Industries, the net claims became negative. Similarly, there was decline in loans advanced by commercial banks to private sector. In the previous fiscal year, such credit had increased by 12.1 percent which remained at only 10.1

percent in the first eight months of this fiscal year and thus the net credit flow was only Rs. 16.58 billion. In the total credit flow, the share of principal is 84.5 percent and interest 15.5 percent. The percentage in previous fiscal year was 83.7 percent and 16.3 percent. The slackness in credit flow to private sector is due to political instability and overall economic instability.

4.17 Loan distribution of the government-owned Agriculture Development Bank had grown by 16.9 percent in the first eight months of FY2004/05. In the corresponding period in FY2005/06, its growth rate declined by 10.0 percent totaling to Rs.6.23 billion. The loan collection increased by 15.0 percent in the last FY which declined by 11.5 percent in FY2005/06 totaling Rs.5.15 billion. The outstanding debt extended by the ADB increased by 4.5 percent over the last fiscal year and reached to Rs.21.75 billion. In the last FY2004/05, the outstanding debt grew by 8.9 percent. The conflict situation has its effects upon both its loan disbursements and recovery. The ADB has started to implement the guidelines of Nepal Rastra Bank on the standards concerning the provisioning for bad loans, core capital requirement, asset quality management, income expenditure management, liquidity management, risk management and governance.

Expansion of Bank Branches

4.18 In mid-July 2005, the number of total branches of commercial banks stood at 375 which reached to 388 in mid-April 2006. If 47 banking branches of Agriculture Development Bank are to be included, the number of bank branches has reached 435. Including Agriculture Development Bank, number of commercial banks totaled 18. The number of commercial banks and their branches are given in Table 4 (A).

Table 4 (A) : Number of Commercial Banks and Their Branches

S. No.	Name of the Banks	*At the end of mid-July 2005*	*At the end of mid-April 2006*
1.	Nepal Bank Ltd.	106	102
2.	Rashtriya Banijya Bank	114	114
3.	Nabil Bank	17	16
4.	Nepal Investment Bank	12	13
5.	Standard Chartered Bank	8	9
6.	Himalayan Bank	15	16

7.	Nepal SBI Bank	13	13
8.	Nepal Bangladesh Bank	17	17
9.	Everest Bank	16	19
10.	Bank of Kathmandu	9	10
11.	Nepal Credit and Commerce Bank	17	17
12.	Nepal Industrial and Commercial Bank	8	10
13.	Lumbini Bank	4	6
14.	Machhapuchhre Bank	9	12
15.	Kumari Bank	4	5
16.	Luxmi Bank	3	5
17.	Siddhartha Bank	3	4
18.	Agriculture Development Bank	47	47
	TOTAL	375	388

Status of availability and usage of resources by Class B Development Banks and Finance Companies

4.19 In the first six months of FY2005/06, the resource availability of all the development banks increased by 23.2 percent over corresponding period of FY2004/05, and by mid-January 2006, it has totaled to Rs.58.49 billion. The capital fund after the adjustment to profit and loss of these development banks has doubled in the first six months of this FY2005/06 as compared to corresponding period of FY2004/05 and reached to Rs.3.77 billion. In the past, capital base of this group of banks had deteriorated badly due to the bad performance of Agriculture Development Bank and Nepal Industrial Development Corporation. However, the situation has improved after the Nepal Rastra Bank approved for 10 new development banks to operate and at the same time situation of existing development banks also showed some improvement. Deposits with these banks in the review period increased by 25.2 percent and reached to Rs.7.17 billion and lending has increased by 1.0 percent totaling to Rs.5.23 billion.

4.20 Regarding the assets of this group of development banks, there is a marginal increase in the loan, investment and liquidity in the first six months of FY2005/06 over the corresponding period of the last FY2004/05. Liquid assets have increased to Rs.4.71 billion with a growth rate of 3.7 percent while loan, investment and other assets have respectively increased by 9.6, 6.7 and 61.7 percent reaching to Rs.30.64 billion, Rs.2.02 billion, and Rs.21.12 billion.

4.21 The resource of finance companies reached to Rs.33.87 billion in the first six months of FY2005/06, and it is a 15.8 percent growth over the corresponding period of the last FY2004/05. In the last FY2004/05, such growth was at 18.0 percent. Of the total resources with the finance companies, their deposits constitute 71.9 percent and deposits showed an increase by 17.9 percent in the first six months of FY2004/05. Growth rate of deposits declined to 15.1 percent in the corresponding period of FY2005/06 and totaled Rs.24.34 billion. The capital fund which increased by 10.6 percent in the first six months of FY2004/05, declined by 1.7 percent and reached to Rs.4.05 billion in the corresponding period of FY2005/06. In mid-January 2005, deposits and capital fund of the finance companies used to be at the level of Rs.21.15 billion and Rs.3.98 billion. In the first six months of last FY2004/05, the lending of these finance companies grew by 66.8 percent which in the corresponding period of FY2005/06 declined by 1.2 percent and reached to Rs.1.31 billion. In mid-January 2005, total loan amounted to Rs.1.32 billion.

4.22 Of the total resources with the finance companies, their uses include loan 70.4 percent, liquid asset 11.5 percent, other investment 8.0 percent and in other assets 10.1 percent. The loan, which is the major component, increased by 19.5 percent in the first six months of FY2005/06 and reached to Rs.23.85 billion. In the corresponding period of FY2004/05, it increased by 22.0 percent. Investment of finance companies increased by 5.9 percent in the period up to mid-January 2006 and reached to Rs.2.70 billion. It increased by 1.1 percent in the corresponding period of last FY2004/05. In the current FY2005/06, liquid assets of these finance companies increased by 5.1 percent and reached to Rs.3.91 billion. In the corresponding period of last fiscal year, liquid assets increased by 33.9 percent.

4.23 As compared to the first six months of last FY2004/05, the resources of cooperative societies, approved by the Nepal Rastra Bank, increased by 11.9 percent in the corresponding period of FY2005/06 and reached to Rs.2.63 billion. As the monitoring and supervision of small farmers' cooperative societies is taken over by the Small Farmers' Cooperative Bank, number of cooperative societies that need to be directly monitored by Nepal Rastra Bank has declined. As a result, there appears to be some reduction in core capital base, deposits, loan, and other liabilities and uses of fund of these cooperative societies. However, in view of the stagnant number of these cooperatives, there is now a marked improvement in the financial position and stability is restored. There is a positive trend in the uses and liabilities of these societies.

4.24 In comparison to the first six months of last FY2004/05, the capital base, deposits and loans from the cooperative societies increased by 36.2, 10.1, and 56.1 percent respectively and reached to Rs.350 million, Rs.1.83 billion, and Rs.60 million. However, there is a decline in other liabilities by 0.8 percent to Rs.390 million. Similarly, comparing the same periods in the two fiscal years of 2004/05 and 2005/06, there is an increase of 10.3 percent in loan investment, 9.0 percent in liquid assets, and 31.0 percent in other assets – with the corresponding amount at Rs.1.51 billion, Rs.420 million, and Rs.550 million. In the same period, investment has gone down by 7.1 percent and reached to Rs.150 million.

4.25 As compared to the first six months of FY2004/05, the total resource mobilized by development banks dealing with micro credit increased by 34.7 percent in FY 2005/06 and reached Rs.7.13 billion. These development banks offering micro credit have been helpful to the women in rural areas by extending loans without collateral and accepting small deposits based on the principles of rural banking.

4.26 As compared to the first six months of FY2004/05, the deposits of these institutions increased by 9.7 percent and reached to Rs.820 million, loan by 32.9 percent amounting to Rs.4.62 billion and capital base by 15.7 percent amounting to Rs.900 million. In the usage of resources, liquid assets increased by 98 percent and reached to Rs.1.12 billion, investment increased by 37 percent and reached to Rs.1.68 billion, and loan by 23.8 percent amounting to Rs.3.90 billion.

4.27 The Government of Nepal instituted Rural Self-Reliance Fund in March 1991 and allotted Rs. 10 million in FY 1991/92 and further Rs. 10 million was allocated in the subsequent fiscal year. In FY2005/06, the government earmarked another Rs. 20 million thus making total government contribution to this Fund at Rs. 40 million. Nepal Rastra Bank contributed Rs. 100 million as seed money in FY2001/02 and also provisioned for contributing another 5 percent of its profit to this Fund. Thus far the contribution of Nepal Rastra Bank totaled to Rs.253.4 million. Thus, by mid-January 2006, the total fund has reached to Rs. 293.4 million. Responsible for providing bulk credit, the Fund has its activities in 47 districts through 50 NGOs and in 42 districts through 181 cooperative societies thus in the process serving 47 districts with 231 agencies with the lending to them to the tune of Rs.89.5 million. In the period under review, the loan recovery rate stands at 91 percent.

4.28 For supporting women in their income generating activities through their group efforts, Grameen Bikas Banks (rural development banks) are operating in each of the Development Regions. By mid-January 2006, these banks have extended micro credit without collateral to 147,550 women out of 165,217 group members in 1,018 VDCs in 45 districts. These members are grouped in 35,583 groups in 5,091 centers. Since their establishment, they have extended a total credit of Rs.11.76 billion. Out of this, Rs.10.52 billion is already recovered with outstanding loan of Rs.1.24 billion. By mid-January 2006, the participating members have contributed to collective savings of Rs.430.8 at the group level and Rs.56.3 million at individual level. Thus, the total savings happened to be Rs.494.3 million. There are altogether 1,009 staffs working in these banks.

4.29 Likewise, there are four other similar institutions (Nirdhan Utthan Bank Ltd., Chhimek Bikash Bank Ltd., DEPROSC Bikash Bank Ltd.) which by mid-January 2006 have extended micro credit of Rs.5.60 billion to 130,275 women members of 33,217 groups through 6,370 centers. During the same period, Rs.4.65 billion was recovered and the outstanding loan stands at Rs.950 million.

Non-Financial Institutions

4.30 In the first eight months of FY2005/06, the loan distribution of Government Provident Fund increased by 62.2 percent and reached to Rs.7.21 billion. During the corresponding period of FY2004/05, loan distribution increased by 71.0 percent and reached to Rs.4.44 billion. In the first eight months of FY2004/05, principle repayment increased by 8.2 percent. It increased by 36.9 percent in the corresponding period of FY2005/06 and the amount so collected reached to Rs.1.38 billion. With the increase in loan distribution and collection of principle, the outstanding loan increased by 19.1 percent as compared to the last FY and reached to Rs.24.72 billion.

4.31 The contribution of Citizens Investment Fund (CIF) is also gradually increasing as its deposits and investment are also increasing in the last two years. In FY 2004/05, its total assets/liabilities increased by 22.8 percent and in this fiscal year, it grew by 18.3 percent and reached to

Rs.6.77 billion. The deposits increased by 26.1 percent in the last fiscal year. It could increase in the current fiscal year by 19.3 percent and be Rs.6.08 billion. The CIF has not taken any loan for itself for on-lending in the last five years. Its investment increased by 56.6 percent in FY2004/05 and by the end of this FY2005/06, it is expected to increase by 11.8 percent totaling to Rs.5.02 billion. The loan distribution on the other hand showed a decline in the last FY2004/05 by 70.2 percent and it increased by 132.4 percent in this FY2005/06 and reached to Rs.330 million. Regarding liquid assets, it had negative growth rate last FY by 36.2 percent which in this FY2005/06 increased by 41.6 percent and reached to Rs.980 million.

4.32 Insurance has widened its market in the overall financial market in the last few years. In the first eight months of FY2005/06, there are 16 non-life only insurance companies, three life insurance companies, and one company covering both life and non-life insurances. Thus there are altogether 20 insurance companies. If credit insurance company insuring loans in the priority sectors, Deposits and Credit Insurance Corporation, is also be included then there are 21 insurance companies. Of these, there are 3 companies under foreign investment and another 3 under joint ventures. The contribution of life and non-life insurances is increasing and the premium collection from the non-agriculture sector insurance coverage has contributed 1.1 percent to the GDP at mid-April 2005. It increased to 1.3 percent during the review period under consideration. In the last fiscal year, total premium collection increased by 23.2 percent and in the current FY2005/06, it increased by 21 percent and reached to Rs.7.08 billion. Insurance companies have invested such premium earnings on government bonds, fixed deposits, and other assets. The investment of life insurance increased by 22.7 percent in the last FY and this year also it increased by 22.8 percent and reached to Rs.14.73 billion. Likewise, the investment of non-life companies increased by 12.1 percent and it could increase by 10.5 percent this FY2005/06 and reached to Rs.3.31 billion. Total investment of all the insurance companies increased by 20.4 percent in the last FY and it now increased by 20.3 percent and reached to Rs.18.04 billion.

Financial Sector Reform Program

4.33 Financial Sector Reform is one of the important components of economic reform program being pursued. The Government of Nepal had issued Financial Sector Reform Strategy on November 22, 2000 which is aimed at achieving healthy, competitive, efficient and professional financial services. It is being undertaken under the grants and loans from the World Bank, Department for International Development (DfID)/UK, and the Government of Nepal. It has three major components – Strengthening of Nepal Rastra Bank, Restructuring of Nepal Bank and Rastriya Banijya Bank, and Capacity Building of Financial Sector.

4.34 In order to develop Nepal Rastra Bank into an efficient and effective central bank, its restructuring program is being continued. It involves human resources development, strengthening of its monitoring, supervision and evaluation functions, restructuring its organization on the functional basis, computerization of the institution, enhancing the accounting system to international standards, and making the banking services and functions simplified and more efficient.

Box 4 (1)

Restructuring of Nepal Rastra Bank

a) With a view to making bank more efficient, raising the productivity of employees and to providing quality services through less number of employees, 571 employees have been retired under the voluntary retirement scheme and further 11 employees have been retired under the compulsory retirement scheme. New Human Resource Bye-laws, 2005 has been made effective.

b) To enhance the efficiency level of NRB staffs, one Human Resources Advisor has been appointed on the recommendation of IOS partners to plan and train the human resources and also identify the requirement of human resources and their development.

c) For implementing the NRB's restructuring program, the World Bank had recommended to hire 6 chartered accountants. Instead, the NRB created a Task Force of 7 chartered accountants working in the NRB itself to undertake the job. It has brought down the cost of obtaining services.

d) For introducing accounting system at par with international standards, NRB has revised the chart of accounts. Existing accounts manual is being revised towards achieving this goal.

e) With a view to strengthening NRB's regulatory capability, an integrated regulatory framework of the international standard has already been implemented. Likewise, manual of international standards for on-the-spot monitoring has also been prepared and implemented.

f) Similarly, guidelines of international standard for on-the-spot monitoring and off-site monitoring have been under implementation. All commercial banks are inspected at least once a year at the corporate level. The frequency of monitoring visits to the finance companies has also been increased in pursuance of the policy of strengthening monitoring system.

g) With a view to strengthening IT system in the NRB, an international consultant has been hired and the consultant has commenced the work. One IT instructor and two local software prototype developers have been used for implementing the Nepal Integrated Financial Management Information System. They have provided 3 months long pre-procurement training to 36 bank staffs.

g) As part of the second phase of the restructuring of NRB program and in consultation with the World Bank, M/S INC in association with KPMG, Sri Lanka has been contracted for two years on February 6, 2006 for Bank Examination Expert, Non-Bank Examination Expert and off-site supervisor and the firm has started the work from March 26, 2006.

h) In order to strengthen economic journalism, basic training of two months' duration was given by the British Council to 22 Nepalese economic journalists. Likewise, in order to control the bad debt through legal measures, a one-day workshop was organized on 'the role of judiciary in the financial sector reform'.

i). Process for the appointment of an international expert on restructuring has been initiated to assist in the search for strategic investor for two large commercial banks, *i.e.*, Nepal Bank Limited and Rastriya Banijya Bank.

Source: Nepal Rastra Bank

4.35 The restructuring of two old commercial banks Nepal Bank Ltd. and Rastriya Banijya Bank is continuing. The management contracts for these two banks have been extended. Although desired level reforms in these two banks have not been accomplished, there are certain positive indications in terms of timely completion of audit, recovery of some of the bad debts, and both the banks after a long spell of losses have shown indication of earning some profit. Several reforms in the internal management have also been implemented in both the banks.

Box 4 (2)

Structural Reform of Nepal Bank Ltd. and Rastriya Banijya Bank

a) Nepal Rastra Bank and ICC Consulting Bank of Scotland (Ireland) entered into contract on June 17, 2002 for management contract of Nepal Bank Ltd. for two years. Upon the expiry of this contract, it was extended twice – once in July 22, 2004 for one more year and next on July 22, 2005 for two more years. Likewise, in the case of Rastriya Banijya Bank, similar contract was first signed in January 16, 2003 for two years, then renewed in January 16, 2005 for one more year, and once again upon its expiry, for the second time, the contract is renewed for two more years from January 16, 2006 till January 15, 2008.

b) Although the status of bad loan recovery of both the banks have not been satisfactory, there have been progress in other fronts, such as, both the banks have been able to make some profit in FY 2004/05, improvement in the negative capital base, preparation of operation manuals of international standards and norms, and preparation of procedures and processes commensurate with international practices. This suggests that the progress is generally satisfactory.

c) Nepal Bank Ltd was incurring losses in billions of Rupees since year 2000. In FY2002/03, loss was brought down to Rs.258.0 million and in FYs 2003/04 and 2004/05, it could earn net profit of Rs.710.0 million and Rs.1.73 billion respectively. Likewise, in the case of Rastriya Banijya Bank, its net loss was Rs.4.84 billion in FY2002/03. It made a net profit of Rs.1.04 billion and Rs.1.32 billion in FYs2003/04 and 2004/05 respectively. Preliminary financial statement shows that in the first half of FY2005/06, Nepal Bank has made a net profit of Rs.350 million and Rastriya Banijya Bank has made a profit of Rs.510 million. Thus both the banks seem to have reversed their position towards making profit.

d) Both the banks have improved their negative capital base. After the initiation of restructuring of these banks, the capital base of the Nepal Bank which was negative by Rs.9.80 billion at the time of mid-July 2003 declined to Rs.8.90 billion in mid-July 2004 and Rs.7.13 billion in mid-July 2005. Likewise, the negative capital base of the Rastriya Banijya Bank estimated at Rs.22.39 billion in mid-July2003 improved to Rs.21.01 billion in mid-July 2004 and Rs.20.07 billion in mid-July 2005.

e) Although the bad debt has not declined to the extent desired, but the level of bad debt has definitely gone down. The non-performing assets of Nepal Bank Ltd. in mid-July 2003 stood at 60.47 percent which steadily came down to 53.74 percent in mid-July 2004 and 49.64 percent in mid-July 2005. Likewise, in the case of Rastriya Banijya Bank, such NPA used to be 60.2 percent in mid-July 2003 and declined to 57.64 percent in mid-July 2004 and 50.70 percent in mid-July 2005.

f) On the loan recovery front, the management team in the Nepal Bank Ltd. could recover Rs.7.61 billion in three and a half years time. Likewise, in the case of Rastriya Banijya Bank, the management team recovered Rs.6.79 billion of NPA.

g) For many years in the past, both the banks were not able to complete audit of their accounts in time. With new management team at work, Nepal Bank Limited completed its audit reports for 2004/05, 2003/04, 2002/03, 2001/02, 2000/01 and 1999/2000. For Rastriya Banijya Bank, its management team completed audit reports for 2004/05, 2003/04, 2002/03, and 2001/02. Now the audit reports are updated. And both the banks now have started publishing trimester financial statements on a timely basis.

h) In order to improve human resources of these two banks, they have prepared and implemented the management plan, human resources development plan, and capacity building plan. Staff Needs Assessment is completed. Likewise, both the banks have submitted their succession plan. In order to bring down the staff size, Nepal Bank Ltd. Implemented voluntary retirement scheme and reduced the staff size from 6030 in mid-July 2001 to 2912 in mid-July 2005. With the induction of some new skilled staff, Nepal Bank has now a staff-strength of 2979 by mid-January 2006. Likewise, in the case of Rastriya Banijya Bank, the staff strength of 5743 in mid-July 2001 was brought down to 3417 in mid-July 2005 and to 3369 by mid-January 2006.

i) In order to improve the system from within, both the management teams have introduced various management plans, policies and operational manuals – particularly credit policy and operational manual, asset liability management guidelines, asset liability management committee is formed. New accounting guidelines, new internal audit guidelines, new chart of accounts, portfolio status and plan, budget plan, and strategic plans etc. were prepared and implemented. Rastriya Banijya Bank has introduced performance based reward system.

j) In order to modernize the banking services with the introduction of IT, computerization has been started in the bank branches. Under this scheme, 47 large branches of Rastriya Banijya Bank and 44 branches of Nepal Bank Ltd. are planned to be computerized. By mid-January 2006, 4 branches of Rastriya Banijya Bank and 43 branches of Nepal Bank have already been computerized.

Source: Nepal Rastra Bank

Capacity Building of Financial Sector

4.36 Several activities have been initiated to strengthen overall financial sector. Credit Information Bureau is registered under Company Act and computerization of the Bureau is complete. For the Asset Management Corporation, the draft law is ready for the review of the government. Steps for establishing a training center for providing training to enhance the efficiency of staff members of banks and finance companies has been initiated.

4.37 There is a plan for transforming existing Bankers' Training Center of Nepal Rastra Bank to a national level Bankers' Training Academy and for this a high level committee has already been formed. The Committee has studied similar arrangements in other countries as well, and some initial steps have already been taken towards this direction. At the same time, with a view to strengthening Debt Recovery Tribunal, skill development program is being implemented along with the provision for requisite physical facilities.

4.38 Law for Asset Management Company and Anti-Money Laundering have been drafted and are under government review. Secured Transactions Ordinance 2005 has been enacted which will facilitate registration of current assets for securitization and placing as collateral for loans. Likewise, Insolvency law has been enacted. Debt Recovery law has been enacted and a Debt Recovery Tribunal has been set up, which takes up cases of bad loans of the banks and financial institutions. In view of the need for Bank Fraud Control law, Amalgamation or Merger law, Money Laundering law, Credit Rating Institution law, efforts are underway to formulate such laws. Thus some laws are already enacted and some more are in the pipeline. The legal framework governing the financial sector is getting better and better.

4.39 Consolidating different laws regulating banks and finance companies, Bank and Financial Institutions Ordinance, 2003 was enacted as an umbrella act. After incorporating a number of amendments to correct the weakness and in an effort of making timely refinement, a new Bank and Financial Institutions Ordinance, 2006 has subsequently been enacted.

4.40 In pursuance of section 13 of Bank and Financial Ordinance, 2005, a list of 103 professional experts have been identified and notified to the public through newspapers and NRB web site. They have been identified in two lots in accordance to the Bank and Finance Companies Ordinance 2005.

4.41 A three-member committee was constituted on March 19, 2006 to review the limited liability concept and blacklisting provisions of willful defaulters and make recommendations for necessary reforms. The committee has collected necessary information.

Follow up Arrangement for Banks and Financial Institutions

4.42 A Grievance Handling Cell was constituted with senior Deputy Governor as its coordinator on April 24, 2005 for hearing the problems of banks and their clients. By mid-April 2006, altogether 209 complaints were received by the Cell. Of which, 148 cases were resolved and remaining 61 cases are under investigation. It has helped in resolving the problems emanating between banks and borrowers and in establishing good relationship.

4.43 Nepal Rastra Bank used to issue separate instructions and notifications to banks, development banks, finance companies, micro credit development banks, etc. This practice is now replaced by uniform instructions and notifications to all the institutions approved by NRB since July 16, 2005. Accordingly for the institutions of A, B and C classifications, ratio of risk weighted capital fund to assets is readjusted to 12 percent (with the requirement of core capital of 6 percent) in FY2005/06 against the earlier provision of 11 percent (5.5 percent for core capital). For the institutions under D classification, such ratio is adjusted to 8 percent (4 percent in case of core capital) from 6 percent (3 percent for core capital). Core and supplementary capital are redefined. If capital base is inadequate, the board of directors will have to recommend for its capital enhancement plan and program and submit them to NRB within 35 days for its approval. If capital fund is inadequate, dividend and bonus distribution will not be allowed, as per the new regulations.

4.44 Under the new uniform guidelines the loan classification on the basis of time has been retained and a new provision is made for inclusion of credit card advances as loan for this purpose and in the case of working capital loan if the loan is renewed by paying interest due at the end of the year then such loan is to considered good loan. Term loan and misuse of loan are redefined. Rescheduling and restructuring are also redefined. If the rescheduled and restructured credit is regular in paying its principal and interest for two years, it can have the benefit of write backs; but such write backs cannot be used for the purpose of dividend and bonus share distribution.

4.45 The limit of micro credit is raised to Rs.40,000 from Rs.30,000. If the limit is exceeded, such amount needs to be adjusted in loss provision instead of previous arrangement of capital charge. In the case of development banks and finance companies, sector wise limit to loan investment is eliminated. The per client limit to the credit is waived for Nepal Oil Corporation and Nepal Food Corporation.

4.46 In place of different formats of financial statements for commercial banks, development banks and financial institutions, uniform formats have been prescribed. Some modification is made on the formats of profit and loss statement and balance sheet. Balance sheets, profit and loss statements, statement change in equity, and cash flow statement have to be presented on the front pages itself. Accounting policies should be in consonance with Nepal Accounting Standard and International Accounting Standard and high importance is accorded to making them public. The interest earnings on the loan investment have to be recorded on cash basis.

4.47 The director of institutions engaged in the business of accepting deposits should not occupy similar position in other NRB approved institutions on similar business. Greater responsibility is entrusted to chief executive officer and self-regulation has been accorded high importance. Likewise, a staff member of any such institution cannot be the director of similar institutions. Similarly, one individual or firm or partner cannot be both internal and external auditor for any institution.

4.48 With the introduction of information technology, NRB has reduced the reporting time to 30 days from 45 days. The financial statements and other reports have to be submitted to the NRB in 30 days. Likewise, liquidity status has to be informed within 7 days and other statement in 15 days. If statements are not sent within the stipulated period, fines will be levied. The sector specific limit on advancing loans has been slightly modified and self-monitoring mechanism has been introduced.

4.49 The institutions in 'C' group were allowed to underwrite shares to the extent of 30 percent of their core capital, which has now been raised to 50 percent. Related party investments should be deducted from core capital. The provision related to the transfer of promoters' shares has been continued with minor modification of not requiring Nepal Rastra Bank approval in cases of buying and selling of promoters' shares and transfer after the death. In relation to borrowers not willing to pay loan or unable to pay loan, the new arrangements authorize the financial institutions themselves to classify the defaulters on their own evaluation and they can on their own recommend for the impoundment of passports of such defaulters. New arrangements provide for extension of one year from blacklisting of loan- defaulters due to bad situation by the board of directors.

4.50 The class A institutions and class B and C institutions permitted to operate call deposit accounts can keep only 5 percent as the compulsory cash reserve. Class B and C institutions not operating call deposit accounts can keep 2 percent as compulsory cash reserve. For this purpose, instead of taking weekly average of deposits of four weeks back, now such average of two weeks back only is to be taken. The statement of deposit and cash reserve ratio needs to be provided within seven days of the week's end.

4.51 The class D institutions can open branch office in its area and institutions fulfilling paid up capital requirement fixed by Nepal Rastra Bank can open branches as per the business plan. In case of national level institutions of class A, B and C, one branch can be opened in Kathmandu valley if they open one branch outside Kathmandu valley.

4.52 A 0.5 percent adjustment over the published interest rates on deposits can be made. The regional level institutions are now allowed to publish their financial statements in the regional papers and magazines. The accrued interest earnings cannot be included in the income for the year.

4.53 The class C institutions can mobilize resources up to 20 times of their core capital while that from class C can mobilize up to 15 times and that from class D can mobilize up to 30 times. For this ‘D’ category, it has been raised from 20 times. For unclaimed deposits and dividend distribution for specified period of time, notices have to be published, and if money remains unclaimed then such money needs to be deposited in a special accounts designated by NRB. Upon fulfillment of set conditions, debentures can be issued for up to 50 percent of core capital. If more than stipulated level is collected, they have to be adjusted within 3 months. So long as such adjustment is not done, dividend announcement, distribution and additional resource mobilization will not be allowed.

4.54 Nepal Rastra Bank has issued guidelines for commercial banks and financial institutions to develop their ‘Know Your Customers’ procedures.

Box 4 (3)

Guidelines for Know Your Customers

a) Know your customers program is meant to discourage the laundering of illegally earned money by clearly identifying the customers. The manual to be prepared by banks and financial institutions should therefore mainly contain procedures for acceptance of a new customer, identification, monitoring of customers transactions, risk management procedure, etc.

b) Banks and financial institutions should obtain all necessary information from the clients while extending loan, making draft, telegraphic transfer and mail in foreign currency, while accepting these instruments, and while opening letters of credit. They may require additional information in the context of money laundering and potential financing of the terrorist activities.

c) If the banks and financial institutions notice any unusual increases in the business volume, remittances from abroad, if the sources of such remittance is not clear, such cases and their clients, be individuals or companies or firms or institutions need to be reported to the meeting of the board of directors. Likewise, there has to be separate procedures for the transactions of more than Rs.1 million and sources of such transactions need to be obtained from the clients and updated.

d) Even if the transactions are less than Rs.1 million and however likely to be doubtful, in such cases also, detail information need to be obtained and maintained and updated.

e) If banks and financial institutions receive amount through remittances, (draft, TT, electronic transfer) and payment has to be made above Rs.100,000, it has to be based on account payee cheques or to be deposited in their respective accounts.

f) Banks and financial institutions have to maintain the records (documents as well as electronic record) at least for a period of 5 years after the transactions.

Source: Nepal Rastra Bank

4.55 Agriculture Development Bank has obtained license from the NRB for a commercial bank of class A category after its fulfilling all the requirements, and now it is registered as public limited company with the Company Registrar's Office.

Notices issued to Banks and Financial Institutions

4.56 All the banks and financial institutions need to be open on all days when Nepal Rastra Bank is open. As for the public holidays, operation on those days can be decided by the respective institutions themselves. The financial institutions of class C can enter into transaction of government bonds or bonds issued by Nepal Rastra Bank by taking approval from the Public Debt Department of NRB as per section 47(3q) of Bank and Financial Institutions Ordinance 2005.

4.57 The loan extended under self employment and employment training program and obtained from commercial banks (foreign employment loan) and from other financial institutions permitted by NRB (loan for foreign employment) in connection with foreign employment will be recorded under loan investment for disadvantaged communities. Under the new ordinance on banks and financial institutions, the financial institutions by obtaining permission from the Foreign Exchange Department can work on inward remittance, transaction on Indian currency, acceptance of deposits in foreign currency and purchase and sales of foreign currencies, foreign exchange facility against the passport for travel, issuance of debit and credit cards for foreign currencies.

4.58 Loans can be obtained on the collateral of promoters' shares if banks and financial institutions follow certain prescribed norms. Banks and financial institutions can, by taking permission from the NRB, transfer the promoters' shares to and among promoters if in so doing the total shares with the promoters' will not exceed 15 percent of total shares. If in any case this 15 percent limit is exceeded, that has to be adjusted in 5 years' time and bring within the limit of 15 percent compulsorily.

4.59 Banks and financial institutions established under the earlier ordinance such as commercial banks, Agriculture Development Bank, Nepal Industrial Development Corporation, development banks and finance companies have to revise their Articles of Association and Memorandum of Understanding as per new Ordinance of 2005 and seek permission from the NRB for continuing with the financial transactions. However those failing to do this within the stipulated time of two years from the implementation of the new ordinance can apply as the NRB has announced the deadline for submitting such application.

4.60 Nepal Rastra Bank has allowed the banks and financial institutions which have not submitted all required documents and information to continue with their functions for a period of three months. Such banks are required to submit application with all details, sought through NRB public notice, within 75 days from February 2, 2006.

Inspection and supervision

4.61 All the 17 commercial banks were visited for on-site supervision. Instructions were provided to them on those occasions.

4.62 In mid-July 2005, the core capital of Rastriya Banijya Bank was deficient by Rs.20.42 billion and since it is not possible to make up for such deficiency from its profits, NRB has instructed it to come out with a business plan for this purpose. Likewise, in mid-July 2005, this Bank was found making inadequate provision for loan loss by Rs.471.2 million and hence NRB asked it to arrange for additional loan loss provision to cover that amount.

4.63 In the case of Nepal Bank, it is instructed to implement the draft business plan for increasing the capital base in coordination with NRB and its major shareholder the Government of Nepal. Likewise other instructions were also given which include: to arrange for additional Rs.20.8 million for risk management, to give a set date for adjustment to those debtors whose credit exceeds the per client limit, to develop policy for write-offs and on information technology, not to issue and renew the loan without obtaining credit information, to create a MIS system for monitoring the implementation of management decisions, and to define the succession policy. Against the instruction of NRB, chief executive is found to be the permanent member of audit committee, and hence instructed to keep him as invitee only, and it is also instructed to establish Disaster Recovery Site.

4.64 Attention was drawn and in come cases action is also taken against the banks which fail to implement the instructions provided by the NRB at the time of on-site supervision visit. Such banks included Nabil Bank Ltd., Nepal Investment Bank Ltd., Himalayan Bank Ltd., Nepal SBI Ltd., Everest Bank Ltd., Nepal Bangladesh Bank Ltd., Bank of Kathmandu Ltd., Lumbini Bank Ltd., Nepal Industrial and Commercial Bank Ltd., Kumari Bank Ltd., Machhapuchhre Bank Ltd., and Siddhartha Bank Ltd.

On-site and off-site supervision

4.65 Banks and financial institutions, operating under various other acts before the promulgation of Bank and Financial Institutions Ordinance 2005, have been categorized into A, B, C, and D class. Accordingly, development banks, finance companies, and micro credit development banks are categorized into 'B', 'C' and 'D' class. Commercial banks are in the 'A' class. By mid-April 2006, there are 28 development banks of class 'B', 67 finance companies of class 'C', 11 development banks of class 'D' including 5 grameen bikas banks owned jointly by Government of Nepal, NRB and some financial institutions. Besides, there are 19 cooperative societies and 47 NGOs undertaking limited banking functions after obtaining permission from the NRB. There are many other cooperative societies operating banking functions without getting any approval from the NRB. They are registered under the Cooperative Act. Due to the conflict situation and the losses at the branches, Rastriya Banijya Bank, Nepal Bank Ltd. and Agriculture Development Bank closed and merged several of their branches in rural areas due to which banking services were squeezed in those places. Hence, in those places, cooperative societies, micro credit development banks and NGOs are rapidly coming up to provide such banking facilities.

4.66 NRB has made on-site inspection to 29 finance companies, 15 development banks, three cooperative societies and seven NGOs during the period of mid-April 2005 to mid-March 2006. Besides, monitoring visits were carried out in three development banks, three finance companies, and one cooperative society.

4.67 On the basis of the weaknesses and shortcoming observed during on-site inspection, directives for correction were given to development banks, financial companies, cooperative societies and non-government organizations. Actions to the extent of imposing penalties, keeping under close surveillance and cancellation of registration were also taken wherever needed.

5. Capital and Money Market

Primary Market

5.1 In the first 9 months of FY2005/06, 23 corporate entities have been authorized to mobilize capital from the primary stock market for a total amount of Rs.1537.8 million by issuing stock of ordinary and right shares and debentures. Such authorized amount is higher by 165.9 percent compared to the same period of FY2004/05. In the same period of last FY, there were 6 entities which were authorized to mobilize capital of Rs.578.4 million through ordinary and preferential shares and mutual fund.

Table 5 (a): Trend of Primary Market

(Rs. in million)

Headings	Fiscal Year						
	2000/01	2001/02	2002/03	2003/04	2004/05	First 9 Months	
						2004/05	2005/06
1. Issue approval	717.2	1555.1	853.8	1547.8	1270.3	578.4	1537.8
a. Ordinary shares	268.5	528.7	551.5	755.0	300.9	27.5	334.4
b. Right shares	365.8	387.9	162.2	429.9	669.4	250.9	1003.4
Preferential shares	-	140.0	-	-	-	-	-
c. Debentures	-	360.0	-	300.0	300.0	300.0	200.0
d. Mutual fund	-	-	100.0	-	-	-	-
e. Citizens plans	82.9	138.5	40.1	62.9	45.5	-	-
2. No. of companies making public issues	9	16	17	16	12	6	23

Source: Securities Exchange Board (SEB), Nepal.

Secondary Market

5.2 With the addition of 3 corporate entities during the first 9 months of FY2005/06, number of such entities listed in the stock exchange has totaled 128. The number of such listed entities was 123 during the corresponding period of FY2004/05. In the first 9 months of FY2005/06 market capitalization increased by 29.5 percent and reached to Rs.79.47 billion compared to Rs.61.37 billion during the corresponding period of FY 2004/05.

5.3 In the first 9 months of FY2005/06, cash transactions in the Stock Exchange decreased by 52 percent totaling Rs.1833.6 million with

5,893,450 shares changing hands in comparison to 13.582 million shares worth Rs.3,798.1 million transferred during the same period of FY 2004/05.

5.4 Number of transactions decreased by 13.66 percent in the first 9 months of FY 2005/06 to total 71,777 as compared to 83,135 transactions in the corresponding period of the previous fiscal year.

Table 5 (b): Trend of Secondary Market

(Rs. in million)

Headings	Fiscal Year						
	2000/01	2001/02	2002/03	2003/04	2004/05	First 9 Months	
						2004/05	2005/06
Value of shares traded	2344.2	1540.6	575.8	2144.3	4507.7	3798.1	1833.6
Number of shares transacted (000)	4989	6005	2428	6468	18434	13582	5809.34
Transactions (No)	46095	42028	69163	85533	106246	83135	71777
Market Capitalization	46349.4	34703.8	35240.4	41424.8	61365.9	62567.9	79471.3
Traded value as a percent of market Capitalization	5.06	4.44	1.63	5.18	7.34	6.07	2.66
Market capitalization as a percent of GDP	11.78	8.56	8.09	8.77	12.17#	12.41	-
Paid-up value of listed stocks	8165.2	9685.0	12560.0	13404.9	16771.9	16647.0	18643.0
No. of listed entities	115	96	108	114	125	123	128
No. of Transacted Companies	67	69	81	92	102	87	83
NEPSE Index (point)	348.40	227.50	204.86	222.04	286.67	293.26	334.77

 # percent age computed on the basis of estimated GDP
Source: Nepal Stock Exchange Ltd.

5.5.1 NEPSE index increased by 41.51 percentage points and maintained at 334.77 points in the first 9 months of FY2005/06 compared to the same period of FY2004/05.

Securities Exchange Board (SEB)

5.6 Securities Exchange Ordinance, 2005, has been effective since September 23, 2005 to make securities market regulations standard, credible, competitive and transparent. The ordinance was necessary to implement the Corporate and Financial Governance Project assisted by Asian Development Bank to improve the security market.

5.7 To implement the Securities Exchange Ordinance, 2005, drafting of necessary regulations is underway. The "Nepal Securities Exchange Board Management and Operation Regulation" has been submitted to Ministry of Finance for its approval. In the same way, the drafts of "Regulations for the Permission for the Operation of Stock ", "Regulation for the Securities Business" and “Securities Listing and Issuance Regulation" have been prepared.

5.8 During the first 9 months of FY2005/06, Secondary Market Management of Government Bonds Regulation 2005 and Secondary Market Transaction of Government Bond Regulation, 2005 have been made effective for the purpose of managing transactions of Government Bonds through Stock Exchange.

5.9 For the capacity building of Securities Board, the Office of Company Registrar and for the modernization of Stock Exchange, the Corporate and Financial Governance Project is in under implementation. The following activities have been completed under the Project up to the 13th April 2006.

A. In order for establishing electronic transaction system in Nepal Stock Exchange, proposals have been invited from service providers and the process of selection has begun. And to increase professionalism of Nepal Stock Exchange, "Securities Exchange Market Governance Report" has been prepared.

B. Preliminary draft of Request for Proposal has been prepared to establish Management Information System in Securities Exchange Board (SEB), Nepal.

C. A study is in the process to evaluate the received proposals to establish the Management Information System in the office of Company Registrar.

5.10 To enhance institutional governance in Nepal, Securities Exchange Board, Nepal has published the proceedings of the seminar on "Corporate Governance: Principles and Practices". The Board has also organized awareness programs in collaboration with Institute of Chartered Accountants and Nepal Bankers' Association.

Nepal Stock Exchange Market Ltd.

5.11 Nepal Stock Exchange Market Ltd., during the first the nine months of FY2005/06, contributed Rs.22.58 million to the government treasury by collecting capital gain tax from the stocks trading. Such collection was Rs. 34.21 million during the same period of FY2004/05.

5.12 During the first 9 months of FY 2005/06, Nepal Stock Exchange Market Ltd. has also classified 56 of the 128 listed companies as 'A' class according to the Securities Listing Regulations, 1998. Out of 125 companies listed during the corresponding period of FY 2004/05, companies enlisted as class 'A' was limited to 48.

Stock Brokers

5.13 During the first 9 months of FY 2005/06, 24 stock brokers, 9 Issue Managers and 2 Market Makers have renewed their licenses from Securities Board and the number was same in the previous year FY 2004/05.

Mutual Fund and Unit Plan

5.14 With additional mobilization of Rs.1.17 billion worth of savings, the Citizens Investment Trust, during the first nine months of FY2005/06, collected funds totaling Rs. 6.20 billion under Employees Savings Scheme, Pension Plan and Investors Account Plan. Of the total amount collected during the review period of 2004/05, share of Employees Savings Scheme 69.2 percent, Citizens Unit Plan 12.0 percent, Investors Account Plan 2.6 percent and Pension Plan 16.2 percent. The collected amount has been invested in Government Bonds (28.7 percent), term deposits (6.3 percent), shares and debentures of the organized companies (4.6 percent), and participatory borrowing (4.3 percent). Remaining 56.1 percent of the fund is invested in call deposit of commercial banks. The Trust, in the review period of FY 2005/06, has paid Rs.639.60 million under its Repurchase and Refund Program.

5.15 Trading of the units issued by the Fund is continued after its listing in Nepal Stock Exchange, in September 2003. These units worth Rs.100 million have been brought into operation by the name of N.M.C. Mutual Fund under the management of NIDC Capital Markets Ltd. and NIDC as its trustee. Of the total investment of 100 million 71.73 percent was kept open for general public investors after allocating for the share of NIDC capital Markets and NIDC (15.0 percent) and for the unit holders of NCM First Mutual Fund-2050 (13.27 percent). The total value of fund was Rs.169.822 million and net asset value per share was Rs. 16.98 till mid-April 2006.

Challenges

5.16 The Securities Ordinance, 2005 has been enacted for the effective securities market regulations system. For the implementation of the ordinance, the necessary arrangement of legal provisions in line with international practices and the development of fair, dynamic and credible securities market is a challenging task.

5.17 Company Ordinance, 2005 has provisioned trustee for the issuance of institutional debentures. However, in the absence of regulatory mechanism for the trustee and other regulatory framework, there is a need for a separate Trust Act to promote joint venture investment, securities depository and other trustee work for the mobilization of financial resources from financial market.

5.18 Although the ordinance on securities, 2005 has authorized Securities Exchange Board for the regulation of the securities market, it hasn't provided autonomy related to employee and financial activities. It is necessary for the autonomy and capacity building of the board. It has to be immediately equipped with resources and manpower.

5.19 The access of the securities services, professionalism of the stock market and traders, institutional capacity and services are limited to the capital city only. It is a challenging task to change the present open tendering system into electronic system for greater transparency, efficiency and making services professional and extending it nationwide.

5.20 It is a challenging task to achieve stability in the stock prices. It is another challenge to making clear-cut arrangements for regulations concerning the involvement of Employees’ Provident Fund, Citizens’ Investment Trust and Mutual Fund. Their involvement in the market on the institutional basis would have been significant.

6. International Trade and Balance of Payments

6.1 The foreign trade situation has shown mixed performance, but balance of payments position remains favorable in FY2005/06. According to the statistics of the first eight months of the current fiscal year, there has been a significant increment in the volume of export and import. But the volume of the import is larger than that of export due to which trade deficits widened. Likewise, both imports and exports have been centered to India.

6.2 Investments could not be attracted as expected, due to lack of legal and institutional framework for the protection of investments, inflow and repatriation of capital, flexible labor policy, and standard accounting and auditing system in place for ensuring good governance in the private sector6. Performance of the tourism sector, during this FY, has also not been so encouraging. In the first 7 months of the FY2005/06, the inflow of foreign currency in service sector including tourism has decreased, and the remittance income has become the backbone of the economy of the nation.

Exports

6.3 Exports during the first eight months of FY2005/06 increased by 14.7 percent totaling Rs. 43.31 billion, compared to 4.6 percent growth in the corresponding period of FY2004/05. In the first eight months of FY2004/05, export value recorded was equivalent to Rs.37.77 billion. Exports to India rose notably, and the export to other countries has also improved so that the total growth rate of export during the review period remained encouraging. During the review period, the export to India has reached to 69.1 percent of total export while the exports to other countries stood at 30.9% as compared to 65.2% to India and 34.8% to other countries in the corresponding period of FY2004/05.

6.4 Exports to India, during the first eight months of FY2005/06, rose by 21.5% totaling Rs.29.91 billion, as compared to an increase of 19.5% during the corresponding period of FY2004/05. The export to India during the eight months' period of the last fiscal year was Rs.24.62 billion. During the review period, the export of major items that increased encouragingly in the export to India was mainly, polyester yarn, readymade garment, corrugated sheets, wires and the jute goods. In the review period, the main export items to India such as vegetable ghee and polyester increased by 3.9% and 159.0% respectively. The export of jute and jute made materials increased by 26.0%, corrugated sheet by 66.8%, wire by 69.9 % and chemicals by 0.6%. During the review period, the exports of GI sheets declined by 14.4%, textiles declined by 23.1%, other yarns by 16.0%, plastic made utensils by 24.8%, toothpaste by 34.8% and the export of pulses declined by 7.4%. Analysis of commodity wise classifications of export to India shows that in the first eight months of FY2005/06, the share of primary commodities rose to 29.9% from 28.9% in the corresponding period of FY2004/05 while that of manufactured goods decreased to 70.1% from 71.1 during the review period.

6.5 Third country exports in the first eight months of FY2005/06 increased by 2.0% totaling to Rs.13.40 billion where as in the corresponding period of last FY2004/05, export saw a decline of 15.3% with the export value of Rs.13.15 billion. This increase in third country exports during the review period of 2005/06 has been mainly due to the improvement in export of *Pashmina*, pulses, carpet, wooden handicrafts and processed leather. The export of garment, which is the major exportable item of Nepal, declined by 5.21 percent and the export of carpet showed marginal increment of 1.6%. Whereas export of Pasmina *increased* by 51.3% during the review period. However, the export of gold and silver ornaments and the Nepalese handmade paper items decreased by 8.0% and 14.0% respectively. Analysis of the commodity-wise classification of goods exported to third countries reveals that the share of primary goods has been 6.0 percent, while that of manufactured goods has been 94.0 percent. The shares of primary and manufactured goods stood at 8.1 percent and 91.1 percent respectively in the corresponding period of FY 2004/05.

Imports

6.6 Total imports during the first eight months of FY2005/06 increased by 27.9% totaling to Rs.117.48 billion in comparison to 6.2 percent increase (totaling Rs.91.87 billion) in the corresponding period of the last FY. The substantial increase of imports from India and other countries has contributed to substantial increase of imports during the review period. The share of imports from India is 63.3 percent, while form third countries is 37.7 percent. In the first eight months of FY2004/05, the share of imports from India was 58.3 percent while it is 61.4 percent in the first eight months of the current FY. Import from the third countries was 41.7 percent in the first eight months of the FY 2004/05 while it is 38.6 during the corresponding period of FY 2005/06.

6.7 Imports from India in the first eight months of FY2004/05 had increased by 10.9% totaling Rs.53.55 billion whereas in the same period of FY2005/06, it increased by 34.8% totaling Rs.72.17 billion. During this period, especially the import of goods like petroleum products, rice, yarn, medicines and chemical fertilizer increased substantially. The import of petroleum products, a major item imported from India increased by 38.2%. The increase in the import of goods like vehicles and spare parts increased by 6.8 percent, medicine by 26.4 percent, chemicals by 1.5 percent and other machinery and spare parts by 19.0 percent while the import of rice increased by 781.0 percent, synthetic yarn by 380.0 percent and chemical fertilizer by 175.9 percent during the review period. Analysis by commodity-wise classification of goods imported from India in FY2005/06 shows the share of primary goods and manufactured goods at 48.6 percent and 51.4 percent respectively, while it was 46.2 percent and 53.8 percent respectively during the corresponding period of FY 2004/05.

6.8 Imports from other countries during the review period of FY2005/06 increased by 18.2 percent totaling Rs.45.31 billion as compared to an increase of 0.3 percent totaling Rs.38.33 billion during the same period of FY2004/05. Main reason for such substantial increase in imports is attributable to increase in imports of raw palm oil, textile dye, palm oil, plastic granules and electrical appliances. There is an increase in the import of goods like raw palm oil by 133.4 percent, plastic granules by 112.6 percent, palm oil by 866.4 percent, textile dye by 1,028.3 percent, electrical appliances by 111.7 percent and zinc ingot by 78.2 percent while the import of garment, vehicles and spare parts, telecommunication equipments and spare parts, medicine and health equipments, copper wire, rods and sheets has also increased. Analysis of commodity-wise classification of goods imported from the third countries in FY2005/06 indicates that the share of primary goods and manufactured goods is 29.7 percent and 70.3 percent respectively while it was 25.2 percent and 74.8 percent respectively during the corresponding period of FY 2004/05.

Trade Balance

6.9 Though during the first eight months of FY2005/06 both imports and exports increased, the volume of import remained very high in comparison to export. The trade deficit during the review period increased by 37.1 percent amounting to Rs.74.17 billion. Trade deficit had increased by 7.4 percent totaling Rs.54.11 billion during the same period of FY 2004/05. During the review period of FY2005/06 trade deficit with India increased by 46.1 percent totaling Rs.42.26 billion, whereas trade deficit with other countries increased by 26.7 percent totaling Rs.31.91 billion. Trade deficit with India and other countries had increased by 4.5 percent and 10.9 percent respectively during the same period in FY2004/05. Of the total trade deficit, India's share has been 57.0 percent and the share of other countries was 43.0 percent during review period of FY2005/06. Such share of India and other countries was 53.5 percent and 46.5 percent respectively during the same period of last FY2004/05.

Balance of Payments

6.10 In the first seven months of FY2005/06, due to an encouraging increase in the remittance inflow current account surplus is being continuously maintained. As a result of this, the balance of payment remained favorable. In comparison to the first seven months of FY2004/05, during the review period of FY 2005/06, the current account surplus decreased by 44.9 percent limiting to Rs.4.83 billion while Rs.2.20 billion equivalent of capital transfers was made in the capital account. During the review period, the balance of payment surplus stood at Rs.13 billion.

6.11 Total exports (including the trade not registered in the customs offices) in the first 7 months of FY 2005/06 increased by 12.5 percent totaling Rs.37.92 billion while total import increased by 26.6 percent totaling Rs.100.77 billion. Thus, trade deficit in FY 2004/05 increased by 12.4 percent while it has increased by 37 percent totaling Rs.62.85 billion during the review period of FY2005/06. Revenue from tourism sector has decreased by 15.6 percent. Government revenue (not included else where) increased by 36.4 percent and the revenue from other service sector increased by 26.6 percent. As a result, total service sector income increased by 10.0 percent totaling Rs.16.39 billion during the review period. Payments for travel expenses have increased by 40 percent due to the increase in the number of outgoing Nepalese people. As a result of increase in transport expenses and other payment, total payments under Services category increased by 25.6 percent totaling Rs.18.82 billion in the review period of 2005/06 as compared to that of FY2004/05. Net service income, thus during the review period remained negative by Rs.2.42 billion. In the Income under Transfer Category, Remittances income increased by 48.2 percent totaling Rs.53.46 billion due to the increasing trend of Nepalese going to Malaysia and Gulf countries for employment. During the review period, the grants and pension decreased by 13.9 percent and 14.4 percent respectively. As a result, net transfer income has shown an increase of 22.8% totaling to Rs.68.06 billion. Under fiscal account, other investment assets increased by Rs.6.7 billion during the first seven months of FY 2005/06 as compared to Rs.18 billion in the corresponding period of FY2004/05. In other investment liability, government borrowing amounts- to Rs.2.75 billion, while payment of the principal amount equaled to Rs.3.40 billion. As a result, BOP accounts turned negative by Rs.650 million during the first seven months of FY 2005/06.

Foreign Exchange Reserves

6.12 Foreign exchange reserves, which was increased by 1.2 percent during mid- July to mid-February of FY 2004/05, increased by 11.3 percent during the first seven months of FY 2005/06 and totaled Rs.144.52 billion. Of the total reserve, the shares of Nepal Rastra Bank and the commercial banks are 78.5 percent and 21.5 percent respectively. Share of convertible currency in the total reserve is 94.0 percent and that of non-convertible currency is 6.0 percent during the review period of FY2005/06. Of NRB's reserve of Rs.113.43 billion equivalent in the review period of FY2005/06, share of convertible and non-convertible currencies remained 94.5 percent and 5.5 percent respectively. Of the total reserve of Rs.31.09 billion equivalent of foreign currencies held by the commercial banks, share of convertible currencies remained 92.5 percent and non-convertible currencies 7.5 percent. From the observation of the trend of imports during the review period of FY2005/06, total foreign reserve is estimated to cover 9.8 months of imports of goods, and 8.3 months of import of goods and services combined. During the corresponding period of last FY, the total reserve was estimated to cover 11.5 months of imports of goods and 9.7 months of import of goods and services combined.

Exchange Rates

6.13 During FY 2005/06, a mixed trend of exchange rates of Nepali Rupee vis-à-vis major foreign currencies was observed. In comparison to the rate of mid-July 2005 with that of mid-March 2006, Nepali Rupee depreciated by 1.49 percent against U.S. dollar which was appreciated by 4.71 percent during the corresponding period of last FY. In comparison to the rate of mid-July 2005 with that of mid-March 2006, Nepali Rupee depreciated by 0.02 percent and by 0.14 percent against Sterling Pound and Euro respectively. During the review period, Nepali Rupee appreciated by 0.42 percent against Swiss Frank, and by 4.14 against Japanese Yen.

Treaty, Agreements and Legal Provision

6.14 The transit treaty between Nepal and India has been renewed and an agreement has been signed with China for the customs free export of the Nepalese goods to China. A preliminary work has been initiated towards making Nepal a transit point between China and India during the current fiscal year 2005/06. Likewise, some important decisions on trade, investment and cooperation have been made in the meetings of South Asian Free Trade Area (SAFTA), BIMSTEC and World Trade Organization (WTO).

Box: 6(1)

Bilateral and Multilateral Treaty and Agreements

A. The treaty on transit between Nepal and India has been renewed on 1st April 2006. The treaty will be made effective from 1st January 2006 and will remain valid until January 5th 2013. The validity of the treaty was expired on 5th January 2006. At first the life of the treaty was extended only for three months. New provisions have been added in the treaty, protocol on implementation and memorandum.

B. An agreement between Nepal and China was signed to provide customs free facilities in the goods exported from Nepal to China on March 15, 2006. Nepal requested for customs free entry of about 1,500 items to export to the central China, Hong Kong and Tibet. Agreement has reached to grant such facilities to most of these 1,500 commodities. Among the goods Nepal demanded for such facility are primary agricultural goods, animal products, construction materials and consumption goods. Among the list of goods, hand made materials, fabrics, vegetable ghee, aluminum utensils, cement, iron rods, biscuit, incense sticks (aagarbatti), noodles are also included for such facility. The facility will foster the competitive capacity of the Nepalese goods in the Chinese market creating the possibility of new trade and also it will help diversify the market. This provision will help Nepal reduce the trade deficit between the two countries.

C. The High Level Direction Committee, formed by the Government of Nepal to make Nepal transit point between China and India, had decided on 23 January 2006 to proceed in consultation with the two countries. A Task Force under the governorship of the Vice-Chairperson of National Planning Commission had been formed to study for the development of Nepal as a transit point between China and India. The report of the task force has indicated the immediate, short term and long-term steps to be taken. It is suggested to conclude separate bilateral treaty between the two countries only after knowing their interest through consultations with both the countries in the first place.

D. In the 12th SAARC Summit meeting held in Islamabad on 6th January 2004, an agreement on South Asian Free Trade Area (SAFTA) was signed. According to SAFTA Agreement, in the first phase developing countries (India, Pakistan and Sri Lanka) and the least developed countries (Bangladesh, Bhutan, Maldives and Nepal) have to reduce their customs rates to 20 and 30 percent respectively during the period 2006 and 2008. Afterwards, India and Pakistan by 2013 and Sri Lanka by 2014 have to reduce their customs rates to 5 percent and less. In the same way, least developed countries have to reduce their customs rates to 5 percent and less by 2016.

E. The Ministerial level meeting of BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation)- Regional Organization established in June 1997 to increase economic cooperation among Bangladesh, India, Thailand and Sri Lanka - held on 8th February 2004 in Bangkok signed an agreement paper containing the concept of BIMSTEC Free Trade Area. The agreement of BIMSTEC Free Trade Area in goods trade will be effective from July 2006 and from July 2007 in investment and service trade. The member countries of BIMSTEC have formed Trade Negotiating Committee (TNC) to forward the program. Nepal has become the member of the organization in February 2004.

F. In the Minister level meeting of World Trade Organization, held in Hong Kong from 13th – 18th Dec, 2005, the developed countries have agreed to provide Duty and Quota Free Market Access for the 97 percent of exportable goods of the least developed countries out of total goods for 2006 to 2008. Developed and developing countries have agreed to discuss and liberalize the Cross – Border Movement of Persons for Work under Service Trade Mode 4.

G. In the meeting, the developed countries have declared to provide effective technical support to enhance the capacity of the poor countries. They have also declared to provide more effective technical support to enhance capacity and implement new program namely Aid for Trade for the poor countries.

Source: Nepal Rastra Bank.

6.15 The Government of Nepal has made the legal provision for the Non-Resident Nepalese to provide unlimited visa and provide other trading facilities and rights similar to those for the Nepalese till they invest in Nepal. In the present context of increased conflict and unfavorable economic situation which has influenced domestic and foreign investment, the Government of Nepal has brought out the ordinance in 10 September 2005, about Non-Resident Nepalese to attract the investment of rich Nepalese residing in foreign countries.

Box: 6(2)

Rights equivalent to citizens for Non- Resident Nepalese.

According to the ordinance about Non-Resident Nepalese, the Non-Resident Nepalese who invest in Nepal will be provided 10 years' visa to them and their families at first. The visa will be renewed for the next 10 years once the first visa period expires.

Non- Resident Nepalese can invest in foreign currency in the areas open for foreign investment in accordance to the existing laws of

Nepal. They are allowed to take back the profit in foreign currency whenever requested. This type of facility will be provided to the company holding 50 percent of investment by the Non – Resident Nepalese.

The government shall issue special identity card and such type of facility will be provided on the basis of such ID to Non – Resident Nepalese. The cardholders can operate and transact in foreign currency in all banks. They will be provided the facility equivalent to the Nepalese citizen to invest and reside in the country. All Non-Resident Nepalese can exercise this facility regardless of their investment.

The inflow of the investment in foreign currency from Non – Resident Nepalese should either be through the commercial banks or organizations, which have received permission of transaction from Nepal Rastra Bank. No source of the investment is required to declare unless otherwise demanded by the law. Provision of tax exemption has been made on the initial capital brought into the country for investment. In the ordinance, it has been provisioned that the aliens of Nepalese origin can purchase land, build resident and own it for lifelong.

Source: Trade Promotion News Service, year 34, issue 2, August/ September 2005

Challenges

6.16 Nepal has to fulfill some of the commitments made to become the member of World Trade Organization (WTO) by the end of 2006. It is a challenging task to prepare and enforce the acts, rules and regulations timely in line with the WTO provisions. There is a challenge of enhancing the capability of national service providers to enable them to compete with international service providers as we go along liberalizing this sector.

6.17 The present political development is likely to create conducive environment for restoring peace and bringing new opportunities for development activities. Immediately after the declaration of ceasefire, the increase in hotel booking indicates the improvement in tourism activities. Similarly, donor countries have shown their commitments for the physical reconstruction of infrastructures in the country. There is an indication of increased inflow of foreign loan and grants. It is expected that the displaced people to India will return back to their homes and accordingly the agricultural and other economic activities in rural areas will resume due to the improvement in the situation of peace and security in the next year. It is also estimated that due to the political stability, foreign investment will be increased and domestic industry and trade activities will be enriched and this will help to promote both import and export. It is a challenging task to establish permanent peace in the country in the absence of which all the sectors will face unfavorable impact.

6.18 In the past two years, the price of petroleum products has been doubled due to inadequate production against the demand for it and the security of the sources of the petroleum products. In 2006 and 2007, the monthly average price of petroleum is expected to be at US$ 68 per barrel. In this way, the price of petroleum products will be high and the increase of economic activities in the country will create additional demand, which will increase the total import of petroleum in the next year. Thus, it is a challenging task to attain higher export growth in order to minimize the impact of increased import.

6.19 The share of trade with India was only 47.0 percent in FY 2000/01, which has gradually increased, and in the 8 months of current fiscal year 2005/06 the share is estimated to be 66.0 percent of the total international trade of Nepal. In such a situation trade diversification becomes a challenge in order to increase the share of trade with other countries.

7. Poverty Alleviation and Employment

Poverty Alleviation

7.1 The analysis of poverty has multiple dimensions covering income, production and employment as well as aspects of human development, social and political inclusion. Indicators related to Human Development like the enrollment at the primary school level, infant mortality rate, average life expectancy at birth, access to safe drinking water, utilization of housing facilities, easy access to public services and also broader issue of inclusion are getting increasing importance. The issue of human rights, involvement in the decisions that affect their life, the implementation of those decisions and ultimately establishment of a democratic system where the people get the right to evaluate the implementation of those decisions are being included in the definition of poverty. In short, the definition of poverty is meaningful when it is defined embracing whole gamut of economic, social and political dimensions.

7.2 According to Income Poverty, threshold of the poverty line is estimated on the basis of purchasing power to access and consume the basic minimum requirement of goods and services. The monetary value of the aggregate basic goods and services is calculated and then measured whether it is below or above the hypothetical line of poverty. If it is below the poverty line, it is included in the definition of poverty. To facilitate international comparison, the Purchasing Power Parity (PPP) is also calculated. The percentage of poverty is identified by calculating the purchasing power of total population which is below the poverty line. According to the Nepal Living-Standard Survey II published by Central Bureau of Statistics (CBS) last year, 30.85 percent of the total population is poor

7.3 The meaning of poverty defined taking into account only income and consumption is narrow, so the social aspects like; health, nutrition, average life expectancy, access to safe drinking water, literacy rate, access to school are also taken into account. The analysis of human development indexes is being found relevant to be included in the poverty analysis.

7.4 In addition to economic and social dimension, political aspect, which includes human rights promotion, is also getting prominent in poverty analysis. The situation in which people cannot live with the feeling of peace and security, inability to take benefit of the opportunities, unavailability of choices, lack of free, self esteemed and respectful living condition, social stratification and exclusion, compulsion to live marginal life reflect the lack of human rights . This type of poverty is obviously terrible. It is a proven fact that without eradicating the poverty related to politics, the social and economic aspect of poverty cannot be ended. In this regard, the creation of economic, social, and political poverty free society is a burning issue for today.

7.5 With reference to the poverty eradication, it is essential to analyze the Incidence of poverty, Poverty Gap and Squared Poverty Gap. The Incidence of poverty denotes the number of population living under the threshold of poverty. Likewise, Poverty Gap denotes the distance of the people living under the poverty line from the threshold of poverty. Similarly, the Squared Poverty Gap shows the depth of disparity among the poor people.

7.6 The first Nepal Living-Standard Survey (NLSS) was conducted in Nepal in an organized and official manner in FY1995/96. During that time, the population below the poverty line was estimated approximately at 42 percent. The Central Bureau of Statistics has completed the second Nepal NLSS in 2003/04. It was revealed that 30.85 percent of total population is under the threshold of poverty. It was estimated that 9.55 percent in the urban and 34.62 percent population in rural area live below poverty line. In addition to this, it was estimated that the Poverty Gap was 7.55 and the Squared Poverty Gap was 2.7. Other main results of the survey are presented in Box 7 (1).

Box: 7(1)

Main Results

A. It was estimated that the population below the poverty line in the rural areas had declined by 8 percentage points (from 43 to 35%) and in the urban areas by 12 percentage points (from 22 to 10%) over the period of 8 years between 1995/96 and 2003/2004.

B. Over the period, there had been an improvement in the 'Poverty Gap'. It was estimated that a larger proportion of population lying below the poverty line had moved up closer to the poverty line.

C. The average per capita consumption expenditure in the year FY2004/05 was estimated to have gone up to Rs.15, 224 from Rs.7, 235 of the year 1995/96. The average per capita consumption figure in FY2003/04 turned out to be Rs.10, 318 at constant price of the year 1995/96.

D. The major factors leading to the significant leap in the per capita consumption expenditure over the years were remittances, average earnings and wages from the agriculture sector, income and wages from non-agricultural profession/occupation, proportion of economically active population and significant increase in urbanization etc.

E. Though there had been improvement in consumption level and poverty rate, disparity, meaning the gap between the rich and the poor, had widened over these two survey periods. The Gini Coefficient, indicating disparity, had gone up over the period from 0.34 in FY 1995/96 to 0.41 in FY 2003/04.

F. The proportion of household income shared by remittance has gone up from 6 percent to 10 percent over the two survey periods. During FY1995/96, the proportion of households receiving remittances as their income was 23 percent whereas in FY 2003/04 the proportion had gone up to 32 percent.

Monitoring of Poverty

7.7 Poverty Monitoring and Analysis System – PMAS is being institutionalized in the Poverty Monitoring Division of National Planning Commission. With the implementation of PMAS, earlier monitoring and evaluation system which concentrated only on financial and physical progress has shifted to institutionalize the evaluation and monitoring of sector wise output, effect and impact. For such monitoring an organized system with final impact and transitional process oriented indicators have also been taken into consideration. After the implementation of this system, there have been publications of 1st and 2nd year's progress reports on poverty reduction strategy. Similar progress report for the third year has gone for publication.

7.8 To strengthen the monitoring and evaluation system at the district level and reduce its weaknesses, a draft of District Poverty Monitoring and Analysis System has been prepared and sent to all the District Development Committees through Ministry of Local Development. In addition to this, interactions have been conducted with the personnel of District Development Committees in regard to the draft.

7.9 The support and feedback from the local people towards the result of development and the implementation of program/project is essential. Hence, to manage the process of public participation, the outline draft of participatory poverty monitoring has been prepared and it is being finalized. On the basis of participatory poverty monitoring system, 'Citizen Report Card' has been tested (piloted) to receive the response of the people of Rasuwa and Kanchanpur district in relation to education, health service, agriculture and veterinary service, electricity service and distribution of citizenship card.

7.10 To make the line ministries responsible to the expected result of the respective field and their appropriate evaluation, performance based evaluation system has been developed in consultation with concerned ministries.

7.11 Project Performance Information System – PPIS, prepared with the vision to manage the information and provide access of general public to the programs and projects performed by the government, has been updated and the entry of annual program and the progress report has begun.

Activities on Millennium Development Goals

7.12 The following activities have been performed during fiscal year 2005/06 towards analyzing and monitoring the achievement in the Millennium Development Goals (MDGs) to which Nepal has expressed commitment at international level:

7.12.1 The publication of second progress report, 2005 on millennium development goal has been made with the participation of different government organizations, civil societies, private sector and donors.

7.12.2 A report, after the completion of the MDGs Needs Assessment Study on program to be implemented to attain the goals, cost, and availability of resources, estimation and analysis of additional resources which are meant of internalize the MDGs, has been prepared. In the course of needs identification at the district level as a model, in Rupendehi the study of need identification study of millennium development goal is going on.

7.12.3 In course of internalization of the Millennium Development Goals, monitoring on the basis of the internationally identified indicators in the context of Nepal, the necessary indicators are being identified and by evaluating the poverty reduction strategy paper to make the planning process of coming plan target – friendly in view of MDGs, a sector wise study has been made and the report has been received.

7.12.4 Localizing Millennium Development Goals, receive the information of additional classified level to achieve the goals and support to make the local development and planning formulation process MDG friendly, the progress reports of 5 districts Kanchanpur, Banke, Chitwan, Bhaktapur and Morang districts are being prepared.

Immediate Action Plan

7.13 For the effective implementation of poverty reduction strategy, different reforms programs have been undertaken. The important reform programs to be undertaken throughout the whole year are brought under immediate action plan and the management of effective monitoring of them is being made since last years. In this process, immediate action plan, 2005/06 has been approved which includes different 21 programs. The plan includes in addition to other things, enactment of new acts and amendment to the existing acts such as good governance, special economic zone/export processing zone, public procurement, pension fund, secure transaction, insolvency and company acts. The IAP also includes, use of transparent and automatically adjustable price formula for consumer price of petroleum products in congruence with international market price, and full devolution of authority to local bodies. Among the above, ordinances about good governance, secure transaction, insolvency and company have been promulgated while the draft of public procurement bill has been finalized.

Economic Reform Technical Assistance Program

7.14 To expend and utilize the technical assistance received from different donor organizations and countries for assisting in the reform programs of our needs and priority initiated by the government, the government has begun the economic reform program in this fiscal year. The government has completed the following major activities under one umbrella of this TA program:

7.14.1 The agreement with World Bank has been effective since 28th Nov. 2005. The fund will be used in accordance to the existing system of budget allocation, release and accounting procedure and practices.

7.14.2 For the 13 pre-identified programs, the steering committee has allocated more than Rs70.0 million. Accordingly of the 13 such programs 8 memorandum of understanding has been signed with different implementing institutions, and implementation has already begun.

7.14.3 In another activity, project proposals are called from government organizations who are interested to receive the budget from opportunity fund. A provision has been made to evaluate the received proposals competitively.

Poverty Alleviation Fund

7.15 A Poverty Alleviation Fund (PAF) has been established as an autonomous institution through a separate Act- 'Poverty Alleviation Fund Ordinance 2004, to implement the targeted programs to improve the situation of the lower strata of the society caught up in absolute poverty, addressing Government of Nepal's Poverty Reduction Strategy (PRS) and the third pillar 'targeted program' of the strategy of the Tenth Plan.

7.16 The Development Grant Agreement and Project Agreement for the grant assistance equivalent to US$15.00 million has been signed between Government of Nepal and the World Bank in 2004 for the Fund. The PAF signed the Project Agreement in August, 2004. Further more, the Subsidiary Grant Agreement between Government of Nepal and PAF is signed in November 2004. The Fund has prepared Operational and Financial Manual, Environmental Assessment Framework and PAF Rules as a part of managerial responsibility for the effective and efficient functioning of PAF and for the execution of the Poverty Alleviation Programs. Similarly, the Fund has prepared Social Mobilization Guidelines and Sensitization Tools.

7.17 The Fund has already started its activities in close and active participation of poor and deprived groups of people of the society. The reduction of ultra poverty is the main objective of PAF in the program intensive districts.

7.18 The Fund has started to support the programs formulated by the active participation of the targeted community. Similarly, the Community Organizations (COs), representing the targeted community, have been formed and capacitated for the program implementation. Similarly, as the Partner Organizations (POs), NGOs, Community Organizations, Private Organizations and Local Bodies (DDCs/VDCs) are mobilized to support and co-operate the community.

7.19 These POs are responsible for providing the technical support as well as facilitating COs in social mobilization, capacity building and skill development trainings, institutional development of COs, and designing and implementations of community projects/sub-projects. They also help in coordination and establish linkage between PAF and COs. PAF's programs have been implemented in selected 6 pilot districts viz. Darchula, Mugu, Pyuthan, Kapilvastu, Ramechhap and Siraha. Beside these districts, PAF has extended the program in additional 19 districts from the current fiscal year 2005/06. The additional 19 districts are – Achham, Baitadi, Bajhang, Bajura, Dadeldhura, Dailekh, Dolpa, Doti, Humla, Jajarkot, Jumla, Kalikot, Mahottari, Rasuwa, Rauthat, Rolpa, Rukum, Sarlahi and Sindhuli. Along with the extension of the program the Fund has extended the program in 25 very poor districts. In addition to these districts, the Fund has been conducting its programs by selecting innovative proposals. In FY 2005/06, a total of 210 POs are selected and signed Agreement for social mobilization, institutional capacity building and providing facilitation support for preparation of community proposals.

7.20 Furthermore, 1,269 COs are formed and registered with the PAF covering 373 VDCs of 14 districts while 1,163 have signed agreement for project implementation. Out of total 1,163 community project under implementation phase, 1,076 are working in lead pilot districts and rest 87 are in other districts under innovative programs.

Employment

7.21 A separate provision for survey, projection and estimation of employment has not yet been established. The Tenth Five Year Plan (2002 -2007) estimates that additional 1.053 million employments (Job opportunities) will be created during the plan period. Productivity increases in different sectors of the economy and their inter-sectoral linkages are thought to generate new employment opportunities. So the composite inter linkages of the sectors are estimated to generate a total of 11.012 million jobs by the end of the Tenth Five Year Plan. As mentioned in the Tenth Five Year Plan, by the end of the plan period (FY 2005/06), a total of 11.580 million populations would reach the economically active level, out of which fully unemployed population would be only 4.1 percent. The situation of underemployment is estimated to go down to 22.3 percent by the end of the Plan period. It has been realized difficult to estimate the employment in the absence of credible survey system.

7.22 Since the main objective of the Tenth Five Year Plan is the reduction of poverty by generating employment opportunities, various policies aimed at poverty-reduction have been introduced accordingly. Such programs and policies are aimed towards expanding economic and social development works, promote labor intensive activities to increase the access of the poor, and for the economically disadvantaged region, people and communities will be the target groups to be addressed by the programs, in order to generate employment opportunities. Similarly, increase in business efficiency and the aspects of protection of basic rights of workers will be handled in a balanced way. In the same way, the policy also includes the maximum utilization of foreign employment opportunities by increasing the number of skilled manpower. Even though, the updated information on employment opportunities created through the policy and programs, has not been received.

7.23 Some reform measures on policy-level and legal framework have been undertaken under the Ministry of Labor and Transport Management. The Labor and Employment Policy, 2005 has been implemented for the creation of investment-friendly environment, productive, indiscriminate, equal, morale, safe and fair opportunity of work, and to help support in the global economy, and the development and management of labor market. Preparation of Foreign Employment Act has already begun. Interaction with the stakeholders for the amendment to the Foreign Employment Regulation has been completed. These initiatives will support to make foreign employment well organized, legally regulated, transparent; service oriented and disciplined foreign employment market. At the same time with this legal framework in place, rights of the labors working abroad will be protected. Labor emigration policy is at the final stage of preparation to manage and simplify the access of labor to foreign labor market. Under the self-employment job training and skill development training 4000 youth got trained in 17 different trades.

Box: 7 (2)

Labor and Employment Policy, 2005

Long Term Goal:

The long term goal of 'Labor and Employment Policy, 2005' is to create investment friendly environment, provide productive, indiscriminate, exploitation free, disciplined, safe and fair working environment to the active labor force, and assist to develop internationally competitive national labor market.

1. By creating the investment - friendly environment, all the manpower of the nation will be provided the opportunities of productive and full employment and there by facilitate the way of sustainable economic development.
2. Practice of forced labor including bonded labor will be eradicated. The international standard of labor will gradually be practiced in the work place of formal and non-formal sector in order to increase productivity through establishing good labor relationships.
3. The system of social security will be developed which will be inclusive of non-formal sectors. The labor market will gradually be made safe, fair, competitive and flexible including the development and promotion of entrepreneurship safety and health.
4. Employment and self-employment opportunities will be increased by developing quality multi-skilled human resources.
5. Ensure the equal access of female, dalits, indigenous people and displaced people to employment.
6. Eradicate child labor.
7. Make labor and employment administration effective, capable, fast and efficient.

Source: Labor and Employment Policy, 2005, Ministry of Labor and Transportation Management, Singhdurbar, Kathmandu.

7.24 The employment exchange service project under the Department of Labor and Employment Promotion is performing some important tasks. Collection of information about labor market, preparation of questionnaire for survey and to prepare the curriculum of five subjects, consultation with subject specialist is in progress by the project. In this regard the curriculum of painter, waiter, housekeeping, plumbing and general mechanics has been prepared and sent to concerned agency. The project since 1980/081, with its establishment, to 2004/05, in accordance to the standard of International Labor Organization (ILO) and Development of Curriculum Model (DACMM) and Module of Employable Skills Chart (MOESC) has already prepared and revised 90 curriculum of basic semi-skill and upgrading training in order to address the demand from labor market and to bring uniformities and maintain standard among the trainings provided by Skill Development Training Centers and Vocational Training Centers.

7.25 Skill Development Training and Entrepreneurship Development Training are conducted under the Department of Cottage and Small Industry Development. According to the objective of the Tenth Plan-poverty reduction, skill development an entrepreneurship development programs are being conducted to promote and develop cottage and small industry. In fiscal year 2004/05, 1-6 months training for 2,700 persons, short term training for 810 persons and the special program for 1,350 persons were targeted against which the progress was higher. Similarly, entrepreneurship development training program for 1,890 persons was targeted while 2,006 persons received the training. In the first 8 months of the FY 2005/06, the trainings provided under the department are significant. During this fiscal year, 2000 persons were targeted for the 1-6 months training out of which in the first 8 months of current year 1,185 persons have already received the training. Short term training was targeted for 700 persons out of which 608 have already received the training whereas the target of special training was 720 persons out of which 520 persons have already received the training during the first 8 months of the current fiscal year, 2005/06. In the same way, 1,620 persons were targeted for entrepreneurship training while 845 persons have already received the training in the first 8 months of the current fiscal year. In this way, skill development training supports for self employment and capacity building and provides opportunity to find out the high skill employment.

7.26 To promote employment and self-employment, different kinds of trainings were conducted under the Ministry of Woman, Children and Social Welfare. In order to empower and increase the participation of women in the civil service exams to be conducted by the Public Service Commission, preparation classes for the post of the non-gazetted Class I level were conducted in Hetauda, and Biratnagar. 118 female are trained against the annual target (100 persons) of fiscal year 2004/05. Similarly, Single Women Group, Kathmandu has received grants to conduct skill development training. Under the mainstreaming for gender equality program under the Ministry, conflict affected women group members have received the seed money amounting to Rs.14 thousand. Sixty one persons have received orientation training on gender equality, human rights and CEDAW and 78 persons have received self-confidence building training. Similarly 1,230 group members have received the saving and credit training under this program. In order to formulate gender sensitive plan and program, gender issue training was provided to district level Gender Focal Points (GFPPs). Similarly, in order to increase the participation of female at the level of policy formulation, preparation classes for 30 candidates competing for the post of Under-Secretary level has been conducted. Counseling workshop for 333 female was also organized in order to increase their participation in the civil service.

7.27 Long term and short term trainings had been conducted during FY 2004/05 through Council for Technical Education and Vocational Training (CTEVT). Long term trainings were targeted for 8,057 persons out of which 6,556 persons completed the training while short term trainings were targeted for 3,715 persons against which 5,058 persons completed the training. Skill test examination of 2,030 persons (double against the target) was conducted against the target of 1,000 persons. In the first 6 months of the FY 2005/06, CTEVT has provided long term training for 6000 people while 4963 people have received the short term training. In the same way, in the first 8 months of current fiscal year, skill test of 900 people has been completed.

7.28 Nepal Academy for Tourism and Hotel Management (NATHM), in FY 2004/054 has altogether imparted training to 1402 people out of which 1122 were imparted training through internal resource mobilization and rest 280 received training under development program. NATHM has trained 641 people with its internal resources and 107 people trained under the development program during the first 8 months of FY 2005/06. With the loan support of Asian Development Bank (ADB), the construction of training hotel has been completed which is now being used for complete practical trainings. NATHM, in order to arouse interest, promote and encourage investing in tourism enterprises by the people in rural areas has conducted trainings. In the same way, the Academy has prepared curriculum to conduct trainings identifying the needs of small or big tourism industry in the urban area. In the earlier phase, the Academy used to provide only the basic and supervisory trainings, it has begun providing one year diploma in Accommodation Operation since 1997/98 and 3 year Bachelor in Hotel Management since 1999/2000. Similarly, the Academy has been conducting 3 batches for 90 persons, a three year Bachelor in Travel and Tourism Management Course since 2003/04. Through the different trainings activities conducted by the NATHM, the qualitative production of required qualified manpower is being increased. Since the trainings provided by the Academy are skill and enterprise orientated, there are the increased possibilities of the opportunities of employment for educated and semi-educated youths.

7.29 Industrial Enterprises Development Academy (IEDA) has also been providing different skill trainings. Among the programs conducted during FY 2004/05 by IEDA are short term enterprise creation training, training for trainers, new enterprise creation training, extension and development of short enterprise, training on research on different subjects, and enterprise awareness raising program are the main. Specially, these programs contribute people to be self-employed. Among the trainings conducted by the Academy the major trainings are - creation of short enterprise program for 210 people, and has conducted trainers' training for 100 people, extension and development of short enterprise training for 30 people, enterprise awareness raising program for 75 people. During the fiscal year 2004/05, the Academy achieved the progress higher than 90 percent against the annual target contributing in the creation of employment and self-employment. In the first eight months of the current fiscal year 2005/06, the above mentioned activities are being conducted and the progress is found to be satisfactory with additional contribution to employment.

7.30 The number of people visiting abroad for foreign employment has been increasing annually in Nepal. The number of persons granted official permission for foreign employment reached 453,722 by the end of FY 2003/04, as compared to 591400 persons receiving such permits at the end of FY 2004/05. Additional 123279 persons were granted permission for foreign employment during the first eight months of FY 2005/06. Altogether, the number of people who have gone abroad for foreign employment by mid-march 2006 stood at 714,679 which is given in the following table 7 (A):

Table 7 (A): Country-wise Foreign Employment

S.N.	Country	Number during FY 2004/05	Number during first 8 months of FY 2005/06	Total number	percent
1	Saudi Arabia	131,683	10,844	142,527	19.95
2	Qatar	148,152	39,397	187,549	26.24
3	UAE	63,585	10,824	74,409	10.42
4	Bahrain	4,853	329	5,182	0.73

5	Kuwait	8,760	471	9,231	1.29
6	Oman	758	28	786	0.11
7	Hong Kong	3,167	97	3,264	0.45
8	Malaysia	220,505	60,541	281,046	39.32
9	Korea	5,480	31	5,511	0.77
10	Other countries	4,457	717	5,174	0.72
10.1	Israel	-	592	-	-
10.1.1	Only female in Israel	-	568	-	-
Total		591,400	123,279	714,679	100.00

Source: Department of Labor and Employment Promotion.

7.31 Country-wide data shows that Malaysia (39.32 percent) is the major destination for foreign employment where 281,046 Nepalese are working followed by Qatar (26.24 percent), Saudi Arabia (19.95 percent) and UAE 74,409(11.0 percent).

7.32 In the first 8 months of current fiscal year 2005/06 or up to the mid-March, 2006, 123279 people have visited abroad to look for employment out of the total number, only in Malaysia 60500 people visited. Similarly, in the first 8 months of the current fiscal year 39400 and 10800 Nepalese people visited Qatar and Saudi Arabia respectively.

7.33 As the table 7(A) shows that during the first 8 months of FY 2005/06, the number of Nepalese visiting other countries for employment is 717 out of which 592 people visited Israel for employment. In this way, the trend in comparison to the traditional destination countries Israel has become the new destination for employment. Another interesting fact observed is that out of total 592 people who visited Israel 568 (95.95 percent) are female.

7.34 During the FY 2004/05 foreign employment related issues such as – complaints, claimed money, payment settlement, cases filed in court, companies liquidation new manpower company registration, renewal and approval of foreign labor registered at the Department of Labor and Employment Promotion are presented in the following box 7 (3).

Box 7(3)

<u>Number of complaints, registration, renewal and labor approval during FY 2004/05</u>

1. Complaints:
   - Personal complaints: 305
   - Personal complaint claimed amount: Rs 156986824
   - Personal complaint settlement amount: Rs 14410625

- Complaints on behalf of company: 500
- Complaints on behalf of company and claimed amount: Rs 65070084
- Clearance on behalf of company amount: Rs 22778015
- Cases filed in Kathmandu District Court: 75
- Cases dismissed: 16

2. Registration of institutions:
   - Manpower company: 44
   - 29 institutions enlisted to conduct orientation training.
   - Dismissal of orientation training: 1 (one)
   - Dismissal of the share registration of licensed manpower company for foreign employment: 6 (six)
   - Renewal of manpower company: 334
3. Registration of Trade Union / Renewal
   - Registration of Trade Union Organization: 16
   - Registration of Federation: 1
   - Renewal of Trade Union Organization: 15
4. Approval of Labor:
   - The number of approval for foreigners to work in Nepal: 137

Source: Department of Labor and Employment Promotion.

Challenges

On Poverty Alleviation

7.35 Due to the inability of sustainable development of agriculture, under-employment and disguised employment are still prevalent. Consequently, agriculture has become to be less productive and less income oriented and is only for livelihood. Hence, the development of agricultural sector and sub-sector to reduce poverty is a challenging task.

7.36 Non-agricultural activities are concentrated only in urban areas and the effect of non-agricultural activities is not realized in the rural area because of which the poverty gap is clear. Reducing this gap is a challenging task.

7.37 The human development index and human empowerment indexes are still low. Poverty is defined in terms of economic, social and political dimension. Hence, balancing development of these dimensions is a challenge.

7.38 In reference to alleviation of poverty, the need of policies and programs which address the poor population, poverty gap and depth of poverty are still lacking and provision of such policies and programs is still a challenge.

On Employment

7.39 If skilled, trained and qualified manpower could be sent for foreign employment, they would significantly increase the remittances and status. So, preparation of quality manpower is a challenge.

7.40 The management for the supply of manpower in accordance to the country specific demand has become an urgent task. Neither the supply of manpower with sufficient training and orientation could have been improved nor could the collection, projection and analysis of country specific information have been done. Both of these aspects are challenging.

7.41 There is a need of procedural reforms to wipeout the anomalies found in the field of foreign employment.

7.42 The problem of standard measurement of trainings provided in the country which seem to insufficient is still a challenge.

8. Agriculture, Industry and Tourism

Agriculture:

Production Status:

8.1 There is a preliminary estimation that Nepal's total production of food crops (paddy, wheat, maize, millet, barley) is expected to decline by 1.43% or 111 thousands metric ton and, thus, limiting to a total of 7.656 million metric ton in current FY 2005/06 (2062/63) as compared to the previous year. Such production was expected to touch a mark of 7.767 million metric ton in last fiscal year. In fiscal year 2005/06 (2062/63), the total area covered by food crops is estimated to increase by 0.23% totaling to 3.36 million hectare. The achievement of agriculture sector has not been satisfactory as a result of inadequate expansion rate of the area covered by agricultural crops and the declining trend of agriculture production. In the current fiscal year, entire production of food crops has been adversely affected due to decline in the production of paddy, wheat and barley crops owing to the adverse weather condition.

8.2 In fiscal year 2005/06 (2062/63), the production of oilseeds (mustard, yellow mustard or sarsyon or sinapes glauca, sunflower etc.) is estimated to have limited to 139 thousands metric ton with a net decline of 1.99% as compared to the last year. There is a preliminary estimation of negligible increment in the area covered to get to 188 thousands hectare. The production of oil crops in this year is estimated to be gone down as a result of the absence of winter rainfall in oil crops producing key terai districts and late rainfall in some places. In the current fiscal year it is estimated that the area and production of potato crops would be increased and the production of tobacco would be decreased. Similarly, the area and production of sugarcane is estimated to be increased and the area, production and productivity of jute crops are estimated to be gone up as well.

8.3 In the current fiscal year, the total production of pulse crops is estimated to decline from 271 thousands metric ton to 267 thousands metric ton with a net decline of 1.42% as compared to the previous year. Similarly, the fruits production is estimated to decline by 2.4% from 548 thousands metric ton to 535 thousands metric ton. The vegetable production is estimated to increase by 4.86% in current fiscal year. Since vegetable farming is being done in present days as a principal cash crop in place of other crops, it is found that the area and production of vegetables have been frequently going up and the living standard of the vegetables farmer is also estimated to have improved significantly.

8.4 In fiscal year 2004/05 (2061/62) the share of food crops and cash crops in the production of principal agricultural crops was 65.5% and 34.5% respectively, while in fiscal year 2005/06 the share of food crops and cash crops is estimated to revolve around 62.5% and 37.5% respectively. Similarly, to reciprocate the trend of fiscal year 2004/05 (2061/62), in fiscal year 2005/06 (2062/63) as well, there has not been any substantial change in the share of the area covered by the food crops and that by the cash crops in the total cropped area, and their shares are estimated to remain at 89% and 11 % respectively.

The Production Status of Principal Food Crops:

8.5 **Paddy:** Having occupied more than half share of principal food crops, the rate of production of paddy is estimated to go down, the area of paddy cultivation is estimated to increase slightly, and the production rate is estimated to decline. In the current fiscal year, the production of paddy crops is expected to decline by 1.88 % from 4.29 million metric ton to 4.209 metric ton only as compared to the preceding fiscal year. It is expected that the area covered by paddy crops would be slightly increased by 0.5% to get to 1.549 million hectare and the rate of production would be declined by 2.35% to confine to 2,717 kg. Per hectare. The productivity came down due to the use of young and matured seeds and the delayed cultivation of paddy crops characterized by prolonged drought from the second week to last week of July; and heavy rainfall and snowfall in the beginning of October also adversely affected the entire production of paddy crops.

8.6 **Maize:** The production of maize in this year is expected to increase slightly by 1.07% to 1.734 million metric ton as compared to the previous year's production of 1.716 million metric ton. In the current year, the area covered by maize crops and its production rate is expected to have a gradual increment of 0.12% and 0.95% respectively and, thus, to arrive at 851 thousands hectare and 2,038 kg. per hectare respectively. In totality, there has not been satisfactory increase in the production of maize as compared to the past years owing to the protracted drought.

8.7 **Wheat:** In fiscal year 2005/06 (2062/63), wheat production is estimated to comedown to the level of 1.394 million metric ton with a net decline of 3.35% to the preceding fiscal year. The main reasons for such decline in the production of wheat for the first time in 5 years period are characterized by lack of winter rainfall, reduction in the cultivable land area and supply of agriculture tools and materials are affected immensely as well which, in turn, is expected to have declined the total production of wheat. The area of wheat cultivation, having declined by 0.56%, is estimated to be of 672 thousands hectare, the same of which was 575 thousands hectare in the last year.

8.8 **Barley:** The area covered by barley crops and its production is estimated to be declined. As the area of barley crops has come down by 0.76%, the production is also expected to be dwindled by 4.55%. The total area of barley cultivation and its production in this year is expected to remain at 26,227 hectare and 786 metric ton respectively. The main reason for the decline in the area of barley cultivation and its production is mainly found to have attributed to increasing attraction of the farmers to other crops and adverse weather (climatic) condition.

8.9 **Millet (Kodo):** The production of millet is expected to increase by 0.38% from 290 thousands metric ton in last year to 291 thousands metric ton in this year. It is expected to have increased the area of its cultivation by 1.09% in this year owing to the fact that paddy could not be cultivated in some districts and instead millet was cultivated in such areas. The productivity is estimated to have declined by 0.71% from 1,120 kg per hectare in last year to 1,112 kg per hectare due to unexpected climatic or weather condition.

The Status of Cash Crops Production:

8.10 **Sugarcane:** Cultivated as a principal industrial crop, the area covered by sugarcane is expected to have increased by 5% to arrive at 62 thousands hectare in this year and its production is expected to have increased by 3.64% to make a total of 2.463 million metric ton.

8.11 **Oil seed:** As compared to the last year, the production of oilseed is estimated to have declined by 1.88% and, thus, to come down to 139 thousands metric ton. The area of oilseed crops cultivation is preliminarily expected to have increased by negligible portion to reach a total of 188 thousands hectare. It is expected to have declined the production of oilseed crops as a result of the absence or lack of winter rainfall in oilseed crops-producing key Terai districts.

8.12 **Potato:** In the current fiscal year, the potato production, area of potato cultivation and rate of production is expected to have increased by 13.57%, 2.78% and 10.5% respectively to reach the level of 1.975 million metric ton of potato production, 151 thousands hectare of cultivable area, and 13.1 metric ton per hectare of the productivity. The productivity of potato crops has been significantly increasing in recent years due to the use of advanced technology and improved seeds.

8.13 **Tobacco:** The production of tobacco is estimated to have decreased by 9.88% to come down to 2,718 metric ton in this fiscal year. The trend of reduction of the area of its cultivation is seen to have continued for past years. The area of tobacco cultivation was estimated to be 3 thousands hectare in last year which was declined by 9% in this year to be confined to the level of 2,733 hectare. The same is expected to have occurred because of the diminishing inclination of the farmers towards tobacco crops.

8.14 **Jute:** Only produced in six districts of Eastern Development Region of Nepal namely Jhapa, Morang, Sunsari, Saptari, Siraha and Udapur; the production, area and productivity of jute is estimated to have increased by 5.7%, 2.2% and 3.5% respectively.

8.15 **Pulses:** In this fiscal year, the total production of pulses is estimated to have declined by 1.42% as compared to the preceding year i.e., to be restricted from 271 thousands metric ton to 267 thousands metric ton. The area of cultivation is also estimated to have reduced by 1.02% to come down from 317 thousands hectare to 313 thousands hectare. Despite having good production of summer pulse crops, decline in the production of winter pulse crops has resulted in the reduction of entire production of pulses.

Table 8 (a): Productivity of Agricultural Crops

(Kg/hectare)

	Fiscal Year	
Productions	**2004/05 (2061/62)**	**2005/06 (2062/63)***
Food crops	2,317	2,279
Paddy	2,782	2,717
Maize	2,019	2,038

Wheat	2,134	2,074
Millet	1,120	1,112
Barley	1,101	1,059
Pulses	856	853
Horticulture		
Potato	11,846	13,090
Vegetables	11,500	11,500
Fruits	9,964	9,476

* Estimation

Source: Agriculture Promotion and Statistics Division, Ministry of Agriculture and Cooperative

The Status of Production of Other Crops:

8.16 **Fruits:** As compared to the previous year, the production of fruits is estimated to decrease from 548 thousands metric ton to 535 thousands metric ton in this year resulting in a decline of 2.4%. On the other hand the area of fruits cultivation is expected to increase from 55 thousands hectare to 56,445 hectare with an increment of 2.63%. The total production of fruits is expected to be declined due to the reduction in the production of mango and apple.

8.17 **Vegetables:** In this fiscal year, the production of vegetables crops is expected to increase from 2.081 million metric ton to 2.182 million metric ton with an increment of 4.86%. The area covered by vegetable crops is expected to remain at 189 thousands hectare. It is found to have frequently increased both the area covered by vegetable crops and its production owing to the increasing inclination of the farmers towards doing vegetable farming as a means of principal cash crops to replace other crops.

8.18 **Spices (Masala):** The area covered by and production of spices like ginger, garlic, turmeric, cardamom etc. is found to have increased slightly. All of the area of cultivation, production and productivity of cardamom, turmeric etc., have increased. The area of cultivation, production, and productivity of chilly (pepper) crops are found to have significantly improved in this year.

8.19 **Tea, Coffee, and Cotton:** Among the industrial crops like tea, coffee and cotton, the area covered by and the production of these crops are expected to have increased significantly.

8.20 **Honey:** The numbers of beehive (honeycomb) in this year are expected to reach a total of 132 thousands 1 hundred which is increased by 1.62% as compared to the previous year's total of 130 thousands beehives. The total production of honey product is expected to be increased by 22% to get to the figure of 734 metric ton. Despite the shortage of wild bees of mudhe, khope etc. in beehives, the overall production of honey product has been increased due to the significant increase in the number of modern bees like serena and molifera.

8.21 **Horticulture Farming :** It is estimated to have a transaction of about 216.2 million rupees of horticulture farming in this year. This figure is about 10 million rupees in excess of the amount of last year.

Status of Livestock Products:

8.22 **Number of Animals / Birds:** The number of oxen (cow/ox) in fiscal year 2005/06 (2062/63) is estimated to be at 7.003 million with an increment of 0.12% over the last year. Similarly, the number of buffalo / male buffalo is estimated to have increased by 3.02% as compared to last year to get to a total of 4.25 million. The number of sheep is estimated to have increased by 0.57% to come down to 812 thousands as compared to last year, the number of she-goat/he-goat is estimated to have risen by 3.75% and reach at 7.422 million, and the number of pig/boar is also estimated to reach at 961 thousands with an increase of 1.38% as compared to last year. As regards birds, the number of chicken is expected to rise by 1.89% from 22.8 million to 23.2 million in fiscal year 2005/06 (2062/63). The production of chicken has not been increased as per expectation due to the rumor of bird-flu spreading out. Similarly, the number of ducks/goose is expected to reach the mark of 393 thousands with an increase of 0.27%.

8.23 **Milk:** In the current fiscal year 1.312 million metric ton of the milk (except Yak) from cow and buffalo is expected to be produced which is 2.97% in excess of the last year. Of the total milk production, the contribution of cow and buffalo is estimated to be 29.4% and 70.6% respectively.

8.24 **Meat Products:** As compared to the preceding year, the total production of meat is estimated to have increased by 2.03% to arrive at 219 thousands metric ton. Of the total meat production, 64.8% is expected from male buffalo, 1.25% from sheep, 19.5% from goat/he-goat, 7.2% from pig, 7.1% from chicken, and 0.10% is expected from duck to contribute.

8.25 **<u>Eggs:</u>** The total production of egg is expected to be increased by 1.32% from 590.1 million numbers in last year to 597.9 million numbers in this year of which 97.7 % from chicken and 2.3% from duck is estimated to be produced.

8.26 **<u>Fish:</u>** In fiscal year 2005/06 (2062/63), the total production of fish products is estimated to reach at 45 thousands 7 hundred metric ton with an increment of 7.74% over the last year. The production of fish products was 42 thousands 5 hundred metric ton in last year. Of the total fish production, about 50% from fish ponds and remaining from other natural sources are estimated to be produced.

<u>Impact of Monsoon/Weather:</u>

8.27 Especially the Terai districts of Eastern and Central Development Region were affected badly by the prolonged drought occurred during the second week to the last week of July last year. An average of less than a half of the normal rainfall was recorded in this region during that period. On the other hand in the same period, because of the substantial rainfall recorded in Terai districts of Far Western, Mid Western, and Western Development Regions caused a positive impact on paddy crops. The precipitation recorded in the month of May-June was about 64% of average rainfall, in June-July 93%, in July- August 117% and in the month of August-September 73% of average rainfall was recorded. In this way, the production of paddy crops was affected badly owing to the fact that the rainfall recorded in July- August was the sole case of excess rainfall than the average one but rainfall recorded in other months was less than the average trend of precipitation. The maize crops were also poorly affected due to the occurrence of adverse rainfall and prolonged drought. The weather conditions also proved to be unfavorable for winter crops especially for wheat, mustard, pulses and fruits. The winter rainfall recorded was far lesser than the average precipitation during four months starting from mid-November to the second week of March as a result of which this year's winter turned out to be an extremely drought winter for the first time in last twenty five years. The drought is found to have been one of the biggest natural calamities of this year. The adverse effect brought about by drought is found to be excessive on summer crops especially paddy and on the winter crops as a whole.

Chemical Fertilizer and Improved Seeds/Seedlings:

8.28 **Chemical Fertilizer:** Following the establishment of Agriculture Input Company Ltd, the company has been pervasively selling and distributing the chemical fertilizers in the country as per the demand of the farmers. The company, with a view to ensuring effective supply system, has continued to purchase the fertilizers as per its needs directly from manufacturing company, its authorized dealer or also from such trading concerns to have gained expertise in fertilizers' trading. In addition to the trading of chemical fertilizers, the company has proceeded forward to studying the potentials of trading of other chemical fertilizers, micro fertilizers, compost and other agricultural products. In fiscal year 2005/06 (2062/63), the Agriculture Input Company Ltd. has supplied 18,458 metric ton nutrient unit of chemical fertilizer. In the first eight months period of fiscal year 2004/05 (2061/62), 8,909 metric ton nutrient unit of chemical fertilizer had been distributed by Agriculture Input Company Ltd against the distribution of 7,268 metric ton nutrient unit of chemical fertilizer during the first eight months period of fiscal year 2005/06 (2062/63).

8.29 **Improved Seeds:** In line with the policy of encouraging competition with private sector for the trading of improved seeds, the National Seed Company Ltd. has continued to sell and distribute the quality seeds through several dealers to make available at the farmers' doorsteps. In line with its goals and for ensuring smooth sale and distribution of improved seeds; the company collects the quality indigenous seeds from Seeds Promotion Programme being run with the partnership of its own Farm and the farmers; then treat and process such seeds with pesticides and germicides; and subsequently sells and distributes the improved seeds at local level. In fiscal year 2004/05 (2061/62), about 510 metric ton seeds of paddy, 2,237 metric ton seeds of wheat, and 1.543 metric ton seeds of maize had been sold and distributed by National Seed Company Ltd. In the first eight months period of fiscal year 2005/06 (2062/63), the company has distributed 130 metric tons seeds of paddy, 2,810 metric ton seeds of wheat and 6.110 metric ton seeds of maize. The distribution of seeds of paddy and maize is found to be less than the set target. The main reasons for failing to achieve the target are; failing to collect the appropriate seeds from farmers in line with the agreement, the increasing inclination of the farmers towards hybrid seeds on account of vegetables and other seeds, and influx of low quality seeds from India to Nepal due to the existence of open border.

8.30 **Irrigation:** As in the previous years, development projects relating to irrigation are being implemented by government agencies and Agriculture Development Bank. In fiscal year 2004/05, systematically developed irrigation facilities had been availed to 10,513 hectare of arable land by the government sector and to 812.5 hectare of arable land by the development projects implemented under Agriculture Development Bank. In the first eight months period of fiscal year 2005/06 (2062/63), the irrigation facilities have been made available to 4,465.5 hectares of land of which the development projects implemented under the government sector have provided such facilities to 4,333 hectare of land and the development projects implemented under the Agriculture Development Bank have provided to 132.5 hectare of land.

8.31 **Agricultural Credit:** The flow of the agricultural credit playing an important role on agriculture production has been given continuation. In fiscal year 2004/05, about Rs. 11,817.00 million worth of agricultural loan has been disbursed by Agriculture Development Bank and on the part of the recovery amounted to Rs. 10,330.9 million both of which amounted to a total agriculture loan of Rs. 21,173.00 million in arrear at the end of the fiscal year. In the first eight months period of fiscal year 2004/05 about Rs. 6,915.4 million worth of agricultural loan was disbursed followed by an increase in the amount of loan disbursement during the same period of fiscal year 2005/06 (2062/63) that amounted to Rs.8,503.3 million. Largely loan investment is made on the sector of agriculture industry, buying and selling and warehouse construction that accounts about 50% of the total loan disbursement and least amount of loan investment is set aside for tea and coffee.

8.32 **Small Farmers Development Bank:** The Small Farmers Development Bank has been involved on promoting cooperatives in the rural sector by implementing microfinance programme for the economic and social development of small farmers and poor class people. Among the programmes implemented by the Bank; social mobilization programme, animal (livestock) insurance programme, small farmers' institutional development programme and financial institutions' microfinance programmes are the key programmes. Under the social mobilization programme the poor and small farmers are identified first then followed by the formation and operation of a group of 5 to 10 members of each family, formation of Ward-wise inter group comprising of representatives from an individual Ward, formation of VDC Level

Implementation Committee with the representation of one member each from individual inter group formed under each Ward, and subsequently Small Farmers Cooperative Limited is operated. In fiscal year 2004/05 (2061/62) the numbers of institutions associated with the Bank were 114, which subsequently increased to 131 during the first eight months period of fiscal year 2005/06 (2062/63). During the first eight months period of fiscal year 2005/06 (2062/63), the amount of loan disbursement reached at 481.274 million rupees, principal recovery amounted to 421.998 million rupees and interest recovery amounted to 113.756 million rupees. This institution has made necessary arrangements in implementing animal/livestock insurance programme in 114 VDCs to be financed through Agriculture Development Bank. In fiscal year 2004/05, about 5,795 animals/livestock were insured for an amount of 669.5 million rupees followed by an additional 884 animals/livestock have been insured through local level institutions for 110.004 million rupees in the first eight months period of succeeding fiscal year 2005/06 (2062/63). With the help of this financial institution, Small Farmers Institutional (replication) Programme has been implemented in 4 VDCs. Loan has been made available to 131 Small Farmers Cooperative Societies by the end of first eight months period of the current fiscal year. This programme has provided services to a total of 81,287 persons including 37,972 female and 43,315 male. Such services were received by 71,007 persons including 32,563 females and 38,444 males in fiscal year 2004/05 (2062/63).

8.33 **Nepal Agriculture Research Council:** Established with a view to making the development of agriculture sector, which has remained to be a mainstay of Nepalese livelihood and a backbone of national economic system, more effective through the means of research; the NARC has continued to carry out different research and experimental activities relating to several aspects of agriculture sector taking into account the advices and suggestions provided by people representatives, different issues raised in the workshops and seminars, and the practical problems faced by the farmers at the field. The paddy and wheat has remained to be the principal food crops of Nepal. In order for increasing the productivity of paddy and wheat, for lowering its cost of production, and for exploring the advanced method/technology of agriculture farming several technologies and methods of farming have been experimented by NARC. Such studies have found that the plantation of paddy and wheat on furrow (dyang) or on un-ploughed land would result in increased production and heavy decline in their cost of production. Likewise, several efforts and tasks are being undertaken towards the development of techniques/method of farming, development of Vitamin A containing crops, and development of hybrid seeds yielding more. The research task of identifying different varieties of vegetables such as tomato, cauliflower, cabbage and fruits appropriate for off-season vegetables farming have been started. It is not possible to increase the production of milk and meat products in the absence of nutritious foods and, therefore, research activities regarding animal procreation are being undertaken with a view to identifying the varieties of animal fodder appropriate for different animals, conducting experiments on several aspects of animal fodder, and for increasing the production of milk and meat products through the improvements of animal breeds. In a remote and difficult area like Karnali Zone, there is a normal trend of decline in the production of milk and meat products characterized by adverse health condition of animals due to the lack of animal fodder especially during winter season and, therefore, for the repudiation of such problem several projects have been formulated to study the possibilities of alternative sources and means of animal foods. In the context of decomposed and wasted agri-products after their production due to several reasons which normally result in quality deterioration and failure to fetch a good price by the farmers for their production, some plans have been formulated for the development of advanced warehousing facilities to minimize the possibilities of the loss of agriculture production. With a view to bringing about increase in the production of agriculture products, the Council has developed several varieties of improved seeds i.e., Loktantra, Ram and Mithila for paddy, Deuti and Shitala for maize, Unnati and Priti for mustard, Rajshree and Baidehi for almond, and Kalyan and Ptratikshya for pulses crops and such new varieties are in the process of recommendation for use.

8.34 **The Status of Import and Export of Agro Products:** According to the classification group of SITC, about 4,444.2 million rupees worth of food grains, livestock products, tobacco and beverage products were believed to have been exported in fiscal year 2004/05 (2061/62) as against the export of 5,665.1 million rupees worth of such products during the corresponding period of fiscal year 2005/06 (2062/63). Similarly, about 6,456.8 million rupees worth of such products were estimated to have been imported during the first eight months period of fiscal year 2004/05 (2061/62) as against the import of Rs. 10,200.1 million during the same period in fiscal year 2005/06 (2062/63).

8.35 **Cooperatives Institutions:** It is quite undisputable that the efforts of the common people would contribute a lot to the poverty reduction if they would actively be involved on income and employment generating activities by utilizing and developing the best use of available limited resources/means and their skills through the medium of cooperatives. In line with the policy of Nepal Government to ensure the continuation of economic and social development efforts through the promotion and development of cooperative system, the act of capital formation amid the poor and entrepreneurship awareness programmes have been moved forward by mobilizing the cooperative institutions qualitatively. Several activities have been carried out to intensify the effectiveness of Cooperatives Acts and Regulations by enforcing contemporary amendments in such Acts and properly regulating the cooperative activities. A database has been prepared to address the cooperative institutions existed in the country, their nature, transactions and employment potentials. An Audio-Visual programme has been prepared regarding cooperative awareness. Cooperative trainings have been provided to 2,600 cooperative activists by the end of first 9 months period of the current fiscal year.

8.36 **Land Reform:** As a short-term programme carried out under the Land Bank, 13 thousands *Kamaiyas* were included additionally to the numbers of 2059 B.S. The task of providing loan to landless freed *Kamaiyas* family of Banke and Kailali district through Agriculture Development Bank has already started in a manner to provide maximum loan of Rs. 150 thousands per family or to provide the amount sufficient for buying 10 Kaththas of land. Likewise, in line with the long-term perception, following the formulation of a Task Force to establish Land Bank, the preparation of concept paper, report and the draft of Land (Management and Trade) Bank Ordinance 2063 are being carried out. Under the resettlement programme, the tasks of providing different skill-oriented trainings and providing loan for income earning activities is being carried out with a view to making available the income generating opportunities to families of freed *Kamaiyas*. In line with the task of ending dual control over land, the act of setting apart the share and rights of landowner and tenant is currently going on. Similarly the draft of land policy has been completed and policy relating to giving rebate on fixing land ceilings (*hadabandi)* to Industrial Institution and for the preservation of government and public lands has been formulated and enforced.

Industry:

8.37 **Special Economic Zone:** For the execution of the activities as mentioned in the Budget Speech of fiscal year 2004/05 (2061/62), a Special Economic Zone Project has been established following the decision of 2060/10/15 and related activities are being carried out accordingly. In order for the establishment of Special Economic Zone, its execution and making necessary arrangements in providing rebate and concessions to industries; in fiscal year 2004/05 (2061/62), the draft of the Ordinance of Special Economic Zone has already been approved by the Ministry of Law, Justice and Parliamentary Affairs to which the Cabinet Secretariat has already endorsed its conceptual consent and discussions are being held in Ministry of Finance regarding the economic rebate and concessions as mentioned in the proposed Ordinance. A feasibility study has already been completed to establish Special Economic Zone in Birgunj, Paanchkhaal and Nuwakot while for the establishment of Export Processing Zone in Bhairawa, the task of land development, works relating to roads and passage, and building construction works have already been completed.

8.38 **Micro-Entrepreneur Development Programme:** In the second phase (fiscal year 2004/05), for the development of micro-entrepreneurship under some institutional and structural improvements programme, the employees working at the offices of 10 districts are provided supports and help to transform them into nongovernmental organizations / private companies and ultimately several supports have also been provided to transform such institutions into service provider institutions. A institutional structure has been created by establishing inter groups of micro-entrepreneurs and Micro Entrepreneur Institution in 10 districts at the first phase with a view to promoting and protecting the rights and welfare of micro-entrepreneurs and also to promoting collective marketing of their products. District Cottage Development Committees or Offices have made necessary arrangements in providing Identification Card to micro-entrepreneurs for the operation of their enterprises or businesses. Taking into account the economic condition of micro-entrepreneurs, an initiation is being set out to facilitate the registration of micro enterprises in VDC level.

8.39 **World Trade Organization (WTO):** Nepal has become the 147th member of World Trade Organization. Nepal is the first among other least developed countries, to have access to WTO membership earned through the process of negotiation. There is an utmost need to make the existing Acts, laws, policies, rules and regulations more transparent and future-oriented in line with multilateral trading system to initiate the process of ensuring periodical fulfillment of the commitments made at the time of getting membership to align Nepalese Economy and World Economy to achieve such goals. Following the WTO membership, the task of preparing initial draft has almost been completed and the same is in the course of discussions to correspond to the determination shown for the formulation, modification and amendment of some Acts and regulations. Since the WTO is regarded as the means of realizing achievement through negotiation, a concrete and clearer opinion is yet to be formed regarding WTO activities and issues raised in several meetings of the WTO and also the sufficient discussions and coordination with private sector and civil society could not have been held yet.

Box: 8 (1)

Activities being Undertaken after the WTO Membership

1. Through the Ordinance for amending Nepal's some Acts, Export and Import (Control) Act, Patent Design and Trademark Act and Copy Rights Act have been amended to correspond to the provisions of WTO and have been brought into effect.
2. The drafts of the laws relating to Competition, laws relating to antidumping and counter-veiling, laws relating to intellectual property, Act relating to botanical resources, Act relating to access to hereditary sources, Act relating to conservation of botany, Act relating to NSI Mark, and new industrial policy have been drafted and are under discussions.
3. Company Ordinance, Ordinance relating to Bank and Financial Institutions, Ordinance relating to bankruptcy/insolvency, Ordinance relating to electricity trade, Ordinance relating to Security transactions have been issued and brought into execution.
4. To correspond to the WTO provisions, the Department of Food Technology and Quality Control is assigned to deal with sanitary and photo-sanitary, the Department of Nepal Standards and Metrology is assigned to deal with TBT (Technical Barrier to Trade) and the WTO Division of the Ministry of Industry Commerce and Supply is assigned the task of acting as a Service Enquire Point and accordingly several activities have been carried forward.

5. After Nepal became the member of WTO, people awareness programmes are being implemented with the coordination of private sector at central, regional and district level to address likely impact and achievements to be gained by Nepal from such membership.
6. Nepal's participation on Sixth Ministerial Conference of WTO held in Hong Kong on December 13-18, 2005 has been very effective. To cite the achievements of the conference, Nepal is believed to benefit from the facility of access to the quota-less market and free customs duties on agro and non-agro products, cutting off the subsidies given to agro products, the principle of source of origin, and also from the physical infrastructure building and capacity strengthening programme for least developed country.

Source: Ministry of Industry, Commerce and Supply

The Status of Industrial Production by Group and Industrial Indices:

8.40 As compared to fiscal year 2004/05 (2061/62), analyzing the status of major industrial products in fiscal year 2005/06 (2062/63), the production of most of the food products, beverage products, tobacco products, shoe, woods and wooden products, paper and stationary board, other chemical goods, mineral products other than metal is expected to increase while the production of plastic goods, electrical appliances, and industrial equipments is expected to decline. During this period, under the food products the production of chowchow is expected to increase by 2,965 metric ton, sherbet (including juice) by 1.445 million liter, sugar by 725 metric ton and tea is expected to increase by 114 metric ton while the production of vegetable ghee is expected to decline by 20,348 metric ton. Similarly the production of liquor is expected to increase by 92 thousands liter, cigarette by 75 million sticks, shoe by 621 thousands pairs, plywood by 76 thousands sq. ft., Strawboard by 16 metric ton, papers by 946 metric ton, soap by 554 metric ton, detergent powder by 30 metric ton, cement by 3,500 metric tons and ACRS conductor and PVC wire by 21 metric ton. On the other hand the production of plastic goods and GIHB wire is expected to decline by 162 metric tons and 53 metric tons respectively.

8.41 Despite the prevalence of difficult situation, the industrial indices by group have been increased by 2.65% in fiscal year 2004/05 (2061/62) as compared to the preceding year. During this period, the production of most of the foodstuffs and food groups such as vegetable oil and ghee, dairy products, cereals and cattle fodders, other foodstuffs and beverage products is increased by 7.01%, 3.43%, 5.22%, 5.38% and 2.49% respectively. Similarly the production of tobacco products has increased by 0.46%, finished clothes to have increased by 5.89%, other clothes by 6.34%, knitting clothes by 0.72%, leather and leather products by 6.04%, woods and wooden goods by 2.49%, paper and paper products by 5.44% to be followed by the production of publication, printing and recording is appeared to have increased by 3.29%, other chemical products by 5.02%, plastic goods by 1.23%, non-metallic mineral products by 2.58%, fabricated metal products by 1.29%, metal appliances by 2.30% and electrical appliances to have increased by 3.62% but the production of outfit or garments is appeared to have declined by 19.58%. Expected improvements could not have been done in the production of industrial indices due to several reasons like adverse condition of internal peace and security, escalating unemployment, weak economic condition, weak saving and consumption capacity, changes in the export/import set-up, and changes occurred in consumption pattern.

8.42 The industrial indices by group is expected to have declined slightly from 102.83 in last year to 102.15 in the first six months period of fiscal year 2005/06 (2062/63). During the review period, the industrial indices of vegetable oil and ghee, dairy products, cereals and animal fodder, other foodstuffs, beverages group, tobacco products, clothing and garments, other clothing and garments, knitting clothes, leather and leather goods, publication printing and recording, other chemical products, plastic goods, non-metallic mineral products, fabricated metal products and electrical appliances are expected to increase and the industrial indices of garments/outfit, woods and wooden goods, paper (except for newspaper) and that of metal appliances are expected to decline.

Foreign Investment:

8.43 In fiscal year 2005/06 (2062/63), the Working Procedure for Foreign Investment Promotion Committee, 2062 has been prepared and is being followed with a view to attracting foreign investment for the rapid economic development of the country. Necessary measures are taken to simplifying the process of granting necessary approval and providing services to the foreign investment through a single door system in line with the Foreign Investment and Technology Transfer Act.

8.44 Foreign investment and technology transfer is essential for leading the economic system towards the attainment of self-dependency and making it a robust, firm, dynamic and competitive through the maximum mobilization and highest utilization of available capital, natural and human resources in the process of industrialization of the country. The foreign investment not only brings in the means, resources and trading/business skills in the form of capital, modern technology, management and technical skills, access to the international market, development of competitive trading culture etc., but also significantly contributes to the development of national economic development backed by national economic system oriented towards self reliance and self dependence through the expansion of industrial development and sources of internal revenues. In fiscal year 2003/04, 78 industries, to be financed from foreign investment, were allowed to operate with the total project cost of 4,323.7 million rupees while 64 industries with the total project cost of 1,801.1 million rupees are found to have been allowed to operate from the foreign investment in fiscal year 2004/05 (2061/62). During the first nine months period of fiscal year 2005/05 (2062/63), 81 industries having the fixed capital of 2,173.9 million rupees and project cost of 2,874.7 million rupees were given the permission to operate with the joint investment of private and foreign sector. In this manner, as an effort of appealing to the foreign investment by adopting the time-suitable, practical, liberal and open policy; a total of 1,063 industries are given the permission to operate under the foreign investment during first nine months of fiscal year 2005/06 (2062/63). The fixed capital of these industries amounted to 76,863 million rupees and the total project cost amounted to 92,809.7 million rupees. A total of 28,567.4 million rupees is found to have been invested from foreign financing in these industries. Following the operation of these industries, about 104.848 thousands Nepalese people would be additionally benefited from getting employment opportunities.

Table 8 (b): Industries Permitted for Foreign Investment in Fiscal Year 2004/05 (2061/62)

(Rs.in million)

Types of Industries	Qt.	Total Project Cost	Total Fixed Capital	Foreign Investment	Number of Employment Recipient
Industrial	25	887	527	1,182	2,072

Production					
Service Industry	24	757	514	349	3,195
Hotel / Resort	12	57	46	37	254
Construction	2	88	54	64	18
Agriculture	1	12	10	7	37
Total	64	1,801	1,151	1,639	5,576

Source: Department of Industry, Tripureshwor

Table 8 (c): Industries Permitted for Foreign Investment in Fiscal Year 2005/06 (2062/63)*

(In million)

Types of Industries	Qt.	Total Project Cost	Total Fixed Capital	Foreign Investment	Targeted Number of Employment
Industrial Production	26	1,280	817	815	1,817
Service Industry	29	1,239	1,067	575	1,659
Tourism Industry	22	155	129	105	996
Construction	2	81	63	28	112
Energy	2	120	98	25	114
Total	81	2,875	2,174	1,548	4,698

* First Nine Months

Source: Department of Industry, Tripureshwor

Table 8 (d): Foreign Investment by Country

(No. of Industry)

S.N.	Countries	FY 2004/05 (2061/62)	First Nine Months	
			FY 2004/05 (2061/62)	FY 2005/06 (2062/63)
1.	India	15	8	25
2.	China	12	6	16
3.	Japan	5	4	8
4.	USA	3	1	5
5.	UK	3	2	5
6.	South Korea	7	2	3
7.	Belgium	1	1	2
8.	Germany	3	3	2
9.	Iran	1	-	2
10.	Netherlands	1	1	2
11.	Spain	-	-	2
12.	Other	13	7	9
Total		64	35	81

Source: Department of Industry, Tripureshwor

8.45 Among 64 industries given permission to operate in fiscal year 2004/05 (2061/62), 25 industries are related to the industrial production, 24 are related to service industry, 12 hotel/resort, 2 construction and 1 is related to agricultural sector. From the points of view of the country-wise investment, India is involved on 15 industries, China on 12 industries, South Korea 7, Japan 3, USA, UK and Germany are involved on 3 industries each, Russia on 2 and rest of other countries such as Australia, Azerbaijan, Belgium, Denmark, Finland, Hong Kong, Iran, Italy, Netherlands, Portugal, South Africa, Singapore and Turkey have the involvement on 1 industry each.

8.46 Of the 81 industries given permission during the first nine months period of fiscal year 2005/06 (2062/63), 26 industries are related to industrial production, 29 are related to service industry, 22 tourism industry, and 2 industries each are related to construction and energy sector. From the viewpoints of country-wise investment, of the 35 foreign investment industries given permission during the first nine months period of fiscal year 2004/05, it is found to have the involvement of India on 8 industries, China on 6 industries, Japan 4, Germany 3, UK and South Korea on 2 industries each and other countries on 10 industries. Among 81 industries given the permission of operation from foreign investment during the nine months period of fiscal year 2005/06, it is found to have the involvement of India on 25 industries, China on 16 industries, Japan on 8 industries, UK and USA on 5 industries each, South Korea on 3 industries, and Belgium, Germany, Iran, Netherlands, and Spain on 2 industries each, and the countries having the involvement on only one industry are Bangladesh, Canada, France, Malaysia, Philippines, Poland, Russia, Sweden, and Switzerland.

Utilization of Production Capacity of Some Industries:

8.47 The analysis of the production capacity of some selected industries show that the production of sugar and tobacco goods producing industries is found to have been declined in FY 2005/06 as compared to the FY 2004/05 while the production of matchstick, shoe, beer and cement goods producing industries is found to have been increased. Of the total production capacity in FY 2004/05, the cigarette and jute industry have utilized 87% and 68% of the production capacity respectively, and sugar, beer, matchstick, shoe and cement industries are found to have utilized the production capacity of 42%, 68%, 64%, 45% and 49% respectively. During this period, the utilization of the production capacity of cigarette and jute industry is found to have been declined while the utilization of production capacity of beer, matchbox, shoe and cement goods producing industries is found to have been expanded.

Current Status of Industrial Estates:

8.48 Industrial Estates have been established with a view to helping support to the industrial development of the country by making available essential physical infrastructures and other facilities for the establishment, operation and promotion of industrial enterprise academies. There are altogether 11 Industrial Estates located at Balaju, Hetauda, Patan, Nepalgunj, Dharan, Pokhara, Butawal, Bhaktapur, Birendranagar, Dhankuta and Rajbiraj by the present time. Despite existing 507 industries in these Industrial Estates, 74 industries are on the verge of closing down and 35 industries are under construction. About Rs. 192.7 million worth of fixed capital has been invested by Industrial Estate Management Ltd. on those Industrial Estates operating under it and Rs. 8,495.4 million is found to have been invested by private industries. Of the total area of 5,706 *Ropanis* of land under these estates, 5,030 *Ropanis* of land has been developed of which 3,397 *Ropanis* of land have been leased to different industries. The industries established within the premises of Industrial Estates have provided employment to 14,178 people. The number of employment recipients in this year is found to have been increased by 56 over the last year. Balaju, Hetauda, Butawal, Pokhara, Patan, Bhaktapur, Nepalgunj, Dharan, Birendranagar and Rajbiraj are among main Industrial Estates offering more employment opportunities.

Sick Industries

8.49 Policy and programmes relating to sick industries have been brought by the Nepal Government in fiscal year 2001/02 (2058/59) with a view to minimizing adverse effect on industries, business and trades stricken by economic depression and inconvenient condition appeared to have occurred in the country. There is a provision in the monetary policy of fiscal year 2005/06 of providing the privilege of refinancing worth of 2 billion rupees by Nepal Rastra Bank. In the course of distributing the amount of refinancing, some norms have been developed to ensure the equitable distribution of the facility of refinancing not only to Hotels and large industries of other sectors but also to small and medium industries or firms or to companies as well. Assessing the progresses achieved so far, the sick industries are found to have been given some relief especially to enjoying the facilities of refinancing, loan rescheduling, and interest deduction. The definition of sick industries as per the Guidelines developed to systematically help support the sick industry is described hereunder.

a. Operating regularly for a minimum period of 3 years but have incurred regular loss for last two years.

b. Unable to run at Break Even Point regularly for last two years.

c. The turnover of last three years has been declined gradually by 25% for industries to have acquired less than 2.5 million rupees of loan.

By second week of March of this year, the total amount of 280.3 million rupees have been provided in the form of refinancing facility to 18 Hotels and Resorts (Rs. 229.3 million)and to 2 large and medium industries (510 million rupee).

Table 8 (e): Amount of Refinancing provided from mid-July,2005 to mid-March, 2006

(In ten million rupees)

S.N.	Hotel/Industry	Approved Amount of Refinancing	%
1.	Hotels and Tourism Trade	22.93	81.8
2.	Industrial Trade	5.1	18.2
Total		28.03	100

Source: Nepal Rastra Bank

Nepal Industrial Development Corporation (NIDC):

8.50 NIDC, having the goals of operating quality and credible banking and financial mediatory services and financial trading activities relating to industry, business, and service work for the economic welfare of the country, has speeded up the process of restructuring loans and providing concessions and rebates on loan settlement for executing strategy of loan recovery in fiscal year 2004/05. As a result of which 143.10 million rupees worth of interest is recovered as against 9.7 million rupees of loan investment in the same fiscal year. During this period, it is found that 17% of the loan has been distributed to hotel and tourism industry, 74% to cement industry and 9% to miscellaneous industries. During the first eight months period of fiscal year 2005/06 (2062/63), 14.80 million rupees of loan has been invested, and a total of 216.925 million rupees has been recovered, Rs.135.7 million in the form of principal amount and Rs. 81.204 million in the form of interest payment. During this period, 29.48% of the loan has been distributed to hotel and tourism industry followed by 2.96% to sugar industry, 4.21% to textile industry, 17.13% to printing and publication, and 46.13% to miscellaneous industries. However, progress has not been achieved so far in line with its set target relating to project promotion, loan investment and loan recovery due to the dearth of investment fund in NIDC for a long period of time.

Cottage and Small Scale Industries:

8.51 The numbers of cottage and small scale industries registered in fiscal year 2004/05 (2061/62) are found to have been increased by 12.57% than in fiscal year 2003/04 (2060/61). On the basis of types of industries, the number of private firms in fiscal year 2004/05 is found to have been increased by 16.49% while the numbers of private limited firms and partnership firms are found to have been declined by 6.83% and 8.94% respectively. Similarly, the value of fixed assets of registered cottage and small scale industries is found to have been increased by 80.2% as compared to the value of investment and as a result of which only 11,010 million rupees is found to have been invested. During the first eight months period of fiscal year 2005/06 (2062/63), it is estimated that about 556 industries have been registered followed by a total investment of Rs. 1,875.7 million rupees.

Industrial Enterprise Development Academy:

8.52 The Industrial Enterprise Development Academy, having set the goals of developing modern technologies, quality management skills, entrepreneurship, and technical human resources for the industrial development of the country, has continued to implement experimental research programmes relating to creation of new ventures, business management, training programmes, consulting services, industry and business. The Academy, by the end of first eight months period of fiscal year 2005/06 (2062/63), has provided training to 184 persons under micro business creation programme, to 109 persons under instructor training programme, and to 105 persons under business promotion and awareness programme.

Mines and Geology:

8.53 Under the National Seismic Measurement Center Management Project, 21 seismic centers located in various parts of the country are being continuously operated from Kathmandu Seismic Center and Surkhet Seismic Center. Theses centers constantly keep on recording seismic activities and when there is a case of earthquake of above 4 rector scale, the same is reported to the media immediately within an hour for information to the general public. On the basis of the regular record of earthquakes, there is a provision for identifying risk zone, for publishing geological epicenter maps and disseminating such maps to the users. In the area of mineral exploration especially exploring the availability of limestone and other minerals, the task of exploration activities has to be concentrated mainly on exploitation of constructional mineral products, instantly economic benefit fetching costly and semi-costly stones, expensive metallic minerals, nonmetallic minerals and fuel minerals. However, it has been a challenging task for the nation to reap benefit from exploitation of possible mineral products on the basis of technical feasibilities of different mineral zones.

Tourism:

8.54 Analyzing the number of tourists visiting Nepal, their rate of increase, and duration of their stay in Nepal; it is found that the numbers of tourists were increased by 13.9% during Mid-December 2003 to Mid-December 2004 but the same was declined by 2.6% during the corresponding period of Mid-December 2004 to Mid-December 2005. The average duration of stay per tourist is found to have been declined from 13.51 days during Mid-December 2003 to Mid-December 2003 to 9.1 days during Mid-December 2004 to Mid-December 2005.

Table 8 (f): Quantitative Target and Achievement on Culture, Tourism and Civil Aviation

S.N.	Descriptions	Status FY 2001/02 (2058/59)	Target FY 2006/07 (2063/64)	Progress FY 2004/05 (2061/62)
1.	Tourist Arrivals (in '000')	365	516	375 (2005 Dec.)
2.	Tourist Duration of Stay (in days)	10.93	13	9.1 (2005 Dec.)

3.	Foreign Exchange Earning (US$ in million)	140	205	Rs. 10,464 million
4.	Daily Income per Tourist (US$)	39.6	60	-
5.	Contribution to GDP (in %)	3.0	3.0	2.0
6.	Employment: Direct (in '000') Indirect (in '000')	80 -	100 125	- -
7.	International Airlines Services Carrying Daily Flights to Nepal (in numbers)	13	17	-
8.	The Production of One-Sided Air Seats in International Sector	1,000	1,200	-

Source: Tenth Plan and Ministry of Culture, Tourism, and Civil Aviation

8.55 Most of the tourists are found to have come to Nepal for recreation, trekking and mountaineering purposes as revealed by the study carried out for ascertaining the number of tourist arrivals and purpose of their visit. During the period of mid-December 2003 to mid-December 2004, it is found that 43.4% of the tourists' arrivals happened to come for recreation purpose, 15.6% for trekking and mountaineering, 5.9% for business purpose, 4.5% for formal and official visit, 12.7% for pilgrimage, and 17% of the tourists do come for other purposes. The review of the same period of last year shows that the number of tourist arrivals for the purpose of official visit, business promotion and pilgrimage is found to have been increased while number of tourists coming for recreation is found to have been stable.

8.56 Analyzing the tourist arrivals from different sectors and region, it is found that 26.1% of the tourists have come from Western Europe, 6.1% form Northern America, 2.2% from Australia and Pacific region, 2.2% from Eastern Europe, 0.9% from Central and South America and 0.3% of the tourists came from Africa during the period of Mid-December 2003 to Mid-December 2004. Of the 61.3% tourists coming from Asian Continent, 25.7% of them are found to have come from India alone. In terms of origin of tourists, their arrivals from India, Eastern Europe and Asian Countries are found to have been increased slightly than the previous year.

8.57 Assessment of the status of available Hotels and Hotel beds reveals that there has not been any increment in the number of Star-level hotels and remains constantly at 110 during the period of Mid-December 2003 to Mid-December 2004 as against the net increase of 10 hotels other than Star hotels to get to 896. During this period, the number of hotel beds in Star-level hotels has remained to be constant while the number of beds in hotels other than Star hotels have been increased by 1% and consequently reach at 28,669. During the review period, 1% increase in total number of hotels and 0.7% increase in hotel beds has been recorded.

8.58 Analyzing the status of Mountaineering Expedition Team and that of mountaineers; the number of Expedition Team, number of mountaineers, and number of seasonal employments are found to have been declined but the amount of government royalty it found to have been increased by the end of Mid-December 2004 as compared to the same period of 2003. During the period of Mid-December 2003 to Mid-December 2004, the number of Expedition Team is found to have declined from 140 to 128, number of mountaineers declined from 1,042 to 940, and seasonable employments declined from 3,062 to 636. While the government royalty is found to have increased from 127.072 million rupees to 156.24 million rupees. The money spent by the mountaineers has amounted to Rs. 400.137 million.

8.59 Nepal Tourism and Hotel Management Academy has been conducting trainings for tourism promotion and manpower production. It has not only been organizing necessary training activities for the operation of tourism business to promote tourism in rural sector, but also started a 3 years' Bachelor in Travel and Tourism Management Course since fiscal year 2003/04 with a view to producing skilled and technical manpower required by urban-based tourism industry. The Academy has also been providing different types of mobile trainings to various tourist spots relating to guide, tour and travel agency, ticketing, cook, leader, water journey guide, hospitality course. The Academy provided trainings in different subjects to 1,386 persons in fiscal year 2004/05 against providing such trainings to 620 persons during the first eight months period of succeeding fiscal year 2005/06. The manpower produced by the Academy up till now has exceeded 21 thousands mark.

Box: 8 (2)
Major Activities of Tourism Sector

a. **Tourism Master Plan:** The process of formulation of Tourism Master Plan is undergoing to have been given the priority to the promotion of religious tourism for attracting Hindus and Buddhists to visit Nepal.

b. **Tourist Police:** The number of tourist police has been increased from 7 to 38 in order to strengthen the security situation of tourists.

c. **Branding:** In the process of properly branding Nepal into international tourist origin markets, the launching of a branding named by "***Naturally Nepal: Once is not Enough***" has been completed both in Nepal and also in one of the biggest International Tourism Expo held in Germany.

d. **Honor to the Female Mountaineers:** The first woman to summit the World's highest mountain of Mount Everest Junko Tabei and rest of other successful women mountaineers are given due honor and reverence.

e. **Third World Hindu Conference:** The Third Third_World Hindu Conference has been accomplished in Birgunj in mid- March 2005 along with various programmes held.

f. **National Air Policy 2062:** The process of formulating National Air Policy 2062 is undergoing.

g. **Airports Construction and Improvements:** The task of land acquisition and compensation distribution is being undertaken with a view to developing and expanding Gautam Buddha Airport, Bhairahawa to International-level Airport. As a financial assistance, some amount of loan has been provided to Manamaya Rai Khanidanda Airport being constructed with people and community participation. The construction works of Masinechaur Airport of Dolpa district are being undertaken with the joint support of Nepal Government, Nepal Civil Aviation Authority and local people.

h. **Protection/Preservation of Gorakha Palace:** The activities relating to repair and maintenance of military house (*Kotaghar),* preservation of Lord Shiva's Temple, restoration of platform of Pashlang, protection of the place of Goddess Khadga Devi, and development of Prithivi Museum are undergoing to protect and preserve the Gorkha Palace.

i. **Building Construction of Cultural Corporation:** The building construction of National Dance House Shopping Complex is in the final stage of completion, which is believed to promote national cultures through the development of artists training, music festival, drama competition, cultural grand gala, and also through the development of songs, music and dances.

Source: Ministry of Culture, Tourism and Civil Aviation

Foreign Exchange Earnings from Tourism Sector:

8.60 The amount of foreign exchange earning from tourism sector is found to have declined by 42.34% in fiscal year 2004/05 as compared to preceding fiscal year of 2003/04 and remained at 10,464 million rupees. During the first 7 months period of fiscal year 2005/06, about Rs. 5,641 million worth of foreign exchange earning is believed to have been earned which is lesser than the foreign exchange earned during the same period of last year. The ratio of foreign exchange earning of the first 7 months period of FY 2005/06 to the foreign exchange earning received from the total commodity exports is 14.9%. Likewise, its ratio to the foreign exchange earned from the total commodity exports and services is 10.4% and ratio to the total foreign exchange earnings is found to be 8%. As compared to the same period of FY 2004/05, some decline is found to have come in first two ratios whereas the last ratio is found to have been increased.

8.61 The Nepal Tourism Board has emphasized on the promotion of tourism, development of tourism estates and development of potential resources. The Board has been operating various tourism promotional activities through international Fairs and Expos, media campaigning, Tour Operators Meet, introductory visit programme, production and distribution of promotional materials. More than 40 groups from Japan, China, UK, France, Russia, Singapore, Thailand and India have accomplished the introductory visit of Nepal. Similarly, Nepal has also participated in different tourism Expos and Fairs held in Japan, UK, China, Germany and India along with the partnership of more than 50 private sector tourism enterprises. It is believed to have a good impact on tourism promotion.

Challenges:

8.62 There has been emerged a challenge of making a prosperous country by strengthening and sustaining the recent political changes of the country to ensure permanent peace through which the development of agriculture, industry, tourism, and other sectors as well would be ensured and the benefits and fruits rendered by such process would be made available to rural and marginal class of people.

8.63 There is a challenge to develop the agriculture sector as a competitive sector through the promotion of increasing access of the farmers to market for the sale of their agro products and creating congenial atmosphere to get appropriate price and ensuring proper grading, standardization, quality authentication, and strengthening of agro products.

8.64 As several agro products having been imported illegally for lower price from markets located at nearby Indian border, the challenge has remained intact as regards the need for lowering the cost of production of Nepalese agro products to help enable to compete with Indian products. Similarly, there is still a challenge left unaddressed to trigger off the agriculture sector through the construction of agricultural roads, rural electrification, expansion of irrigation facilities, incentives to commercial agro-based crops, and ensuring timely supply of quality chemical fertilizers and improved seeds and proper warehousing facilities for agro products to help support the agricultural sector.

8.65 Another challenge is to draw the attention of the farmers to grow the commercial production of profitable cash crops, livestock or animal products, fruits and vegetables through diversification and modernization of agriculture system and leading the agricultural research activities towards enabling identification of unseasonable vegetables and fruits products and towards exploring the possibilities of other crops that could be grown to suit even in the drought season.

8.66 Following the membership of WTO, Nepal has an extreme challenge of bringing in the investment of Non-resident Nepalese to support the economic system of the country through the enforcement of scientific management system, use of new skills, utilization of advanced technology, strengthening technical expertise, and promotion and development of entrepreneurship to encounter the challenges posed by and the benefits to be accrued therefrom.

8.67 There is also a challenge of developing and promoting tourism industry in Nepal by means of increasing the number of tourist arrivals, extending their duration of stay and encouraging quality tourism. This is possible only when misconception about Nepal's reality is made clear by giving adequate information and thereby taking several measures such as promotion of tourism, infrastructure development, diversification of tourism industries, and wide publicity.

8.68 Through the preservation and promotion of monasteries, temples, cultures and customs bearing historical, cultural, and archeological importance; the task of developing Nepal as a place for tourist destination and promoting tourism for attracting more and more tourists and the task of protecting and conserving tourist spots listed in World Heritage is equally challenging one to be accomplished.

9. Public Enterprises and Privatization:

Public Enterprises

9.1 Analysis of the overall economic situation of the entire 36 Public Enterprises owned entirely or partially by the Government of Nepal shows that 19 PEs have earned profit whereas 17 PEs are in loss in FY2004/05. Among the profit earning PEs also, the economic situation, capacity utilization and employees' productivity of most of them is not found to have been satisfactory. By the end of FY2004/05, equity investment of the Government of Nepal in all 36 PEs amounted to Rs.59.68 billion and loan investment has amounted to Rs.64.55 billion and during the same period Rs.3.35 billion has been received as dividend. The dividend accounts for 5.62 percent of the share investment.

Sector-wise Analysis

Industrial Sector

9.2 Of the total 9 PEs existing under Industrial Sector by the end of FY 2003/04, 1 PE was privatized and 1 PE was liquidated subsequently thus leaving a total of 7 PEs at the end of FY2005/06. By the end of FY2004/05, the equity investment and loan investment of the Government of Nepal on these 7 PEs accounted for Rs.5.63 billion and Rs.3.78 billion respectively. Looking at the current financial situation of the 7 PEs, it is found that their aggregate net worth has limited to Rs.87.0 million only. The net worth of Nepal Orind Magnesite alone is found to be negative totalling to Rs.2.83 billion where as the net worth of Udayapur Cement Factory is found to be positive totalling to Rs.2.57 billion. Looking at the status of operating profit and loss account of the PEs under this sector in FY2004/05, Herbs Production and Processing Company, Hetauda Cement Industry Ltd., and Janakpur Cigarette Factory have earned operating profit whereas Dairy Development Corporation, Nepal Drugs Ltd., Udayapur Cement Industry Ltd. and Nepal Orind Magnesite Pvt. Ltd. are found to have been in operating loss. The total Net Capital Investment of 7 PEs remains at Rs. Rs.3.95 billion in FY2004/05. No dividend has been accrued to the Government of Nepal in FY2004/05 from this sector.

Business Sector:

9.3 By the end of FY 2004/05, the equity investment of the Government of Nepal on 6 PEs belonging to business sector has amounted to Rs.1.61 billion whereas the loan investment amounts to Rs.653.9 million. In FY2004/05, 4 PEs i.e., Agriculture Input Company, National Seeds Company, National Trading Ltd, and Timber Corporation are found to have earned operating profit where as 2 PEs i.e., Nepal Food Corporation and Nepal Oil Corporation Ltd. (NOC) have been operated on loss. Nepal Oil Corporation remains to be in the highest operating loss. The operating loss of NOC reached Rs.2.52 billion in FY2004/05, the same of which is expected to reach at the level of Rs.3.22 billion in FY2005/06. The operating loss is forecasted to mount to Rs. 4.42 billion in the FY 2006/07. The aggregate net worth of PEs under business sector remains to be positive by Rs. 261.7 in FY2004/05. Looking at the total amount of profit and loss incurred by the PEs, it is found that 4 PEs have earned net profit while 2 PEs have incurred net loss. Among the dividend paying public enterprises, National Seeds Company is the sole PE which has paid a dividend of Rs.500, 000 to the Government of Nepal in FY2004/05.

Service Sector:

9.4 The equity investment of the Government of Nepal on 7 PEs under service sector by the end of FY 2004/05 has amounted to Rs.14.97 billion while loan investment amounted to Rs.3.26 billion. At the end of FY2004/05, the aggregate net worth of this sector was Rs.8.41 billion of which Nepal Civil Aviation Authority of Nepal alone had a positive net worth of Rs.9.39 billion against negative net worth of Rs.1.59 billion of Nepal Airlines Corporation. Looking from the perspective of operating efficiency, Nepal Transit and Warehouse Co. Ltd., Nepal Engineering Consultancy, Nepal Airlines Corporation and National Productivity and Economic Development Centre Ltd. are operating on loss while Industrial District Management Ltd, National Construction Company Ltd. and Civil Aviation Authority of Nepal are found to have been operated on profit. By the end of FY2004/05, the total capital investment of this sector has been Rs.10.79 billion and the aggregate return on capital is 6.86 percent. Under this sector, Industrial District Management Ltd. is the sole public enterprise which has paid Rs.9.2 million as dividend to Government of Nepal in FY2004/05.

Social Sector:

9.5 By the end of FY2004/05, the equity investment and loan investment of Nepal Government in 5 PEs under social sector has amounted to Rs.1.81 billion and Rs.70.9 million respectively. In FY2004/05, the aggregate net worth of this sector has been positive and amounted to Rs.1.80 billion. Janak Education Material Center Ltd. and Nepal Television only are found to have earned profit in FY2004/05 where as 3 PEs are found to have been operated on loss. Looking at the net profit and loss situation of the PEs in FY2004/05, Janak Education Material Center Ltd. has earned net profit and rest of 4 PEs are operating on net loss. Janak Education Material Center Ltd is the sole PE in this sector which paid Rs. 3.5 million as dividend to the Government of Nepal in FY2004/05.

Public Utility Sector:

9.6 Nepal Drinking Water Corporation, Nepal Electricity Authority and Nepal Telecom Company Ltd. have been classified under public utility sector. The equity investment and loan investment of the Government of Nepal on these PEs by the end of FY2004/05 has amounted to Rs.32.48 billion and Rs.53.13 billion respectively. Taking into account the existing position of these PEs, only Nepal Telecom is found to have earned profit and remaining 2 PEs are found to be in operating loss. Looking at the net profit and loss situation of these PEs, Nepal Drinking Water Corporation is also found to have earned some profit in FY 2004/05. According to the data of FY 2004/05, the operating loss of Nepal Drinking Water Corporation and Nepal Electricity Authority has been Rs.28.5 million and Rs.1.95 billion respectively whereas the operating profit of Nepal Telecom has been Rs.4.32 billion. Again looking at the net return on capital investment by the end of FY2004/05, it is found that Nepal Telecom Ltd. has 20.91 percent positive, Nepal Drinking Water Corporation has 0.71 percent negative and Nepal Electricity Authority has 2.68 percent negative return on investment resulting in a total net return on capital investment of this sector to be at 2.4 percent positive. The main reason for aggregate low return on investment in public utility sector is mainly due to the low return on investment of Electricity Authority having a huge investment of Rs.72.77 billion. Under this sector, Nepal Government has received Rs.3.30 billion as dividend from the Nepal Telecom Ltd. in FY2004/05.

Financial Sector:

9.7 Government of Nepal has, by the end of FY2004/05, invested Rs.3.18 billion as equity share and Rs.3.67 billion as loan investment in 8 PEs belonging to the financial sector. At the end of FY2004/05, the total net worth of this sector has been negative amounting to Rs.25.20 billion of which the negative net worth of Rastriya Banijya Bank and Agriculture Development Bank has amounted to Rs.20.19 billion and Rs.5.99 billion respectively. Among remaining 6 PEs, except Nepal Industrial Development Bank, the net worth of all other PEs is positive. There have been some improvement in the net worth of Rastriya Banijya Bank and Agriculture Development Bank in FY2004/05 compared to that of FY2003/04. At the end of FY2003/04, the net worth of Rastriya Banijya Bank was Rs.21.44 billion negative and the net worth of Agriculture Development Bank was also Rs.6.01 billion negative. In FY 2004/05, Agriculture Development Bank and Deposit Insurance and Credit Guarantee Corporation Pvt. Ltd. are in operating loss whereas the rest of other 6 PEs have earned operating profit. Looking at net profit and loss situation, it is found that the Agriculture Development Bank has incurred loss whereas remaining 7 PEs have earned net profit. Under this sector, Rastriya Beema Sansthan, Deposit Insurance and Credit Guarantee Corporation Pvt. Ltd and Nepal Stock Exchange are among such PEs that paid dividend to Government of Nepal in FY 2004/05 and the amount of dividend paid by these PEs amounted to Rs.39.4 million, Rs.1.1 million and Rs.0.9 million respectively.

The Status of Audit:

9.8 There is a mandatory legal provision to conduct annual audit in case of all public enterprises constituted under different acts. Despite having mandatory auditing requirements enforced by the act, most of the PEs are not able to conduct the audit within specified time frame. Of the total 36 PEs, the audit of only 22 PEs has been completed up to FY 2004/05 and audit of 8 PEs has been completed only up to FY 2003/04. Audit of 3 other PEs namely Nepal Industrial Development Corporation, Timber Corporation of Nepal and Nepal Oil Corporation has been completed only up to FY 2002/03. Among the PEs not complying with audit requirements for a very long period of time are Nepal Airlines Corporation, Nepal Orind Magnesite and Rastriya Beema Sansthan which have completed their audit up to FY 2001/02, FY 1998/99 and 1997/98 respectively. Despite some improvements observed following some reminders for complying with auditing and accounting requirements as per the provision of the laws of Nepal, the task of completing audit of aforesaid PEs could not speed up as expected. The task of instructing the concerned institutions for updating audit of the accounts through frequent monitoring process has been given continuity.

Reform in Steering Committee of the Public Enterprises:

9.9 In line with the policy of appointing competent, enterprising and professionals in the operation and management of PEs and rightsizing the members of Steering Committee to 5, this provision has been complied with in most of the PEs. As the number of members of Steering Committee of some of the PEs is specified by Act/Rules and Regulations, task of rightsizing number to 5 persons through amendment in such acts/rules/regulations is yet to be realized.

Provisions Regarding Performance Contract:

9.10 In line with the announcement of Budget Speech of FY2004/05 for signing Performance Contract/MOU with PEs with a view to enhance their performance efficiency, the Performance Contract has already been signed with some PEs. Major performance efficiency indicators stated in the MOU are capacity utilization, assets turnover, return on investment, labour productivity and net profits. Similarly, the provisions of ensuring business autonomy to PEs and support to be provided by the Government are also specified in the MOU. It is believed that such provisions would provide autonomy to PEs and make the Steering Committee and management accountable to meet specified goals. In FY2003/04, Performance Contract/MOU was signed with 5 PEs but the same could not be continued in subsequent years. Likewise, the approved policy of evaluating the degree of progress and achievements as per the contract, rewarding to those performing better and penalizing to low performers could not be executed. It seems that expected return has not been realized from MOU owing to frequent changes in management and lack of autonomous practices followed in line with the expectation.

The Status of Employees:

9.11 Despite having said that the government owned PEs have contributed a lot to employment sector, the number of employees should be determined on the basis of the work load of the public enterprise. The expenses of many PEs has increased due to the deployment of excessive employees. In order to minimize the long term liabilities of

PEs, the policy to keep most essential posts only and retrench unnecessary posts with a has been adopted. In line with this policy, 4,500 different posts in various PEs have been cut by the end of FY2005/06. Despite such efforts, most of the PEs are still running on operating loss and, therefore, the problem of over staffing is still found to have remained as a challenging issue.

Status of Liabilities:

9.12 The Public Enterprises can be classified into limited and unlimited on the basis of their liabilities. The liability of shareholders in PEs with limited liability is restricted to the maximum value of shares either purchased or is being promised to purchase. On the other hand, the entire liability of PEs with unlimited liability is transferred to investor or owner. The PEs incorporated under Company Act 1996 fall under the category of limited liability PE while the PEs incorporated under Corporation Act 1964 do come under unlimited liability PE. On the one hand, PEs are operating on loss and on the other hand, huge amount of un-provisioned liabilities have been generated that seems quite unlikely to be taken care of by existing financial capacity of PEs. Considering the lack of records to reflect the actual amount of total liability, provisioning of liabilities for it appears to be more difficult. Due to the aforesaid reason, there is a need to ascertain contingent liabilities of PEs and manage the same properly. According to the available records, by the end of Mid-July 2005, the total amount of liabilities for which funds are not allocated is Rs.3.87 billion, amount of liabilities for legal disputes is Rs.271.1 million, amount of liabilities for guarantees is Rs.2.21 billion and amount of miscellaneous liability is Rs. 3.99 billion thus amounting to the total liabilities of Rs.10.34 billion.

Privatization of Public Enterprises and Liquidation:

9.13 The Government of Nepal has recognized privatization of PEs as an integral component of her economic liberalization and open market economic policy. This programme in Nepal has mainly concentrated on fulfilling the goals of increasing productivity of industries and academies through the enhancement of business efficiency, minimizing the financial and administrative liabilities of the government, and increasing extensive participation of private sector in economic development of the country. In this process, the programme of privatization is being executed with priority for last one and half decades, appealing the participation of private sector in the management and ownership of public enterprises. Commercially, economically, and financially feasible PEs have been handed over to the private sector. Similarly, the PEs, whose social and economic justifications are found to have been no more viable in present time to correspond to the initial goals of their establishment, have been liquidated. The name of 26 PEs either privatized or liquidated by now is stated in following Table 9 (a).

Table 9 (a): Details of Privatized and Liquidated Public Enterprises

S.N.	PEs Name	The Year of Privatization / Dissolution (A.D.)	Privatization Mode	Lump sum Equity Sold (%)	Selling Price (Rs. Hundred thousands)
1.	Bhrikuti Paper Factory Ltd.	1992	Assets and Business sale	-	2,298
2.	Harisiddhi Brick and Tile Factory Ltd.	1992	Assets and Business sale	-	2,148.3
3.	Bansbari Leather and Shoe Factory Ltd.	1992	Assets and Business sale	-	298.54
4.	Nepal Film Industry Ltd.	1993	Equity sale	51	646.62
5.	Balazu Textile Industry	1993	Equity sale	70	177.16
6.	Raw Hide Collection and Processing Co. Ltd.	1993	Equity sale	100	39.90
7.	Nepal Bitumen and Barrel Industry Ltd.	1994	Equity sale	65	131.27
8.	Nepal Lube Oil Ltd.	1994	Equity sale	40	310.57
9.	Nepal Jute Development Co. Ltd.	1993	Liquidation	-	-
10.	Tobacco Development Co.	1994	Liquidation	-	-
11.	Nepal Foundry Factory Ltd.	1996	Equity sale	51	144.73
12.	Raghupati Jute Mills Ltd.	1996	Equity sale	65	822.04
13.	Biratnagar Jute Mills Co. Ltd	2002	Management Contract	-	-
14.	Nepal Bank Ltd.	1997	Equity sale	10	1,251.4
15.	Nepal Tea Development Corporation	2000	Equity sale	65	2,671.05
16.	Agriculture Project Services Center Ltd.	2001	Liquidation	-	-
17.	Cottage Handicraft Sale Emporium Ltd.	2002	Liquidation	-	-
18.	Nepal Coal Ltd.	2002	Liquidation	-	-
19.	Hetauda Textile Industry Ltd.	2002	Liquidation	-	-
20.	Nepal Transport Corporation	2002	Dissolved	-	-
21.	Butwal Power Company	2003	Equity sale	75	8,742 + 1 million US$
22.	Birgunj Sugar Factory Ltd.	2003	Liquidation	-	-

23.	Agriculture Tools Factory Ltd.	2003	Liquidation	-	-
24.	Bhaktapur Brick Factory	2004	Assets and business sale (rent)	-	145 (Assets Sale) 319 (Rent 10 years)
25.	Lumbini Sugary Factory	2006	Assets and business sale (rent)	-	786 (Assets sale) 42.12 (Annual rent)
26.	Nepal Rosin and Turpentine Ltd.	2006	Assets and business sale (rent)	-	1,101 (Assets sale) 30.12 (Annual rent)

* Management is contracted
* 10% equity of Government of Nepal is sold.

9.14 Among the privatized PEs till now, 3 PEs are privatized by assets and business sale, 10 PEs by sale of equity, 9 PEs were liquidated and dissolved, one PE was privatized by management contract and 3 PEs are privatized by assets sale and rental basis. Of the proposed PEs to be privatized or liquidated in FY 2005/06, the task of selling the assets and renting the building of Lumbini Sugar Factory for 25 years has been completed and the Factory is being operated by private sector from this year onward. Likewise, the task of selling the assets and leasing the land and building of Nepal Rosin and Turpentine Ltd. for 10 years has been accomplished. Closed since 2002, the factory is about to be operated by private sector from this year onward.

9.15 The agriculture limestone production plant, machineries and spare parts of Agriculture Limestone Industry Ltd. has been handed over to Hetauda Cement Industry setting a condition that they have to be used for the production of agriculture limestone. Similarly, the task of transferring the ownership of Jogimara located Stone Mine has also been completed. A liquidator has been appointed to liquidate the Agriculture Limestone Industry Ltd.

9.16 In line with the policy of privatizing Nepal Industrial Development Corporation as announced in the Budget Speech of the current fiscal year, the conceptual approval of the Nepal Government for privatizing NIDC by equity sale has already been received. The initial assessment report of the assets and business value of NIDC has already been received. Likewise, NIDC has been converted into Company as per the Company Ordinance 2062 and it has already been registered as “B” Class PE on the basis of Bank and Financial Enterprise Ordinance 2005.

9.17 As mentioned in the Budget Speech of current fiscal year, the process of selling out the 99 thousands equity shares (costing Rs. 100/) of the Government of Nepal on Western Rural Development Bank has been initiated. Similarly, the issuess of selling out 5 percent share of Nepal Telecom to employees and 10 percent shares to public and privatization of Nepal Airlines Corporation as announced in the Budget Speech are under consideration of the Privatization Committee.

9.18 In the Budget Speech of current fiscal year, it is spelled out that the National Trading Company would be liquidated. Accordingly the process of liquidation has been processed forward by the concerned Ministry. Some additional time was consumed in fulfilling the legal compliance, however, now such legal process has already been complied with and, therefore, the process of liquidation has moved forward. Since the third effort of privatization of Birgunj Sugar Factory has not been successful and, therefore, following the decision of Privatization Committee to find out the feasibility of factory operation, the Study Report has already been received. The Privatization Committee would take prompt policy decision regarding the privatization of the factory.

9.19 The task of liquidation of Cottage Handicraft Sale Emporium Ltd has been completed and registration of the same has also been cancelled by Company Registrar Office. Although task of liquidation as per the target has not been accomplished due to the reasons that the assets of Nepal Coal Ltd and Hetauda Textile Industry Ltd. could not be managed properly. It will be moved forward in forthcoming fiscal year to complete the task of liquidation. Similarly, a Liquidator has been appointed to complete all outstanding activities including audits before the final liquidation of Bhaktapur Brick Factory, already handed over to private sector, and the task of liquidation is at the final stage.

9.20 As per the decision of the Government of Nepal, necessary directives have been issued to the main shareholder, Nepal Industrial Development Corporation (NIDC), to liquidate Himal Cement Company on the basis of Company Act. Government of Nepal has lent about 210 million rupees as loan investment to make the final settlement of the outstanding amount to be paid to retired employees.

9.21 Expression of Interest was sought to the private sector for operating Ropeway (Bhainse, Hetauda to Matatirtha, Kathmandu) which had been operated previously by Nepal Ropeway Company. Letter of Intent for operation from some companies has been received and accordingly the process is being put forward for execution.

9.22 The final settlement of the accounts of privatized PEs could not have been done owing to the fact that the amount to be paid by the privatized PEs has not been received by the Government of Nepal and the purchaser has requested for special adjustment. Specially, it appears that it will involve further more time to reach at the final settlement as the buyer company has gone for litigation.

9.23 Voluntary Retirement Scheme has been introduced in some of the PEs with a view to minimize additional financial burden of the Government of Nepal in long term by rightsizing the number of excessive manpower working in most of the PEs. The policy of gradually introducing such schemes in other PEs in the future has been adopted.

Challenges:

9.24 There is a need to adjust the role of public enterprise in the economic development of the country in a manner to suit a liberal, open and competitive economic system and, therefore, in such a context, the aggregate achievement of the PEs goals/targets is not found to be satisfactory one. The main reasons for unsatisfactory performance standard of PEs are inability to operate commercially, excessive employees, obsolete plants and machineries, inability to operate in a competitive environment and gradual minimization of the objectives and justifications for which the PEs are established. Therefore, failure to arrange additional capital and technological sources in order to solve such problems has been one of the major challenges.

9.25 Liberal and open economic policy, globalization, rapid development of science and technology, and increasing involvement of private sector in economic activities has minimized the rationale of objectives and justifications of PEs for which they were established. However, such PEs are still in operation. The lack of full commitment on the part of policy level to identify such worthless projects and bring about adequate reform programmes can be regarded as another main challenge.

9.26 The PEs operating above Break Even Point also have not given due attention to establish reserve and liability fund for providing miscellaneous facilities such as gratitude, pension, provident funds etc., to employees as per the prevailing Acts, Rules and Regulations . Rather they continuously kept on creating unlimited additional burden and liability on the government indirectly. Such situation has also been one of the key challenges. Similarly, the PEs neither maintain their annual financial statements and nor do they get their accounts audited for a very long period of time, which, in turn, is found to have degraded the trusts of the people towards the PEs and the task of PEs' reforms is also found to have been adversely affected.

9.27 There are some complaints still intact that there is a growing tendency of loss incurring PEs to depend entirely on government funding and tendency of profit making PEs to draw excessive benefits and facilities. The expenses of several PEs are found to have amplified due to the prevailing tendency of not making public the actual status of existing posts and employing additional manpower by ignoring the government policy of rightsizing the number of employees. There is an extreme challenge to establish a tradition of realizing accountability and commitment by related PEs and ministries in this regard.

9.28 Despite the fact that privatization programme has been regarded as an integral part of liberal economic system and it has been executed on an institutional basis, the privatization programme has not been successful as expected due to the absence of substantial priority given to it. The situation of multiplying audit irregularities caused by failure in making final settlement of the amount to be paid by the privatized PEs as per the agreement of privatization has stood as a major challenge. Specially, failure to comply with commitments and expected behaviours by private sector has made many issues more challenging.

9.29 It is not possible to ascertain likely burden and liabilities on government treasury because the accounts of privatized and liquidated PEs are not updated, audit is not accomplished, and the task of verifying payable liabilities is yet to be completed due to the absence of provisions for accrued liabilities. The task of making evaluation of assets and business of PEs transparent and reliable, developing conducive environment for promoting investment on privatized PEs and the task of creating conducive environment for general people to invest on such PEs through the development of appropriate privatization modality is also found to have been a challenging one.

9.30 It is imperative to establish an evaluation and monitoring system to check whether the privatized PEs are running according to the business plans or not. It is required to get necessary feedback and put the privatization policy and programmes in a right track.

10. Energy and Forestry

Energy

10.1 Energy consumption in FY2004/05 increased by 1.35 percent to 8,616 Tons of Oil Equivalents (TOE) compared to FY2003/04. It is expected to increase by 3.34 percent to 8,904 TOE in FY 2004/05 in comparison to previous year.

10.2 Energy is divided into three categories according to its sources viz., traditional, commercial and renewable; traditional, commercial and renewable energy occupied 87.7 percent, 11.75 percent 0.53 percent respectively of the total energy consumption in FY 2004/05. The share of traditional, commercial and renewable energy is expected to remain 86.71 percent 12.72 percent and 0.56 percent respectively in FY 2005/06. This shows that this year too, Nepalese economy heavily relies on traditional sources of energy as in the previous year.

10.3 Of the total traditional energy consumption in FY2004/05, share of fuel wood was 89.0 percent, agriculture residue 4.34 percent and cattle residue 6.57 percent, while in FY 2005/06 too the share of agriculture and cattle residues is expected to remain the same. Similarly, of the total commercial energy consumption in FY 2004/05, the share of petroleum products was 69.6 percent, coal 15 percent and electricity 15.4 percent. Whereas in FY 2005/06, the share of petroleum products, coal and electricity in total energy consumption is expected to be 63.9, 21.3 and 14.8 percent respectively.

10.4 Of the total energy consumption by sector in FY 2004/05, the share of household use was 90.3 percent, industrial use 3.5 percent, commercial use 1.6 percent and agricultural and other use 0.8 percent and 0.2 percent respectively. Whereas in FY 2005/06, household sector is expected to occupy 89.3 percent and industrial, commercial, agricultural other sectors by 4.5, 1.5, 0.8 and 0.2 percent respectively.

Electricity

10.5 At the end of FY 2004/05, a total of 556.800 MW (which is only 0.67 percent compared to total capacity) hydropower was generated from various projects of the country. Similarly, production of thermal power and solar power has been 56.756 MW and 100 KW respectively.

Altogether, total electricity production reached 613.557 MW. As of now, all 75 districts of Nepal have access to electricity.

10.6 In the course of adding hydropower, Middle-Marshyangdi hydro electricity project (70 MW) is being constructed in Lamjung district with the support of the government of Germany. To deliver the reliable electricity service in Jumla and Mugu, where solar power is only the source of electricity at the moment, *Heldung* and *Gamgad* small electricity plants are being constructed while *Chakukhola* electricity with the capacity of 1.5 MW is being constructed privately.

10.7 As in the previous FY, private sector participation in the production of electricity has been found encouraging in FY2005/06. The projects constructed by the private sector have been commissioned and come into operation. In this regard, among the projects which have signed Power Purchase Agreements (Papas) with NEA, Mardikhola (3.1 MW), Lower Nyadi (4.5 MW), Khudi (3.4 MW), Mayelung (5.0 MW), Daram Khola (5.0 MW), Baramchi (0.999 MW), Lower Indrawati (4.5 MW), Upper-Madikhola (14.0 MW) Khudi Khola (3.45 MW), and Shali Nadi (0.232 MW) are under construction.

10.8 In line with the expansion of electrification, high-voltage transmission lines of 1130.20 Km single circuit and 413 Km double circuit in 132 KV level; 231.30 KM single circuit, 164.50 KM double circuit and 4.44 Km bar circuit in 66 KV level; 22 Km in 66 and 132 KV joint level and 2471 Km in 33 KV level were in operation at the end of FY 2004/05. Similarly, total capacity of sub-stations is 1062 MVA of them are 132/11 KV, 66 MVA, 132/33 KV, 348 MVA, 132/66 KV, 210 MVA, 66/10 KV, 413 MVA, and 66/33 KV, 25 MVA. In the current FY 2005/06, Butwal–Sunauli (25 Km) and Pathalaya – Parwanipur (20 Km) transmission lines of 132 KV as well as Ilam - Phidim -Taplejung (90 Km), Sitalpati-Musikot (50 KM), Buipa-Okhaldhunga (29 KM), Chhinchu- Jajarkot (70 Km), Ghorahi - Holeri (45 Km), Udipur - Beshisahar - Manang (90 Km) and Dadeldhura - Baitadi (14 Km) transmission of 33 KV are being constructed. In order to extend transmission lines at three additional boarder points for the exchange of electricity with India as agreed principally by raising the level of electricity exchange from 50 MW to 150 MW, necessary studies and preparations were being carried out for the construction of 132 KV transmission lines between Butwal - Sunauli (25 Km), Dhalkebar - Bhittamod (45 KW) and Parawanipur - Birgunj (15 Km). Accordingly, construction work has already been initiated for Butwal - Sunauli transmission lines. Construction of 132 KV Thankot - Chapagaun – Bhaktapur- Kathmandu "Ringmen" transmission line has been started under the loan assistance of Asian Development Bank (ADB) to strengthen the capacity of electricity transmission in the Kathmandu Valley in order to cope with ever expanding urbanization. There is a target of constructing a 220 KV Khimti -Dhalkebar (75 Km) transmission lines for the purpose of supplying the electricity generated from Khimti, Bhote Koshi under the assistance of the World Bank.

10.9 The upgrading and strengthening of the existing power grids has been continued. The strengthening and upgrading of Chandranigahapur electricity grid and Bharatpur and Pokhara sub-stations grids have been started with the assistance of the World Bank and the ADB respectively.

10.10 Expansion of electrification in the districts is underway where power is connected with the mobilization resources of the government and Nepal Electricity Authority (NEA). In this regard , expansion of electrification in Kailali and Kanchanpur districts is being carried out with the grant assistance received from the Government of the Denmark. The electrification in additional 27 districts is continued under the Rural Electrification and Distribution System Strengthening Project with the loan assistance of Asian Development Bank. Agreement has been signed with the World Bank to expand the electricity services in additional areas of Bhaktapur, Lalitpur, Nuwakot, Dhading and Kavre districts and accordingly the works have been started.

10.11 Similarly, various actions have been initiated on feasibility and detailed studies on hydropower. The process of selecting consultant for detailed study and construction of access road has begun for the Tamakoshi hydropower project to meet the demand of electricity. The detailed study of Kulekhani III has been completed. Similarly the need of implementing reservoir type projects has been felt to reduce the seasonal imbalance of supply and demand of hydropower. Hence, the study with the technical assistance of NEA and Japan International Cooperation Agency (JICA) is under way. The study so far has shown that the Upper Seti (Damauli) is attractive for this purpose. Hence, attempts are made to collect resources by requesting the government of Japan. Similarly, the study of Nalasyaugad dam is in progress. A Detail Project Report (DPR) of the Upper Trisuli III A hydropower project is being prepared after completing the feasibility study. While the preliminary study of Thuligad is being carried on.

10.12 The total supply of electricity in FY 2004/05 was 2642.75 Gega Watt Hours (GWH) including production of hydropower 2387.7 GWH, thermal power 13.67 GWH and 241.39 GWH imported from India. Out of which, 1853.7 GWH was consumed internally and 110.7 GWH was exported to India. Whereas in FY 2005/06, total supply of electricity is expected to reach 2784.8 GWH including production of hydropower 2464.8 GWH, thermal power 20.0 GWH and 300.0 GWH imported from India. Out of the total available power supply in the current FY, internal consumption is estimated to be 2005.48 GWH and export to India to be 140.0 GWH respectively.

10.13 Sector wise consumption of electricity in 2004/05 reveals that the industrial sector accounted for 38.89 percent, household sector 38.6 percent, commercial sector 5.56 percent, export 5.64 percent and miscellaneous 11.31. Likewise in FY 2005/056, it is estimated that industrial sector will account for 37.21 percent, household sector 38.5 percent, commercial sector 5.49 percent, export 6.34 percent and miscellaneous 12.44 percent.

10.14 The total number of electricity consumers at the end of the FY 2004/05 was 1.16 million, while, this number is estimated to be 1.280 million with an increment of 10.4% in FY 20045/056.

Petroleum Products

10.15 In FY 2004/05, consumption of petroleum products decreased by 9.2 percent totaling 685,902 Kilo Liters (KL) and L.P. Gas increased by 17.28 percent totaling 77,575 metric tons (MT). While calculating this consumption for the first eight months of FY 2004/05, petroleum products and L.P. Gas accounted for 447,500 KL and 50,835 MT respectively. During the same period of current FY 2005/06, consumption of petroleum products declined by 5.24 percent totaling 424,033 KL and L.P. Gas increased by 59.38 percent totaling 81,025 MT.

10.16 Major share of the consumption of petroleum products is occupied by diesel, kerosene, petrol, and aviation fuel. Of the total consumption of petroleum products (excluding L.P. Gas) in FY 2004/05, the share of diesel, kerosene, petrol and aviation fuel was 40.54 percent, 30.76 percent, 9.76 percent and 8.59 percent respectively. Whereas consumption in the first eight months of FY 2005/06, share of diesel remained as 35.35 percent, petrol 9.71 percent, kerosene 30.60 percent and aviation fuel 8.40 percent.

10.17 The total storage capacity of Nepal Oil Corporation (NOC), the only institution dealing the transactions of petroleum products, is 70,300 KL, which is adequate only for 25 days on the basis of average consumption. So storage capacity needs to be increased based on increasing consumption of petroleum products and as per the target of the Tenth Five Year Plan, NOC's storage capacity has to be increased to 100,000 KL. Of the total consumption of petroleum products, 65 percent is being imported from Raxaul Depot of Indian Oil Corporation (IOC). Considering the loading capacity of Raxaul Depot of IOC and the traffic congestion of different vehicles between Raxaul and Birgunj Customs area, it is indispensable to consider for an alternative arrangement of the transportation of petroleum products.

10.18 Nepal Oil Corporation (NOC) is in deficit due to its inability to adjust the cost of petroleum which was significantly increased in the international market during the FY 2004/05 and 2005/06. Due to the deficit of NOC, it has not been able to develop infrastructure except to store the imported petroleum products and its , selling and distribution.

Coal

10.19 Consumption of coal had decreased by 11.2 percent totaling 152.0 Ton Oil Energy (TOE) equivalent in FY 2004/05, whereas in FY 2005/06, it is estimated to increase by 58.6 percent to 241 TOE equivalents.

Alternative Energy

10.20 In order to mobilize smoothly, efficiently and quickly the financial resources received from Government of Nepal, and the Governments of Denmark and Norway in solar energy and micro-hydro plants, and also to coordinate with banks to ensure the availability of loans, an Interim Rural Energy Fund (IREF) has been established and operated under the Alternative Energy Promotion Center (AEPC). With the setting up of IREF, it is expected that the access to new and sustainable energy systems of the rural people in particular will be increased. It will have very positive impact by providing electricity services in the areas where electricity has not connected from the national grid and with it the improvement in education, health will be achieved. It will directly contribute in income generation and employment. And through it, there has been improvement in living standard.

Biogas

10.21 In the first eight months of FY 2005/06, the establishment of biogas plants increased by 66.4 percent with a total of 2330 plants compared to the 1400 plants in the corresponding period of FY 2004/05. With a view to provide easy access of biogas to poor people and help produce clean and hygienic cooking gas and quality compost manure from slurry, a biogas credit unit has been established at the Alternative Energy Plant Center (AEPC). It will channel faster, easier and concessional credits to install the biogas plants. And subsidized loan has been provided without collateral especially to rural poor and women through 112 micro finance institutions. This has positively contributed to the socio-economic condition of the rural poor and women with an access to biogas as cooking fuel. This subsidized loan has been made available from the assistance of KFW, Germany since FY 2001/02.

10.22 With the view to promote the use of alternative and renewable energy in the rural area along with the support to preserve environment and provide the opportunity for the rural families with low income to consume renewable energy, existing subsidy policy is being revised. Similarly, in order to support in poverty reduction through proper development and expansion of rural energy, the draft of Rural Energy Policy 2005 is being finalized.

Table 10 (A): Status of Alternative Energy and Biogas (in Number)

sn	Activities	Progress in FY 2004/05	Progress in the first 8 months of FY 2005/06
1	Distribution of solar dryer and cooker	294	78
2	Establishment of Biogas plant	17,478	2,330
3	Maintenance of old plants	26,040	13,620
4	Establishment of cottage solar system	11,928	14,611
5	Establishment of improved water mill	779	678
6	Production of micro hydropower	717	1,199

Source: Ministry of Environment, Science and Technology, AEPC

Forest

10.23 Initiatives have been made to implement the community and leasehold forestry programs in an integrated way to improve the living standards of the poor, Dalit, women and deprived groups. This is expected to maintain social empowerment, gender equality, social justice, equity and good governance and help for broad based economic development. There has been a total of 778-community forestry managed by Women. In the first 8 month of the FY 2005/06, in order to uplift the living standards of low income people and to meet the objective of devolution of authority to the local bodies regarding basic service delivery, 240 leasehold forest user groups (FUGs) have been formed and 133 work plans are prepared.

10.24 A forests management action plan has been enacted and implemented with a view to raise public revenue and national production through scientific management of forest and maximum utilization of forest products. Similarly, a five-year forests action plan is approved and implemented in the current FY to increase the productivity of forestry sector through the proper sales and distribution of forests products and scientific management of forest.

10.25 The system of ensuring active participation of local stakeholders while identifying and planning the programs of community forestry, and leasehold forest is being practiced. Different forestry development projects are being implemented to develop environment and forest species . Such forest development projects include; Sindhu – Kavre Forest Development Project (2 districts), National and leasehold Forest Development Program (11 districts), Community Forest Development Program (38 districts), Forest Program for Livelihood (15 districts), Dolakha – Ramechhap Community Forest Development Project (3 districts), Hilly Leasehold Forest and Grazing Development Project (26 districts), and Bio –diversity Program of Terai and Siwalik Area (8 districts). Similarly, for the ecological balance, preserve bio- diversity and maintain secured habitat for water creatures, different soil – conservation and water shed projects are being implemented. Among them the major projects are; Sindhu – Kavre Preservation Project (2 districts), Chure Water Shed Management Project (2 districts), Bio – diversity Program for Terai and Siwalik Area (8 districts), Community Development and Forest Water Shed Preservation Project (6 districts).

The promotion and development of plants is being conducted through different programs like, Plants Development Program, Herbs Development Program (12 districts), Herbs Promotion Project (7 districts).

10.26 Emphasis will be given for the research and development of plant resources. Nepal's medicinal herbs of high value are depleting rapidly. Research in appropriate technology and data collection for their genetic conservation and sustained management is a necessity. These products can be a major source of increasing employment, export promotion and income generation for the people of the hills and high mountain region. Therefore, a national program will be initiated with the participation of agencies; both public and private sector, associated with the management of herbs production, processing and marketing, and accordingly Plant Preservation Spot Management (Gene Bank) are established in seven District Forest Offices. Similarly, the National Herb Development Action Plan has been implemented .

10.27 The 298 square km. area of Parsa Wild Life Conservation has been declared preserved area within Central area Community Forest Development Program. 3583 Forest User Groups (FUG) are formed and 104684 households are benefited from the preserved area. 669184 people have been employed in conservation preservation related programs. Similarly, by the ecotourism in different national parks and conservation areas, the total revenue of Rs. 40 million was collected.

Box: 10 (1)

Status of Community and Leasehold Forest

A. Community Forest:	
• Number of Community Forest Utilizing Group	14227
• Area of handed over community forest	1158563 hect.
• Beneficiary Households	1635664
• Community forest managed by female	778
• Formation of User Groups (mid-March 2006)	221
• Community Forest Action Plan (mid-March 2006)	253
• Hand over of Community Forest (mid-March 2006)	253
• District with Community Forestry Program	74
B. Leasehold Forest:	
• Number of Leasehold Forest User Group	2499
	11024 hect.

• Area of handed over leasehold forest • Beneficiary Households from leasehold forest • Leasehold forest (of 14 organizations) • Formation of Leasehold Groups (mid-March 2006) • Leasehold Forest Action Plan (mid-March 2006) • District with Leasehold Forestry Program • Handed over area of forest area for tourism	18341 330 hect. 240 133 26 22 hect.

Source: Ministry of Forest and Soil Conservation

Challenges

10.28 There has been population expansion and increase in different developmental activities which has increased dependency on traditional sources of energy. It is realized that there will be ecological imbalances due to increasing trend of forest depletion owing to increasing pressure on natural resources. Therefore, it is a challenge to make available the electricity supply to the people easily and at affordable price by completing electricity projects under construction in a shortest possible time so as to minimize risks related natural imbalances.

10.29 Biogas, micro-hydro, solar and wind energy are the main sources of alternative energy available in the country. We have not been able to use these sources in a desired level. Lack of adequate financial resources and fragile security situation are the challenges behind not having proper development of the sources of alternative energy.

10.30 Despite a high potentiality of power generation in Nepal, only one percent of the total potentiality is generated. Economically power sector is highly important though not utilized properly. That is why most of the people have no access to the electricity and due to high power generation cost there is a low possibility for export too. Therefore, fulfilling the domestic demand by proper utilization of available resources and support national economy through the export of power by lowering generation cost is a challenge.

11. Transports and Communication

Road Transport

11.1 Out of the Tenth Plan target to connect 70 districts with the road network by the end of the plan period, up to now 61 district headquarters have access to road facility. Only one district head quarter (Darchula) was linked by road transport during the review period of FY2005/06 against the target of linking 6 district headquarters. Security situation is the main reason for this performance. Total road length at the end of FY2004/05 stood at 17,279 Kilometer (Km), of which black-topped road was 4,911 km, graveled road 4,707 km and fair weather 7,661 km. During the first eight months of FY 2005/06, 7 km. road upgraded to black toped and 5 km. upgraded to graveled road, and altogether 18 km. new road could be added to the total road network. With this addition, the total length of road has now reached 17,297 km, breakdown of which is given in the following table:

Table 11 (a): Road Facilities of Nepal

(Km)

sn	Types	Fiscal Year			
		2004/05	2005/06*	Total by mid-March 2006**	
				Total	Share/percent
1	Black topped	4911	7	4918	28.4
2	Gravel	4707	5	4712	27.2
3	Fair weather	7661	18	7667+	44.4
	Total	17279	30	17279	100.0

**First eight months*
*** Total of mid-March 2006*
Source: Department of Roads, Kathmandu.
Note: Roads constructed by Department of Roads is only included.

Transport Vehicles

11.2 Transport vehicles registered in the country since FY1990/91 totaled 472,795 at the end of FY2004/05. Additional 29,430 (6.2 percent) vehicles were registered during the first eight months of FY2005/06, making the total number of vehicles at 502,225. Vehicle density per km in the country has reached 29 per km. in mid-March 2006, from 27 in the corresponding period of the last year.

Table 11(b): Number of Vehicles

Types	Fiscal year 1990/091-2004/05	Fiscal year 2005/06*	Total**	Total Increase Percent (first eight months)
Bus	13331	693	14024	5.19
Minibus	4256	261	4517	6.13
Car/jeep/ van	78255	4854	83109	6.20
Tractor	33230	1106	34336	3.33
Motorcycle	302042	20125	322167	6.66
Tempo	7263	35	7298	0.48
Micro	1700	493	2193	29.0
Truck/Tanker/ Dozer/Crain/Tripper/ Dumper	27659	1498	29157	5.42
Pick up	1059	352	1411	33.24
Others	4000	13	4013	0.33
Total	4,72,795	29,430	5,02,225	100.0
Density per km	27	-	29	-

* Addition by the mid - March 2006

* * Total since 1990/091 – mid-march 2006

Source: Department of Transport Management,Lazimpat, Kathmandu.

Other Transports

11.3 Trolley Bus Services & Sajha Yatayat are in operation in a satisfactory way due to the initiation of Municipality and the Civil Society. Likewise, Railway service is also operating normally.

Progress on Policy and Institutional Matters

11.4 Effort on the development of Transport Network Planning Capability and its implementation through the preparation of a 20 year Roads Master Plan and Business Plan has been developed. The 10-year Priority Investment Plan (PIP) is in the process of revision. In addition to this, the Medium Term Expenditure Framework (MTEF) has been prepared and accordingly programs will be continued in line with the annual budget.

11.5 For the development of planned maintenance works of roads, Strengthening of Maintenance Division Program (SMD Process), Geo-environment Unit and Bridge Units are established and they are in operation.

11.6 With the purpose of effective monitoring and evaluation of the program of maintenance and rehabilitation of road and bridge in a managed way, the Program Monitoring and Evaluation Unit: PMEU has been established and is in operation

11.7 To settle the dispute that might occur with consultants and contractors during the implementation of project, a Dispute Resolution Unit: DRU has been established and is in function.

11.8 For the qualitative construction work, Geo-technical Manual, Standard Design Manual, and the specification of construction works have been prepared and maintenance works are being carried out accordingly.

11.9 According to the policy to involve the local people directly in the construction of roads in order to support the poverty reduction program, the construction of roads through Road Building Group: RBG and local Community Based Organization: CBO has begun.

11.10 To improve monitoring through modernization and implementation of the current record system, effort is underway to strengthen Computer Information System (CIS) for easy flow of information between the Projects and the Planning Division and the development of soft ware to support it has begun.

11.11 In pursuance of Human Resources Development in the Roads Sector, a Road Sector Skill Development Unit (RSSDU) has been established in the Department of Roads (DoR). The Unit is working towards creating database for personnel within the DOR, and conducting training and orientation activities. The road sector Human Resource Development Policy has been approved and work is underway as planned.

11.12 In pursuance of the policy of handing over local level infrastructures to local bodies, process has been initiated for handing over district roads to the local bodies through the Department of Local Infrastructure and Agriculture Roads (DOLIDAR). Similarly, urban roads except roads of local bodies and strategically important roads are handed over to the concerned Municipalities.

11.13 With the purpose of involving directly the users of roads in the maintenance of it, Road Board has been established through which regular maintenance of road is being implemented for faster, safer and credible transport service with the tax levied for the road users.

11.14 Transport Management Action Plan has been prepared for the improvement of transport management. Different safety measures to reduce road accidents improvement of roads, hoarding boards for awareness, checking of traffic, and Traffic Weeks are provisioned. To reduce the pollution caused by vehicular emissions, the Nepal Traffic Pollution Standard, 1999 has been implemented.

Air Transport Service

11.15 In consideration of the difficult geophysical condition of the country, air transport service is being expanded and strengthened as per the National Civil Aviation Policy. Work is underway to make air flights, air communication, air routes, air navigation and air transportation for domestic and international air connections safe, standard, regular and effective. Similarly, to improve the terms and conditions and facilities of services and for the institutional development, the Authority has made a study through consultant. In the same way, the draft of National Aviation Policy, 2005 has been sent to the cabinet for its approval. A Working Procedural Manual, 2005 for providing permission to airlines companies and aviation training institutions has been approved and is under implementation. Likewise internal procedural manual of the Ministry for providing grants to aviation industry is also approved and is being followed.

11.16 International Terminal office is developed as an information center. In addition to advice and assistance, arrangement has been made to provide all information related to the airport, including the flight details from this office. As per the standard of international airport, rest room for the transit passengers has been in operation and similarly a separate rest room has been built at international arrival point for the passengers whose documents are not up to date. The space at domestic terminal has become narrower due to the increase in the number of passengers and waiting passengers caused by the delay in the flight. To address this situation, at the terminal, departure room has been extended by the capacity of additional 50 seats and 2 security-checking rooms.

11.17 Establishment of waiting room at the Golden Gate and Flight information display system is placed for easy and effective flow of information on domestic flights. Similarly, necessary advice, assistance and flight information are availed from domestic terminal office. Automatic Teller Machine (ATM) is placed to facilitate the travelers.

11.18 All 6 activities, under the Tribhuvan International Airport Improvement Master Plan, are being carried out with the loan assistance of Asian

Development Bank and OPEC. Considering the need of the people in the settlements near to the International Airport, the development and construction activities like roads and drainage are being executed from its own source of the TI Authority. During the current fiscal year, the construction of 150 m. gabion drain in Kandaghari–Manohara stream has been completed. Similarly, the black topping of Kandaghari of Gothatar VDC to Birendra Chowk is underway. Expansion work of turning pad for large aircrafts on the southern part of runway (RWY 20) has been completed. Different types of training activities are being carried out for the airport security police. TV sets are placed in different areas of the terminal building for the entertainment of travelers.

11.19 In the first trimester of the current fiscal year, Bharatpur Airport has additional 550 meter run way blacktopped to achieve a runway of 1200 meter, which had begun last fiscal year. As a result, the runway, taxiway and apron are in operation all the seasons, which has increased the air services with the introduction of Beech craft and SAAB aircrafts. With the view of regional balance, the upgrading and extension of Dhangadi airport with the participation of local people will be undertaken so that the air service will be available round the year. Similarly, contract agreement has been signed to blacktop the runway in the course of upgrading the airports of Surkhet and Janakpur.

11.20 As per the policy of encouraging private sector airlines to operate domestic and international air services, Airline Operator Certificate (AOC) licenses have been issued to 42 airlines. In this fiscal year, AOC licenses are provided to Flying Dragon Air Lines, Himchuli Helicoptor Pvt. Ltd. and Shivani Air Pvt. Ltd. Of which Air Shangrila and Air Nepal International are provided the permission for international air services. Of the 42 airlines with AOC license, 19 are providing the services. Similarly, 4 are related to recreation and aviation sports (1 each for Hot Air Balloon & Ultra Light Power and 2 Paraglide).

11.21 Among 34 airports, which are in operation throughout the country, in line with the targets of extending Biratnagar, Bhairahawa and Nepalgunj Airports as Hub Airport, the physical facilities and night landing facilities are available. In this course, the construction of rigid parking apron of these airports is in progress. With the physical infrastructure development of these airports, the air service has extended with the landing of medium jet like Fokker 100.

11.22 The second revised version of National Air Security Program has been approved and implemented by National Civil Aviation Security Committee. Similarly, the determination of the originations operating air services and act on insurance while operating air services has been prepared. The draft of airport construction policy has been prepared.

11.23 Budget has been already provided to Manamaya Airport at Khanidanda, which is being constructed by the local people. Similarly, the construction with the assistance of Government of Nepal, Civil Aviation Authority and local level, Masine Chaur Airport in Dolpa is under progress. To extend air service in remote areas Mugu (Rara) Airport, Kalikot Airport, Kageldanda Airport, Kamalbazaar Airport and Thamkharka Airport are under construction.

11.24 Communication equipments at Rukum Chaurjahari Airport, Rukum Salle, Lamidanda and Meghauli Airport, which were damaged by the terrorist activities, have been reinstalled. While for other two Bajura and Dolpa airports, among 14 airports, which faced the damage of physical infrastructure, necessary budget has been provided.

11.25 Internal air service fair rate has been revised from 17th of February 2006. This revision provides subsidy while determining the fare for the remote area. One seat in each flight for disabled travelers has been arranged at the fifty percent discounted fair.

11.26 Nepal has signed bilateral Air Service Agreement or MOU with 35 countries. In the current fiscal year revision of agreement has been made with Myanmar and Kuwait. As a result, Nepal has 57,00,656 two way seats available annually from these Agreements, of which only 4 0.0 percent is being utilized.

11.27 With the assistance of Kathmandu Medical College, a health service center has been established at Tribhuvan International Airport to provide the treatment facilities for the passengers who accidentally become sick and weak. From this center, in addition to the passengers, the employees of different department of airport also receive the health facilities free of cost.

11.28 Because of the difficult geographical feature of Nepal and difficulty to establish communication and air service equipment, there is a challenge to maintain highest level of air service security. Nepal has actively participated in worldwide security inspection program operated by International Civil Aviation Organization (ICAO). There has been a remarkable progress in the implementation of the Auditor's recommendations. Satisfactory progress has also been seen in other activities such as; Seminar on Controlled Flight into Terraeri (CFIT), timely amendment to Nepalese Civil Aviation Requirement (NCAR) and the publication of Flight Operation Requirement (FOR) 3rd Edition.

Information and Communication

Postal Service:

11.29 Postal service has reached all the villages as a means of information and communication. Currently, the postal service network includes general post office, regional post directorates, district post offices, ilaka post offices and additional post offices and their total number is 3,992. In addition to delivering letters, parcels, it has continued its traditional jobs like: the publication of postal tickets, Postal Saving Bank and it has moved towards the maximum utilization of modern information technology introducing e-post service. Money order revolving fund has increased to Rs.28.775 million. This service has been extended to India, Jordan, Qatar, Thailand and Hong Kong and United Arab Emirates. The service is provided by 521 post offices within Nepal. There is also Postal Savings Bank service available now in 117 post offices. Of the total deposited amount Rs.280 million in these banks, more than Rs.120 million has already been invested. Express Foreign Mail Delivery Service is operating in 35 foreign countries and Domestic Express Mail Delivery Service in municipalities and would be municipalities of Nepal, making 60 locations in total for fast and effective postal services and to simplify the working procedure Counter Automation has been put in place in different 7 places. LAN system has been introduced in General Post Office and Postal Training Center. Similarly computers have been distributed to 50 District Postal Offices. Department of Postal Services has completed its preparation to transfer the local postal offices to the local bodies.

This year, Goshwara Hulak (General Post Office) and different post offices have collected Rs. 2.5788 million as revenue from the applicants for Electronic Diversity Visa (EDV-2006) forms for the United States of America.

Telecommunication

11.30 The economic liberalization policy has its positive impacts in the sector of telecommunication and it is necessary to develop the services competitively. Nepal Telecommunication Authority, established as a regulatory body, in the first 8 months of 2005/06 has issued basic telephone service license to 2, cellular mobile service license to 2, internet (including email) license to 31 agencies (50,000 customers); V-sat service provider license to 8; V-sat service user license to 93; Video-conferencing service license to 1; Fax mail service license to 6; basic telecommunication service license to 2; GMPCS license to 2; rural telephone service license to 1; and local data network service to 1.

11.31 Nepal Telecom Ltd. has provided telephone service throughout the country with 218 telephone exchanges. From these exchanges 5,88,061 lines have been distributed and are in use. The Exchange equipment with the capacity of 2,50,000 lines of CDMA technology based have been established and out of which 4,560 CDMA phones have been distributed. Post-paid and pre-paid mobile services customers totaled 1,02,219 and 2,46,400 respectively. Likewise, the E-mail customer totaled to 7,796.

11.32 International circuit capacity, which enables worldwide telephone links, has reached 2,990. The number of customers wait-listed for new telephone line connections are increasing. Additional CDMA technology-based lines will be extended to the different parts of the country during this year to reduce the number of people in the waiting list.

11.33 United Telecom Ltd., a single private sector service provider, is providing telephone services based on WLL technology since mid – March 2006. And the Spice Nepal, in collaboration with United Telecom Ltd. has distributed 1,02,111 lines mobile phone service. STM Telecom Sanchar Pvt. Ltd. was selected to provide telephone services in 534 VDCs in the Eastern Development Region under the assistance of the World Bank. This company has set up 1,200 PCOs in the region according to the plan.

11.34 With the assistance of the Government of India, the connection of 891 km Optical Fiber from Bhadrapur to Lamahi has been completed.

Table 11 (c): Extension of Telephone Service

Item	Fiscal year		
	2003/04	2004/05	2005/06*
Grand Total			
Number of Urban Areas Covered	58	58	58
Telephone lines distributed	408,417	433,631	588,061
Population/000 telephone lines**	17.64	18.7	25.40

** First eight months*
***Based on National Population Census Report, 2058*
Source: Nepal Telecommunication Corporation, Kathmandu
Note: All exchanges digital and automatic.

Information Dissemination

11.35 Establishment of SAARC information center has been already completed. The code of conduct for journalists has been executed for the development of journalism and execution of this code is also initiated. CD-ROM technology was adopted for the long-term protection of newspapers. Till now, 14,54,000 pages have been scanned and protected in CD. Continuity is given to provide the rebate in interest rate on the bank loan, borrowed for the development of journalism through Media Development Fund. Department of Information, Press Council, Rastriya Samachar Samiti (RSS) and Gorkha Patra Sansthan are disseminating the information through print media.

11.36 To strengthen information dissemination room which is essential to disseminate information in an effective, fastest and managed way, the informative materials about Nepal have been kept in website. Similarly, interaction and training for journalists on journalism have been conducted.

11.37 By mid-March 2006, the number of newspapers registered in various districts of Nepal reached 4,286. Of this total, 313 are daily 10 half-weekly, 1,506 weekly, 300 fortnightly, 1,313 monthly, 267 bi-monthly, 419 three monthly, 22 four monthly, 60 half- yearly and 76 annually.

Table 11(d) : Number of Publications by Language

Language	Number	Language	Number
Nepali	2,956	Bhojpuri	2
English	355	Sanskrit	2

Nepali-English	732	Urdu	2
Newari	25	Tibbati	1
Hindi	13	Limbu	1
Maithili	13	Doteli	1
Tharu	5	Other	178

Source: Ministry of Information and Communication.

11.38 Preparation for further diversification of regular publications and initiation of the regional publication of Gorkhapatra Sansthan are in progress.

Television Broadcasting Service

11.39 Television service of Nepal Television (NTV), as a strong and effective electronic means of communication, is in regular operation in Nepal since 1984. At present, there are altogether 7 Television Channels out of which 2 are run by the government and 5 from private sector. Government owned Nepal Television through satellite has the coverage of transmission throughout the country and in foreign countries. Its second channel, the Metro Channel will be linked into the satellite in near future for which preparation is underway. The establishment of Low Power Transmitter in different 8 places of the country to extend the broadcasting signal throughout the country is in progress. Television service has been expanded to Doti and Hetauda with the installation of transmission in these places.

11.40 At present, with the installation of 15 transmitting center at various places of the country the access of television transmission has reached to 45 percent of total area and 65 percent of people have the access of it. An agreement has been signed between Nepal Television and Galaxy Television Limited, UK for the live broadcasting of Nepal Television in the Gulf countries, Europe, America, Australia and Africa through Single Cable Network and Direct to Home system. Agreement for the supply of essential equipment required for the installation of satellite has been concluded. Likewise a lease agreement has also been concluded with the THAI COM for the use of Space segment for the transmission of programs through its satellite for one year starting from July 2006.

Radio Broadcasting Service

11.41 Established in 1951, Ratio Nepal is country's oldest and countrywide access electronic media. Its short-wave broadcast can be received all over the country. Work is underway to extend its services with the establishment of 4 Frequency Modulation (FM) relay centers. Radio Nepal also adopted V-sat technology to make its broadcast receivable all over the country. It has medium wave broadcasting stations in all five regions of the country. These stations broadcast informative and entertainment programs like news, songs, music etc. Since the entertainment and information based broadcasting through the use of FM was opened to the private sector, other 56 companies have obtained license to operate such broadcast. Out of these 47 are now operating.

Printing Service

11.42 With the implementation of National Communication Policy in 1992, the concept of security printing developed. Printing press of the Department of Printing has been made autonomous to provide professional and quality services for which construction of building has been completed and the printing has begun. By mid-March 2006, the department has started printing materials like, citizenship certificate, visa, stickers, bank's cheque books, Foreign Employment Permit Stickers, question papers and certificates of some universities and Higher Education Council, post cards of postal service department, and annual reports of constitutional bodies and answer copies of SLC examination. In addition to this, manpower development activities have also taken place. In the first 8 months of the fiscal year 2005/2006, the Department of Printing has collected the revenue totaling Rs. 2764.858 thousands.

Motion Pictures

11.43 Motion Picture Development Board is active for the coordinated development, expansion, and promotion of motion pictures to preserve Nepalese art and culture by the advocacy of it. In the first 8 months of the current fiscal 2005/06, the construction of the Board's own building has been completed and the library has been strengthened. Website has been hoisted with purpose of raising awareness; provide information for its different activities and for its development at the national and international level. Similarly the broadcasting the news of motion pictures through Nepal Television once in a week has begun. The

Board has appointed Nepalese representative for the promotion of Nepalese Motion Pictures in Maharastra and Gujarat of India. Similarly the process of appointing representative for USA is in progress.

Challenges

11.44 Geographical complexity, peace and security problem, unavailability and problem in using explosives required for the construction of roads, absence of timely approval of programs, and inability to mobilize sufficient people's participation are still some major challenges in the development of roads transport facility

11.45 Difficult geographical terrain, lack of infrastructure, lack of resources to invest in using modern technology, lack of expected coordination during the execution process is the major challenges. Inability to benefit from diverse means of communications and other means in an integrated and coordinated way, lack of sufficient manpower and lack of proportional distribution /expansion of the effective means of communication are some challenges of the communication sector.

11.46 Lower return on investment on roads because of high construction costs but low traffic density, and absence of integrated development is another challenge in this sector.

11.47 A prominent challenge in the sector of telecommunication is the management and the quality service of available services and the overcoming the present situation where people have to wait on long queue for telephone connection for years in this age of competition with private sector as an already viable competitor in the market.

11.48 Lack of co-ordination among utility service providing agencies like Department of Water Supply and Sewerage, Department of Roads, Nepal Telecom Ltd. And Nepal Water Supply Corporation has made difficult to ensure the sustainable, credible and economical construction works of roads especially in the urban areas.

11.49 Increasing the life of roads through improvement in the quality of construction work; reducing the cost /benefit ratio with effective supervision, monitoring, evaluation, and feedback is another challenging task.

12. Social Service

12.1 It is inevitable to produce efficient, robust, productive, disciplined and healthy citizens in the country by developing the entire social service sub-sector to bring in the overall development of the country. It is imperative to take firm steps for ensuring easy accessibility of education and health services to all class of people and individuals of the country by way of fulfilling the commitments made in international sector to bring about improvements in the management of economic and human resources of governmental and nongovernmental machineries to have been engaged on the development of these two sectors; development of adequate consciousness on environmental, familial and individual sanitation and cleanliness; control of water related diseases; distribution of clean and fresh water; enforcement of legal structure relating to gender discrimination; and protecting the rights of child, disable citizens, and senior citizens.

Education:

12.2 As stated in Education Regulations (7th Ammendment) 2059, in line with the goals of strengthening School Management Committees by way of providing to it sufficient powers and rights for the proper operation, supervision, and management of community schools; the management of 200 schools has already been transferred to communities as against the goals set for handing over the management responsibilities of 2 thousands schools to communities in fiscal year 2005/06.

12.3 Various programmes like child education first, child education second, alternative education, primary education extension programme, non-formal primary education programmes for the out-of-school children which were being implemented in past are continued in this year too. In current fiscal year 2005/06 under the Education for All (EFA) programmes, several activities such as early childhood development, ensuring access to all, meeting the learning needs of all, reduction of illiteracy, elimination of gender discrimination, improvements in all aspects of quality have been carried out. The responsibility of operation of Child Development Center has been assigned to VDC and Municipality. For the improvement of student enrollment and retention rate, out of the total community school level students, the task of awarding scholarship to entire *dalit* students of the country, all students of Karnali Zone, girls belonging to oppressed aborigine and tribal group and that of poor family, and also the martyrs' children has been undertaken. With a view to providing opportunities of basic and primary education to all out-of-school children, Alternative School Programme is managed under which School Outreach Programme, and Flexible Schooling Programme have been implemented in 66 districts in FY 2005/06.

12.4 For unprivileged class or especially women under the Girls Scholarship Programme in current FY 2005/06, the targeted group of people, having received scholarship, have also been getting trainings in 12 districts of Taplejung, Sunsari, Bhojpur, Mahottari, Sindhupalchok, Myagdi, Tanahun, Dang, Surkhet, Humla and Doti as per the programmes of conducting 10 months Pre-service Primary Teacher Training for SLC passed *dalit,* backward class or especially women and providing scholarship to 700 persons. A scheme of Incentive Prize in the class centers operated under the literacy programme to all belonging to below poverty line has been initiated for increasing active participation of *dalit*, backward tribe, women, and disabled.

12.5 Under the Technical Education and Vocational Training Programme in current FY 2005/06, different types of periodical training in different subjects have been provided to 125 persons, skills of 309 persons have been examined which has helped the foreign employment seeking skilled manpower to go for foreign employment through Manpower Supply Companies. Several Skill Centers, Technical Schools and 15 Annex Schools are being run in the country and Polytechnic Institutions have been established in Banepa and Makawanpur.

12.6 Pre-primary class and Child Development Center for non-primary-age-group children and alternative schools for adults have been arranged. Necessary arrangements have been made to help expedite timely release of grants for free textbooks, scholarship and administrative expenditures to school accounts in line with the annual programme. By promoting participation of programme executing bodies in the course of programme formulation and keeping up the devolution system, more than 97% of the educational budget has been allocated to district level and 90% of which goes to school level. The right of appointing Resource Person has been assigned to local Resource Center Management Committee in line with the conception of devolution.

12.7 The National Center for Educational Development (NCED) has prepared Institutional Capacity Strengthening Plan in current FY 2005/06. This Plan is composed of the quantitative goals of the long term concept, strategies, and human resource development plan for entire institutional capacity strengthening of the center by taking into consideration the human resource development provisions of current Tenth Five Year Plan, Mid-term Expenditure Framework, Secondary Education Support Programme, Teacher Education Project, and Education for All Programme, Foreign Aid Policy of Nepal Government and training policy of Ministry of Education and Sports.

12.8 Targeting the SLC students of remote area, support materials are developed, distributed and broadcasted. In current FY 2004/05, 10 months Pre-service Primary Teachers Training has been organized for SLC passed underprivileged class of people but especially for women. Targeted groups of 12 districts have been included in the training under the scholarship programme. The organizational structure of Council for Technical Education and Vocational Training (CTEVT) has been changed and regional offices have been created in line with the sentimence of decentralization. The Food for Education Programme has developed food programmes in 21 districts characterized by insecurity and low access to education. Several programmes such as day meal (Tiffin) programme, girls motivation programme, roundworm prevention programme, and maternal and child health care programme have been implemented. In current FY 2005/04, School Nutrition Programme has been approved and came into operation with a view to availing day meal (Tiffin) to 12,000 children of 125 community schools located in 24 VDCs of 5 districts of Karnali Zone. The programme, which has been targeted for 450000 children of 21 districts in the country, is now expected to expand to additional 26 districts with a goal of benefiting additional 462000 children.

12.9 Non-formal education programmes have been implemented through local level institutions, nongovernmental organizations and community study centers according to the principle of decentralization. Payment by Result System has been started. A incentive award (prize) system has been started in the Class Centers operated under literacy programme for the active participation of *dalit*, backward tribes (*janajati*), women and disabled. Intensive Literacy Programme has been implemented in 15 districts in current FY 2005/06 taking into account the illiteracy-increasing area and districts. In this fiscal year, 600 Village Education

Plan in 30 districts have been prepared and 119 Community Study Centers have been established. An additional 2 teachers have been provided on grant to Public Higher Education School being operated in Karnali Zone.

12.10 According to the data of Academic Year 2005, the ratio of primary, lower secondary and secondary schools and ratio of teacher student in the government and private sector is depicted in the following table.

Table 12 (a): School, Student and Teacher Ratio

Ratio	Primary	Lower Secondary	Secondary
Student / School	193	194	143
Teacher / School	4	3	4
Student / Teacher	49	60	36
Student / Trained Teacher	129	176	61

12.11 As per the classification of Education (7th Ammendment) Act, 2058, community schools receive grants from Nepal government and institutional schools are operated as trust or as per the Company Act. From the viewpoints of the classification, government and community schools do come under community schools and private schools do come under institutional schools. According to the estimated data of Academic Year 2005, the student/teacher ratio in government schools, community schools and private schools being operated in 5 regions of the country is as follows.

Table 12 (b): Student/Teacher Ratio, Academic Year 2005

Region	Student Ratio Per Teacher		
	Primary	Lower Secondary	Secondary
Nepal	49	60	36
Government	59	80	42
Community	NA	NA	NA
Private	12	12	12
Eastern	57	83	59
Government	66	95	60
Community	NA	NA	NA
Private	15	16	23
Central	46	45	28

Government	62	78	41
Community	NA	NA	NA
Private	12	10	9
Western	38	54	31
Government	44	61	32
Community	NA	NA	NA
Private	13	14	13
Mid Western	63	83	46
Government	73	99	48
Community	NA	NA	NA
Private	8	8	14
Far Western	57	75	38
Government	62	80	32
Community	NA	NA	NA
Private	10	10	14

Source: Ministry of Education and Sports

Note: Government schools and community schools mean schools receiving grants and schools waiting for grants.

12.12 By geographical region and location, of the total number of affiliated public, private, 10+2 and campus by the end of Academic Year 2005, the number of schools located in mountain region, hilly region, terai region and valley is as follows.

Table 12 (c): Affiliated Schools by Geographical Region/Location (From Academic Year 1992 to 2005)

Development Region	Geographical Location			
	Mountain	**Hill**	**Terai**	**Total**
Eastern	17	57	119	**193**
Central	21	294	108	**423**
Western	4	195	62	**261**
Mid Western	6	28	27	**61**
Far Western	15	29	36	**80**
Total	**63**	**603**	**352**	**1,018**

Source: Higher Secondary Education Council

12.13 Most of the past programmes of Higher Secondary Education Council have been continued even in current FY 2005/06. Several programmes have been initiated from the current fiscal year such as specimen question papers have been developed, and fund has been established for increasing the educational quality of higher secondary schools. Likewise, necessary budget has been allocated for carrying out collective monitoring and supervision activities and casual monitoring and inspection activities throughout the country. In current fiscal year, salary grants for employing additional two teachers in higher secondary schools being run in Karnali Zone have been allocated.

12.14 The number of students attending and passing Class 11 and 12 examinations held between Academic Year 2054 to 2062 under higher secondary schools are tabulated as follows.

Table 12 (d): The Number of Students Attending and Passing class 11 and 12 Examination During Academic Year 1997 to 2005

Academic Year	11 Class						12 Class					
	Examination Attended			Examination Passed			Examination Attended			Examination Passed		
	Boys	Girls	Total	Boys	Girls	Total	Boys	Girls	Total	Boys	Girls	Total
1997	6093	3240	9333	1196	678	1874	2939	1840	4779	654	411	1065
1998	8084	4626	12710	2675	1526	4201	4460	2615	7075	1708	1070	2778
1999	11883	6950	18833	4217	2503	6720	6289	3898	10187	2771	1624	4395
2000	17975	10958	28933	6600	3713	10313	9861	6120	15981	3926	2309	6235
2001	30344	19607	49951	9119	5363	14482	14803	8560	23363	5304	3042	8346
2002	26401	17989	44390	9383	5583	14966	24420	16872	41292	7730	4520	12250
2003	38341	27463	65804	14317	9323	23640	21526	15573	37099	7488	4470	11958
2004	37077	24378	61455	15984	9910	25894	32915	24698	57613	13434	9212	22646
2005	86351	69976	15637	40842	30502	71344	57082	43858	100940	30893	22170	53063

Source: Higher Secondary Education Council

Higher Education:

12.15 In current FY 2005/06, there are altogether 5 universities in operation under higher education sector namely Tribhuvan University (TU), Kathmandu University (KU), Mahendra Sanskrit University (MSU), Eastern University (EU) and Pokhara University (PU). Different faculties and educational level programmes are being operated and carried out in 60 constituent campuses under 4 faculties i.e., Law, Management, Education, Humanities and Social Science besides 5 Technical Institutions namely Institute of Engineering, Institute of Agriculture and Animal Science, Institute of Medicine, Institute of Forestry Science, and Institute of Science and Technology being operated under TU. There are 13 of such constituent campuses in Eastern Region, 28 in Central Region, 11 in Western Region, 5 in Mid Western Region and 3 in Far Western Region. Similarly, the numbers of affiliated campuses being run under TU are 44 in Eastern Region, 159 in Central Region, 55 in Western Region, 14 in Mid Western Region and 15 in Far Western Region totaling to 287 affiliated campuses of TU. In last FY 2004/05, there were 132,777 students studying in constituent campuses under technical and regular courses of T.U. and 70,672 students studying in affiliated campuses.

12.16 The description of graduate production of Technical Institutes under TU is as follows.

Table 12 (e): The Production of Technical Institutes

Institutes and Programmes	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05
1. Engineering	**255**	**332**	**647**	**559**	**648**	**665**	**870**	**985**	**1071**
a. Certificate	241	238	524	372	436	441	554	559	626
b. Bachelor	14	94	133	150	184	181	257	357	368
c. PG	-	-	-	37	28	43	59	69	77
2. Agriculture									
and Animal	75	116	101	146	-	175	241	165	138
Science	57	32	21	69	-	42	53	15	-
a. Certificate	18	84	80	77	-	108	144	107	112
b. Bachelor	-	-	-	-	-	25	44	43	26
c. PG									
3. Medicine	365	390	376	458	450	504	516	597	577
a. Certificate	268	228	268	309	294	314	302	330	330
b. Bachelor	48	139	67	90	109	124	148	169	159
c. PG	49	23	41	59	47	66	66	98	88
4. Forestry	166	91	87	134	169	164	66	-	129
Science	124	88	87	95		113	66	-	
a. Certificate	42	3	-	39		51	-	-	
b. Bachelor	-	-	-	-		-	-	-	57
c. PG					66				-
					-				
5. Science and									
Technology	361	451	346	164	3491	4190	3727	3222	7335
a. Certificate	-	-	-	-	2235	2780	2249	1946	4402
b. Bachelor	-	-	-	-	839	963	1175	961	2071
c. PG	361	451	346	164	415	447	303	315	854
Grand Total	1222	1380	1557	1461	4756	5698	5420	4992	9250

Source: Tribhuvan University

12.17 The production of Non-technical acedemic Institutions under T.U. is as follows.

Table 12 (f): The Production of Non-Technical Institutions.

Institutes and Programmes		2000/01	2001/02	2002/03	2003/04	2004/05
1.	Law Faculty	1,440	1,245	795	500	800
a.	Certificate	97	68	28	15	33
b.	Bachelor	1,315	1,150	734	469	692
c.	PG	28	27	33	16	75
2.	Management Faculty	10,496	12,923	13,381	11,573	22,500
a.	Certificate	7,096	8,093	8,435	7,043	12,095
b.	Bachelor	2,258	3,607	3,996	3,877	8,549

c.	PG	1,142	1,223	950	653	1,856
3.	Education Faculty	3,746	4,462	4,987	5,639	9,999
a.	Certificate	2,009	1,706	1,559	1783	3,525
b.	Bachelor	1,421	2,460	3,195	3,632	5,841
c.	PG	316	296	233	224	633
4.	Humanities and Social Science Faculty	10,758	15,043	13,498	12,544	27,527
a.	Certificate	6,926	10,530	8,424	7,876	16,005
b.	Bachelor	2,462	2,838	3,689	3,425	7,666
c.	PG	1,370	1,675	1,385	1,243	3,385
d.	Other	-	-	-	-	471
Total		26,440	33,673	32,661	30,256	60,826

Source: Tribhuvan University

12.18 The status of Ph. D production of TU is as follows.

Table 12 (g): The Number of Ph. D. Awardees

Institutes/Faculty		Fiscal Year								
		1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
1.	Engineering	-	-	-	-	-	1	-	-	-
2.	Science and	2	1	1	1	2	-	3	5	8
	Technology	1	1	3	1	1	3	4	1	6
3.	Management	-	-	-	-	-	-	1	-	1
	Faculty	-	-	-	-	-	-	-	-	1
4.	Law Faculty									
5.	Education Faculty	8	9	8	8	7	13	13	20	26
6.	Humanities and Social Science									
Grand Total		**11**	**11**	**12**	**10**	**10**	**17**	**21**	**26**	**42**

Source: Tribhuvan University

12.19 TU has also continued to provide medical services in health sector and in current fiscal year Teaching Hospital under Institute of Medical Science of TU has provided medical services to 301,208 patients and 7,645 persons were treated with surgical operation. 88,430 eye patients were provided treatment services by B. P. Koirala Lions Optical Study Center and it carried out eye operation to 1,580 eye patients. Similarly, TU Health Center, Kirtipur has provided medical services to 7,436 patients. Veterinary Teaching Hospital under Institute of Agriculture and Animal Science located at Rampur has carried out different types of studies and pedagogical activities for the development of animals/birds. Services for routine medical and surgical treatment of animals/birds are given continuity in this year too.

12.20 Established in the year 2048 B.S., Kathmandu University started initially an academic programme of Intermediate of Science but now it has been carrying out educational programmes on various subjects ranging from science and technology, arts, management, education and health to 81 faculties. Among such programmes, KU has been operating MD/MS/MDS programmes in 36 subjects of Clinical and Dental Science under Post Graduate Programme of Health Science. Up till now, 2,964 persons have already earned Certificate of Bachelor and Post Graduate Degree in these miscellaneous subjects/faculties. A total of 1,890 students from 12 groups including 484 girls have already completed the study of ISC level by now. Similarly, operated with a view to preparing medium level health manpower, about 132 students have already passed the respective examination in ISC level Nursing, General Medicine, Laboratory Technology and Ophthalmic Assistant course and they have been working in Teaching Hospital of KU itself or in various health institutions of the country. A total of 583 native students and 138 foreign students of management, science, engineering, arts, education and health science faculty have participated in KU's convocation programme of FY 2005/06. In the Academic Year of 2004, KU has provided scholarship to 156 intelligent boys and 64 girls belonging to week economic background. Right now about 371 students of first, second, third and fourth year batch, are studying in 5 different Medical Colleges affiliated with KU who have received scholarship from the government.

Drinking Water, Sanitation and Sewerage:

12.21 Like FY 2004/05, the underlying policy of providing appropriate services to people deprived of the facility of drinking water and sanitation, policy of raising standard of existing services, and policy of raising awareness about drinking water and sanitation have been given continuity in the current fiscal year. More priority has been given to projects that could be completed shortly and that could yield prompt benefits. Also special emphasis has been given to the development and promotion of partnership between local bodies and users group in the field of construction of ongoing projects to raise the quality of facilities, promotion of sustainable management, operation and maintenance of completed projects, raising the quality of drinking water and also implementation of entire water supply and sanitation projects.

12.22 As the effort of government alone is not enough to expand the drinking water facilities, the policy of expanding drinking water facilities through the involvement and partnership of local bodies, NGOs, and private sector on the basis of their feasibility has been adopted. In order for ensuring sustainability and certainty of projects and services, the concept of community management of rural and semi-urban projects has been put forward to replace the concept of people's participation. Similarly, for ensuring and promoting the concept of community management, a provision of 20% contribution of the costs of execution of the project by the community has been made. But in case of backward class and targeted groups of people, the policy to contribute only 10% of the costs by community has been adopted. Community based drinking water and sanitation projects have been implemented in districts which are lagging behind in respect of availability of drinking water and sanitation facilities and Human Development Index. Similarly, some provisions have been made to set aside fixed amount of budget in order to ensure realization of expected benefit from drinking water facility and positive impact on people’s health and to develop health education programme as an inseparable part of drinking water services. Besides implementing the programmes of providing drinking water facilities to additional number of population, policy for improvements in quality of drinking water, ensuring quality services and raising the standard of services has been adopted.

12.23 There is a programme in place to make country’s urban drinking water system more operational and effective, to control leakages in urban drinking water system and to strengthen the overall drinking water system. Kathmandu Valley Drinking Water Strengthening Project has been completed in FY 2004/05, which was implemented to tap additional drinking water from some identified sources of Manahara River and Shainbu River in the valley in meeting the increasing demand for drinking water to some extent as a temporary effort to compensate the shortfall of drinking water until Melamchi Water Supply Project would be completed and be able to distribute sufficient drinking water in the valley. Similarly, additional drinking water has been distributed by tapping small sources located in surrounding area of Kathmandu Valley and excessively mobilizing surface and groundwater sources on the basis of ‘conjunctive use’. In FY 2005/06, a goal is set to supply 38.9 million liters of water daily in Kathmandu Valley and the task of production has been speeded up by bringing about structural improvements and implementing autonomous tube well projects.

12.24 In urban and sub-urban areas, several programmes relating to enhancement of services standard and improvements in drinking water quality are being implemented on cost recovery basis. Awareness raising and facility expansion programmes have been, however, implemented as an integral part of water supply projects and schemes.

12.25 Rural Drinking Water and Sanitation Project, implemented in 75 districts with the sole investment of Government of Nepal ,aims at ensuring the availability of sustainable, reliable and sufficient fresh drinking water facility to entire population and sanitation facility to 40% population of the country. Rs. 42 million has been allocated in FY 2005/06 for this programme. Other drinking water programmes to be handed over by Ministry of Physical Planning and Works are also included in this programme. Several goals such as construction of 152 dip/shallow tube well and artisan well in 16 districts under Rural Drinking Water Programme (new and old), construction of vessel/pond in 18 districts for the collection of rainwater, repair and maintenance of completed projects in 69 districts, conduction of joint support programme in 75 districts, survey programme in 53 districts, sanitation and training programme in 72 districts, arsenic reduction programme in 21 districts and preparing and keeping the drinking water profile intact in 29 districts are set for FY 2005/06. In the current FY 2005/06, construction of cement jar for the collection of rainwater, construction of dip/shallow tube well and well/water hole, preservation of source, repair and maintenance of completed projects, works for new projects are under construction.

12.26 The construction of water tank in Bhainsepati, construction of Trunk-mane between Shainbu to Pulchowk, construction of bleaching powder dozing system, and the improvements in the distribution system in project affected area under Urban Area Drinking Water and Sanitation Rehabilitation Project met cent-percent progress in FY 2005/06. Similarly, 72.27% physical progress has been achieved in FY 2004/05 on the construction of new tube well in Kathmandu valley and outside, the final phase construction of Overhead Tank in Bhairahawa, construction of water tank in Kirtipur, Gaamcha, and study and design for additional water in Dharan, under Drinking Water Production Expansion Programme,. Under the same programme apart from ongoing projects, about 45.47% physical progress has been achived in

FY 2005/06 on several programmes like construction of dug-well in valley, construction of tube well, increase in the production from Nakhkhu and Ichangu Rivers, Gwalindaha Drinking Water Project, construction of laboratory outside Kathmandu valley, increase in the production by collecting water from Sivpuri, Godavari and Matatirtha, construction of Pokhara Sedimentation Water Tank, construction of tube well in Bharatpur, Maari River Drinking Water Project (Dharan), and the same level of progress has been achieved on Lower Source Projects of Muldole. In last FY 2004/05, 100% physical progress had been achieved on drinking water leakage control and repair programmes. About 96% physical progress on Drinking Water and Sewerage Programme had been achieved in last fiscal year as against 89% in FY 2005/06. Hundred percent progress has been achieved on the programmes like tube well construction, pipeline improvements, and laboratory construction programmes being implemented under the System Improvements Programme of new cities.

Housing and Urban Development:

12.27 There is a policy in place to implement urban development programmes as a supplement to rural development by making the role of urban area efficient, sustainable and employment-oriented to add to the national production of the country. Similarly, government plans to implement the policy to gradually implement physical development plans and programmes to launch land development, physical infrastructure development, and service and facility improvements programmes in urban areas of the country with the partnership and involvement of local bodies in order for leading the existing process of uncontrolled urbanization to a well planned, decentralized system on a step by step basis and making urban life more productive, healthy, employment-oriented, and more privileged. For the attainment of these objectives, 14 million rupees had been allocated in FY 2004/05 under Urban Area Development and Market Center Study Programme from which several urban infrastructure development implementation activities such as road extension; land development in Ilam, Banke, Saptari, Morang and Doti, and formulation of physical development plan of small cities etc., have been implemented. Similarly, several activities like reconstruction of Fungling Bazaar of Terathum, which got blazed with fire, enforcement of House/Land Transaction Act, and creation of Land Development Revolving Fund have been accomplished., The programmes of mobilizing land development revolving fund, and land development programmes in Ilam Municipality; Baijanathpur of Morang district, Rajbiraj of Saptari district, Nepalgunj of Banke district and Dipayal of Doti district have been given continuity out of the allocated budget of Rs. 12.5 million for the current FY 2005/06.

12.28 Small Town Market Development Programme and Rural Development Programme have been given continuity to operate which are being implemented with a view to expanding urban facilities through the development of urban infrastructures of municipalities and small towns that will be necessary in future and through the enhancement of interrelation between village and urban area; reducing the trend of migration to urban area; reducing the rural poverty through the development of rural infrastructures and development of markets for produced goods. In the current FY 2005/06, Rs. 17.5 million has been allocated for this programme from which infrastructure improvements programmes to develop urban rural interrelationship in 34 places have been implemented.

12.29 The implementation of Integrated Functional Plan has also been continued in this year with a view to formulating realistic plans and programmes to ensure timely completion of the projects by assuring ample resources and means required for the formulation of Urban Development Plan on the basis of direct involvement of municipality and massive participation of people. Under this programme, 6.95 million rupees have been allocated in current FY 2005/06. With this budget, several programmes have been implemented such as formulation of municipal periodical plan by establishing cooperation with municipalities, preparing digital maps, and systematic resettlement of homeless people.

12.30 In line with the concept of sustainable development of the country, 9.93 million rupees had been allocated in FY 2004/05 for the repair and maintenance of different cultural and religious places and conservation of environment from which physical infrastructures development programmes in Bajrabarahi, Changunarayan, Suravinayak, Bajrayogini, Old Guhyeshwori, and Gokarneshwor have been implemented on the basis of Master Plan. There is a program in place to develop physical infrastructures in 40 places and to handover to local bodies already infrastructure built up places to be financed from the amount of Rs. 11.5 million allocated in the current FY 2005/06 under this programme. Several projects have been implemented such as continuation of

Kathmandu Tundikhel Fencing works, improvements in the inhabitation of old hamlets/villages, implementation of Harisiddhi Sub-Urban Development Programme, and improvements of Ring Road through land development. Under this programme, Rs 31.65 million had been allocated in last FY 2004/05 from which several programmes like development of urban infrastructures in Dhankuta, Kathmanud, and Palpa; development of infrastructures in Kathmandu valley; construction of outer Ring Road in Kathmandu Valley and implementation of urban environment improvements programme in 29 places of the country have been implemented and have achieved 94.92% physical progress. In current FY 2005/06, a budget amount of Rs. 50.6 million has been allocated for this programme from which the second phase works of Tundikhel Fencing has been started to be followed by the programmes such as construction of bicycle track and footpath in Ring Road within Lalitpur district in close cooperation with municipality; implementation of physical and environmental improvements programmes in the market area of district headquarters and 51 town-becoming VDCs, improvements of infrastructures of Kathmandu Valley, construction of Hostels for *dalit,* and construction and improvements of arterial road corridor of Kathmandu Valley through land development. The progress achieved during the first 8 months period of current FY is 84.09%.

12.31 In FY 2004/05, Rs. 13.4 million had been allocated for the Bishnumati Link Road Project from which different development and improvements activities had been completed such as construction of gabion wall in different parts of the River, improvements of Road Crossing, and construction of footpath. Similarly, 10.4 million rupees has been allocated for this programme in current FY 2005/06 from which construction of footpath and gravel road from Teku Bridge to Sorahkhutte road, filling in the soil, drainage construction and turning improvements activities have been carried out. Under Urban and Environment Improvements Project, institutional development and strengthening of municipalities; activating the task of providing urban infrastructures and public services to local community, social bodies and organizations and to the private sectors; and improvements of municipal environment and physical infrastructure activities have been implemented. Similarly, under the Outer Ring Road Development Project, the task of preparing DPR had been accomplished in FY 2004/05 and the activities set to be carried out in current FY 2005/06 are preparation of DPR for land pooling in 5 places of Ring Road construction area; preparation of Intersection Development Plan; technical evaluation of alignment of Outer Ring Road; and evaluation of environmental impact etc. Under the programmes of preparing Building Construction Code and executing the same for the construction of buildings secured from the impact of natural calamities and seismic earthquake; construction of hostels for *dalit*, community buildings, and cover-hall had been accomplished in FY 2004/05 and the restoration of 6 cooperatives buildings and Mahendranarayan Mithila Cultural Center building in current FY 2005/06.

12.32 Under "Public and Private Sector Partnership Programme", PPP programmes in 10 municipalities have been implemented for the improvements of urban environments with the support of Nepal Government, Ministry of Local Development and United Nations Development Programme (UNDP) under which various activities like training, seminar, information dissemination, and creating people awareness are being carried out.

12.33 Aborigine and Tribe (*janajati*) and Praja Development Programmes are being operated with a view to enhancing and uplifting social, economic and cultural development of different aborigines and tribes (*janajati*) living in the country, enabling them to have equal participation in the mainstream of national development, and developing and promoting their customs, language and cultures. Under this programme, several activities have been completed such as operation of residential hostels for Praja students, financial support to 18 racial organizations for the purchase of physical goods and materials, teacher trainings in mother language to 20 Magar youths, female law and literacy instructor training to 50 tribal (*janajati)* females, and skill oriented trainings to 20 persons. Similarly, Dictionaries of different mother languages are being written, 3 national and international seminars have been conducted, and several income generating programmes for disappearing tribal (*janajati*) castes of Raji, Sulel and Kushbadiya have been initiated. In line with effecting overall development of *dalit* community lying in socially backward state and bringing in them to the development mainstream; Neglected, Oppressed, and *dalit* Class Welfare and Development Programme has been implemented. Under this programme, several activities have been accomplished such as distribution of higher education scholarship to 300 persons, training and strengthening programmes to 700 persons, 100 water supply projects, 44 income generating programmes, vocational computer training to 18 persons, and social mobilization training to 88 persons.

12.34 Solid Waste Management Programme has been under implementation for past years to control environmental pollution through awareness raising, mobilizing the solid-wastes in the form of resources, and promote participation of nongovernmental and private sector organizations for the sustainable solid-waste management in Kathmandu Valley. In FY 2005/06 under Sishdole Short-term Landfill Site 2nd Valley Construction Programme, several activities have been carried out such as programme of topography survey, preparation of design and cost estimates, geological and hydrological study, development of landfill area as regards infrastructure development, construction of West Boarding Dam and Surface Water Cut Off Dam, Leechet collection system, construction of Leechet Retention Road, construction of Recirculation System and Control Room, and land purchase for long-term landfill site (Taikabu, Bhaktapur) of which survey design and geological and hydrological study of Sishdole Short-term Landfill Site 2nd Valley programme have been completed.

Women, Labor and Skill Development, Children and Social Welfare:

12.35 Efforts for improvements have been done since 2055 B.S. through the provisions of policies and institutional and legal arrangements and several programmes for the successful execution of commitments made to international sector by Nepal regarding women, children, senior citizens, and disabled; and improvement in the existing status and condition of women. This programme has been continued so far up till now. Comparatively, the existing social and economic condition of women is lagged behind and slackened and as such there seems to be an urgent need for social and economic strengthening of the women in order to relieve them from such situation and, therefore, several programmes have been executed with priority for leading forward the gender equality mainstreaming and female strengthening programme. For the fulfillment of national goals of poverty alleviation, a conceptual policy has been adopted to move forward miscellaneous programmes by mobilizing donor institutions, NGOs and civil societies. For the prevention of girls trafficking, the policy of proper mobilization of supports and assistance from donor institutions and NGOs in a coordinated way to step forward the programme has been accepted. 250 women were given the opportunity for participation in seminars organized in 5 districts in FY 2004/05 for the control of domestic violence. With a view to increasing the participation of female in administrative jobs, the preparatory classes for Nayab Subba (Non-gazette first class) level examination to be held by Public Service Commission have been operated for 100 women and about 118 women candidates were given training in Hetauda and Biratnagar. In the first eight months period of current FY 2005/06, the preparatory classes for Non-gazette-level examination to be conducted by Public Service Commission have been operated in Kaski, Jhapa and Banke district. Grants have been provided to 26 District Works Committee formed against girls trafficking for the execution of the programmes. 2 Female Journalists providing special contribution to female strengthening and gender equality programmes have been awarded and scholarship has been made available to 10 poor and backward girls living in remote districts and pursuing the study of Women Studies.

12.36 Being implemented since 2056 with the support of UNDP, Gender Equality Mainstreaming Programmes have been given continuity. By the end of FY 2005/06, these programmes have been implemented in 16 districts of the country. Under this programme, 1,510 females and 1,129 belonging to backward, deprived, ethnic minority tribes (*janajati)*, *dalit*, Mushlim and other terai caste have been involved in Gender Equality Mainstreaming Programmes. Similarly, among other respected members of the community and social activists, 1,577 females and 1,154 males have been allowed to participate in mainstreaming programme relating to gender equality, human rights, and Women Convention (CEDAW). 18 Community Mediation Committee at local level have been formed for providing services for the abolition of violation on women, racial untouchability, and discrimination. The Committee has organized 10 People Awareness Creation Interactions and Communications activities. In FY 2005/06, with the support of UNDP in Sindhupalchok and Saptari district, local level 56 trainers have been allowed to participate in the orientation programme relating to gender equality aspects. Having provided central women legal services, different types of 61 petitions have been registered, 19 cases are registered in Appellate Court and trials are carried out. Kalimati Female Police Cell has provided different services and assistance for 284 cases.

12.37 For the rehabilitation of the disabled and providing services and privileges to them, different activities of social inclusion have been carried out for communities by mobilizing associated ministries and bodies. Under this programme, vocational training has been provided to 65 disabled, supports and assistances have been provided for the enhancement of 14 Disable supporting Organizations, different types of support materials have been provided to 1,000 disabled persons, and Certificate of Disability have been distributed by all 75 districts. Activities like meetings and seminars to be held by Disabled Service National Coordination Committee have been executed for providing reestablishment/rehabilitation services, facilities, and opportunities to disabled people and for effective execution of the programme. Reestablishment/rehabilitation services have been provided to 160 conflict-stricken orphan children in Banke and Kailali district. In 32 VDCs of different 6 districts, community based rehabilitation programme has been executed from which about 600 disabled are benefited. Senior Citizen Health Treatment Service Programme has been implemented in 45 districts from which about 1,800 senior citizens are benefited. Grants have been provided to 30 institutions for Old-aged People Shelter Day Service Center from which 939 senior citizens have been benefited from such services. 5 years National Programme has been initiated pertaining to health, security, rehabilitation, facility and honor of senior citizens.

12.38 For the attainment of long-term objective of ensuring the children's rights for their physical, intellectual, social and psychological development, and protecting them from exploitation and discrimination, and protection and promotion of children's right; the policy of moving forward the task of legal institutional and structural strengthening programme to correspond to the rights of the children has been adopted. For this, governmental and nongovernmental organizations including civil societies and private sectors are also oriented towards the implementation of child rights orientation programmes. Similarly, different goals have been set to achieve the objectives of ensuring education and health opportunities for the protection of child rights, improving the nutrition status, ensuring birth registration of child, increasing the children participation for their development, abolishing the hated child labor system, and conducting awareness raising programme at people's doorsteps. Among the main programmes executed till now in line with these goals are providing technical trainings such as motor mechanic, auto-mechanic training under children rehabilitation programme by offering grants to nongovernmental organizations; and in the context of protecting orphan children, 27 child welfare homes are being operated at government level in Biratnagar, Rajbiraj, Birgunj and Butawal and NGOs have also been operating such Child Welfare Homes in Mahendranagar. In order for accommodating child prisoners, imprisoned child, child succumbed to drugs habit, and children of prisoner parents, Child Reform Home is under operation in Sonothimi, Bhaktapur. On the basis of plans and programmes, there is a provision to provide grants to NGO Federation Nepal for the children to protect and promote child rights, child pleadings, amendment in child laws, and to perform the task of abolishing hated child labor system. Under the emergency relief programme, conflict affected 180 children of 18 districts are provided the grants amount of Rs. 1,000 per month/per child for earning livelihoods and for education.

12.39 Under the expansion of Women Strengthening Programme, different income generating activities being carried out through women group are in operation. This programme has been implemented in 1,593 VDCs and 31 municipalities of 75 districts of Nepal. Throughout the country, 46,831 Women Group have been formed in which 386,624 females are associated with. Under the Women Group, 4,751 women committees and 547 institutions have been formed. The total collective saving deposits of women has amounted to 377.9 million rupees.

12.40 With the grant assistance of UNICEF, decentralized action plan for children and women is in operation in 15 districts of the country namely Panchthar, Sunsari, Udayapur, Saptari, Kabhre, Chitawan, Nawalparasi, Tanahun, Kaski, Kapilvastu, Dang, Humla, Dadeldhura and Acham. Under this programme, it has been arranged to send the budget for the district directly to be deposited into District Development Fund (DDF) and the District Development Committee (DDC) is required to ensure the flow of such funds as per the decision of District Council. In the current FY 2005/06, several programmes such as quality basic education, preliminary child fund, maternal health, sanitation and prevention of HIV AIDS, protection of the rights of women and children etc., have been implemented.

Health:

12.41 In current FY 2005/06, different central level and district level programmes under health sector have been implemented. Among them, cough of 3,708 suspicious patients have been examined at central level under National T.B. Control Programme; new cough experiment slide of 10,019 patients has been prepared, follow up cough experiment (test) slide of 651 persons have been prepared, and Medical Officer Training has been provided to 18 persons. Similarly at district level, cough of 46,705 suspicious patients have been examined, new cough experiment slide of 128,486 patients has been prepared, follow up cough of 20,200 persons have been examined, re-treatment of 875 patients has been carried out, and refresher training has been provided to 800 DOTS Committee Members. Under the Leprosy Control Programme at central level, leaflet and poster are printed and distributed for publicity while at district level “home to home (Ghardailo)” programme has been executed in 350 VDCs to inform the community people about leprosy, school health education programme has been implemented in 400 schools, and supervision and monitoring has been carried out for 650 times.

12.42 Under integrated management of Child Disease and Vitamin (Nutrition) Programme in current FY 2005/06, a total of 3 thousands ARI sound timer and 25 thousands Repacking Boxes of Vitamin A capsule have been distributed as against the purchase of 4 million Cotrim capsule, 9.24 million Iron Tablets, and 7.95 million Vitamin A Capsule. Similarly under the district level programme, treatment of Dysentery and diarrhea has been carried out to 162,258 below 5 years old children, treatment of pneumonia has been done to 98,562 below 5 years aged children, publicity for the control of lack of Iodine has been done, and 3 doses of Hepatitis B vaccine have been inoculated to 41,744 persons.

12.43 At central level under the Extensive Vaccination and National Polio Vaccination Programme in current FY 2005/06, preparation and printing of Vaccination Training materials has been carried out and the task of immunization of Polio Eradication Vaccine has been completed in 15 districts. Under the Epidemiology, Malaria, and Black Fever control and National Calamity Outbreak Management Programme, 5% of BPL-ARV was purchased at central level for the prevention of Rabies which were then freely distributed to 103,050 persons, Tissue-culture ARV has been freely distributed to about 2,000 persons falling under high risk of Rabies, necessary Strychnine Sulphate has been provided to districts for the control of 10,000 street dogs while under the district level programme, treatment of malaria is carried out in

Malaria affected areas by identifying suspicious Malaria patients and samples of blood of 50,000 persons have been collected for reference.

12.44 In current FY 2005/06 under National Health Education Information and Communication Programme, several programmes at central level have been implemented such as equipments purchase, physical construction, development and publicity of educational materials etc. Similarly at district level, School Health Education activities have been carried out for 2,650 times, 203 thousands copies of health education materials have been produced, health promotion interaction programmes have been carried out for 109 times, telecasting of celluloid cinema ads has been done for 3,999 times and health education promotion campaign has been completed for 122 times. Under the National AIDS and Sexual Disease Control Programme; the purchase and distribution of ART, STI medicines and Test Kits has been carried out; self-employment training, orientation training and STI training have been provided to HIV/AIDS affected people. 13,500 sets of training materials, 500 sets of Instructor Guidelines and 450 thousands sets of Brochures have been printed. Under the National Training Programme, Maternal Health Volunteer Review Training has been provided to 36,534 persons, Women Health Training has been provided to 1,200 Female Health Workers and VDC and Orientation Training have been provided to 200 persons. Likewise, in the meeting of Midwife (Sudeni) Supervision Meeting, 12,312 persons have participated.

12.45 Nepal Medical Council has provided Licensing Examination Certificate for pursuing one year's Internship Course in last FY 2004/05 and current FY 2005/06 to 600 and 782 Medical Doctors respectively completing their Medical Degree from affiliated universities. Likewise, it has declared 719 persons to have passed the Licensing Examination in current FY 2005/06. Nepal Medical Council has registered 5,824 persons in the category of Temporary and Permanent Doctors and 753 in Expert Doctor up till now. Of the Medical Colleges being operated throughout the country, the Council has given its approval to only 13 Medical Colleges till now. Such authorized Medical Colleges are Institute of Medicine under TU Teaching Hospital for MBBS; Universal College of Medical Sciences, Bhairahawa; National Medical College, Birgunj; Janaki Medical College, Janakpur; Peoples Dental College of Dental Surgery, Bhairahawa for BDS; School of Medicine for MBBS and School of Dental Surgery for BDS under BP Koirala

Health Science Academy; and under Kathmandu University, Kathmandu University Medical School, Manipal College of Medical Sciences, College of Medical Sciences, Bharatpur, Nepalgunj Medical College, Nepalgunj, Kathmandu Medical College and Nepal Medical College are pursuing the course of MBBS.

12.46 It is found to have registered 753 persons in the category of Expert Doctor by Nepal Medical Council the details of which are given as follows.

S.N.	**Subject**	**Male**	**Female**	**Total**
1.	General Practice	34	5	39
2.	ENT	21	5	26
3.	Psychiatry	16	0	16
4.	Anesthesiology	29	14	43
5.	Radiology and Imaging	34	3	37
6.	Pediatrics	63	21	84
7.	Nephrology	3	1	4
8.	Master in Dental Surgery	13	10	23
9.	T.B. and Respiratory	3	1	4
10.	Community Medicine Public Health	9	2	11
11.	Pharmacology	5	0	5
12.	Obs / Gyanae	43	72	115
13.	M.S. (General Surgery)	83	3	86
14.	Orthopedic	46	1	47
15.	Cardiology	49	1	50
16.	Ophthalmology	28	15	43
17.	Internal Medicine	45	5	50
18.	Clinical Pathology	15	3	18
19.	Dermatology/Venereology	14	4	18
20.	Neurology	5	2	7
21.	Gastroenterology	10	1	11
22.	Urology	8	0	8
23.	Surgical Oncology	3	0	3
24.	Forensic Medicine	3	0	3
25.	Micro Biology	0	1	1
26.	Nuclear Medicine	1	0	1

Source: Nepal Medical Council

12.47 For the development projects implemented in last FY 2004/05 under Nepal Government, Ministry of Health, it had set the goals of implementing grants distribution programme to 13 different Medical

Institutions under First Priority (P1) projects such as Community Health Insurance, Community Medicine, and Mobile Camp against which several programmes had been implemented such as membership distribution to newly insured family, Inter District Study Tour regarding Community Health Camp, Health Camp for the treatment of Uterus displacement, and 19 Mobile Camps. In last fiscal year, programme of physical improvements had been implemented in Teku. Under National T.B. Programme, different 8 activities have been carried out such as Disease Diagnosis and Treatment Training, community and social mobilization, evaluation of public construction improvements etc. 38% physical progress had been achieved in last fiscal year on Family Planning and Safe Maternity programme and on Female Health Volunteer Programme against the physical progress of 47% in current FY 2005/06. Under Extensive Vaccination Programme and National Polio Vaccination Programme, in current FY 2005/05 about 50% progress has been achieved on immunization of additional two doses of Polio Vaccination to up to 5 years old children. Similarly, 66% progress had been achieved in last fiscal year on the purchase of LCD Pathology Computer to maintain Information and Reporting System against 63% progress in current FY 2005/06. The progress of other P_1 projects has been increased in current fiscal year as compared to last fiscal year. It is found that less than 50% physical progress had been achieved on Child Disease Integrated Management and Nutrition Programme, Epidemiology, Malaria, Black Fever and Natural Calamities Impact Management, Clinical Equipment Supply programme, and on Bacterial Disease Research and Training programme against the physical progress of 50 to 70% in current fiscal year.

Challenges:

12.48 Due to the inconvenient and difficult situation of the country; it has been proved to be difficult to achieve the targeted physical goals owing to the problems characterized by difficulties occurred in execution, supervision and assessment of educational programme, failure to ensure timely supply of constructional materials to Physical Facility Extension Programme being implemented with foreign grants assistance, and lack of sufficient budget as per the real needs.

12.49 There have been difficulties in the effective implementation of Rural Drinking Water Projects handed over by different line ministries due to the less budget allocation and, therefore, instead of completing incomplete projects the districts have been starting new projects as a result of which most of the projects have remained to be uncompleted. The tendency of starting new projects without sufficient homework and preparation for technical matters has caused to the underutilization of the resources and the quality of such completed infrastructures could not be assured either. It is a great challenge to go ahead with the determination of setting the priority of the districts projects and sticking to it by not changing priority chain and not initiating any further new projects until incomplete projects are completed.

12.50 On the one hand, without proper study of their feasibility the projects are selected haphazardly as a result of which targeted goals could not be achieved and the capital and labor spent for such projects would be wasted which, in turn, could leave negative impacts on the society. On the other hand, the amount of budget is not allocated adequately as per the requirements of the project and it is very challenging one to go ahead by establishing coordination with local inhabitants at the field.