

1. Economic Activities

World Economy

1.01 The world economy witnessed an expansion of 4.9 percent in 2007. This is slightly lower than that in the previous year. In the backdrop of the currently observed economic slowdown emanated mainly from the US sub-prime mortgage crisis, the world economy is projected to grow at a lower rate of 3.7 percent in 2008 and to continue at about the same pace in 2009. These estimates reveal a contractionary trend similar to the ones observed at the beginning of this millennium. Earlier, notwithstanding the higher growth of 4.7 percent recorded in the year 2000, the world economy had observed slowdown and grew at a lower rate of 2.2 percent in 2001 and 2.8 percent in 2002. However, the world economy rebounded in the subsequent years and grew by 3.6 percent, 4.9 percent, and 4.4 percent in 2003, 2004 and 2005 respectively. Also, the per capita income growth is estimated to remain lower in 2008 and 2009. The per capita income growth for advanced economies for both of these years is projected at 0.8 percent compared to 2.1 percent in 2007. The per capita income growth for developing economies is projected at 5.4 percent in both 2008 and 2009. This was 6.6 percent in 2007.

Table 1(a) : World Economic Growth Rates
(Annual Percentage Change)

	2005	2006	2007	Projection	
				2008	2009
<i>World Output</i>	4.4	5.0	4.9	3.7	3.8
<i>Advanced Economies</i>	2.6	3.0	2.7	1.3	1.3
<i>Major Advanced Economies</i>	2.3	2.7	2.2	0.9	0.9
<i>Other Advanced Economies</i>	3.2	3.8	3.9	2.5	2.7
<i>Developing Economies</i>	7.1	7.8	7.9	6.7	6.6
<i>Developing Asia</i>	9.0	9.6	9.7	8.2	8.4
<i>Emerging European Economies</i>	5.6	6.7	5.8	4.4	4.3
<i>African Economies</i>	5.7	5.9	6.2	6.3	6.4
<i>Middle-East Economies</i>	5.7	5.8	5.8	6.1	6.1
<i>Oil-Exporting Middle-East Asian Economies</i>	5.6	5.8	5.6	6.0	5.9
<i>Emerging Asia</i>	8.7	8.9	9.1	7.5	7.8

	2005	2006	2007	Projection	
				2008	2009
<i>Newly Industrialized Asian Economies</i>	4.8	5.6	5.6	4.0	4.4
<i>ASEAN-5</i>	5.1	5.7	6.3	5.8	6.0
<i>Per Capita Income</i>					
<i>Advanced Economies</i>	1.9	2.4	2.1	0.8	0.8
<i>Developing Economies</i>	5.8	6.5	6.6	5.4	5.4

Source: IMF, *World Economic Outlook*, Washington DC, April 2008

- 1.02 As a fall-out of the financial market problems, the US economy is expected to experience a major slowdown with a meager growth rate of 0.5 percent in 2008 and 0.6 percent in 2009. This follows a low growth trajectory from 3.6 percent in 2004 to 2.2 percent in 2007. This is also likely to affect other advanced as well as emerging and developing economies through trade and financial linkages. However, the US has been actively exercising the instruments of major macroeconomic policies (monetary policy and fiscal policy) to check the probable economic recession. In the same vein, the US government unveiled a US\$ 150 billion fiscal stimulus package in January 2008, and the US central Bank-Federal Reserve-has gradually slashed the federal funds rate from above 5 percent in early September 2007, to 2 percent in April 2008.
- 1.03 The world trade, owing to the difficulties facing the US economy, is expected to decline in 2008. The world trade is projected to grow at a lower rate of 5.6 percent in 2008 and 5.8 percent in 2009, compared to the 6.8 percent growth experienced in 2007.

Table 1(b) : World Trade
(Annual Percentage Change)

	2005	2006	2007	Projection	
				2008	2009
World Trade Volume (Goods and Services)	7.6	9.2	6.8	5.6	5.8
<u>Import</u>					
Advanced Economies	6.3	7.4	4.2	3.1	3.7
Developing Economies	12.0	14.4	12.8	11.8	10.7
<u>Export</u>					
Advanced Economies	6.0	8.2	5.8	4.5	4.2
Developing Economies	11.1	10.9	8.9	7.1	8.7

Source: IMF, *World Economic Outlook*, Washington DC, April 2008

- 1.04 Along with the slowdown in global growth and trade fronts, skyrocketing oil-prices in the world market and growing food-crisis in developing economies have exerted pressure on general price level. The inflation in advanced economies is estimated at 2.6 percent for 2008 up, from 2.2 percent in 2007. In developing economies, inflation is estimated 7.4 percent in 2008 from 6.4 percent in 2007. The inflationary trend follows the increased demand in emerging and developing economies and burgeoning food and energy prices in most of the economies around the world.

Table 1(c) : World Price Situation

(Annual Percentage Change)

	2005	2006	2007	Projection	
				2008	2009
Petroleum Products (oil) *	41.3	20.5	10.7	34.3	-1.0
Non-fuel goods	6.1	23.2	14.0	7.0	-4.9
<u>Consumer Prices</u>					
Advanced Economies	2.3	2.4	2.2	2.6	2.0
Developing Economies	5.7	5.4	6.4	7.4	5.7
Developing Asia	3.8	4.1	5.3	5.9	4.1
Emerging European Economies	4.9	5.4	5.7	6.4	4.3
African Economies	5.1	5.4	5.6	6.4	4.3
Middle-East Economies	6.2	7.0	10.4	11.5	10.0
Petroleum Product Exporting Countries	6.7	7.6	10.5	12.2	10.4
Emerging Asia	3.5	3.7	4.8	5.5	3.9
Newly Industrialized Asian Economies	2.2	1.6	2.2	3.0	2.7
ASEAN-5	7.3	8.1	4.5	6.1	4.7
China	1.8	1.5	4.8	5.9	3.6
South Asia	5.0	6.5	6.9	5.9	4.7
Bangladesh	7.0	6.5	8.4	9.3	8.1
Bhutan	5.3	5.0	4.9	4.7	4.3
India	4.2	6.2	6.4	5.2	4.0
Maldives	3.3	3.7	5.0	6.0	6.0
Nepal	4.5	8.0	6.4	6.4	4.9
Pakistan	9.3	7.9	7.8	8.5	7.5
Sri Lanka	1.6	9.5	19.7	11.5	9.0

* Average of the price of Brent Oil (UK) and price of raw petroleum products of Dubai and West Texas

Source: IMF, World Economic Outlook, Washington DC, April 2008

- 1.05 Instability surfacing the global financial market, low growth of the world economy, shooting price of petroleum products and foodstuff

including the increasing global imbalances are major challenges facing the global economy.

Neighboring Economies

1.06 Nepal's two large neighboring economies India and China witnessed an impressive growth in 2007 as well. These economies grew by 9.2 percent and 11.4 percent respectively. The projection for these economies for 2008, however, is at the lower side of 7.9 percent and 9.3 percent respectively. Nepal, a low growth economy with a lower per capita income in the region, needs to make the best use of the available opportunities through learning lessons from the amazing performance of her neighboring economies.

Table 1(d) : Economic Growth Rate of Neighbouring Economies
(Annual Percentage Change)

	1990/99	2000/04	2005	2006	2007	Projection	
						2008	2009
<i>China</i>	9.9	9.2	10.4	11.1	11.4	9.3	9.5
<i>South Asia</i>			8.6	9.1	8.6	7.5	7.7
<i>Afganistan</i>			16.4	6.1	12.4	8.6	8.4
<i>Bangladesh</i>	4.8	5.4	6.3	6.4	5.6	5.5	6.5
<i>Bhutan</i>	5.6	7.8	6.9	11.0	22.4	7.8	6.7
<i>India</i>	5.6	5.7	9.1	9.7	9.2	7.9	8.0
<i>Maldives</i>	6.5	6.6	-4.5	19.1	6.6	4.5	4.0
<i>Nepal</i>	4.9	4.1	3.1	2.8	2.5	4.0	4.5
<i>Pakistan</i>	4.0	4.3	7.7	6.9	6.4	6.0	6.7
<i>Sri Lanka</i>	5.2	4.0	6.0	7.4	6.3	6.4	5.6

Source: IMF, *World Economic Outlook*, Washington DC, April 2008

Table 1(e) : Per Capita National Income
(2006)

In US Dollars	
<i>China</i>	2000
<u><i>SAARC Countries</i></u>	
<i>Afganistan</i>	—
<i>Bangladesh</i>	450
<i>Bhutan</i>	1430
<i>India</i>	820
<i>Maldives</i>	3010
<i>Nepal</i>	320
<i>Pakistan</i>	800
<i>Sri Lanka</i>	1310

Source: www.worldbank.org, World Development Indicators database, World Bank, April 11, 2008

Nepal in Human Development Index

1.07 Nepal's Human Development Index (HDI) is at the lower ebb as mentioned in the Human Development Report 2007. Of the 177 countries included in the Report, Nepal is at 142nd position—the lowest among SAARC countries. The HDI that incorporates education, health, and per capita income is a composite index to measure the overall human development. This reflects that Nepal is trailing behind not just from low economic growth but also from the dimensions of overall human development.

Table 1(f) : Situation of Human Development
(2005)

	Position in Human Development Index
<i>China</i>	81
<u><i>SAARC Countries</i></u>	
<i>Sri Lanka</i>	99
<i>Maldives</i>	100
<i>India</i>	128
<i>Bhutan</i>	133
<i>Pakistan</i>	136
<i>Bangladesh</i>	140
<i>Nepal</i>	142
<i>Afganistan</i>

Box 1(a) : Government's Role in Economic Growth

The (i) Government, (ii) Culture, and (iii) Geography, Environment and Natural Resources are taken as the basic pillars of economic growth. Economists point out the need for government's role mainly due to the market failure. It is therefore government's role is important in the economy mainly because of the following reasons:

- a) Providing public goods such as rule of law, effective regulation and development of physical infrastructure.
- b) Managing positive externalities such as those emanating from the investment in education, health, and research, and the negative ones such as the effect of the pollution.
- c) Controlling and monitoring monopoly, and
- d) Managing the coordination failure occurring in the private sector

A number of world economies that were at the same level with their neighboring economies in terms of education, health, per capita income and natural resources some five decades ago, have been successful in attaining significantly higher level of economic development because of

the government's role. Countries like Sri Lanka, Botswana, China, and South Africa have proved that significant progress could be achieved even in a short period mainly due to the qualitative improvements in and effectiveness of the government's role. The Human Development Report 2003 highlights that Sri Lanka had increased life expectancy of her people from 46 years to 58 years during 1946 to 1953. Botswana was able to increase the primary school enrollment rate from 46 percent to 89 percent during 1970 through 1985. China successfully reduced the poverty rate from 33 percent to 18 percent in the decade of 1990s. And South Africa was able to reduce the number of people lacking access to clean drinking water from 15 million to 7 million only in a period of 4 years during 1997 through 2001.

In the background of these theories and instances, Nepal's need of the hour is to develop a far-sighted vision to ensure an effective state mechanism, even taking into account the experiences of other economies, that facilitates in attaining higher level of economic growth,.

Source: David N. Weil, Economic Growth (2005) and UNDP Human Development Report (2003)

National Economic Activities

- 1.08 The Government of Nepal (GON) released the Three-Year Interim Plan (TYIP) for 2007/08-2009/10 in December 2007. The main objective of the Interim Plan is to lay the foundation of economic and social transformation for developing a prosperous, modern, and judicious Nepal. The Plan aims at reducing unemployment, poverty, and inequality to support enduring peace and to make people experience change directly in their life-style.

Box 1(b) : Three-Year Interim Plan (2007/08-2009/10)

The average annual economic growth targeted for the Plan period is 5.5 percent with a per capita income growth of 3.3 percent. Of the total growth, agriculture is expected to grow by 3.6 percent and non-agriculture by 6.5 percent. The Plan has laid out the following considerations at the basis for the sectoral distribution of investment for attaining the targeted growth.

1. Taking the post-conflict situation into account, priority will be given to allocation of resources for reconstruction, rehabilitation and inclusion.
2. Resources will be provided to priority areas that will support broad-based, inclusive and sustainable development. Public investment will be concentrated more on effective delivery of services and infrastructure development.
3. In agriculture development, special attention will be paid to agricultural roads, agricultural credit, research and dissemination of technology,

- irrigation, rural electrification and market mechanism development.
4. Backward geographical areas, ethnic groups, communities, women, disabled, senior citizens, and the Madhesi will be included in the development process and outcomes.
 5. Concrete contribution to poverty alleviation and economic growth will be made by emphasizing programs that raise the income of the poor and marginalized communities, and empower them.
 6. Emphasis will be given to increase the private sector investment in potential areas like electricity, communications, rural electrification and roads, where the government is currently engaged.
 7. Investment will be made in some big projects in order to generate people's confidence towards the state and to generate opportunities for employment. At the local level, multiple projects that are identified and manageable by the communities will be implemented, thereby increasing people's participation, ownership, and employment.

Source: Three-Year Interim Plan 2007/08 -2009/10

- 1.09 The Central Bureau of Statistics (CBS) introduced new series of National Accounts Statistics since 2006/07 taking 2000/01 as the base year. This follows the System of National Accounts, 1993. The preliminary estimates for 2007/08 are based on six-to-nine months data collected from various economic sectors.

Box 1(c) : New Series of National Income Statistics

New series of the National Income Accounts, which takes 2000/01 as the base year, was introduced in 2006/07. The base year 2000/01 has been selected since the timing of a number of censuses such as population census, agricultural census; and industrial census are closer to this year and also it could be useful to make comparison with international statistics as well. Nepal's national accounts data series in the past were based on succeeding benchmark years, namely, FY 1964/65, FY 1974/75, FY 1984/85 and FY 1994/95.

The need for a new series arose in order to reorient the national accounts preparation method, introduce new concepts and definitions, and respond to the need for new classification. Prior to this, Nepal's national income statistics was based on the system of national accounts 1968. A number of countries around the world had already adopted the SNA 1993. This had also made it necessary for Nepal to adopt SNA 1993. Adoption of the SNA 1993 is indeed a step forward in defining and conceptualizing the major macroeconomic variables such as production, consumption and investment. Economic activities, under this system, have been classified into 15 sectors while there were only 9 sectors in SNA 1968. The new system provides the estimation of value addition, production and intermediate consumption. The International Standard Industrial

Classification (ISIC), Revision 3 has classified entire economy into 17 sectors. In Nepal's case, however, constitution of workers in the private household and from activities of foreign missions, and INGOs to the GDP is found negligible. It is therefore data pertaining to these two sectors have been included in the Other Community, Social and Individual Services category.

New series includes many activities not included in the previous series. These consists of microbus, cable car services under transportation; PCO, mobile telephone, internet, cable television, communication; renting; services of employment agencies, cooperatives, consultancies, computer and photography, private postal services, private sector education services, community forestry and others. Thirty new surveys and studies were conducted to strengthen the national income statistics.

Improvement has also been made in the national accounts survey-frame and estimation methods. For example, revision has been made in the costing ratios of the production that have changed especially on account of the technological progress in many of the services activities. In addition to the construction of traditionally prepared series such as GDP, GNI and consumption, attempt has been made to make the national accounts data user friendly by providing reliable estimates of saving, disposable income, value added, consumption, capital formation and saving by institutional sectors such as government, business enterprises, households, and non-profit organizations. The new accounting system based on the SNA 1993 aims at making Nepalese statistics comparable with the international assumptions and standard.

Source: Central Bureau of Statistics

- 1.10 Higher economic growth has been attained in FY 2007/08 compared to the past few years. According to the National Accounts Statistics prepared by the Central Bureau of Statistics on the basis of six to nine months data of the current fiscal year, the economic growth is estimated to have been expanded by 5.56 percent at the basic price and by 4.7 percent at the producers' price. The upside estimate mainly comes from the substantial increase of 16.8 percent in the paddy production following the favorable weather condition and expansion in the production of vegetables and fruits. These expansions contributed to a higher growth of 5.65 percent in the agriculture sector that alone contributes 32 percent to GDP. It is noteworthy to mention that the agriculture as well as the overall growth rebounded this year reflecting the highest performance amongst those in the last seven years. In the non-agricultural sector, the growth of wholesale and retail trade, hotel and restaurant,

transport, storage and communication and financial sector remained encouraging. Gradual improvement in the peace and security situation, establishment of additional bank and financial institutions, and increase in the tourist arrival with the restoration of peace led expansion of these sectors. However, the industrial production accounting around 7 percent to the GDP grew meagerly. Frequent industrial disputes, bandhs, strikes, and waning competitive strength badly hampered the industrial production.

Table 1(g) : GDP growth (According to the Industrial Classification)
(Percentage Change in Constant Price)

Industrial Classification	Fiscal Year						
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07*	2007/08**
Agriculture and Forest	3.01	3.32	4.72	3.45	1.67	0.94	5.65
Fisheries	8.71	4.00	12.23	7.13	9.91	2.99	7.09
Mining and Quarrying	8.79	3.20	-0.43	6.80	8.26	1.47	2.84
Industry	-5.32	0.04	2.15	2.62	2.00	2.55	0.18
Electricity, Gas and Water	11.37	19.04	4.07	3.97	4.01	13.00	3.44
Construction	6.41	2.10	-0.35	2.90	7.67	2.49	3.11
Wholesale and Retail Trade	-11.57	2.26	10.81	-6.24	3.66	-4.45	6.43
Hotel and Restaurant	-18.23	2.01	12.74	-5.41	5.99	3.54	7.55
Transport, Storage and Communication	8.37	5.20	7.49	1.98	6.95	4.45	6.60
Financial Intermediation	3.82	1.66	6.19	24.30	24.35	11.39	13.81
Real Estate, Rent and Professional Services	-4.89	-3.97	-2.09	10.03	6.34	11.76	4.42
Public Administration and Defense	36.85	11.52	-0.64	6.64	6.88	1.35	5.65
Education	21.05	13.71	5.12	9.82	3.75	6.24	4.62
Health and Social Services	7.38	15.26	6.11	11.33	5.91	6.71	7.39
Other Community, Social and Individual Services	-8.62	4.40	13.43	-3.38	3.34	11.78	11.07
Gross Value Added (including financial intermediation services valued indirectly)	0.46	3.45	5.13	2.97	4.36	2.96	5.60
Financial Intermediation Services indirectly measured	10.67	-6.62	30.13	6.23	11.20	12.41	6.48
GDP (at basic price)	0.16	3.77	4.41	2.85	4.11	2.58	5.56
Goods and Services, net tax	-0.47	6.55	8.60	6.87	-1.51	11.82	-6.41
GDP (at producers' price)	0.12	3.95	4.68	3.12	3.72	3.19	4.70

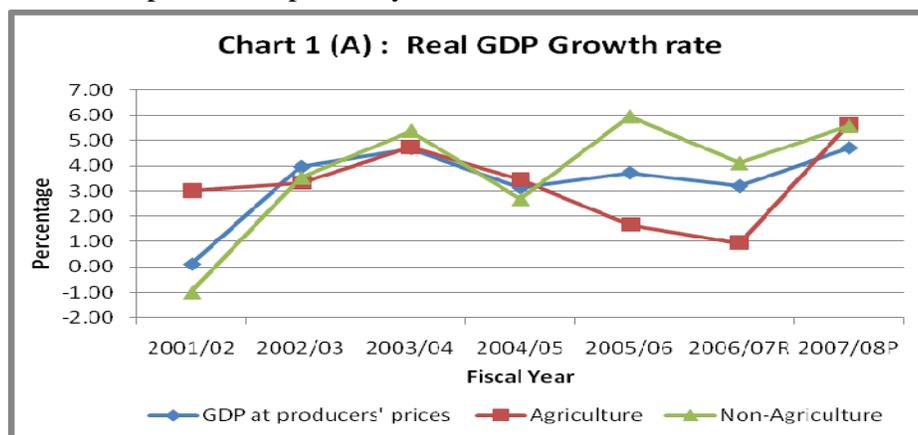
*revised, ** preliminary

Source: Central Bureau of Statistics

1.11 The Central Bureau of Statistics uses the implicit GDP deflator while converting the national account statistics available at the current market price to the base year price. The GDP deflator adjusts GDP at nominal price with GDP at constant price. As earlier mentioned, FY 2000/01 has been taken as the base year in the new National Accounts Statistics. According to the deflator estimate, the overall price index has been estimated to go up by 7.7 percent in 2007/08. The overall inflation based on consumer price is estimated at 7.4 percent this year. This follows the data released by Nepal Rastra Bank for the first nine months for which the average increase in the consumer price stood at 6.7 percent, and the inflationary estimates for the remaining three months. On the wholesale price front, an 8.6 percent average inflation is estimated for FY 2007/08. This is based on the average wholesale price inflation of 8.1 percent in the first nine months of 2007/08 and estimated average wholesale price inflation of 10.3 percent for the remaining period of the year. The upside projection is based on two forces exerting pressure on the price front. These include the substantial hikes in the prices of petroleum products on three different occasions in FY 2007/08 together with escalating food prices observed in the market.

Real GDP

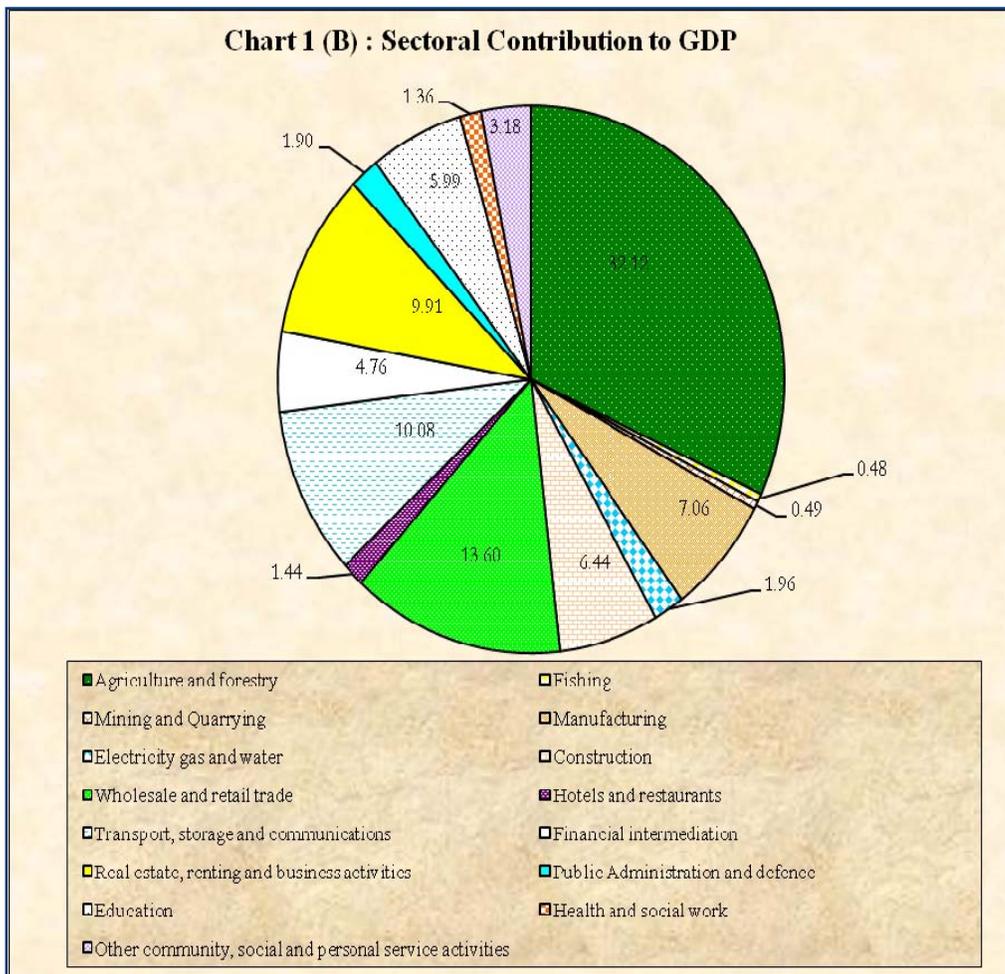
1.12 As stated earlier, GDP growth for FY 2007/08 at basic price is estimated at 5.56 percent. Last year, the GDP growth rate was 2.58 percent. GDP at the producer's price is estimated to increase by 4.7 percent in FY 2007/08 compared to 3.2 percent last year. The growth estimate is supported by the expansion of both the agriculture, and nonagricultural sectors, with their estimated growth of 5.65 percent and 5.57 percent respectively.



- 1.13 The contribution of agriculture and non-agriculture sector at producers' price is estimated at 34.6 percent and 65.4 percent respectively. In the previous year, these ratios were 34.3 percent and 65.7 percent respectively.
- 1.14 According to the agricultural production index, which is prepared by grouping several agricultural produces, food crops is estimated to have gone up by 7.27 percent. In this group, paddy, maize and wheat crops are estimated to grow by 16.8 percent, 3.23 percent and 3.76 percent respectively. Similarly, the production of vegetables and nursery is estimated to have increased by 9.59 percent and fruits and spices by 5.4 percent. Preliminary estimates for the growth of livestock and bird-rearing are 2.58 percent and 3.09 percent respectively. The estimated growth of forest and forest-related produces is 0.2 percent and of fisheries is 7.09 percent.
- 1.15 Mining and quarrying is estimated to have grown by 2.84 percent, compared to 1.47 percent growth a year ago. This sector grew because of the increase in the production related to quarrying, despite a downturn observed in the mining.
- 1.16 Despite relative growth of other sectors, the preliminary estimate shows that the manufacturing sector remained sluggish. The growth of this sector is estimated at 0.18 percent in FY 2007/08 compared to 2.55 percent last year. According to the production index for the first six months of the current fiscal year, the production of mustard and soybean oil, rice, wheat, biscuits, sugar, instant noodles, tea, liquors, cigarette, jute products, paper among others showed a growth. However, the decrease in the production of vegetable-ghee, milk-products, woolen carpets, readymade garments, soap, plastic products etc, that has a higher weightage on the production index accounted for the minimal growth of this sector.
- 1.17 The growth of electricity, gas and water is estimated at 3.44 percent compared to 13 percent in the last year. Similarly, the growth of construction sector is estimated at 3.11 percent compared to 2.49 percent last year. As shown by the manufacturing index of the first six months, the production of construction materials such as bricks, cement, iron rod, and electricity products has witnessed an increment.
- 1.18 On the wholesale and retail trade front, the estimated growth is 6.43 percent. This sector had experienced a negative growth of 4.45 percent in the previous year. The higher growth of this sector is

estimated to have come from tradable domestic agro-products and imports. Similarly, the growth of hotel and restaurant sector is estimated at 7.55 percent compared to the growth of 3.54 percent last year. This higher growth is estimated given the significant inflow of tourists together with the expansion of domestic tourism.

- 1.19 The growth of the transport, communication, and storage sector is estimated at 6.6 percent compared to 4.45 percent last year. This sector expanded because of the extension of communication services. As in the last year, financial intermediaries sector recorded a higher growth in 2007/08. This is estimated to have grown by 13.84 percent compared to 11.39 percent last year. Similar to the last year, the establishment of new banks and financial institutions and expansion in their transactions contributed to the higher growth of financial intermediation sector.



- 1.20 Real estate, rent and professional services sector is estimated to have grown by 4.42 percent in 2007/08. This sector increased by 11.76 percent in the previous year. The growth of this sector remained lower compared to last year due mainly to the decline in the transaction of Rural Housing Company Ltd. in the current fiscal year. Also low level of transactions of some of the other professional services contributed to this slowdown. The public administration and defense sector is expected to grow by 5.65 percent. Last year, the growth of this sector was 1.35 percent. This is based on the GON's projection of the expenses in public administration and defense.
- 1.21 The educational sector is estimated to have grown by 4.62 percent in the current fiscal year. Last year, this sector recorded a growth of 6.24 percent. On the basis of the change in the indicator of educational activities carried out by the government and the non-government sector, the said growth rate is likely to be achieved. Similarly, the health sector is estimated to have grown by 7.39 percent in the current fiscal year, compared to 6.71 percent last year. The increased growth of health sector has been estimated given the expansion of private sector health services. Other community, social and individual services sector is estimated to grow by 11.07 percent. This sector had increased by 11.78 percent last year. Several types of social and individual services including, community services provided by the government sector falls under this category. This sector also includes the contribution of domestic workers and economic activities of international organizations and missions as these activities did not require separate classifications because of their narrow level.

Table 1(h) : Major Macroeconomic Indicators^a

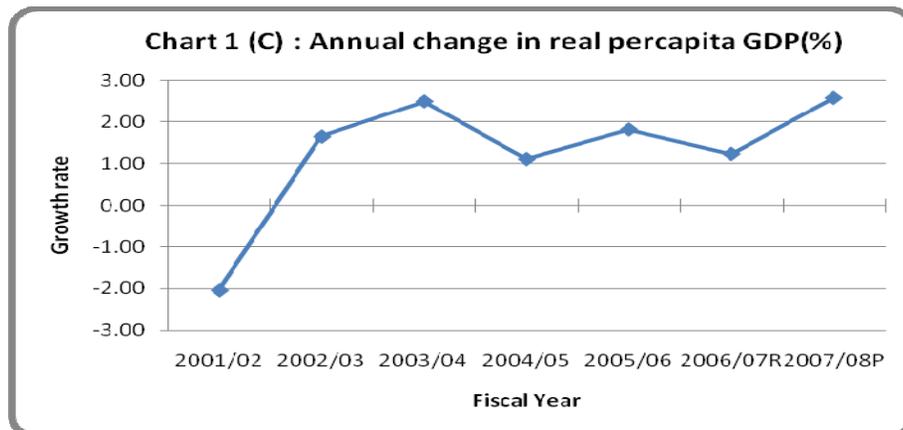
Indicators	Unit	Fiscal Year						
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08 ¹
<i>Real GDP</i>	Annual % Change	0.2	3.8	4.4	2.9	4.1	2.6	5.6
<i>- At Basic Prices</i>	„	0.5	3.4	5.1	3.0	4.4	3.0	5.6
<i>- At Basic Prices Including FISIM</i>	„	3.0	3.3	4.7	3.4	1.7	0.9	5.7
<i>* Agriculture</i>	„	-1.0	3.5	5.4	2.7	6.0	4.1	5.6
<i>* Non-Agriculture</i>	„	0.1	4.0	4.7	3.1	3.7	3.2	4.7
<i>- At Producers' Prices</i>	„	-2.5	1.6	2.3	1.7	2.3	1.5	2.8
<i>Per capita national income (constant price)</i>	„							

Indicators	Unit	Fiscal Year						
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08 ¹
Overall Agricultural Index	„	2.4	3.7	3.2	2.8	1.7	0.9	5.7
- <i>Food and other crops</i>	„	2.3	2.0	3.4	1.5	1.4	-2.7	7.27
- <i>Livestock</i>	„	2.5	3.2	3.4	2.1	2.5	3.1	2.6
- <i>Vegetables and Horticulture</i>	„	5.1	3.6	5.0	9.3	6.0	6.4	9.60
- <i>Forest Production</i>	„	1.9	1.9	1.0	0.2	-2.5	1.7	0.2
Major Industrial Production Index	„	-6.6	2.4	2.1	2.6	1.9	2.1	-0.2
GDP price deflator²	„	3.9	3.1	4.0	6.3	6.6	7.4	7.7
- <i>Agriculture</i>	„	3.5	0.8	2.7	3.5	4.3	6.7	7.7
- <i>Non-Agriculture</i>	„	4.1	4.5	4.8	7.7	7.6	7.9	7.6
National Urban Consumer Price Index³	„	2.9	4.8	4.0	4.5	8.0	6.4	7.4
Ratio as percent of GDP at current producer's price								
- <i>Gross Domestic Saving</i>	%	9.5	8.6	11.8	11.6	9.0	9.7	11.5
- <i>Gross National Saving</i>	%	24.2	23.8	27.3	28.4	29.0	28.5	32.0
- <i>Gross Fixed Capital Formation</i>	%	19.6	19.9	20.3	19.9	20.7	20.4	21.1
- <i>Gross Investment</i>	%	20.2	21.4	24.5	26.5	26.8	28.0	32.0
- <i>Gap between Domestic Saving and Investment</i>	%	-10.7	-12.8	-12.7	-14.9	-17.8	-18.3	-20.5
- <i>Gross Consumption</i>	%	90.5	91.4	88.3	88.4	91.0	90.3	88.5
- <i>Government Expenditure⁴</i>	%	17.4	17.1	16.7	17.4	17.0	18.4	19.7
- <i>Recurrent Expenditure⁴</i>	%	10.6	10.6	10.3	10.5	10.2	10.6	11.3
- <i>Capital Expenditure⁴</i>	%	5.4	4.5	4.3	4.6	4.5	5.5	6.5
- <i>Principal Repayments⁴</i>	%	1.4	1.9	2.0	2.3	2.2	2.3	1.9
- <i>Debt Service (principal and interest payments)</i>	%	2.7	3.3	3.2	3.4	3.1	3.2	2.6
- <i>Revenue</i>	%	11.0	11.4	11.6	11.9	11.1	12.1	13.0
- <i>Tax Revenue</i>	%	8.6	8.7	9.0	9.2	8.8	9.8	10.2
- <i>Non-Tax Revenue</i>	%	2.4	2.8	2.6	2.7	2.3	2.3	2.8
- <i>Budget Deficit</i>	%	5.0	3.3	2.9	3.1	3.8	4.1	4.0
- <i>Foreign Loan</i>	%	1.7	0.9	1.4	1.6	0.6	1.6	1.4
- <i>Foreign Loan and Grant</i>	%	3.1	3.2	3.5	4.0	2.7	3.8	4.1
- <i>Outstanding Domestic Debt</i>	%	15.1	16.4	15.2	14.1	14.5	14.3	13.1
- <i>Outstanding Foreign Debt</i>	%	47.9	45.4	43.4	37.3	35.8	29.8	26.3
- <i>Total Outstanding Debt</i>	%	63.0	61.8	58.5	51.3	50.3	44.1	39.4

Indicators	Unit	Fiscal Year						
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08 ¹
<i>-Merchandise Export</i>	%	10.2	10.1	10.0	10.0	9.2	8.4	7.3
<i>-Merchandise Import</i>	%	23.4	25.3	25.4	25.4	26.6	26.4	27.3
<i>-Trade Deficit</i>	%	-13.2	-15.1	-15.3	-15.4	-17.4	-18.0	-22.6
<i>-Tourism Income</i>	%	1.9	2.4	3.4	1.8	1.5	1.4	2.2
<i>-Workers' Remittance</i>	%	10.3	11.0	10.9	11.1	14.9	13.8	16.5
<i>-Current Account</i>	%	4.0	2.4	2.7	2.0	2.2	0.5	0.2
<i>Outstanding Foreign Debt /Total Revenue</i>	%	436.4	397.4	373.5	313.2	323.7	247.0	202.8
<i>Outstanding Foreign Debt/Export</i>	%	468.9	447.5	431.8	374.1	388.4	356.3	362.6
<i>Government Revenue</i>	% Change	3.2	11.5	10.9	12.5	3.1	21.3	21.5
<i>Recurrent Expenditure</i>	% Change	6.6	6.6	6.6	11.0	8.6	15.1	20.4
<i>Capital Expenditure</i>	% Change	-12.5	-9.8	3.3	18.4	8.3	34.2	34.9
<i>Principal Repayments</i>	% Change	13.1	48.6	12.9	25.4	5.4	17.4	-7.1
<i>Total Government Exp</i>	% Change	0.3	4.9	6.5	14.7	8.1	20.5	21.3
<i>Debt Service (principal and interest payment)</i>	% Change	17.5	32.6	7.1	13.9	3.4	12.2	-5.2
<i>Debt Service/Recurrent Expenditure</i>	%	25.0	31.1	31.2	32.0	30.5	29.7	23.4
<i>Narrow Money (M1)</i>	% Change	9.3	8.6	12.2	6.6	14.2	12.2	11.3
<i>Broad Money (M2)</i>	% Change	4.4	9.8	12.8	8.3	15.6	14.0	13.4
<i>Private sector credit as % of total outstanding credit of the banking sector</i>	%	65.7	67.4	70.1	70.3	75.5	76.9	78.4
<i>Total Export</i>	% Change	-15.6	6.4	8.0	8.9	2.6	0.9	-1.9
<i>Total imports</i>	% Change	-7.2	15.8	9.6	9.7	16.3	10.3	17.0
<i>Export/Import ratio</i>	%	43.7	40.2	39.6	39.3	34.7	31.7	26.6
<i>Tourism Income</i>	% Change	-26.1	35.7	54.5	-43.3	8.7	6	80
<i>Workers' Remittance</i>	% Change	0.7	14.0	8.1	11.9	49.0	2.5	35.0
<i>Current Account Balance</i>	In bln Rs	18.16	11.62	14.60	11.55	14.26	3.49	1.76
<i>Balance of Payments (+ surplus/-deficit)</i>	In bln Rs	-3.34	4.36	16.01	5.74	25.60	5.91	12.54
<i>Forex Reserve</i>	In bln Rs	105.90	108.23	130.21	129.90	165.03	165.13	182.01
<i>Exchange Rate⁴</i>	US\$ =Rs	78.3	75.0	74.4	70.6	74.4	65.15	64.8
<i>Total Population</i>	In mln	23.7	24.2	24.7	25.3	25.9	26.4	27.0

1. Annual preliminary estimates (based on first 8 and 9 months data)
2. Base year 2000/01=100
3. Annual average (base year 1995/96 = 100)
4. Average of buying and selling rates at the end of mid-July each year, and for the current year, the average of buying and selling rates in mid-March

- 1.22 While classifying GDP into primary sector (agriculture and forestry, fisheries, and mining and quarrying), secondary sector (manufacturing, electricity, gas and water, and construction) and tertiary sector (rest of the service sector), the growth of the primary sector, secondary sector and tertiary sector is estimated at 5.64 percent, 1.78 percent and 6.9 percent respectively. In the previous year, the growth of these sectors was 0.98 percent, 4.02 percent and 4.16 percent respectively. The contribution of these sectors to the GDP is 33.09 percent, 15.46 percent and 51.44 percent in the current fiscal year compared to the ratios of 33.03 percent, 16.09 percent and 40.88 percent respectively in the last year.
- 1.23 In FY 2007/08, the GDP at current producers' price increased by 12.9 percent to Rs 820.81 billion. Last year, GDP at current producers' price had increased by 11.2 percent. Similarly, the GDP at current basic price increased by 13.8 percent to Rs 768.83 billion. Last year, it had increased by 10.5 percent.
- 1.24 The GDP per capita at constant price is estimated to have grown by 2.59 percent to Rs 20,816 in FY 2007/08. It had increased by 1.24 percent to Rs 20,289 last year.

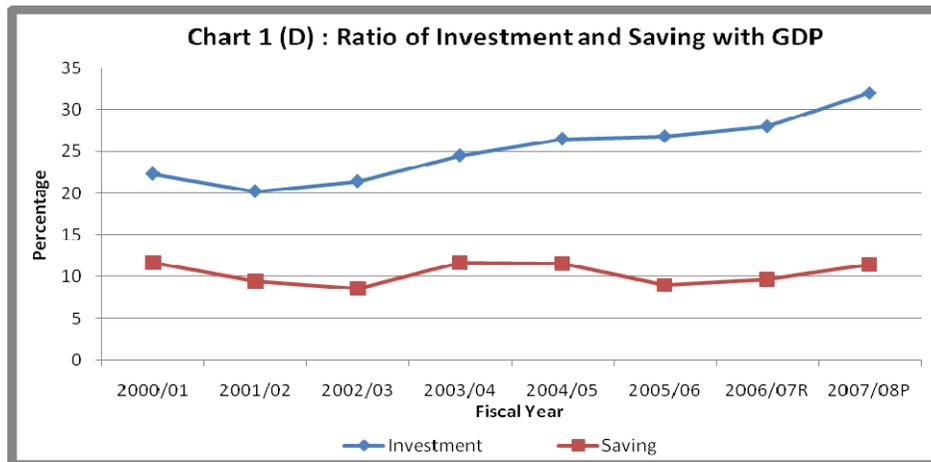


- 1.25 According to the Central Bureau of Statistics, GDP per capita at current price is estimated to increase by 10.42 percent to Rs 30,361. Last year, GDP per capita was Rs 27,497. In US Dollar terms, per capita GDP at current price is estimated at US\$ 470 compared to US\$ 390 a year ago.

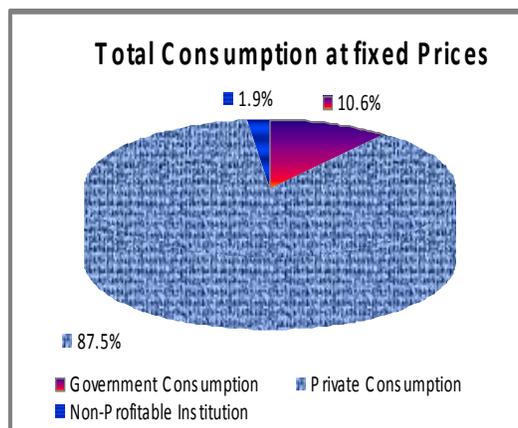
1.26 While analyzing the contribution of the major sectors, the share of agricultural remains 32.12 percent, wholesale and retail trade 13.60 percent, transport, storage and communication 9.3 percent, real estate, renting and business services 9.91 percent, industry 7.03 percent, construction 6.44 percent and education 5.99 percent.

Consumption, Savings and Capital Formation

1.27 It is estimated that the ratio of consumption to GDP remains 88.53 percent in 2007/08 compared to 90.26 percent a year ago. Similarly, the ratio of gross domestic savings to GDP increased to 11.47 percent from 9.75 percent last year. This shows that the gross domestic savings has increased. The ratio of gross fixed capital formation and the ratio of gross capital formation to GDP are 21.05 percent and 32 percent respectively. Last year, these ratios were 20.41 percent and 28 percent respectively.



1.28 At constant price, the gross consumption increased by 2.7 percent to Rs 498.61 billion in 2007/08. Last year, the gross consumption had increased by the same rate to Rs 485.58 billion. The ratio of gross consumption to GDP at constant prices decreased to 89.7 percent in the



current fiscal year from 91.5 percent in the last year. Of the total consumption, the share of government consumption and private consumption is estimated 10.6 percent and 87.5 percent respectively. These shares were 10.4 percent and 87.6 percent respectively last year. The private sector consumption increased by 2.5 percent compared to 2 percent a year ago. However, the government consumption is estimated to grow by a lower rate of 4.5 percent compared to 7 percent last year.

- 1.29 The gross national disposable income at current price is estimated to have increased by 14.6 percent to Rs 989.38 billion in the current fiscal year compared to the growth of 10 percent to Rs 863.51 billion in 2006/07.
- 1.30 In the current fiscal year, the gross domestic savings at constant price is estimated to increase by 26.3 percent to Rs 57.23 billion. Last year, the gross domestic savings had increased by 9.1 percent to Rs 45.30 billion. The ratio of gross domestic savings to gross domestic product increased to 10.3 percent in 2007/08 from 8.5 percent in a year ago revealing a positive trend.
- 1.31 At constant price, the gross fixed capital formation is estimated to have grown by 6 percent to Rs 109.75 billion in 2007/08. Last year, the gross fixed capital formation had grown by 2 percent to Rs 103.51 billion. The ratio of gross fixed capital formation to GDP at producers' price is 19.7 percent in 2007/08, higher compared to the ratio of 19.5 percent a year ago. The ratio of government sector's fixed capital formation to GDP is estimated at 2.9 percent this year compared to the ratio of 2.7 percent a year ago. Similarly, such ratio of private sector is estimated at 16.82 percent compared to 16.75 percent a year ago.
- 1.32 The import of goods and services at constant price is estimated to have increased by 10.6 percent in FY 2007/08 compared to a decline of 5.4 percent a year ago. Contrary to the import expansion, the export of goods and services has been estimated to decline by 4 percent compared to the increase of 1.8 percent last year. Against this background of import expansion at a higher rate and contraction of export, the deficit of net export of goods and services increased by 24.7 percent to Rs 102.87 billion in 2007/08. Last year, such deficit was at Rs 82.52 billion. The ratio of export of goods and services to GDP at producers' price remained 14.4 percent in 2007/08 compared to 15 percent a year ago. However, the import as percent of GDP

would increase to 33.8 percent in the current fiscal year from 30.6 percent last year. The net export to GDP ratio is estimated to remain negative 19.4 percent in 2007/08 compared to negative 15.5 percent a year ago. Following the import expansion and export contraction, the export to import ratio would decline to 42.7 percent in FY 2007/08 from 49.1 percent a year ago.

Challenges

- 1.33 Nepal could not attain higher economic growth despite the five decades of planned development efforts. Though the country attained annual average economic growth of 5 percent in the Eighth and Ninth Plan periods, the growth rate remained 3.4 percent in the Tenth Plan period (2002/2003-2006/07). Amongst the projected average annual growth rate of 6.2 percent at the higher side and 4.3 percent at the lower side, Nepal's average annual growth was less than the lower limit. Political instability and armed conflict adversely affected the development efforts and worsened the internal and external investment environment. While neighboring India and China could attract huge level of foreign direct investment in the past couple of years, foreign investors did not choose Nepal as their investment destination on the face of surrounding instability and uncertainty due to the conflict. Also, the level of domestic saving mobilization remained low resulting in a saving-investment gap at a whopping 20.5 percent in FY 2007/08. This reinforces the need for higher level of domestic saving mobilization for the sustained increase in investment. At the same time, it is important to recall that Nepal could hardly remain aloof from the main stream of globalization whatsoever the gravity of the problems surrounding the domestic realm. Nepal has no alternative of developing an investment friendly environment and tapping the advantage of globalization that has eased the transfer of capital, technology, and know-how. Only after this, the much-awaited economic transformation in the aftermath of the political regime shift is possible. The current challenge is to mobilize investment internally and externally by strengthening institutions. However, this requires guaranteeing rule of law, smoothening service delivery, and establishing a transparent and effective administrative mechanism.
- 1.34 Significant increase in the workers' remittances has contributed towards the goal of poverty reduction. However, the increasing income inequality catalyzes the need for equitable and justifiable

distribution of resources. Increasing inequality does not just mean that the access of the poor and general people to available resources is decreasing but that also signals the risk that increasing gap between the haves and the have-nots could further spike conflict in one or another form. Several countries around the world lacking equitable distribution of resources and having high-income disparity have been experiencing conflicts. In Nepal's case, income inequality is widening mainly due to unfair distribution of land, increasing urbanization, limited access of rural and suburban people to information technology, limited financial inclusion, high access of urban and rich people to high-valued urban houses, land and financial assets, increasing gap in access to quality education, and unjustifiable competition to accumulate wealth through any means. In view of these realities, inability to increase the access of the rural and poor people to the resources and to impose progressive tax effectively on financial and non-financial assets could further deteriorate the situation of income disparity.

- 1.35 Higher economic growth is a sine qua non for the economic development. Mobilizing higher investment in areas possessing comparative advantage such as hydropower, tourism, agro-processing industry, herbal industry, education, and health could help in attaining higher economic growth. The current challenge is to mobilize investment in these industries in order to bring people out of the vicious cycle of poverty, scarcity, and conflict and pave the way for sustainable economic development.
- 1.36 It is evident that agriculture is one of the sectors having high comparative advantage for Nepal. This sector alone contributes one-third to the GDP and provides income and employment opportunities to a broader section of the people. The fact that more than 80 percent of the people live in rural areas and that agriculture has been the primary source of livelihood for most of these people justifies that the role of agriculture in Nepal's development spectrum is immensely high. Also the current food crisis in the world has given a message that our agriculture needs to be modernized so as to make it self-sufficient. However, proper management of basic infrastructures such as irrigation, organic fertilizer, storage, seeds and agricultural transportation is lacking. Further, human resources professionally and technically competent need to be fostered while those having these attributes need to be utilized. Therefore, the challenge is to tap

the potentialities of agriculture for the economy through its rapid modernization and commercialization.

- 1.37 Nepal has now entered into federal republican state. In addition to paving the way for economic development through high and sustainable economic growth, there is an urgent need to take immediate and long run measures to expand economic activities in order to fulfill peoples' heightening aspirations. On one hand, there is a need to promote inclusion by caste, sex, language and region into the process of economic development and opportunities and, on the other, there is a need to give special emphasis on development of quality human resource by balancing possible issues raised by different groups and sectors. If the State mechanism has to concentrate on the issues raised by one particular group or region, it will not only affect the quality service but could also affect the process of creating an investment friendly environment. To attain higher and sustainable economic growth, there is a need for maintaining balance between the equitable participation of all groups and sectors and quality services through the state mechanism.
- 1.38 The tendency of using road and creating disturbances in movements just to pressurize for fulfilling all sorts of demand has increased the cost of economy, reduced competitive strength, and retarded the normal expansion of economic activities. Also, the waning harmony between laborers and industrialists has adversely affected the growth of industrial sector. Thus, the immediate challenge is to improve this situation prioritizing the agenda of economic development.

2. Public Finance

Outline of Government Finance

- 2.01 Revenue mobilization is the major source of the government expenditure. A minimal gap between expenditure and revenue is to be maintained for fiscal balance. There was a significant improvement in revenue mobilization and capital expenditure in FY 2006/07 compared to that in FY 2005/06. However, looking at the fiscal trends of the last couple of years, responsible efforts are needed to improve the structural problems such as increasing trend of recurrent expenditure, declining trend of capital expenditure and challenges related to overall fiscal stability. Comparing the fiscal statistics of FY 2006/07 with that of FY 2000/01, the contribution of revenue on total expenditure increased to 65.7 percent in FY 2006/07 from 61.2 percent in FY 2000/01. In this period the overall expenditure increased at an annual average rate of 9 percent, while the revenue mobilization increased at an annual average rate of 10.2 percent. The fact that fiscal deficit to total expenditure ratio decreased to 22.5 percent in FY 2006/07 from 30.3 percent in FY 2001/02 indicates that the fiscal deficit in the recent years is under control.
- 2.02 The combined share of recurrent expenditure and principal repayment in total expenditure increased to 70.3 percent in FY 2007/08 from 64.5 percent in FY 2000/01 (the share of principal repayment alone increased to 12.6 percent in FY 2006/07 from 7.1 percent in FY 2000/01). Therefore, the gap between the ratio of revenue mobilization to total expenditure and the ratio of combined recurrent and principal repayment expenditure to total expenditure increased to 4.6 percentage points (70.3 percent minus 65.7 percent) in FY 2006/07 from 3.3 percentage points (64.5 percent minus 61.2 percent) in FY 2000/01. In FY 2005/06, such gap had increased to a higher level of 8.1 percentage points. In FY 2005/06, the shares of recurrent expenditure and principal repayments in total expenditure were 60.4 percent and 12.9 percent respectively with their combined share at 7.3 percent while the amount of revenue was 65.2 percent of the total expenditure. As the gap was brought down to the level of 4.6 percentage points in FY 2006/07, there was a significant improvement in controlling the deficit between revenue mobilization and recurrent and principal repayments expenditure.
- 2.03 The capital expenditure, however, showed a declining trend in this period. The share of capital expenditure in total expenditure was 35.5 percent in

FY 2000/01, which came down to 26.7 percent in FY 2005/06 indicating that there was no expansion of resource allocation to the development activities from the government sector. The share of capital expenditure to total expenditure stood at 30.9 percent in FY 2001/02, 26.6 percent in FY 2002/03, 25.8 percent in FY 2003/04, 26.7 percent each in FY 2004/05 and FY 2005/06. In FY 2006/07, the ratio increased by 3.0 percentage points to 29.7 percent.

Table 2(a) : Ratio of Fiscal Heads to Total Government Expenditure

(in percentage)

<i>Fiscal heads</i>	2000/01	2007/02	2002/03	2003/04	2004/05	2005/06	2006/07
Expenditure	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Recurrent Expenditure	57.4	61.0	62.0	62.1	60.1	60.4	57.7
Capital Expenditure	35.5	30.9	26.6	25.8	26.7	26.7	29.7
Principal Repayment	7.1	8.0	11.4	12.1	13.2	12.9	12.6
Resources	69.7	71.4	80.4	82.3	82.4	77.7	77.5
Revenue	61.2	63.0	66.9	69.7	68.4	65.2	65.7
Foreign Grants	8.5	8.4	13.5	12.6	14.0	12.5	11.8
Surplus (+)/Deficit (-)	-30.3	-28.6	-19.6	-17.7	-17.6	-22.3	-22.5
Sources of Deficit Financing							
Foreign Loan	15.1	9.6	5.4	8.5	9.0	7.4	7.5
Domestic Borrowing	8.8	10.0	10.6	6.3	8.7	10.7	13.4
Change in Reserves (- surplus)	6.4	9.0	3.6	2.9	-0.2	4.3	1.6

2.04 The ratios of total expenditure and revenue to GDP increased in FY 2006/07 compared to that in FY 2005/06. The ratio of revenue mobilization to GDP in FY 2006/07 increased by 1.0 percentage point and reached 12.1 percent compared to the ratio of 11.1 percent in FY 2005/06. The ratio of government expenditure to GDP increased to 18.4 percent in FY 2006/07 from 17.1 percent in FY 2005/06. Due to the increase in the ratios of revenue to GDP and total expenditure to GDP, the gap between revenue mobilization and total expenditure increased by 0.4 percentage points to 6.3 percent in FY 2006/07 from 5.9 percent in FY 2005/06.

Table 2(b) : Ratio of Government Expenditure and Revenue to GDP
(GDP at Current Producers' Price)

(in percentage)

Fiscal Year	Government Expenditure				Revenue Mobilization	Gap between exp. and revenue
	Recurrent	Capital	Principal Repayment	Total		
2000/01	10.4	6.4	1.3	18.1	11.1	7.0
2001/02	10.6	5.4	1.4	17.4	10.9	6.5
2002/03	10.6	4.5	1.9	17.1	11.4	5.6

2003/04	10.3	4.3	2.0	16.7	11.6	6.0
2004/05	10.5	4.6	2.3	17.4	11.9	5.5
2005/06	10.2	4.5	2.2	17.0	11.1	5.9
2006/07	10.6	5.5	2.3	18.4	12.1	6.3

Source: Financial Comptroller General Office and Central Bureau of Statistics

2.05 There is a significant improvement in the revenue surplus, calculated as the difference between revenue mobilization and regular expenditure, in FY 2006/07 compared to than in the previous fiscal year. Such surplus is considered as a sustainable source to finance the capital expenditure and principal repayments. The increase in the ratio of revenue surplus to the capital and principle repayments expenditure in FY 2006/07 was attributed to a significant increase in the revenue mobilization compared to the growth of total expenditure. The ratio of revenue surplus to the capital and principal repayment expenditure in FY 2006/07 increased by 6.7 percentage points to reach 18.7 percent from 12.0 percent in FY 2005/06. On the sources of financing capital and principal repayments, the share of foreign grants compared to that in FY 2005/06 decreased by 3.5 percentage points to 28 percent in FY 2006/07. Similarly, such ratio of deficit financing in FY 2006/07 decreased by 3.2 percentage points to 53.3 percent.

2.06 On the sources of deficit financing in FY 2006/07, the share of foreign loan remained at 17.8 percent, domestic borrowings at 31.7 percent and change in cash balance at 3.8 percent in FY 2006/07, the share of foreign loan and cash balance decreased by 1 percentage point and 7 percentage points respectively, but the share of internal borrowings increased by 4.8 percentage points. On the sources of financing capital and principal repayments in FY 2006/07, the share of revenue surplus remained at 18.7 percent, foreign grants at 28.0 percent and deficit financing at 53.3 percent. Since the revenue surplus increased by 6.7 percentage points and foreign grants decreased by 3.5 percentage points, the share of deficit financing decreased by 3.3 percentage points to 53.3 percent in FY 2006/07.

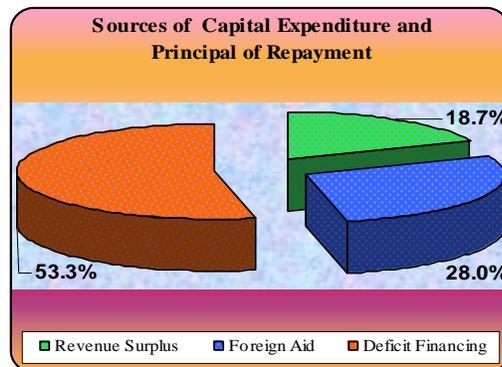


Table 2(c) : Capital Expenditure and Principal Repayment, and Sources of Financing

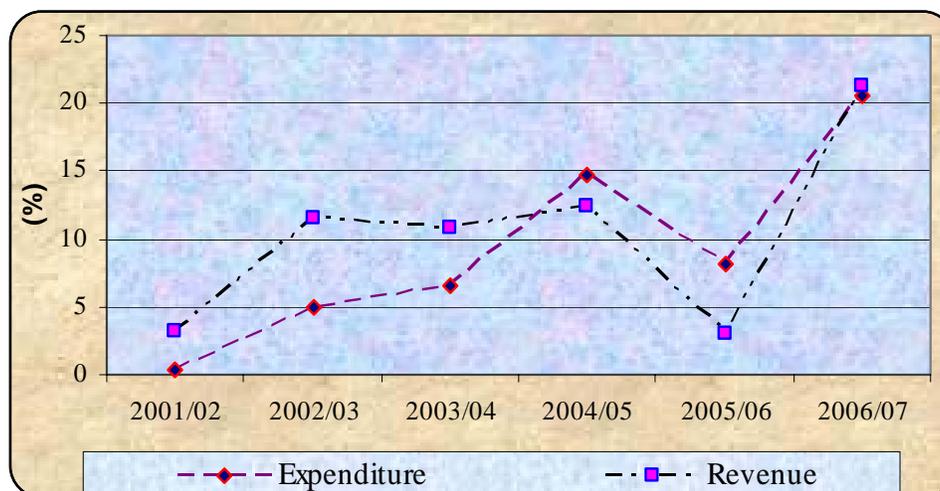
Descriptions	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Total Capital & Principal Repayment Expenditure (Rs. Billion)	34.00	31.21	31.92	33.89	40.87	43.87	56.48
a. Capital Expenditure	28.31	24.77	22.36	23.10	27.34	29.60	39.73
b. Principal Repayment	5.69	6.43	9.56	10.79	13.53	14.26	16.75
Sources (in Percentage)							
a Revenue Surplus	9.0	5.1	13.0	20.0	20.6	12.0	18.7
b. Foreign Grant	19.9	21.4	35.5	33.3	35.2	31.5	28.0
c. Deficit Financing	71.1	73.5	51.4	46.7	44.2	56.5	53.3
Foreign Loan	(35.4)	(24.7)	(14.3)	(22.5)	(22.7)	(18.8)	(17.8)
Domestic Borrowing	(20.6)	(25.6)	(27.8)	(16.5)	(21.9)	(26.9)	(31.7)
Change in Reserves	(15.1)	(23.2)	(9.4)	(7.7)	(-0.4)	(10.8)	(3.8)

Source: Financial Comptroller General Office

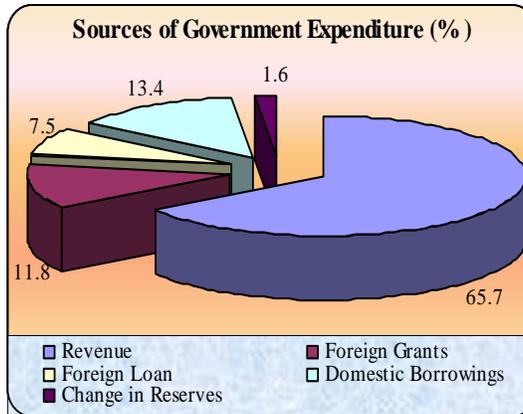
Public Finance

2.07 The increasing expenditure trend continued in FY 2006/07 too. The total expenditure increased by 20.5 percent in FY 2006/07 compared to the growth of 8.1 percent in FY 2005/06. As per the components of total expenditure, recurrent expenditure increased by 15.1 percent in FY 2006/07 compared to the growth of 8.6 percent in the previous year. Capital expenditure increased by 34.2 percent in FY 2006/07 over an increment of 8.3 percent in FY 2004/05. Principal repayment increased by 17.4 percent in FY 2006/07 compared to the growth of 5.4 percent in the previous year.

Chart 2(a) : Growth Rate of Government Expenditure and Revenue



2.08 Of the total expenditure amounting to Rs.110.88 billion in FY 2005/06, the revenue mobilization financed 65.2 percent, foreign grants 12.5 percent, foreign loan 7.4 percent and domestic borrowings 10.7 percent. Sources of financing the total expenditure of Rs.133.60 billion in FY 2006/07 included revenue mobilization, 65.7



percent, foreign grants 11.8 percent, foreign loan 7.5 percent, domestic borrowings 13.4 percent and cash balance 1.6 percent. As a result of increase in the domestic borrowing by 51.2 percent in FY 2006/07 compared to FY 2005/06, change in cash balance in FY 2006/07 was limited to a deficit of Rs.2.15 billion.

Recurrent Expenditure

2.09 In FY 2006/07 compared to in FY 2005/06, the recurrent expenditure increased by 15.1 percent to Rs.77.12 billion. The total recurrent expenditure in FY 2006/07 stood at Rs.67.01 billion in FY 2005/06. On the components of recurrent expenditure, the share of expenditure of constitutional bodies remained at 1.3 percent, general administration at 14.4 percent, revenue and fiscal administration at 1.3 percent, fiscal administration and planning at 0.9 percent, judiciary administration at 0.8 percent and foreign services at 1.1 percent. Likewise, the share of defense expenditure remained at 13.1 percent, expenditure on social services at 38.2 percent, economic services at 10.9 percent, and interest payments at 8 percent, and miscellaneous expenditure at 10.0 percent.

2.10 In FY 2006/07, major chunk of recurrent expenditure (Rs.29.5 billion) was spent on education, health, drinking water, local development and other social services. Likewise, other major expenditure heads of the recurrent expenditure were general administration Rs.11.07 billion, defense Rs.11.13 billion and

economic services Rs.8.38 billion. The expenditure on interest payments of principal remained at Rs.6.16 billion.

- 2.11 Among the major expenditure heads of the recurrent expenditure in FY 2006/07 compared to that in FY 2005/06, the increment rates were social service expenditure 16.2 percent, defense expenditure 4.4 percent, general administration 19.5 percent, judiciary administration 3.0 percent, foreign services 2.5 percent, economic services 11.4 percent, revenue and fiscal administration 64.3 percent, fiscal administration and planning 100.6 percent, constitutional organs 69.5 percent and miscellaneous expenditure 47.4 percent. Likewise, the interest payment increased by 0.1 percent.

Capital Expenditure

- 2.12 Capital expenditure in FY 2006/07 increased by 34.2 percent to Rs.39.73 billion. In the FY 2005/06, the total capital expenditure stood at Rs.29.61 billion. Among the components of capital expenditure, economic services expenditure remained at Rs.17.94 billion, social services at Rs.15.53 billion, and defense at Rs.1.08 billion. Likewise, the capital expenditure on general administration remained at Rs.4.51 billion, judiciary administration at Rs.240.6 million and miscellaneous at Rs.223.1 million. The share of economic services in capital expenditure remained at 45.1 percent, that of social services 39.1 percent, defense 2.5 percent, general administration 11.4 percent, judiciary administration and miscellaneous 0.6 percent each. When compared to the capital expenditure of FY 2005/06, capital expenditure for social services increased by 53 percent, that for economic services by 21.2 percent, defense expenditure by 37.7 percent and general administration by 281.8 percent. Similarly, the expenditure on revenue and fiscal administration increased by 51.6 percent, judiciary administration by 37.1 percent, and fiscal administration and planning by 29.1 percent.

Principal Repayment

- 2.13 The expenditure on principal repayment is on an increasing trend. In FY 2006/07, the principal repayment expenditure increased by 17.4 percent to Rs.16.75 billion from the level of Rs.14.26 billion in FY 2005/06.
- 2.14 In FY 2006/07, the share of domestic loan repayment remained at 55 percent of the total principal repayment. So, and the share of foreign loan repayment in the total principal repayment stood at 45 percent.

Compared to the repayment in the previous fiscal year, the domestic loan repayment and the foreign loan repayment in FY 2006/07 increased by 26.6 percent and respectively 7.9 percent.

Expenditure in the First Eight Months of FY 2007/08

2.15 Based on the total disbursement and the operation of revolving fund, total expenditure increased by 46.2 percent to Rs.101.82 billion in the first eight months of FY 2007/08 when compared to that of the same period last year. In the same period in FY 2006/07, the total expenditure was at the level of Rs.69.63 billion. Of the total expenditure in the review period of FY 2007/08, the recurrent expenditure amounted to Rs.64.6 billion, capital expenditure Rs.26.69 billion and principal repayments Rs.10.52 billion. Such expenditures in the same period of the previous year were Rs.48.60 billion, Rs.15.20 billion and Rs.5.82 billion respectively. The growth of recurrent expenditure and capital expenditure in the review period of FY 2007/08 was 32.9 percent and 75.6 percent respectively while the principal repayments was decreased by 80.8 percent in the same period.

Revenue

2.16 Revenue mobilization, foreign grants and loans, domestic borrowing and use of cash balance have been used as fiscal instruments to fund government expenditure. Government revenue, the major source of government resources, increased by 21.3 percent to Rs.87.71 billion in FY 2006/07 compared to that in last year. In FY 2005/06, the government revenue had increased by 3.1 percent compared to that in the FY 2004/05. While, the government revenue had financed 65.2 percent of the government expenditure in FY 2005/06, it had financed 65.7 percent of the expenditure in FY 2006/07. In FY 2004/05, the government revenue was 68.4 percent of the total expenditure.

2.17 Of the total revenue, the shares of tax revenue and non-tax revenue in FY 2006/07 were 81.1 percent and 18.9 percent respectively. Such ratios in the previous year were 79.5 percent and 20.5 percent respectively.

2.18 In FY 2006/07, tax revenue increased by 23.8 percent as compared to the growth of 6.1 percent in the previous year. In FY 2006/07, the share of customs revenue in the total tax revenue was 23.5 percent, while the share of tax on production and consumption of goods and services remained at 49.8 percent. Similarly, the share of land and

house registration tax was 3.2 percent, and that of the income, profit and property tax was 23.5 percent.

- 2.19 In the tax revenue front, the customs revenue increased by 8.9 percent in FY 2006/07. During the year, the tax on production and consumption of goods and services grew by 26.0 percent, tax on income, profit and property rose by 41.9 percent, and land and house registration tax increased by 3.3 percent. Of the customs revenue, the import tax and the export tax revenue increased by 16.0 percent and 13.3 percent respectively, while the Indian excise refund decreased by 18.1 percent. Of the tax on production and consumption of goods and services, VAT revenue increased by 20.7 percent and excise revenue increased by 43.6 percent.
- 2.20 In FY 2006/07 non-tax revenue increased by 11.7 percent to Rs.16.59 billion in comparisons to the previous year. Of the total non-tax revenue the share of fees, fines and forfeitures was 11.7 percent, revenue from public services and sales was 28.8 percent, dividend was 29.8 percent, royalty and sales of government properties was 6.6 percent, principal and interest was 12.6 percent and miscellaneous non-tax revenue was 10.5 percent. Compared to the previous fiscal year, the growth of firm registration fees was 39.0 percent, and that of the administrative fees, fines and forfeitures was 16.4 percent. While the dividend from service-oriented organizations decreased by 28.8 percent, the tax from the income of other government organizations was 24.0 percent. In FY 2006/07, the principal and interest from companies and enterprises decreased by 33.2 percent and 39.0 percent respectively.

Revenue in the First Eight Months of FY 2007/08

- 2.21 In the first eight months of FY 2007/08, the revenue mobilization has increased to Rs.60.89 billion from Rs.48.04 billion in the same period of the previous year. The revenue growth is 26.8 percent in the review period when compared to the same period last year. Of the total revenue collection, Rs.50.90 billion was collected from tax revenue sources and Rs.9.99 billion from non-tax revenue sources. in the review period the growth of tax revenue was 25.5 percent, whereas the growth of non-tax revenue was 33.4 percent.
- 2.22 The customs revenue in the first eight months of FY 2007/08 compared to the same period of last year increased by 37.5 percent to Rs.14.03 billion. Similarly, tax on production and consumption of

goods and services in the review period increased by 15.5 percent to Rs.24.18 billion. On the customs revenue front, the import tax revenue, which constituted 80.3 percent of the total customs revenue in the first eight months of the review period, increased by 39.0 percent. The share of import revenue on total customs revenue was 79.4 percent in the same period last year. While the export tax revenue in the review period decreased by 46.8 percent, the Indian excise refund increased by 63.9 percent. Similarly, the registration fee, income tax (public sector) and vehicle tax in the first eight months of FY 2007/08 increased by 21.3 percent, 65.7 percent and 15.1 percent respectively.

Foreign Aid

- 2.23 The foreign aid commitment in FY 2006/07 increased by 76.9 percent against a decline of 45.2 percent in FY 2005/06. In FY 2006/07, committed foreign assistance amounted to Rs.37.02 billion. Compared to an amount of Rs.20.92 billion in FY 2005/06. Of the total foreign aid commitment, the bilateral assistance constituted Rs.17.71 billion, whereas the multilateral assistance was equivalent to Rs.19.32 billion. While classifying the foreign aid into grants and loans component for FY 2006/07, foreign grants amounted to Rs.30.86 billion and foreign loans amounted to Rs.6.16 billion. In FY 2005/06 as compared to the previous year, the foreign grants had increased by 69 percent and the foreign loans had increased by 131.7 percent respectively.
- 2.24 While analyzing the foreign aid commitment in FY 2006/07 on a sectoral basis, the share of foreign aid commitment for agriculture, irrigation and forestry was 3.9 percent, electricity 4.7 percent, local development 5.3 percent, education 16.9 percent, health sector 9.2 percent, and other 45.9 percent. Similarly, the share of foreign aid commitment for the transport and communication sector was 14.1 percent.

Foreign Aid Commitments

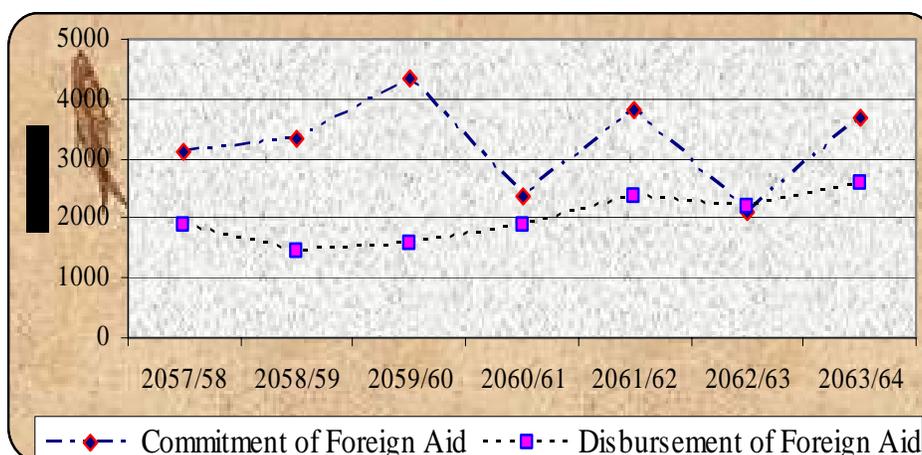
- 2.25 In the first eight month of FY 2007/08, the foreign aid commitment increased by 89.1 percent to Rs.48.67 billion. Of the total foreign aid commitment, the committed foreign grants amounted to Rs.40.55 billion (83.3 percent of the total) and the committed foreign loans Rs.8.12 billion (16.7 percent of the total). In the first eight months of FY 2006/07, the committed foreign aid amounted to Rs.25.74 billion,

of which foreign grants was Rs.19.57 billion and foreign loans Rs.6.16 billion. Of the total commitment, the composition of grants and loans was 76.1 percent and 23.9 percent respectively.

Commitment and Disbursement

2.26 In the first eight months of FY 2007/08, the share of bilateral assistance in total commitment was 26.9 percent while the share of multilateral assistance was 73.1 percent. In the same period last year, the shares of bilateral and multilateral assistance were 40.2 percent and 59.8 percent respectively. While analyzing sector-wise, the foreign aid commitment in the first eight months of FY 2007/08 for electricity sector was Rs.2.72 billion (5.6 percent), education sector 3.78 billion (7.8 percent), local development Rs.6.72 billion (13.8 percent), agriculture, irrigation and forestry 4.34 billion (8.9 percent), transport and communication Rs.3.35 billion (6.9 percent) and other sectors Rs.27.76 billion (57 percent).

Chart 2(b) : Commitment and Disbursement of Foreign Aid



2.27 In FY 2006/07 compared to that of FY 2005/06 the disbursement of foreign aid increased by 17.3 percent to Rs.25.85 billion. Of the total foreign aid disbursement in FY 2006/07, Rs.15.80 billion (61.1 percent) was foreign grants and Rs.10.05 billion (38.9 percent) foreign loans. In the previous year, the foreign aid disbursement amounted to Rs.22.04 billion, of which Rs.13.83 billion (62.7 percent) was foreign grants and Rs.8.21 billion (37.3 percent) foreign loan. Of the total foreign aids disbursement in FY 2006/07, Rs.9.44 billion (36.5 percent) was through multilateral assistance and Rs.16.41 billion (63.5 percent) through bilateral assistance. In the

previous year, the multilateral aid disbursement had amounted to Rs.14.38 billion (65.3 percent) and bilateral assistance Rs.7.66 billion (34.7 percent).

- 2.28 The foreign aid disbursement on a sectoral basis in FY 2006/07 shows that, foreign aid disbursement in social sector was Rs.15.18 billion (58.7 percent of the total), transport, electricity and communication sector Rs.6.06 billion (25.8 percent), agriculture, irrigation and forestry Rs.3.72 billion (14.4 billion), industry and commerce Rs.116.8 million (0.5 percent) and others Rs.173.1 million (0.7 percent). On comparison of the foreign aid disbursement on a sectoral basis for FY 2006/07 with that of FY 2005/06, the foreign aid disbursement in social sector increased by 3.6 percent, agriculture, irrigation and forestry by 55.3 percent and industry and commerce by 10.9 percent, while the disbursement in transport, electricity and communication sector decreased by 5.9 percent.

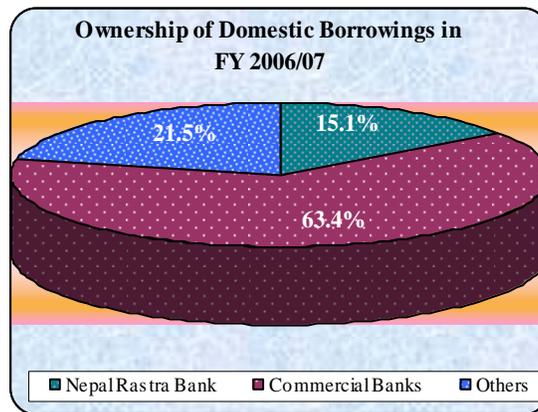
Foreign Loan

- 2.29 Foreign loan has played a crucial role in the Nepalese economy, mainly due to inadequate revenue mobilization to meet the expenditure. The net outstanding foreign loan compared to the level of Rs.233.96 billion in FY 2005/06 decreased by 7.4 percent to Rs.216.63 billion in FY 2006/07.
- 2.30 Net outstanding foreign debt at the end of first eight months of FY 2007/08 (adjusting gross borrowing and principal repayment in the first eight months) decreased by 7.9 percent to Rs.216.20 billion compared to the net outstanding foreign debt of Rs.234.81 billion at the end of the first eight months of FY 2006/07.
- 2.31 The ratio of net outstanding debt to GDP at producers' price reduced to 29.8 percent in FY 2006/07, from 35.8 percent in FY 2005/06 and 37.3 percent in FY 2004/05. The net outstanding debt to GDP ratio further reduced to 26.3 percent during the first eight months of FY 2007/08.

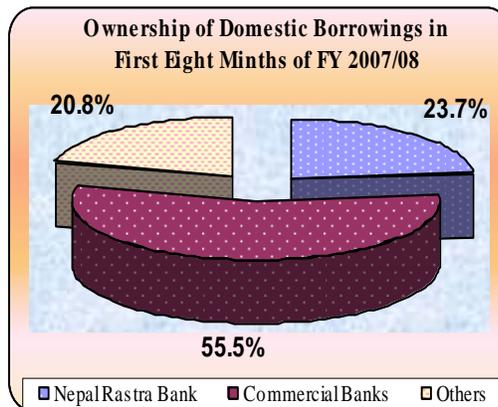
Domestic Borrowing

- 2.32 Outstanding domestic debt increased by 9.6 percent to Rs.103.78 billion in mid-July 2007 from the level of Rs.94.71 billion in mid-July 2006. Of the total outstanding debt in mid-July 2007, Nepal Rastra Bank held Rs.15.63 billion (15.1 percent), commercial banks held Rs.65.84 billion (63.4 percent) and other non-bank institutions

and private sector held Rs.22.31 billion (21.5 percent). On analyzing domestic borrowing by instruments, 71.7 percent was Treasury Bills, 18.5 percent development bonds, 1.5 percent National Savings Certificate, 1.3 percent Citizen Savings Certificates and 7.0 percent special bonds.



2.33 In the first eight months of FY 2007/08, outstanding domestic debt increased by 5.2 percent. The outstanding domestic debt increased to Rs.107.66 billion during the same period in FY 2007/08 from the level of Rs.102.39 billion at the end of the first eight months of FY 2006/07. Of the total outstanding debt at the end of the first eight months of FY 2007/08, Nepal Rastra Bank held 23.7 percent; commercial banks held 55.5 percent and other non-bank institutions and private sector held 20.8 percent. When analyzing domestic borrowing by instruments, Treasury Bills amounted Rs.80.44 billion (74.7 percent), development bonds Rs.18.07 billion (16.8 percent), National Savings Certificates Rs.3.52 billion (3.4 percent), Citizen Savings Certificates Rs.1.87 billion (1.7 percent), and special bonds Rs.5.77 billion (5.4 percent). The outstanding domestic debt in the form of development bond decreased by 5.8 percent, National Savings Certificate by 60.9 percent and special bonds by 28.1 percent in the first eight months of FY 2007/08 compared to the level of the same period in FY 2006/07. In the first eight months of FY 2007/08 compared to the same period of FY 2006/07, the domestic debt in the form of treasury bills increased by 15.4 percent and the Citizen Savings Certificates by 16.8 percent. The outstanding domestic debt



to GDP ratio remained at 14.5 percent in FY 2005/06, 14.3 percent in FY 2006/07 and 13.1 percent at the end of first eight months in FY 2007/08.

Fiscal Deficit

2.34 As a result of smaller revenue and foreign grants as compared to the level of expenditure, the fiscal deficit increased to Rs.30.09 billion in FY 2006/07 from Rs.24.78 billion in FY 2005/06. The fiscal deficit that was in a decreasing trend since 2000/01 showed an increasing trend since FY 2004/05. The fiscal deficit to GDP ratio, which was at 3.8 percent in FY 2005/06, increased by 0.3 percentage point to reach 4.1 percent in FY 2006/07.

Table 2(d) : Fiscal Deficit (amount in Rupees Million)

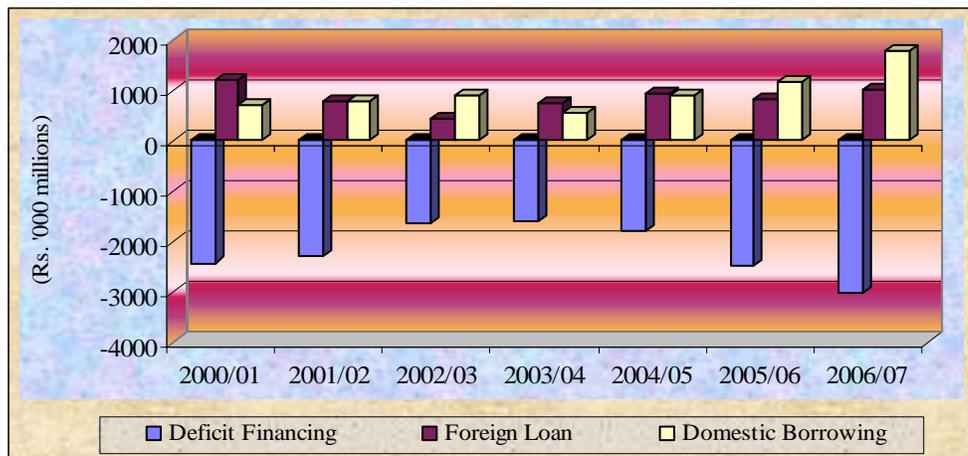
<i>Fiscal year</i>	<i>Fiscal Deficit</i>	<i>Fiscal Deficit/GDP ratio</i>
2000/01	24188.1	5.5
2001/02	22940.6	5.0
2002/03	16437.2	3.3
2003/04	15828.2	2.9
2004/05	18046.5	3.1
2005/06	24779.6	3.8
2006/07	30091.7	4.1

Source: Financial Comptroller Generals Office

Sources of Deficit Financing

2.35 The fiscal deficit, the result of imbalance between expenditure and non-debt resources, has been financed through foreign loan, domestic borrowing and cash balance. Of the fiscal deficit of Rs.30.09 billion in FY 2006/07, Rs.10.05 billion (33.4 percent) was financed through foreign loan, Rs.17.89 billion (59.5 percent) through domestic borrowing and remaining Rs.2.14 billion (7.1 percent) through the change in cash reserves. The sources of financing the fiscal deficit of Rs.24.78 billion in FY 2005/06 were foreign loan (Rs.8.21 billion), domestic borrowing (Rs.11.83 billion) and change in cash balance (Rs.4.73 billion).

Chart 2(c) : Fiscal Deficit, Government Loan and Domestic Borrowing



Challenges

- 2.36 It is evident from the contraction in the economic growth rates in the recent past that the overall economic expansion has been affected adversely due to the slackness in the development activities. Therefore, to increase the developmental activities, the challenge is to mobilize revenue at least to the level that could meet the recurrent and principal repayment expenditures. Similarly, there is a need to allocate best possible amount of resources for the capital outlay and give special priority to control unproductive and wasteful expenses. This will give a positive boost for the economic expansion and help create sustainable base for the realization of higher economic development.
- 2.37 On one hand, for maintaining economic balance, there is need to keep government fiscal deficit within the appropriate limit and, on the other hand, it is necessary to increase public expenditure for fulfilling unlimited wants of people. There is big challenge to maintain a balance in between these two dilemmas.
- 2.38 The gap between the expenditure and revenue must be lowered for fiscal stability. Since there is a mismatch between the two, the gap has not been reduced. In this context, the effort must be given to increase revenue, increase the grant component in foreign aid, improve recurrent expenditure management and speed up the capital expenditure.

- 2.39 As foreign loan component remained higher in the past planning phase, the pressure of foreign debt servicing on revenue is increasing. Therefore, there is a need to increase gross domestic saving ratio, control unproductive recurrent expenditure and increase capital expenditure in productive sector for maintaining the foreign debt servicing at a healthy level.
- 2.40 The use of foreign grants in prioritized projects would help expedite the development activities besides contribute to reduce the burden of foreign debt servicing in the upcoming budgets. It is, therefore, necessary to make effective use of foreign assistance according to this framework.
- 2.41 Revenue mobilization remained satisfactory in the last two years. To give continuity to this, the challenge is to control tax leakages after identifying the possible leakage areas, especially in VAT and income tax, the two major contributors of tax revenue. Areas such as the expansion of tax base and change in tax rates should be reviewed, revised and implemented them in addition to developing programs related to tax education and tax awareness so as to increase revenue mobilization. Similarly, the services delivery by the tax administration to the taxpayers needs to be improved as per the need of the time. Revenue leakages through the rampant and illegal use of the duty-free goods need to be controlled. Efforts should be made towards full atomization of tax administration, simplifying income tax procedures and reducing tax exemption limit. As the revenue mobilization is based on the efficiency of tax administration, effectiveness and professionalism, imparting the training for the human resources to effect structural changes in the tax administration seems inevitable.
- 2.42 Customs revenue mobilization has been affected by the illegal trade, that has adversely hit the formal trade, and under-invoicing. The challenge is to discourage these tendencies. There is a need to make the customs valuation system more objective and initiate systematic changes and administrative improvements with utmost priority. As Nepal is a member of World Trade Organization, there is a less possibility that she could mobilize more revenue through customs duties in a long-term. As per the commitment with the WTO there is a need to reduce customs tariff. As a member of the regional fora such as the SAFTA and BIMSTEC the customs rate needs to be lowered under the concept of unrestricted trade. As this will reduce

the revenue collection from customs, the stress should be on alternative sources, which is a major challenge.

- 2.43 Sustainable base of revenue mobilization would be the enhanced levels of production and productivity. For this, there is a need to mobilize and utilize the possible opportunities. Looking into the contribution of agricultural sector in the economy, it is self-evident that modernization of agriculture would help expand the economy and attain economic development objectives. However, since agriculture, which has a higher contribution to GDP, is exempted from both VAT and income tax, the tax base has become narrower as a result of which the VAT revenue and income tax revenue are not increasing as per the rules of economic expansion. For the development of agriculture, both food crops and cash crops need to be developed which will boost export sector. Therefore, for increasing revenue mobilization through increased national income based on the modernization of agriculture, through implementation of specialized programs the areas of comparative advantage such as tea, the coffee and cardamom farming as well as the increased cultivation of the oil-seeds, pulses and horticulture need to be promoted.
- 2.44 Long-term revenue policy needs to be formulated to tie up revenue with the economic growth, making revenue growth perfectly elastic to economic growth. This policy must help in fuller utilization of domestic resources, attracting foreign resources, adjusting the tax rates as per the commitment expressed in the international organizations, expanding the tax base so as to make the revenue growth suitable for a longer period, and ensuring effective implementation under the specified timeframe.
- 2.45 It has been seen that the firms registered in income tax are showing artificial losses to evade income tax and some persons are evading tax through transfer pricing in the same business group on the basis of involvement in various activities that attract different tax rates. Controlling such tax leakages has also become a major challenge.

3. Price and Supply Situation

Framework of Inflation

3.01 Nepalese inflation has been affected more by the structural and external factors. However, increase in aggregate demand through the expansion of monetary aggregates as a factor affecting inflation can not be disregarded. Overall supply of goods and services such as agricultural produces and industrial products, and supply constraints due to closures and strikes come under structural factors. Factors such as price hike of petroleum products in the global market and direct impact of Indian inflation come under external factors that affect inflation in Nepal. The world currently is facing challenges to contain inflation due to food and petroleum products' price hike. India has also adopted anti-inflationary measures including smoothening the internal supply of goods and services. This has affected the overall supply in the Nepalese market, too. In this way, the steps that India took to ease supply situation internally, the effect of increasing Indian inflation, and the increasing prices of petroleum and food products in the international market have exerted pressure on price situation in Nepal. In this regard, there is a need to ensure economic stability by attaining price stability through effective monetary management, supply management and fiscal management so that people's livelihood will not get adversely affected.

Overall Consumer Price Situation

3.02 The year-on-year consumer price inflation increased to 7.2 percent in mid-March 2008 from 6.2 percent a year ago. The average consumer price inflation remained at 6.4 percent in the first eight months of FY 2007/08. While announcing monetary policy for FY 2007/08 Nepal Rastra Bank (NRB) had estimated that price situation would remain under control at 5.5 percent. However, through the mid-term review of the monetary policy, the NRB had stated that there was an upward pressure on price mainly due to international inflationary pressure as a result of increased prices of petroleum and food products, and rise in domestic food prices due to supply constraints after India imposed export restrictions on some of the food products to Nepal.

**Table 3(a) : Annual Inflation based on Consumer Price Index (Y-o-Y Percent)
(1994/95=100)**

(Percent)

	2003/04	2004/05	2005/06	2006/07	2007/08
Mid-July	5.4	2.4	7.3	7.3	6.3
Mid-August	5.2	2.6	8.2	6.6	7.0
Mid-September	5.6	2.6	7.8	7.5	6.3
Mid-October	5.8	2.7	8.5	7.1	6.3
Mid-November	4.9	3.1	8.8	7.3	5.7
Mid-December	5.0	4.6	7.0	7.6	5.8
Mid-January	4.7	5.7	5.8	8.0	6.4
Mid-February	4.4	5.7	7.7	6.2	7.2
Mid-March	1.7	5.8	7.9	5.6	
Mid-April	1.3	6.4	9.1	4.6	
Mid-May	1.8	6.2	9.1	4.5	
Mid-June	2.0	6.6	8.3	5.1	
Annual Average	4.0	4.5	8.0	6.4	6.4*

Source: Nepal Rastra Bank,

* Eight months average

Box 3 : Inflationary Pressures due to Food Price Increase

A study carried out by the International Food Policy Research Institute, entitled The World Food Situation, has stated that world food demand has increased by 8.0 percent and the world food price has increased by around 50 percent within the six-year period from 2000 through 2006. In recent years, food items are being used for the production of bio-fuel. Almost 25 percent of the foodgrains in the world was used to produce bio-fuel within 2003 through 2007. The United States of America increased the use of maize by two and half times to produce ethanol. The attraction towards bio-fuel is increasing, especially because of the increasing petroleum prices since 2003. As the price of crude oil has crossed over US\$ 135 per barrel, the demand for bio-fuel is likely to increase further, pressing more on prices of the food products.

In the poor countries, 50 percent of the total income is used in the purchase of food items. If the price of food products goes on increasing in the same way, it will create huge difficulty for the low-income people. In India, the government has been controlling the trade of food items for

the last 15 years. Just to note, India is the second largest paddy producing country after China, and Indian farmers and traders lead the world in rice trading. As they export foodgrains at higher prices, it has also exerted pressure on the domestic price. For instance, after the Indian government banned the export of rice (except Basmati rice) at the end of 2007, the price of rice increased from US\$ 650 per MT to US\$ 1,000 per MT. Since Nepal has an open border with India, and world food prices are increasing significantly, it is more likely that the price of food items will increase further and hence it is urgent for Nepal to strengthen the supply system.

Source: Nepal Rastra Bank

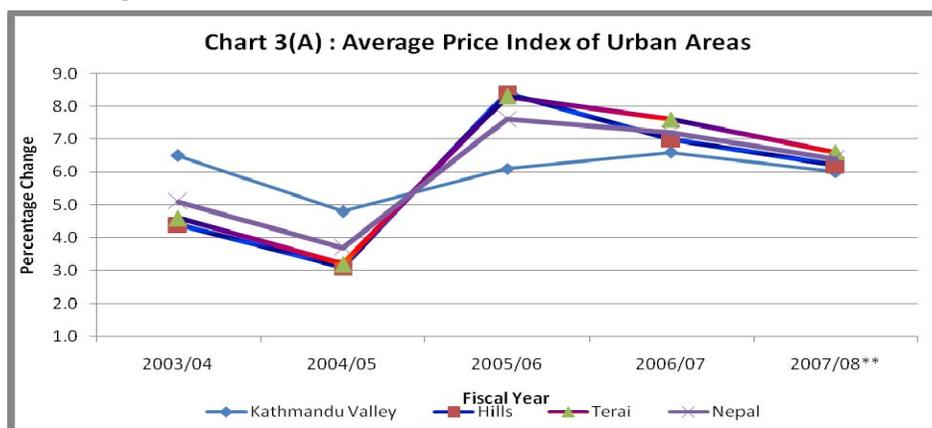
- 3.03 The urban consumer price inflation reached 7.2 percent in mid-March 2008 compared to the level of 6.2 percent in mid-March 2007. Region-wise, consumer price inflation in the Kathmandu Valley, hills and Terai remained at 7.0 percent, 7.5 percent and 7.1 percent respectively compared the to rate of 6.4 percent, 5.2 percent and 6.5 percent respectively a year ago.

Table 3(b) : Urban Consumer Price Index (Y-o-Y)
(1994/95 = 100)

Region	Weight (percent)	Fiscal Year				
		2003/04	2004/05	2005/06	2006/07	2007/08**
Kathmandu Valley	30.8	2.3	6.1	5.5	6.4	7.0
Hills	18.8	-1.0	6.6	7.6	5.2	7.5
Terai	50.4	-1.1	5.2	9.0	6.5	7.1
Nepal	100	-0.1	5.7	7.7	6.2	7.2

* Mid-March, ** Provisional

Source: Nepal Rastra Bank



3.04 The eight-month average consumer price index for the first eight months of FY 2007/08 remained at 6.4 percent from 7.2 percent a year ago. Region-wise, average inflation in Kathmandu was 6.0 percent, hills 6.2 percent and Terai 6.6 percent in 2007/08 compared to the rates of 6.6 percent, 7.0 percent and 7.6 percent respectively a year ago.

Table 3(c) : Average Consumer Price Index in Urban Areas

(1994/95 = 100)

Percentage Change*

Region	Weight (percent)	Fiscal Year				
		2003/04	2004/05	2005/06	2006/07	2007/08**
Kathmandu Valley	30.8	6.5	4.8	6.1	6.6	6.0
Hills	18.8	4.4	3.1	8.4	7.0	6.2
Terai	50.4	4.6	3.2	8.3	7.6	6.6
Nepal	100	5.1	3.7	7.6	7.2	6.4

* First eight months average growth, ** provisional

Source: Nepal Rastra Bank

Food and Beverages Group

3.05 Group-wise, the general price level of food and beverages group that has a weight of 53.2 percent in the overall consumer price index rose by 9.4 percent on year-on-year basis in mid-March 2008. The price inflation of this group was 9.2 percent a year ago. The higher increment in the price index of this group was on account of substantial increase in prices of rice and rice-products, pulses, milk and milk-products, oil and ghee. The prices of meat, fish and eggs, beverages, and restaurant meals also increased in the review period.

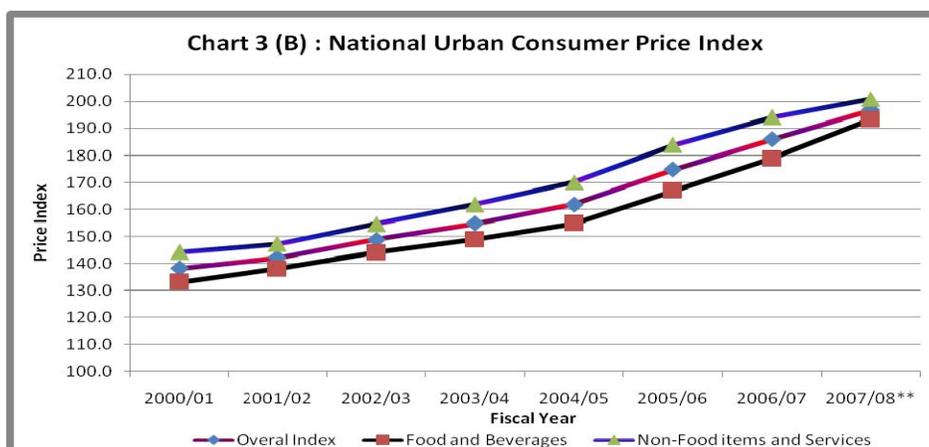


Table 3(d) : National Consumer Price Index (Y-o-Y)

1994/95 = 100)

Percentage Change*

Consumption Goods	Weight in Percentage	Fiscal Year				
		2003/04	2004/05	2005/06	2006/07	2007/08**
Total A + B	100.0	4.4	5.7	7.7	6.2	7.2
A Food and Beverage	53.2	3.1	4.7	6.2	9.2	9.4
Foodgrains and products	18.0	-0.8	5.8	13.2	7.8	14.9
Rice	(14.16)	0.8	5.5	14.8	3.4	19.4
Pulses	2.7	3.7	3.6	12.4	17.9	13.7
Vegetables and Fruits	7.9	1.2	4.0	1.5	18.4	-1.8
Spices	1.9	7.9	-4.9	2.4	26.8	-0.7
Meat, Fish and Eggs	5.2	5.6	9.1	-1.2	12.0	5.3
Milk and Milk Products	4.0	1.6	0.0	5.1	6.9	7.6
Oil and Ghee	3.1	19.7	-7.5	-3.0	10.9	27.3
Sugar and Sugar Products	1.2	6.5	25.5	5.3	-12.2	-8.4
Beverages	2.3	-0.7	3.2	10.4	3.1	2.2
Restaurant Meal	6.9	6.1	7.4	3.3	2.9	7.8
B. Non-Food and Services	46.8	5.7	6.8	9.1	3.2	4.9
Clothings	8.9	1.5	2.5	2.9	2.4	2.4
Cloths	(2.28)	1.9	2.7	2.2	1.2	0.5
Readymade Garments	(5.75)	0.4	2.1	3.0	2.5	2.6
Shoes	2.2	-0.1	1.3	2.8	6.1	4.6
Household Goods	14.9	8.8	12.3	14.1	3.1	6.1
Housing Furnishing and Household Goods	(3.5)	1.8	4.8	3.7	5.9	4.2
House Rent	(4.2)	3.9	4.5	4.5	4.1	5.0
Cleaning	(1.3)	2.0	1.8	2.5	9.5	7.9
Energy, Fuel and Water	(5.9)	15.6	20.4	22.8	1.4	6.9
Transport and Communication	4.0	11.1	14.1	21.2	0.5	1.1
Medicine and Personal Care	8.0	4.1	1.1	3.0	2.4	5.8
Education, Educational Materials and Entertainment	7.1	4.7	4.6	4.8	6.1	5.5
Tobacco and Tobacco Products	1.7	1.5	2.5	3.8	6.4	8.3

*Mid-march Y-o-Y, ** Provisional

Source: Nepal Rastra bank

Non-Food and Services Group

3.06 The price of non-food and services group that has a weight of 46.8 percent in the overall consumer price index increased by 4.9 percent on year-on-year basis in mid-March 2008. The index of this group had increased by 3.2 percent a year ago. This is attributed to increased prices of household goods, medicines, personal services, education, educational materials and recreation, tobacco and tobacco products.

Regional Consumer Price Situation

3.07 Region-wise, the price index of the Kathmandu Valley rose by 7 percent on year-on-year basis in mid-March 2008. The index had increased by 6.4 percent a year ago. In Kathmandu Valley, the prices of food and beverages increased by 9.8 percent and that of the non-food and services by 4.3 percent. In the food and beverages group, there was a significant increase in the prices of rice and rice-products, milk and milk products, oil and ghee, restaurant meals, and meat, fish and eggs. While the price of oil and ghee increased by 30.5 percent, the price of rice and rice-related products increased by 16.6 percent. In the non-food and services group, the prices of fuel, light and water, household goods and tobacco and tobacco-related products increased at a relatively higher rate.

3.08 The price index of the Terai region that is regarded as food basket of Nepal and border links with Nepal's major trading partner India, rose by 7.1 percent on year-on-year basis in mid-March 2008. Such index had increased by 6.5 percent a year ago. The increase in the prices of rice and rice-products, pulses, oil and ghee, and restaurant meals contributed to higher inflation of 7.1 percent in the Terai region. In non-food and services group, the prices of fuel, light and water, medicine and personal care, education, educational materials and recreation, and tobacco and tobacco products increased at a relatively higher rate.

3.09 In the hills, the price index increased by 7.5 percent in mid-March 2008 compared to the rate of 5.2 percent a year ago. In the hills, too, the prices of rice and rice product, pulses, and oil and ghee increased significantly. In the non-food and services group, the prices of medicine and personal care, education, educational materials and recreation, and tobacco and tobacco-related products rose relatively higher.

Core Inflation

3.10 NRB calculates core inflation by applying exclusion method under which the prices of rice, vegetables and fruits, fuel, light and water, and transport are excluded from the overall consumer price index. The year-on-year core inflation stood at 6.1 percent in mid-March 2008 from the level of 6.8 percent in mid-March 2007. Group-wise, the index of food and beverages group increased by 7.4 percent in mid-March 2008 compared to the rise of 9.6 percent a year ago. The prices of non-food and services group increased by 4.9 percent in mid-March 2008 compared to the 4.3 percent rise a year ago.

Wholesale Price Index

3.11 National wholesale price index on year-on-year basis increased by 6.6 percent in mid-March 2008. Group-wise, the price indices of agricultural products, domestically produced industrial goods, and imported goods increased by 4.9 percent, 9.0 percent, and 7.8 percent respectively.

3.12 In the agricultural products group, the prices of food products, cash crops and pulses increased significantly. In the domestically produced industrial goods group, prices of food products and construction materials increased at higher rates. In the imported goods group, the prices of petroleum products, coal, chemical fertilizers and chemical products increased at rapid rates.

3.13 It is more likely that the increasing prices of food products and petroleum products would exert pressure on the entire price inflation. As the pressure in the wholesale prices would ultimately affect the consumer price index, stabilizing the wholesale prices would remain an additional challenge in the pursuit of maintaining economic stability.

Table 3(e) : National Wholesale Price Index

(1999/00 = 100)

Percentage Change*

Group	Weight in percent	Fiscal Year				
		2003/04	2004/05	2005/06	2006/07	2007/08**
National	100.0	3.6	8.5	6.2	12.2	6.6
Agricultural Commodities	49.6	-1.2	7.6	4.7	19.9	4.9
Domestic Manufactured Goods	20.4	7.8	4.3	3.5	8.7	9.0
Imported Commodities	30.0	8.6	12.4	10.1	3.7	7.8

*Mid-March Y-o-Y, ** Provisional

Source: Nepal Rastra bank

National Salary and Wage Index

3.14 The year-on-year national salary and wage index increased by 9 percent in mid-March 2008 compared to the rise of 10.1 percent a year ago. Under the national salary and wage index, the salary index increased by 10.9 percent and the wage index increased by 8.4 percent. In the previous year, the salary index had increased by 6.2 percent while the wage index had increased by 11.4 percent. The increase in the salary index reflected mainly the salary increment of government officials in mid-July 2007. The increase in the wage index was on account of the wage increment in the industrial and construction sector.

Table 3 (f): National Salary and Wage Rate Index
(2004/05 = 100)

Percentage Change *

Groups/ Sub-groups	Weight in Percent	Fiscal Year			
		2004/05	2005/06	2006/07	2007/08**
Overall Index	100.0	9.8	4.3	10.1	9.0
1. Salary Index	27.0	8.6	0.4	6.2	10.9
1.1 Civil Service	2.8	20.0	0.0	10.0	23.5
1.2 Public Enterprises	1.1	11.4	4.4	6.7	8.8
1.3 Banks and Financial Institutions	0.6	0.2	10.0	3.0	50.5
1.4 Army and Police	4.0	19.7	0.0	11.4	9.3
1.5 Education	10.6	9.3	0.0	7.0	14.8
1.6 Private Organizations	7.9	0.0	0.0	1.3	-1.5
2. Wage Rate Index	73.0	10.03	5.7	11.4	8.4
2.1 Agricultural Laborers	39.5	10.5	7.3	10.9	6.0
2.2 Industrial Laborers	25.2	10.5	5.1	13.3	11.6
2.3 Construction Laborers	8.3	8.7	0.3	7.5	10.9

*Mid-march Y-o-Y, ** Provisional

Source: Nepal Rastra bank

Retail Prices of Some Major Goods

3.15 Among the retail prices of 10 agricultural products of daily consumption, the prices of all products except for the refined ghee and dry onion rose. In the food items, the price rise of the mustard oil was the highest. The price of mustard oil in the review period

increased by 32 percent, followed by rice, pigeon pea pulse and mutton. Region-wise, the price increment was highest in the hills, where the price hike of mustard oil was 28 percent. Besides, the pigeon pea pulse and mutton were the other items with the price hikes. In the Terai region, the price of mustard oil increased by 36 percent. Other major products with high prices included pigeon pea pulse and rice. Of the 10 major agricultural products, the prices of rice, pigeon pea pulse, mustard oil, potato and dry onion increased by 14.7 percent, 20.9 percent, 18.7 percent, 20.7 percent and 38.5 percent respectively in the first eight months of the current fiscal year compared to the same period last year.

Supply Situation

- 3.16 The supply of diesel increased by 9.3 percent to 198,420 kilolitres and the supply of kerosene decreased by 15.5 percent to 102,410 kilolitres in the first eight months of FY 2007/08. The supply of diesel and kerosene in the same period last year was 181,494 kilolitres and 121,191 kilolitres respectively. Similarly, the supply of petrol in the first eight months of FY 2007/08 increased by 9.0 percent to 67,768 kilolitres. In the same period last year, the supply of petrol was 62,180 kilolitres. The supply of LP gas increased by 6.7 percent to 67,768 MT in the first eight months of FY 2007/08 from the level of 62,180 MT a year ago. Similarly, the supply of furnace oil decreased by 12 percent to 2,320 kilolitres from the supply of 2,636 kilolitres a year ago. In the review period, the supply of aviation fuel increased by 11.9 percent to 46,243 kilolitres from 41,326 kilolitres a year ago.
- 3.17 The GON has started to fix the wholesale price (including VAT) for the petroleum products on the basis of the site of the Nepal Oil Corporation's storage point or the customs point since FY 2006/07. Arrangements have been made for the wholesale distribution of the petroleum products from Biratnagar, Birgunj, Amlekhgunj, Kathmandu, Pokhara, Bhairahawa, Nepalgunj, Surkhet, Dhangadi, Dipayal, Mahendranagar and Janakpur. In this system, the wholesale price and the retail price could differ from place to place. For example, the wholesale price of petrol per kilolitre is Rs 94,987.80 in Birgunj and Rs 99,100.63 in Dipayal. Average retail prices of petrol, diesel, kerosene, and LP gas in Kathmandu are Rs. 100 per liter, Rs. 70 per liter, Rs. 65 per liter and Rs. 1,200 per cylinder respectively.

- 3.18 As per the government policy to provide subsidy in the transportation of foods to the people of remote hilly districts, subsidy was provided on the air and land transportation of foods for 30 remote districts. In FY 2006/07, a total of 7,770 MT food was supplied to 30 remote hilly districts through transport subsidies, against the target of 7,838 MT. In the first eight months of FY 2007/08, a total of 6,987 MT of food has been supplied to 30 remote hilly districts against the target of supplying 4,700 MT. The annual supply target in FY 2007/08 is 8,930 MT.

Challenges

- 3.19 The price of petroleum product in the international market is increasing continuously. In this context, there is a need to implement concrete policy to ensure regular supply of petroleum products. The Nepal Oil Corporation, an authorized institution responsible for importing and distributing petroleum products, needs to be strengthened by curbing the leakages. Besides, a policy should be introduced encouraging private sector to import and distribute petroleum products. Also, a mechanism to automatically adjust petroleum prices with the international prices must be introduced. People must be encouraged to change their petroleum consumption habit so as to reduce its unnecessary use. Furthermore, there must be a distinction between the petroleum products used for the luxurious and personal uses and those used by general public as a bare necessity, and the necessary tax adjustments made by introducing the progressive tax on the basis of the uses of the product. There must be a management of mass transportation in the urban areas, especially under the concept of public-private partnership. However, for the medium and long-term, Nepal has no alternative of developing hydropower and alternative energy to reduce the increasing dependence on the petroleum products.
- 3.20 Currently, the world food price is increasing rapidly. According to the World Bank, the price of wheat increased by 181 percent in the last three years. Similarly the overall price of food items increased by 82 percent. Further, the stock of food products has remained at the lowest level since 1980. In the context that the food prices are increasing in Nepal too, it is likely that there will be huge pressure on future prices, especially; looking at the current level of storage capacity of Nepal. Also, as farmers store their produces in the Indian cities due to open border, there is double pressure on prices in Nepal.

To resolve this problem, there is a need to maintain a buffer stock of goods such as salt, oil, sugar, pulses and food items at different buffer zones developed under the involvement of government and private sector. Private sector has to be encouraged to establish at least one storage centre in each zone and sub-storage centre in the districts as per the need to store imported as well as domestic products. In addition, the government has to develop a mechanism to monitor the buffer stock in an effective manner.

- 3.21 Local products such as fruits, food products and cash crops lack proper market access. This has resulted in negative net output gain on the one hand and adversely affected the productivity due to dissatisfaction amongst the producers on the other. In this context, the cooperatives need to be mobilized in the collection and distribution of such items so as to increase their production and to productivity. Proper management and involvement of cooperatives could help in the supply management and help contain the price of the commodities in the market.
- 3.22 The effect of monetary expansion on inflation needs to be watched carefully. Since price stability is the major objective of monetary policy, there should no dichotomy towards the effective role of monetary management for this purpose. Therefore, it is necessary to show the result-oriented action to achieve price stability through monetary management. For this, the need is to further enhance the effectiveness of open market operations.

4. Money and Banking

Monetary Policy

- 4.01 Nepal Rastra Bank (NRB), as provided by the NRB Act 2002, has been formally announcing monetary policy on an annual basis since FY 2002/03. The policy accords top priority to maintaining monetary and external stability in order to lessen unnecessary fluctuations in business cycle. Monetary stability is also necessary to minimize the impact of inflation particularly on the poor and deprived people. In view of this fact, the NRB has assumed the responsibility of managing liquidity, keeping the expansion of monetary aggregates within the desired limit, and formulating and executing foreign exchange policy. In addition to the issues relating to internal and external sector stability, the NRB incorporates a number of policies and programs in monetary policy to ensure financial sector stability, payments system efficiency, and regulatory and supervisory standards.
- 4.02 The primary objectives of monetary policy are price stability and balance of payments consolidation. The NRB has devised the monetary policy framework keeping this in mind, and the commercial banks are regarded as the counterparty in the operation of monetary policy.

Box 4(a) : Existing Framework of Monetary Policy

Instruments	Operating Target	Intermediate Target	Ultimate Target
Bank Rate	Excess Reserve with Commercial Banks	Monetary and Credit Aggregates	Price Stability
Cash Reserve Ratio			External Stability
Open Market Operations			
Moral Suasion			

Source: Nepal Rastra Bank

- 4.03 The monetary policy for FY 2007/08 was made public on July 22, 2007. It is the sixth time that the monetary policy has been made public since the enactment of the NRB Act, 2002. The major policy objectives comprise maintaining internal and external stability along with the financial stability in order to create an environment for

higher sustainable economic growth. The central bank has taken liquidity management and overall macroeconomic stability as the policy stance for this year keeping in view the high liquidity and the risk element prevailing in monetary outlook. Given this, the primary objective has been to maintaining price stability avoiding any inflationary pressures that could come from monetary expansion and increment in aggregate demand.

- 4.04 The monetary policy estimated the consumer price inflation to remain within the limit of 5.5 percent assuming that there would be no change in the prices of petroleum products and that the supply management would remain undisturbed. The policy taking the BOP surplus as an indicator of external sector stability targeted such surplus at Rs. 8 billion for this year. The policy mentions that NRB would avail necessary liquidity in order to achieve 5.0 percent economic growth as projected in the budget statement of the GON. The growth rate of broad money supply (M2) projected for FY 2007/08 is 15.6 percent assuming economic growth rate 4.5-5.0 percent, broad money income velocity 1.5 percent, inflation 5.5 percent, and BOP surplus Rs. 8 billion.

Box 4(b) : Features of the Monetary Policy for FY 2007/08

1. Annual average consumer price inflation projected at 5.5 percent assuming that there would be no change in the prices of petroleum products and supply management would remain undisturbed,
2. The BOP surplus estimated at Rs. 8 billion,
3. Broad money supply growth projected at 15.6 percent,
4. Projected growth rate of domestic credit from the banking sector 17.1 percent,
5. No change in the CRR at 5.00 percent,
6. No change in the bank rate at 6.25 percent,
7. Refinance rate against export credit decreased by one percentage point to 2.5 percent from 3.5 percent earlier,
8. No change in refinance rate for rural development banks at 3.5 percent,
9. No change in refinance rate for sick industries at 1.5 percent,
10. Refinance rate for small and cottage industries reduced to 2.5 percent from 3.5 percent,
11. No change in the maximum period of repo auction and reverse repo auction at 28 days,

12. No change in the provision of providing standing liquidity facility to commercial banks for 5 days; however, the interest rate (also called penal interest rate) increased to 2.0 percent from 1.5 percent earlier,
13. Single borrower limit for micro- finance institutions increased to Rs. 60,000 from Rs. 40,000 and for that of micro enterprises to Rs. 150,000 from Rs. 100,000,
14. Commercial banks required disbursing 3.0 percent of total credit for the deprived sector in place of existing provision of up to 3.0 percent. This provision subsequently to be introduced for development banks and finance companies.

Operating Status of Monetary Instruments

4.05 The monetary policy for FY 2007/08 kept the bank rate and the cash reserve ratio (CRR) unchanged with some changes in refinance rates.

Table 4(a): Bank Rate, Refinance Rates and Cash Reserve Ratio

In percent

Instruments	2003/04	2004/05	2005/06	2006/07	2007/08
Bank Rate	5.5	5.5	6.25	6.25	6.25
Refinance Rates					
Export Credit					
-In Domestic Currency	4.5	3.0	3.5	3.5	2.5
-In Foreign Currency	2.0	2.0	3.25	3.25	3.25
Sick Industries	2.0	1.5	1.5	1.5	1.5
Small/Cottage Industries	-	-	-	3.5	2.5
Cash Reserve Ratio	6.0	5.0	5.0	5.0	5.0

Source: Nepal Rastra Bank

4.06 The NRB uses open market operations as an important tool of monetary management. Outright purchase and sale auctions as well as repo and reverse repo auctions introduced in FY 2004/05 have been continued. In course of liquidity management, Rs. 9.27 billion was mopped and Rs. 9.00 billion was injected (making net liquidity mopping of Rs 270 million) in the first eight months of FY 2007/08. While Rs. 9.00 billion was injected under repo auction, there was no transaction under outright purchase and repo auction. However, in the same period last year, a total of Rs 21.95 billion net liquidity was mopped under the outright sale auction and reverse repo auction.

Table 4(b) : Transactions in Open Market Operations

(Rs. in Million)

Particulars		2006/07		2007/08
		First Eight Months	Annual	First Eight Months
A	Liquidity Mopping	21950	32740	9270
	Outright Sale Auction	7890	18400	3700
	Reverse Repo Auction	14060	14340	5570
B	Liquidity Injection	0	2000	9000
	Outright Purchase Auction	0	0	0
	Repo Auction	0	2000	9000
C	Net Liquidity Mopped (A-B)	21950	30740	270

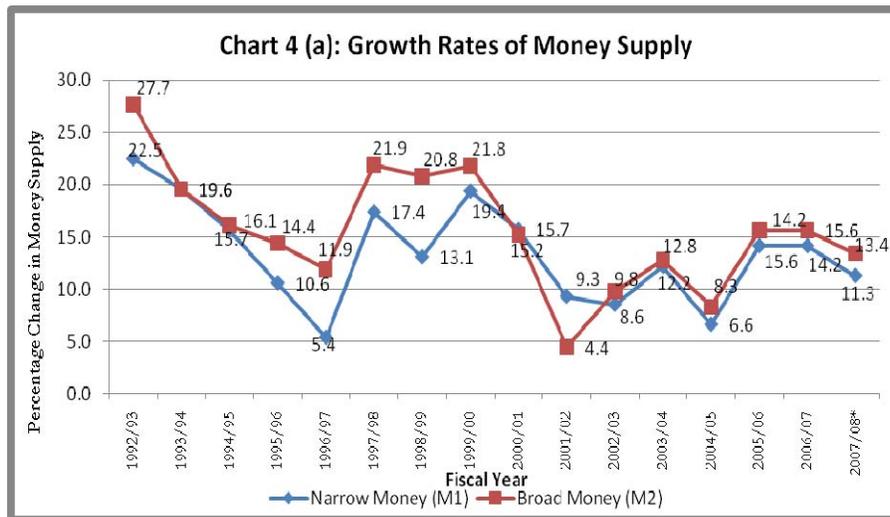
Source: Nepal Rastra Bank

- 4.07 Commercial banks experienced liquidity pressure in the seventh and eighth months of FY 2007/08 despite the excess liquidity at the beginning of the year. The liquidity pressure occurred due to the primary issue of shares by Agricultural Development Bank Limited (ADBL) and Nepal Telecom and the bonds by Nepal Electricity Authority. In addition, credit disbursement made at a cheaper rate on light vehicles, trust receipt loan, loan against shares, real estate, and housing contributed to liquidity pressure. The commercial banks have enhanced the interbank transactions in managing their liquidity in the review period. Interbank transaction of Rs. 190.82 billion was conducted in the first eight months of current year compared to that of Rs. 111.21 billion in the same period last year.
- 4.08 Standing Liquidity Facility (SLF) introduced in FY 2004/05 in order to facilitate the contingency payment system of commercial banks has been continued in FY 2007/08. Maximum period of this facility is 5 days. Under this facility, commercial banks have utilized short-term loan of Rs 72.50 billion in the first eight months of FY 2007/08 compared to Rs. 8.49 billion in the same period last year.
- 4.09 The NRB has been providing refinance facility to sick industries at the subsidized interest rate since FY 2001/02. The monetary policy for FY 2007/08 earmarked Rs. 2.00 billion for this program. However, only Rs. 60 million has been provided to two hotels until May 18, 2008 under this facility. In FY 2006/07, a total of Rs. 241.9 million was used under this facility. The refinance rate for sick industries is fixed at 1.5 percent whereas the (BFIs) could charge up to 4.5 percent.

4.10 Short-term interest rates have increased compared to that in the previous year. In the review period, the weighted average monthly interest rate of 91 days treasury bills increased to 5.54 percent from 2.36 percent in the same period last year. Monthly interbank interest rate also saw the sharp rise to 5.07 percent from 1.39 percent in the previous year. The upside swing in the interest rates is attributed to the liquidity pressure observed in the middle of the year. Despite the sharp rise in t-bills rate and interbank rate, there has not been any noticeable change in deposit and credit rates. Commercial banks' saving deposit rate ranges from 2.0 percent to 5.5 percent, and fixed deposit rate from 2.75 percent to 6.75 percent. These banks charge interest rate of minimum 7.0 percent to maximum 13.0 percent for industrial credit and 8.0 percent to maximum 13.5 percent for commercial credit.

Monetary Aggregates

4.11 Narrow money (M1) expanded by 13.5 percent in the first eight months of FY 2007/08 compared to 11.4 percent growth in the same period last year. The higher monetary growth is due to the expansion of the net foreign assets and domestic credit.



4.12 Net foreign assets (adjusting foreign exchange valuation gain/loss), one of the expansionary factors in money supply, increased by 10.3 percent in the first eight months of review period compared to the rise of 8.8 percent in the same period in the previous year. The expansion in foreign assets resulted from high increase in inward remittances and foreign assistance in the eighth month of the review period. The

net domestic asset increased by 15.2 percent in the review period. It had increased by 13.1 percent in the same period last year. Narrow Money (M1), a component of the broad money (M2), increased by 11.3 percent compared to 5.7 percent rise in the same period last year. Time deposit, another component of M2 increased by 14.4 percent in the review period compared to 14.1 percent in the previous year. Currency in circulation increased by 13.9 percent compared to 6.3 percent rise last year. This is mainly due to the expenses on conflict management and large remittance inflows.

Table 4(c) : Factors Affecting Money Supply

Rs. Million

SN	Heads	First Eight Months			
		2006/07		2007/08*	
		Amount	Percentage	Amount	Percentage
1	Net Foreign Assets@	12284.9	8.8	13632.7	10.3
2	Net Domestic Assets@	27142.4	13.1	39451.1	15.0
3	Domestic Credit	11922.1	3.7	47735.3	13.2
4	<i>Domestic Credit#</i>	27946.2	8.7	31712	13.2
5	Net Claims on Government	-8206.7	-11.6	-537.2	-0.7
	<i>a. Claims on Government</i>	4727.0	6.7	3805.4	4.7
	<i>b. Govt. Deposits</i>	12933.7		4342.6	139.1
6	Claims on Govt. Enterprises	-35.4	-0.6	-612.6	-9.0
	<i>a. Financial</i>	-132.7	-7.3	-99.9	-5.8
	<i>b. Non Financial</i>	97.3	2.1	-512.7	-10.0
7	<i>Claims on Non-Financial Govt. Enter.</i>	10106.1	569.8	2101.7	110.1
8	Claims on Private Sector	10058.2	4.1	46783.5	17.1
	<i>Claims on Private Sector #</i>	26082.0	10.7	30760.0	17.1
9	Net-Non Monetary Liabilities@	-15220.3	-13.2	8284.1	8.5
	<i>Net-Non Monetary Liabilities#</i>	803.5	0.7		8.0
10	Broad Money, M ₂ (11+12)	39427.3	11.4	53083.8	13.4
11	Narrow Money, M ₁	6433.9	5.7	14327.4	11.3
	<i>a. Currency</i>	4863.8	6.3	11608.1	13.9
	<i>b. Demand Deposits</i>	1570.0	4.5	2719.6	6.3
12	Time and Saving Deposits ±±	32993.3	14.1	38756.4	14.4

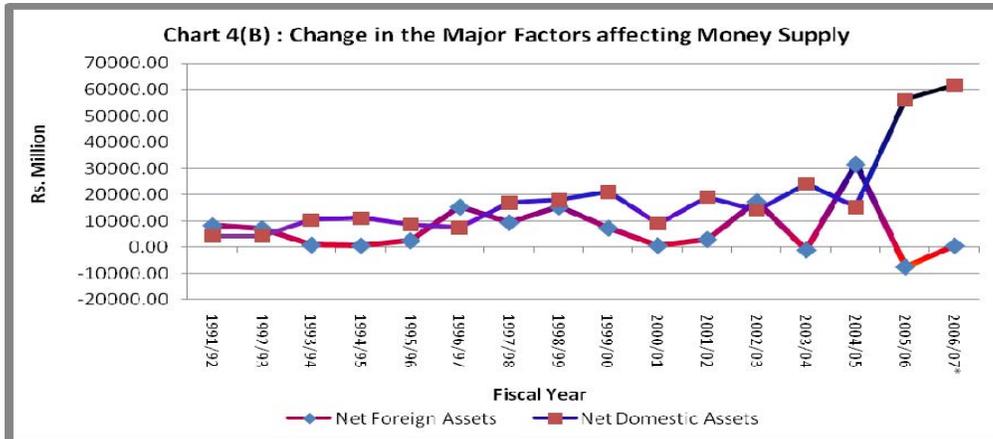
* Provisional, @ Adjustment of exchange valuation gain/loss

Adjusting credit write-off of Rs 11.05 billion in the series of Mid-July 2006 and credit write-off of Rs 2869.3 million (Rs 821.7 million principal and Rs 2047.6 million interest) as at mid Oct-2006 by Nepal Bank Ltd. and Rs 13.2 billion (Rs 4055.2 million principal and Rs 9099.3 million interest) by RBB as at mid Dec-2006

// Included consolidated Balance sheet of ADB/N, ++ Including Margin Deposits

Source: Nepal Rastra Bank

4.13 Total domestic credit, another factor creating expansionary effect in money supply increased by 13.2 percent in the review period compared to 3.7 percent growth in the previous year. It increased due to the expansion of the private sector credit. The net claim of the banking sector decreased by 0.7 percent in the review period compared to the 11.6 percent decline last year. This is decreased by the lower rate because of the increase in government expenditure more than the increase in resource mobilization.



4.14 The claim on non-financial government enterprises decreased by 10.0 percent in the review period compared to an increase of 2.1 percent in the same period last year. This is due to the loan payment made partially by Nepal Oil Corporation (NOC), Nepal Food Corporation (NFC), Nepal Airlines Corporation (NAC) and National Trading Limited (NTL).

4.15 Credit to the private sector, the major component of domestic credit increased by 17.1 percent in the first eight months of FY 2007/08. It had increased by 10.7 percent in the same period last year.

4.16 Net non-monetary liabilities, the factor contracting the money supply, increased by 8.0 percent in the first eight months of FY 2007/08. This is attributed to the increased paid up capital requirement for the bank and financial institutions.

4.17 Reserve Money increased by 11.9 percent in the review period compared to the rise of 5.5 percent in the previous year. The increase in net foreign assets of NRB contributed to the high growth rate in the reserve money.

Table 4(d) : Change in the Reserve Money

(Rs. In Million)

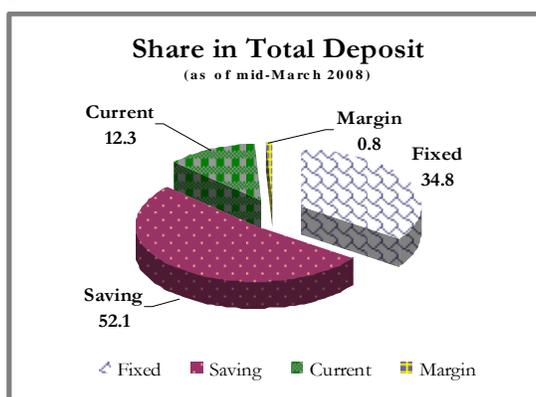
	July 2006	March 2007	July 2007	March 2008*	In the first eight months/ percent change	
					2006/07	2007/08
Reserve Money	11,0898	11,6992	11,9342	13,3529	5.5	11.9
M1 Multiplier	1.020	1.021	1.062	1.058	0.2	-0.4
M2 Multiplier	3.127	3.302	3.312	3.360	5.6	1.4

* estimated

Source: Nepal Rastra Bank

Deposit, Liquidity and Loans

4.18 Deposit collection, the major source of resource mobilization for commercial banks, increased by 12.3 percent in the first eight months of FY 2007/08. Its growth rate was also 12.3 percent in the same period last year. The higher deposit growth is attributed to remittance inflow. In the review period, saving deposit mobilized



increased by Rs 21.23 billion (51.6 percent) followed by fixed deposit of Rs. 16.53 billion (40.2 percent) in the total deposit. The credit-deposit ratio remained higher with 87.0 percent in the review period compared to such ratio of 82.1 percent in the same period last year.

Table 4(e) : Deposits, Liquidity and Loans of Commercial Banks

(Rs. in Million)

S.N.	Details	In the first eight months			
		2007/08		2007/08	
		Amount	Percent	Amount	Percent
1	Total Deposits	35798	12.3	41136	12.30
	1.1 Demand	1946	5.4	3664	8.6
	1.2 Savings	13719	9.0	21232	12.2
	1.3 Fixed	20253	20.2	16531	14.5
	1.4 Margin	-120	-4.8	-291	-9.4

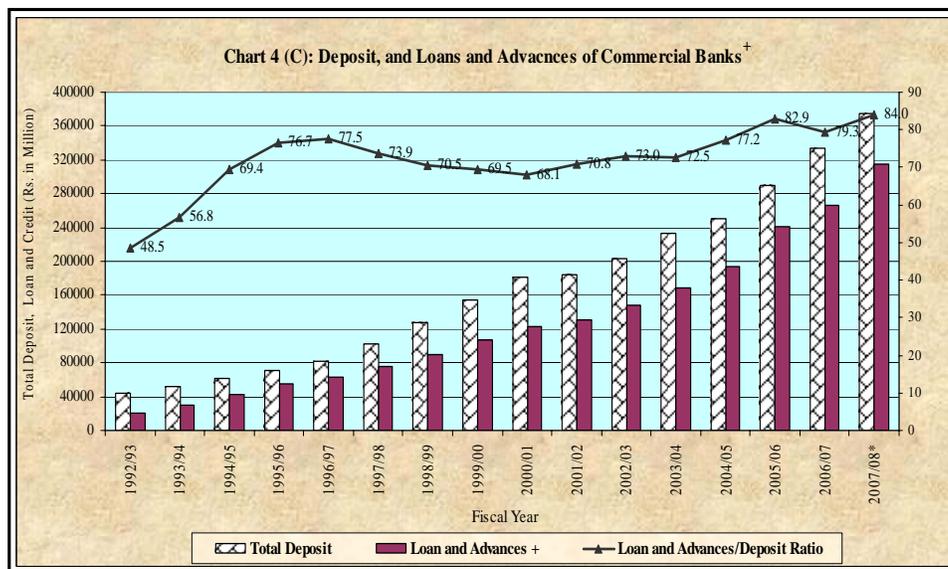
2	Liquid Funds	3934	6.4	4407	6.8
3	Loans and Advances	16520	5.4	46694	13.7
	Loans and Advances#	32543	10.6	46694	13.7
	3.1 Claims on government	-2287	-3.9	-5509	-8.4
	3.2 Claims on non-financial public enterprises	97	2.1	-513	-10.0
	3.3 Claims on financial enterprises	10266	403.6	2164	74.0
	3.4 Claims on private sector	8687	3.6	50270	18.9
	3.5 Claims on private sector#	24710	10.3	50270	18.9
	3.6 Foreign bills purchased	-243	-19.2	282	25.3

* Estimated

Adjusting credit write-off by Nepal Bank Limited and Rastriya Banijya Bank in FY 2006/07

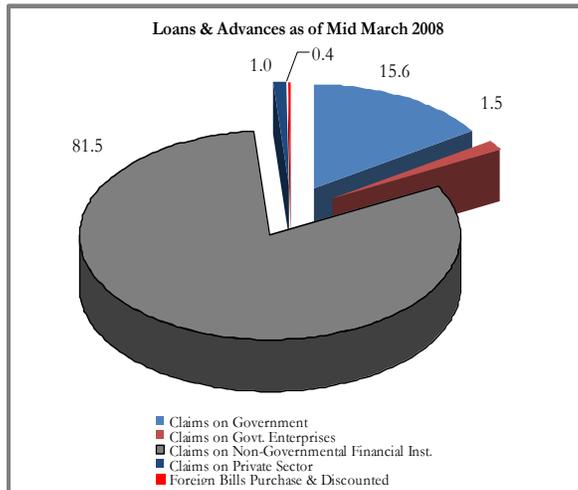
Source: Nepal Rastra Bank

- 4.19 The growth rate of liquid funds of the commercial banks remained 6.8 percent in the first eight months of FY 2007/08 compared to 6.4 percent growth in the corresponding period last year. Liquidity/Deposit ratio of commercial banks declined to 34.6 percent in mid-March 2008 from 37.5 percent a year ago. The higher rate of increase in the private sector credit contributed to the decline in the liquidity/deposit ratio in the review period.



* First eight months. The claims on government is not included in loan and advances to deposit ratio

4.20 In the first eight months of FY 2007/08, total resource mobilization of the commercial banks increased by Rs. 51.1 billion while credit to the private sector by Rs. 50.27 billion. Consequently, the total claims of commercial banks to private sector increased by 18.9 percent compared to 10.3 percent increase in the corresponding period last year. The



establishment of additional bank and financial institutions along with diversification in their credit portfolio through the identification of new areas of investment contributed to the increase in private sector credit. In the review period, commercial banks disbursed Rs. 10.99 billion (23.1 percent) in productive sector, Rs. 7.35 billion (15.5 percent) in construction, and Rs. 6.51 billion (13.7 percent) in wholesale and retail trade. Also Rs. 4.84 billion (9.9 percent) in real state sector, Rs. 2.24 billion (4.7 percent) in service sector like tourism, education and health and Rs. 10.29 billion (21.7 percent) in miscellaneous items including margin lending was disbursed.

Financial Sector Expansion

4.21 Financial sector of the country has intensified and deepened during the past one year. In this period, three commercial banks, 21 development banks, 9 finance companies and 1 micro-finance development bank were established. Consequently, the number of commercial banks, development banks, finance companies and micro-finance development banks reached 23, 58, 79, and 12 respectively in April 2008. In addition, the number of branches of commercial banks has also increased in this period. With this, the outreach of the banking services has increased, with the average population served by one bank branch reduced to 46 thousand compared to 48 thousand a year ago and 58 thousand two years ago.

Table 4(f) : Number of Banks and Financial Institutions

Banks and Financial Institutions	Mid-July 2006	Mid-July 2007	Mid-April 2008
Commercial Banks	18	20	23
Development Banks	29	38	58
Finance Companies	70	74	79
Micro Finance Institutions	11	12	12
NRB Licensed Cooperatives (performing limited banking transactions)	19	17	16
NRB Licensed NGOs (performing micro-finance activities)	47	47	47

Source: Nepal Rastra Bank

- 4.22 Other indicators also support the fact that financial expansion has increased the financial outreach. Per capita deposit reached Rs. 10 thousand in mid-April 2007 from Rs. 12 thousand a year ago. Similarly, per capita credit to private sector increased to Rs. 12 thousand from that of Rs. 10 thousand in the same period. The widely used indicator of financial deepening, Broad Money to GDP ratio, reached 55 percent in mid-April 2008 from 53 percent a year ago.

Table 4(g) : Some Indicators of Financial Expansion and Deepening

	Mid-April 2007	Mid-April 2008
Commercial Banks Branches	546	591
Population per Branch	48,300	45,700
Deposit of Commercial Banks (Rs. in Million)	31,997	39,042
Per Capita Deposit (Rs.)	12,120	14,460
Credit of Commercial Banks (Rs in Million)	25,948	31,814
Per Capita Credit (Rs.)	9829	1,1783

Source: Nepal Rastra Bank

Branch Expansion of Commercial Banks

- 4.23 The number of branches of commercial banks reached 596 in mid-April 2008, from 546 a year ago. The expansion of branches has been intensified with the establishment of new commercial banks. With the

increased competition in the financial sector, commercial banks started to undertake the measure of branch expansion not only to expand the market but also to secure their market share.

Table 4(h) : Commercial Bank Branches

Banks	Mid-July 2006	Mid-July 2007	Mid-April 2008
Nepal Bank Ltd.	102	96	99
Rastriya Banijya Bank	114	114	114
NABIL Bank	16	17	26
Nepal Investment Bank	13	14	18
Standard Chartered Bank	9	10	13
Himalayan Bank	16	15	16
Nepal SBI Bank	13	16	18
Nepal Bangladesh Bank	17	17	17
Everest Bank	19	20	23
Bank of Katmandu	10	13	17
Nepal Credit and Commerce Bank	17	17	17
Nepal Industrial and Commercial Bank	10	10	12
Lumbini Bank	6	5	5
Machhapuchhre Bank	12	12	13
Kumari Bank	5	8	10
Laxmi Bank	5	9	13
Siddhartha Bank	4	5	7
Agriculture Development Bank	147	147	147
Global Bank	0	1	3
Citizens Bank	0	0	5
Prime Commercial Bank	0	0	1
Sunrise Bank Limited	0	0	1
Bank of Asia	0	0	1
Total	535	546	596

Source: Nepal Rastra Bank

Improvement in Non-Performing Loans

4.24 The Non-Performing Loans (NPLs) of commercial banks subsequently decreased in the light of the effective regulation and supervision by the NRB. Also, the motive of commercial banks making themselves efficient and healthy in the emerging competitive environment helped to reduce the NPLs.

Table 4(i) : Status of Non-Performing Loans of Commercial Banks

(Rs. In Million)

<i>Commercial Banks</i>	2005/06		2006/07		2007/08		Mid-Jan 2008	
	NPL	Percent	NPL	Percent	NPL	Percent	NPL	Percent
Nepal Bank Ltd.	8372	49.6	3234	25.1	2008	14.6	2243	14.0
Rastriya Banijya Bank	1,3689	53.0	1,2314	45.3	6719	26.4	6792	27.0
Nabil Bank	145	1.3	166	1.3	178	1.1	216	1.1
Nepal Investment Bank	281	2.7	303	2.3	376	2.1	376	1.7
Standard Chartered Bank	226	2.7	195	2.1	197	1.8	179	1.5
Himalayan Bank	1001	7.4	979	6.1	630	3.5	657	3.2
Nepal SBI Bank	441	6.5	520	6.3	46	0.5	512	4.3
Nepal Bangladesh Bank	1833	19.0	1040	12.3	3218	35.1	3829	38.7
Everest Bank	129	1.6	122	1.2	107	0.8	109	0.6
Bank of Kathmandu	309	5.0	190	2.5	214	2.2	289	2.4
Nepal Credit and Commerce Bank	519	8.6	656	11.1	1569	30.6	1362	25.8
Lumbini Bank	561	15.2	1402	32.0	981	19.8	822	14.9
Nepal Industrial and Commercial Bank	185	3.8	173	2.6	100	1.1	89	0.8
Machhapuchhre Bank	20	0.4	17	0.3	82	1.1	137	1.7
Kumari Bank	54	1.0	54	0.9	66	0.7	97	0.8
Laxmi Bank	44	1.6	28	0.7	23	0.4	25	0.3
Siddhartha Bank	68	2.6	52	1.3	22	0.3	26	0.3
Agricultural Development Bank	-	-	5326	21.2	5647	16.5	6602	18.6
Total	27,878	18.94	26,771	14.22	22,183	9.65	24,360	8.98

Source: Nepal Rastra Bank

Sources and Uses of Fund of Other Financial Institutions

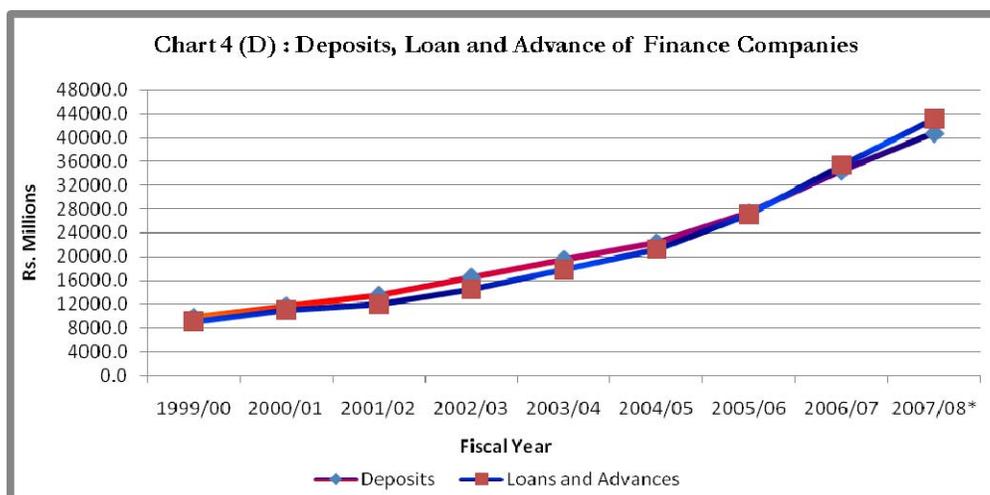
Development Banks ("B" Class Financial Institutions)

4.25 Total assets/liabilities of development banks increased, from that of mid-July 2007, by 8.9 percent to Rs. 27.54 billion in mid-January 2008. This is attributed to the entry of new development banks in the industry. Total deposit of these banks amounted to Rs. 20.84 billion and total credit amounted to Rs. 17.67 billion in mid-January 2008.

Finance Companies ("C" Class Financial Institutions)

4.26 Total resources of finance companies increased by 27.2 percent to Rs. 67.44 billion in the first six months of FY 2007/08 compared to 15.8 percent in the same period last year. While deposit of these

companies increased by 18.4 percent, loans and advances increased by 22.1 percent in the first six months of FY 2007/08.



Micro-Finance Development Banks ("D" Class Financial Institutions)

4.27 Of the 12 micro-finance institutions, Rural Micro-finance Development Centre and Small Farmers Development Bank are the wholesale lending institutions while the remaining 10 institutions are involved in direct micro-credit activities. Total fund of these institutions increased by 13.6 percent to Rs. 11.99 billion in the first six months of FY 2007/08. In the first six months of FY 2007/08, total deposit of these development banks grew by 30.2 percent to Rs. 1.32 billion, borrowing by 5.2 percent to Rs. 7.56 billion and capital fund by 12.6 percent to Rs. 1.19 billion compared to the same period last year. On the uses front, liquid funds amounted to Rs 870 million with negative growth rate of 49.8 percent, investment increased by 36.2 percent to Rs. 3.20 billion and loan and advances rose by 15.6 percent to Rs. 6.44 billion.

Rural Micro-Finance Development Centre

4.28 The Rural Micro-finance Development Center was established in 1998 with a view to provide wholesale credit to the institutions undertaking micro-credit activities like development banks, cooperatives, and NGOs. It approved loan Rs. 610 million in the first eight months of current fiscal year. Credit disbursement and collection in the review period stood Rs. 433.1 million and Rs. 352.6 million respectively. The outstanding loan remains Rs. 1.22 billion in the review period.

Small Farmers Development Bank

- 4.29 The Small Farmers Development Bank, established in 2001 with joint share investment of the GON, ADBL, NBL, Nabil Bank Ltd. and small farmer's cooperatives has been providing wholesale loans to the small farmer's cooperatives. The number of such cooperative was 219 in mid-March 2008 as in the previous year. The Bank has disbursed credit of Rs. 537.5 million by mid-April 2008 with the collection of Rs. 467.4 million by the same period. Total loan outstanding amounted to Rs. 1.45 billion in mid-March 2008 .

Rural Development Banks

- 4.30 Out of the "D" class development banks, five Rural Development Banks are established one each in five development regions under the joint ownership of the GON, the NRB and private sector. These banks have been providing financial resources to the deprived class women in-groups for engaging them into various types of income generating works. By mid-January 2008, these banks have provided micro credit facility without collateral to 155,953 women out of total 168,985 women as members in the 36, 399 groups in 1053 VDCs of 47 districts and assisted them to undertake economic activities mobilizing local resources and skills. Since the establishment, these banks have disbursed a total loan of Rs 14.97 billion. Of this, Rs 13.61 billion has been recovered, while there is an outstanding of Rs 1.36 billion. By mid-January 2008, participating members have deposited Rs 407.9 million in-group savings and Rs. 94.9 million in personnel savings thus total savings deposit has reached Rs 502.9 million. As of mid-January 2008, total number of staff working in these banks was 961.
- 4.31 The Eastern Region Rural Development Bank, established in 1992, has disbursed a total loan of Rs. 5.44 billion to 57,734 clients in 6 districts by mid-January 2008. Out of the total credit disbursed, Rs. 5.04 billion was recovered while Rs 404.4 million remained outstanding in mid-January 2008.
- 4.32 The Central Region Rural Development Bank, established in 1996, has has disbursed a total loan of Rs. 3.01 billion to 41,797 clients in 14 districts by mid-January 2008. Out of the total credit disbursed, Rs. 2.69 billion was recovered while Rs 320.7 million remained outstanding in mid-January 2008.

- 4.33 The Western Region Rural Development Bank, established in 1994, has disbursed a total loan of Rs 4.27 billion to 32,971 clients of 14 districts of the region by mid-January, 2008. Out of total credit disbursed, Rs. 3.99 billion was recovered while Rs 369.7 million remained outstanding in mid-January 2008.
- 4.34 The Mid-Western Region Rural Development Bank, established in 1994, has distributed total loan worth Rs 1.12 billion to 14,510 clients of 5 districts of the region by mid-January, 2008. Out of the total credit disbursed, Rs. 994.3 million was recovered while Rs 121.9 million remained outstanding in mid-January 2008.
- 4.35 The Far-Western Region Rural Development Bank, established in 1992, has disbursed total loans of Rs 1.14 billion to 8,941 clients of 8 districts of the region by mid-January 2007. Out of the total credit disbursed, Rs. 991.7 million was recovered while Rs 145.3 million remained outstanding in mid-January 2008.
- 4.36 In addition to the rural development banks, there are other 5 development banks (Nirdhan Utthan Bank, Chhimek Development Bank, Swabalamban Development Bank, Deprosc Development Bank and Nerude Financial Institution) working as grameen replicators. They have disbursed total loans of Rs 10.63 billion to 197,556 clients through 50,737 groups of 10,492 centres in various districts of the country by mid-January 2008. By this date a total of Rs 9.06 billion has been recovered, while Rs. 1.57 billion is outstanding. By mid-January 2008, participating members have deposited Rs 216.3 million in-group savings and Rs. 112.8 million in personnel savings thus making total savings deposit of Rs 329.1 million. By mid-January 2008, total number of staff working in various offices of these banks was 884.

Rural Self-Reliance Fund

- 4.37 The Rural Self-Reliance Fund, established in 1990, is the first of such institutional arrangement for the benefit of rural deprived people who do not have access to the institutional credit. It has been providing wholesale loans to rural area-based NGOs/cooperatives and also helping for the economic and social development of the targeted people with the maximum utilization of local resources, instruments and skill. To uplift the deprived class, there is a provision of providing Rs 40 thousand, Rs 50 thousand and Rs. 60 thousand per individual on first, second, and third occasions respectively.

4.38 The GON and the NRB have provided the Fund with the seed capital of Rs. 90.0 million and Rs.253.4 million respectively. The size of the Fund loan to the associate institutions is tailored to their primary capital (share capital, general reserve and profit). Accordingly, the first time loan is provided up to 20 times, and second and third time loan up to 15 times of the primary capital. Disbursement of such loan is made in the amount of Rs. 1.5 million as the first installment, up to Rs.2 million as the second and up to Rs. 2.5 million as the third and final installment.

Tabel 4 (j): Transactions of Rural Self-Reliance Fund

<i>Particulars</i>	<i>Mid-July 2006</i>	<i>Mid-July 2007</i>	<i>Mid-January 2008</i>
Total districts covered	47	48	50
No. of participating institutions	250	277	305
No. of benefited families	9949	12288	13420
Credit disbursed (Rs. in Million)	101.3	132.6	161.5
Loan collected (Rs. in Million)	68.5	81.2	89.8
Credit Outstanding (Rs. in Million)	32.8	51.4	71.7
Overdue Credit (as percent of total outstanding)	8.4	8.5	9.0
Repayment Rate (in percent)	91.6	91.5	91.0

Financial Cooperatives

4.39 Total financial resources of the NRB-licensed cooperatives has increased by 2.2 percent to Rs 3.66 billion in the first six months of FY 2007/08. By mid-January 2008, deposit and credit occupying the major shares in sources and uses of funds of these institutions increased to Rs 2.56 billion and Rs 2.35 billion respectively. Besides, the number of cooperatives registered in the Cooperative Department of the GON stood 3,392 in mid-July 2007.

Tabel 4(k): Highlights of the Activities of Saving and Credit Cooperatives (July 2007)

<i>Number of Cooperatives</i>	3,392
<i>Number of Members (in thousand)</i>	403
<i>Savings (Rs. in million)</i>	8,963
<i>Loans and advances (Rs. in million)</i>	15,098

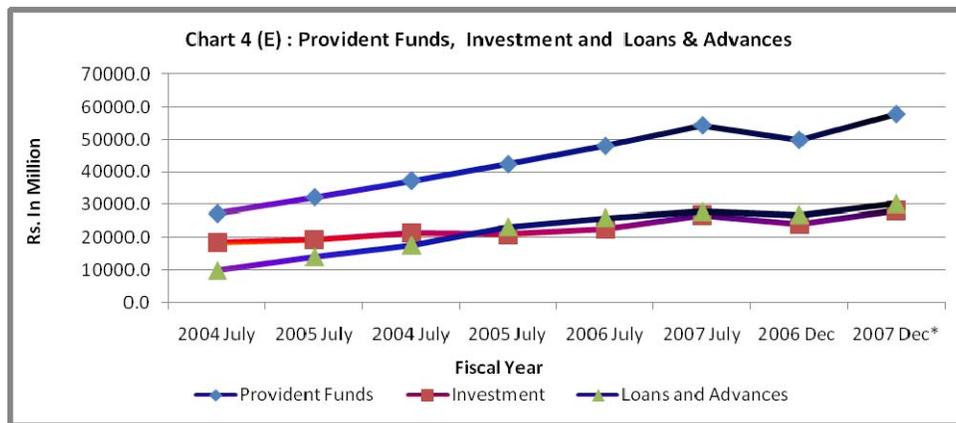
Source: GON, Ministry of Agriculture, Cooperatives Department.

Non-Bank Financial Institutions

4.40 Non-bank institutions include Employees Provident Fund (EPF), Citizen Investment Trust (CIT) and Insurance companies. The sources and uses of fund of these institutions are as follows.

Employees Provident Fund

4.41 The total sources/uses of fund of EPF reached Rs 62.41 billion in mid-January 2008. Of this, Rs. 57.97 billion comprises provident fund on the sources side and loan, and investment Rs 30.42 billion and Rs. 28.26 billion respectively on the uses side. The EPF disbursed Rs 4.72 billion and collected loan of Rs. 2.30 billion in the first nine months of FY 2007/08. The outstanding credit was Rs 31.81 billion as of mid-April 2008.



Citizen Investment Trust

4.42 The contribution of the Citizen Investment Trust in total financial assets has increased in the last few years due to the considerable increase in its fund collection and investment. Its total assets/liabilities is estimated to increase by 10.7 percent to Rs 10.53 billion in FY 2007/08 compared to the growth of 31.7 percent a year ago. Fund collection is estimated to increase by 9.9 percent to Rs 9.42 billion in FY 2007/08 compared to 27.6 percent a year ago. Investment occupying the largest share is estimated to increase by 10.0 percent to Rs 7.26 billion in assets side compared to 28.5 percent growth a year ago. Loans and advances of the trust is estimated to increase by 10.2 percent to Rs 1.12 billion compared to an increase of 37.4 percent a year ago. Liquid assets increased by 18.1 percent last year. This year, it is estimated to increase by 10.5 percent to Rs 1.13 billion.

Insurance Companies

4.43 There are 22 insurance companies in operation as of mid-May 2008. Of these, 5 are life, 16 are non-life, and one deals with both life and non-life. From the ownership perspective, three of the companies are foreign, four are joint ventures, 14 are established by the private sector and one is under the government ownership. Premium collection of all these companies is estimated to increase by 17.8 percent to Rs 8.55 billion in FY 2007/08. The portion of life and non-life insurance is 59.0 percent and 39 percent respectively. Amount collected as premium has been invested in government bonds, fixed deposit and other kinds of assets. Investment of life insurance companies, which had increased by 23.0 percent last year, is estimated to increase by 11.5 percent to Rs 22.08 billion in FY 2007/08. Investment of non-life insurance companies, against the decline of 13.2 percent last year, is estimated to increase by 68.8 percent to Rs 5.42 billion this year. Total investment of the insurance companies is estimated to grow by 19.5 percent to Rs. 27.51 billion in the current fiscal year compared to a growth of 16.2 percent last year.

Deposit and Credit Guarantee Corporation

4.44 Deposit and Credit Guarantee Corporation was established in 1974 with a view to encourage commercial banks shift their resources to the priority sector in remote areas and to the doorsteps of the poor people. Accordingly, it provides guarantees to priority sector loans, livestock, vegetables crop, foreign employment loans, and small and medium-scale industry loan. The Corporation had guaranteed total loan Rs 434.3 million as of mid-January 2008. It was Rs 793.5 million in the same period last year., Guaranteed loan amount has decreased gradually as the priority sector lending by commercial banks has been phased-out.

Postal Savings Bank

4.45 Postal Savings Bank under Postal Services Department of the GON has collected Rs 706.7 million through its 117 offices by mid-April, 2008. There were 29,887 savings accounts in operation by this date. It has extended loan of Rs 798.4 million through its 54 loan operating offices. Savings collection and loan investment of the Bank as of mid-July 2007 were Rs 700.2 million and Rs 556.1 million respectively.

Credit Information Bureau

4.46 Credit Information Bureau established in 1990 with the initiation of the NRB collects information about borrowers, provides such information to bank and financial institutions, and prepares a list of blacklisted borrowers. Ownership of this Center rests with the NRB, commercial banks, development banks, and finance companies with their respective share of 10 percent, 60 percent, 15 percent, and 15 percent respectively. There were 2,223 blacklisted borrowers as of mid-April 2008.

Financial Sector Reform Program

4.47 The Financial Sector Reform Program (FSRP) is in operation in order to make the financial system healthier and efficient. It was launched to improve the financial position along with steer the managerial reform of the two state-owned commercial banks, namely, Rastriya Banijya Bank (RBB) and Nepal Bank Limited (NBL) and to strengthen the capacity of NRB as a central bank to ensure financial stability alongwith the expansion of the system. The GON introduced the reform program after making Financial Sector Reform Strategy Paper public in November 2000. The objective of the FSRP is to develop a healthy, competent, efficient and professional financial sector in order to enhance the role of this sector for overall economic development. There are mainly three components of FSRP implemented under the loan and grant assistance of the World Bank and Department for International Development (DFID) of the British government as well as the GON. The reform program includes: (a) re-engineering of NRB, (b) restructuring of NBL and RBB, and (c) capacity building of the overall financial sector.

Box 4(c) : Reengineering of Nepal Rastra Bank

Reengineering of NRB is under implementation to develop it as a sound and efficient central bank in consonance with the development of financial sector and changing environment. To attain this objective, programs like developing human resource, strengthening regulatory and supervisory capacity of the NRB, restructuring its organizational structure, standardizing auditing and accounting system as per international standard and simplifying as well as mechanizing the functions have been undertaken. The second phase of reengineering programme of NRB is currently implemented after completing the first phase programmes under the FSRP. In order to enhance efficiency and smoothen the activities of the Bank, increase the productivity of

employees and provide qualitative service with the right size of the employees, compulsory retirement system is in continuous operation after adopting the three phases of the voluntary retirement schemes. Necessary amendments have been made in a timely manner in the Employees By-laws introduced in 2005. All these efforts have contributed to maintain an appropriate level of human resource at the Bank.

Also, one international human resource advisor is working to implement the policies recommended by the IOS Partners. Activities relating to human resource planning, training and development as well as to find out the level of manpower for the human resource development are in implementation. The term of the consultant was extended until June 26, 2008. In addition, a team of seven Chartered Accountants appointed under the FSRP has finished its task. It is decided to implement recommendations made by this team.

Source: Nepal Rastra Bank

- 4.48 Under the financial sector reform program, the management of the NBL was handed over to a team of ICC Consulting group from Bank of Scotland (Ireland) on July 22, 2002. The contract was extended first time for one year effective from July 22, 2004 and second time for further two years from July 22, 2005. Similarly, the contract period of the consultants of the management team of the RBB has been extended on different occasions. The term of the management team was initially for two years from January 16, 2003. Later, the term was extended for one year from January 16, 2005 and again, it was extended for another two years from January 16, 2006

Box 4(d) : Restructuring of Nepal Bank Limited and Rastriya Banijya Bank

NRB has taken over the control of the NBL in accordance with the Section 86 (c) of NRB Act 2002. A three member management team from the NRB was put in place after the expiry of the contract with ICC Consulting of the Bank of Scotland (Ireland) on July 21, 2007. However, the process for recruiting a qualified Nepali as the CEO of the bank has been initiated keeping in view the fact that central bank's management in its own regulated institutions should not be for long time. Also the decision has been made to appoint three management experts in the team under the recommendation of the CEO and NRB has been assumed to take the initiative to request the World Bank to provide grant assistance for the remuneration of the newly recruited management team. Similarly, the contract of the management team of the RBB was extended on different occasions until January 15, 2008. And lately, the contract has

been extended for nine months from January 2008 with the consent of the World Bank and NRB has been assumed to take initiative to further extend the period of the team by another 15 months until January 2010. Both of these restructuring banks have been generating net profit since FY 2003/04, have reduced the negative capital fund, implemented international practices to maintain financial stability, and have formulated and implemented internationally accepted practices. However, there has been less than satisfactory progress in reducing bad debts and increasing capital fund.

Source: Nepal Rastra Bank

- 4.49 Nepal Bank Limited, suffering a huge annual loss since 1999, reduced the loss and limited it to Rs. 250 million in FY 2002/03. In the subsequent years, NBL succeeded to earn profit of Rs 710.0 million, Rs 1.73 billion, Rs 1.21 billion, and 230.0 million respectively. The net profit of the bank stood Rs. 70.0 million as of mid-January 2008.
- 4.50 Against the loss of Rs 7.07 billion in FY 2001/02 and Rs 4.84 billion in FY 2002/03, Rastriya Banijya Bank earned profit of Rs 1.04 billion, Rs 1.32 billion, Rs 1.62 billion and Rs 1.68 billion in FY 2003/04, FY 2004/05, FY 2005/06 and FY 2006/07 respectively. In the first six months of the current fiscal year, the Bank earned a profit of Rs 380 million.
- 4.51 Both the NBL and RBB have reduced the negative capital funds under the restructuring program. However, it is far beyond reaching the benchmark capital adequacy.

Table 4(1) : Negative Capital Fund

(Rs in billion)

<i>Mid-July</i>	<i>Nepal Bank Limited</i>	<i>Rastriya Banijya Bank</i>
2003	9.8	22.39
2004	8.9	21.0
2005	7.16	20.0
2006	6.3	18.59
2007	6.25	17.21
Mid-Jan 2008	6.18	16.83

Source: Nepal Rastra Bank

- 4.52 Even though the non-performing loans of these banks have not come down at the expected level, their portion in total loans have come down gradually. Bad loans written off by these two banks contributed

to decrease the NPL ratio in FY 2005/06. Albeit, the recovery of such written-off loan has become challenging for these two banks.

Table 4(m) : Gross NPL Ratio
(in percent)

<i>Mid-July</i>	<i>Nepal Bank Limited</i>	<i>Rastriya Banijya Bank</i>
<i>2003</i>	60.47	60.15
<i>2004</i>	53.74	57.64
<i>2005</i>	49.64	50.7
<i>2006</i>	18.18	37.0
<i>2007</i>	13.49	29.16
<i>Mid-Jan 2008</i>	11.06	26.85

Source: Nepal Rastra Bank

- 4.53 The auditing of these banks that was in pending for some years has been completed after the management teams took over the charge. The external audit of NBL has been completed for FY 1999/00 through FY 2006/07. Similarly, new management team of RBB has completed the external audit until FY 2006/07. Documents relating to audit have been updated and quarterly financial statements have been published regularly by these banks.
- 4.54 On human resource development and management front, both of these banks have introduced management plan, human resource development plan and skill enhancement plan in order to maintain human resources at the optimum level. The review work for the required number of human resource has been completed. These banks have submitted capital plan and succession plan to the NRB. The NBL introduced Voluntary Retirement Scheme (VRS) to keep the employees at an appropriate level. The number of employees in NBL decreased to 2,912 in mid-January 2008 from 6,030 in mid-July 2001. The RBB has also introduced VRS for the fourth time in order to bring employees number at the optimum level. The Bank has succeeded to bring down number of employees to 3,135 in mid-January 2008 from that of 5,583 in mid-July 2002.
- 4.55 The management teams in both of these banks have introduced a number of plans, policies and manuals in order to strengthen the internal system. These include, among others, credit policy and guidelines in order to reform the credit management and formulate directive for the asset liability management. Also, new accounting directive, internal audit directive, accounts head classification directive, human resource plan, skill enhancement plan, portfolio

status and plan, budget plan, strategic plan and anti-money laundering directive, and trade and finance directive have been implemented. Both the banks have started to write-off their bad debts after the preparation of credit write-off bylaws.

- 4.56 The NBL has already computerized 44 branches and identified 38 additional branches for the same after adopting the information technology plan to complete the banking transactions by computer system, to speed up and manage them. It has also introduced Any Branch Banking System (ABBS) in 27 of its branches. It has computerized 76.0 percent and 88.0 percent of total deposit and credit respectively. Similarly in RBB, PUMORI Plus software has been installed in two departments at the head office and in 40 branches. In other 31 branches outside the Kathmandu Valley, RBBSYS has been installed after adopting the information technology plan to speed up and complete the banking transactions by computer system. It has computerized 81.0 percent and 84.0 percent of total deposit and credit respectively.
- 4.57 The objective of the financial sector reform is to enhance the overall capacity of the financial system along with reengineering and restructuring the NRB and two big commercial banks. This also consists of programs to formulate and amend financial Acts and establish supporting institutions to facilitate the financial sector. These include programs such as to strengthen Credit Information Centre, establish Assets Management Company, impart training to the employees of bank and financial institutions and formulate required rules and regulations.

Box 4 (e) : Recent Initiatives Regarding the Capacity Building of the Financial System

A prompt corrective action by-law was passed in 2007 with an aim to address the problems surfacing in weak bank and financial institutions. This facilitates in taking corrective action in a timely manner in weak bank and financial institutions and initiating the process for liquidating those institutions that can not be bailed out. This is expected to contribute toward strengthening financial system and maintaining financial stability.

The Interim Parliament passed Money Laundering Prevention Act 2008 on January 28, 2008. The draft of this Act was prepared with the active involvement of the NRB. The Act aims at controlling the task of converting illegally earned black money into white money and support

operation of healthy economic activities. A number of other Acts have been formulated to make the banking system strong, efficient, and transparent while others are in the process of formulation.

Source: Nepal Rastra Bank

- 4.58 Some major acts, rules and by-laws formulated to strengthen the capacity of the financial sector are listed below:

Table 4 (n) : New Acts, Rules and By-laws relating to Financial Sector

	<i>Issued Acts</i>	<i>Year</i>
1	Bank and Financial Institutions Debt Recovery Act	2002
2	Nepal Rastra Bank Act	2002
3	Public Debt Act	2003
4	Secured Transaction Act	2006
5	Public Procurement Act	2007
6	Bank and Financial Institutions Act	2006
7	Insolvency Act	2006
8	Company Act	2006
9	Competition Promotion and Market Protection Act	2006
10	Money Laundering Prevention Act	2008
11	Banking Fraud and Punishment Act	2008
	By-laws and Regulations	
1	Public Debt by-laws	2003
2	NRB Credit Information by-laws	2003
3	NRB Inspection by-laws	2003
4	Know your customer directives	2006
5	By-law relating to Insolvency	2008
6	Regulation relating to Prompt Corrective Action of Bank and Financial institutions	2007

Source: Nepal Rastra Bank

Circulars Issued to Bank and Financial Institutions

Regarding Deposit Mobilization

- 4.59 A directive has been introduced which requires that licensed bank and financial institutions get prior approval of the NRB while announcing attractive schemes, including prizes to attract deposit. As per the new provision, only those bank and financial institutions maintaining required capital adequacy can introduce such attractive depository schemes.
- 4.60 The Bank and financial institutions have been barred from operating any kind of lottery scheme that were in place in order to mobilize deposits. However, schemes the benefit of which go to all depositors

without discrimination and on an equal basis as per their deposit amount could be operated. The schemes based on lottery that were underway before the announcement of this new provision will last only upto mid-July 2008.

Regarding Capital Fund

- 4.61 Capital adequacy to be maintained by the bank and financial institutions has remained 11 percent of the risk-weighted assets until they adopt BASEL-II accord. In this regard, a provision has been introduced asking bank and financial institutions to maintain primary capital ratio at 5.5 percent of the risk-weighted assets. The monetary policy for FY 2007/08 required commercial bank to follow new capital adequacy requirements based on BASEL II in parallel run for one year and compulsorily adopt the new requirement from FY 2008/09.
- 4.62 A revision has been made in the provision regarding the purchase and sale of credits. As per the new provision, bank and financial institutions not maintaining capital adequacy are barred from sale and purchase of credits and involve in loan swap without prior approval of the NRB.

Regarding Promoters Share

- 4.63 In the review period, NRB issued new directives relating to promoter share. It is expected that the new provision would help maintain the share price at the reasonable level with the increase in share supply.

Box 4(f) : Major Highlight of the Directive Relating to Promoter Share

1. Promoter shareholders holding more than 51 percent shares of those bank and financial institutions that have completed five years of operation could sell their shares in excess of 51 percent through Nepal Stock Exchange Limited (NEPSE).
2. Promoters could convert their shares in excess of 51 percent into ordinary shares proportionately according to their ownership ratio (on pro-rata basis) and trade through the NEPSE.
3. The bank and financial institutions having completed five years of operation could, however, sale only half of the stock that they could sale through the NEPSE within mid-July 2008. They can sale the remaining half any time afterward. However, if there is a self-declaration that a promoter/promoter group is not willing to convert shares into other group, then other promoters could use this facility up to the desired limit after maintaining 51 percent of the promoters' share ratio.

4. The bank and financial institutions have to submit the recommendation of concerned board of directors to take the prior approval of NRB in this regard. After the NRB's approval, concerned bank and financial institutions have to amend the memorandum and article of association to manage share structure accordingly. The shares, if transacted without amendment in these documents, will be considered as promoters' share.
5. While amending the memorandum and article of association, it has to be ensured that the representation of ordinary shareholders will be proportionate. Once promoter share is converted into ordinary share, it cannot be converted back into promoters' share. If the promoter is black listed, shares can be traded only for repaying the loan of bank and financial institutions. It will be the responsibility of bank and financial institutions to assure whether someone is blacklisted.

Source: Nepal Rastra Bank

Regarding the Deprived Sector Credit

- 4.64 The NRB issued new directive with respect to deprived sector lending. This directive integrates all the earlier directives and circulars relating to deprived sector lending. The new directive states that category A institutions have to lend a minimum of three percent of their outstanding credits (including bills purchase and discount) and Category B institutions have to lend a minimum of one percent of the outstanding credit (including bills purchase and discount) in the deprived sector.
- 4.65 Deprived group, for this purpose, would mean low income group, especially socially backward women, lower castes, dalits, blinds, deaf, physically disabled, marginalised and small farmers, craftsmen, workers and landless families. Credit disbursed under the limit fixed by NRB in order to uplift the economic and social status of deprived group through the operation of self-employed micro enterprises is defined as "deprived sector credit".
- 4.66 As per the clause 81 of the NRB Act 2002, the NRB can impose fines to those institutions failing to lend the deprived sector or those lending less than the required ratio. Such fines charged would be at the highest interest rate that the bank and financial institutions charge on credit at that time.
- 4.67 The bank and financial institutions would be entitled to receive rebate on the deprived sector lending as similar to the priority sector lending in the past. Given that the bank and financial institutions have guaranteed such

lending with the Deposit and Credit Guarantee Corporation, the provision required for bad debt of such loan, if any, would be 25 percent. There will be a rebate of 75 percent in such loans.

On Margin Lending and Other Credit Transactions

- 4.68 NRB issued directive on margin lending in FY 2007/08 keeping in mind the increasing loan granted by bank and financial institutions against the collateral of shares. It was believed that it could have adverse impact on the development of capital market on the one hand and create disturbances in the portfolio of commercial banks on the other. The new regulation is expected to have contributed to stabilize the share market.

Box 4(g) : Major Highlight of the Directive on Margin Lending

1. Margin lending could be provided up to 50 percent of the average value of the closing price of the share for the last 180 trading days or up to 50 percent of the prevailing market price, whichever is less. Further, no additional lending be made revaluing the pledged shares, and if there is lending beyond the above mentioned limit of 50 percent, such lending should be regularized by mid-July 2008 or within the payment period, whichever is earlier.
2. No margin lending be provided against the shares of the companies:
 - a) Not maintaining capital adequacy as per the directive of the NRB,
 - b) Having the negative net worth,
 - c) Companies delisted by the Nepal Stock Exchange Limited,
 - d) Institutions of which financial statements are not audited even after one year of the fiscal year.
3. BFIs can grant margin loan only up to their core capital, and such lending should not exceed 25 percent of the core capital against the shares of one company.
4. BFIs that have lent more than core capital in the past cannot lend in this category unless that is brought to the above-mentioned limit.
5. BFIs should retain the original share certificate with themselves while extending the margin loan.

Source: Nepal Rastra Bank

- 4.69 Authorized bank and financial institutions while issuing Trust Receipt Loans (TR loans) or similar export loans can do so for a maximum duration of 90 days. Besides these, loans on Fixed Deposit Receipt or other Security Papers should be issued at interest rates higher than those indicated on such security papers.

New Directive Regarding Investment in Hydropower

4.70 NRB issued new directive regarding investment in hydropower. The new directive is expected to address the concern raised by commercial banks over the single obligor limit that created difficulty in lending to the hydropower sector.

Box 4(h) : New Provisions for Investment in Hydropower

1. Following provisions have been made for bank and financial institutions investing in hydropower projects, electricity transmission line projects, and cable car projects:
 - 1.1 Single obligor limit has been raised to 50 percent of the core capital inclusive of total fund-based and non-fund based facility from the existing 25 percent of the core capital.
 - 1.2 Power purchase agreement with concerned authority is mandatory for investment in hydropower projects.
 - 1.3 Payment schedule should be justified by cash flow and other evidences relating to projects.
2. If any instalment of the payment, from the date that is earlier among the dates either established by concerned bank after evaluating the project or from the date of electricity generation, is delayed by up to 90 days, such instalment will be considered good payment with 1 percent loan loss provision. If any instalment is delayed by more than 90 days, such instalment will be categorized as overdue and 100 percent provision will be required for that.
3. If the shares and debentures of the companies that are not listed within three years from the date of investment made by bank and financial institutions, then banks and financial institutions are required to create Investment Adjustment Fund and maintain reserve in that Fund. Amount allotted to such fund cannot be used for any other purpose until shares and debentures are listed.

Source: Nepal Rastra Bank

On Punitive Measures against Blacklisted Creditors

4.71 As per the decision of the GON on July 24, 2007, passport of the blacklisted borrowers with principal in excess of Rs. 50 million and those related with such borrowers will be seized and no new passport will be issued to them. Also such blacklisted borrowers will not be allowed to assume directorship of any company registered under the Company Act. They will be barred from transacting any property unless such transaction is carried out to repay the debt. Provisions

have been made to seize and auction any investment in government securities by such individuals to repay the debt, to prohibit deposit withdrawal by such borrowers and those related to such borrower expect for the purpose of loan repayment. Also the government decision states to seize lockers and all belongings inside the lockers of such borrowers and those related to the borrowers.

- 4.72 The GON has taken necessary action against 112 blacklisted borrowers having overdue of more than Rs. 50 million. This follows the government decision made on December 15, 2006, which states that banks have to prioritize borrowers with principal exceeding Rs 50 million for necessary action. The action has been taken under the referral made by bank and financial institutions to NRB as per the Bank and Financial Institutions Act 2006, Article 57 (12).
- 4.73 The bank and financial institutions are required to collect interest first and then only make necessary adjustment in the principal amount.
- 4.74 The bank and financial institutions can extend loan/facility to their employees against the security of fixed deposit receipt, gold/silver, and debentures and saving certificate issued by the GON or the NRB.

Regarding the Standing Liquidity Facility

- 4.75 The limit of the Standing Liquidity Facility (SLF) to commercial banks has been increased to 75 percent from the existing 50 percent against the collateral of treasury bills and development bonds issued by the GON. The interest on such facility will be charged by taking the higher of the two rates between one derived by adding 2 percentage points to the weighted average interest rate of the last 91-day treasury bill auction, and the other being the interest rate established during the last repo transaction. For this purpose, the last repo transaction would mean a transaction within a maximum of the last thirty days only. All other provisions regarding SLF have been kept intact.

Regarding Branch Expansion

- 4.76 NRB has modified the provision regarding the opening of new branch for banks and financial institutions on April 15, 2008. This is intended to further support financial inclusion. The new provision does not require to seek permission from NRB to open a new branch and the concerned bank and financial institutions can now expand new branches by operating within the conditions set by their own management committees.

Box 4(i) : New provisions regarding branch expansion

NRB has laid down the following provisions to allow "A" and "B" category financial institutions to open new branches:

- a. A field study report showing the financial feasibility of the proposed location should be prepared.
- b. The required minimum paid-up capital should be met, or the capital plan that is submitted to NRB should reveal that necessary work is underway to meet the desired paid up capital.
- c. Conditions fixed while obtaining the license from NRB should be met and capital adequacy should have been met in the quarterly financial report of the period before the opening new branch.
- d. Electronic networking of branch with the central office for the fast and easy transfer of information should have been completed.
- e. Non-performing loan (NPL) should not be higher than 5 percent in the previous quarter.
- f. The Board of Directors of the concerned bank should make the decision regarding the opening of new branch. NRB should be notified of such a decision within 15 days and the branch office should be opened and brought into operation within 6 months from the date of notifying the NRB.
- g. Similar provisions have been made for the financial institutions of categories "C" and "D" to make the branch expansion easier and further effective.

Inspection and Supervision of Bank and Financial Institutions

- 4.77 NRB has adopted the policy of risk-based supervision in order to maintain parity between the increasing risk due to the addition of the number of commercial banks and the current supervisory capacity. More emphasis has been placed on effective implementation of the inspection process and provisions have been made to create a separate inspection committee for detail inspection and supervision of banks that are in trouble.
- 4.78 On-site supervision of 15 commercial banks was completed by the end of mid-April 2008 and there is a plan to complete such supervision of other 8 commercial banks by the end of FY 2007/08. Deficiencies uncovered in course of supervision are brought to the attention of the concerned at the same time and further instructions are given on regular basis to take corrective actions on the issues outlined in the inspection report. Also, special inspection of 13 commercial banks based on need was completed by mid-April 2008.

- 4.79 Of the total 212 financial institutions under the supervisory jurisdiction of the NRB, summary field inspection of 23 development banks, 40 finance companies, 8 cooperatives and 3 NGOs was completed between mid-April 2007 and mid-April 2007. Besides that, special inspection of 16 financial institutions comprising 1 development bank and 15 finance companies was also completed in the same period. Similarly a follow-up inspection of 2 financial institutions comprising 1 development bank and 1 finance company and targeted inspection of 30 financial institutions comprising 15 development banks and 15 financial institutions have also been completed.
- 4.80 Work has been initiated to address the liquidity-related problems facing the commercial banks for the last few months and to find the facts thereon and undertake regular monitoring. Establishment of a new unit under the off-site supervision section has helped in monitoring the liquidity of commercial banks on a daily basis and identifying the real situation of liquidity in the banking sector.
- 4.81 Prompt Corrective Action By-law was introduced in order to prevent the distortions in the financial system emanating from weak bank and financial institutions. This By-law is expected to facilitate the process of taking corrective actions against weak BFIs in a timely manner and expedite the process of liquidation for those in troubled condition in order to strengthen the financial system.
- 4.82 The Capital Adequacy Framework-2007 has been implemented in the process of implementing Basel II as per the study and recommendation of Accord Implementation Group (AIG). This framework has been introduced in parallel run since FY 2007/08 and is decided to introduce compulsorily since FY 2008/09. The said Capital Adequacy Framework follows Simplified Standard Approach for credit risk, Basic Indicators Approach for operational risk and Net worth Position Approach for market risk.
- 4.83 Continuity has been given to the practice of conducting regular interaction between external auditors of the bank and financial institutions and NRB. Modifications have been made in the format of the Long Form Audit Report prepared by external auditors. This is expected to make the report more relevant and useful.
- 4.84 A committee headed by the Deputy Governor of NRB has been formed to make the regulatory coordination among the regulatory bodies of the financial system more effective. with the heads of

regulatory agencies. The committee comprises the head of the Bank and Financial Institutions Regulation Department, Bank Supervision Department, and Financial Institutions Supervision Department along with the chairperson of the Securities Board, Insurance Board, Company Registrar, and head of the Economic Activities and Policy Analysis Department at the Ministry of Finance as members. The Committee has developed coordination in the financial sector by making discussions and taking decisions on the relevant subjects.

Challenges

- 4.85 It is impossible to maintain stability on the fiscal front in the absence of the effective implementation of the government policies. A strong coordination is required between fiscal policy, monetary policy and financial sector policy in order to address the challenges surfacing the economy. In the present context, there is the possibility of Nepal being affected by the impending global economic slowdown on the one hand and there is the need to address the heightening aspirations of the people in the changed political context on the other. In view of these realities, the primary challenge is to maintain stability on the fiscal front. In order to face this challenge, the government should systematize its resource mobilization and spending process. Further monetary tools have no direct link with economic goals so the bank and financial institutions act as an intermediary between these two. It is, therefore, utmost important to promote discipline and transparency in the activities of bank and financial institutions in order to enhance the effectiveness of monetary policy.
- 4.86 The three state-owned banks- NBL, RBB and ADBL-have been suffering from high level of non-performing loans. There has been a huge challenge for these banks on account of the behaviour of wilful defaulters. This has also hampered healthy competition in the banking sector. Therefore, stern action should be taken against the wilful defaulters.
- 4.87 It is unequivocal that establishment of banks, financial institutions and insurance companies help develop innovation and entrepreneurship that support long-term economic development. With the development of the financial sector, the challenge is to promote financial stability and discipline. Currently, it has also become the matter of concern at the international level to ensure effectiveness, transparency, and discipline in the financial system. Given this, it is also a matter of interest and challenge to preserve financial stability in

Nepal. The major challenge is to enhance competitiveness, widen the financial access, and ensure merger and acquisition besides strengthening systemic efficiency, discipline, and financial consolidation.

- 4.88 The development of the financial sector has not only primarily supported financial inclusion, it has also played positive role to expand services sector, mainly the educational one. There has been mutually reinforcing effect of the financial expansion on the educational sector. Students lacking fund and deprived of higher educational opportunities are benefiting from these institutions through the availability of loans on the one hand and financial intermediaries requiring well-trained workforce have taken advantage of educational expansion on the other. However, there has been the absence of a transparent and fair competition-based mechanism for joining the increasing number bank and financial institutions for the educated youths entering the job market every day. The current practice of recruiting staff on the basis of personal reach and contact has not only made this sector a far-fetched dream for numerous qualified and skilled youths entering the job market, it could also have detrimental effect on the sustainable development of the financial sector that is immensely responsible to depositors. Given this, it is necessary to establish an institutional mechanism that holds minimum qualifying entry-level exam to join financial intermediaries at the officer and assistant level. Banks, financial institutions, insurance companies and other financial intermediaries should then be asked to recruit the staff out of those having passed the minimum qualifying exam through an established system of competitive recruitment.
- 4.89 With the expansion of the financial system, all the stakeholders get more opportunities in the financial market. New opportunities, thus provided, sometimes benefit only a few selected individuals/groups while the risk would have to be borne by the whole system. Such situations have arisen even in the advanced economies with highly developed financial infrastructures as currently seen in the United States. Thus, the situation that creates conflict of interest among stakeholders along with the financial expansion needs to be checked. It is utmost necessary to safeguard the financial system from any type of conflict of interest whether that arises due to the vested interest of some groups or simply out of the ignorance as to the long-run implications of their behaviour.

5. Capital Market

Primary Market

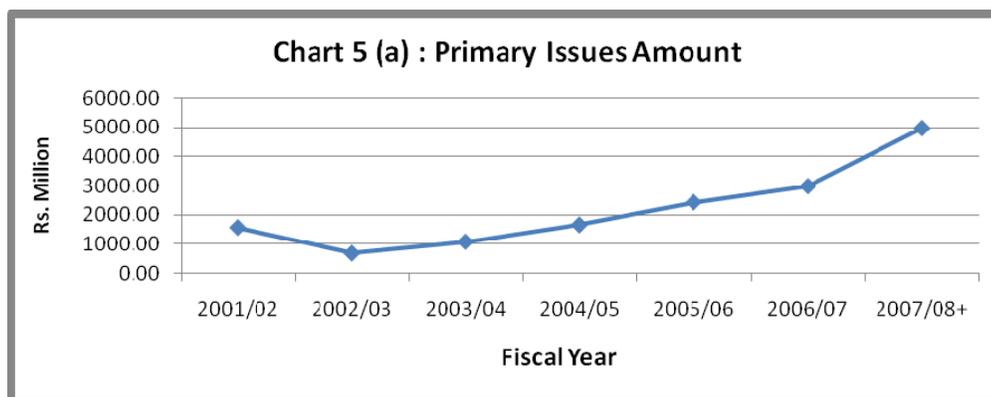
5.01 In the first nine months of FY 2007/08, 26 companies issued securities and mobilized capital equivalent to Rs.4.99 billion. Of the 26 companies, 8 companies issued ordinary shares, 17 issued right shares and one issued debentures. This amount is more than six fold compared to the amount mobilized through the issuance of securities in the same period last year. Of the issued securities, Rs.3.49 billion was mobilized through share capital and Rs.1.5 billion through debentures. In the first nine months of FY 2006/07, only 14 companies had mobilized Rs.702.9 million by issuing securities.

Table 5 (a): Primary Market Trend

Rs.in million

Particular	Fiscal Year						First Nine Months	
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2006/07	2007/08
	1 Capital Mobilization	1579.9	696.6	1090.4	1672.3	2443.3	2295.5	702.9
a. Ordinary Share	319.5	394.3	657.5	377.5	579.8	380.2	177.9	402.4
b. Right Share	621.9	162.2	70.0	949.3	1013.5	1265.3	525.0	3084.1
c. Preference Share	140	-	-	-	-	400.0	-	-
d. Debentures	360	-	300	300	850	250	-	1500
e. Mutual Funds	-	100	-	-	-	-	-	-
f. Citizen Unit Plan	138.5	40.1	62.9	45.5	-	-	-	-
2 No of Companies involved in capital mobilization	12	18	14	14	29	34	14	26

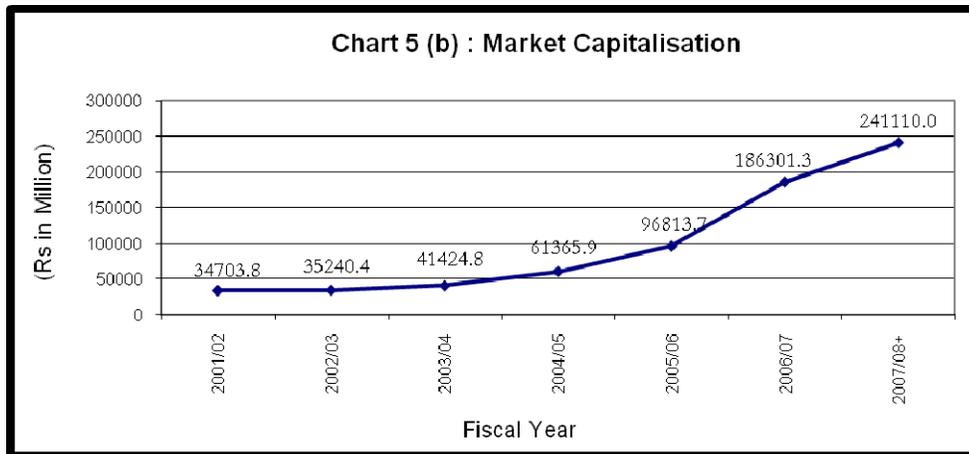
Source: Securities Board of, Nepal



+ First nine months

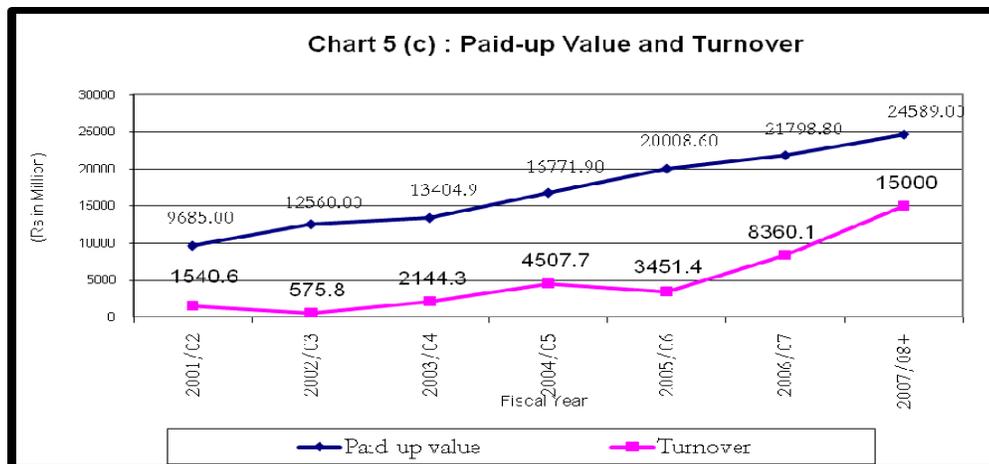
Secondary Market

5.02 In the first nine months of FY 2007/08, Nepal Stock Exchange Limited (NEPSE) listed 12 more companies. With this, the total number of listed companies has reached 147 in mid-April 2008. The number of listed companies was 135 at the end of FY 2006/07. Market capitalization increased by 80.74 percent and reached Rs.241.11 billion in mid-April 2008 from that of Rs.133.39 billion a year ago.



+ First Nine Months

5.03 In the first nine months of FY 2007/08, the total turnover in the NEPSE increased by 171 percent to Rs.15.02 billion, compared to the turnover of Rs.5.53 billion in the same period last year. Altogether, 19.16 million units of shares were traded in the first nine months of FY 2007/08 compared to 11.08 million units of shares in the same period last year.



+ First nine months

5.04 The number of share transactions increased by 7.4 percent to 97,779 in the first nine months of FY 2007/08 compared to 91,036 share transactions in the same period last year.

Table 5 (b): Secondary Market Trend

Rs.in million

Particulars	Fiscal Year							
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	First Nine Months	
							2006/07	2007/08
<i>Share Transaction Value</i>	1540.6	575.8	2144.3	4507.7	3451.4	8360.1	5534.2	15000
<i>No of Share transactions (in '000)</i>	6005	2428	6468	18434	12222	18147	11080	19159
<i>Number of Transactions</i>	42028	69163	85533	106246	97374	120510	91036	97779
<i>Market Capitalization (Rs.)</i>	34703.8	35240.4	41424.8	61365.9	96813.7	186301.3	133398.8	241110
<i>Transaction as percentage of Market Capitalization</i>	4.44	1.63	5.18	7.34	3.56	4.48	4.15	6.22
<i>Market Capitalization as percentage of GDP</i>	7.5	7.2	7.7	10.4	14.8	20.6	-	-
<i>Paid-up Value of listed companies</i>	9685.0	12560.0	13404.9	16771.9	20008.6	21798.8	23963.0	24589.0
<i>No of listed companies</i>	96*	108	114	125	135	135	131	147
<i>No of companies with share transaction</i>	69	81	92	102	110	116	111	109
<i>NEPSE Index (points)</i>	227.50	204.86	222.04	286.67	386.86	683.95	494.59	746.69

* Delisting of 25 companies

Source: Securities Board of Nepal and Nepal Stock Exchange Limited, and Central Bureau of Statistics

5.05 The paid-up value of listed shares increased by 2.6 percent to Rs.24.59 billion in the first nine months of FY 2007/08 compared to Rs.23.96 billion in the same period of FY 2006/07.

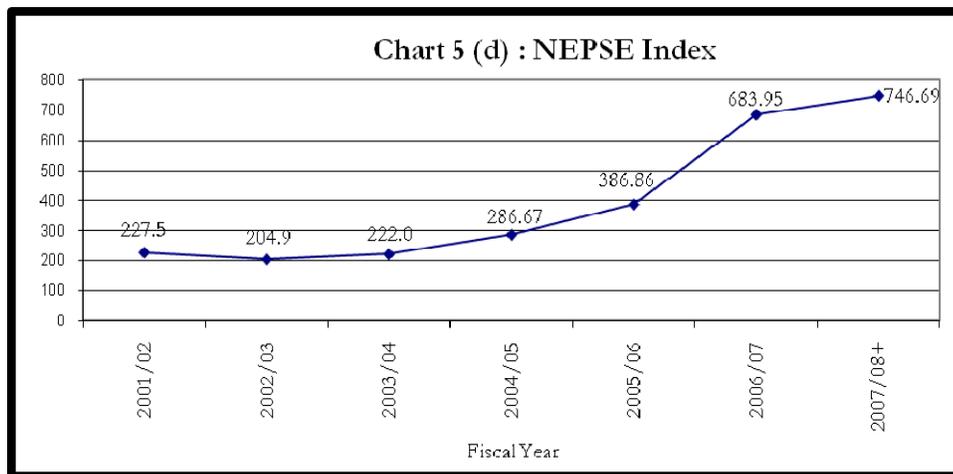
5.06 NEPSE Index increased by 252.1 points to 746.69 points at the end of the first nine months of FY 2007/08 compared to 494.59 points in the same period last year.

Securities Board of Nepal

5.07 The Securities Board of Nepal (SEBON) has introduced Security Board Regulations 2007, Securities Market Operation Regulation 2007, and Securities Dealers (Broker, Trader and Market-maker) Regulation 2007 on November 5, 2007 and Merchant Banker Regulation on March 15, 2008. These regulations have been formulated for the implementation of the legal rights given by the Securities Act 2006 to develop capital market, regulate and inspect important activities in the market that relate to the

benefit of the investors and are under the jurisdiction of the SEBON. The SEBON has developed Securities Registration and Issue Regulation 2008, and has been submitted to the GON for final approval.

- 5.08 With the grants assistance from the International Development Association (IDA), the SEBON has launched a project on March 19, 2008 to establish securities data management system. This is intended to establish a central data bank related to securities by setting up internal and external direct information relation, management of data system and information related to securities. Once the project is completed, companies listed as well as making fresh issues can submit required statements electronically to the SEBON as per the Securities Act and Regulations.



+ First nine months

- 5.09 With an aim to enforce regulations related to securities brokers more strictly, the SEBON organised an orientation program for the securities brokers on February 8, 2008. And an interaction program on “Capital Markets and Economic Journalists” was organised on January 04-05, 2008 jointly with the Society of Economic Journalists to make the publication and broadcasting of news related to capital markets more reliable and authentic. Further, the SEBON organized a seminar jointly with the Institute of Chartered Accountants of Nepal on February 25, 2008 to inform and train the stakeholders about the International Financial Information Dissemination System (IFIDS). This is for the improvement of information dissemination practices and bringing about similarity in financial information dissemination of the country’s organized sector

- 5.10 In the first nine months of FY 2007/08, the programs to mechanize securities transaction in the NEPSE and installation of management information system in the Company Registrar's Office have been completed. These programs are the components of the financial governance project and are brought into operation by the GON and coordinated by the SEBON.
- 5.11 In the initiation of the SEBON, a high-level discussion program among regulatory institutions including the NRB, Company Registrar's Office, SEBON and Insurance Board was organized on March 27, 2008. This is to initiate mutual sharing of information and experiences regarding the market inspection and regulation, and to resolve common issues of financial sector through coordination at the higher level.
- 5.12 The SEBON revoked the license of Om Securities and Allied Services (Pvt.) Ltd. on December 13, 2007. It took such an action since these brokers were involved in unfair practices in the securities trading. The SEBON has provided a hotline landline telephone (No. 4238326) for those interested to lodge any complaint to the SEBON.
- 5.13 With an aim to provide investment information and training to the general investors, the SEBON has started weekly training for 450 investors divided into a group of 30 individuals. The program started since February 22, 2008 and is organized on every Friday. The first phase of the program has already been completed and the participants were imparted knowledge on securities market, investment, measures to increase investor awareness, and entry into the primary and secondary markets. The SEBON has also started quarterly SEBON Newsletter from mid-March 2007 to provide information related to the SEBON, investors and on other relevant subjects.
- 5.14 With an aim to open up secondary market, the SEBON has prepared a concept paper regarding the basic requirement for letting foreign organized sector and Non-Resident Nepalese (NRN) investing in the Nepalese share market and has submitted the same to the MOF.

Nepal Stock Exchange Limited

- 5.15 In the first nine months of FY 2007/08, the NEPSE has collected Rs. 661.2 million capital gain taxes from the share transactions in the NEPSE. The capital gain tax in the review period of FY 2007/08 is 2.5 times the capital gain tax collected in the same period last year, which was Rs.175.0 million.

- 5.16 As per the provision in the Securities Listing Regulations 2006, a total number of 71 companies have been listed as category 'A' institutions in FY 2007/08. The number of companies in category A in FY 2006/07 was 66.
- 5.17 The NEPSE started Automated Trading System on August 24, 2007 replacing the previous open-out-cry system. With this, market has entered into the modern era as errors due to human involvement could now be avoided. Further, process has begun to enter more securities brokers into the securities market and make it more competitive as per the provision in the Securities Broker Regulations, 2007.
- 5.18 The NEPSE has reconstructed its website and has started to include real time information since October 2007.
- 5.19 The NEPSE has increased the daily transaction time in the secondary market for the benefit of small and large number of investors. The time has been increased from 2 hours to 3 hours since December 23, 2007.
- 5.20 As mentioned in the budget statement of FY 2007/08 to privatize NEPSE, a concept paper regarding the transfer of government assets to listed companies, employees and locals has been prepared and submitted to the MOF. The NEPSE Newsletter has also been launched in order to disseminate information related to the securities market.

Securities Traders

- 5.21 A total of 23 brokers, 9 issue managers and 2 dealers were in the securities market for the organized trading of the securities as of mid-April 2008. There were 24 securities brokers, 9 issue managers and 2 dealers a year ago. In the first nine months of FY 2007/08, 7 securities brokers and 3 issuing brokers have been authorised to carry out transactions in the government securities.

Mutual Fund and Unit Scheme

- 5.22 The trading of NCM Mutual Fund worth Rs.100 million is being carried out in the NEPSE since its listing in August 2003. The mutual fund is being managed by NIDC Capital Market Limited under the trustee of NIDC. Total value of the NCM Mutual fund in mid-April, 2008 was Rs. 388.94 million and per unit net assets value was Rs.39.
- 5.23 The CIT mobilized capital worth Rs.2.30 billion in the first nine months of FY 2007/08 through the Citizen Unit Scheme, Gratuity Fund Scheme, Investor Accounts Scheme, Insurance Fund Scheme, Employees Savings Increment Approved Retirement Fund, Defined Contribution Pension Plan, etc. With this, the total accumulated fund of the CIT has reached

Rs.11.66 billion. Of the collected amount in the review period, 54.44 percent was collected from Employees Savings Increment Approved Retirement Fund, 6.82 percent from Citizen Unit Scheme, 11.90 percent from Investor Account Scheme, 17.63 percent from Gratuity Fund Scheme, 9.09 percent from Insurance Fund Scheme, and 0.12 percent from Defined Contribution Pension Plan. In the first nine months of FY 2006/07, there is an additional investment of Rs.4.51 billion, after which total investment has reached Rs.11.06 billion. Of this, the investment in government securities and fixed interest bearing bonds is 75.77 percent, periodic lending is 6.51 percent, shares, preference shares and debentures of organised companies 3.39 percent and participatory lending and house credit 14.32 percent.

Challenges

- 5.24 To safeguard the benefit of those involved in organized securities, mutual funds and depositor services, there is a need for trustees. As there is not any arrangement regarding the regulation of trustees, this has also affected the development of capital market. In this context, there is a need to formulate a new Act relating to the trustees. Also, the establishment of Credit Rating Agency is necessary to provide information related to the securities and other market instruments besides contributing to the institutional good governance and practice of professional ratings of the institutions.
- 5.25 Given the present context of lacking the appropriate investment infrastructure for institutional investors, such as the CIT, EPF, and Insurance Companies, there is a need to promote and manage the issuance of debentures, mutual funds, and unit plans through the stock exchange. Furthermore, to make the capital mobilization activities more professional and transparent, there is a need of clear regulatory measures for these institutions.
- 5.26 There is a need to enhance the legal strength of the SEBON and consolidate its inspection and supervisory capacity.
- 5.27 Given the growing concept of international listing and trading in the South Asian region, it is necessary to strengthen the professional and institutional capability of securities market and brokers. Establishment of Central Depository System (CDS) is necessary in this regard. This will spread up the securities transfer process. Further, there is a challenge to develop the securities market, to make it a better avenue for NRNs and FIIs.

- 5.28 The current practice of taxing dividend at the source and levying capital gain tax has not benefited small investors. In this context, there is a need to rationalize the tax policy related to securities. There is also a need to review the current tax system on small deposit schemes such as mutual fund scheme and CIT schemes to promote investment from small investors.
- 5.29 Since there are a large number of industries being run in the private sector and there is a lack of organization culture in public companies, a need is strongly felt to develop good governance and discipline and enforce necessary measures effectively.
- 5.30 For the balanced development of the SEBON, which is at the central place of the securities market regulation, there is a need to introduce IFRS and improve the institutional information flow, encouraging the entry of organized institutions in the securities market.
- 5.31 Since the NEPSE is being run under the government ownership and management, it would be difficult for an autonomous regulatory institution to regulate and supervise it. In this context, there is a need to review the ownership and management and develop it as a modern institution operating as per the international practice.
- 5.32 It is already late to establish the Central Depository System (CDS) of the securities to make the secondary market service more transparent and dynamic by identifying the investors involved in efficient trading and speed up the transfer of securities.
- 5.33 To make the primary issue of securities more dynamic and transparent and develop it as an important means for capital mobilization, efforts should be made to implement public trading and rights nomination of the securities of those sold under preferential allotment, and offer or sale.
- 5.34 Since there is a demand for derivatives and futures, there is a need for the study to develop the infrastructure regarding these instruments.
- 5.35 Additional investors are entering the securities market, but the market prices of securities of secondary market are becoming less realistic and stable. As efforts are on to open up investment for the NRNs and FIIs, ordinary investors have to be imparted knowledge on the entry and exit in the market and create awareness about the risk and gain factors through trainings. This is necessary for the sustainable development of the market.

6. External Sector

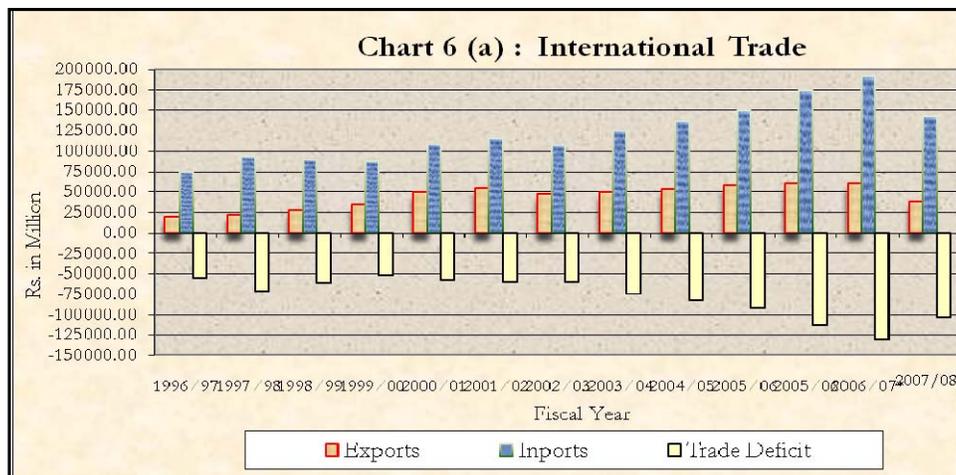
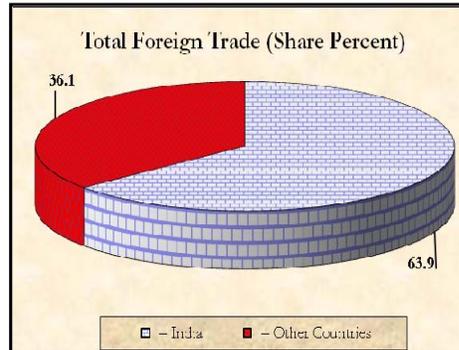
Framework

6.01 In recent years, despite deficit in international trade of both goods and services, the overall current account has maintained surplus primarily because of huge surplus in net transfers due mainly to remittance inflows and foreign grants and pensions. Also, as the capital account has registered surplus, overall balance of payments (BOP) has remained in surplus and the level of foreign exchange reserves has further increased. However, as Nepal is incurring a huge deficit in the goods trade under the current account, there is a need to attract investment in this sector as that has the potential of competitively substituting imports and strengthening exports in sustainable manner. Nepal has maintained a fixed exchange rate of Nepalese rupee vis-à-vis the Indian rupee for the management of external sector. Though there have been debates time and again on the topic of fixed exchange rate of Nepalese rupee vis-à-vis the Indian rupee, the reasoning that Nepal is benefitting from the pegged exchange rate regime because of its high degree of economic ties with India has been gaining importance. The fixed exchange rate with India has helped in minimizing the risk that could emerge from the large volume of current and capital account transactions with India arising from close economic ties, free labor mobility and prevalence of informal family relationship between India and Nepal. Besides, the direct effect of Indian inflation, which has been relatively low over the years, upon Nepalese inflation has helped maintain price stability. The fixed exchange rate has acted as an anchor for maintaining price stability thereby helping in the maintenance of monetary stability and exercising control in inflationary expectations.

Trade

6.02 While exports declined, imports increased in the first eight months of FY 2007/08. The rise in imports led to expansion of total foreign trade by 37.7 percent to Rs 180.78 billion. Total foreign trade had decreased by 2.6 percent to Rs 154.68 billion in the same period last year. In the review period, total exports decreased by 2.6 percent while total imports went up by 23.6 percent. The share of export and import in total trade remained 21.6 percent and 78.4 percent

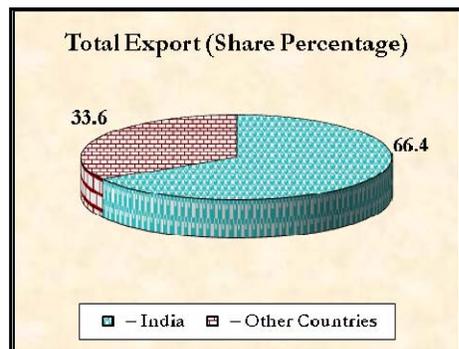
respectively. The share of export was 25.9 percent while that of import was 74.1 percent in the same period last year. Rise in imports together with the decline in exports widened the trade deficit. Trade deficit that had increased by just 2 percent last year expanded by 37.7 percent in the first eight months of FY 2007/08. Country-wise, the share of India in total trade stood 63.9 percent while that of other countries remained 36.1 percent.



* First eight months

Exports

6.03 Total exports declined by 2.6 percent in the first eight months of FY 2007/08. Though exports to other countries increased by 7.2 percent, decline in exports to India by 6.9 percent resulted in a fall in total exports. In the first eight months of the previous year, total exports had declined by 6.6 percent of which exports to India and other countries had declined by 6.4 percent and 7.0



percent respectively. The share of India and other countries in total exports were 66.4 percent and 33.6 percent respectively in the first eight months of FY 2007/08 compared to 69.4 percent and 30.6 percent respectively in the same period last year. The decline in exports to India is attributed mainly to fall in the export of vegetable-ghee, textiles, chemicals, wire and thread. However, exports to other countries went up due mainly to rise in export of pulses and herbs under the 'major commodities' category and plants, packing materials of paper, stationery and button under 'other commodities' category.

Imports

6.04 Total imports increased by 23.6 percent in the first eight months of FY 2007/08 compared to a decline of 1.1 percent in the same period last year. Of the total imports, imports from India went up by 24.4 percent and from other countries by 22.4 percent. Though imports from India had increased by 2.3 percent, imports from other countries had declined by 6.4 percent in the same period last year. Import of mainly M.S. billet, vehicles & spare parts, petroleum products, hot rolled sheet in coil and medicine from India, and gold, telecommunication equipment & parts, transport equipment & parts, other machinery & parts, and electrical goods from other countries increased significantly in the review period.

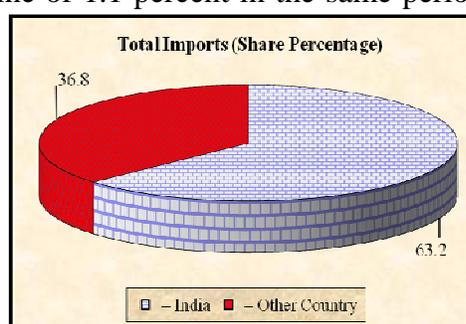


Table 6(a) : Foreign Trade Situation
(First Eight Months)

Details	Percentage change		
	2005/06	2006/07*	2007/08*
Exports: FOB	13.3	-6.6	-2.6
– India	20.5	-6.4	-6.9
– Other countries	-0.1	-7.0	7.2
Imports: CIF	26.3	-1.1	23.6
– India#	31.7	2.3	24.4
– Other countries	18.7	-6.4	22.4
Trade Balance	35.3	2.0	37.7
–India	41.2	8.6	43.9
– Other countries	28.5	-6.2	28.6
Total Trade	22.5	-2.6	16.9

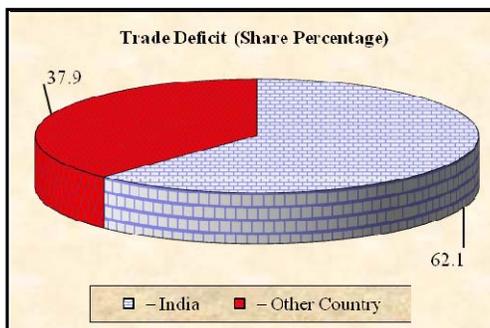
Details	Percentage change		
	2005/06	2006/07*	2007/08*
- India	28.2	-0.3	15.7
- Other countries	13.9	-6.6	19.0
Share in total trade (percentage)			
- India	63.1	64.6	63.9
- Other countries	36.9	35.4	36.1
Share in exports (percentage)			
- India	69.3	69.4	66.4
- Other countries	30.7	30.6	33.6
Share in imports (percentage)			
- India	60.8	62.9	63.2
- Other countries	39.2	37.1	36.8
Share in trade balance (percentage)			
- India	55.8	59.4	62.1
- Other countries	44.2	40.6	37.9

* Provisional, # Import of petroleum products shifted to India from other countries since FY 1999/00.

Source: Nepal Rastra Bank

Trade Balance

6.05 Trade deficit increased by 37.7 percent to Rs 102.85 billion in the first eight months of FY 2007/08. Such deficit had risen only by 2 percent to Rs 74.71 billion in the same period last year. In the review period of FY 2007/08, trade deficit with India went up by 43.9 percent to Rs 63.83 billion while such deficit with other countries increased by 28.6 percent to Rs 39.02 billion.



Trade deficit with India and other countries were Rs 44.36 billion and Rs 30.34 billion respectively in the same period last year. The share of trade deficit with India stood at 62.1 percent and with other countries 37.9 percent in the review period. Such deficit was 59.4 percent and 40.6 percent with India and other countries respectively in the same period last year.

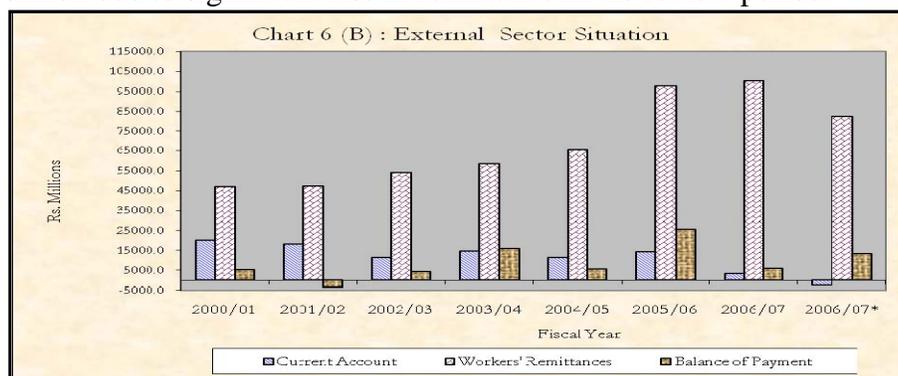
Balance of Payments (BOP)

6.06 The current account registered a deficit of Rs 2.43 billion in the first eight months of FY 2007/08 compared to a surplus of Rs 10.67

billion in the same period last year. Travel receipts and remittance inflows increased by 76.3 percent and 28.1 percent respectively in the review period. The overall BOP remained at a surplus of Rs 13.27 billion in the first eight months of FY 2007/08 compared to a surplus of Rs 12.29 billion in the same period last year.

6.07 As per the BOP statistics, while total exports declined by 1.9 percent to Rs 40.76 billion, total imports increased by 24.3 percent to Rs 139.16 billion in the review period of FY 2007/08. The increased imports widened trade deficit by 39.7 percent to Rs 98.39 billion. Total trade deficit had declined by 0.3 percent in the same period last year. In the first eight months of FY 2007/08, travel receipts increased by 76.3 percent while other services receipts decreased by 7.3 percent. The significant increase in travel receipts increased overall services receipts by 15.7 percent to Rs 24.88 billion in the review period. On services payments side, as increasing trend of Nepalese visiting abroad has been continuing, travel payments increased by 24.7 percent. Likewise, due to increase in payments for transportation and other services, overall services payments increased by 37.9 percent to Rs 34.62 billion in the review period. As a result, net services receipts recorded a deficit of Rs. 9.74 billion in the first eight months of FY 2007/08.

6.08 On the transfer front, workers' remittance inflows increased significantly in the review period. Inward remittance increased by 28.1 percent totaling Rs 82.42 billion in the first eight months of current fiscal year compared to an increase 5.1 percent to Rs 64.35 billion in the same period last year. While foreign grants under 'transfer' declined by 28.7 percent, pensions increased by 29.6 percent. Net transfer receipts increased by 23.2 percent to Rs 102.60 billion due to significant rise in remittance in the review period.



First eight months of FY 2007/08

Box 6(a) : New Provision for Facilitating Remittance from India to Nepal

In view of the Nepalese workers residing in India facing a difficulty in remitting funds through formal channel, an interim provision has been made with the joint initiative of Nepal Rastra Bank and Reserve Bank of India for remitting funds from India to Nepal through NEFT (National Electronic Fund Transfer) system. Remittances can be sent through any of 40, 000 NEFT enabled bank branches in India which would then be disbursed to beneficiary in Nepal through local commercial bank branches and money transfer agencies. Under this system, a Nepali worker can remit fund up to Indian Rupees (IRs) 50,000 at a time and will be allowed a maximum of 12 remittances a year. For this purpose, Nepal SBI Bank and Prabhu Money Transfer in Nepal and State Bank of India in India have been designated. For transfer of fund from India there would be no charges if an account is maintained with Nepal SBI Bank. Otherwise, for a remittance up to IRs 5000, a fee of IRs 50 and for remittances above Indian Rs 5000 and up to IRs 50000, a fee of IRs 75 is charged. The entire amount of charges collected from the remitter would be remitted to Nepal and the charge structure would be reviewed after one year. As this system facilitates sending remittances from India to Nepal in a safe and easy manner through banking channel, it is expected to increase the receipt of remittances through formal channel and also increase Indian currency reserve.

Source : Nepal Rastra Bank

- 6.09 Capital transfers Rs 7.46 billion received and other investment assets Rs 6.75 billion increased in the review period. Under other investment liabilities, GON received Rs 4.62 billion as foreign loan and repaid Rs 4.18 billion. Thus, net government loan inflow remained Rs 440.3 million in the review period.

Box 6 (b) : Non-Resident Nepalese (NRN) Act, 2007

The Act has defined 'Nepalese Living Abroad' as any Nepalese residing and engaged in any job, business or employment in a foreign country for at least two years. As per the Act, 'Non-Resident Nepali' refers to both 'Nepalese Living Abroad' as well as 'People of Nepali Origin'.

The Act has made a provision for preparing a record of non-resident Nepalis and providing them with identity cards as well as permitting a 10-year visa for people of Nepali origin and their family. It allows NRNs to invest convertible foreign currency in sectors made open for foreign investment, to open an account in convertible foreign currency and to repatriate any earnings from such proceedings in convertible foreign

currency. Likewise, the Act entitles People of Nepali Origin to buy/sale property in Nepal. Besides, with a view to attract NRN investment, the Act has granted tax exemption to NRN on their invested capital fund, fund remitted to close relative (up to Rs 1.5 million per year) and donations made for social, religious, cultural and non-profit works. Overall, the Act has made provision for providing business rights to NRNs similar to that provided to foreigners investing convertible currency and permitting people of Nepali origin to operate industry/business in Nepal like a Nepali citizen.

Source : Nepal Rastra Bank

Foreign Exchange Reserve

6.10 The gross foreign exchange reserve of the banking system reached Rs 181.98 billion in mid-March 2008, an increase of 10.2 percent from mid-July 2007. Such reserves had risen by 7.3 percent in the same period of FY 2006/07. Of the total reserve, the share of Nepal Rastra Bank and commercial banks stood 80.2 percent and 19.8 percent respectively in mid-March 2008. In terms of US dollar, gross foreign exchange reserve went up by 10.8 percent to US\$ 2.82 billion in mid-March, 2008 from mid-July 2007. Such reserves had increased by 12.8 percent in the same period of FY 2006/07. The share of convertible reserves in the total reserves declined to 94.0 percent in mid-March 2008 from 95.4 percent in mid-March 2007, resulting in a corresponding increase in the share of non-convertible reserves to 6.0 percent from 4.6 percent. On the basis of import figures for the first eight months of FY 2007/08, the existing level of reserves is adequate to finance merchandise imports for 11.3 months and merchandise and service imports for 8.9 months.

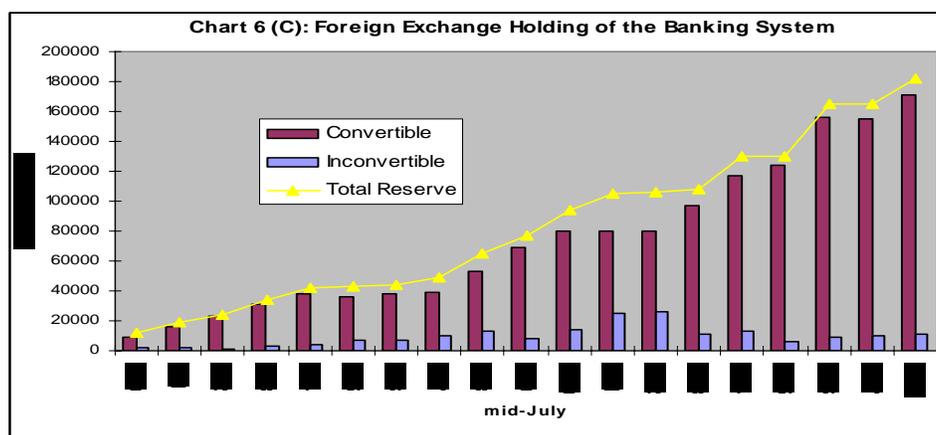
Table 6 (b) : Gross Foreign Exchange Reserves

(Rs in million)

Particulars	2005	2006	2006	2007	2007	2008	Percent Change Mid-Jul To Mid-Mar	
	Mid-Jul	Mid-Mar	Mid-Jul	Mid-Mar	Mid-Jul	Mid-Mar	2006/07	2007/08
Nepal Rastra Bank	104423.7	113425.7	131967.6	142057.9	129606.0	144294.3	7.6	11.3
Commercial Banks	25472.7	31096.3	33065.4	35021.0	35499.6	37687.6	5.9	6.2
Total Foreign Exchange Reserve	129896.4	144522.0	165033.0	177078.9	165105.6	181981.9	7.3	10.2

Source: Nepal Rastra Bank

6.11 The gross foreign assets held by banking sector increased by 10.2 percent to Rs.182.59 billion in mid-March 2008 from mid-July 2007. Gross foreign assets were Rs.177.72 billion in mid-March 2007.



*First eight months

- 6.12 A review of Income and Expenditure of convertible foreign currency for the first half of FY 2007/08 shows that total income and total expenditure stood at Rs.88.73 billion and Rs 78.27 billion respectively, resulting into a net surplus of Rs.10.46 billion. Such surplus had stood at Rs.6.93 billion in the same period last year.

Foreign Exchange Rate and Price of Crude Oil and Gold

- 6.13 The Nepalese rupee vis-à-vis US dollar appreciated by 0.56 percent in mid-March 2008 from mid-July 2007. The Nepalese rupee had appreciated by 5.11 percent in the same period last year. The exchange rate of one US dollar remained Rs. 64.49 in mid-March 2008 compared to Rs. 70.50 a year ago.
- 6.14 The price of crude oil (Crude Oil Brent) in the international market soared by 81.5 percent to US\$ 110.75 per barrel in mid-March, 2008 from US\$ 61.02 per barrel in mid-March, 2007. Similarly, the price of gold went up by 54.7 percent to US\$ 995.00 per ounce in mid-March, 2008 from US\$ 643.25 in mid-March 2007.

Table 6(c) : Prices of Oil and Gold in the International Markets

							Percent Change			
	Mid-July			Mid-March			Jul-Jul		Mar-Mar	
	2005	2006	2007	2006	2007	2008	2006	2007	2007	2008
Oil (\$/barrel)*	57.41	76.54	79.73	63.08	61.02	110.75	33.3	4.2	-3.3	81.5
Gold (\$/ounce)**	418.35	663.25	666.00	556.50	643.25	995.00	58.5	0.4	15.6	54.7

* Crude Oil Brent, ** Based on London rate

Source : Nepal Rastra Bank

Challenges

- 6.15 The foreign trade of Nepal is getting concentrated towards India. This is also a natural phenomenon as India is not only an immediate neighbor of Nepal but also an emerging economy in the world. However, given the increasing effect of globalization and considering Nepal's entry into the World Trade Organization together with her acceptance of other regional and international trade treaties and agreements, large trade concentration towards a single country could be a serious challenge in strengthening external stability. Given this fact, it is necessary that Nepal increase her exports of agricultural & herbal products and handicrafts that possess comparative advantage in the world market and diversify exports both country-wise and commodity-wise.
- 6.16 Sustainable balance in current account is inevitable for external sector stability. As Nepal has been experiencing deficit in its services trade in the last few years, it is necessary to focus on service exports. One of the best ways in this regard is the promotion of agro-tourism, which will prove very useful for sustainable development of tourism industry. Agro-tourism provides good opportunity for visitors to get acquainted with the agricultural sector, agricultural occupations, local products, traditional cuisine and rural lifestyle as well as the cultural, environmental and the authentic features of the locality. Moreover, it helps to develop intimacy with rural people engaged in traditional rural activities. Developing agro-tourism in the nearby villages along with the popular trekking routes of Nepal could help a lot in strengthening economic conditions of local people of those areas. For this rural areas should be the focus of agro-tourism.
- 6.17 Non-Resident Nepali (NRN) Act has been formulated with a view to attract investment from non-resident Nepalese. The Act has made provisions for NRNs such as approval of 10 year visa and permission for sale-purchase of property and operation of industry or businesses like a Nepali citizen within Nepal. However, several laws and by-laws related to the Act are yet to be formulated and implemented. Though NRNs have shown a commitment to establish a Fund of 10 million US dollars, it has not materialized in the absence of the required legal framework. Hence, it is necessary to complete institutional and legal framework required for the effective implementation of the NRN Act as soon as possible.
- 6.18 Nepal has to make provision of financial and other facilities at least similar to other South Asian countries to attract foreign direct investment. This is essential given the high need of foreign direct

investment for the development of natural resources, social and physical infrastructure, and other industries and businesses in Nepal. Foreign investors have shown interest for investment in some hydropower projects and physical infrastructures. Together with laying proper emphasis on creating suitable environment for attracting foreign investment and gaining confidence of investors, economic diplomacy needs to be strengthened. Foreign Investment and Technology Transfer Act, 1992 needs to be amended considering the changing national, regional and global situation as well as utilizing the past experience in attracting foreign direct investment. In addition, a high-level Investment Promotion Board needs to be established for promoting foreign investment.

- 6.19 Nepal has been using Kolkata Port of India as the only transit for its trade with third countries. Phulbari Banglabandh Route opened through Bangladesh for transit has not been effectively utilized because of the various infrastructure-related problems. Nepal had requested India for an alternate transit route first in 1995 and officially in September 2004. The private sector has often raised the issue that the use of Jawaharlal Nehru Port of Mumbai could greatly facilitate trade with Europe and America. While trading through this route, transport cost could be less by 40 percent compared to Kolkata Port, delivery time of goods to USA could come down by 20 days and as Jawaharlal Nehru Port is operated by private sector it is very efficient compared to Kolkata Port. Though Indian government has principally agreed for allowing the use of Jawaharlal Nehru Port, it had asked Nepal to submit report about modalities of its use. So Nepal needs to conduct a detailed study at the earliest regarding the volume of export traffic, economic benefits and possible modalities for cargo movement using this port.
- 6.20 For technology reform and skill development together with enhancement of capacity for development of new, attractive and quality products for competing in the international market, Nepal needs to set-up a training center at a suitable location. Approval to acquire consultancy services through foreign investment for technology development could further help in this regard. Establishment of Readymade Garments Processing Zone has become very essential in Nepal. It is necessary to formulate proper policies addressing the physical infrastructure required for its set up and operations. Readymade Garments Processing Zone should be set up near the dry port under Special Economic Zone. A bill entitled "Tariff Relief Assistance for Developing Economies (TRADE) Act of 2007" for providing duty and quota-free market access to 14 least developed countries has been

presented in the US Congress. Nepal needs to effectively lobby with the US government for its enactment.

- 6.21 As per the agreement reached in Hong Kong Ministerial Conference of WTO, it is necessary to initiate measures for duty-free access. The Conference had passed a commitment of providing duty free access to 97 percent of all products of least developed countries. Under this, a country providing duty free access to LDCs could keep only 3 percent of imported products on sensitive list. As readymade garment is considered as sensitive item in most of developed and developing countries, there is high possibility of its import being discouraged. Diplomacy needs to be initiated for bringing readymade garments produced in Nepal within 97 percent.
- 6.22 In order to protect domestic agricultural crops against the infection of diseases from the imported agro products and seeds, Nepal had established Plant Quarantine Centers at several parts of the country which include three at border points with Tibet, one at Tribhuvan International Airport and eleven at border points with India. Plant Quarantine Center is responsible for phyto-sanitary inspection of imported as well as exportable plant & plant products and approving their import/export. However, these centers have not been able to function as per their objective. Exports of all plant related products to India are required to obtain Phyto-sanitary Certificate but similar imports from India are entering without such certificate. Plant Protection Act 2007 has a provision requiring the quarantine test of imported plant, plant-related products, insects to be used against crop diseases and soil for plantation. Hence, to increase quality and to enforce proper health regulation in imported products, effectiveness of quarantine check posts need to be enhanced.

7. Poverty Alleviation and Employment

Poverty Alleviation

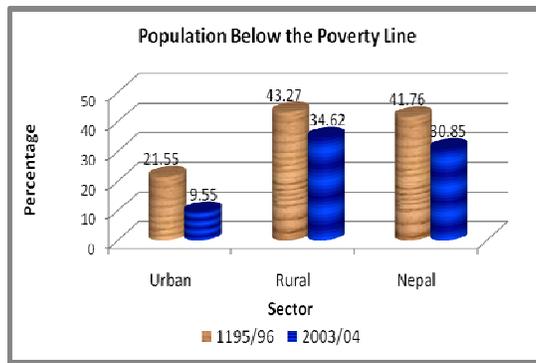
- 7.01 Poverty is understood, measured and evaluated in various dimensions such as the income level, human development and social inclusion. Poverty line is determined by the marginal points that allow or do not allow consumption of minimal goods and services necessary in life with the purchasing power from the available income. Taking Rs.7,696 as the average national poverty line as per the Nepal Living Standard Survey (NLSS) 2003/04, 30.85 percent of the population of Nepal falls below the poverty line. Similarly, on the basis of the Survey's benchmark of one dollar a day as per the purchasing power parity terms, 24.1 percent of the total population falls below the poverty line.
- 7.02 In the context of poverty alleviation, it becomes extremely important to analyze poverty incidence, poverty gap and squared poverty gap. Poverty incidence indicates the proportion of the population living below the poverty line, whereas poverty gap indicates how far and what percentage of the people are distributed below the line. The squared poverty gap indicator shows how deep the inequality exists even among the poor.
- 7.03 As per the NLSS, the gaps between the urban and the rural as well as the various geographical regions and groups are still huge. During an eight year period from FY 1995/96 through FY 2003/04, urban poverty decreased by 12 percentage points, whereas rural poverty has decreased only by 8.65 percentage points and the chief reasons for the decrease in the national poverty level by an average of 10.91 percent are the rapid growth of urbanization, rise in the remittance income, increase in the agricultural wages and the growth in the proportion of economically active population. However, the increase in income inequality during this period points to an increase in the gap between the poor and the rich in the country. The Gini coefficient, which measures the extent of income inequality reached 0.41 in FY 2003/04 from 0.34 in FY 1995/96. This implies a sharp increase in the income level of the rich vis-a-vis that of the poor.

7.04 The geographical as also the ethnic and occupational distribution shows that the Gini coefficient between geographical regions and various castes and ethnic groups is getting bigger. According to the NLSS, among those living below the poverty line, 67 percent are in agricultural employment and 11 percent are the agricultural labourers. Thus, 78 percent of the poor depend upon the agricultural sector as the principal source of employment. Poverty distribution varies not only by geography/region but also by ethnicity. Among the various ethnic groups, 46 percent of Dalits, 44 percent of hill ethnic groups, 41 percent of Muslims, 35 percent of Terai indigenous peoples and 31 percent of other minority ethnic groups live below the poverty line. Furthermore, 14 percent of Newars, 18 percent of Brahmins/Chhettris and 21 percent of Terai middle classes live below the poverty line.

7.05 An analysis of poverty spread as per the Survey shows that, 29.4 percent of Nepal's total poor live in rural mid and eastern hills. This figure is 23.6 percent in rural western hills, 23.5 percent in rural eastern Terai, 18.9, percent in the rural western Terai and 4.7 percent in urban areas. Similarly, of the total poor, 7.5 percent are estimated to live in the mountainous region, 47.1 percent in the hills and 45.4 percent in the Terai.

7.06 According to the NLSSs conducted in FY 1995/96 and FY 2003/04

to measure incidence of poverty, there is decrease in the population living below the poverty line in Nepal. Poverty gap has decreased particularly due to the greater inflow of the remittance income, rise in wage rates in the agricultural sector and control of inflation.



The proportion of population living below the poverty line, which was 41.76 percent in FY 1995/96, decreased by 11.0 percentage points in FY 2003/04 to reach 30.85 percent, whereas it decreased by 12.0 percentage points in urban areas and 8.65 percentage points in rural areas to reach 9.55 percent and 34.62 percent respectively. In addition, the poverty gap in Nepal is estimated to have remained at 7.55 percent and squared poverty gap at 2.70 percent.

Table 7(a): Poverty Measurement (1995/96 and 2003/04)

(percentage)

Region	Population below the poverty line		Poverty gap		Squared poverty gap	
	1995/96	2003/04	1995/96	2003/04	1995/96	2003/04
Urban	21.55	9.55	6.54	2.18	2.65	0.71
Rural	43.27	34.62	12.14	8.50	4.83	3.05
Nepal	41.76	30.85	11.75	7.55	4.67	2.70

Source: National Planning Commission

- 7.07 The TYIP has adopted the objective of ensuring direct transformation in the lives of the common people through reducing existing unemployment, poverty and inequality and contributing to the establishment of peace in the country. The Plan, which was formulated being centered on the main objective and in a manner different from the previous Plans by following more participatory process, has adopted re-construction, re-establishment and social re-integration as the first and foremost priority. To achieve these objectives, the Plan has adopted strategies to: (i) lay special stress on relief, re-construction and re-integration, (ii) realize employment-oriented, pro-poor and broad-based economic growth, (iii) increase effectiveness in the promotion of good governance and the delivery of service, (iv) increase investment in physical infrastructure development, (v) emphasize social development, and (iv) conduct inclusive development and targetted programs.
- 7.08 The Plan has given priority to issues such as re-construction and re-establishment, inclusiveness increasing invesment in physical infrastructure like electricity, road, irrigation, communication etc. that support agriculture, tourism and industry, and increase investment in education, health, drinking water and sanitation sectors so as to improve the human resource development. It targets to bring down the population living below the poverty line from the exesting 31 percent to 24 percent.

Inclusive Development and Targetted Programs

- 7.09 With the objective of freeing from poverty and backwardness, the various social classes, communities and regions that have not been able to join the mainstream of development due to economic, social and cultural reasons, social inclusion and targetted programs have been implemented. Such targetted programs cover women, Dalits,

indigenous people, Madhesis and backward sections, communities living in remote areas, ultra-poor and small farmer households.

- 7.10 Amongst the annual average number of approximately 450 programs/ projects implemented during the five years of the Tenth Plan (2002/03-2006/07) an average of 35 projects were implemented under this strategy. Additionally, the TYIP has further prioritized the process of inclusive development and targetted program as a major strategy and adopted it. In the first year of the TYIP, i.e. FY 2007/08, the number of programs/projects has reached 60 and there has been an increase even in the budget allocation.
- 7.11 Although an analysis of the trends during the Tenth Plan period shows some increase in expenditures, an annual average of 76.3 percent of the allocated amount is found to have been spent. In the first year of the Tenth Plan, viz., FY 2002/03, 82.2 percent of the allocated amount was spent for targetted programs. Similarly, during the second year viz., FY 2003/04, the expenditure percentage declined with 65.8 percent being spent. However, some improvement was noted in FY 2004/05, with 79.0 percent of the budget being spent. In FY 2005/06, out of the total allocated budget of Rs.3.40 billion 77.3 percent was spent. Similarly, out of the apportioned budget of Rs.4.74 billion in FY 2006/07, Rs.3.65 billion was spent representing 77.0 percent of the total. Thus, compared to the expenditure progress percentage of FY 2005/06 the expenditure progress remained static in FY 2006/07.

Table 7(b) : Status of Budget and Expenditures of the Targeted Programs

Amount in Rs. million

S.N	Particulars	Fiscal Year				
		2002/03	2003/04	2004/05	2005/06	2006/07
1.	Allocated budget	2140	2980	2760	3402	4740
2.	Actual Expenditure (revised estimates)	1760	1960	2180	2630	3650
3.	Expenditure Percentage	82.2	65.8	79.0	77.3	77.0

Source: National Planning Commission

- 7.12 To assist in the creation of just society by eliminating the prevailing regional, castes-based and other inequalities and discriminations besides narrowing down the disparities between the affluent and the excluded groups, the current TYIP has focused on the inclusive and targetted programs by reducing the gap between the available

opportunities and access. The Interim Constitution of Nepal 2007, the composition of the Constituent Assembly, the stipulations in the provisions relating to the appointment in public positions including the civil services could be taken as some notable achievements in the direction of inclusiveness.

Work Relations to Poverty Monitoring

- 7.13 During the Tenth Plan period, significant improvements were made in the monitoring and evaluation system which, in the past, was limited to the review of the financial and physical progress of the projects and programs. In accordance with this, a poverty monitoring and analysis system was developed at the centre so as to institutionalizing the monitoring work. However, before the Tenth Plan, only the mid-term progress of the periodic plans was published with the beginning of the Tenth Plan, annual progress is being published incorporating the specific indicators of the poverty monitoring and analysis system.
- 7.14 Two important surveys, NLSS and Nepal Demographic and Health Survey (NDHS), have been conducted. The results of these surveys show a few positive improvements with respect to both the income and human poverty. Some information of NDHS conducted in 2001 and 2006 are presented below for comparison:

Table 7(c) : Comparative Description of a Few Indicators of Nepal Demographic and Health Survey

S.N.	Demographic indicators	2001	2006
1.	Total Reproduction Rate	4.1	3.1
2.	Crude Birth Rate (per thousand)	33.5	28.4
3.	Use Rate of Family Planning Contraceptives (all methods, percentage)	39.3	48.0
4.	Use Rate of Family Planning Contraceptives (modern methods, percentage)	35.4	44.2
5.	Infant Mortality Rate (per thousand)	64	51
6.	Child Mortality Rate (per thousand)	29	15
7.	Under Five Child Mortality Rate (per thousand)	91	65

Source: National Planning Commission

- 7.15 The task of revising the Poverty Monitoring and Analysis System (PMAS) in accordance with the TYIP is moving forward. After the implementation of this system, the old monitoring and evaluation system, which used to focus on financial and physical progress,

has witnessed noted improvements, and efforts are being made to institutionalize the system of monitoring the output and impact of the sectoral programs and projects. After the introduction of this system, the annual reports of the first, second, third and fourth years of the Tenth Plan, also referred to as the Poverty Reduction Strategy Papers have been published based on the stipulated indicators, whereas the progress report for the fifth year is being prepared as the fifth and final evaluation.

- 7.16 In order to streamline and strengthen the district-level monitoring and evaluation by reforming the existing system, the task of institutionalizing the District Poverty Monitoring and Analysis System (DPMAS) through preparing a draft and sending it to all the District Development Committees for its implementation was started during the Tenth Plan Period. The TYIP expresses its commitment to institutionalize this system by extending necessary support for the capacity development.
- 7.17 With the support of the project entitled Operationalization of Managing for Development Results (MfDR), supported by the Asian Development Bank outcome framework and outcome management directives as the central level for the National Planning Commission, Ministry of Physical Planning and Works and Ministry of Local Development have been prepared. Additionally, in the process of institutionalizing the district-level district poverty monitoring and analysis system this project has constructed DPMAS software after studying the situation in four districts: Jumla, Dang, Dhanusa and Jhapa and the personnel involved are also trained for its operation.
- 7.18 As the reflections and feedback of the common people becomes extremely necessary regarding the development outcomes and the implementation of the progress of projects, a framework of the participatory poverty monitoring system for streamlining the TYIP monitoring process was prepared and based on its, the testing of the citizen specimen card was accomplished during the tenth plan period. Similarly, the TYIP expresses its commitment to institutionalize the participatory Monitoring Mechanism as a means for ensuring the participation and expressing of the beneficiaries in monitoring and analysis.

Economic Reform program

- 7.19 With the objective of utilizing the technical assistance received from various donor agencies and nations in accordance with our needs and priorities so that they would support the government's reforms program besides mobilizing such assistance in a coordinated manner according to the prevalent budget disbursement system and accounting provisions by bringing such assistance under one roof, an economic reform program in this direction has been launched since FY 2005/06.
- 7.20 Under the economic reform program, 30 project proposals from diverse agencies have been approved by the steering committee. Accordingly, there are 20 projects under the pre-identified activities and 10 under the Opportunity Fund. Similarly, 20 projects have been implemented out of which 7 projects have already been completed. Additionally, there is a target of completing additional 10 projects by the end of the current fiscal year.
- 7.21 Among the major achievements of the economic reform programs are the amendment and enforcement of the Civil Service Act and the Regulations so as to incorporate reservations based on the study carried out to make the civil service fair and effective, concerning the handover of the schools conducting empowerment and awareness-oriented programs for 613 stakeholders in order to develop the management capacity of community schools, laying of optical fibres and networking in the Singha Durbar premises, updating the Civil Servant Management Information System, preparation of a study report after completing a study on the ranking system in the civil service.
- 7.22 Under the above economic reform program, 525 accounts officers and accountants have received training in accounting and revenue accounting based on information technology; a study has been carried out on revenue administration strengthening; leadership development program for 75 persons and service delivery strengthening in 5 districts have been conducted; 1,487 persons have participated in capacity enhancement training for corruption control; guidelines on grievance management have been prepared and guidelines on complaint management; technical examinations of 10 projects have been completed; 5 local coordination fora have been established and audio-visuals against corruption have been produced and disseminated; the task of distributive trade survey has

been started; the task of translation of auditing standards into Nepali and their dissemination has been accomplished; a draft of auditing standards of public and small and medium enterprises has been prepared; a study of institutional arrangements, bid documents and legal provisions has been carried out; an information management system of the employees of the Nepal Police has been established and data/particulars of 33 thousand employees have been updated; and a draft of the legal enactment directives has been prepared.

Poverty Alleviation Fund

- 7.23 In pursuance of the objective of assisting in conducting programs by targetting the groups of people living below the absolute poverty line in accordance with the objective of extending direct support for the inclusive development and targetted programs as specifird in the GON's Poverty Reduction Strategy Paper (PRSP) and the current TYIP, Poverty Alleviation Fund (PAF) has been estalished under the Poverty Alleviation Fund Ordinance, 2060 and is operating as an autonomous institution under the Poverty Alleviation Fund Act, 2063.
- 7.24 The above PAF has conducted programs based on local demands with the active participation of the poor and backward classes of society in accordance with the 5 directive principles of revising the destitutes social inclusion, transparency, demand-based program and direct delivery of fund in the community. With a view to implementing the community projects through communities themselves by effecting the full participation of the poor communities themselves, programs have been conducted by forming and institutionalizing community organizations with the representation of the poor communities. In order to provide necessary support for the communities in this task, joint work has been done with the NGOs, community organizations, private sector organizations and local agencies as support organizations.
- 7.25 Whereas the PAF has conducted programs in the 6 districts of Darchula, Mugu, Pyuthan, Kapilvastu, Ramechhap and Siraha since FY 2004/05 as pilot test with the World Bank's grant support of US\$ 150 million and grant support of the GON, the pilot program has been expanded to 40 districts as of FY 2007/08 based on the success of the pilot program.
- 7.26 In order to facilitate the communities, 221 support organizations have been selected and agreements signed with them, the task of facilitation is being carried out for social mobilization, institutional development of the community and formulation of community projects. Along with

helping community organizations by providing them with necessary technical support and facilitation to accomplish social mobilization, capacity development and skill development training, institutional development of community organizations, and formulation and implementation of community projects, these support organizations provide linkage and communication support between the community and the PAF.

- 7.27 Apart from expansion of the PAF's program, the World Bank is to provide a grant support of US\$ 25 million to the PAF. The GON and the World Bank have concluded the said additional grant assistance agreement on March 9, 2007. An agreement has also been signed on January 31, 2008 for a grant assistance of US\$ 100 million.

Annual Targets and Progress for FY 2006/07

- 7.28 Against the target of making available grants of Rs.987.4 million for 2,750 community projects to be carried out by the targeted communities in FY 2006/07, the PAF entered into agreements with the community organizations for the implementation of 3,358 projects in the income-generating and community infrastructure development areas for which the PAF provided grants of Rs.979.9 million. For running program Rs.164.1 million has been provided to the associated institutions.
- 7.29 Compared to the target of providing grants of Rs.1.22 billion for 3,500 community projects of community organizations in FY 2007/08, in the first eight months of FY 2007/08, agreements were concluded for the implementation of a total 1,976 projects of the targeted communities in the areas of income generation and community infrastructure development for which these organizations were provided support of Rs.983.6 million from the PAF. Organizations supporting the program implementation have been provided Rs.158.5 million. The annual target will be fully achieved by the end of the fiscal year.
- 7.30 Since the operation of the PAF program, 6,838 community organizations have been formed in 668 VDCs of 25 districts. Among the members affiliated with the community organizations, 39 percent are the Dalit, 29 percent indigenous people and 32 percent others. Female participation is 68 percent. Till now, 6,137 community organizations have formulated income generation and community infrastructure development projects and have concluded

agreements with the PAF for their implementation. Accordingly, they have received assistance worth Rs.2.8 billion.

- 7.31 Among income-generating projects, 5,935 projects such as those in livestock, vegetable farming, horticulture, juice processing, woollen carpet weaving, *Jhauva* farming, poultry farming, bamboo material, pig, fishery, retail shop, motorcycle repair workshop, rickshaw pulling etc. are in operation. Under the community infrastructure development, 1,354 projects like drinking water, micro irrigation, micro hydropower, rural road, bridges and culverts, school/healthpost buildings etc. are in operation. A total of 222,537 households have benefitted from these projects. Among the beneficiary households, 68.2 percent are ultra poor, 23.7 percent are middle poor, 7.9 percent are poor, and 0.3 percent are marginally poor.

Employment

- 7.32 As per the Census of 2001, out of the total population, the economically active population in the labour market was estimated at 10,482,000. At the time of formulation of the Tenth Plan, it was estimated that an additional 1,053,000 jobs would be created during the Plan period. It was deemed that employment opportunities would be created associated with the production growth in the various sectors of the economy as well as the contribution of the inter-sectoral linkages. Accordingly, it was estimated that a total of 11,012,000 jobs would be created by the end of the Plan. The Plan also mentioned that the number of the economically active population at the end of the Plan (FY 2006/07) would number 11,580,000. Out of this, fully unemployed population was estimated at 4.1 percent only. In addition, the semi-employed population was estimated to fall to 22.3 percent by the end of the Plan. As the review of the Tenth Plan is yet to be completed, the status of the said targets could not be determined.
- 7.33 Since poverty reduction is the primary objective of the Tenth Plan, various policies are being enforced to achieve that aim in accordance with the belief that it could be achieved only by increasing employment. In accordance with the target of reducing the population living below the poverty line from 42.0 percent as at the time of Plan formulation to 32.0 percent by the end of the Plan period, programs were implemented keeping the principal strategies (high, sustainable and broad-based economic growth, social sector

and rural infrastructure development, targetted program and good governance) at the central stage.

- 7.34 Policies such as those of enhancing employment opportunities by expanding the economic and social development activities stipulated in the Tenth Plan, promoting labour-intensive businesses in order to enhance access of the poor to employment opportunities, conducting income-generating and employment targeted programs for the backward classes and special regions, carrying forward, in a balanced manner, aspects related to occupational performance enhancement and protection of basic rights and interests of the labour class are currently being implemented. As the Tenth Plan is yet to be reviewed, total and up-to-date information as to the number of jobs attributed to the implementation of the stated policies and programs are not presently available.
- 7.35 Despite the growing trend of Nepalese going abroad for employment, there has been no reduction in the number of unemployed. According to the 2001 Census, 5.1 percent of the population of the age of 10 years and above were unemployed. However, according to NLSS, 2.9 percent of the population aged 15 years and above were unemployed and 74.3 percent were employed, whereas 22.8 percent were inactive. Of the employed population, 3.1 percent were male and 2.7 percent female, whereas the percentage of youth unemployed was 15.0.
- 7.36 The decade-long conflict in the country in the past negatively affected industries and factories, because of which several industries and factories were completely shut down, whereas a few were partially closed and, of the few that were in operation, could not operate to their optimal capacity. Consequently, a number of workers working in these industries and factories were deprived of employment. Furthermore, due to the government's campaign of creating a small and efficient administration, new opportunities for employment could not be created, which increased the number of unemployed.

Table 7(d) : Status of Employment in Nepal, 2003/04

(Population above the age of 15 years)

Region	Employment (%)	Unemployed (%)	Inactive (%)	Total (%)
Genderwise				
Male	73.3	3.1	19.6	100
Female	71.7	2.7	25.6	100
Development Regionwise				
Eastern	74.9	2.9	22.2	100
Central	72.4	3.3	24.3	100
Western	73.2	2.7	24.1	100
Mid-Western	77.0	2.8	20.2	100
Far Western	80.4	1.4	18.2	100
Ecological Regionwise				
Himal	86.7	1.3	12.0	100
Hill	76.0	2.1	21.9	100
Terai	71.1	3.8	25.1	100
Nepal	74.3	2.9	22.8	100

Source: Nepal Living Standard Survey, 2003/04, Central Bureau of Statistics

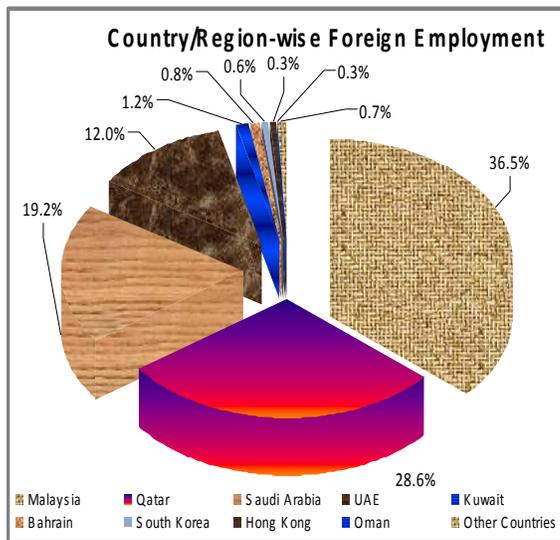
- 7.37 Due to the dearth of employment opportunities, the number of Nepalese going abroad for foreign employment is increasing every year. Apart from Malaysia and Korea, the number of those going to the Gulf countries for employment is seen to be particularly high. During the FY 2005/06, the total number of persons issued permit for going for foreign employment through institutionalized means reached 773,592. A total of 204,533 persons in FY 2006/07 and 152,682 up to mid-March 2008 were added, thus the total number of persons issued permit for foreign employment totalled 11,30,807.
- 7.38 Out of the 1,068 Nepalese that had gone abroad for foreign employment in FY 2006/07, 405 had gone to Israel, 330 to Macau and 51 to Singapore. Of the total number of those going for foreign employment, 390 were women. Thus, Israel and Macau have emerged as new destinations in comparison to the traditional destinations for foreign employment.

Table 7(e) : Destinations of Foreign Employment

S.N.	Country/Region	Total number up to FY 2005/06	Total number of FY 2006/07	Number up to FY 2007/08 mid-March	Total number
1	Malaysia	3,04,667	74,029	33,485	4,12,181
2	Qatar	2,06,385	59,709	56,850	3,22,944
3	Saudi Arabia	1,51,190	39,279	26,329	2,16,798
4	UAE	80,769	25,172	29,307	1,35,248
5	Kuwait	9,498	2,441	1,435	13,374
6	Baharain	5,383	1,200	2,428	9,011
7	South Korea	5,676	765	0	6,441
8	Hong Kong	3,343	361	149	3,853
9	Oman	835	509	1,548	2,892
10	Other Countries	5,846	1,068	1,151	8,065
	Total	7,73,592	2,04,533	1,52,682	11,30,807

Source: Department of Labour and Employment Promotion, 2008

- 7.39 Looking at the trend of Nepalese going for foreign employment, the maximum number of 412,181 (36.5 percent of the total) have gone to Malaysia, followed by 322,944 (28.6 percent) to Qatar and 216,798 (19.2 percent) to Saudi Arabia. Similarly, 135,248 (12.0 percent) Nepalese have gone to the UAE, 13,374 (1.2 percent) to Kuwait, 9,011 (0.8 percent) to Baharain, 2,892 (0.3 percent) to Oman, 3,853 (0.3 percent) to Hong Kong, 6,441 (0.6 percent) to South Korea and 8,065 (0.7 percent) to other countries.



- 7.40 Out of the 152,682 persons who went abroad for foreign employment up to the mid-March 2008, 33,485 were in Malaysia, 56,850 in Qatar, 26,329 in Saudi Arabia and 29,307 in the UAE. During the same period, out of those who went abroad for foreign

employment, 2,428 were in Baharain, 1,548 in Oman, 149 in Hong Kong, and 1,151 in the others. Of those going for foreign employment up to mid-March 2008, 181 were women.

- 7.41 The number of foreign citizens who have been issued work permit to work in Nepal in FY 2006/07 was 96. During the same year, the number of disputes settled through the Court reached 101.
- 7.42 As of mid-March 2007, a variety of 50 companies were issued licenses to carry out foreign employment business, whereas the numbers of labour unions approved by the Department of Labour reached 98 and the number of registered trade unions numbered 33.

**Table 7(f): Progress Details Regarding Foreign Employment
(mid-July 2007 through mid-March 2008)**

S.N.	Major Accomplishments	Achievements up to mid-March of the current fiscal year
1	a) Numner of permits issued for foreign employment business b) Renewal	50 435
2	Listed number for providing orientation training	0
3	Initial approval number	189,312
4	Final approval number	152,682
5	Relating to grievance investigation a) Number of personal grievances b) Amount of personal settlement (Rs. million) c) Number of institutional grievances b) Amount of institutional settlement (Rs. million)	185 Rs.4.85 155 Rs.8.15
6	Relating to trade union a) Number of labour approved b) Renewal of labour approved c) Trade unions registered d) Renewal of trade unions	98 42 33 17
7	Revenue amount (Rs. million)	Rs.4.80
8	Number of persons leaving for foreign employment on self-initiative	4,189

Source: Department of Labour and Employment Promotion

Challenges

- 7.43 The challenge remains narrowing down the increasing inequality and gap between the rich and the poor by giving continuity, through policy and program consideration the poverty alleviation efforts.
- 7.44 For poverty alleviation, it is imperative to enhance competitive strength of the poor communities by stressing their capacity development and empowerment so as to enhance their access to employment opportunities being created as a result of the pursuance of broad-based and sustainable economic growth process.
- 7.45 It would be imperative to implement social inclusion and targeted programs for the various social classes, communities and regions that could not be or that have not been included in the mainstream of development due to economic, social and cultural reasons, including the women, Dalit, indigenous people, Madhesis and backward classes, communities living in remote areas, ultra poor and small farmers in order to free them from poverty and backwardness.
- 7.46 Bringing the rural areas into the mainstream of development by reducing the disguised unemployment prevalent in the agriculture sector and creating new employment remains a major challenge.
- 7.47 In view of the fact that the prospects for self-employment promotion are limited as the majority of the population does not have necessary access to local skills, capital and technology, it seems desirable to promote productive employment through the development of domestic entrepreneurship by enhancing the access to local skills, capital and technology.
- 7.48 Enforcing the Child Labour (Prohibition and Regulation) Act and it accomplishing the tasks of investigating the foreign employment frauds in a speedy, efficient and timely manner needs to be carried out with priority.
- 7.49 In view of the inability to develop in a reliable manner the agricultural occupation in order to support the agricultural sector, under-employment and disguised employment are still prevalent. Consequently, the agricultural profession has become subsistent, with a low production and low-income occupation in this sector. So, developing the agricultural sector and the various subsectors under

this remains a challenge in order to address the problems of illiteracy, poverty and malnutrition rampant in Nepal.

- 7.50 Making efforts to make available employment opportunities for skilled human resources through formal or organized sector industries having big investment and arrange safe foreign employment opportunities ensuring enhanced competitive strength has emerged as a major challenge.
- 7.51 In the context of the GON having opened the door for foreign employment in 107 countries, the task of verifying documents relating to foreign employment to be obtained by the agencies that have received permit from these countries has become a problem. As most of the countries do not have Nepalese missions, Therefore, it has become imperative to make appropriate alternative arrangements that could help carry out this task without causing any additional financial burden on the government.

8. Agriculture, Industry and Tourism

Agriculture

8.01 In the agro-based country Nepal, a majority of her people still relies on agriculture which has remained the chief mode of employment and income source. Agriculture contributes the largest share in the GDP. Obviously, the country can not steer the trajectory of sustainable development in the absence of agricultural development. In the light of this undeniable fact, the agriculture has been accorded the topmost priority in the previous plans. Also, the agriculture perspective plan has been executed aimed at reducing poverty, raising agro-products and fostering employment opportunities.

Production Status

8.02 The net production of the country's major food crops (paddy, wheat, maize, barley and millet) in FY 2006/07 was 7.33 million MT, witnessing a fall of 4.3 percent (327,000 MT) compared to that in the preceding fiscal year. However, the preliminary estimation of the net production in the current fiscal year stands at 8.07 million MT, a raise by 10.1 percent (740,000 MT). Net farming area in FY 2006/07 was 3.30 million ha, a fall by 1.6 percent compared to the preceding year's level. In the current fiscal year, the net farming area is estimated to have expanded by 3.4 percent (111,000 ha) to 3.42 million ha. In the last fiscal year, paddy production fell sharply due to adverse weather while maize production witnessed a slight rise and the wheat production reached a satisfactory level. Because the paddy constituted 50.22 percent of the food weights, the decline in its production despite increment in the production of other food crops resulted in reduced growth of aggregate food output in FY 2006/07. Due to favorable climatic conditions, food production in the current year registered a positive growth wherein paddy production grew by 16.8 percent, maize by 3.2 percent, wheat by 3.8 percent and millet by 2.1 percent.

Box 8(a): Major Agricultural Activities

1. **One Village, One Product Program:** As per One Village One Product Program 2005/06, different districts are selected to boost the production of the crops with high export potential under public-private partnership scheme. The program has identified Ramechhap and Sindhuli districts for *Citron*, Siraha, Banke and Bardiya districts for *wood apple*, Bhaktapur district for

Plumb/Mombin and Nuwakot and Rusuwa districts for Renbo Trout fish.

2. **Agro-biodiversity Policy:** This policy is inspired with the objectives of poverty reduction and ensuring food security to the present and future generations. The policy stresses on protection and use of food and, agro-products genetic sources, local practices and skills and coordinated and justifiable equal distribution. The policy is functional since 2063 BS.
3. **Agriculture Disaster Management:** A relief fund has been set up to ensure the benefit to the farmers. The fund also makes immediate efforts at different phases to prevent the contraction in the agricultural GDP.
4. **Promotion of Agro-business:** This program aims at making agro-business commercial enough at the regional and global market, creating bases for professional and competitive agricultural system. The program is in effect with the implementation of Agro-business Promotion Policy, 2006.

Source: Department of Agriculture and Cooperatives

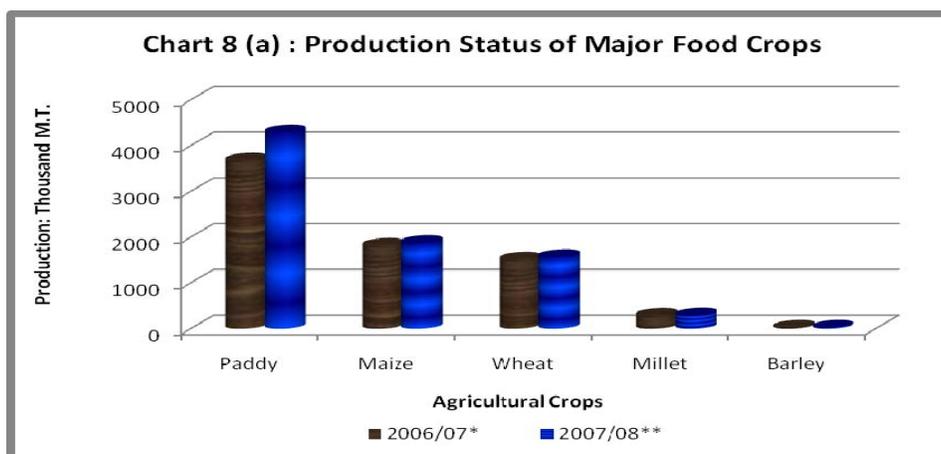
- 8.03 On cash crops, the production of oilseeds (mustard, sunflower etc.) plunged by 2.2 percent in FY 2006/07 to 136,000 MT compared to the previous year's. Preliminary estimations show that the production of these crops will plunge further by 1.5 percent to 134,000 MT this year. The area under cultivation of such crops shrunk by 2.1 percent to 184,000 ha in FY 2006/07. As per the preliminary estimations the area cultivating this crop will further shrink by 2.2 percent to 180,000 ha in FY 2007/08. The forecast is based on two reasons: lack of rain for one month in major districts of Terai region during flowering season and pest infections in some places. Despite growth in the area under cultivation of potato, its production in FY 2006/07 fell by 1.6 percent compared to the preceding years. In the current fiscal year, however, a growth of 1.9 percent in the potato cultivation area, 5.8 percent in its production and 3.6 percent in its productivity is estimated. Area of tobacco farming has fallen in the current fiscal year. While the last fiscal year witnessed a growth in both the area and cultivation of sugarcane, the crop this year is estimated to suffer a shrink in both the aspects. As for the jute crop in this fiscal year, its productivity and production are expected to rise despite reduction in the area of cultivation.
- 8.04 Production of pulses (lentil, mas, pigeon peas, black-gram, soybean, etc.) is expected to fall by 1.7 percent to 269,000 MT this fiscal year as against the production of 274,000 MT in the last fiscal year. However, fruit production is expected to rise by 5.4 percent to 606,000 MT this fiscal year against last year's 575,000 MT. A rise by 11.1 percent is expected in the output of green vegetables. Last year had witnessed a growth of 5 percent in the vegetables output. Continuous increase in vegetable both in

terms of production and cultivated area owes to the fact that farmers are highly drawn to this crop among other cash crops.

- 8.05 As a share of the output of the major agro-products in FY 2006/07, food crops comprised 48.3 percent, cash crops shared 31.0 percent while the rest came to 20.7 percent. Estimates for the current fiscal year show that, of the total crops, food crops share 49.8 percent while the share of cash crop stands at 29.0 percent, the rest sharing 21.2 percent. While the cultivated area in FY 2006/07 had shrunk by 1.6 percent, this fiscal year is expected to see an expansion of 3.4 percent.
- 8.06 As preliminary estimations show, GDP in agricultural and forest sector in the current fiscal year is expected to rise at the rate of 5.65 percent. As per the preliminary estimates based on Agro-production Index, the current fiscal year shall witness a rise in several products as against the last fiscal year's. Food crop is expected to rise by 7.3 percent, green leaves and nursery by 9.6 percent, fruits and spices by 5.4 percent, poultry farming by 3.1 percent, and animal husbandry by 2.6 percent. Similar estimations show that forest and forest products shall witness a 0.2 percent rise.

Production Status of Major Food Crops

- 8.07 **Rice:** Preliminary estimate shows the growth of rice in its area, production and productivity in the current fiscal year. Rice production is expected to shoot up by 16.8 percent to 4.3 million MT as against the last year's production of 3.68 million MT. This rise is the first after three consecutive years of recession in rice production. Similarly, cultivated



area is expected to rise by 7.6 percent (from 1.44 million ha in the last fiscal year to 1.55 million ha). Rice productivity is also expected to shoot up by 8.2 percent, to 2,770 Kg. per ha. Such estimations are made based

on favorable monsoon rains that started early, shedding enough almost throughout the monsoon period.

- 8.08 **Maize:** Maize production in the current fiscal year is expected to rise by 3.2 percent to 1.88 million MT as against 1.82 million MT in the last fiscal year. The preliminary estimate is that maize productivity shall rise by 3.3 percent to 2,160 Kg. per ha. Besides low maize production in that Terai due to excessive rain, better maize production in the hilly and the Himalayan regions and an increase in cultivation area for non-seasonal and Basante (spring) maize varieties, the production of maize increased in this fiscal year.
- 8.09 **Wheat:** Compared to the last fiscal year, wheat production is expected to rise by 3.8 percent to 1.57 million MT. Rise in the wheat production is estimated due to the fact that this crop is doing well in the Terai region despite its poor perspective in the hilly region. Besides, cultivation area of the crop has also increased. As against the cultivation area of 703,000 ha in the last year, the area increased by 0.4 percent to 706,000 ha this year.
- 8.10 **Barley:** Barley production and its cultivation area in this fiscal year are expected to fall. Cultivation area is expected to fall by 2 percent. Total cultivated area this year is estimated at 26,000 ha and the production at 28,000 MT. Farmers more interested in other cash crops and shrinking of cultivation area in the Terai and inner Terai areas stand as the main reasons for the poor performance of this crop.
- 8.11 **Millet:** Millet is estimated to register a growth of 2.2 percent to 291,000 MT this fiscal year as against last year's 285,000 MT. Productivity is also expected to rise by 1.9 percent to 1,090 Kg. per ha as against last year's 1,070 Kg per ha.

Production Status of Cash Crops

- 8.12 **Sugarcane:** This major industrial crop witnessed a shrink in cultivation area by 1.6 percent to 63,000 ha. Production is simultaneously estimated to reduce by 4.4 percent to 2.49 million MT.
- 8.13 **Oil-Seeds:** Production of oil-seeds (such as mustard, yellow mustard, sunflower etc.) is expected to go down by 1 percent this fiscal year compared to last year's, harnessing just 134,286 MT. Preliminary estimations show that cultivation land for this sector shall shrink by 2 percent to 180,000 ha. This estimation is based on lack of rain during flowering season in major districts and due to pest (Lahi kira) infestation on such crops in the Terai region.

- 8.14 **Potato:** Potato production in the current fiscal year is expected to rise by 5.8 percent, with net production estimated at 2.05 million MT. Cultivation area of this crop is expected to rise by 1.9 percent, thus the crop spreading over to some 157,000 ha. Productivity of the crop is estimated at 13,110 Kg. per ha. This estimation is based on the fact that no pocket area this fiscal year is infected with blast disease.
- 8.15 **Tobacco:** This cash crop is estimated to fall by 1.5 percent this fiscal year yielding to just 2,610 MT. Cultivation area for this crop has been on the continuous decline for the past few years. This year, the cultivation area of the crop is estimated at 2,690 ha. Farmers' interest in this cash crop is fading away resulting in its low production.
- 8.16 **Jute:** Cultivation area of this crop farmed in six eastern districts: Jhapa, Morang, Sunsari, Saptari, Siraha and Udayapur, has decreased. Yet, the production and productivity of the crop is expected to rise to some extent.
- 8.17 **Pulses:** The total production of pulses (lentils, mas, pigeon pea, black gram, soybean, gahat, khesari, etc.) in this year is expected to fall by 1.7 percent, yielding to just 269,770 MT. However, slight increase in the cultivated land is estimated, reaching 320,000 ha. Despite a slight increase in the production of mas, soybean, pigeon pea beans, etc., major components of this group, lentils, peas, etc. are expected to fall behind, leading to the overall decrease of this group of crops.

Table 8(a) : Productivity of the Agro-Crops

(Kg/ hectore)

Production	Fiscal Year	
	2006/07	2007/08*
Agro Crops	2218	2361
Rice	2557	2775
Maize	2091	2159
Wheat	2156	2225
Millet	1074	1096
Barley	1064	1076
Pulses Crops	859	842
Horticulture Crops		
Potato	12657	13110
Vegetables	11977	11600
Fruits	9985	10563

* estimated

Source: Division of Agro-business Promotion and Statistics, Ministry of Agriculture and Cooperative

Production Status of Other Crops

- 8.18 **Fruits:** Fruit production is expected to rise by 5.4 percent, thereby reaching 606,000 MT as against last year's 575,000 MT. However, the area of cultivation for this crop is expected to decrease by 0.3 percent, shrinking from 57,595 ha to 57,400 ha. Apple and orange are expected to mark a slight rise. This year, professional banana farming has also been included in the list, thus contributing to the overall production of this group of crops.
- 8.19 **Vegetables:** Vegetable production this year is expected to rise by 11.1 percent. The crop is expected to soar to 2.56 million MT from last year's 2.30 million MT. The cultivation area is expected to be 220,000 ha. This type of crop has been widely accepted by farmers thereby, resulting in the constant rise of the crop's in area coverage and production for the past few years.
- 8.20 **Spices:** Spices like ginger and cardamom have witnessed a slight increase in terms of area coverage and production. Despite the decrease in cultivation area of the crops like turmeric, peppers and garlic ,their production and productivity have remained high.
- 8.21 **Tea, Coffee and Cotton:** Of the industrial crops, tea, coffee and cotton have undergone a significant increase in terms of area coverage and production.
- 8.22 **Honey:** Beehives are expected to remain almost at par with that of last year, i.e. 125,000 in number. Total honey production is also estimated to remain the same as that of last year, i.e., 650 MT. Despite the increase of modern beehives such as Serena and Molifera, the decline in the beehives of wild bees like Mudhe and Khopre would result in no remarkable difference in honey production.
- 8.23 **Floriculture:** The country has some 550 nurseries while Katmandu valley alone has 56 flower show-rooms. Nurseries and show-rooms from around the country are estimated to have a transaction of around Rs. 220 million from flower trade. This amount exceeds the last year's transaction in this crop by some Rs. 3.8 million.

Production Status of Livestock

- 8.24 **Number of Animals/Birds:** The number of cows/oxen is estimated to have increased by 0.7 percent in the current fiscal year, reaching 7.09 million. Of the total number of cows/oxen, the number of milking cows was 915,000, 13 percent of the total. Similarly, the number of male and female buffaloes increased by 3.0 percent to 4.5 million, among which the number of the

milking buffaloes was 1.16 million, 25.8 percent of the total. The number of sheep has fallen by 5 percent to 809,000, that of goats risen by 3.7 percent to 8.14 million, and the number of pigs increased by 2.4 percent to 1.01 million. Similarly the number of fowls rose by 3.0 percent to 24.7 million as against last year's number of 23.9 million. In the last fiscal year, poultry farming could not achieve a targeted growth in the production of fowls as the import of hens from India was banned and there was spread of bird flue in Bangladesh and the Indian states of West Bengal and Bihar. The number of ducks is expected to fall by 1 percent, reaching 3, 90,000.

- 8.25 **Milk:** Current fiscal year's estimate a rise of 2.8 percent in milk production from cows and buffaloes (excluding yak and Nak), the figure standing at 1.39 million MT. Of the total figure, cows contributed 400,000 MT while the share of buffaloes was 988,000 MT.
- 8.26 **Meat:** Total meat production during the current fiscal year is expected to rise by 3.0 percent to 233,900 MT. Of the total production, buffaloes' share would be 151,000 MT, that of sheep 2,733 MT and that of goats 46,188 MT. Similarly, pig's share would amount to 16,000 MT, chicken's share 16,600 MT and duck contributing 229 MT. As stated earlier, the production of meat from fowls has increased nominally due to spread of the bird flu in Bangladesh and India and the import restrictions.
- 8.27 **Eggs:** The number eggs production is expected to rise by 2.7 percent, marking 631.2 million from last year's 614.8 million, of which the hen eggs would make 617.4 million while that of ducks would comprise 13.8 million.
- 8.28 **Fish:** Current fiscal year is expected register a rise in fish production by 7.1 percent to 50,100 MT. Out of the total production, 50 percent is estimated to be produced from fish ponds while the rest being collected from other natural sources.
- 8.29 **Wool:** Wool production from sheep is estimated to decline from 588 MT last year to 585 MT this year.

Climatic Impacts

- 8.30 Thanks to the favorable monsoon condition this year, production of paddy remained high. Monsoon that started early brought enough precipitation till late, enabling paddy plantation in non-irrigated areas and boosting area coverage and productivity of the crop. Adversely, maize production in Terai is low due to water-logging. Reports from the Department of Hydrology and Meteorology state that months ending in mid-June received 98 percent of rainfall, *mid-July* 125 percent, and *mid-August* 101

percent, and *mid-September* 159 percent. Such more than average rainfall except in June brought about positive impact on paddy production.

- 8.31 Climate in the current fiscal year seems unfavorable for winter crops like wheat, barley, pulses and fruits. Rainfall reports of different places state that *September* and *October* received low rainfall and that the rainfall in January was exceedingly low. Even *February*, *March* and *April* recorded less than average rainfall.

Impact of Natural Calamities

- 8.32 The FY 2007/008 witnessed massive impacts of natural disasters like flash flood, landslide, inundation, river-cutting, etc. on summer crops in the Terai region. Impacts of such disasters in other regions of the country, though, were negligible. Most of the Terai districts are affected by inundation and the districts like Banke, Bardiya, Dhanusha and Mahottari suffering the most. Hailstones also caused a heavy damage to fruits and vegetables and minor damage to wheat crop production. Districts most affected by hailstones are Tanahun, Kaski, Makwanpur, Dhading, etc.

Chemical Fertilizers and Improved Seeds

- 8.33 **Chemical Fertilizers:** Agriculture Inputs Company Ltd. (AIC) has been selling and distributing chemical fertilizers to the farmers at affordable cost and as per their demand ever since its establishment. To ensure its non-stop supply, the company has been purchasing fertilizers directly from the manufacturing company, its authorized dealer or specialized fertilizer trading concerns. The company has also started studies on purchasing other types of chemical, fertilizer, micro-fertilizer and compost besides other agricultural products. In FY 2006/007, the AIC had supplied 25,169 nutrients MT (NMT) of chemical fertilizers. In the first eight months of FY 2006/07, the company had distributed 18,149 NMT of chemical fertilizer. The AIC has distributed 5778 NMT of chemical fertilizer in the first eight months of FY 2007/2008.
- 8.34 **Improved Seeds:** As per the policy of enhancing the competitive transactions in improved seeds, the National Seeds Company Limited has been distributing quality seeds through dealers in order to avail the seeds at the farmers' door-steps. To meet its goal of selling and distributing seeds, the Company has started collecting quality seeds from its own farms and that of the farmers under the Seed Promotion Program and selling them at the local market after proper treatment through the disease controlling pesticides and germicides. The company distributed seeds in quantities of 661 MT of paddy, 2476 MT of wheat and 19 MT of maize in

FY 2006/07. In the first eight months of FY 2006/07, the company distributed seeds at 92 MT of paddy, 2451 MT of wheat and 6 MT of maize. In the first eight months of FY 2007/08, the company has sold seeds at 196 MT of paddy and 2870 MT of wheat. Seed distribution of maize and paddy remained below the target. Inability in collecting quality seeds from the farmers despite a set agreement, farmers' growing interest in hybrid seeds of vegetables, and other seeds except the food crops seeds, entry of low quality seeds from the open Indian border, and high transportation cost of the seeds in the hilly regions have been the main factors for not meeting the set target.

- 8.35 **Irrigation:** As in the past years, development projects related to irrigation have been carried out at the government level and also by the ADBL. In FY 2006/07, the irrigation facility managed by the government reached 26,484 ha land and that extended through the ADBL reached 483.5 ha. In the first eight months of FY 2007/08, 3,770 ha of land has been irrigated under government agencies while 56 ha of land has been irrigated under ADBL projects, totalizing the irrigated land at 3,826 ha.
- 8.36 **Agricultural Credit:** Flow of agricultural credit, the factor playing an important role in agro-production, has gained continuity. The ADBL extended a credit of Rs.14.65 billion in FY 2006/07. The Bank recovered Rs.13.79 billion while its arrears in the same fiscal year remained at Rs.24.19 billion. During the first eight months of FY 2006/07, Rs.8.90 billion was extended as credit while, during the same period in FY 2007/08, the credit amount increased by 16.7 percent to Rs.10.39 billion. Of the total loan disbursed, the highest disbursement is on agro-industry, marketing and godown construction comprising almost 50 percent, while the lowest disbursement is on tea and coffee farming.
- 8.37 **Small Farmers Development Bank (SFDB):** The SFDB is involved in uplifting the economic and social status of small farmers and deprived people in the rural parts of the country. It is involved in empowering the small farmers and the downtrodden through the implementation of micro-finance program and promotion of co-operatives in villages for the institutional development of the stakeholders. Social mobilization, livestock insurance program, small farmers' institutional development program and the micro-finance program are the major activities of the SFDB. Under the social mobilization program, small and downtrodden farmers are first identified and groups of 5 to 12 members representing every family are formed. A ward level inter-related group with the representatives of the same ward and a VDC-level board is also formed

selecting one representative from each inter-related group to operate small farmers' cooperative institutions.

The number of institutions affiliated with the SFDB was 219 in FY 2006/07. The number has remained steady till the first eight months of FY 2007/08. The SFDB floated a credit amount of Rs.537.5 million in the first eight months of FY 2007/08 and collected the principal amount Rs.467.4 million while interest collection during the same period stood at Rs.71.8 million. The SFDB also has the provision of livestock insurance in 160 VDCs through the ADBL. A total of 9,013 animals were insured worth Rs.119.3 million in FY 2006/07. In the first eight months of the current fiscal year, total 1,540 animals worth Rs.20.1 million were insured in the initiation of local institutions. The SFDB had conducted Small Farmers' Institutional Adoption Program in 4 VDCs. After enabling the farmers to handle the programs at their own, the management of the program is now handed over to the local level. In the first eight months of the current fiscal year, the SFDB has availed loans to 219 small farmer co-operative firms. A total of 133,000 people have been the beneficiaries of the program, out of whom, males comprise 65,700 and the females stand at 67,600. A total of 129,851 people had enjoyed the facility in FY 2006/07, comprising of them 65,626 males and 64,225 females. In the current fiscal year, Small Farmers' Institutional Development Program is in action at 13 VDCs. Likewise, 2,472 downtrodden and small farmer families are benefiting from the Social Community Program through 140 institutions.

- 8.38 **Nepal Agriculture Research Council (NARC):** The Nepal Agriculture Research Council, established with a view to make the development of agriculture sector, the backbone of the Nepalese economy, more effective through research, has been conducting different research programs focusing on major crops such as paddy, wheat, maize etc. as suggested by the APP. The research programs comprise raising the production and productivity of these major crops, development of nutritive, high value, hybrid, disease and pest-resistant species and development of technologies helping to minimize the loss from disease, pests and herbs, besides raising soil fertility and improving the resource conservation. On the vegetable side, the research is underway especially in identifying suitable seeds of tomato, cauliflower, cabbage, onion, cucumber and appropriate species of fruits for non-seasonal farming, disease and pest control, and improved technology of safe storage. There is a continuous research on improving animal breeds, better grazing, cereals and animal feeds areas etc. The effects on animal health also affects the production of

milk and meat. So, the NARC has formulated plans on different aspects of the animal health. The construction of a gene bank building so as to protect, utilize and promote biological and genetic resources in the future is among its top priority.

- 8.39 **Status of Import and Export of Agro-products:** According to the SITC, the first eight months of FY 2006/07 had witnessed an export of food stuffs, live animals, tobacco and other beverages worth Rs.4.66 billion. In the first eight months of the current fiscal year, export of the goods is estimated at Rs.7.75 billion. Likewise, in the first eight months of the last fiscal year, goods worth Rs.8.34 billion were imported. Similarly, in the first eight months of the current fiscal year, import of goods is estimated at Rs.11.69 billion.
- 8.40 **Cooperative Institutions:** Nepal has adopted the policy of providing impetus to economic and social development through the promotion and consolidation of cooperative system in a qualitative way for encouraging capital formation and entrepreneurship awareness amid weaker sections of the people. Through timely amendments in the Cooperative Act and incorporating proper regulatory mechanism, several activities have been implemented to enhance the efficiency of cooperative in the country. The information as to the number of cooperative institutions, their nature, transactions and the employment opportunities created by them has been updated. Audio-visual programs for the awareness on cooperatives have been produced and disseminated. In the last fiscal year, 600 farmer groups were cooperatized while in the first eight months of this fiscal year, such number has reached 400. In order to enhance the efficiency of cooperative movement and the managerial aspect of cooperatives through skilled cooperative workers or trainers, 6,125 individuals associated with cooperatives and official staffs were trained in the first eight months of the current fiscal year. As per the policy to provide continued support to the socio-economic development under consolidated cooperative system, farmers in Mugu, Jumla and Kalikot districts of Karnali zone have already been grouped and trained on pre-cooperative education.
- 8.41 **Land Reform:** As to the rehabilitation of freed Kamaiyas, 14,459 ex-Kamaiyas have been rehabilitated till mid-April 2008. A book detailing the government and public land in eight districts is released. Efforts at introducing computer-based lands transactions are underway at in Land Revenue Offices of the kathmandu valley and 1 in kaski district. Likewise, 4 Land Revenue Offices at Lalitpur, Bhaktapur, Dillibazar and Kaski have been issuing land certificates through computer. In land

revenue offices at Morang, Belbari, Tikapur and Kailali, initiatives are on for issuing the land certificates within this fiscal year through the support of the Pro-Public in computerization of the land records. As a pilot project, District Land-use Committee has been formed following the drafting of the work schedule at the Lekhanath municipality, ward-1, for implementing the land-use program through the local body.

Industry

- 8.42 Preliminary estimate shows that manufacturing industry GDP is to rise only by 0.18 percent in the current fiscal year as compared to the growth of 2.55 percent last year. Despite positive sign in the growth of products like edible oil, rice, wheat flour, biscuit, sugar, noodle, tea, tobacco, beverages and jute products, a negative trend revolves around products such as vegetable ghee, milk products, soap, plastic products, ready made garments, and woolen carpets. As such, the growth rate in this fiscal year is likely to remain marginal.
- 8.43 **Special Economic Zone:** With a view to reducing the cost of goods to be exported in international market and enhancing their competitive capacity, the concept of Export Processing Zone (EPZ) has been brought up to encourage production practices based on labor value competition through exempting or setting aside different taxes imposed on import of necessary raw materials. In the TYIP , a strategy has been adopted to set up a Special Economic Zone (SEZ) to attract national and international investments in feasible sites for export-oriented industries. The SEZ comprises export-related EPZ, Special Trading Zone, Tourism/Recreation Area and Banking Area. The prime objectives of the SEZ are attracting foreign investment, boosting export earning foreign exchange, and introducing high-quality new technology. As a payback to the facilities availed within the SEZ, the industries inside it are required to produce goods of international quality at 70 to 100 percent of their production.
- 8.44 Studies on establishing and regulating SEZ and activities related to Acts, feasibility study and construction of basic infrastructure had started in FY 2003/04 in the light of attracting foreign investment and achieving high economic growth. As per the studies, Bhairahawa has been identified as an ideal site for EPZ whereas Birjung, Panchkhal and Ratmate Jiling of Nuwakot have been looked upon as the sites for SEZs. Infrastructure development is ongoing in Bhairahawa while works have also been initiated in Birjung in the current fiscal year. Similarly, activities relating to setting up SEZs in other places are proceeding.

- 8.45 **Micro-Entrepreneur Development Program:** Activities since last fiscal year are underway aiming at achieving MDGs, poverty reduction and conflict minimization and resolution. To this effect, local organizations in 21 districts are shaped into Business Development Service Provider Organizations. Special activities are on in four districts (Siraha, Saptari, Sarlahi and Kapilvastu) toward conflict minimization and maintaining sustainable peace. Inter-groups of micro-entrepreneurs at market centers and an association at district level in all the 25 districts have been formed so as to serve the micro-entrepreneurs in safeguarding and promoting their rights and mutual benefits. The micro-entrepreneurs in these districts have been offered assistance through this institutional mechanism.
- 8.46 **World Trade Organization:** Nepal has completed its fourth year as a WTO member. It is the first country to join the WTO from among the LDCs. As per the commitment to the WTO, some new Acts and Regulations have been formulated and come into implementation. Some Acts and Regulations are along the process of revision and refinement in order to make them WTO-friendly. The work of constituting an inter-ministry high level directorate committee has reached the final stage. The committee aims at raising Nepal's trade competency through reforms, optimal utilization of national and international resources and coordination of technical assistance available in the field of trade.

Box 8(b) : Activities being undertaken after the WTO Membership

1. As per the WTO agreement, a member country should establish enquiry points to inform other countries. As such, the Department of Food, Technology and Quality Control under the Ministry of Agriculture and Cooperatives as for Sanitary and Phyto-sanitary-SPS, and Nepal Bureau of Standards and Metrology under the Ministry of Industry, Commerce and Supplies for Technical Barriers to Trade – TBT have been the entry-points. Similarly, Division of World Trade Organization under the Ministry of Industry, Commerce and Supplies serves as the entry point on service related issues.
2. A Focal Point has been formed for inter-governmental coordination in subjects concerned with the WTO. The Focal Point has been working with regular meets for fulfilling the commitment to WTO.
3. WTO Reference Center has been established to inform and disseminate information on the WTO. The center also holds monthly interactions on WTO issues with experts.
4. Different Acts such as Competition and Market Promotion Act, new Company Act, Multi-Modal Transportation Act, Crop Protection Act, Export/Import and Intellectual Property Rights Acts, Insolvency Act and new Customs Act have

been issued. Also, discussions are on with the stakeholders in amending commercial policy and industrial policy.

5. Customs Duties has been accommodated each year as per the commitment to WTO in providing market access to products.
6. Enhancing Nepal's Trade-Related Capacity Project, run by UNDP, has been working in boosting the trade-related capacity of the government and the private sector, involving the stakeholders in the formulation of policies pertaining to business and industries and in trade analysis, in skill development, and creating investment- friendly environment
7. Ever since Nepal's membership in WTO, Nepal has been launching public awareness programs on seizing opportunities by meeting the challenges. Such programs are carried out at the central, regional and district levels through the coordination with private sector.

Source: Ministry of Industry, Commerce and Supplies.

Status of Industrial Production by Groups and Industrial Indices

- 8.47 Compared to the last year, this fiscal year is likely to witness a rise in major food stuffs, beverages, tobacco products, clothing, hides, wood and wooden products, paper products, other chemicals, and mineral products other than metals. In current fiscal year under food products, noodle is likely to go up by 1,423 MT, beverage by 1.28 million liters, sugar by 4,135 MT and tea by 487 MT. Likewise, vegetable ghee is likely to shoot up by 7,528 MT, liquor by 380,000 Liters, paper by 1,256 MT, soap by 1,882 MT, powder soap by 140 MT and cement by 25,773 MT.
- 8.48 The FY 2006/07 had witnessed a rise in aggregate industrial production index by 6.6 percent. That year, vegetable ghee increased by 8.6 percent, milk products by 7.5 percent, cereals and animal feeds by 10.1 percent, other food items by 0.8 percent, wood and furniture by 3.8 percent, paper and paper products by 4.6 percent, other chemicals by 10.8 percent, plastic materials by 4.3 percent, mineral products other than metals by 9.0 percent, fabricated metals by 8.2 percent, and electric equipment by 6.3 percent. Similarly, beverage had increased by 5.4 percent, tobacco by 4.9 percent, clothing by 7.9 percent, and other clothing by 8.2 percent. However, the last fiscal year had witnessed a decline in the output of products like hide, garments and sugar. Variables like the improvement in peace and security environment, income source; saving and consumption capacity, export/import, change in consumption trends, etc. favorably affected the industrial index in FY 2006/07 compared to that in the previous year.

- 8.49 The current fiscal year's preliminary estimates show that the industrial indices increased to 139.16 from last year's 130.04. Likely rise in the indices is expected this year on vegetable ghee, milk products, cereals and animal feeds, publication and recording, other chemicals, mineral products other than metals, fabricated metals and electric equipment. However, fall is expected in the indices of goods such as clothing, plastic goods and other food items.

Foreign Investment in Industry

- 8.50 Amendment to the Foreign Investment and Technology Transfer Act has opened avenues for foreign investment in new sectors. One-Door Committee has been reformed for an easy access to tax exemption and duty drawback facilities for industries. Duty drawback amount due since FY 2000/01 has been refunded. In regard to producing goods in contract, Contract Manufacturing Procedure has been prepared and has already been in effect. Also, issuance of certificate of origin for an easy access to export to India is underway. As per the special provision, business firms can be renewed within six months of the expiry date. With an objective of providing necessary permission, services and facilities to the foreign investors through one-door system for attracting foreign investment, Foreign Investment Promotion Committee Work Procedure, 2062 BS is already in effect.
- 8.51 Though Nepal is rich in natural and human resources, the resources have not been optimally utilized, thereby, Nepalese people sometimes referred to as "poor in a rich country". Foreign investment and technology transfer is essential for leading the nation's economic system toward the attainment of self-sufficiency through building a robust, strong, dynamic and competitive economy on the basis of the optimum utilization of available natural and human resources. Foreign investment fosters capital, modern technology, managerial and technical skills, access to international market, and culture of professional competition. More importantly, the country heads for a strong and independent economy on the foundation of rapid industrialization and higher revenue generation. In this light, 188 industries with fixed capital of Rs.2.65 billion and project cost of Rs.3.43 billion were permitted as foreign investment in FY 2006/07. In the first eight months of the current fiscal year, 127 industries with fixed capital of Rs.12.82 billion and project cost of Rs.15.18 billion have obtained permission for investment.

Table 8(b): Industries Permitted for Foreign Investment in FY 2006/007*(Amount in Rs. Million)*

Types of Industry	Nos.	Total Project Cost	Total Fixed Capital	Foreign Investment	Number of Employees
Industrial Production	40	1816.20	1271.33	1808.95	2541
Service Industry	88	1126.92	981.88	1068.33	3119
Tourism Industry	55	315.08	249.72	267.12	1486
Construction	2	41.37	31.13	37.09	95
Energy	1	111.00	107.30	30.30	36
Agriculture	1	5.00	4.20	5.00	20
Mines	1	10.00	5.00	10.00	128
Total	188	3425.57	2650.56	3226.79	7425

Source: *Department of Industries, Tripureshwor***Table 8(c) : Industries Permitted for Foreign Investment in FY 2007/008****(maoun in Rs. Million)*

Types of Industry	Nos.	Total Project Cost	Total Fixed Capital	Foreign Investment	Expected Number of Employees
Industrial Production	37	2314.33	1752.16	1092.66	2577
Service Industry	42	3508.51	2205.09	1066.27	1544
Tourism Industry	37	457.23	400.14	425.92	1029
Construction	1	1150.00	1144.00	1150.00	43
Energy	4	6088.12	6055.99	2337.84	482
Agriculture	4	60.40	43.60	51.30	166
Mines	2	1596.00	1217.60	1596.00	204
Total	127	15174.59	12818.38	7719.99	6045

*First eight months

Source: *Department of Industries, Tripureshwor*

- 8.52 To foster foreign investment through adoption of relevant, practical and liberal policy, total of 1,412 industries were given permission up to the first eight months of FY 2007/08. Fixed capital of those industries stands at Rs.93.84 billion while their total project cost stands at Rs.113.03 billion. Records show that these industries have drawn foreign investment totaling at Rs.40.70 billion. Once in operation, these industries would generate employment for 120,968 Nepalese citizens.

Table 8(d): Industries Permitted for Foreign Investment as in mid-March 2007*(Amount in Rs. Million)*

Types of Industry	Nos.	Total Project Cost	Total Fixed Capital	Foreign Investment	Expected Number of Employees
Industrial Production	570	42317.06	30673.28	15435.94	69254
Service Industry	405	21956.66	17863.56	10295.27	23229
Tourism Industry	364	16873.45	15933.46	5416.30	18804
Construction	24	2336.93	2053.77	1841.01	1587
Energy	24	26602.42	24898.76	5914.46	5424
Agriculture	20	505.55	433.00	158.06	1209
Mines	5	2436.02	1980.70	1634.70	1461
Total	1412	113028.10	93836.53	40695.73	120968

Source: *Department of Industries, Tripureshwor*

8.53 Among the 188 industries accorded permission in FY 2006/07, 40 are in industry sector, 88 in service, 55 in tourism, 2 in construction and 1 each in the field of energy, agriculture, and mineral sectors. As for the countries, 38 industries are invested by China, 28 by India, 23 by the USA, 15 each by Japan and South Korea, 14 by UK, 7 each by Germany and France, 5 by Netherlands, 4 by Canada, 3 by Belgium and 29 by other countries.

Table 8(e): Countrywise Foreign Investment

S.N.	Countries	FY 2006/07	First Eight Months	
			2006/07	2007/08
1	India	28	20	26
2	China	38	22	13
3	Japan	15	12	5
4	USA	23	11	7
5	UK	14	8	10
6	South Korea	15	9	15
7	Belgium	3	1	1
8	Germany	7	3	8
9	Iran	-	-	1
10	Netherlands	5	4	3
11	Spain	-	-	3
12	Canada	4	2	2
13	France	7	3	-
14	Israel	-	-	2
15	Others	29	15	31
	Total	188	110	127

Source: *Department of Industries, Tripureshwor*

- 8.54 Of the 127 industries granted permission in the first eight months of the current fiscal year, 37 are associated with industrial products, 42 with service, 37 with tourism, 4 each with energy and agro-industry, 2 with mineral and 1 with construction. Of these 127 industries, 26 are from India, 13 from China, 5 from Japan, 7 from USA, 10 from UK, 15 from South Korea, 8 from Germany, 3 each from Netherlands and Spain, 2 each from Canada and Israel, 1 each from Belgium and Iran, and 31 from other countries. Of the 110 industries granted permission for foreign investment in the first eight months of FY 2006/2007, 20 were from India, 22 from China, 12 from Japan, 11 from USA, 8 from UK, 9 from South Korea, 4 from Netherlands, 3 each from France and Germany, 2 from Canada, 1 from Belgium and 15 from other countries.

Utilization of Production Capacity of Some Industries

- 8.55 Among some selected industries, utilization of production capacity of sugar, cement, cigarettes, beer and shoes was found increased in FY 2006/07 compared to that in FY 2005/06. However, match industries and jute industries were found to have maintained steady production rate. Of the production capacity, cigarette and jute industries utilized 88.0 percent and 72.0 percent respectively in FY 2006/07. Likewise, sugar, beer, shoes and cement industries used their capacity at 34.0 percent, 74.0 percent, 65.0 percent and 42.0 percent respectively.

Current Status of Industrial Estates

- 8.56 Industrial estates were established with objective to support industrial development through provision of physical infrastructures and other services essential for the establishment, operation and promotion of the industries. At present, there are a total of 11 industrial estates located in Balaju, Hetauda, Patan, Nepaljung, Dharan, Pokhara, Butwal, Bhaktapur, Birendranagar, Dhankura and Rajbiraj. Among the 524 industries in the industrial estates till FY 2006/07, 76 have been closed, 59 are still under construction, and the fully operated industries are 389. Among industrial estates under the Industrial Estates Management Limited, it has had fixed capital investment of Rs.186.1 million while the investment from the private sector stands at Rs. 4.49 billion. Of the total 5,680 Ropanis of land occupied by industrial estates. 5,005 Ropanis of land is in a fully developed state of which 3,409 Ropanis of land is on lease to various industries. Industries in the industrial estates have employed a total of 13,508 people. Industrial estates providing high employment include Balaju, Butwal, Pokhara and Patan in that order.

Sick Industries

8.57 Considering the situation of industrial sickness in view of the unfavorable environment during the period of conflict and political uncertainty, the GON had brought out policy and programs in FY 2001/02 towards mitigate the adverse situation of the ailing industries. The monetary policy for the current fiscal year has arranged an amount of Rs.2 billion for the sick industry refinance. By mid-June 2008, two hotels have been provided loan amounting to Rs.60 million. In FY 2006/07, loans under this facility totaled Rs.154.9 million in mid-April, 2008.

Nepal Industrial Development Corporation

8.58 The NIDC was established with the objective of promoting national economy through mediating in providing quality and reliable banking and financial services in the industry, commerce and service businesses. With the annulment of the NIDC Act, 2016 BS under which it had been operating previously, the institution now works as a “B” grade development bank as provisioned under the Banks and Financial Institutions Act, 2063 BS. The NIDC has collected a total of Rs.236.1 million (principal Rs.131.8 million and interest Rs.104.3 million) in the first nine months of FY 2007/08. Similarly, with the sale of promoter share in part at Nabil Bank at Rs.907.5 million including the collection of principal, interest and share income, the NIDC has collected a total of Rs.1.14 billion.

Cottage and Small Scale Industries

8.59 The number of cottage and small-scale industries registered in FY 2006/07 rose by 5.7 percent compared to those registered in FY 2005/06. In FY 2006/07, private firms increased by 3.6 percent, private limited firms by 36.3 percent, and joint firms by 3.5 percent. In the registered cottage and small-scale industries, the fixed capital investment increased by 16.8 percent to Rs.7.83 billion. In the first eight months of the current fiscal year, 5,284 cottage and small industries are registered with an estimated investment of Rs.4.17 billion.

Industrial Enterprise Development Academy

8.60 The Academy has been conducting several programs for industrial and economic development through contributing to the growth of entrepreneurship, techniques, resource, modern technology, quality

management skills and technical manpower. Accordingly, it is conducting activities like creating new business ventures, business management, trainings, counseling research works in industry. In the first eight months of the current fiscal year, the Academy has trained 74 persons in small business venture creation, 46 persons in trainers' training, 37 in counseling the industrialists, 37 in income-generation for a single woman, 18 in income-generating training for conflict-afflicted women, 71 in developing business skills for the Dalit and people from ethnic communities.

Mines and Geology

8.61 With a view to support in the geological survey, geo-engineering and geo-environmental studies, besides running the mineral exploration and mining development work systematically, a physical map of the hilly region of the country covering around 109,000 square km area in the scale of 1: 50,000 and 1: 63,360, is being prepared and would soon be published. An agreement has been reached with the private investors for establishing cement industries based on lime stones in the Baitadi, Udayapur, Dhankuta, Salyan and Arghakhanchi districts. Also, a similar agreement has been made for operating industry based on iron-mine in Ramechhap district. Normal quality coal has been located in Dang, Salyan, Rolpa and Palpa districts. Natural gas deposit of 310 million cubic meters over 26-square km area of the Kathmandu valley has been discovered. In order to conduct earthquake-related studies in the Himalayan region, seismic networks are established across the country so as to continuously monitor and record for collecting data on the basis of which Micro Seismic Epicenter Map and Epicenter Map of Nepal have been published.

Tourism

8.62 While analyzing the number of tourists visiting Nepal, their growth trend and length of stay, the number of tourists had increased by 4.9 percent during calendar year 2006. The number of tourists in the calendar 2007 grew by 33.5 percent. In 2007, the length of tourist stay increased to 10.02 days as against the previous year's average of 9.5 days.

8.63 Most of the tourists arriving to Nepal are found to be pursuing recreation, trekking and mountaineering. Of the tourists visiting Nepal in calendar year 2007, 43.4 percent visited for recreation, 16.5 percent for trekking/mountaineering, 5.7 percent for trade, 4.3 percent

for formal visit, and 11.7 percent for pilgrimage, and 18.4 percent for other purposes. Review of the same statistics for last year shows that the number of tourist arrivals for the purpose of recreation, trekking and other purposes increased while those for formal visit, trade and pilgrimage decreased during 2007.

Table 8(f) : Quantitative Targets and Achievements in Tourism and Civil Aviation

S. N.	Description	FY 2005/06	Target of FY 2009/10	Achievement of FY 2006/07
1	Tourist Arrival (in Thousand)	375	700	526
2	Duration of Stay (in Days)	9.5	13	10.02
3	Foreign Exchange Earning (US\$ in Million)	148	300	181.34
4	Per Day Expense Per Tourist (in US\$)	58.5	63	0
5	Contribution on GDP (in Percent)	2	3	1.2
6	Direct Employment (in Thousands)	83	100	0
7	International Airlines Services having regular Flights to Nepal (in No.)	17	25	20
8	One-way Air Seats in International Sector (in Thousands)	2,850	3,250	1,700
9	Number of International Air Passengers	383,000	1,500,000	

Source: Tenth Plan and Ministry for Culture, Tourism and Civil Aviation.

- 8.64 Sectoral analysis of tourist arrivals in 2007 shows that 53.8 percent of the total tourists arriving were from Asia, 25.7 percent from West Europe, 5.9 percent from North America, 3.1 percent from Australia and the Pacific, 4.9 percent from East Europe, 2.5 percent from Central and South America, 0.4 percent from Africa, and the remaining 3.7 percent from other countries. Of the 53.8 percent tourists arriving from Asia, 18.3 percentage points were from India. Though shares of tourists arriving from Asia, West Europe, and North America have slightly declined in comparison to the figure during the same period in the preceding year, tourist arrivals from Australia and the Pacific, East Europe, Central and South America, Africa, and other countries have increased.
- 8.65 Data as to the number of hotels and hotel beds in 2006 shows that the number of star hotels decreased to 105 while the number of non-star hotels also decreased to 502. During the year, the number of hotel beds in star hotels reached 9,763 while that in the non-star hotels reached 14,497. Percent-wise, the number of hotels and hotel beds decreased by 39.7 percent and 38.4 percent respectively. However, during the first eight months of current fiscal year, there has been

increment in both the number of hotels and hotel beds, signaling significant progress by the end of fiscal year.

- 8.66 Analysis of mountaineering teams, number of mountaineers, royalty, periodic employment, and expenditures of mountaineers shows increment in number of mountaineering teams, royalty to the government, expenditure of mountaineers, and periodic employment in 2007. In 2007, the number of mountaineering teams increased from 133 to 164, that of mountaineers from 986 to 1,128, and that of periodically employed from 4,344 to 4,843 while the royalty collected increased from Rs.145.6 million to Rs.169.8 million, and the amount spent by mountaineers in Nepal rose from Rs.423.9 million to Rs.966.6 million.
- 8.67 Nepal Tourism and Hotel Management Academy (NATHAM) has been carrying out trainings for tourism as well human resource development. With the objective of developing tourism in rural areas, people in rural areas have been encouraged to invest in tourism business and provided with necessary trainings for operating such businesses. To generate skilled manpower for developing both small and large tourism business in urban areas, 3-Year Bachelor in Travel and Tourism Management course has been started since FY 2003/04. Similarly, to develop skilled human resource for tourism development, Bachelor in Hotel Management, various hotel management trainings, guide, tour travel agency and ticketing, cook, leader, water rafting demonstrator, hospitality course, and local site visit trainings are being offered. In FY 2007/08, the Academy had trained 1,330 subjects in various students. Within first eight months of FY 2007/08, a total number of 1,118 students have been trained by the Academy. The total number of manpower trained by the Academy exceeds 24,000.

Box 8(c) : Major Activities under Tourism Sector

- a. Tourism Master Plan: In an effort to give clear direction to the tourism sector, preparation of an integrated tourism master plan and review and timely revisit of tourism policy are at the final stage.
- b. Foreign Investment in Tourism Industry: In accordance with the policy to encourage foreign investment in tourism sector, study on allowing foreign investment in tourism industries has been initiated.
- c. Airport Construction and Improvement: Preliminary work for construction of second international airport in Nijgadh of Bara district under private investment has started. Airport expansion activities at

Gautam Buddha airport, Bhairahawa, and Chhinnedanda airport, Pokhara, have been initiated to convert these airports into regional international airports.

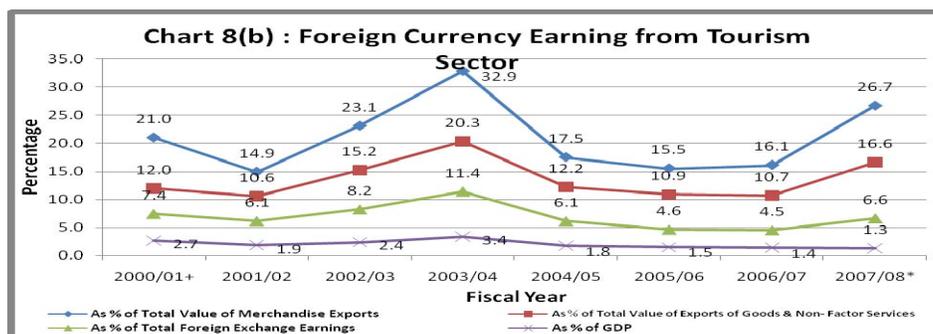
- d. Conservation of World Heritage: In order to conserve world heritage sites, the work of preparing the details of the houses and mapping of the road turns inside the site area is underway.
- e. Three-Year Plan: A three-year plan has been prepared for tourism and sent to the National Planning Commission for approval.
- f. Special Trainings: In order to alleviate poverty, generate foreign and domestic employment opportunities, and for the welfare of victims of conflict, Dalits, indigenous communities, and victimized women, special trainings on hotel and tourism have been continued.
- g. Tourism Promotion Program: Various programs are being conducted focusing on potential tourist markets like India and China and other promotional programs including "Send A Friend Home" are taking place in countries like Japan, UK, Germany, Belgium, etc.
- h. In memory of Tenzing Norgay and Sir Edmund Hillary, the first humans on Mount Everest, May 29, 2008 was celebrated as the International Everest Day.
- i. As sustainable tourism developments could only be achieved through integrated tourism development, selected tourist sites will be developed as pilot programs for integrated tourism development beginning from the coming fiscal year.

Source: Ministry of Culture, Tourism, and Civil Aviation

Foreign Exchange Earnings from Tourism Sector

- 8.68 Foreign exchange earnings in FY 2006/07 had increased by 6.0 percent totaling Rs.10.13 billion. During the first eight months of FY 2007/08, foreign exchange earnings reached Rs.10.89 billion, which is 7.6 percent more than the earnings during the same period in the preceding year. The foreign exchange earned in the first eight months of FY 2007/08 was equivalent to 26.7 percent of total foreign exchange earned from the exports of goods, 16.6 percent of total foreign exchange earned from total exports of goods and services, and 6.6 percent of the total foreign exchange earnings during the period. All the three ratios have increased in comparison to the ratios during FY 2006/07.
- 8.69 Nepal participated in tourism fairs and exhibitions held in India, Bangladesh, China, UK, USA, Canada, Germany, Japan, Benelux, Thailand, Spain, Finland, France, Italy, Indonesia and the UAE. Among the joint tourism promotional programs, Nepal participated in Sakaal Reflections, NATTA Promotional Tour 2008, Introductory Programs, and Sales Mission in India, Dhaka Travel Mart in Bangladesh, Nepal Academy Tour, Business to Business Session, and GITF 2008 in China, "Send Home A Friend" and

“Nepal for All Seasons” as well as Farm Trip in the UK, TITV Everest Exhibition and Multimedia Presentation in Thailand, Golden Jubilee Festival in Egypt, and Nepal Trade and Tourism Promotional Fair in the UAE. Inside Nepal, several programs including activities like the preparation of Annual Operational Plan 2007/08, and Survey of Domestic Tourism Business were carried out, and fairs in different places were held.



Challenges

- 8.70 Despite having abundant water resources, Nepal heavily depends on monsoon for agriculture in the absence of adequate irrigation facilities. Development and promotion of deep and shallow tube-wells and surface canals have become important considerations in reducing the influence of either excess or short rainfall on food production and productivity.
- 8.71 Providing sustainable and long-term solutions to problems like the insufficient availability of improved fertilizers, seeds, pesticides/germicides, inadequate access to agricultural credit and technical services, and lack of agricultural infrastructures such as agricultural roads, storage facilities, and agro-markets are the present challenges for agricultural growth. Additionally, to increase competitiveness of the farmers while reducing cost of production and to encourage farmers to shift from subsistent farming to commercial farming in the context of open border and economic liberalization constitute the major challenges.
- 8.72 Diversification and modernization of agriculture research to encourage farmers invest in high-yielding cash crops, livestock and poultry, horticulture and off-season vegetable farming, etc., leading to self-sufficiency in food and cash crops, becomes essential.
- 8.73 Inability to create conducive environment for foreign investment has remained a serious challenge. Foreign and NRN investments as well

as the remittances need to be attracted toward the development of the industrial sector through encouraging entrepreneurship, using advanced technology, and developing technical abilities for facing challenges and reaping benefits associated with the WTO membership and the framework provided by the SAPTA, SAFTA, and BIMSTEC agreements.

- 8.74 Industrial development with active participation of the private sector and revival of conflict-afflicted sick industries is a major challenge for Nepal.
- 8.75 Nepal faces the challenge of creating conducive environment for domestic and foreign investors to invest in exploration, development, and commercial operation of national mineral endowments.
- 8.76 Measures to increase participation of local bodies and individuals and to identify and archive national cultural heritage and artifacts in an integrated database for conservation of these objects of historic, cultural, and religious values are imperative. Resource mobilization for implementation of Pashupati Area Development and Lumbini Development Master Plans are also necessary.
- 8.77 Besides promoting traditional tourism, Nepal needs to promote adventure tourism, bio-tourism, and other creative tourism. Effective accounting techniques such as the Satellite Accounting to accurately assess the impact of tourism on economy are also essential for tourism promotion and development.
- 8.78 With approaches like the PPP and partnership between local bodies and private sector, necessary activities to improve organizational and professional aspects of the national flag bearer, NAC, and to develop aviation infrastructure should be undertaken. Construction of regional airports at Bhairahawa and Pokhara needs to be expedited.
- 8.79 Renovation and revival of airports and aviation communication devices damaged during the time of political conflict, development of physical infrastructure, modernization, and construction of new airports are pressing challenges.
- 8.80 It is necessary to improve the situations regarding the lack of initiation from the DDCs for entering into contract in time for getting the grants released and also not getting the progress report in time about the use of released grants for the projects run by the local bodies.

9. Public Enterprises

Overall Review

- 9.01 Among the 36 enterprises fully or partially owned by the GON (both direct share investment of the government and inter-public enterprises share investment), there are 7 in industrial sector, 6 in business sector, 7 in service sector, 5 in social sector, 3 in public utility sector and 8 in financial sector. Based on available statistics of these public enterprises (PEs), the overall picture along with brief sectoral account during FY 2006/07 and expected financial status for FY 2007/08 have been presented. Also, a short review of the auditing status, human resource status and brief information of divested enterprises including the prevailing challenges has been made.
- 9.02 Looking at the overall financial status of the 36 PEs, 22 earned profit and 14 recorded loss in FY 2006/07. The number of loss-making PEs has come down in FY 2006/07 compared to such number of 19 in FY 2005/06. Similarly, in FY 2006/07, the operating profit of PEs increased to Rs.7.96 billion from Rs. 2.54 billion in 2005/06. This overall increase in profit is mainly attributed to Nepal Telecom and Agriculture Development Bank Ltd. (ADBL) which earned profits of Rs. 5.98 billion and Rs. 1.05 billion profits respectively in FY 2006/07. Similarly, decrease in the loss incurred by the NOC to Rs. 1.92 billion in FY 2006/07 from Rs. 3.67 billion in FY 2005/06 also contributed to this position. However, the loss incurred by the NOC is estimated to rise again to Rs. 7.18 billion in FY 2007/08 due to price rise in the petroleum products in the international market. Similarly, in FY 2007/08, the overall profit of all the PEs is estimated to be limited to Rs. 3.51 billion. The total shareholders' funds stood at Rs. 39 billion in FY 2006/07, almost same as in the last year. According to information received from the Financial Comptroller General Office (FCGO), out of the government's share investment of Rs. 75.80 billion in these 36 PEs, 49 percent of the capital has been eroded by FY 2006/07.
- 9.03 The GON collected from 7 PEs dividends amounting to Rs.1.49 billion in FY 2006/07, which is 1.96 percent of the total share investment. By the end of FY 2006/07, the net assets (including under construction) of these 36 PEs reached Rs. 110.61 billion from Rs. 99.47 billion in FY 2005/06. This increase of fixed assets of PEs was

due to the fixed asset of Rs 6.50 billion and Rs. 5.50 billion increased by Nepal Electricity Authority (NEA) and Nepal Telecom respectively.

Sector-wise Analysis

Industrial Sector

9.04 In FY 2006/07, 7 PEs under industrial sector made sales transactions worth Rs. 4.17 billion, 5 percent higher than that in the last year. The increase in sales was contributed mainly by Dairy Development Corporation (DDC), Janakpur Cigarette Factory (JCF), Udayapur Cement Industry and Hetauda Cement Industry while their sales was Rs. 1.68 billion, Rs. 970 million, Rs. 830 million and Rs. 700 million respectively. In comparison to last year, Udayapur Cement Industry has achieved a 32 percent of encouraging increment in its sales. However, the sales of JCF decreased by 12 percent. There is nominal increase in the sales of DDC and Hetauda Cement Industry.

Profit and Loss

9.05 Compared to total net loss of Rs. 278.8 million in FY 2005/06, the net loss incurred by 7 PEs under industrial sector in FY 2006/07 stood at Rs. 178.1 million of which the loss of Rs. 134.2 million by Udayapur Cement Industry and the loss of Rs. 90 million by JCF have been the major ones. Compared to Rs. 9.1 million profit earned by JCF, it incurred big loss in FY 2006/07. This was mainly due to decrease in total sales, increase in distribution cost by Rs. 10 million, increase in insurance premium by Rs. 30 million and rise in other expenditures that incurred the loss of Rs. 90 million for JCF. Compared to the last year, Udayapur Cement Industry and Nepal Orind Magnesite Pvt. Ltd. reduced their loss by Rs. 70 million and Rs. 50 million respectively. Regarding Udayapur Cement Industry, the decrease in loss was mainly due to increase in its sales and not having any expenses to be written off. Similarly, regarding Nepal Orind Magnesite Pvt. Ltd., even the miscellaneous expenditure and incomes were same as of previous year. The loss is reduced due to decrease in cost of foreign loan and interest due to devaluation in foreign exchange rate. In comparison to the net loss of Rs. 25.5 million in FY 2005/06, the DDC earned Rs. 11 million net profit in FY 2006/07.

Debt, Assets and Shareholders' Fund

- 9.06 By the end of FY 2006/07, the total outstanding long-term debt owed by the industrial sector has come down to Rs. 3.48 billion from Rs. 3.81 billion in FY 2005/06. Similarly, the net fixed asset has slightly decreased to Rs. 1.82 billion. Under this sector, around Rs. 3 billion worth of under construction property of Udayapur Cement Industry has been shown for last many years and it was not adjusted to fixed assets even after the operation of the factory. By the end of FY 2006/07, the total shareholders' funds of all 7 PEs under this sector has remained negative at Rs. 534.4 million.
- 9.07 The overall progress of industrial sector in FY 2006/07 does not seem satisfactory. Despite its success to reduce loss by increasing sales, Udayapur Cement Industry has not been able to earn net profit. But, the progress estimate shows that this industry may earn a nominal profit in FY 2007/08. Due to loss of Rs. 90 million in FY 2006/07, the accumulated profit of the JCF has been almost zero. The increase in distribution cost as well as other expenses even after decrease in sales shows the inefficient financial management of the factory. No significant change has been seen in the situation of Nepal Orind Magnesite Pvt. Ltd. and it has increased the financial burden each year.

Business Sector

- 9.08 In FY 2006/07, the total sales transactions of all 6 PEs under the business sector category reached Rs. 38.78 billion from Rs. 33.92 billion in FY 2005/06, registering an increase of 14 percent over the previous year. Among all the PEs under the business sector, the NOC holds 94 percent share in total sales amount. The total sales transaction of NOC has increased by Rs. 4 billion, whereas other companies' sales transaction also showed progress. The total sales transactions of Agriculture Inputs Company Ltd. (AIC) have increased by 60 percent. But its transaction is estimated to come to the lowest point in FY 2007/08 indicating an unsustainable expansion in FY 2006/07. The NFC has increased its sales by 143 percent.

Profit and Loss Situation

- 9.09 The PEs in the business sector have incurred a net loss of Rs. 1.93 billion in FY 2006/07. The decline in net loss of PEs under business sector was due to 50 percent decrease in NOC's loss while the loss of all PEs of this sector was Rs. 3.82 billion in FY 2005/06. Among the

PEs in this sector, National Seeds Company Limited and NFC showed net profit as these entities had received grants of Rs. 5 million and Rs. 356 million respectively from the government in FY 2006/07. However, all other PEs under this sector incurred losses.

Debt, Assets and Shareholders' Fund

- 9.10 By mid-July 2007, the total outstanding long-term loan and the short-term loan of all PEs under the business sector remained Rs. 3.35 billion and Rs. 3.85 billion respectively. The long-term and the short-term loan of NOC remained Rs. 3.24 billion and Rs. 2.50 billion respectively. In addition to this, the NOC has not paid Rs. 2.70 billion to Indian Oil Corporation. Due to continuous increasing trend in NOC's loans and outstanding payments to be made, the total debt of the PEs under this sector is continuously increasing. By the end of FY 2007/08, the loan of only NOC is estimated to reach Rs. 15.24 billion. In addition, the short-term loan of NTL has increased by 140 percent to Rs. 928.9 million from that of FY 2005/06. Similarly, the loan of NFC has increased to Rs. 408.9 million from Rs. 324.1 million. The net fixed assets of business sector PEs has remained Rs.1.48 billion, of which, Rs. 800 million of AIC and Rs. 410 million of NOC are the main. In FY 2006/07, the fixed assets of business sector PEs have not changed substantively. Although the overall shareholders' fund is negative, the shareholders' fund of 3 PEs under this sector, namely; AIC, National Seeds Company Ltd. and NTL is positive.

Service Sector

- 9.11 The total operating income of 7 PEs under service sector increased by 18 percent to Rs. 7.08 billion in FY 2006/07 as compared to FY 2005/06. The operating income at Rs. 5.21 billion of the NAC has mainly attributed to this. Compared to FY 2005/06, the NAC, CAAN and Industrial Estate Management Company have increased their transactions. In FY 2006/07, the total operating income of National Productivity and Economic Development Centre is just Rs. 200 thousand. Similarly, the income of Engineering Consultancy has been limited to Rs. 1.81 million. In the same way, as compared to FY 2005/06, the gross income of National Construction Company Nepal Ltd. has reduced by 39 percent in FY 2006/07.

Profit and Loss Situation

- 9.12 In FY 2006/07, the net profit earned by PEs under services sector remained Rs. 568.04 million which is 80.5 percent higher than Rs.

314.9 million in FY 2005/06. In this sector, Industrial Estate Management Company, NAC and CAAN are in operating profit. The NAC's net profit highly increased to Rs. 342.1 million in FY 2006/07 compared to Rs. 11.7 million in FY 2005/06. Increase in tourist arrival due to the better situation in the country and well operation of two aircrafts (Boeings) of the NAC are mentioned for such result. In FY 2006/07, Nepal Transit and Warehouse Ltd. has also earned profit worth of Rs. 5.6 million. National Construction Company Nepal Ltd., Nepal Engineering Consultancy and National Productivity and Economic Development Centre are still incurring loss.

Debt, Assets and Shareholders' Fund

- 9.13 Among the PEs in the service sector, only the NAC and CAAN are using borrowed fund. In aggregate, by the end of FY 2006/07, the long-term loan has remained Rs. 1.71 billion and the short-term loan amounts Rs. 510 million. Likewise, PEs under services sector hold Rs. 9.45 billion in the shareholders' fund and Rs. 6.43 billion of net fixed assets.

Social Sector

- 9.14 In FY 2006/07, all five PEs under social sector earned a total operating income of Rs. 1.55 billion, which is lower by Rs. 100 million compared to FY 2005/06. In this sector, Janak Educational Materials Centre has the highest turnover of Rs. 600 million, while Nepal Television and the Gorkhapatra Corporation each have turnover of Rs. 190 million. As compared to FY 2005/06, the total sales of these PEs have declined, leading to an overall decline in the turnover of social sector PEs.
- 9.15 The total operating income of Rural Housing Company Ltd. has substantially decreased to Rs. 7.2 million in FY 2006/07 from Rs. 26.3 million in FY 2005/06 showing high volatility in its transactions. Similarly, the total income of Nepal Television has remarkably declined while it was Rs. 240 million in FY 2005/06. The progress estimation of FY 2007/08 also does not seem satisfactory.

Profit and Loss Situation

- 9.16 As compared to the net loss of Rs. 66.5 million of all PEs under the service sector in FY 2005/06, the loss in FY 2006/07 has increased by 90 percent to Rs. 124.2 million. This huge increase in loss was mainly due to the decrease in the transaction of Nepal Television and

Rural Housing Company Ltd. as well as a notable decline in the profit of Janak Educational Materials Centre. Gorkhapatra Corporation has successfully earned Rs. 10.2 million as profit in FY 2006/07 while it was in break-even point in FY 2005/06. Despite decline in transaction, it was able to earn profit by reducing administrative expenses and increasing other incomes. According to progress estimation, the total net loss of the PEs under social sector seems to have remained Rs. 110 million. So there will be no substantive change in its profit and loss situation.

Debt, Assets and Shareholders' Fund

- 9.17 Among PEs under social sector, the Cultural Corporation and the Gorkhapatra Corporation have long-term debt liability amounting to Rs. 162.3 million and Rs. 25.1 million respectively. The Cultural Corporation's long-term debt liability was Rs. 102 million in FY 2004/05, which increased to Rs. 127.3 million in FY 2005/06 and further increased and reached Rs. 162.3 million in FY 2006/07. The Gorkhapatra Corporation has almost settled its outstanding short-term debt Rs. 47.6 million by FY 2005/06 along with some decline in its long-term debt as well.
- 9.18 In FY 2006/07, the total fixed assets of all PEs under social sector has reached Rs. 1.06 billion from Rs. 990 million in FY 2005/06. In FY 2006/07, the Cultural Corporation has substantially increased its fixed asset. The shareholders' fund of all PEs under social sector has remained Rs. 1.68 billion, similar to that of FY 2005/06. None of the PEs of this sector has negative shareholders' fund. To sum up, though the sale of all PEs under this sector is satisfactory, the loss of Nepal Television, the major PE under this category, has been increasing each year.

Public Utility Sector

- 9.19 In FY 2006/07, total operating income of three PEs under the public utility sector remained Rs. 28.67 billion. This is 17.3 percent higher than in the FY 2005/06. The total income of Nepal Water Supply Corporation has remained Rs. Rs. 680 million, similar to that of FY 2005/06, whereas in case of NEA the total operating income has increased by 9 percent to Rs. 14.53 billion. Likewise, the total operating income of Nepal Telecom Company Ltd. increased by 28.7 to Rs. 13.45 billion in FY 2006/07 compared to Rs. 10.45 billion in FY 2005/06.

Profit and Loss Situation

- 9.20 In FY 2006/07, the net profit of PEs under this sector increased by 51.4 percent to Rs. 5.57 billion from Rs.3.68 billion in FY 2005/06. In FY 2006/07, Nepal Telecom and NEA are the only profit making PEs in this sector. The aggregate profit of public sector PEs seems continuously increasing due to the contribution of Nepal Telecom. According to progress estimate for FY 2007/08, the aggregate profit of this sector seems to be declined as there will be no remarkable increase in profit of Nepal Telecom and the loss of NEA will reach Rs. 1.48 billion. As compared to the profit of Rs. 5.98 billion in FY 2006/07, it is estimated to increase to Rs. 6.27 billion in FY 2007/08.

Debt, Assets and Shareholders' Fund

- 9.21 By mid-July 2007, the long-term debt liability of Nepal Water Supply Corporation, NEA and Nepal Telecom Company Ltd. amounted to Rs. 1.83 billion, Rs. 51.76 billion and Rs. 1.19 billion respectively. PEs of this sector have made huge investment in fixed assets. The total networth, including construction asset has remained Rs. 98.25 billion by the end of FY 2006/07 from Rs.99.04 billion in FY 2005/06.

Financial Sector

- 9.22 In FY 2006/07, the total operating income of eight PEs under the financial sector reached Rs. 11.90 billion, which is 33 percent higher than that of FY 2005/06. An increase of Rs. 2.46 billion in operating income of Agricultural Development Bank Ltd. has positively contributed to the operating income of total PEs of this sector.

Profit and Loss Situation

- 9.23 Compared to Rs. 2.72 billion in FY 2005/06, the net profit of PEs under financial sector has increased by 49.3 percent and reached Rs. 4.06 billion. The net profit of total financial sector PEs increased in this year mainly due to high increase in the net profit of ADBL. All PEs under financial sector are operating in profit in FY 2006/07. Even the Nepal Industrial Development Corporation, which had incurred loss of Rs. 270 million in FY 2005/06, earned a profit of Rs. 101.3 million in FY 2006/07.

Debt, Deposit, Investment and Shareholders' Fund

- 9.24 By mid-July 2007, the debt liability of PEs of this sector has remained Rs. 3.47 billion. Of which, Nepal Industrial Development Corporation NIDC, RBB and ADBL have Rs. 882.1 million, Rs. 2.22 billion and Rs. 374 million respectively. Last year, the total debt of this sector was Rs. 5.96 billion. As a result of loan repayment of Rs. 2.13 billion made by RBB to other banks, the total debt of this sector reduced in FY 2006/07. This is expected to decline further in the FY 2007/08. Among financial sector PEs, the ADBL, RBB and Nepal Housing and Development Finance Company have been accepting deposits from the public, and conducting financial transactions. The deposits collected by these entities increased by 9.1 percent and reached Rs. 83.55 billion by the end of FY 2006/07 from Rs. 76.56 billion in FY 2005/06. NIDC has also got approval to launch banking transactions.
- 9.25 By the end of FY 2006/07, these institutions extended Rs 52.38 billion credit, which is more than 5.1 percent than that of Rs. 49.84 billion by the end of FY 2005/06. The total shareholders' fund has remained negative by Rs 14.62 billion. The aggregate shareholders' fund of this sector remained negative mainly due to the negative shareholders' fund of Rs. 17.21 billion of RBB. Except the RBB and the NIDC, the shareholders' fund of other PEs is positive. After the management of RBB was given in contract in 2003 under the Financial Sector Reform Program launched with the assistance of the World Bank, there has been a gradual progress in the networth of the Bank. By the end of FY 2006/07, the networth of this bank has remained negative Rs. 17.21 billion compared to negative Rs 22.39 billion in FY 2002/03. Likewise, in FY 2006/07, Agricultural Development Bank Ltd. has been able to make its shareholders' fund positive by Rs.1.66 billion from the negative shareholders' fund in FY 2005/06. The shareholders' fund of NIDC is projected to become positive in FY 2007/08.

Status of Audit

- 9.26 Despite a mandatory legal provision to conduct annual audit of all PEs, there is a practice of not adhering to this provision. Out of the total PEs, 21 PEs accounts have been audited up to FY 2006/07, 7 PEs accounts up to FY 2005/06 and 4 PEs accounts up to FY 2004/05. Despite the requirement for the PEs to complete the audit of

their account on annual basis, a very weak status regarding the audit of some PEs is shown below:

Table 9 (a) : Latest Year of the Audit Conducted

S.N	Name of PEs	Fiscal Year
1.	Nepal Orind Magnesite Pvt. Ltd.	2001/02
2.	National Insurance Corporation	2001/02
3.	The Timber Corporation of Nepal Ltd	2003/04
4.	Gorakhaphatra Corporation	2003/04

9.27 Though the existing legal provision has clearly mandated to conduct the task of audit within the specified time frame, some PEs have not obliged to this. This clearly shows the managerial inefficiency and negligence in some of the PEs

Reform in the Board of Directors

9.28 The government has adopted a policy of appointing competent, enterprising and professional person in the Board of PEs. The size of Board members was also set to 5 members. These policy provisions have been effective in almost all PEs. Since the number of Board members in some of the PEs is specified by concerned Act/Rules, limiting member number to 5 in such PEs through amendment of such Act/Rules is yet to be done.

GON's Share and Loan Investment

9.29 The GON's share investment in the aforementioned 36 PEs is Rs. 75.80 billion. Government received Rs. 1.49 billion as dividend from these PEs. Likewise, by the end of FY 2006/07, outstanding loan of these reached Rs. 65.14 billion. Of which, Rs. 6.31 billion is internal loan and Rs. 58.83 billion is external one.

9.30 The differences in record about governments share and loan investment held by FCGO and the information submitted by 16 PEs were mentioned in some reports such as economic survey and report on PEs' work performance of last year. As a result, some PEs have made some progress in reconciling these information, but still the account maintained by many of the PEs and FCGO does not match. Since the reconciliation process becomes more complex as it becomes overdue and it becomes difficult to know even the financial status of PEs, it is urgently needed to correct in a timely manner. Presented below are some cases of such differences:

Table 9(b) : Loan Invested by the GON

Rs. million

S.N	Name of PEs	Amount shown by PE	Amount shown by FCGO
1.	Agricultural Development Bank Ltd.	0	417.3
2.	Civil Aviation Authority of Nepal	1479.7	2592.6
3.	Udayapur Cement Industry Ltd.	1750.0	2235.0
4.	Nepal Electricity Authority	51766.0	51518.5

Table 9(c) : Share Investment by the GON

Rs. million

S.N	Name of PEs	Amount shown by PE	Amount shown by FCGO
1.	Civil Aviation Authority of Nepal	10773.3	14568.6
2.	Agriculture Inputs Company Ltd.	417.6	413.6
3.	Herbs Production and Processing Company Ltd	24.1	39.7
4.	Nepal Electricity Authority	26576.6	26194.5
5.	Nepal Water Supply Corporation	1870.5	1407.6

Status of Employees/ Workers

9.31 In all these 36 PEs, the total number of staff and workers working in the current FY 2007/08 is 35,053 whereas the number was 36,349 by the end of FY 2006/07. The number of staff and workers is expected to increase to 35,976 by the coming FY 2008/09. Overstaffing is still common in PEs. The production of goods and services is minimum compared to the number of staff employed in these PEs. With this situation, overhead cost and financial burden goes up, while productivity of staff/workers declines and ultimately leads to fall in productivity of the entire sector. The PEs are wrangled in a situation wherein the government's protection inhibits motivation toward being competitive, and that political interference obstructs in making their own professional decisions. Despite this, some PEs have been producing and marketing goods and services effectively.

Divestment and Liquidation of Public Enterprises

9.32 The government adopted the principles of economic liberalization and open market policy since one and half decade ago. In line with these principles, the government took policy of divesting the function of goods and services being provided by the PEs to the private sector

and started privatization process since FY 1992/93. Since then till mid-April 2008, the following 30 PEs have undergone different modalities of privatization, such as sale of business and assets, sale of shares, management contract, sale of assets and lease, and liquidation. The details of divesting modality, percentage of shares and amount recovered are shown in the following table.

Table 9 (d): Divested and Liquidated Public Enterprises

<i>S.N.</i>	<i>Name of PEs</i>	<i>The Year Of Divestment/ Liquidation</i>	<i>Privatization Mode</i>	<i>Lump-sum Share Sold (%)</i>	<i>Proceeds form Divestment (in' 000)</i>
1.	Bhrikuti Paper Factory Ltd.	1992	Assets and Business sale	-	229,800
2.	Harisiddhi Bricks and Tile Factory Ltd.	1992	Assets and Business sale	-	214,830
3.	Bansbari Leather & Shoes Factory Ltd.	1992	Assets and Business sale (except land)		29,854
4.	Nepal Film Industry Ltd.	1993	Share Sale	51.0	64,662
5.	Balazu Textile Industry	1993	Share Sale	70.0	17,716
6.	Raw Hide Collection & Processing Co Ltd.	1993	Share Sale	100.0	3,990
7.	Nepal Bitumen & Barrel Industry Ltd.	1994	Share Sale	65.0	13,127
8.	Nepal Lube Oil Ltd.	1994	Share Sale	40.0	31,057
9.	Nepal Jute Dev. Co. Ltd.	1993	Liquidation		
10.	Tobacco Dev. Co.	1994	Liquidation	- -	
11.	Nepal Foundry factory Ltd.	1996	Share Sale	51.0	14,473
12.	Raghupati Jute Mills Co. Ltd.	1996	Share Sale	65.0	82,204
13.	Nepal Bank Ltd.	1997	Share Sale	10.0	125,140
14.	Agriculture Project Service Centre Ltd.	2001	Liquidation	-	-
15.	Nepal Tea Dev. Corporation	2000	Share Sale	65.0	267,105
16.	Biratnagar Jute Mills Co. Ltd. *	2002	Management Contract	-	-
17.	Himal Cement Ind. Ltd. **	2002	Liquidation	-	-
18.	Cottage Handicraft Sales Emporium Ltd.	2002	Liquidation	-	-
19.	Nepal Coal Ltd.	2002	Liquidation	-	-
20.	Hetauda Textile Ind. Ltd.	2002	Liquidation	-	-
21.	Nepal Transport Corporation	2002	Liquidation	-	-
22.	Butwal Power Co.	2003	Share Sale	75.0	874,200+USD 1 million
23.	Birgunj Sugar Factory	2003	Liquidation	-	-
24.	Agriculture Tool Factory	2003	Liquidation	-	-
25.	Bhaktapur Brick Factory	2004	Assets sale and Rent	-	14,500 (Assets sell 31,900) 10 Yrs. rent

26.	Lumbini Sugar Factory	2006	Assets sale and Rent	-	78600 (Assets Sell 4212) rent Per year
27.	Nepal Rosin & Turpentine Ltd.	2006	Assets sale and Rent	-	110,100(Assets sell 3,012) rent per year
28.	Agriculture Lime Industry Ltd.	2006	Liquidation	-	
29.	Nepal Drilling Company	2006	Liquidation	-	
30.	Nepal Telecom Company Ltd.	2008	Share sale	8.53	4,264,139

* It was given on management contract in the past but the government is operating it now due to not working as per contract.

** It is still under liquidation process after the dismissal decision of the Court.

9.33 With an objective of involving the staff/workers and private sector participation in PEs and to enhance the productivity of goods and services, the GON had decided to distribute Nepal Telecom's Rs. 100 value 7.5 million numbers of shares to employees and 15.0 million shares to general public in the FY 2007/08. As per government's decision, 7.5 million shares or 5 percent of total shares of government ownership are issued to employee and Rs 675 million is received from this sales. Similarly, as per the decision of 17.5 million number shares to be distributed to general public, at the first phase, a notice was published for the sale of 7.5 million number shares. In this regard, Rs. 3.6 billion is received from the sales of 5,299,070 number or 3.53 percent of shares. The experiences of privatization in the last one and half decade have identified the following key problems:

Challenges Experienced in the Implementation of Privatization Program

9.34 **Adjustment:** In some of the already privatized PEs, there has been a problem to finalize the privatization process due to the disputes between government and buyers regarding high price difference of the property specified in the Information Memorandum prepared before the privatization. The dispute is in the valuation amount of stock and assets valued by valuer appointed by the government and the valuer appointed by the buyer. Such problem appeared in the privatization process of Nepal Tea Development Corporation where buyer had filed the case in in the Court. This issue has now been settled through mutual understanding. Such problems are still in case of Balaju Textile Industry, Raghupati Zute Mills, Bhaktpur Brick Factory, etc.

- 9.35 **Land acquirement:** In some cases the problem has been raised due to acquirement of lease land. In such case, the buyer has not been able to utilize such land resulting obstacle to complete the privatization process. Raghupati Jute Mill and Nepal Tea Development Corporation are facing such problems.
- 9.36 **Case under Courts' consideration:** Buyers of some PEs have disagreed to pay the due amount to the government and gone to the Court. This has created problem in receiving payments by the government and the privatization process has not been completed. Harisiddhi Brick and Tiles Factory, Bhrikuti Paper Factory and Bhaktapur Brick Factory are facing such problems.
- 9.37 **Difficulty as to sale of assets:** The assets of some liquidated PEs are not sold. Even after the six years of liquidation, the assets of Hetauda Textile Industry have not been sold. This is also due to obsolete machineries. Likewise, same problem exists in Nepal Drilling Company, Birgunj Sugar Factory and Agriculture Inputs Factory.
- 9.38 **Problem related to liquidation:** After getting long-awaited final report from the appointed liquidators of PEs initially privatized, such as the Bansbari Leather and Shoe Factory, Harisiddhi Brick & Tile Factory and Bhrikuti Paper Factory, so as to complete the liquidation works through accounts settlement, the process of deregistration of these companies is in the final stage. Deregistration of Cottage Handicraft Emporium and Nepal Coal Limited from the Company Registrar's Office has been already completed. The deregistration of Bhaktapur Brick Factory and Agriculture Lime Industry will be completed by the end of FY 2007/08. The liquidation process of Hetauda Textiles, after bringing the unsold building, land and plant in government's ownership, has been started.
- 9.39 **Liabilities borne by government:** The GON has paid huge amount in the process of privatization of PEs. In the latter phase, the GON has borne the following amounts to clear the liability of divested/liquidated PEs. There is still a situation to bear larger financial burden by the government for the non-liquidated/divested PEs.

Table 9(e) : Government's Financial Liability during the Privatization Process
(Rs. in '000)

S.N	Name of the PEs	Amount	Purpose
1.	Himal Cement Company	370,000	To pay different liabilities
2.	Bhaktapur Brick Factory	206,231	" "
3.	Birjung Sugar Factory	706,724	" "
4.	Agriculture Tool Factory	52,976	" "

5.	Nepal Rosin & Turpentine Ltd.	180,812	" "
6.	Lumbini Sugar Factory	508,967	" "
7.	Agriculture Lime Ind. Ltd	81,595	" "
8.	Nepal Coal Ltd.	8,391	" "
9.	Nepal Transport Corporation	361,685	" "
10.	Hetaunda Textile Ind. Ltd.	536,035	" "
11.	Cottage Handicraft Sales Emporium Ltd.	81,033	" "
12.	Nepal Tea Dev. Corporation	118,671	" "
13.	Biratnagar Jute Mills	451,409	" "

Source: Ministry of Finance, Privatization cell

9.40 Generally, the liability of any PE should be paid through its own assets, but it is not being happened. Due to several reasons on accounts of which the assets of PEs are either not sold or they are used for public purpose with the practice of the liabilities being borne by the GON, resulting in a huge financial burden for the GON. Such practice needs change.

Challenges

- 9.41 Some PEs are running at loss and some have negative networth. These PEs have not provisioned fund to meet liability like gratuity, pension, provident fund, etc. for staff and thus unfunded contingent liabilities are growing which will ultimately put heavy financial burden on the part of government.
- 9.42 Loss making PEs continued to add financial liability to the government while the profit-making PEs are enjoying all sorts of facilities, exceeding their need.
- 9.43 Even the loss-making PEs have a tendency of not revealing actual employees' position available in the PEs. As a result of this, PEs are ignoring the government's policy on right-sizing of the staff. Instead they have a tendency of recruiting new employees. Due to this problem, the overhead cost of PEs is gradually increasing. In this connection, there is a need to institutionalize the practice of taking responsibility and accountability for the implementation of commitment made by both the concerned PEs and Ministries. In PEs, generally, there is a dearth of high-skilled manpower whereas the number of unskilled staff is more than needed.

- 9.44 Some PEs do not prepare the annual accounts for long time and do not get them audited for several years. This may cause loss in people's confidence, adversely affecting the reform process of the PEs.
- 9.45 Many PEs lack appropriate and latest technologies. In addition to this, the lack of capital has remained as a big challenge.
- 9.46 Some PEs do not have authority to adjust the price according to the market fundamentals. This has even challenged the existence of the concerned PEs. The NOC is the right example of this paradox.
- 9.47 Lack of clear and coherent policy regarding the recruitment and the facilities in connection with the Board of Directors, Chief Executive and staff has posed additional challenge.
- 9.48 There is lack of clear policy and mechanism regarding monitoring and evaluation of PEs. The concerned Ministry should make the monitoring and evaluation work of the PEs under them effective.
- 9.49 In the current situation wherein the important role of the PEs in the emerging environment of liberal, open and competitive economic system needs to be realigned, the overall progress in attaining the objectives of the PEs does not seem to be satisfactory.
- 9.50 As stated in budget speech of FY 2006/07, a high-level committee on Public Enterprises Reform Recommendation has submitted a report on the status of PEs, recommending the list of PEs that need to be privatized or liquidated or continued to be kept in operation. Necessary actions on the recommendation of the report could help improving the allocation of resources in the economy, leading to a dynamic economic development environment.

10. Energy and Forestry

Energy

- 10.01 Energy consumption in FY 2006/07 compared to that in FY 2005/06 decreased by 15.2 percent to 7,159 Tons of Oil Equivalent (TOE). This consumption in the first eight months of FY 2007/08 is 6,572 TOE compared to 5,653 TOE in the same period last year.
- 10.02 Classifying the energy source into three categories--conventional, commercial, and renewable--their consumption ratios in FY 2006/07 were 84.3 percent, 15.0 percent, and 0.7 percent respectively. The ratios were 85.0 percent, 14.4 percent and 0.6 percent respectively in the first eight months of FY 2007/08. This shows the increasing dependence of the Nepalese economy on the conventional energy in this year, too, as in the previous years.
- 10.03 In FY 2006/07, energy consumption from the wood fuel source was 85.9 percent, from agriculture residue 5.8 percent, and from livestock residue 8.3 percent. The ratios of fuel wood, agriculture residue, and livestock residue in the first eight months of FY 2007/08 were 88.3 percent, 4.8 percent, and 6.9 percent respectively. On the commercial energy side, of total consumption of energy in FY 2006/07, the share of petroleum product was 65.9 percent, coal 16.0 percent, and electricity 18.1 percent. The ratio of petroleum products, coal, and electricity in the first eight months of FY 2007/08 remained 68.2 percent, 17.6 percent, and 14.2 percent respectively.

Electricity

- 10.04 By the end of FY 2006/07, a total of 560 MW electricity was generated from various hydro-power projects. Out of the total hydropower generated, 555 MW electricity is connected with the national grid whereas the electricity produced from small hydropower stations not connected with national grid is providing electricity facility at the local level. Similarly, including a total of 55 MW electricity produced from thermal power stations and 100 KW from solar plants, the total electricity production has reached 615 MW.

- 10.05 During the first eight months of FY 2007/08, the construction work at Mid-Marsyangdi Hydro Power Project (70 MW) in Lamjung district assisted by the Government of Germany is in the final stage. Similarly, the construction work of Chameliya Hydro Power Project (30 MW) in the far-western Darchula district and Kulekhani Third Power Project (14 MW) in Makawanpur district are underway. For Upper Tamakoshi Project, fund raising activity has been initiated whereas its feasibility study is still ongoing. Gateway construction of the project is underway. The construction of Heldung and Gamgadi small power projects of 500 KW and 400 KW respectively was continuing in order to provide better electricity facility to the solar-power dependent Humla and Mugu districts. The Heldung Small Project is expected to be completed by FY 2007/08.
- 10.06 Private sector's participation in hydropower production remained encouraging this year, too. The projects developed by the private sector are gradually coming into operation. Thoppal Khola (1.65 MW), Sisne Khola (0.75 MW), Shali River (0.232 MW) and Phemekhola (0.995 MW) projects have been completed and have come into operation. Patikhola (0.996 MW) will come under operation by the end of FY 2007/08. Similarly, Power Purchase Agreements (PPAs) have been made for the purchase of power generated from Belkhu (0.32 MW), Upper Haandikhola (0.991 MW), Siurikhola (0.99 MW), Hewa khola (2.4 MW) and lower Piluwakhola (0.99 MW). Construction work of Ridikhola (2.4 MW), Mardikhola (3.1 MW) and Upper Haandikhola (0.991 MW) is underway.
- 10.07 In the process of extending electrification, high voltage transmission lines of 132-KV 2076 circuit km, 66-KV 586 circuit km, 66-KV underground cable 7 circuit km, and 32-KV 2,485 km are in operation by FY 2006/07. Currently, Parwanipur-Pathlaiya (20 km), Ilam-Phidim-Taplejung (90 km), Sittalpati-Musikot (50 km), Buipa-Okhaldhunga (29 km), Chhinchu-Rukum-Jajarkot (70 km), Ghorahi-Holeri (45 km), Udipur-Beshishar-Manang (90 km), Dipayal-Sanfebagar-Manma-Jumla (104 km), Dhankuta-Hile-Leguwa-Bhojpur (50 km) transmission lines under 132 KV are under construction. As per the policy-level agreement of increasing the existing import and export rate of 50 MW electricity with India, it has been targeted to set-up transmission lines in additional 3 points of Nepal-India border. Accordingly, the necessary

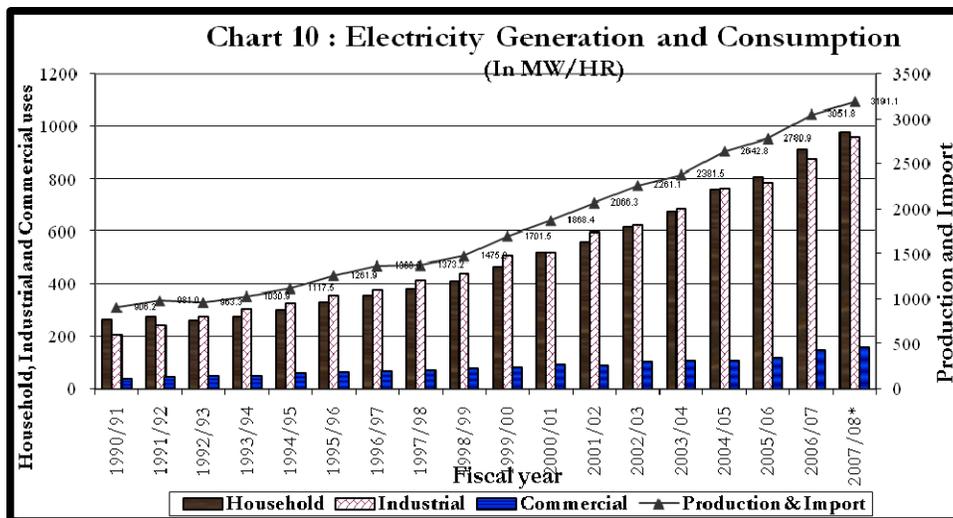
preparation and studies are underway to construct the transmission lines of 400 KV capacities in Duhabi-Jogbani, Butwal-Sunauli and Dhalkebar-Bhittamod. Out of these, construction of Dhalkebar-Bhittamod transmission line has been targeted to start within the current fiscal year. To strengthen the power supply capacity of the Valley to cope with the increasing urbanization, the construction of the Ringmen 132 KV capacity transmission line in Thankot-Chapagaun-Bhaktapur with the financial assistance of the ADB is in the final stage. To transmit the power from existing Khimti Hydor Power and other projects of the area, the construction of 250 KV Khimti-Dhalkebar (75 km) transmission line with the financial assistance of the World Bank is under construction.

- 10.08 Extending electrification has been continuing in all the districts where electricity facility has been provided by the GON and NEA on their own resources. Denmark Government-assisted first phase electrification program in Kailali and Kanchanpur districts has been completed. The second phase electrification is about to complete in these districts. Electrification with the assistance of the ADB in other 27 districts is in the final stage. Similarly, the World Bank has assisted this program in additional areas of Bhaktapur, Lalitpur, Nuwakot, Dhading and Kavrepalanchowk districts.
- 10.09 Extending electrification is underway through Community Rural Electrification Program based on public participation with the involvement of 149 organizations from which 135,000 households will be benefited.
- 10.10 A number of other activities have been undertaken regarding the feasibility and detailed study of hydro-power projects. Continued effort has been made to identify projects that could meet the increasing demands of the hydro power. To avoid the seasonal imbalance in the demand and supply in the national electricity system, it is mandatory that reservoir types of projects should be well-executed. For the same, an attempt has been made to increase the fund for the feasibility study of Upper Seti reservoir type project which has 122 MW production capacity. Feasibility study of Upper Trishuli Third (A) and Upper Trishuli Third (B) is ongoing. The periodic study of Rahughat Hydro Power Project being constructed with the assistance of India is also ongoing. The in-depth study of other alluring reservoir-type projects including Nalsiyaugad, Madi-

Ishaneshwor and Seti-Trishuli Water-Lake Projects has been started.

- 10.11 Out of the total 3050.82 GWH of power supply in FY 2006/07 (hydropower production 2708.68 GWH, thermal power production 13.31 GWH, and 328.83 GWH coming from India), 2,179.89 GWH was consumed domestically and 78.25 GWH was exported to India. In FY 2007/08, 3,191.108 GWH power supply is estimated, out of which will be 2,747.608 GWH from hydropower, 28.5 GWH from thermal power, and 415.0 GWH to be imported from India. Out of this, 2,361.048 GWH is estimated to be domestically consumed and 60.0 GWH is estimated to be exported to India.

Chart 10(a) : Power Production and Consumption



- 10.12 While analyzing the sector-wise consumption of electricity in FY 2006/07, it is found that industrial sector consumed 38.8 percent, household 40.0 percent, trade and commerce 6.4 percent, export 3.5 percent and other sectors 10.9 percent. Likewise, in FY 2007/08, it is estimated that industrial sector consumes 39.6 percent, household 40.4 percent, trade and commerce 6.5 percent, export 2.5 percent and other sectors 11.0 percent.

- 10.13 The number of power consumers is on rise every year. There were 1.39 million households recorded by the end of FY 2006/07 and are estimated to increase by 10.1 percent, reaching 1.53 million households by the end of FY 2007/08.

Petroleum Product

- 10.14 The consumption of petroleum products in FY 2006/07 had increased by 0.7 percent to reach 674,783 kiloliters while L.P. gas had increased 15.5 percent to 93,562 MT. During the first eight months of FY 2006/07, the consumption of petroleum product and LP Gas was 426,179 kiloliter and 48,521 MT respectively. While the consumption of petroleum products decreased by 1.35 percent to 420,417 kiloliters, it has increased by 29.8 percent to 62,964 MT of LP gas in the first eight months of FY 2007/08.
- 10.15 The major portion of the consumption of petroleum products is covered by diesel, kerosene, petrol and air fuel. Their respective ratios remained at 47.0 percent, 15.0 percent, 25.6 percent, and 11.0 percent in the first eight months of FY 2007/08 compared to 45.5 percent, 29.3 percent, 15.1 percent, and 9.5 percent respectively in FY 2006/07.
- 10.16 NOC, the only authorized dealer of the petroleum products, has the storage capacity of 70,898 kiloliters. This capacity is enough for about 25 days considering the magnitude of the average consumption. However, considering the increasing average consumption, the storage capacity needs to be increased. Similarly, out of the total consumption of the petroleum product across the country, 65 percent is imported from Raksaul Depot of Indian Oil Corporation. Considering, the present loading capacity of Raksaul Depot and the heavy traffic from Raksaul to Birgunj customs area, it has been very essential to look at the alternative ways for the petroleum supply.
- 10.17 The NOC was at loss in FY 2006/07 and FY 2007/08 for not reviewing the rate of petroleum products as per the price hikes in the international market. Because of this, the NOC has not been able to develop any of its physical infrastructures except discharging its responsibility of import, storage and distribution.

Coal

- 10.18 The consumption of coal in FY 2006/07 compared to the figure in the previous year had decreased by 34.1 percent to a level equivalent to 172 TOE. Comparing the coal consumption in the first eight months of FY 2007/08 with that in the same period in FY 2006/07, the coal consumption decreased by 4.6 percent to an equivalent of 166 TOE.

Alternative Energy

- 10.19 With the objectives of supplying energy to rural areas by developing sustainably alternative renewable energy technology in Nepal, bringing about socio-economic change in the status of the rural people by operating small industries through such technology, helping to maintain the regional balance in developing and minimizing environmental problems arising from deforestation in rural areas, the GON established Alternative Energy Development Centre in 2053 BS. The Centre assists and suggests the government in making policies on the alternative energy technology. Other tasks of the Centre include developing short-term and long-term plans; executing those plans in coordination with other energy-related organizations and supervising, evaluating and controlling quality of the programs.
- 10.20 To manage and duly utilize the economic resources received from the GON, Danish government and Norwegian government for the solar and micro-hydropower projects, Rural Energy Fund has been established and is functioning well. This Rural Energy Fund also makes coordination with other banks for the necessary financial support. The Fund has helped in expanding the rural people's access, especially in new and sustainable energy system in those areas where electricity has not reached through National Electricity Power Transmission. This has, thus, helped in making a notable improvement in the people's life-style with their improved status in health, education and in income-generating activities.
- 10.21 The concept of Clean Development Mechanism (CDM) has been brought forward as a policy with due importance to address the economic difficulties in the field of renewable energy and to give continuation to related programs. In this regard, two of the bio-energy production programs have been registered at the CDM Executive Board. According to Article 12 of the Kyoto Protocol, under CDM, for minimizing the externality effects after the establishment of bio-gas plant and micro hydropower project in Nepal, the purchase-sale agreement has been signed with the World Bank Carbon Fund for Community Development. As per the agreement, the help of 7 dollars per CER in bio-energy and 10.25 dollars per CER for micro-hydropower programs will be received. Currently, Nepal will receive the grant of about US\$ 672,000 annually given the number of 19,396 gas plants registered.

Similarly, the process of developing the improved water mill as a carbon project has been started. The project idea note has been issued in this regard.

- 10.22 Renewable Energy Grant Policy 2057 BS and Renewable Energy Grant Mobilization Procedures 2057 BS were not found relevant for reducing poverty by providing the rural people with low income opportunities to use renewable energy and giving priority to the use of the resources and technologies for the alternative and renewable energy in the rural areas. So, to increase the access of the people and to bring them as the end users, Renewable (Rural) Energy Grant Provision 2063 BS and Renewable (Rural) Energy Grant Mobilization Procedures 2063 BS have been approved by the GON and have come into effect.
- 10.23 In the context of not having a comprehensive national policy for the development of alternative and rural energy technologies in Nepal, Rural Energy Policy 2063 BS has been approved by the GON and has come into effect. This is aimed at developing and extending the rural energy and helping poverty alleviation. According to the policy, there were energy development programs with the financial assistance of the UNDP and the World Bank. Under the Rural Energy Development Program DDC remained as Rural Energy and Environment Branches and, till FY 2006/07, 25 districts were covered under this program. At present, steps have been taken to extend the program to 40 districts with the upgrading of the projects as the District Energy and Environment Branch. Similarly, in 32 districts, District Energy and Environment Units will be established with the financial assistance of the UNDP. This has been introduced in 7 districts at present as pilot project whereas in other districts steps have been taken to form a unit and to appoint the manpower.
- 10.24 To ensure the easy access of rural community to the Renewable Energy Technology through the maximum exploitation of the resources, MOU has been signed with the Poverty Alleviation Fund, Practical Action Nepal and RWRMP.
- 10.25 To make the programs operated from the central level accessible to the poor people and to minimize the initial cost to link the technology and to provide easily and with low interest rate, the Renewable Energy Promotion Centre has been coordinating with various financial institutions. For the same, the Centre, making ties with National Cooperative Organization and through the members

of the latter, has made a plan to provide loan facility at the local level for energy technology.

Table 10(a) : Alternative Energy/Biogas Status in Nepal

S.N.	Activity Particulars	Progress of the first eight months of FY 2007/08
1	Solar dryer/cooker distribution (in Nos.)	688
2	Biogas Plant (in Nos.)	3025
3	Improved Chulo Plant (in Nos.)	9863
4	Homemade solar energy power system (in Nos.)	21686
5	Improved water mill plant (in Nos.)	795
6	Micro hydro-power production(KW)	960
7	Maintenance of old plants (in Nos.)	38612

Source: Alternative Energy Promotion Centre

Forestry

- 10.26 The GON has the policy of forest management with the following objectives (i) conserve forest, flora and fauna and bio-diversity which ensure sound environment and sustainable growth in the supply of forest products, (ii) ensure the social and economic empowerment of the poor community by ensuring their access and rights, (iii) support and uplift the industry and business based on the forest production and develop the home market as well as the export creating employment opportunity, (iv) help the equitable development by minimizing poverty through the fair distribution of forest products and generating income source of *Dalits*, indigenous people, *Janajatis*, *Madhesis*, disabled and all other marginalized men and women.

Box 10(a) : Forest Resource Data	
Forest Area	4.27 million ha (29 percent)
Shrubs area	1.56 million ha (10.6percent)
Total stem volume	388 million cubic meter

Sal family out of the total stem volume	28 percent
Total bio-mass	429 million ton
Average stem volume	178 cubic meter per ha
Average number of trees	408 per ha

Source: Ministry of Forest and Soil Conservation

- 10.27 For the long-term development of the forest areas to run the six primary development programs indicated by forestry development master plan and other six support-based development programs, Ministry of Forest and its related departments have continued various projects and programs in each fiscal year through the internal source of the government and through foreign aid. In this regard, a total of 34 projects and programs such as National and Leasehold Forest, Community and Private Forest, Ecological and Genetic Resource Conservation, Soil Conservation and Watershed Management, Herbs and Incense Plants and other Forest Related Programs are in operation in various districts.
- 10.28 In the country, 19.4 percent area has been declared as reserve area consisting of national parks, wild life reserves, protected area, hunting reserve and buffer area.

Box 10(b) : Forest at a Glance

<u>Community Forest</u>	
Community forest consumers' group	14,389
Area of the forest handed to community	12,25,993 ha
Benefitted household Nos.	16,54,529
Community forest managed by women	789
<u>Leasehold Forest</u>	
Leasehold Forest consumers' group	3180
Area of Leasehold Forest handed over	13414 (806 ha)
Benefitted household Nos.	24,362
Leasehold Forest(20 organizations)	32.35 ha
<u>Partnership forest</u>	
Pilot program conducted districts	Bara, Parsa, Rautahat
Partnership forest group Nos	3
Partnership forest area	6,670 ha

- 10.29 Under Community Forest Development Programs, 14,389 consumer groups have been formed so far and 1,225,993 ha forest area has been handed over. From this, 1,654,529 households have been benefited. By mid-March of FY 2007/08, 81 percent physical progress has been achieved.
- 10.30 Under Leasehold Forest and Livestock Development Programs, 3,180 consumer groups have been formed so far and 13,414 ha forest area has been handed over. From this, 24,362 households were benefited. By mid-March 2008, 88 percent physical progress has been achieved.
- 10.31 In bio-diversity programs in Terai and Shivalik areas, 76 percent physical progress has been achieved by mid-March 2008. Similarly, 19.4 percent of the total land has been declared as conservation area which includes national park, wildlife reserves, conservation area, hunting reserves, and buffer area. In the national park and wildlife reserve projects, 87 percent physical progress has been achieved by mid-March 2008. Under District Soil Conservation Program and Community Development and Forest Watershed Conservation Projects, 90 percent physical progress has been achieved by mid March 2008.
- 10.32 For the production, refinement and marketing of the herbs, coordination has been made between the concerned authority and the private sector to launch national program. The objectives of the program are (i) collecting data and carrying out research on the appropriate technologies of the most important and rare herbs and (ii) upgrading the employment in mountainous and hilly regions and promoting exports by conserving such plants and giving priority to their sustainable management. Hence, priority has been given to the research, development and utilization of the herbs.
- 10.33 Under the National Park and Wildlife Conservation Department and as per the legal provision of National Park and Wildlife Conservation Act 2029 BS, reserves and conservation areas have been established and managed well. So far, bio-diversity has been conserved in altogether 16 places which include 9 national parks, 3 wildlife reserves, 1 hunting reserve and 3 protected areas. As mentioned above 19.7 percent of the total land of the country is occupied by such national parks and reserves.

- 10.34 Although such national parks and reserves are to protect, conserve, promote and manage various wildlife and flora, they are also committed to uplift the lifestyle of the people living in the buffer areas. Considering the fact that conservation endeavors are for the betterment of the whole humankind (and so to make the local people benefit from it as far as possible) and considering also the fact that conservation programs become more effective with the cooperation from the local people. National Park and Wildlife Conservation Act, 2029 BS was amended and the provision of buffer area management was added. To produce and develop the forest resources necessary for the local people, wok-plans have been made with the direct participation of the consumers' group and, thus the resources have been utilized and conserved.
- 10.35 A policy has been made to mobilize increasing effective participation of the people in conservation work and ensure sustainable utility of the natural resources and bio-diversity. The policy incorporates- (i) establishing and extending the reserve areas as per necessity for the conservation of bio-diversity in such a way that the nation's ecological system would be represented, (ii) developing management plan and implementing it for the long-term conservation of the bio-diversity of the reserves (including buffer areas), (iii) devising policies for the conservation of the rare species and conserving, promoting and improving their homes, and (iv) mobilizing, conserving and managing corridors and connectivity, managing the ecological process, and bringing about the ecological services into human utility.
- 10.36 As a signatory to the International Treaties on Bio-diversity and Environment Conservation, a policy has been made to implement the treaties effectively and conserve, promote and utilize the wildlife with the active participation of the NGOs and individuals, thereby developing income and employment opportunities. A policy has been taken to increase public participation in the extension of parks, reserves, protected and buffer areas after conducting the feasibility study of the important areas from the viewpoint of bio-diversity conservation. Also, the policy is to let the NGOs and other organizations manage the reserves and develop this sector by establishing co-ordination with the concerned agencies engaged in the conservation of wetlands.

- 10.37 In this fiscal year, 81 spotted-deers have been successfully transferred to Parsa wildlife reserve from Godavari Deer Research Centre under Shivapuri national park. This will help attract the tourists in Parsa wildlife reserve. It is also believed to help increase the public awareness in conservation. Similarly, rhino census was conducted in Chitwan National Park that showed 408 rhinos there. In the process of declaring mid mountain and himal of Darchula district as protected area so that it could best represent the ecological system of mid-hill, feasibility study is ongoing covering the area of 21 VDCs. As a signatory nation of the Wetland Protocol, Koshi Tappu, Bis Hajari Lake, Ghodaghodi Lake, Jagadispur Reservoir, Gokyo Lake, Foksundo Lake, Rara Lake, Gosainkunda, etc. have been included in the wetland list.
- 10.38 As per the directive for the selection of the species, collection of seeds and production of nursery of various species of plants as demanded locally, 29,000 cane trees in 7 districts, 99,000 bamboo trees in 18 districts and 239,000 of herbs like peepla, timmur and Sajyun have been planted in 28 districts. So far, 200 bamboo plants have been produced in nursery through cutting technology. Similarly, to manage leasehold forest in the community forest, consumers have been identified, sub-groups have been formed and field officials have been imparted orientation training for such purpose in 194 community forests.

Challenges

- 10.39 There have been difficulties in introducing and implementing programs due to the damage caused in the physical infrastructure of various district forest offices.
- 10.40 Though biogas micro hydropower, solar power and air power are the major existing alternative energy sources in the country, Nepal has not been able to utilize them properly. Inadequate economic resource and lack of proper peace and security situation still remain the major challenges in this regard.
- 10.41 Hydropower sector, which is regarded as the most important sector from the perspective of economic development, has not been well-utilized and still a large number of people do not have access to it. Also, due to its high cost in the production, there is no possibility of exporting it either. Therefore, it has been a big challenge to meet the increasing internal demand and also promoting its export by

exploring the cost minimizing technology so as to help the national economy.

- 10.42 Petroleum price has been continuously rising in the international market and Nepal has not been able to revise its price. The NOC is at loss, resulting in a huge due to pay the India Oil Corporation. The supply constraint has posed a challenge in the import and in the storage and supply of the product.
- 10.43 Declaring 11 additional reserves as buffer areas has increased the responsibility of the management though there has not been adequate provision of manpower till date. So, there is difficulty in providing effective service in the buffer areas, which has affected the management of parks and reserves.
- 10.44 In the case of renewable energy project programs run with the financial assistance of EU, the programs should run through international tender as per the EU policy. This has created difficulty in achieving the objectives of the program. Due to the conflict and violence in the past, there has been difficulty in transporting alternative energy-related goods in time and in monitoring, evaluating and controlling the quality of the program.
- 10.45 The GON had mentioned, through the FY 2006/07 budget, that it would waive the VAT on the machinery and construction tools in the private sector's micro hydropower projects and small hydropower projects up to 3-MW capacities. This decision, however, could not be implemented due to various reasons. This has affected the development, extension and promotion of the micro hydropower projects.

11. Transportation and Communication

Road Transport

11.01 Of the target to connect 7 district headquarters by road during FY 2007/08, only 2 district headquarters, Jajarkot and Sankhuwasabha, are connected by road up to now while track road has been started in three district headquarters (Bhojpur, Mustang and Bajhang). Total road length at the end of FY 2006/07 stood at 17,782 km, of which black-topped road was 5,402 km, graveled 4,529 km and fair-weather 7,851-km. Till mid-June of FY 2007/08, 100-km of road has been upgraded to black top level, 20 km of road has been upgraded to gravel level and 200 km of road has been newly-constructed, resulting in 17,982 km of total road length.

Table 11(a) : Road Network in Nepal

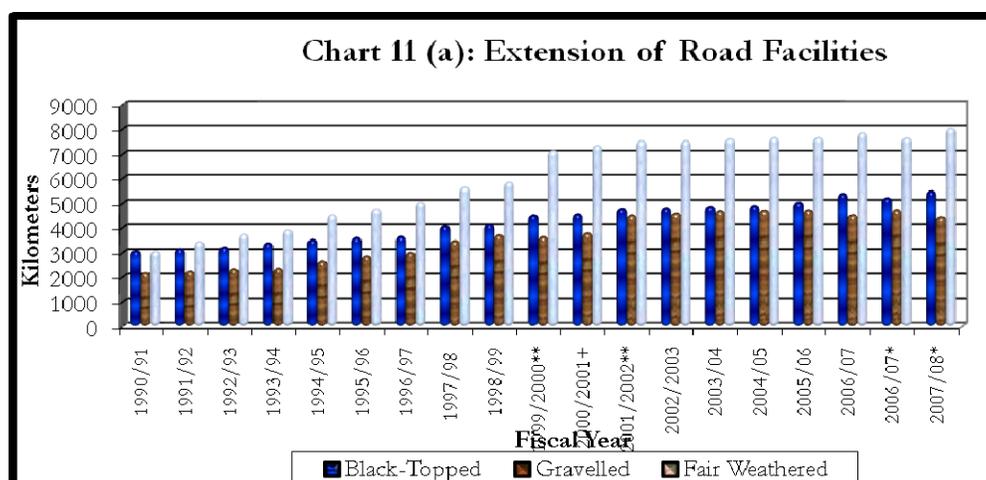
(in km)

S.N.	Types	Fiscal Year			
		2006/07	2007/08*	Total by End of FY 2007/08**	
				Total	Share/Percent
1.	Black Topped	5402	100	5502	30.6
2.	Gravelled	4529	20	4449	24.7
3.	Fair- Weather	7851	200	8031	44.7
	Total	17782	350	17982	100.00

* Extended road length up to mid-June of FY 2007/08, ** Total by mid-June 2008

Note: Only the roads constructed by Department of Roads are included

Source: Department of Roads, Kathmandu



Transport Vehicles

11.02 Since FY 1989/90 through FY 2006/07, number of vehicles across the country was 587,056. This number during the first eight months of the FY 2007/08 increased by 9.1 percent (i.e. 53,615) to 640,671. With this, by mid-March of FY 2007/08, it is estimated that there will be a ratio of 35 vehicles per km. In the previous year, there were about 33 vehicles per kilometer across the country.

Table 11(b) : Number of Vehicles

Types	Fiscal Year		Total**	Increment percentage (in first eight months)
	Since 1989/90 to 2006/07	2007/08*		
Bus	15,840	875	16,715	5.5
Mini Bus	5,396	356	5,752	6.6
Car/Jeep/Van	86,384	3,127	89,511	3.6
Tractor	35,423	2,312	37,735	6.5
Motorbike	396,156	40,633	436,789	10.3
Tempo	7,328	2,931	10,259	40.0
Micro	1,877	13	1,890	0.7
Truck/Tanker/Dozer/Crain /Tipper/Dumper	31,652	2,104	33,756	55.9
Pickup	1,485	1,108	2,593	74.6
Others	5,515	156	5,671	2.8
Total	5,87,056	53,615	6,40,671	

*Added until mid-March of FY 2007/08

** Total since FY 1989/90 through mid-March 2008

Source: Department of Transport Management, Tinkune, Kathmandu.

Progress in Policy and Institutional Matters

11.03 To protect the infrastructure of roads and to independently carry out its renovations and maintenance, the Road Board Nepal was established with the specific motives of carrying out regular maintenance and providing quick, dependable and safe journey by utilizing the sources coming through the payments by the road users. With the establishment of the Board, planned maintenance of the roads has been started, which has increased the participation of the road related agencies in this work. Another positive outcome of the Board is the increase in awareness of the people regarding the maintenance of roads.

- 11.04 For the last few years, after the establishment of the Board, plan is formulated on the basis of availability of resources for the maintenance of roads. Based on this practice, the Board is fully bearing the regular and repeated maintenance cost of 5,000-km strategically important roads. Similarly, periodic maintenance of 14-km roads has been completed in FY 2006/07. Besides this, specific maintenance of the damaged roads has been done in various places.
- 11.05 The process of policy-based reforms has started for the total reforms in the transportation management as per the report received from the transportation management reforms high-level committee. For the total reforms in the transportation management, the amendment process in the existing Transportation Management Act and Regulations is on. For the institutional reforms in transportation management, reformation process in the existing means and resources of the offices of transport management is underway. Similarly, preparation is on to provide the services from Transportation Management Offices (TMOs) through online service. By reforming the existing structures of the transport management offices, the process of enlarging the organization has been started. In that, new proposed organizational structure in Bagmati and Dhawalagiri zones and temporary office in Narayani zone will be established. Departmental monitoring and evaluation of the work done by the various TMOs has been made more effective. Similarly, work is also on to make the transport recording system of TMOs systematic and scientific. To make time-relevant improvement in, and systematize the job of, transport management and make it more modern and scientific, work is underway to reform the existing driving license format and replace it with Electronic Smart Card and the embossed number system in case of vehicles. To systematize the pollution testing process and make it scientific, work is proceeding to establish Vehicle Testing Centre in TMO, Bagmati, and gradually extend it to other places, too.

Table 11(c): Activities under Transportation Sector

<i>S.N.</i>	<i>Important works done</i>	<i>Achievement in first eight months</i>
1	Driving Training Center	
	Registration (No.)	33
	Renewals (No.)	42
2	Transport Service Registration	
3	Recommendations made to TMOs for the	255

<i>S.N.</i>	<i>Important works done</i>	<i>Achievement in first eight months</i>
	route permit of the vehicles with various models	
4	Registered Vehicle (No.)	51,731
5	Driving License (No.)	
	Newly Distributed (No.)	68,000
	Renewals (No.)	50,257
	No. of Carbon Copy/Addition of Groups	10,050
	Nepali conversion/Zonal Basis	952

Source: Department of Transport Management, Tinkune, Kathmandu.

Air Service

- 11.06 The Civil Aviation Authority of Nepal (CAAN) was established in 2055 BS to develop and extend the civil aviation in Nepal and to make air flight, air communication, air navigation, and air transportation service safe, regular standard and effective for national and international air link. The CAAN has been undertaking safety and regulatory activities related to civil aviation together with the other improvement and developmental work at the airport. To bring time-relevant reformations in the organizational structure of the CAAN, an attempt has been made to receive an expert service through International Civil Aviation Organization (ICAO) to review and restructure the present organizational structure.
- 11.07 The Aviation Policy, 2063 BS, with extensive reforms and rewriting in National Aviation Policy, 2050 BS, has been approved by the GON and is in operation. Homework is on for preparing legal base to execute the provisions of Aviation Policy, 2063 BS and for relevant amendments to the Nepal Civil Aviation Act, 2053 BS.
- 11.08 There are 51 airports in the country, which include 1 international airport in Kathmandu, 3 regional hub centers (Nepalgunj, Biratnagar and Bhairahawa), 43 other airports and 4 airports under construction (Kalikot, Kamal-Bazar, Masinechaur and Khanidanda). Of them, 33 airports are in operation. Continued work for the operation and management of the various airports and for the field inspection, monitoring and evaluation of the work performance of the airports as per the approved budget and programs has been undertaken. In the current fiscal year, field inspection, monitoring and evaluation of Bharatpur, Bhairahawa, Simara and Pokhara airports was carried out, emphasizing in addressing the problems and making reformations

through high-level committee implementing the recommendations of the report, as stated above.

- 11.09 In the context of improvement and expansion of the Tribhuvan International Airport (TIA), Airport Development Master Plan, 2015, running with the assistance of the ADB, has been reviewed. Similarly, Civil Aviation Sector Development Strategy Plan has been prepared and has remained in the decision process. For developing and extending the physical infrastructures of the airport through the resources of the CAAN as per the master plan of the TIA, selection of the local consultant has been done and the design estimation is underway. Similarly, with the technical assistance of the ADB, detailed study of the physical infrastructure by the international level consultants has been started. As in the past, under the Corporate Social Responsibility, construction of roads, sewerage management and drinking water facilities along the vicinity area of TIA in Gothatar, Koteshwor, Sinamangal, etc. is continuing in this fiscal year as well. Construction of TIA's runway, taxi-way overlay work and expansion of stopover facility for international flights has been started. Distribution of the compensation for acquirement of houses sheds and land in Koteshwor and Sinamangal areas for the development, extension and the security of the airport, have been started under the TIA master plan. Implementation of the TIA programs as approved in FY 2007/08 is expedited as per the work schedule with the aim to accomplish them as targeted by the end of the current fiscal year. Along with the prompt and effective facilities for tourists, travelers and service seekers of regular flight, the other facilities like sanitation, management of terminal, trolley service, etc., are also of high priority for TIA improvement. For the facility of the tourists, travelers and service seekers, hotel providing a high quality service has been opened. Similarly, a highly standard lounge has been reconstructed by the Thai Airways International. Likewise, new version of the airport entry pass needed to enter the airport has been implemented. Link taxi way to connect domestic apron with parallel taxiway constructed in the past 5, 6 years ago could not come into operation for various reasons. Necessary preparation has been started to resume its operation. As mandatory as per the international system and also to help in e-ticketing, Common User Terminal Equipment (CUTE) system is in tender process. This helps check ticket from single software through all the air services in an integrated way.

- 11.10 Since various types of aircrafts and air services are on rise, upgrading the quality and extension of the service of the internal airports has been continued to make air service safe, reliable and regular. To develop and extend the physical infrastructure of Nepalgunj airport, the construction works initiated in FY 2006/07 such as Exit Taxiway, addition of floors in the tower building and cargo building are in the final stage. In the current fiscal year, there is a program of improving the status of the hanger, taxiway and car park area for which contract has been signed and construction has been started. In the process of developing Gautam Buddha Airport as a regional international airport, about 62 *bighas* of land was acquired in FY 2005/06. Likewise, acquiring of nearly 25 *bighas* of land for the development of other infrastructure was started in the previous fiscal year. Likewise, necessary procedure is on to strengthen current runway, taxiway and apron. Task of improving the runway, taxiway and apron of Pokhara airport and Chandragadhi airport is ongoing. Program for upgrading and extension of Dhangadhi airport to make it suitable for all seasons has been started as this is important from the viewpoint also of regional balance since there is no airport with paved runway in the far-western region and also that the request from local level with promise of economic participation to some extent has been received. To improve the status of Surkhet Airport in the mid-western development region, contract agreement for black topping 1040 X 30 meters runway was signed in FY 2005/06. That was completed in FY 2006/07. In the same fiscal year, construction of parking apron was also completed in which 5 aeroplanes of DHC-6 or others of same type could be parked. In the current fiscal year, it is aimed to construct rigid parking apron in which 3 MI-17 helicopters could be parked for which, bid has been called after making selection of prequalifying construction dealers.
- 11.11 To extend the runway of Janakpur Airport from 300 meters to 1,200 meters, construction work was started in FY 2005/06 which, for various reasons, could be completed in the current fiscal year. With this, the length of the runway has become 1,200 meters. According to the program for the current fiscal year to extend the level of the previous 900-meter long runway, taxiway and apron, the tender has been called by selecting prequalification of the construction companies. As per the program, necessary task is underway for black-topping of Simikot/ Humla Airport runway, taxiway and apron.

- 11.12 With a view to extend air services to remote areas, the construction work of various airports has been continued. Among the airports that are under construction, Mugu/Rara airport (the request of resource identification for extension, improvement and construction of other physical infrastructure has been received by the government), Kalikot airport (the works related to stones and soil cutting for construction of runway has been started through the consumers group since last fiscal year), Kangelanda airport (most of the construction work of the runway has been completed but other physical infrastructures are yet to be constructed; however, the air service is continued in that region), Kamalabazar Airport (construction work has been completed but, due to various reasons, the trial flight has not been done), Thamakharka Airport (runway construction is completed; but other physical infrastructures are not yet completed; however, the air service from NAC has been started), Masine Chaur/Dolpa Airport (the construction work on work agreement is continued by the local consumers group), Dolpa/Jufal Airport (the construction work is continued by the local consumers group according to the agreement in the previous fiscal year) and, lastly, Manamaya Rai /Khanidanda Airport (construction work of runway is almost completed and test flight is also done) are the major ones.
- 11.13 As per the policy of encouraging private sector airlines for the operation of domestic and international air services, the CAAN has issued Airline Operation Certificate (AOC) to 43 airlines companies. So far, only 21 such companies have valid AOCs. Out of this, 19 airlines having AOC are operating their air service. In spite of having valid AOC, two airlines companies have not been able to operate their air service. In viewing the service quality rendered by airlines companies in terms of credibility, regularity, aviation safety and non-compliance of rules and regulations toward fulfilling the technical needs, and to discourage the tendency of not operating the services and holding of AOC without operating air services, AOC of 16 airlines has been canceled and 6 companies' certificates and AOCs, were made invalid on account of missing the deadline for renewal. Thus, AOCs of 22 airlines companies have become invalid. Out of the valid 21 airlines, 4 airlines are related to recreation and adventure (Aviation sports). Among the 4 airlines related to Aviation sports, one Ultra Light Power Glider and three Para Glider Companies are in operation. In this way, the numbers of Aviation sports-related airlines and the remarkable extension in the service have given expected

service to the tourists, resulting in significant contribution to the tourism industry. Out of the 21-AOC valid airlines, except the airlines related to Aviation sports, 7 helicopter operators have dispensed their services. The helicopter operators have contributed a lot in the supply of food, clothes, medicine and other construction materials to hilly and Himalayan regions. Likewise, they have played vital role to take the tourists to glance from close quarters the beautiful scenery of three regions of Nepal- the Himalayas, Hills and the Terai. In this way, the helicopter service is contributing to alleviate the difficult life of hilly and Himalayan regions and assisting in the tourism industry of Nepal.

- 11.14 Recently, three airlines companies are providing services in international route sector. Other 19 international airlines have started their services making Nepal their destination. Of these, 19 international companies and 3 other international companies from Nepal, 5 international airlines service operators: Yeti Airlines International, Hong Kong Express, Silk Air and Dragon Air have been providing their services in the current fiscal year. Orient Thai has stopped its services after the regular flights for some months. Thus, with the development and expansion of international airlines services, the tourism industry and trade of Nepal has flourished.
- 11.15 Skilled technicians are required to operate the airlines services; otherwise, the industry may face difficult situations. Taking this into consideration and making endeavors to produce in our own country the skilled technicians who could gradually take the place of their foreign counterparts, flying school has been started in Bharatpur while, Pokhara, flying school related to Aviation Sports has been started. This would definitely contribute to the airlines industry through the production of skilled technicians in the country.
- 11.16 Nepal has signed in the bilateral air service agreements with 34 countries. They are India, Sri Lanka, South Korea, Bhutan, Japan, Myanmar, Bangladesh, Brunei, China, Malaysia, Singapore, Thailand, Maldives, Philippines, Oman, Egypt, Saudi Arabia, Jordan, Qatar, Bahrain, Pakistan, Kuwait, United Arab Emirates, Israel, Austria, France, Luxemburg, Russian Federation, Germany, Italy, Netherlands, UK, United States of America, and Croatia.
- 11.17 To extend the VHF coverage of Kathmandu Area Control Centre, RCAG station has been established and detailed technical specification has been prepared to include it in the V-SAT Network.

Tender has been called and the evaluation of the submitted tender forms is going on. The report has been collected from the consultants for the purpose of establishing Alternate Repeater Station at the proper hill-top in the Kathmandu valley, according to which Bhattedanda at Lalitpur has been recommended as the best site for alternate Repeater Station. In the site, the drawing/design work is continued to make the ladder for the approach in the site and to take the instrument for live test. To conduct ISDN data link communication among Kathmandu, Biratnagar, Nepalgunj, Bhairahawa, Pokhara and Simara civil aviation offices, the specification process in coordination with service provider organizations such as Nepal Telecom and World-Link is going on. In TIA, the feasibility study of Automatic Dependent Surveillance Broadcast (ADS-B) system has been concluded. In TIA, to establish ATS Message Handling System (AMHS), and for the feasibility study of the same, Terms of Reference (TOR) has been prepared and is in the process of acceptance.

- 11.18 According to the policy of developing air route and to utilize maximum air space of Nepal through across mountain and east-west international flights, coordination with ICAO and other related nations is underway to establish Trans-Himalayan Route and East-West (Kunming-Kathmandu-Delhi) Himalayan Route with a view to incorporate Nepal's air space in east-west long distance international airway in the leadership of ICAO. According to the attempt made to establish Kathmandu-Beijing/ Shanghai air route between Nepal and China, there is the coordination between CAAN and China Civil Aviation Authority. The current route B 345 from Kathmandu to Lucknow has been extended up to Kathmandu to Lhasa. In this regard, the letter of agreement (LOA) has been signed between Kathmandu area control and Lhasa area control. The agreement has come into force. Necessary preparation has been made to make the LOA for ATS coordination procedures between Nepal and India air route. During the time of air route negotiation between Nepal and India, as per the understanding of finalizing it after technical discussions, the process of establishing the route L 626 from Kathmandu-Mahendranagar-Delhi is underway.
- 11.19 For the overall improvement of domestic air route and air space in the different airports, the works including instrument flight procedures and revision of air-space are continued. Likewise, the Aeronautical Chart of Nepal has been digitized and the database of the whole

procedure, route, approach and departure chart has been prepared. Necessary step is being taken for the publication of new Aeronautical Chart. In the course of improving Nepal air space, the preparation of new edition of AIP Nepal is going on together with reforms in different routes and working procedures. Likewise, the work of time relevant amendment of Air Traffic Control Manual is also underway. With the aim of implementing GPS-based navigation system in current fiscal year, GNSS database has been prepared. The infrastructures are being made to implement GPS approach and departure in some airports (like Biratnagar and Chandragadhi) in the beginning.

- 11.20 It has been decided to execute fully all the criteria of Annex-17, the collection of air security measures propounded by ICAO, in all ICAO-member countries as a strategy to be adopted to thwart changing features of threat against air transport security. To evaluate such implementation under ICAO Universal Aviation Security Audit Program (USAP), the audit of all member countries' air security has begun since 2003. The audit of almost all member countries has been completed in December 2007. In this course, Nepal's ICAO Aviation Security Audit has been completed in 2006. According to audit provision, the corrective Action Plan has been prepared and sent to ICAO for the correction of mistakes as recommended in the audit. ICAO AVSEC Audit Central Monitoring team had been formed to review the progress in the activities included in corrective action plan and, likewise, necessary step is being taken to review the activities done by CAAN with respect to the audit recommendations. Decisions made by the National Civil Aviation Safety Committee in accordance with the Air Safety Management Regulation, 2046 BS for the approval of all the policy-level decisions relating to the air safety and for effective implementation of the decided matters have been implemented. In addition, in order to implement the air safety requirements at the airport level as well as coordinating the activities, airport safety committees have been active in all the airports of Nepal. According to the provision of air security Annex-17 of ICAO, National Air Safety Program is in action after the approval of National Civil Aviation Security Committee in 2052 BS. This includes different means of air safety, the work divisions to implement them and, the mainly, the provisions of air safety coordination.

- 11.21 It is a great challenge to keep flight safety at highest level due to Nepal's geographical features and difficulties to set up the necessary communication and aviation-related equipment. Nepal has been actively participating in worldwide security inspection programs conducted by ICAO and there has been remarkable progress in implementing recommendations of the audits. Continuity has been given to the audit, supervision, regulation and monitoring of different airlines. The implementation of the recommendations of Accident Investigation Committee has also been stressed. Highest priority has been accorded to the flight safety. In this year also, seminar on 'Recent Trend in Aircraft Maintenance and Airworthiness' has been conducted in addition to conducting various awareness-raising programs. Manual related to flying school requirements and Designated Check Pilot (DCP) manual have been published. Regarding IUSOAP audit and to implement its recommendation, to operate all the works of Annex of ICAO, a high-level committee has been formed and its sub-committees have started their jobs. Likewise, the GON has given its consent to continue the third phase program of COSCAP-SA. With the objective of delegating the responsibility of checking the pilots working in different airlines from the CAAN to the airlines themselves, the required DCP has been managed, on the basis of numbers of aircrafts involved in air services, from among the capable and qualified instructor pilots working in the airlines on the basis of their identified qualification, experience and skill.
- 11.22 In Nepal, among the aircrafts, the number of fixed-wing aircrafts is 39, Rooter Wing (Helicopter) 16 and Aviation Sports 3. The CAAN has provided license of commercial pilot for 313 people, Airlines Transport Pilot (ATPL) for 2,239 people, flight operation officer for 51 people, ultra light aircraft license for 1 person, authorization for 160 people, flight engineer for 3 people and Aircraft Maintenance Technician (AMT) for 250 people.
- 11.23 According to the policy of developing and strengthening standard airport rescue and expansion of fire-fighting services programs determined by ICAO, TIA has been conducting eight-category services. There are 5 categories of services provided in Pokhara, Simara, Gautam Buddha, Biratnagar and Nepalgunj airports. Necessary manpower has been added for the airport rescue and fire-fighting services. The fire-fighting vehicles are being repaired time and again and skilled manpower has been mobilized. To provide the rescue and fire-fighting services according to the category of TIA and

to improve these services as per the standards of ICAO, a three-year plan has been prepared. It is urgent to solve immediately the problems observed in ATS communication and flight supporting system as well as the RADAR system installed at the TIA. Solution is not possible from the internal source of the CAAN. Hence, work is in progress to request the government of Japan for the assistance by preparing “Emergency Project Proposal”.

- 11.24 To make Dhangadhi and Simara airport worthy of night flights, It is necessary to install air-filled lighting system with VOR/DME in Dhangadhi airport and air-filled lighting in Simara. As it is not possible to do so from the internal source of the CAAN, the project proposal of about Rs. 205 million has been prepared in an attempt to seek a donor agency. Since no donor agency has been found yet, the work is not proceeding ahead. About Rs. 4 billion is required to upgrade Pokhara airport into the regional international airport. For this purpose, attempt is made to find the international donor agency. For the preliminary work, the CAAN has established site office from its own budget. For the construction of new international airport, a survey was made in some places in the past. It is targeted in the approved program of the current fiscal year of the GON to select the site and prepare the investment plan. As specified to implement this program by the CAAN, the program is prepared according to which Simara and Nijgadh have been selected for the second international airports.

Information and Communication

Postal Services

- 11.25 Postal service, widely used by populace and its network spread over the entire villages, is the oldest service in the field of information and communication. Currently, the postal services network includes General Post Office, regional post directorates, district post offices, *Ilaka* post offices and additional post offices, numbering 3,992 in total. Besides delivering letters and parcels, it has continued its traditional jobs like the publication of postal tickets, conducting Postal Saving Bank, Money Order Services, E-DV Form service, Express Mail Service and e-post service. E-post service has been started in Dhankuta, Kavrepalanchwok and Surkhet with the help of International Telecommunication Union (ITU) and Universal Postal Union (UPU). Money order service has been conducted in various post offices of Nepal in addition to 6 other foreign countries. Postal

saving bank service, provided by 117 post offices inside the country, has mobilized a deposit of Rs. 765.7 million, out of which Rs. 556.1 million has been invested. Express Foreign Mail Delivery Services is operating in 38 foreign countries and Domestic Express Mail Delivery Service serves through 60 locations inside the country. In order to speed up the effectiveness of the service and the performance and to simplify the working procedure, Counter Automation has been put into operation in 9 places. Track and Trace system has been developed and implemented to keep updated record of the destinations of mail parcels sent abroad. Post offices located at Nepalgunj and Chitwan have started collecting registered documents and parcels to be sent under Foreign Express Post Office. This used to be done only by General Post Office, Dillibazar Ilaka area Post Office, and Bhotahiti Post Office before.

Telecommunication Services

11.26 Nepal Telecommunication Authority (NTA) was established as a regulatory body in telecommunication. From NTA, 208 licenses have been issued in the first 8 months of the current fiscal year. Among them, 43 licenses have been cancelled and only 165 license holders are providing the services. Out of these services, 2 basic telephone services, 2 cellular mobile services, 32 internet services (including e-mail), 7 V-SAT network services, 110 V-SAT users, 1 video conferencing, 3 GMPCS, 1 rural telecom service, 1 local data network service and 6 limited mobility services are providing the services. By mid-March of FY 2007/08, 3,212 VDCs have access to telephone services.

Table 11 (d): Telephone Service (exchange) Extended

Items	FY 2005/06	FY 2006/07	Mid-March 2008*	Mid-March 2007
Grand Total				
a) Number of urban areas covered	58	58	58	58
b) Telephone lines distributed	433,631	485,997	42,393	528,390
c) Telephone lines per thousand population**	18.7	21.0		22.82

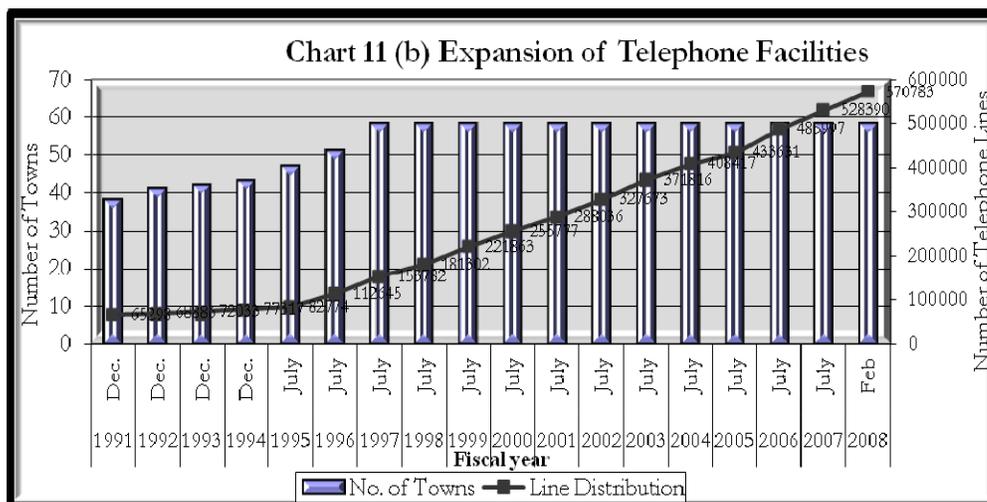
* First eight months, ** On the basis of national population census 2001, Population: 23,151,423.

Note: All exchanges are digital automation

Source: Nepal Telicom, Bhadrakali Plaza, Kathmandu.

11.27 Under the Telecommunication Sector Reform Project, the NTA has issued license to new service provider for providing telephone service in remote and very remote 398 VDCs. Likewise, license for new

service provider has been issued for providing telephone service gradually in 273 VDCs of mid and far-western development regions by establishing basic infrastructure in the mid-western development region. Nepal Telecom has started to work for providing telephone service in remaining VDCs within this fiscal year by utilizing the amount disbursed for Rural Telecommunication Project. Similarly, 75



districts have access to CDMA technology and 72 districts have access to GSM technology.

11.28 Up to mid-March 2008, almost 3.6 million telephones have been distributed by the telephone service providers. Of these, 525,446 are fixed lines. The number of customers in the CDMA technology is 497,084 while the number of GSM mobile is 2.57 million and that of VSAT lines 3,250. The number of internet users has reached almost 300,000. Necessary steps are being taken to provide telephone services through CDMA technology-based telephone service and mobile service in other parts of the country.

Information Dissemination

11.29 Under the Ministry of Information and Communication, Department of Information, Press Council, Rastriya Samachar Samiti and Gorkhapatra Corporation have been disseminating information through print media. Gorkhapatra Corporation has started to publish news and articles in different national languages since September 18, 2007. Similarly, Gorkhapatra Corporation is preparing for publication of regional editions of Gorkhapatra.

- 11.30 Press Council, Nepal is regularly monitoring the journalists' code of conduct for the development of healthy and dignified journalism. The classification of newspapers has been completed according to the target. Newspapers have been kept safely by scanning pages in the compact disk using CD ROM technology. For the development of the journalism in districts outside the capital, Media Development Fund has been providing concession in the bank loan. Every 3 months bulletin publication and press clipping service is being provided by the Council.
- 11.31 By mid-March 2008, the total number of newspapers registered in various districts of Nepal has reached 4,871, of which 362 are daily, 11 bi-weekly, 1,778 weekly, 242 fortnightly, 1,462 monthly, 284 bi-monthly, 455 quarterly, 26 trimesterly, 67 semi-annually, and 81 annually.

Table 11(e): Number of Newspapers by Languages

Language	Numbers
Nepali	3,365
English	387
Nepali-English	840
Newari	28
Hindi	14
Maithali	15
Tharu	5
Tamang	2
Bhojpuri	3
Sanskrit	2
Urdu	2
Tibetan	1
Limbu	2
Doteli	2
Others	203
Total	4,871

Source: Ministry of Information and Communication

- 11.32 To strengthen information dissemination room which is essential to disseminate information in an effective, fast and managed way, the information materials have been kept in the website of the

Department of Information. Arrangements have been made for making available the photographs of the programs attended by the VIPs and the communiques of various government agencies. Apart from this, activities like strengthening press section and photo section along with employees' instructions and training as well as interactions with journalists and publication of information materials have been successfully executed.

Television Telecasting Service

11.33 At present, there are 22 television channels, 2 owned by the government and 20 by the private sector, which have received the license of operation, out of which 7 television channels are telecasting the programs. The GON-owned Nepal Television is telecasting all 24 hours throughout Nepal and, since July 15, 2006, in foreign countries as well by sending transmission signals through satellite medium. Its transmission signal coverage has an access in 22 countries. Dang Telecasting Centre, which was destroyed during the time of conflict, has been reconstructed and its transmission started, while the telecasting has been extended through the construction of the structure at Arjundanda of Gulmi district. Transmission of Nepal Television covers 45 percent of the total area and 65 percent of the total population of the country. As at mid-March 2008, 529 licenses were issued for cable television transmission, out of which 395 are transmitting the signals.

Radio Broadcasting Service

11.34 About 70 percent people have access to the Radio Nepal's existing broadcasting service. For the expansion and improvement of broadcasting, Radio Nepal has completed the civil work and transmitter installation at Bardibas, Bhainsepati and Pokhara with the assistance of the government of Japan. Similarly, program production and central broadcasting have been improved by replacing the equipment in the Singhadarbar studio. Tender has been called for the purchase of necessary equipment for Gamgadhi and Dunai FM relay stations. Radio broadcasting has been made online through internet. Songs-music program and news are broadcasted in 20 national languages from the medium wave broadcasting centers established in all the five development regions.

11.35 With the objective of broadcasting entertaining and informative programs through the private sector as well, up to mid-March 2008,

licenses were issued for 261 institutions to run radio broadcasting centres in frequency modulation system, out of which 129 institutions have been permitted for regular broadcast.

Printing Service

11.36 Following the implementation of the National Information Policy in 2049 BS, the concept of security press evolved in Nepal. In order to develop Department of Printing as an autonomous and business-oriented institution competent to deliver quality service, it has been realized to convert it into security press. In line with this, formulation of plan and budget allocation is in the process so as to transform the Department of Printing into Security Press. Printing jobs like Nepali Citizenship Certificates, visa stickers, economic surveys, budget speeches, budget booklets, Nepal Gazettes, foreign employment permit stickers, question papers and certificates for Higher Secondary Education Council, post cards, annual reports of constitutional bodies, export/import receipts, cheque books of financial institutions, land revenue receipts of Kathmandu Metropolitan City, entry pass, etc. are being done as security printing by this Department. The Department of Printing has collected Rs. 2.12 million as revenue during the first eight months of FY 2007/08.

Motion Pictures

11.37 Motion Picture Development Board is active for the development, expansions and promotion of motion pictures to preserve Nepalese art and culture and to publicize them within and outside the country. The Board has called tenders for furnishing and mechanizing its own newly-built office building. The task force formed to draft the Motion Picture Development Act has started its operation. Effective monitoring of the motion picture development fee has been done. To develop Nepal as the destination of shooting spot, preparations under the concept of film tourism are in the final stage. Motion Picture Information Centre has been established, with the objective of disseminating motion picture-related information from a single point.

Challenges

11.38 Geographical complexity along the way to develop road transportation, lack of essential materials for road construction, delay in approval of programs and inability to mobilize people's sufficient participation are major hurdles in the development of road transport facilities.

- 11.39 In the transportation management, lack of manpower and lack of improvement in operation efficiency proportionate to increased work load has led to delay in the day-to-day performance. Lack of reliable and up-to-date records is responsible for difficulties in attaining smooth performance. Lack of resources in proportion to increasing number of conveyances, manual operation and lack of physical infrastructure comprise the major challenges in the transportation sector.
- 11.40 Lagging behind to tap the tempo of rapid development of Information and Communication Technology (ICT), lack of sufficient resource for investing in the ICT sector, and lack of expected coordination in the implementation phase, etc., have been some major challenges in this sector. Failing to use public awareness received from other means of multi-mass media in an integrated and coordinated way, lack of sufficient manpower and disproportionate expansion of effective means of communication are the other challenges of the ICT sector.
- 11.41 Utilization of feasible capacity of communication, supplying telephone service to meet peoples' demand, and maintaining quality in the available services has remained as big challenges in the emerging situation of competitive environment in the communication sector.
- 11.42 Unavailability of annual programs from road-related local units, noncompliance with the provision of depositing fees directly in the bank account of Road Board, and lack of technical supervision in the maintenance of roads being carried out by the local bodies through users committees are some problems grappling this sector.

12. Social Sector

Education

Community School

12.01 With the objective of implementing decentralization work plan, policy was initiated in FY 2001/02 to run the primary education service through the local authority. As per the program of handing over to the community the management of community schools, there was a target of handing over 1,600 schools in FY 2006/07, of which 752 schools were under the handover and encouragement program and 848 schools under the education-for-all program. Accordingly, a total of 953 schools-797 primary, 105 lower secondary and 51 secondary-were handed over to the community. Similarly, the budget speech for FY 2007/08 had stated a policy of handing over 2,500 school levels, among which 1,419 school levels-1,037 primary, 268 lower secondary and 114 secondary--have been handed over to the community till mid-March 2008. Thus, from the beginning till date, the community has taken over the management responsibility of 4,672 schools-primary 3,745, lower secondary 655 and secondary 272. Following the establishment of peace in the country and the building of capacity in the community, the process of the communities taking over the management of the schools has become rapid, with the community participation for this purpose increasing in all the 75 districts of the country. The academic status of the community-managed schools has been improving, attributed especially to the direct participation of the stakeholders, increased transparency, effectiveness in the program implementation, and the school management being run by the individuals elected by the guardians.

Child Development Program

12.02 For ensuring the development and extension of the elementary child development program as per the objective, "Education for All", community-based as well as school-based elementary child development programs are being run especially for the children of extremely backward community. As per the program of setting up a total of 16,523 child development centers during the last three years--7,023 in FY 2004/05, 6,000 in FY 2005/06 and 3,500 in FY 2006/07-

15,704 centers were opened by the end of FY 2006/07. By mid-March 2008, 624 more centers have been opened in 40 districts. During the Tenth Plan, it was targeted to admit 40 percent students in grade 1 from the early childhood development (ECD) centers. However, due to the prevailing violence in the country, only 18 percent of the target could be met. While the target for the easily apparent enrollments from the early childhood development was 32 percent, more children were attracted, resulting in an enrollment ratio of 41.4 percent, exceeding the target.

Scholarship Programs

- 12.03 During FY 2007/08, scholarship amounting to Rs.350 each has been granted to the 50 percent of the female students from economically weaker and deprived class studying in the primary level (numbering 540,901) and 619,170 Dalit students under the 'Education for All' program. Under the secondary education support program, grant of scholarship has been continued for 60,000 students (female 40,000 and male 20,000) studying in the lower secondary and secondary levels. Similarly, separate scholarship scheme under the secondary education support program is available for all the Dalit students (119,686 in number) and students who are the Martyrs' children (52) studying in the lower secondary and secondary levels, and students from the Chepang, Raute, Mushahar, Dom, Dusadh and Badi communities studying in the primary, lower secondary and secondary levels.

Remote Area Student Support Program

- 12.04 In all the districts of Karnali zone, scholarship for girl students at the rate of Rs. 100 per student per month at the primary level and Rs 150 per student per month at the lower secondary and secondary levels has been granted for 10 months. Day-time Tiffin has been provided to all the primary level students in all the districts of Karnali zone.

Disabled Student Support Program

- 12.05 During FY 2007/08, scholarship for 10 months has been provided to 9,916 disabled students, classifying them into a, b, c and d categories on the basis of their disability. Under this, scholarship has been provided to the poor disabled students who can not walk to, and from, the school daily and need to rent a residence. The per month scholarship amount for each student for ten months would be Rs.1,500 in the mountain region, Rs.1,200 in the hilly region and Rs.1,000 in the Terai region. Similarly, the disabled who needs a constant support while to, from, and in, the school would get Rs. 500 per month for 10 months. The disabled who needs to use the

means of transportation or other means from, and to, the school would get Rs. 300 per month for 10 months. The normal impaired who would walk to, and from, the school would get Rs.50 per month for 10 months. Under the secondary education support program, 1,590 other disabled students studying in the lower secondary and secondary level have received scholarship. A total of 28 special schools, 14 integrated schools and 340 resource centers are being run for the disabled children. Assessment centers for the identification, selection and evaluation of the disabled have been opened in 47 districts.

- 12.06 To meet the target of education for all programs, inclusive education has been taken as a major strategy. In this context, Inclusive Education Core Team has been formed to make inclusive education effective, formulate policies at the central level and implement them effectively, and improve coordination among the concerned authorities. With the participation of the national and international NGOs and experts working to ensure the access to education of the disabled, the Special Education National Network as well as four technical committees has been formed.

Box 12(a) : Grant Based on Per Capita Funding

To ensure the learning atmosphere for all the school-going children on an equal basis and to make the grant to the schools licensed by the government and run by the community as well as the community schools under the community management available on the basis of per capita funding (PCF), the Ministry of Education and Sports has brought into force the School Grants Fund Management Guidelines 2007. Among the objectives of the Guidelines are managing the fund received by the school according to the students' number, contributing the fund to schools transparently on the basis of social justice, bringing uniformity in the distribution of the fund, and minimizing the effect on students' learning on account of the inadequacy of the teachers' quota. For distributing the PCF, the number of students per teacher would be first computed on the basis of one teacher for each of 40, 50 and 50 students in the mountains, hills, and the Terai or Kathmandu Valley respectively. Then, to employ a teacher for additional number of students on the basis of this ratio, grant per student at the rate of Rs.2,041 in mountains, Rs.1,841 in the hills and Rs.1,633 in the Terai or Kathmandu Valley has been distributed equivalent for a total number of 190,024 students. Out of the quota of 12,000 teachers as provided in the budget statement for FY 2007/08, 4,000 have been apportioned for the primary level, 4,000 for the lower secondary and secondary levels while the rest 4,000 have been adjusted through the PCF arrangement.

Educational Manpower Development Centre

12.07 During FY 2006/07, training was provided for 19,410 primary teachers and 16,000 lower secondary and secondary teachers. Likewise, 700 women and individuals from the backward communities were imparted 10-month pre-service training with scholarship. Similarly, during FY 2007/08, 25,000 primary teachers and 14,700 lower secondary and secondary teachers would be trained while 410 others would be imparted 10-month pre-service training with scholarship. Reviewing the achievement of these provisions, more than 80 percent teachers have been trained, the trained teachers/managers have helped improve the education status, secondary level education has been started in five districts through the open school system, SLC support program has been underway in 22 districts displaying poor SLC results, and management training for the educational management has also been introduced.

Curriculum Development Program

12.08 Regarding printing and distribution of the curriculum and materials developed by the Curriculum Development Centre (CDC), the printing of primary level text books and their distribution through the private sector is underway in the Eastern Region. Curriculum model of the primary level for the Madarsha, Gumba and Gurukul has been prepared. Text books in Sherpa language for class 5, in Chamling Rai for class 4 and in Rajbanshi and Sunuwar for class 1 have been published and distributed. Text books numbering 31,500 in Maithili and 30,000 in Limbu have been published and distributed in various districts. Local curriculum development guidelines have been published and distributed in all the districts. As per the government policy of conducting the SLC examinations on the basis of the 10th grade curriculum, updating the curriculum of 15 subjects of grade 9 and 10 and their publication and distribution has been in progress. Teachers Guide of grade 1 and 2 has been prepared for the distribution in the remote areas. Test text books of grade 4 as well as the revised curriculum of the primary level for the remote areas have been prepared and distributed

Food for Education Program

12.09 In order to increase the access of the children to the basic education and improve their condition of nutrition and health in the districts with food scarcity and poor access to education, the programs of day-time Tiffin, female students motivation, worms control, and maternity and child

health care are being conducted. To systematize the day-time Tiffin program for the students of community schools of Karnali zone, Program Operations Procedures 2007 has been prepared. It was targeted to provide day-time Tiffin for 209,000 students each month in other 18 districts where this program has been introduced in FY 2007/08. Under this program, 3,407 MT of food has been distributed by mid-April 2008. Under female students' motivation program, it was targeted to provide 2 liters of cooking oil per month for 60,350 female students having more than 80 percent monthly attendance in their schools. Accordingly, 54 MT of cooking oil has been distributed among 28,548 female students by mid-April 2008. Under the maternity and child health care program, out of a target of distributing nutrimix to 42,000 pregnant women, mothers as well as babies below the age of 3 years, 40,009 students received 280 MT of nutrimix. As per the target of distributing 916 MT of food by mid-April 2008, 430 MT has been distributed.

Technical Education and Vocational Training Council

- 12.10 As per the target of conducting technical and vocational training programs through the local means and resources to produce low and medium skilled technicians, to establish skill training centers and conduct short-term training programs, skill testing of 2,062 persons has been undertaken by mid-April 2008. During this period, 1,691 persons have been admitted into various subjects while 2,331 technicians have been produced. Similarly, 4,476-person weeks' equivalent short-term trainings relating to various vocational skills have been completed through conducting 45-person weeks' equivalent short-term trainings.

Non-Formal Education Center

- 12.11 This Centre aims to conduct basic level of literacy program, literacy program in the VDCs that have prepared village education plan, and post-literacy and income-generating programs besides establishing community study centers and alternative schools. As per the target of opening 3,000 classes under women education (1st phase) and 1,600 classes under women education (2nd phase) in FY 2006/07, the classes opened numbered 2,992 and 1,592 respectively. As per the target of providing to 800 groups the seed money under saving and income generating programs, 729 groups availed the seed money. As targeted, 166 community study centers were opened while 319 programs for the dropouts were conducted compared to the target of 340.

12.12 During FY 2007/08, in addition to the tasks of basic adult education, training of trainers in post-literacy and alternative education, and development of the text materials in the mother tongue, the task of building a network among various governmental and nongovernmental organizations related to non-formal education has remained in progress. In addition, income and skill-oriented programs for the continued education are being run. Through a total of 7,875 class centers, 157,500 adults and women have participated in the basic adult literacy and women education (1st phase). Similarly, 82,400 adults and women have participated in post-literacy and women education (2nd phase) through 2,120 class centers. The literates from the women education program are involved in income-generating programs through 1,885 groups. Through 1,689 alternative class centers, 33,780 children have been admitted to alternative primary classes, hence participating in the educational opportunity. For the adults and women who passed the primary level but could not then continue for various reasons, lower secondary level classes are being continued through open schools that have numbered nine. Literacy, post-literacy, income-generating, and continued education programs of non-formal education are being conducted through 505 community study centers. Till the first nine months of the current fiscal year, 143 community study centers were established which have benefited people in places covered by such centers.

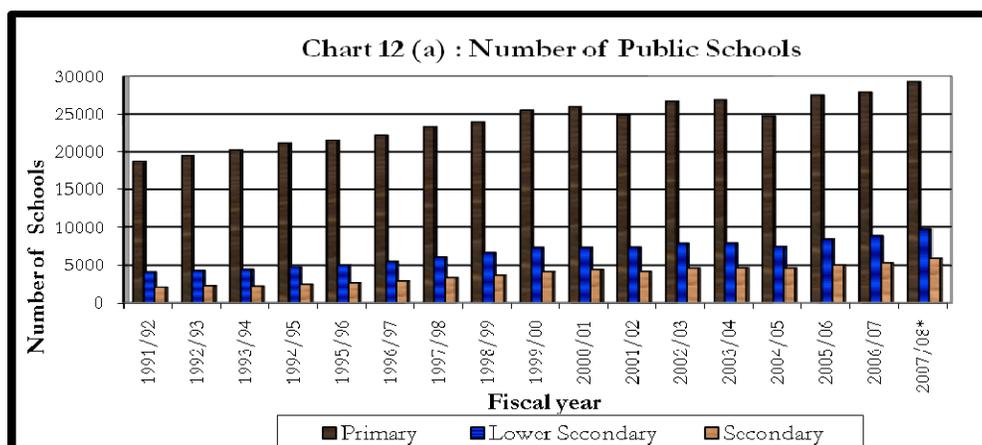
School, Student and Teacher Ratios

12.13 The data on ratios of primary, lower secondary and secondary level schools, students and teachers in both the government and the private sector for academic session (AS) 2007 is presented in the table below. During AS 2007, teaching and learning activities are proceeding through 29,220 primary schools, 9,739 lower secondary schools, and 5,894 secondary schools operating under the Ministry of Education and Sports.

Table 12(a) : Ratios of Schools, Students and Teachers

Ratio (in Nos.)	Primary	Lower Secondary	Secondary
Students/School	151.2	148.2	113.9
Teachers/School	4.0	2.9	3.5
Students/Teacher	37.8	51.7	32.5
Students/Trained Teacher	56.9	98.8	46.4

Source: Ministry of Education and Sports, Education Department



Source: Ministry of Education and Sports, Education Department

Students/Teacher Ratio in Community School

12.14 The government schools and community schools, which are run with the financial assistance of the GON, fall under community schools while the institutional schools are run as Guthi or under the Company Act. According to the estimated data for AS 2007, the students/teacher ratio in the private and government as well as the community schools covering all the five development regions is as follows:

Table 12(b) : Students/Teacher Ratio in 2007

Region	No. of Students per Teacher					
	Private and Government			Community		
	Primary	Lower Secondary	Secondary	Primary	Lower Secondary	Secondary
Nepal	37.5	51.2	31.2	44.7	54.7	45.5
Eastern Region	38.1	54.1	37.0	43.3	56.1	48.3
Mountain	28.9	36.5	22.4	36.8	37.0	36.8
Hill	32.3	54.9	38.5	41.6	51.3	43.6
Terai	45.3	57.7	39.0	52.1	80.6	68.1
Central Region	40.6	55.6	29.2	48.7	56.2	50.9
Mountain	30.1	52.6	29.5	34.0	54.3	48.9
Hill	39.5	54.8	29.7	46.1	54.1	55.4

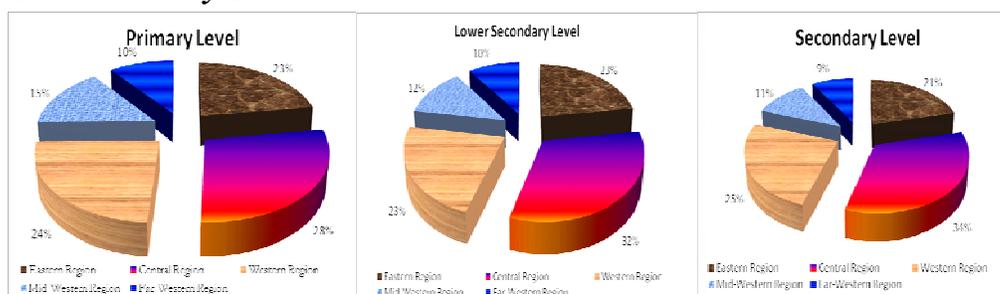
Terai	67.3	111.5	58.0	78.3	81.0	50.9
Kath. Valley	22.4	36.3	19.4	19.8	40.6	37.1
Western	29.5	44.0	29.2	34.9	58.2	48.3
Mountain	6.6	8.4	5.3	0.0	0.0	7.3
Hill	25.4	41.2	25.9	29.7	51.1	41.1
Terai	43.3	56.2	45.8	48.5	74.7	70.7
Mid-Western	44.1	58.3	33.1	53.2	59.9	42.1
Mountain	33.1	34.7	18.9	52.7	47.3	66.8
Hill	45.1	63.9	38.2	57.3	57.0	38.2
Terai	47.1	59.7	33.7	44.8	69.7	54.1
Far Western	39.7	41.4	29.2	42.1	43.7	36.4
Mountain	29.2	35.2	23.0	35.6	25.3	22.9
Hill	40.3	37.5	27.4	38.1	29.6	31.2
Terai	46.8	47.4	33.4	51.4	72.2	49.7

Source: Ministry of Education and Sports, Education Department

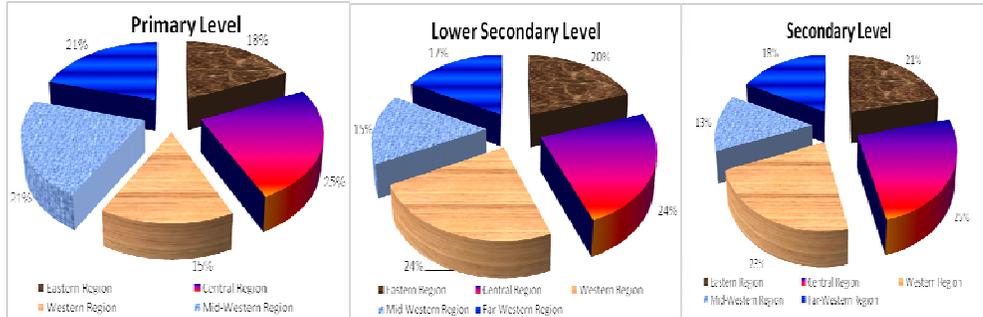
Regional Distribution of Schools

12.15 Regarding the distribution of schools on regional basis in AS 2007, the number of schools in the government, community and private sectors in the eastern region was primary 6,373, lower secondary 1,988, and secondary 1,158. The number in the central region was primary 8,765, lower secondary 3,387, and secondary 2,228. In the western region, there were 6,664 primary, 2,170 lower secondary, and 1,382 secondary schools. In the mid-western region, the numbers were 4,230 primary, 1,132 lower secondary, and 588 secondary while the schools in the far-western region numbered 3,188, 1,062, and 538 in the primary, lower secondary, and secondary levels respectively.

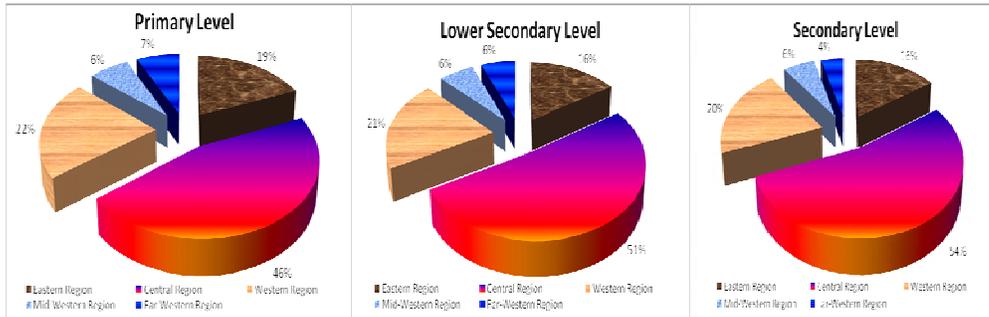
Chart 12 (b): Regional Distribution of the Government, Community and Private Sector Schools
Schools Run by Government



Schools Run by Community



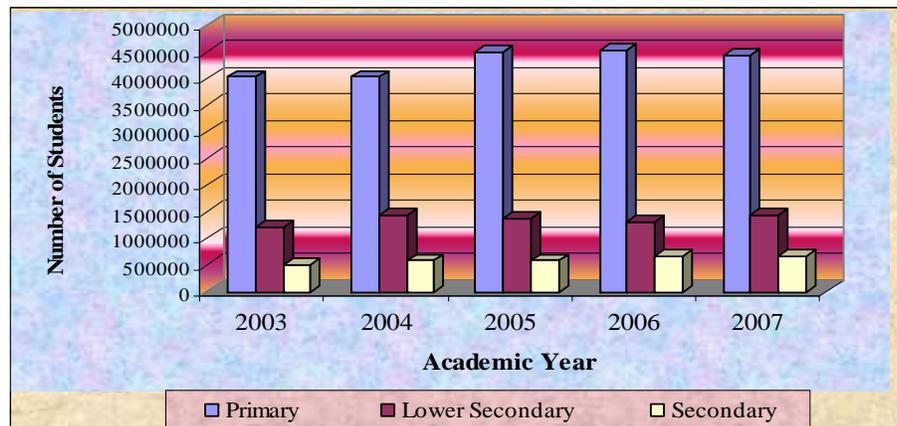
Schools Run by Private Sector



Source: Ministry of Education and Sports and Education Department

12.16 In AS 2007, the total number of students was 6,533,410, of which 4,418,713 were in the primary, 1,443,515 in the lower secondary, and 671,182 in the secondary levels. The share components of the primary; lower secondary; and secondary level students in the total were 67.6 percent, 22.1 percent, and 10.3 percent respectively.

Chart 12(c) : Number of Students



Source: Ministry of Education and Sports and Education Department

Higher Secondary Education Board

- 12.17 In FY 2006/07, Higher Secondary Education Board (HSEB) opened two contact offices, published some answer books of top ten students in the form of manual books, opened students scholarship bank and provided scholarship to female students, and set up HSEB educational foundation and educational status improvement fund. Among the other main programs in operation, the HSEB provided additional grants to sensitive schools in the remote areas and to the higher secondary schools with female chiefs and more than 50 percent female teachers. It provided five computers with internet facilities to the model higher secondary schools. Other activities have been the revision of curriculum as well as its new development, running of the special education support program, establishment of educational information and educational counseling centers, school mapping, GIS training and opening of labs, running awareness programs to reduce the risk of the sexual abuse of the students, etc.
- 12.18 The HSEB has the objectives of developing medium-level human resource as required in the various fields in the course of the nation-building and producing students capable of undertaking specialized higher learning. Among the current educational programs and conditions of the HSEB, the number of the higher secondary schools affiliated to the HSEB comprised 961 under the community, 290 under the private, and 163 under the plus 2 while the campuses numbered 131, with the number of the institutions under its affiliation totaling 1,545. Contact offices have been opened in Kathmandu, Butwal and Dhangadhi and the number of the regional offices has reached seven. Currently studying in grade 11 as higher secondary regular students are 67,391 from the community schools and 58,606 from the institutional schools, with a total of 125,997 students. Similarly, in grade 12, there are 82,686 regular students, of whom 40,463 are from the community and 42,223 from the institutional schools.

Number of Schools under Affiliation

- 12.19 The total number of HSEB-affiliated community, private, 10+2, and campuses in AS 2007 on the development region-wise basis has been given in table below:

Table 12(c) : Regional Distribution of HSEB-Affiliated Higher Secondary Schools

<i>Development Region</i>	<i>Community</i>	<i>Private</i>	<i>10+2</i>	<i>Campus</i>	<i>Total</i>
Eastern Region	183	35	33	23	274
Central Region-Valley	60	112	81	36	289

<i>Development Region</i>	<i>Community</i>	<i>Private</i>	<i>10+2</i>	<i>Campus</i>	<i>Total</i>
Central Region-Outside Valley	224	42	28	25	319
Western Region	268	72	10	35	385
Mid-Western Region	99	14	5	4	122
Far-Western Region	127	15	6	8	156
Total	961	290	163	131	1545

Source: Ministry of Education and Sports and Department of Education

Status of Male/Female Students in Higher Secondary Schools

12.20 In higher secondary schools, the number of male/female students who appeared and passed the annual examinations of grades 11 and 12 since academic year (AY) 1996 through 2007 is as follows:

Table 12(d) : Annual Examination Results of Classes 11 and 12

<i>Year</i>	<i>Class 11</i>						<i>Class 12</i>					
	<i>Appeared</i>			<i>Pass</i>			<i>Appeared</i>			<i>Pass</i>		
	<i>Male</i>	<i>Female</i>	<i>Total</i>	<i>Male</i>	<i>Female</i>	<i>Total</i>	<i>Male</i>	<i>Female</i>	<i>Total</i>	<i>Male</i>	<i>Female</i>	<i>Total</i>
1996			6,341			1,005			2,256			338
1997	6,093	3,240	9,333	1,196	678	1,874	2,939	1,840	4,779	654	411	1,065
1998	8,084	4,626	12,710	2,675	1,526	4,201	4,460	2,615	7,075	1,708	1,070	2,778
1999	11,883	6,950	18,833	4,217	2,503	6,720	6,289	3,898	10,187	2,771	1,624	4,395
2000	17,975	10,958	28,933	6,600	3,713	10,313	9,861	6,120	15,981	3,926	2,309	6,235
2001	30,344	19,607	49,951	9,119	5,363	14,482	14,803	8,560	23,363	5,304	3,042	8,346
2002	26,401	17,989	44,390	9,383	5,583	14,966	24,420	16,872	41,292	7,730	4,520	12,250
2003	38,341	27,463	65,804	14,317	9,323	23,640	21,526	15,573	37,099	7,488	4,470	11,958
2004	37,077	24,378	61,455	15,984	9,910	25,894	32,915	24,698	57,613	13,434	9,212	22,646
2005	86,351	69,976	156,327	40,842	30,502	71,344	57,082	43,858	100,940	30,893	22,170	53,063
2006	62,052	48,359	110,411	30,171	20,711	50,882	49,377	40,543	89,920	28,472	21,526	49,998
2007	79,809	66,978	146,787	35,011	27,261	62,272	55,448	45,312	100,760	31,457	24,630	56,087

Source: Ministry of Education and Sport, Department of Education

Higher Education

Universities

12.21 During FY 2006/07, five universities, viz., Tribhuvan University, Kathmandu University, Purbanchal University, Nepal Sanskrit University, and Paschimanchal University, are providing higher educational service. Though Lumbini University has been licensed to operate, it has not yet started the academic programs. The activities of these universities that were opened with an objective of producing internationally competitive human resource as per the national requirements have been summarized below:

Tribhuvan University

12.22 Tribhuvan University (TU) was established with a sole objective of producing medium and high-level manpower through imparting higher education for assisting in the all-round development of the nation. The TU has been carrying out teaching-learning and research activities on various subjects nation-wide. The TU has a policy of developing natural resources and human resources as well as maintaining the quality of the education as per the international standards. Under this policy, it has been making efforts to strengthen its management by mobilizing necessary human resource and by developing the required physical infrastructures. In view of the need of the nation to produce highly skilled human resource in various streams and subjects who could be able to compete internationally, the TU has categorized its academic streams as the Certificate, Bachelor, Master, M. Phil. and Ph.D. Currently, under the TU, there are four faculties and five institutes, 60 sister campuses, 37 central departments and 422 privately-run campuses. Development region-wise, the TU has 13 sister campuses in the eastern region, 28 campuses in the central region, 11 campuses in the western region, 5 campuses in the mid-western region, and 3 in the far-western region. There are 422 TU-affiliated campuses across the nation, among which 58 are in the eastern region, 225 in the central region, 87 in the western region, 25 in the mid-western region, and 27 in the far-western region. In FY 2006/07, there were 167,114 students studying in the sister campuses of the TU under technical and non-technical categories whereas there were 105,632 students in the TU-affiliated campuses. The following is the institute/faculty-wise teaching-learning status under the five institutes and four faculties of the TU:

Table 12(e) : Institute/Faculty-wise Teaching-Learning Status

S.N.	Institutes	Other Level	P.C.L.	Bachelor	Master	M. Phil.	Ph. D.
1	Engineering	x	✓	✓	✓	x	✓
2	Agriculture and Animal Science	x	x	✓	✓	x	✓
3	Medicine	x	✓	✓	✓	x	x
4	Forestry	x	✓	✓	✓	x	✓
5	Science and Technology	x	✓	✓	✓	x	✓
6	Law	x	x	✓	✓	x	✓
7	Management	x	✓	✓	✓	✓	✓
8	Education	x	✓	✓	✓	✓	✓
9	Humanities	✓	✓	✓	✓	✓	✓

Source: Tribhuvan University

Curriculum Development and Library Reading Services

- 12.23 Apart from the above-mentioned institutes, faculties and research centers of the TU, it has its own Curriculum Development Centre (CDC) for the purpose of developing, implementing, revising, and updating the curriculum. The CDC coordinates and provides equivalence to the titles of foreign universities, publishes curriculum, text books and university regulations, and attests academic transcripts and certificates.
- 12.24 The TU central library is Nepal's largest and well-managed library. It has been offering services with a collection of about 15,000 theses and CDs of masters and Ph.D. levels. Similarly, the library made available topics, articles, abstracts and complete literature published in about 25,000 journals for scholars involved in the study, teaching and research, without any charge up to 2007.

Non-Technical Manpower Production

- 12.25 In the TU's four institutes of general non-technical category, manpower of various levels were produced in the academic session of FY 2006/07 as follows: 243 in law, 14,592 in management, 8,127 in education, and 17,313 in humanities and social sciences, the details of which are given below:

Table 12(f) : Non-Technical Manpower Production from TU

<i>Faculty and Program</i>	<i>Fiscal Year</i>					
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
1. Law Faculty						
<i>a. P.C.L.</i>	68	28	15	33	21	12
<i>b. Bachelor</i>	1,150	734	469	692	342	199
<i>c. Master</i>	27	33	16	75	25	32
<i>d. Ph.D.</i>	—	1	0	1	0	0
<i>Total</i>	1,245	796	500	801	388	243
2. Management Faculty						
<i>e. P.C.L.</i>	8,093	8,435	7,043	12,095	7,010	6,152
<i>f. Bachelor</i>	3,607	3,996	3,877	8,549	5,954	6,799
<i>g. Master</i>	1,223	950	653	1,856	989	1,636
<i>h. Ph.D.</i>	3	4	3	6	3	5
<i>Total</i>	12,926	13,385	11,576	22,506	13,956	14,592

<i>Faculty and Program</i>	<i>Fiscal Year</i>					
3. Education						
<i>i. P.C.L. Faculty</i>	1,706	1,559	1,783	3,525	3,227	3,651
<i>j. Bachelor</i>	2,460	3,195	3,632	5,841	3,912	4,453
<i>k. Master</i>	296	233	224	633	43	21
<i>l. Ph.D.</i>	—	—		1	0	2
<i>Total</i>	4,462	4,987	5,639	10,000	7,182	8,127
4. Humanities and Social Sciences						
<i>m. P.C.L.</i>	10,530	8,424	7,876	16,005	10,296	9,542
<i>n. Bachelor</i>	2,838	3,689	3,425	7,666	5,696	5,483
<i>o. Master</i>	1,675	1,385	1,243	3,385	1,626	2,261
<i>p. Ph.D.</i>	13	13	20	26	24	27
<i>q. Others</i>	—	—	32	471	1,837	1,761
<i>Total</i>	15,056	13,511	12,596	27,553	19,479	17,313

Source: Tribhuvan University

Technical Manpower Production

12.26 In the academic session of FY 2006/07, the five technical institutes of TU produced manpower numbering 1,578 in Engineering, 176 in Agriculture and Animal Science, 750 in Medicine, 161 in Forestry and 3,924 in the Science and Technology, the detailed account of which is given below:

Table 12(g) : Technical Manpower Production from TU

<i>Institute and Programs</i>	<i>Fiscal Year</i>					
1. Institute of Engineering	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
a. Certificate	441	554	559	626	282	542
b. Bachelor	181	257	357	368	1140	960
c. Master	43	59	69	77	106	76
d. Ph.D.	1	—	—	—	—	—
<i>Total</i>	666	870	985	1071	1528	1578
2. Agriculture and Animal Science						
a. Certificate	42	53	15	—	—	—
b. Bachelor	108	144	107	112	102	115
c. Master	25	44	43	26	33	60

<i>Institute and Programs</i>	<i>Fiscal Year</i>					
d. Ph.D.	—	—	—	—	1	1
Total	175	241	165	138	136	176
3. Institute of Medicine						
a. Certificate	—	—	9	—	—	—
b. Bachelor	314	302	330	330	314	294
c. Master	124	148	169	159	304	373
d. Ph.D.	66	66	98	88	92	83
Total	504	516	606	577	710	750
4. Forestry						
a. Certificate	113	66	—	72	81	81
b. Bachelor	51	—	—	57	83	57
c. Master	—	—	14	—	—	23
Total	164	66	14	129	164	161
5. Science and Technology						
a. Certificate	2780	2249	1946	4402	1355	2086
b. Bachelor	963	1175	961	2071	1297	1396
c. Master	447	303	407	854	350	436
d. Ph.D.	—	3	5	8	2	6
Total	4190	3730	3319	7335	3012	3924
Grand Total	5,699	5,423	5,089	9,250	5,550	6,589

Source: Tribhuvan University

M.Phil. and Ph.D. Students

12.27 In the academic session 2007, there were 80 students in M.Phil. and 184 students in Ph.D. from TU, the account of which is given below:

Table 12(h) : Description of M.Phil and Ph. D. Students

<i>S. N.</i>	<i>Institute/Faculties</i>	<i>Number of Students in M.Phil.</i>	<i>Number of Students in PhD</i>
1	Institute of Engineering	—	11
2	Institute of Science and Technology	—	98
3	Institute of Law	—	15
4	Management	58	36
5	Education	22	24
6	Humanities and Social Sciences	—	63
	Total	80	184

Source: Tribhuvan University

Medical Services from Tribhuvan University

12.28 Achievement and progress of medical service provided through all the TU agencies, viz. TU Teaching Hospital, BP Koirala Lions Centre of Ophthalmic Studies and TU Health Center, is as follows:

Table 12(i) : TU Teaching Hospital, Maharajgunj

S. N.	Service Type	Patient Number		
		2004/05	2005/06	2006/07
1	OPD Service	27,026	2,62,099	N/A
	Emergency Service	30,482	39,600	N/A
	Extended Service	—	44,307	N/A
2	Indoor Service (Patient Number)			N/A
	Admission	17,101	17,785	N/A
	Discharge	16,770	16,671	N/A
3	Mortality Rate (Percent)	3.12	3.45	N/A
4	Bed Occupancy (Percent)	82.83	96.96	N/A
5	Average Bed Using Rate (day)	7.34	8.6	N/A
6	Operation	7,645	8,084	N/A
BP Koirala Lions Eye Research Center				
1.	OPD Patient	71,937	66,014	68,266
2.	Private Clinic Patient	4,651	5,408	6,155
3.	Community Clinic Patient	4,226	2,808	2,824
4	Screening and Eye Camp Patient	7,616	6,944	19,168
	Total	88,430	81,174	96,413
Operation				
1	Eye Research Center	1,086	1,043	565
2.	TU Teaching Hospital	305	233	NA
	Total	1,391	1,276	565
Community Operation				
1	Eye Research Center	191	234	764
2.	TU Teaching Hospital	305	144	106
	Total	496	378	870
Tribhuvan University Health Center				
1.	Number of Patients Examined	5,925	5,872	6,267
2.	Minor Operation/ Dressing (Free of Cost)	1,511	1,495	1,139
3.	Distribution of Medicine (as available free of cost)			
	Total	7,436	7,367	7,406
1	Number of Students Served by TU Hospital/Health Center	3,97,570	4,34,547	NA
2.	Number of Patients (Growth Percent)	14.19	9.30	NA

Source: Tribhuvan University

Tribhuvan University Veterinary Health Service

12.29 In the field of agriculture service, TU, under the Institute of Agriculture and Veterinary Science, has opened Veterinary Teaching Hospital in Rampur, Chitwan, which offers students teaching-learning program and conducts other research and investigation work. This Institute continues to provide general medical to surgery services for the livestock, thus contributing to the development of livestock as well as the agriculture of Nepal,

Kathmandu University

12.30 Introducing academic programs in 80 different subjects in science, technology, arts, management, education, and health, the Kathmandu University (KU) has so far produced 5,924 skilled manpower including engineers, doctors, pharmacists, ecologists, managers, etc. In AS 2007, there were a total of 6,392 students studying the above-mentioned subjects in the KU as well as in its affiliate colleges. Similarly, a total of 2,202 students have become successful, with 1,996 clearing the I.Sc. and other 206 graduating the PCL in nursing, general medicine, laboratory technology, ophthalmology and physiotherapy, all the latter being introduced with the objective of producing medium-level health manpower. The KU has been providing increasing amount of scholarships for the diligent and financially weak students. During FY 2006/07, altogether 520 students (160 from the KU and 360 from the University-affiliate colleges) were provided with scholarships, which worked out as 8.1 percent of the total number of KU students. For the AS 2008, the KU has adopted the policy of giving priority for the master degree and conducting research in energy development, environmental conservation, and technology development under the engineering discipline. Similarly, the policy focuses on geometrics engineering and technology management in the bachelor level. The policy emphasizes on the job-oriented education in the certificate and the bachelor levels for community service and youth employment as well as on the pharmacy, environment science, biotechnology, and other experimental sciences. Likewise, the KU has formulated programs for developing subject experts in the various educational disciplines, introducing the distant education, conducting national and international seminars on the Nepalese culture-based subjects and other innovative subjects related to science, technology and medical

sciences, rendering a separate work plan and financial regulation keeping in view the features underlying the linkages between the university, hospital and outreach community centre, and undertaking research and development in accordance with the priority concept of teaching cum research university. In addition, there is a provision of providing scholarship, loan scholarship, common scholarship, etc. for the students who are financially weak but diligent as well as students from the Dalit community including the female members.

Purbanchal University

12.31 The Purbanchal University, in its 11 years' period, has been carrying out novel and multi-dimensional academic programs in the field of higher education besides developing and extending its scope. The University has so far produced a total of 3,938 technical and vocational manpower among which are 290 Masters and 3,648 Bachelors from more than 60 academic programs including science and technology, management, education, arts, law and medicine. In FY 2006/07, 12,811 students were studying under nine academic programs. Among them, 601 were from three sister campuses while 12,210 were from 88 affiliate campuses of the University. It is estimated that the number of students will exceed 15,000 during FY 2007/08. The University has a provision of scholarship under full subsidy and partial subsidy schemes for the financially weak but diligent students desiring to pursue study in its sister campuses while the same directives apply in its affiliate campuses, too. The University has tied academic relationship with more than 15 national and international academies and universities and new relations are going to be forged with more academies in the near future. The following is the account of students admitted under the University in different fiscal years:

Table 12(j) : Student Enrollment/Production in Purbanchal University

S.N.	Faculty	2002/03		2003/04		2004/05		2005/06		2006/07	
		Admission	Product								
1.	Science & Technology	1860	88	2280	274	2588	328	3012	500	3958	367
	Graduate	1834	88	2245	274	2544	328	2875	477	3767	359
	PG	26	-	35	-	44	-	137	23	191	8
2.	Management	1034	117	1390	98	1978	198	2412	195	3684	22
	Graduate	929	117	1229	89	1710	177	1989	135	2971	-

S.N.	Faculty	2002/03		2003/04		2004/05		2005/06		2006/07	
		Admission	Product								
	PG	105	-	161	9	268	21	423	55	713	22
3.	Education	903	44	988	157	1218	344	1436	254	2293	36
	Graduate	833	44	889	157	1067	344	1328	242	2092	-
	PG	70	-	99	-	151	-	108	12	201	36
4.	Humanities	530	46	672	42	720	113	957	162	1319	187
	Graduate	429	46	564	30	600	88	708	139	971	147
	PG	101	-	108	12	120	25	249	23	348	40
5.	Law	80	-	98	-	200	2	282	29	399	-
	Graduate	65	-	77	-	128	-	178	18	237	-
	PG	15	-	29	-	72	2	104	11	162	-
6.	Medical	-	-	-	-	-	71	656	136	1158	134
	Graduate	-	-	-	-	-	71	656	136	1158	134
	PG	-	-	-	-	-	-	-	-	-	-
	Graduate Total	4,090	295	5,004	550	6,049	1,008	7,734	1,147	11,196	640
	PG Total	317	-	432	21	655	48	1,021	124	1,615	106
	Grand Total	4,407	295	5,436	571	6,704	1,056	8,755	1,271	12,811	746

Source: Purbanchal University

Nepal Sanskrit University

12.32 The Sanskrit education has been Nepal's tradition and legacy since time immemorial. The Nepal Sanskrit University (NSU) has not only given continuity to this tradition but also fostered the access of all the castes, classes and communities to this tradition. The NSU has been conducting Sanskrit language training courses and higher education, also attracting foreigners in the pursuit of the Sanskrit education. During FY 2006/07, scholarship amounting to Rs.1,000 per month was granted to the Dalits while an additional Rs. 100 per month was granted along with 10 percent waiver in the development fee for the women, physically disabled and financially weak students. Similarly, academic fee was waived for diligent 10 percent students from remote areas and janajatis pursuing Ayurveda and Education. Likewise, scholarship of Rs. 1,000 per month was granted to the students who are the martyrs' children as well as physically injured and impaired in the peoples' movement, with an additional 50 percent waiver in the development and academic fees for those taking Ayurveda and Education. The Ph.D. program has been started in FY 2007/08. A radio program to disseminate information on

the NSU affairs was conducted in this fiscal year. In FY 2006/07, it was targeted to enroll a total of 4,671 students in Sanskrit Madhyama (Secondary), Uttar-Madhyama (Intermediate), Ayurveda, Science, Education, Ph.D., and other training courses, with a progress of 3,774 enrollments. Students numbering 1,913 graduated during the year. Similarly, the student enrollment target for FY 2007/08 has been 4,176.

Table 12(k) : Enrollment of Students under Nepal Sanskrit University in FY 2006/07

S. N.	College	Intermediate First / Second Year	Intermediate Science + Ayurvedic First/Second / Third Year	Bachelor First/ Second/ Third Year	Bachelor in Education	Master	Others	Total
1	Balmiki College	219	–	165	82	166	–	632
2	Janata College	98	119	93	77	–	–	387
3	Pindeshwar College	122	–	57	–	12	–	191
4	University Campus	–	–	–	–	79	–	79
5	Bindabashini College	67	–	56	–	–	–	123
6	BP Sanskrit College	33	–	–	–	–	–	33
7	Bhanu Sanskrit College	25	–	–	–	–	–	25
8	YBLNS College	70	–	37	–	–	–	107
9	RuRu Sanskrit College	77	–	58	–	–	–	135
10	Sharada College	32	–	17	194	–	–	243
11	Hajarijanak Sanskrit College	74	–	28	–	–	–	102
12	Harihar Sanskrit College	24	–	–	–	–	–	24
13	Mahesh S. G. College	26	–	17	–	7	–	50
14	Radha Damodar College	30	–	–	–	–	–	30
15	Kalika Sanskrit College	50	–	–	–	–	–	50
16	Sanskrit College, Dharan	15	–	–	–	–	–	15
17	Saraswoti Sanskrit College	53	–	–	–	–	–	53
<i>1 year Affiliated Bachelor of Education</i>								
1	Lumbini Brihaspati College	–	–	–	16	–	–	16
2.	Active Academy College	–	–	–	33	–	–	33
3	Panchthar College	–	–	–	64	–	–	64
4	Banepa College	–	–	–	38	–	–	38
5	Kapilbastu Campus	–	50	–	18	–	–	68
6	Multiple College, Attaria	–	–	–	–	–	–	–
<i>Affiliated Intermediate of Ayurveda</i>								
1	Janak Ayurvedic College	–	65	–	–	–	–	65
2	Uttar Dhanawantari Ayurved College	–	45	–	–	–	–	45
3	Jagadamba Ayurvedic Campus	–	40	–	–	–	–	40
4	I.H.R. Development, Janakpur	–	15	–	–	–	–	15
5	Nekhil Ayurvedic College	–	51	–	–	–	–	51

S. N.	College	Intermediate First / Second Year	Intermediate Science + Ayurvedic First/Second / Third Year	Bachelor First/ Second/ Third Year	Bachelor in Education	Master	Others	Total
<i>Others</i>								
1	Karmakanda	–	–	–	–	–	–	–
2	Yoga	–	–	–	–	–	42	42
3	Sanskrit Bhasha	–	–	–	–	–	619	619
4	Research	–	–	–	–	–	99	99
	Total	1,015	385	528	522	264	760	3,474

Source: Nepal Sanskrit University

Pokhara University

12.33 The Pokhara University has its 3 sister campuses and 23 affiliate campuses in AS 2007, in the faculties of management, science and technology, and humanities and social sciences. Regarding the student enrollments, the sister campuses have 359 students and the affiliate campuses 5,085 students, with the total students under the University numbering at 5,444 students, out of which 1,067 students were graduated in FY 2006/07. In FY 2007/08, 47 academic programs are being run in the University. Water Resource Management, a sub-faculty at the master's level, was run with the joint effort of the Pokhara University and the Nepal Engineering College while the Population, Gender and Development Program (PGDP) has been run under the faculty of humanities and social science. Unlike the previous scholarship policy, 54 candidates have been selected for scholarship through a national level competition on the basis of the procedures established for this purpose. The following table gives the number of students studying in the constituent and affiliated campuses/schools under the Pokhara University in FY 2006/07:

Table 12(i) : Students in Constituent and Affiliated Campuses /Schools of Pokhara University

<i>Constituent</i>				
Subject	Graduate	PG	M. Phil.	Total
Science and Technology	134	10	-	144
Management	151	12	-	163
Humanities and Social Science	-	22	-	22
Total	285	44	-	329
<i>Affiliated</i>				
Science and Technology	2096	113	-	2209
Management	2088	439	-	2527

Constituent				
Subject	Graduate	PG	M. Phil.	Total
Humanities and Social Science	-	43	35	78
Total	4184	595	35	4814
Grand Total	4469	639	35	5143

Source: Pokhara University

Distribution of Students by Campuses of Universities

12.34 The following table shows the distribution of students by the constituent and affiliated campuses of different universities:

Table 12(m): Distribution of Students by Campuses under Different Universities

Universities	Campuses		Number of Students					
	Constituent	Affiliated	FY 2005/06			FY 2006/07		
			Constituent	Affiliated	Total	Constituent	Affiliated	Total
Tribhuvan University	60	417	153126	77491		169599	86607	256206
Kathmandu University	6	13	2476	2686	5162	1298	1193	2491
Purbanchal University	3	89	272	8540	8812	474	12195	12669
Nepal Sanskrit University	12	17	1584	1250	2834	2081	633	2714
Pokhara University	3	23	408	5207	5615	463	4897	5360
Total	84	559	157866	95174	253040	173915	105525	279440

Source: University Grants Commission

Health

Central and District level Health Program

12.35 Providing continuity to TB control program, various central level and district level programs were implemented in FY 2006/07. Under this program at the district level, the targets and progress for the year comprised the cough examination of 160,210 suspected patients (progress 81 percent), cough examination of 480,630 new patients (progress 56 percent), follow-up cough examination of 74,818 patients (progress 74 percent), non-lung TB examination of 6,408 (progress 100 percent), and re-treatment of 2,403 (progress 100 percent). Achievement of 81 percent was recorded in the programs to be implemented by the DFID and the GFATM due to the unavailability of the funds for trainings and other purposes. Similarly, disease cure services, training and disease cure, and treatment center expansion programs were

implemented at the central level. These programs, in aggregate, are reported to have been 88 percent successful. The cough examination of 10,830 suspected patients, new cough examination of 29,780 slides, follow-up cough examination of 1,772 slides and orientation to institutions, organizations, traditional healers, priests, etc. regarding TB was done. On an average 70 percent TB case finding rate and 89 percent treatment success rate was achieved during FY 2006/07. During the first eight months of FY 2007/08, the targets and progress were treatment for 340 using DOTs plus method (progress 410), organizing DOTs orientation program for 222 teachers (progress 227), providing training for 357 health workers (progress 323), cough examination of 150,937 patients (progress 193,909), and re-examination of 48,593 slides (progress 32,888). Above-mentioned treatments have been provided through 994 treatment centers, 3,132 sub-centers and 443 microscopy centers.

Family Planning, Safe Maternity and Women Volunteer Health Worker Program

12.36 Under this program, pregnant women receiving maternity services through trained workers will, after delivery, get as maternity incentive Rs 1,500, Rs 1,000, and Rs 500 in the mountain, hill and Terai districts respectively. In total, 285,085 women were benefited from this scheme in FY 2006/07. Total 83,448 people used the facility of sterilization, which was 89 percent of the target. Similarly, the ante-natal care first time visit (ANC 1st visit) was received by 696,363 (72 percent of the estimated number of the pregnant women) and the post-natal care (PNC) was received by 377,414, exceeding the target. The number of persons using the means of family planning devices reached 2,163,019. Cent percent progress was achieved in the purchase and distribution of the condoms, pills, Depos, IUDs, and Norplants at the central level. The aggregate progress achieved at the district level was cent percent and at the central level 96 percent. Similarly, recanalization service was provided to 35 individuals, attaining a progress of 96 percent. The figures reported were 42.1 percent for CPR, 36.6 percent for CYP and 29.7 percent for SBA. In FY 2007/08, women health volunteers' fund of Rs 50,000 is established in each VDC, according to the target. Safe maternity incentive is distributed among 211,166 women throughout all the districts. Similarly, quadrimesterly review meetings regarding women health service were organized, numbering 58,007, covering all the VDCS. Other activities included skilled maternity services for

211,076 women, first time pre-natal care (ANC) for 310,139, fourth time ANC for 163,522, post-maternity services for 184,591, and sterilization of 61,327 individuals. Similarly, re-canalization of 20 people was done. A 14-day SBA orientation training in three groups of senior obstetricians and gynecologists and the capacity building orientation program in different groups and stages for public health nurses of all the 75 districts were conducted according to the target.

National Public Health Laboratory Program

12.37 Under this Program, cent percent target was achieved with the establishment of the bacteriology services in 5 places, strengthening of these services in 15 places, establishment of laboratory services in the primary health centers of six districts and the expansion of these services in 30 districts, and expansion of laboratory services including training and monitoring as well as the preparation and printing of standard operating procedure in Mugu, Dolpa, Rolpa and Kalikot district, and Surkhet regional, hospitals as per the target. Similarly, in FY 2007/08, target was met to establish biochemistry service in Panchamul of Syangja and Pipara of Kapilvastu and to strengthen the biochemistry service in Lumbini and Bheri zonal hospitals in addition to the primary health centers (PHCs) of Dolakha, Rumjatar, Okhaldhunga, and Loharpatti (Mahottari). Biochemistry services were strengthened in Mirchaiya PHC in Siraha, Mahendra Hospital in Dang, and Simara PHC in Bara. Program of strengthening bacteriology services in 10 places, establishing biochemistry services in 10 places, conducting different trainings for 150 people, monitoring 40 laboratories, and organizing the quality control training for 30 lab technicians/lab assistants have been completed.

Expanded Vaccination and National Polio Vaccination Program

12.38 Under the child health expanded vaccination and polio vaccination, respiratory and nutrition program at the central level and integrated child disease management and polio vaccination program at the district level were conducted in FY 2006/07. Vaccination program to fight diseases like the polio, measles, Hepatitis-B and encephalitis was conducted, especially focusing on children below five years. As to the actual figures, BCG vaccination was for 672,036 children, DPT and Hepatitis-B for 626,732, polio-three doses-for 624,462, and measles and TT-two doses-for 614,195 pregnant women. The growth monitoring coverage of children below three years was 57 percent while the rates of incidence of diarrhea and dysentery were 408 and 185 per thousand

respectively. Similarly, under polio eradication program, polio vaccination in cross-border areas was arranged for 250,000 people, as per the target. Also arranged were micro-planning in three districts, special polio vaccination in 75 districts, and school-level vaccination program in 11 districts. Under diarrhea and respiratory program, 10 million vitamin-A tablets, 96 million iron tablets and 9 million abendazole were procured and distributed. The Community-Based Integrated Management of Child Illness (CB-IMCI) program was expanded from 12 districts to 48 districts. While the progress on an aggregate basis was cent percent, the coverages were 91 percent in BCG, 84 percent in DPT, 84 percent in polio and 83 percent in the measles. The TT-2 coverage among the pregnant women was 50 percent. In FY 2007/08, child and adolescent health program under the child health and vaccination has been run thrice while the micro planning and CB-IMCI program has been expanded by 10 districts to reach 58 districts. Similarly, 3.7 million children with age between six months and five years were administered vitamin A capsules on a campaign basis as per the target. Children aged between one and five years numbering 3.1 million were administered medicine to fight the worms. ARI Sound Timers numbering 18,000 have been procured and distributed, as per the target. Similarly, children below one year numbering 494,780 were administered vaccines against BCG, DPT, hepatitis-B, polio and measles. Pregnant women numbering 627,000 were given TT vaccine. CB-IMCI drugs were purchased and CB-IMCI materials printed, and both transported. The GON has expanded the zinc tablet treatment for diarrhea to 20 districts while the UMN, NFHP and PSI support the treatment in additional 5 districts. A National Work Plan related to alleviating defects on account of the lack of iodine has been prepared for the period between 2008 and 2012.

Epidemiology, Malaria and Kalazar Control, Natural Disaster Management Program

12.39 The target under this Program in FY 2006/07 was to give continuity to the task of controlling and managing epidemic, infectious and parasitic (malaria and kalazar) diseases including the diseases generated during the natural disaster. Similarly, it was targeted to carry out surveillance of infectious diseases, spray insecticides and distribute mosquito nets for controlling philaria, malaria and kalazar, arrange the anti-rabies vaccine for rabies control, and provide the anti-snake venom serum for the snake-bite victims. Accordingly, 1.9 million people were brought into safety by

strengthening malaria laboratories in 18 PHCs of 6 districts and running Mass Drugs Administration (MDA) for controlling filaria in 21 districts. To control malaria and kala-azar by implementing kala-azar eradication program, oral drug, Milfeposive, was started as an experiment for 300 kala-azar patients of Saptari district. In total, 90 percent physical progress has been achieved in this program. Similarly, the Annual Parasite Incidence (API) of malaria was 0.28 percent while the incidence of kala-azar was 2.7 per 10,000. Under this Program in FY 2007/08, activities like the surveillance and vaccination trainings for the control of the zoonotic disease, malaria, kala-azar, and epidemic diseases besides the natural disaster management surveillance are running continuously. Out of the target of spraying pesticide in the kala-azar-affected 744 wards of 114 VDCs in 11 districts two times during the year, it has been sprayed one time. Similarly, rapid response team was mobilized for managing epidemic diseases. Malaria patients were identified and 50,000 blood samples were collected and tested under the malaria surveillance while work was done to diagnose disease infected in humans through the bird flu. Out of the targeted 175,000 vials of anti-rabies, only 10,000 vials have been made available. Anti-snake vaccines have been made available in the districts as per the demand, viz. 11,000 vials.

Mobile Camps, Emergency Health Services, Free and Community Health Insurance Program

12.40 In FY 2006/07, out of the target of organizing 41 health camps supported by the specialists, 35 camps were organized. With respect to the eye treatment, 24 eye donation camps were operated in different districts of the country. Under the school eye program, examining the eyes of 4,500 people was achieved as targeted. Program relating to the free treatment of the emergency and in-patient department services in the 25-bedded hospitals and primary health centers was run while health insurance program was extended in 4 places. During the first eight months of FY 2007/08, 11 uterus prolapses treatment camps were organized out of the 12 targeted, 2 health camps supported by specialists and ENT health camps were organized as targeted and 20 eye donation camps were organized, besides preparing a directive for the community-based program for the handicapped. Likewise, 17 different institutions have been provided subsidies, as targeted, and these institutions have been extending health services. During this period, out of the 400 children under the age of 15 targeted to receive free treatment to prevent them from the heart disease; 480 have received free operation. Out of the target

of providing free treatment for 200 senior citizens above the age of 75; 31 received the free treatment. A senior citizen health program has been implemented to extend the health services and facilities for the senior citizens so as to make solid contribution to their social security. To this end, for those not receiving free treatment at the local level, Rs. 500 is being provided as a relief within the district while such relief for treatment outside the district has been Rs. 1,000 to Rs. 2,000.

National Population Program

12.41 Population management seminar at the local level and population-related consultancy service sensitization for the students in three districts have been conducted as per the target. In the districts where population management has been implemented, an assessment of the Youth Information Center has been initiated. Moreover, a study related to the missing girls has been completed.

National Health Education, Information and Communication Program

12.42 As per the objective of increasing the level of general awareness relating to the various programs under the Ministry of Health and Population by developing materials and their dissemination through audio, visual and print media in FY 2006/07, publication and transmission of the messages through the radio, television and print media was carried out 1,620 times, attaining cent percent progress. Similarly, at the district level, messages regarding essential health have been transmitted 192 times, school health education 14,932 times, and digital radio audience club 390 times. As such, 97 percent progress at the central level and 85 percent progress at the district level have been achieved. In FY 2007/08, health-related education materials have been developed, produced and distributed for increasing awareness with a view to bringing about positive changes among people with respect to the prevailing traditional practices in the area of health. The health-related messages were published in the newspapers 81 times, awareness-promoting messages were transmitted through radio and television 873 times, school health education program was conducted 2,186 times, health service promotion program was run 99 times, health messages through the cinema halls were screened 2075 times, community health promotion campaign was conducted 140 times, and interaction program enlisting the participation of various community members in the communities with lower access to the health services was arranged 16 times. For

promoting health in the country, a broader National Health Communication Policy has been prepared.

AIDS and Sexual Disease Control Program

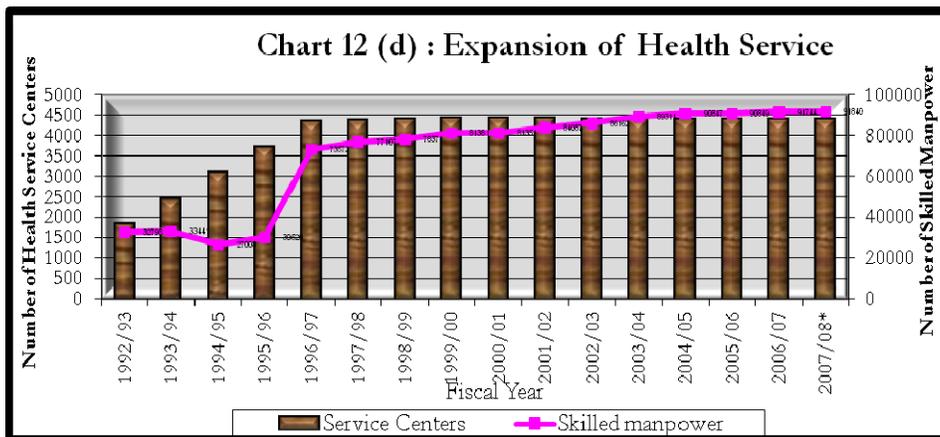
12.43 For controlling AIDS and sexual diseases in Nepal, implementation of the curative, promotional and rehabilitative programs was continued in FY 2006/07, too. The ART and PMTCT services were extended in the TU Teaching Hospital, Maternity Hospital, Lumbini Zonal Hospital, Bheri Zonal Hospital, and BP Koirala Health Science Academy during the year. The ART service has been in operation in the Teku Hospital. In these programs run through the resources of the GON and the foreign assistance, targets included the establishment of necessary rooms inside the hospitals, running public awareness-oriented trainings, conducting street dramas, transmitting messages, and running this activity under the school education program through 750 rooms in 75 districts, and conducting employment-oriented training for the HIV/AIDS-affected people. Among these, the progress of the government resource-based activities was 74 percent while the progress in the foreign resource-based activities was 48 percent only. Similarly, the number of cumulative HIV/AIDS reported cases was 9,756 while the estimated cases were 64,180. The targets as well as the progress during the first eight months of FY 2007/08 included 25,000 promotional materials developed against the target of 30,600, 30 orientation programs conducted in comparison to the target of 45, 1,250 school health education classes held out of the target of 2,500 classes in 50 community schools, and 50 HIV/AIDS-affected people provided employment-oriented training against the target of 100. The target of providing ART service to HIV/AIDS-affected people through eight places has been fully achieved, with this service being provided through 21 places so far. Similarly, the target of establishing 15 VCT centers has been fully met. Till now, the VCT service has been established in 46 districts and this year's estimated data of the HIV/AIDS-affected people has also been published.

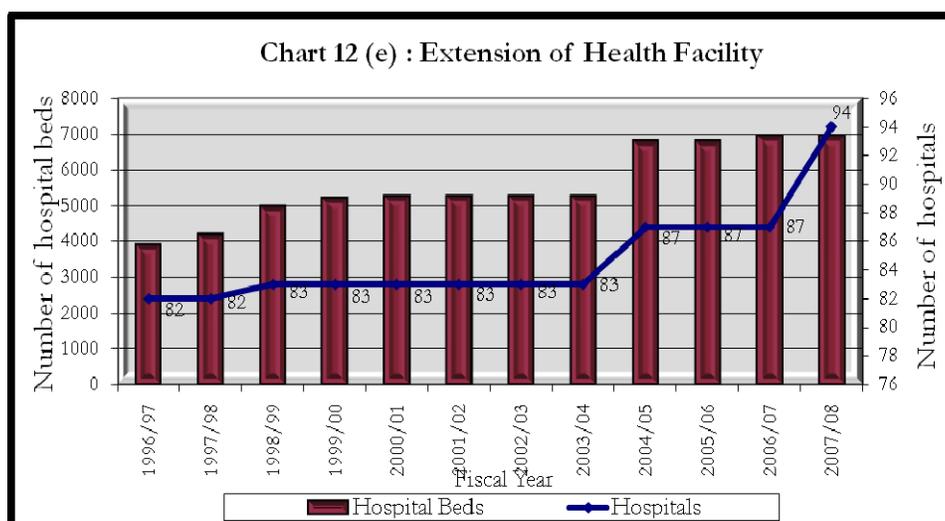
National Health and Entomological Disease Control Training Program

12.44 As per the objective of developing and managing the health personnel for making the government health service qualitative, various health trainings under this Program were envisaged for FY 2006/07. Accordingly, trainings like the orientation, refresher, trainers' training, etc. were conducted at the central and district levels. Among the trainings provided were the reproductive health training for 7,000 people, family planning

training for 294 persons, and SBA training for 56 people. Various directives and reference modules were also developed for the above-mentioned trainings. Similarly, at the district level, health-related trainings were also imparted for health workers, organizations and communities. The overall progress of this Program was 83 percent. In order to effectively control the entomological diseases, like malaria, kalazar, encephalitis, philaria and dengue, and provide research and training in the field, basic microscopy training for 45 lab technicians/lab assistants, refresher training for 12 people, and Early Warning Reporting System (EWARS) training for 105 people were conducted. A monitoring and study work of the medicines being used for the control of malaria and kalazar was also conducted. The overall physical progress in the control and training regarding the entomological disease was 94 percent. In FY 2007/08, work is progressing with respect to the targets of developing and distributing various kinds of educational materials, ads development and their dissemination through radio/television, and promotion of health messages through different government agencies/institutions. On entomological disease control and training, 30 lab technicians and lab assistants were provided 30 days' basic training on malaria microscopy while 30 lab technicians and lab assistants were provided 15 days' refresher training on malaria microscopy, as targeted. Also, monitoring and supervision of the sentinel site as per the EWARS was done eight times, as targeted.

12.45 In health service sector, under the Ministry of Health and Population, there are 4,396 health agencies including 94 hospitals, 5 health centers, 699 health posts, 293 Ayurvedic dispensaries, 3,104 sub-health posts and 201 primary health centers by the end of first eight months of FY 2006/07. Altogether, there are 91,840 skilled personnel involved in this sector. Health facility has been expanded through 6,944 beds in the 94 hospitals.





Ayurvedic Health Service

12.46 In the health sector, the program of treatment and consultation on the basis of the Ayurveda, Unani and Homeopathy systems continued in FY 2006/07. The fiscal year also focused on the collection of medicinal herbs, production and making of medicines (*kasthadi, rasadi, teladi*) from the Singha Durbar Vaidyakhana and the Ayurvedic Clinic located at Naradevi in Kathmandu. The Department of Ayurveda has assisted in the construction of Ayurveda institutions and the regular supply of medicines and equipment to them, according to the target. In FY 2007/08, the collection of medicinal herbs, production, processing and making of medicines have been continuing according to the target. The Ayurveda health service has been provided through 293 Ayurveda health institutions including Singha Durbar Vaidhyakhana and Ayurveda Clinic located at Naradevi and Dang. Also, the health service is being provided at the central level through homeopathy and Unani methods.

Development Projects under Ministry Of Health

12.47 Among the first priority (P1) programs in the social security during FY 2006/07 were the expansion of the community health insurance program in four CHCs, organizing the health camps through involving a team of 35 experts, and running program relating to free treatment for emergency and indoor patient services in hospitals up to 25 beds and PHCs. By several reasons, however, the treatments for victims in the peoples' movement as well as the supply of

artificial organs did not remain satisfactory. Regarding the free treatments for heart patients of below 15 years, 417 heart patients were treated against a target of 300. Examination for heart diseases was completed for 72,266 people. Under the National Tuberculosis Program at the central and the district levels, slide follow-up and new cough tests were conducted, numbering 554,448--74,818 at the central level and 480,630 at the district level. Likewise, 160,210 suspected patients were examined for cough test and slide follow-up test at the district level. The overall physical progress in the family planning and safe maternity and female health volunteers program was 96 percent while the financial progress was 93 percent. During the first eight month of FY 2007/08, physical progress as percent of the target has been 87 percent while the financial progress has remained at 41 percent. Expanded Vaccination and National Polio Vaccination Program has been implemented with the objective of increasing immunity power of the children below five years through vaccination against the polio, DPT, and Hepatitis-B in FY 2007/08. Under this program, 672,036 children have been immunized of BCG, 626,732 of DPT and Hepatitis-B, 624,462 of polio-3 doses, 614,195 of measles and TT vaccine (two) for pregnant women. Thus, a total of 2,537,425 people were immunized. Similarly, immunization work for other diseases like the encephalitis has been going on.

- 12.48 The physical and financial progress levels among the other first priority (P1) programs in FY 2006/07 are IMCI and nutrition program (physical 100 percent, financial 78 percent), epidemiology (physical 84 percent, financial 71 percent), malaria, kalazar and natural calamities impact management program (physical 90 percent, financial 76 percent), leprosy control and clinical equipment supply program (physical 79 percent, financial 75 percent), and entomological disease research and training program (physical 94 percent, financial 78 percent). Likewise, physical and financial progress of the national population program remained at 86 percent and 75 percent respectively. The Council of Ministers during the first eight months of FY 2007/08 has given theoretical consent to upgrade various 10 health posts and sub-health posts to hospitals of 15 beds and, on the basis of population and geographical situation, 25 sub-health posts to health posts. Likewise, there has been a target of constructing 7 district hospitals, 32 PHCs, and 43 health posts, out of which the design for the construction of all the targeted hospitals, PHCs and health posts has been completed. Further, bidding for 4 hospitals has been called and the

evaluation is at the last stage. Similarly, the bids for 5 PHCs and 14 health posts have been received and their evaluations have reached the final stage. Necessary maintenance work of different health institutions is going on.

Progress of Nepal Medical Council

Functions, Duties and Rights of Council

12.49 The Nepal Medical Council (NMC) was established as an autonomous organization under the Nepal Medical Council Act, 2020 BS. The NMC has been providing registration of medical doctors completing medical degree or diploma in Nepal or from other countries. The NMC provides its approval to new medical colleges to be opened in Nepal depending on their standard. It provides approval of curriculum and student admission. The NMC also determines minimum qualification required for degree/diploma in the medical science. It takes action against violating the Act and has discouraged or controlled running of illegal medical business. Likewise, the NMC takes licensing exam on a regular basis, investigates any health and medicinal job-related complaint and provides temporary registration to foreign doctors willing to work in the medical colleges and institutes inside Nepal depending upon their qualification. In the first eight months of FY 2007/08, the NMC has conducted 4 licensing examinations. Till this period, the NMC has given its approval to several medical colleges conducting different programs including the MBBS and dental surgery. Such authorized medical colleges under the TU are MBBS in Institute of Medicine, Maharajgunj, and National Academy of Medical Sciences (PG Program), and MBBS in Universal College of Medical Science, Bhairahawa. In BDS, the colleges under the TU are College of Dental Surgery, Bhairahawa, National Medical College, Birgunj, MB Kedia Dental College, Birgunj, Peoples Dental College, Nayabazar, Kathmandu, and Janaki Medical College, Janakpur. Under BP Koirala Health Science Academy are School of Medicine for MBBS and School of Dental Surgery for BDS. Under Kathmandu University are MBBS in Kathmandu University Medical School, Kabhre, Manipal College of Medical Science, Pokhara, College of Medical Science, Bharatpur, Nepalgunj Medical College, Nepalgunj, Kathmandu Medical College, Sinamangal, Nepal Medical College, Jorpati, and in Dental Nobel Medical College, Biratnagar, and Kantipur Dental College, Basundhara, Kathmandu.

Box 12(b): Types and Process of Registration in Nepal Medical Council

Following are the types and registration process as well as the number of skilled health manpower (doctors) registered in the NMC:

Fiscal Year	Test Registration	Temporary Registration	Permanent Registration	Specialist Registration	Foreign Citizen Registration
	Diploma in Medical Science (one year's test registration is given after passing MBBS /BDS. During the test period, it is mandatory to complete one years internship). Test registration number is given below.	After completing internship (currently nine months' internship is also allowed), temporary registration certificate is awarded for those who pass written exam conducted by the NMC. Following is the number of temporary registrations	Permanent registration certificate is awarded on submission of application with evidence and recommendation of working in any hospital/ health institution in the two year period of temporary registration. Duration of this registration is permanent. Following is the number of permanent registrations:	This certificate is awarded for those who specialize in any field after completing degree in medical science (higher degree). The number of this type of registrations is given below:	This certificate is awarded for those foreigners, who studied in foreign country, through interview (on the basis of educational qualification, experience, visa, passport, affiliated institution). Validity period of this registration is one year. The number of such registrations is given below.
2006/07 (nos.)	1,212	725	489	230	418
First eight months of 2007/08 (nos.)	1,050	688	339	122	242

Details of Specialists Registered in NMC

12.50 The NMC has, up to May 2007, registered 996 persons as specialists as detailed in the table below.

Table 12(n) : Details of Specialists Registered in NMC up to May 24, 2007

S.N.	Subject	Male	Female	Total
1.	General Practice	45	8	53
2.	ENT	26	5	31
3.	Psychiatry	21	-	21
4.	Anesthesiology	41	15	56
5.	Radiology and Imaging	45	6	51
6.	Pediatrics	80	27	107
7.	Nephrology	3	1	4
8.	Master in Dental Surgery	24	13	37
9.	T.B. and Respiratory	3	1	4

S.N.	Subject	Male	Female	Total
10.	Community Medicine Public Health	14	4	18
11.	Pharmacology	7	0	7
12.	Obs/Gyanae	51	92	143
13.	M.S. (General Surgery)	117	3	120
14.	Orthopedic	80	1	81
15.	Cardiology	50	1	51
16.	Ophthalmology	36	17	53
17.	Internal Medicine	62	7	69
18.	Clinical Pathology	18	12	30
19.	Dermatology/Venereology	16	5	21
20.	Neurology	6	2	8
21.	Gastroenterology	11	1	12
22.	Urology	9	0	9
23.	Surgical Oncology	3	0	3
24.	Forensic Medicine	3	0	3
25.	Micro Biology	1	1	2
26.	Nuclear Medicine	2	0	2
Total		774	222	996

Source: Nepal Medical Council

Note: Among the expert health manpower (MBBS, BDS and specialists) so far registered in the NMA, 7,189 are under test registration, 7,398 number permanent/temporary registration, and 1,233 under specialist registration.

Drinking Water, Sanitation and Sewerage

Drinking Water and Sanitation

12.51 The past policy of constructing drinking water and sanitation projects, raising the standard of the existing services and increasing the awareness about drinking water and sanitation with the objective of developing and expanding these services and making them available to the people in a convenient manner has been given continuity in the current FY 2007/08 also in view of the necessity of making available the required facilities and ensuring the quality of services in water and sanitation for the development of healthy manpower, that becomes instrumental in enhancing productivity as the crucial link in the overall development and progress of the

nation. In this respect, priority has been given to expand the services by completing the ongoing projects sooner and also implementing small and unsophisticated projects that could deliver quick benefits and could be completed in a short span of time. Also, making arrangements for the sustained operation and maintenance of the completed projects, improving the quality of drinking water, and enhancing the partnership of the local bodies and the consumers have been especially emphasized. Among the 455 district-level drinking water and sanitation projects of Department of Water Supply and Sewerage that were under implementation in FY 2006/07, 171 projects were targeted to be completed in FY 2006/07, with an additional 600,000 people benefiting from the drinking water. The number of projects completed in the year reached 146, with 500,000 people availing the drinking water facility of basic standard. Similarly, as part of the Drinking Water Quality Improvement Project, 60,000 people were provided high-quality drinking water through the completion of the drinking water processing system and project improvement in the Dhulabari, Gauradaha and Mangadh drinking water projects under the assistance of the government of Japan. The target for FY 2007/08 under the Department of Drinking Water and Sanitation included providing drinking water and sanitation services to an additional 350,000 people through the 10 projects under implementation at the central level and completion of the 118 projects during the year out of the 572 projects under implementation at the district level. The target for FY 2007/08 under the Department also included providing high-quality drinking water to an additional 320,000 people through the completion of 15 small urban drinking water and sanitation projects. Of these targets, 37 projects have been completed and 102,000 people have availed the drinking water facility of basic standard, with the overall progress level of the projects remaining at 82 percent. The small urban drinking water and sanitation projects and the community-based community drinking water and sanitation projects are running through the GON and the ADB aid. Other foreign aid donors are the UNICEF, WHO, UN-HABITAT and the Swiss Government.

Drinking Water Projects

- 12.52 As the effort of the government alone would not be sufficient to expand the drinking water and sanitation facilities and ensure their sustainability, the policy of community management in enhancing

drinking water facilities through encouraging the involvement and partnership of user community, local bodies, NGOs and private sector has been adopted. Similarly, for ensuring and promoting the concept of community management, a provision of 20 percent contribution for the cost of execution of the project by the community has been made on the condition that, following the completion of the project, it will be handed over to the users group for the further execution and maintenance of the project. However, in case of the targeted groups being economically and socially deprived community/class, such contribution has been fixed at 10 percent only. Similarly, in order to ensure realization of expected benefits from drinking water and sanitation facility through developing the drinking water and sanitation education as the integral part of the drinking water services, provision has been made to set aside a fixed amount of budget for this purpose. Community-based drinking water and sanitation projects have been implemented with a view to developing and expanding the basic drinking water and sanitation services in districts lagging behind in the human development indicators. Projects are implemented for improving the delivery of water service including its quality in urban and semi-urban areas through implementing the principle of cost recovery.

- 12.53 Against the FY 2006/07 target to complete 15 projects, estimated to benefit 186,000 people, out of the 26 projects run under the small urban area drinking water project of the Department of Water Supply and Sewerage, only 9 projects were completed, which provided higher quality drinking water for an additional 101,000 people. During the same period, arsenic content was tested in 190,000 tube-wells, covering 30,000 tube-wells in Banke, 80,000 in Rupandehi, 65,000 in Kailali and in 15,000 in Kanchanpur districts. Drinking water facility was provided in 28 Maoist camps (using foreign resources 9 camps and GON resources 19 camps). On sanitation, 20,000 local latrines were made. Collection of statistics for updates on drinking water and sanitary in 3,597 VDCs and 17 municipalities was completed. In FY 2007/08, It was targeted to hand over, after completing a few remaining tasks, to the Consumers Committee 8 projects out of 25 initiated by small urban areas drinking water and sanitary projects. Similarly, out of the rest 17 projects under construction, it was targeted to complete 15 of them and provide high/medium quality drinking water facility for

320,000 people. Among them, the main structures of 9 projects have been completed and water supplied, benefiting 155,000 people with high/medium quality drinking water. The overall progress of the project performance has been 71 percent. Similarly, arsenic test has been completed in the remaining 350,000 shallow tube-wells of 7 Terai districts, as targeted.

Urban Drinking Water System

12.54 In order to make the country's urban drinking water system more operational and effective; there has been a program to control leakages in the urban drinking water besides strengthening the overall drinking water systems. As a long term solution of the drinking water problem in the Kathmadu valley, the Kathmandu Valley Drinking Water Strengthening Project came into operation to tap additional drinking water from identified sources in the Valley-- Manohara river and Sainbu river-- for meeting the increasing demand of drinking water as a temporary effort to compensate, to some extent, the shortfall of drinking water until the Melamchi Water Supply Project gets completed. Similarly, additional drinking water has been distributed tapping small sources located in surrounding areas of Kathmandu valley besides further mobilizing surface and ground water sources on the basis of conjunctive use. In the current fiscal year, the daily water output in the Kathmandu valley is 180 million liters against the demand for 270 million. During dry season, the output comes down to 950 million liters. Production has been boosted by bringing about structural improvement and implementing independent tube-well projects. Instead of Nepal Drinking Water Corporation, the job of supplying and managing drinking water in Kathmandu valley has been given to Kathmandu Valley Drinking Water Limited which has started its work from since February 13, 2008.

Urban Drinking Water and Sanitation Rehabilitation Project

12.55 Under Drinking Water Production Improvement Program in FY 2006/07, there was hundred per cent progress in constructing 5 tube-wells inside the Valley and in the construction of water-tank at Sipradi Water Treatment Center. The job of extension of pipeline has progressed following the completion of reservoir under Mahankal Drinking Water Project. Similarly, work was completed to construct tube-wells at Khadka Bhadrakali village while one-fourth work was completed in distributing drinking water to local

residents under Gwalindaha Drinking Water Project. There was a progress of 77 percent in making 6 tube-wells in cities outside the Valley, 40 percent progress in making water treatment center at Butwal, 10 percent in the maintenance of Mardi at Pokhara and other intakes, and 75 percent in purchasing pumps for 7 branch offices outside the Valley. However, there was a meager progress in constructing water testing centers in 5 branch offices outside the Valley. Similarly, cent percent progress was achieved in extending 3-km main pipelines within the Valley and 80 percent progress in extending 15-km pipelines outside the Valley. There was a physical progress of cent percent in leakage control. Similarly, 4-km extension of drainage and outlet improvement was completed in the Valley. In FY 2007/08, there has been a physical progress of only 10 percent in constructing 4 tube-wells in the Valley and operating Gwalindaha Drinking Water Project under Drinking Water Production Improvement Program. As to the target of maintenance of the water source of Pokhara Mardi Drinking Water Project and construction of Pokhara Water Refinement Centre, there has been progress of 55 percent by mid-March 2008. There has been 60 percent physical progress in constructing 2 water refinement centers and 6 tube-wells inside the Valley. Similarly, about 55 percent physical progress has been achieved in the targets that consisted of constructing 3 new water tanks, Taulihawa Water Tank Maintenance at one time, purchasing 3 generators, purchasing and installing 25 pump sets, and establishing water testing centers in different branches. Likewise, there has only been 10 percent physical progress inside the Valley against the target of 9-km pipe-line improvement task and 9.7-km sewerage extension and improvement task. Following the completion of 20 km pipe-line improvement and extension outside the Valley, there has been 60 percent physical progress by the mid-March.2008.

Housing and Urban Development

Urban Development Program

12.56 It has been the policy of the government to implement urban development programs as a supplement to rural development by making the role of urban area efficient, sustainable and employment- oriented to add to the national production. Similarly, government plans to implement the policy to gradually execute physical development plans and programs in order to manage

uncontrolled urbanization towards a well planned and decentralized city step by step and make urban life more productive, healthy, employment-oriented and more convenient. Likewise, necessary arrangement will be made to meet the goals and objectives outlined in the National Housing Policy. Similarly, land development program will be launched, physical infrastructure will be developed, and service and facility will be improved in urban areas of the country with the partnership and involvement of local bodies. Residential land development program will be given continuity for the implementation of planned housing program, to minimize the increased encroachment of agricultural land, through Town Development Committee and local bodies. With a view to mobilizing necessary resources and providing loan for the implementation of land development programs, capital of the Revolving Fund, established for this purpose, will be increased. The GON has initiated several policy prescriptions, which are: (i) construction of low-cost and safe residential houses and buildings by developing appropriate technology and construction materials; (ii) development of physical infrastructure for the sustainable development of special sites of national importance; (iii) implementation of recently prepared National Building Codes (NBC) for the construction of safe buildings to protect from landslides and natural calamities; (iv) implementation of building codes on the construction of big buildings in the public and private sector in the first phase just to minimize loss from earthquakes; (v) conducting training on earthquake-resistant building construction technology based on NBC for engineers, sub-engineers and masonry workers; (vi) conducting town planning related study and programs at district and regional level; (vii) developing Kathmandu as a capital city, and cultural and tourist spot; (viii) implementing programs according to approved long-term development thrust; (ix) developing rural-urban linkages by upgrading 14 roads connected to nearby villages growing as town along the outskirts of ring road in the Kathmandu valley; and (x) Reducing the growing population pressure in the Kathmandu valley through improving environment of the nearby cities in the Kathmandu valley, working together with local bodies and NGOs.

- 12.57 The work under Urban Area Development and Market Centre Program includes planning of physical development of small town and town-emerging villages, developing necessary infrastructures for

town in the planned areas under rural development program through small town development, making loans through mobilizing land development revolving fund for providing the seed money to initiate the land development program, formulating plan for road and sewerage network in accordance with land utilization map for facilitating traffic movement in cooperation with local bodies of town-emerging VDCs of the country, and executing city development project in big cities of the country including Kathmandu. Under this program, activities like road improvement, transport management, drainage improvement and conservation of public places and open areas are also going on. With the objective of making notable contribution in developing and improving infrastructure of towns, activities like improving road, drainage, sidewalk, etc., have been under way in 6 municipalities of the 5 development regions in the current fiscal year. According to the concept of giving continuity to this program in the next fiscal year also, activities like the Mithila Memorial Building Project, Special Physical and Infrastructure Development Project, Outer Ring Road Development Project, and Urban and Environmental Improvement Project have been executed under separate project. In participation of municipalities, various works like developing digital base mapping, making plan for physical infrastructure development, and preparing periodic plans in various municipalities are also underway. In participation with the WHO, Town Environment Improvement Program has been carried out in municipalities.

- 12.58 To improve environment of 8 municipalities lying around Kathmandu valley, Town and Environment Improvement program has been carried out in participation with WHO. Similarly, some solid contributions have been laid toward planned urban development through carrying out the well-facilitated Residence Development Program, Directed Land Development Program, Land Pooling Program, etc. in various places of the country by the Town Development Committees in participation of the local people. Appropriate and practical research, development and training on building technology are being conducted. The 26 division offices of the Department have been arranging trainings for masons of their respective regions in the construction of safe, economical and earthquake-resistant building based on the NBCC, thereby upgrading their skills and also providing them economic relief. The Building Act, 2055 BS has come into force so as to implement the NBCC.

Accordingly, construction of government buildings is being carried out through training the technicians of the Department in these areas. In order to carry out functions like designing buildings, estimating cost, constructing, and planning and implementing Town Development Project, the responsibilities of the Division Offices have been specified and the capacity of these offices are being enhanced. To cope with the challenge of providing the minimum infrastructure service in the rural areas, efforts are underway to integrate the scattered villages in appropriate place and provide the infrastructure. Under this dense settlement program, infrastructure development works in the two districts where the studies were carried out last year, namely, Jumla and Kalikot are underway in the current year. The feasibility study on the dense settlement in three additional districts is being planned for the current year. In FY 2007/08, following programs are being carried to implement above-mentioned policies and programs:

Urban Development and Market Centre Study Program

- 12.59 Plan formulation for need-based physical development through the study of town and town-emerging villages is in progress under the Urban Area Development and Market Center Program. Important physical works have been completed under Rural Development through Small Town Development Program in those areas where physical planning has been completed. This program has been introduced to extend housing loan as seed money to execute land development program. There is a program for town-emerging VDCs of the country to plan for road and drainage network as per land-map in participation of the local bodies so as to ease the traffic movement. In FY 2006/07, continuity was given to the mobilization of land development revolving fund to implement land development program which was launched with the participation of the local land-owners in 6 places viz., Ilam municipality of Ilam, Baidhyanathpur of Morang, Rajbiraj of Saptari, Dulegaunda of Tanahu, Nepalgunj of Banke, and Dipayal of Doti. Similarly, to ease the traffic movement, road and drainage network was planned as per the land-map in participation with local bodies in 20 urban-emerging VDCs. Other programs carried out in FY 2006/07 included physical infrastructure planning in 4 small towns and 2 market centers, study for the improvement of Integrated Housing Act and Regulation, preparation of the norms for high-rise building and revision in Ring Road Improvement Manual. The physical progress in all these programs was recorded at 98 percent.

- 12.60 In FY 2007/08, there is a program to give continuity to mobilizing Land Development Revolving Fund for carrying out the land development programs. In this regard, there is a program of conducting land development program with involvement of the land owners in Ilam Municipality-2 of Ilam, Dulegauda of Tanahu, Nepalgunj of Banke and in the VDCs linked to these municipalities. In this year, there is also a program to prepare the road and drainage network plan as per land-map in 15 town emerging VDCs of the country to ease traffic movement. Similarly there is progress in making plans for physical development in seven small towns and nine market centers. There is a program of studying the necessity of housing loan for the poor family and landless housing improvement including preparing the standards for the high-rise buildings. There is a program of developing the DPPR of proposed land development areas in 3 places, making study on how to charge benefit tax from those who benefit from the 5 model village development including its implementation arrangements, making a detailed master plan of Sabhapokhari in Sankhuwasabha district, monitoring, inspecting and controlling the joint housing development, and introducing infrastructure development and land development program. The second quadrimester progress in FY 2007/08 is 76.8 percent. Progress as per target is expected to be attained till the end of the fiscal year.

Rural Development through Small Town Market Development

- 12.61 This program has been implemented with the objective of reducing poverty through developing rural infrastructure and market for rural products. Other objectives of this program are to expand urban facilities through the development of basic urban infrastructures required for future municipalities and towns, reduce rural migration to cities, and enhance rural-urban inter-linkage. In FY 2006/07, in two old settlements of Kathmandu valley, the physical infrastructure development program was implemented jointly with the UN-HABITAT. Other programs implemented in the fiscal year include one pilot program in each of two small towns in the context of implementing programs as proposed by the Small Towns Physical Infrastructure Development Plan and construction of water garden in Maipokhari, Ilam, in the process of implementing the Master Plan. Annual physical progress of these programs was 87.3 percent. In FY 2007/08, physical infrastructure constructional work will be implemented in 65 rural and urban areas to strengthen rural-urban linkages. Similarly, there is a program to conserve public land of Mele

VDC-3, Mangdin, and Mele VDC-2, Khuwa, of Taplejung. The second quadrimester progress in FY 2007/08 is 80.8 percent. By the end of this fiscal year, hundred percent target is expected to be met.

Integrated Functional Plan

12.62 The main objective of this plan is the organized urban development of the municipalities through involving as many people as possible on the basis of direct involvement of the municipalities and the increased public participation in the formulation of the Urban Development Plans as well as the preparation of the digital mapping of the municipalities. The FY 2006/07 laid town programs of improving physical infrastructures for the planned settlement of the landless in joint collaboration with the UNESCAP, formulating periodic plan for 4 municipalities with participation of the local bodies, preparing digital mapping in 6 municipalities in joint collaboration with UDLE/RUPP and local bodies, organizing a national workshop on the concept of urban development in participation of all the heads/officials of the municipalities, preparing Urban Planning Manual and revising of the National Urban Policy. The physical progress in that fiscal year was 88.3 percent. In FY 2007/08, infrastructure of 3 landless settlements will be developed jointly with UNESCAP and arrangement will be made for the planned housing. Periodic plan for 4 municipalities will be made with participation of the local bodies while digital mapping of 3 municipalities will be prepared in joint participation with UDLE/RUPP and local bodies. Healthy city program will be launched in joint effort with the WHO. Six municipalities where integrated functional plans were prepared in the past would be monitored and the plan revised while the digital mapping will be undertaking. National seminar will be conducted on the concept of urban development with the participation of municipal heads and other officials. Building by-law of Salleri-Bazar of Solukhumbu and Khalanga-Bazar of Jumla will be prepared. By the second quadrimester of the current fiscal year, 81.2 percent progress has been achieved. It is expected to achieve the remaining work by the end of fiscal year.

Special Physical and Infrastructure Development Project

12.63 The main objective of this project is to construct, improve and maintain locally important cultural and religious spots and to prepare master plan. In FY 2006/07, physical and infrastructure development program in 8 places as per the concept of sustainable development and as directed by master plan was carried out, physical

infrastructure construction and maintenance of 11 different places was done and physical infrastructure was developed and maintained by mobilizing local people in 12 different places of special importance. The average annual physical progress of the project was 98.1 percent. In the current fiscal year, there are programs of developing physical infrastructure in 11 different places as per the concept of sustainable development and as directed by the master plan, constructing and maintaining physical infrastructure in 6 different places, and developing, constructing and maintaining physical infrastructure in 44 different places of special importance. Similarly, there are programs also of making master plan by preparing base map in 6 places with religious and archeological importance and initiating to hand over Changanarayan and Suryabinayak. By second quadrimester of the current fiscal year, it is expected to meet 100 percent targets.

Urban and Environment Improvement Project

12.64 This project is under implementation since FY 2003/04 under the loan assistance of the ADB. The main objective of this is to assist in the economic development of the municipalities through the institutional development of municipalities and their empowerment the local bodies, social organizations and the private sectors in providing urban infrastructures environmental and physical infrastructure of the municipalities, and mainstreaming of the deprived and under-privileged people by giving special priority to their interest of municipalities. In FY 2006/07, a total of 52.4 people at month's equivalent period of consultant's action were sought in project coordination office at the centre of this project. In the first phase, about 90 percent of design work of various sub-projects was completed by the design and supervision consultants in Dhulikhel, Bharatpur and Hetauda municipalities, accordingly, work proceeding in road improvement, and construction of community toilets in Dhulikhel municipality, land development and river control program in Bharatpur municipality and improvement of drainage and bus-park following the awarding of contract in Hetauda Municipality. Detailed design work of the subsidiary projects was undertaken following the appointment of the design. Consultants in Banapa, Ratnanagar and Panauti comprising the second group of municipalities and in Bidur and Kamalamai as the third group of municipalities. Preparation of detailed mapping of 5 municipalities from the consultants and designing and of various community development

programs from the designated NGO's along with of these programs implementation is underway. In the previous fiscal year, total 487 people were given training and orientation course. Out of a total amount of Rs.127.7 million spent till the end of fiscal year, the municipalities were provided a total of Rs.111.8 million as loans and grants, in total average annual physical progress of this project in FY 2006/07 was 63 percent.

- 12.65 In the current FY 2007/08, Rs.487.9 million will be provided to 9 municipalities as loans and grants to run various sub-projects. Constructional work of bus-park, river control and drinking water project in Bharatpur and Hetauda municipalities is going on while, and in Bharatpur municipality land development program and vegetable market construction work is moving ahead following the awarding of the contract. Construction of bus-park in Hetauda municipality has been completed and is in operation while 90 percent of the urban mapping has been completed. In Dhulikhel Municipality, construction of public toilet has been completed 90 percent, work of road improvement 60 percent and urban mapping have been completed. In the second phase municipalities, viz. Banepa, Panauti and Ratnanagar detailed design work of sub-projects has been completed, and contract has been awarded for sub-projects. Detailed design work of the third phase sub-projects in Bidur and Kamalamai municipalities is underway and bids have been invited for the construction of river control project in Kamalamai municipality. Following the completion of the detailed design of the project. Work is in progress for preparing detailed urban map in two remaining municipalities (Panauti and Kamalamai) by hiring consultants and for starting various following community development programs selecting NGOs. In total, 55 percent of community development work in all municipalities has been completed. To upgrade Bishnumati link-road of Kathmandu metropolitan-city by black-topping, Bishnumati Link-road Project Implementation Unit has been established which has invited tenders after completing detailed design of the project. To enhance the institutional capacity of the municipalities under the project, 500 people were targeted for training of which 360 people have received training till now. Physical progress up to second quadrimester is 88.8 percent. From the beginning of the project through the end of the second quadrimester, the total physical progress of the project is 42 percent and the time used has remained 72 percent of the total period of the project.

Urban Development Project

- 12.66 The main objective of this project is to implement organized urbanization and environment improvement program through implementing the physical infrastructure development programs in the nation besides carrying out the urban infrastructure empower program in the Itahari and Attaria areas. In previous year there were programs of conducting feasibility study of dense settlement in 3 places formulating plan for road and drainage network in 6 municipalities and constructing and improving of road, drainage and sidewalk in 5 municipalities in collaboration with local bodies. Under these programs, the activities carried out in FY 2006/07 included fencing Tundikhel, formulating the plan for road and drainage network in collaboration with local bodies in 10 district headquarters having municipalities, initiating organized urbanization in Itahari municipality in the eastern and Attaria in the far-western region and developing their physical infrastructure and improving environment, land development program along Kodkukhola-Harisiddhi-way report, along with widening the road, along the road conducting adjacent area in the process of implementing arterial road. Feasibility study of Birgunj-Simara corridor development and of dense settlement in Kalikot and Humla. Similarly, other activities carried out in the same fiscal year included construction of office building and other infrastructure improvement program under Shree Ganeshman Singh Memorial Nature Conservation Park Project construction program in Malekpur, Khuruhuriya of Saptari district besides celebrating International Habitat Day, Water Day, Environment Day and Population Day, the average annual physical progress of this project in FY 2006/07 was 84.7 percent.
- 12.67 Under this program in FY 2007/08, urban infrastructure and environment improvement program will be implemented in various urban sites. Detailed physical development project of 3 model towns and 15 model villages will be prepared. Feasibility study on integrated dense settlements in 3 districts will be undertaken. One project each in Humla and Kalikot will be implemented as indicated in the report of feasibility study of the previous year. Study will also be carried regarding the Millennium Development Goals (MDGs). The road and drainage network plan of 6 municipalities will be formulated in collaboration with the local bodies. Physical infrastructure development and environment improvement program will be run in Itahari

municipality in the eastern region and Attaria area of the far-western region following the work of the organized urbanization. Land development along with infrastructure improvement will be carried out in the Dhobikhola corridor. Pyuthan Sworgadwari Master Plan will be formulated. The design for the construction of 4 customs border gateways will be prepared. Land field sites and their infrastructure will be identified for the garbage management in the municipalities. Located at Malekpur-5, Khurhuria, in Saptari district, Shree Ganeshman Singh Memorial Nature Conservation Park Project and Shree Ganeshman Singh Memorial Foundation and Martyrs Darshan Memorial Project will be implemented. Apart from these, under the construction program, construction of office buildings and improving other infrastructures will be started. International HABITAT Day and International Water and Environment Day celebration programs and various other training programs will be conducted. By the second quadrimester of the current fiscal year, the physical progress has been 80.8 percent and the whole target is expected to be met by the end of the fiscal year.

Outer Ring Road Development Project

12.68 Started for some years back, preliminary detailed project report on the land development program covering 5-km of proposed outer ring road was made available in FY 2005/06. Final reports on technical evaluation of alignments and Intersection Development Plan were completed. The Environment Impact Assessment (EIA) of outer ring road has been completed. Interaction program has been organized in Bhaktapur and Lalitpur districts with the participation of the local landowners and the intellectuals. During that period, average physical and financial progress of the project stood at 100 percent. In FY 2006/07, under the program of preparing detailed plan document on land development program along the 27-km section corridor of the outer ring road and conducting evaluation of its impact on environment, consultant agencies were appointed to prepare DPR of 27-km areas and its field report was prepared. Detailed survey was carried out and field report received on the 27-km areas, covering 5-km Sandol-Thali-Danchhi and 8-km Satungal-Chobhar sections in Kathmandu, 3.5-km Naya-Thimi (Srijanagar)-Dadhikot and 10.5- km Bhate Dhikuro-Thali-Danchhi section of Bhaktapur. Similarly, consultants were appointed to assess the environmental/social effect of outer ring road and TOR was prepared. Other works carried out in FY 2006/07 included determining the center-line of the other areas except these where land pulling would be made, assessing the effects of outer ring road on the traditional

villages, conducting studies regarding the development of the radial road connecting the current ring road with outer ring road and studying the availability of materials required for constructing the outer ring road.

- 12.69 To make studies on the outer ring road, a 7-members Chinese survey team had visited Nepal from August 13, 2007 through September 20, 2007. The team observed the project and interactions with the various stakeholders were held in the Ministry of Physical Planning and Works. Similarly, to operate Lubhu-Harisiddhi section of outer ring-road, management sub-committee was formed while interactions were held with the concerned landowners and the tenants and discussions and interactions were also held with media persons and representatives of the political parties in Lubhu, Sanagaun and Harisiddhi VDCs. In the period, the average physical progress of the project had stood at 100 percent. In FY 2007/08, DPR preparation work of this project and the final report of 27-km area are being readied. The reports of which have already come include 5-km Sandol-Danchhi (draft report), 8-km Satungal-Chobhar sections of Kathmandu (final report) and 10.5-km BhateDhikuro-Thali-Danchhi (draft report) and 3.5-km Naya Thimi-Dadhikot sections of Bhaktapur district (final report). Discussion was held with Ministry of Physical Planning and Works and with Ministry of Environment, Science and Technology on the terms of reference (TOR) and scoping of assessing environmental and social effect of outer ring road. Similarly, consultants have been selected for formulating detailed project after finalizing the mapping of Naya Thimi-Gothatar-Jorpati-Jagadol section (6.25-km) which has been prepared as a link road in the eastern side of outer ring road and its field report has been received. Discussion on various DPR report has been held in the Department of Urban Development and Building Construction. The report has been presented to the representatives of the seven political parties in the Bhaktapur and Kathmandu DDCs. The progress of the project so far has been presented to the concerned government offices and media representatives. For the purpose of furnishing information on outer ring road, notice is being published in various newspapers.

Building Construction Code, Construction of Government Buildings

- 12.70 The main objectives of this program are preparation and implementation of building codes, construction of government buildings, collection of records of the existing government buildings reflecting their present conditions, identification of alternative construction materials, and construction of earthquake/natural disaster

resistant and low cost buildings. In FY 2006/07, work was initiated for the construction of library and museum at Mahendra Narayan Nidhi Mithila Cultural Center, construction of conference hall at Putalibazar of Syangja and covered hall at Myagdi, in collaboration with the local bodies and drawing design for the construction of conference hall at Dailekh district. The NBCCs, training programs for engineers and sub-engineers from the Department and local bodies as well as for the small construction entrepreneurs in the process of implementing. Training on safe and low cost housing for 750 technicians with support from Lutheran World Service, Seismic Technology National Society and local bodies, evaluation of the earthquake resistance of the buildings belonging to the Department, training for technicians, techniques of assessment of damages caused by natural calamities, construction of an Ashram, be converted into Trust in future, in honor of ex-Prime Minister, Krishna Prasad Bhattarai. Average physical progress of the program was 55.1 percent. In FY 2007/08, library and museum construction of Mahendra Narayan Nidhi Mithila Cultural Center will be completed while construction of the conference hall at Putalibazar, Syangja, and covered hall at Myagdi will be continued in support with the local bodies.

- 12.71 In the context of implementing the NBCC, training will be conducted for the engineers and sub-engineers of the Department as well as the small construction entrepreneurs. Training on safe and low-cost housing will be provided to 2,250 masons, with support from Seismic Technology National Society, Lutheran World Service, and local bodies. Construction of the Ashram for the ex-PM Krishna Prasad Bhattarai, construction of home for the old at **Teraite** of Tribhuvan Municipality-9, Dang, construction of the hostel for the Dalits at Aishelukharka, Bade VDC-9, in Sindhupalchowk, and also in Surkhet will be completed. Similarly, construction of the hostel at the Martyr Chandra Nepali Dalit Hostel in Tanahu and Parijat Memorial Trust and Sahitya Sadan, Ramhiti, in Kathmandu will be completed. Other construction projects to be completed in FY 2007/08 include Janajati hostel at Hangpang, Taplejung, Dalit community building at Khotang-Bazar, Khotang, community building at Tarkughat, Lamjung, multipurpose community building at Dhapasi-9, Sirjanatol, Kathmandu, Mangal Memorial Academy Community Building at Indrapur-8, Morang, and community buildings at Bhurungkhel and Kirtipur in Kathmandu. There are also programs of constructing a community building in Bungkot VDC, Gorkha, and renovating a government

office/community building. The earthquake-resistant capacity of the buildings under the Department will be examined. Training will be imparted for the technicians in assessing the damage caused by natural calamities. By the second quadrimester of FY 2007/08, 75.8 percent physical progress has been attained. By mid-July 2008, it is expected to attain the progress as targeted.

Reconstruction and Maintenance of District Headquarters Buildings Damaged in the Conflict

12.72 The objective of this program is to reconstruct and maintain government buildings, located at district headquarters, which were damaged during the conflict and make them ready for operation. Though the program initially started under the Ministry of Home Affairs since FY 2003/04, the responsibility of repair, maintenance and reconstruction of all the government offices destroyed during the conflict in Palpa and Dhankuta districts was handed over to the Ministry of Physical Planning and Works since FY 2005/06. In FY 2006/07, a total of 137 programs were launched in 37 districts through 19 Division offices; with a target of constructing 56 new buildings, upgrading 21 buildings, and repairing and maintaining 21 buildings. Construction work of 38 buildings by the bodies under the Ministry of Home Affairs is ongoing. The total progress level in these activities at the end of FY 2006/07 was 72 percent. Similarly, in FY 2007/08, out of the target of launching 296 programs in 65 districts through 25 Division offices, 80 of them have been in continuation for the repair, maintenance and reconstruction work while the work relating to the field study, cost estimation and tendering in the rest 216 buildings has been in progress. By the second quadrimester of FY 2007/08, 60 percent physical progress has been achieved while full target is expected to be met by the end of this fiscal year.

Local Development

Public-Private Partnership Program

12.73 Public-Private Partnership (PPP) program was launched with the support from the Ministry of Local Development and UNDP. The PPP, under its work of strengthening the local bodies, targeted at opening up opportunities for employment through extending linkages between the villages and municipalities by undertaking the work of social mobilization, provision of loan for investment, arrangement of entrepreneurship development trainings, etc., in 30 municipalities and 50

VDCs during FY 2006/07. As to the achievement, the financial progress of the village-town partnership program was 94.2 percent and that of the PPP for the improvement of urban environment was 46.7 percent. In Bharatpur municipality, PPP review and project seminar was concluded, identifying 14 short-term and 2 long-term projects in addition to preparing the National Public-Private Partnership Coordination Guidelines. A total of 35 municipalities have so far been assisted through this program. The number of new community organizations formed at the local level (*Tole* development) reached 365 while Rs. 86.6 million loan was invested in 418 organizations and Rs.4.4 million seed money was provided for 186 organizations. Similarly, cent percent progress was achieved in other programs conducted in various VDCs and 15 municipalities, like the 3-day Training Of Trainers, 5-day Urban Poverty Reduction Training, various seminars, dissemination of information, raising public awareness, strengthening village-town linkages, training the municipal officials, providing grant support for study/tour and other orientation trainings, etc.

- 12.74 In FY 2007/08, officials from 35 municipalities will be offered study tours and orientation training, self-employment opportunity at the local level will be created for 1,500 people, income standards of 500 households will be raised, 2,500 copies of training guidelines on social inclusion and DAG will be published and distributed, technical support will be given to 35 local bodies in formulating programs and their implementation, public auditing and public hearing will be conducted at the local level, special arrangement for women leadership training will be made for 150 people, 150 other people will be offered skill development training, and seed money will be made available for the construction of 150 physical infrastructures. It is expected that, through this program, positive effects on the poverty reduction will be generated following the growth of employment opportunities based on the enhanced village-town linkages, development of the linkage-based enterprises, and the formation of the entrepreneurs' group from the under-privileged communities like the indigenous people, Janajatis, Dalits, etc. This program concluded in December 2007, turning out a full progress.
- 12.75 The PPP for the Improvement of Urban Environment has been in operation in 10 municipalities comprising Butwal, Bharatpur, Hetauda, Biratnagar, Pokharas, Mechi, Dhulikhel, Bhaktapur, Siddhartha Nagar and Kathmandu in FY 2007/08. Under this program, a number of tasks will be carried out in the current fiscal year. Accordingly, the local-level

PPP will be assumed as the framework for the delivery of services in the context of the local self-governance, institutional capacity will be upgraded to enhance information transmission among the officials of the concerned institutions at the national level and foster the public awareness, studying the loan portfolio policy of the financial institutions in the context of the PPP through coordinating with the MOF, constituting and operationalizing the National PPP Coordination Committee, providing necessary assistance in drafting the PPP Procurement Regulation and additional legal provisions concerning the PPP, conducting the orientation program on PPP among the government representatives at the central level and the chiefs of the municipalities, conducting public debates on the PPP, arranging business discussions and investment meetings as to the PPP, making study of the financial institutions so as to promote loans for the PPP projects, and providing exposure and training to the representatives of the financial institutions on topics like the PPP investment strategy and project-oriented investments besides extending other necessary assistance for making the PPP project-oriented. Other programs include conducting orientation trainings jointly with Institute of Engineering (IOE), Local Development Training Academy (LDTA) and Administrative Staff College (NASC) and disseminating the PPP experience and knowledge, Feasibility and other studies will be carried out for identifying the PPP projects, projects will be formulated and workshops on community contracts will be conducted. Private and community services providers' need for PPP will be identified. Community and small informal entrepreneurs' capacity for formulating the business plans and project proposals will be built. Support will be provided to build Resource Centers at the Federation of Nepalese Chambers of Commerce and Industry (FNCCI) and Municipality Association of Nepal (MUAN) by developing necessary framework for the PPPUE information management. Support will be extended to the consumers' groups for bringing about improvement in service delivery and the extension of their scope. It is expected that this program will benefit partner municipalities, youth institutions/organizations, private entrepreneurs, civil society, consumer' groups and, especially, the poor community. During the first eight months of the current fiscal year, 673 people have participated in trainings, workshops, seminars and orientation programs under capacity building program. Study support one each on the PPP coordination committee formation, implementation

support program and loan flow of the financial institutions has been provided while five PPP-related orientations have been carried out.

Rural Drinking Water and Sanitary Project

12.76 Regarding the targets for FY 2006/07 under the Ministry of Local Development, the Rural Drinking Water and Sanitary Programs enlisted in the Infrastructure Development Program and Municipality Gravity Drinking Water projects including the ongoing ones numbered 750. Other targets for FY 2006/07 at the district level included sanitary and training programs in 75 districts, shallow deep-sets in 21 districts, rainwater reserve in 10 districts and arsenic reduction in 18 districts. Programs were conducted through the DDCs and 90 percent physical progress was achieved. A progress of 72 percent was achieved in Rural Water Resources Management Program conducted in the 10 districts of the mid-western and far-western development regions with the support from Finland. The Nepal Rural Drinking Water and Sanitary Program has been run in the 9 districts including 8 from western region and Pyuthan with the support from FINIDA. The construction of four gravity drinking water facilities under Rural Water Resource Management Project and 11 model latrines has been over. Similarly, 90 percent of the work in the various ongoing and new drinking water projects, collection of rainwater, etc. was completed with support from Japan/DRF and IDA/PRSC. Similarly, during FY 2007/08, under drinking water, work is continuing in 789 ongoing and new Gravity Drinking Water Projects. Other programs in operation in this year include sanitation and training program, joint support program, repair and maintenance of the completed drinking water projects, surveys in various districts, installation of shallow deep-sets, rainwater collection, and arsenic reduction, There is a target of preparing drinking water and sanitary particulars based on geo-information system in 9 districts and preparing software for the management information system. Accordingly, authorizations were sent to the districts for accomplishing 75 projects and most of the DDCs have notified as to their approvals of the programs.

Adibasi/Janajati Development Program

12.77 Various programs undertaken in FY 2006/07 for the development of Adibasi/ Janajati include institutional development of the Adibasi/Janajati, preservation and development of the mother tongues, distribution of Adibasi/Janajati scholarship (campus level scholarship

was awarded to 150 and other scholarship to 44), awareness raising and empowerment programs numbering 22, conservation and development of cultural heritage of the Adibasi/Janajati, income-generating programs based on their traditional knowledge, skills and interest in 9 districts, economic and social development programs for the endangered communities, Praja Development Programs in 4 districts of Gorkha, Dhading, Chitwan and Makawanpur, support programs in construction and management of ethnic museum, and preservation of the ethnic languages. In FY 2007/08, this program was run in all the 75 districts and the following targets were set: documentation and dictionary preparation of 9 endangered languages, conducting teacher training and literary classes in various mother languages, institutional strengthening programs of 12 organizations working for the marginalized, underprivileged and women, awarding scholarships to 1,094 students in campus, school, Ph. D., dissertation and technical education, programs on raising awareness and empowerment, providing job-oriented occupational and leadership development training for 150 unemployed youths, conducting income-generating programs, through ethnic organizations and Adibasi/Janajati District Coordination Committees, targeted at 400 underprivileged households in 20 districts, carrying out economic and social upliftment programs for 10 endangered ethnic communities as per their needs, supporting the economic, social and academic upliftment tasks for the Chepang Development Program in 4 districts, and conducting study and research programs on the subjects concerning Adibasi/Janajati. During the first eight months of the current fiscal year, teaching-training and literacy classes have been conducted in Chepang, Magar, Rai and Limbu languages along with making documentation of Kham Magar and Yamphu Mugali languages. Awareness and women empowerment programs have been conducted for Danuwar, Tharu, Thakali, Magar and other women, benefitting 200 women. Adibasi/Janajati youths numbering 70 have been benefitted through arranging instructions for basic examination of the Public Service Commission (PSC) and auto-mechanic training. Scholarship has been awarded for students numbering 224 at the campus level, 4 at the Ph.D. level and 20 in the technical education. Chepang Development Program in 4 districts (Makawanpur, Dhading, Gorkha and Chitwan) has been regularly run through the School Management Committees.

Dalit Upliftment Program

12.78 In order to bring the socio-economically underprivileged community (Dalit) into the development mainstream by uplifting and developing the community, various activities were performed under this program during FY 2006/07. Among them, weekly radio programs were broadcast 52 times, higher education scholarship was offered for 205 students, 12 students were offered diligence scholarship, monitoring and evaluation was conducted 100 times, various training and empowerment programs were offered for 212 people, and 4 school-going disabled children were offered special educational materials. In FY 2007/08, this program has been run in all the 75 districts and the targets set have been: providing higher education scholarship for 180 students and conducting skill-oriented and awareness raising program, providing diligent student award, support school going-children with special disabled education materials, producing and broadcasting 52 weekly radio programs, offering 292 people the training and empowerment program, monitoring and evaluating for 90 times etc. In the first eight months of the current fiscal year, budget was disbursed to DDCs in all the 75 districts for introducing income-generating programs. Among them, 71 districts were running programs out of which 6 have been completed. A total of 5,500 sick people including 1,200 from Sipapokhare VDC, Sindhupalchowk, and 2,200 from Bobang VDC, Baglung, received medical treatment from two health service mobile teams. Scholarship has been provided to 12 diligent and 240 campus level students. Educational materials have been distributed to 672 children from various schools. Radio programs broadcast numbered 42. Aawareness-raising program for 950 Dalits has been conducted. Dalit youth numbering 75 have been employed as social facilitators for the programs run by the DDCs.

Kathmandu Valley Waste Management Program

12.79 This program has been initiated for years back with the objectives of reducing the environmental pollution through increasing public awareness in the process of attaining sustainable management of the waste in the Kathmandu valley, mobilizing and controlling the waste as a resource, and enlisting the participation of the private sector in the waste management. Under this program, in FY 2006/07, it was targeted to develop infrastructure for emergency land-fill site at Shisdol in Okharpauwa, construct Alitar-Bancharedanda section as an approach road to Okharpauwa, conduct EIA of Bancharedanda long-term land-fill

site, carry out local development and construction works in Okharpauwa land-fill site affected area, and acquiring 67 ha of land. All these tasks were completed. In addition, with the completion of 2 local development construction works, 67 ha of land acquisition, and construction and maintenance of 13-km Bhanjyang Pokhari road, 95 percent of the physical progress was achieved. During FY 2007/08, this program comprised targets as constructing Alitar-Bancharedanda section as an approach road to Okharpauwa. Conduct EIA of Bancharedanda long-term land-fill site, performing local development and construction works in Okharpauwa land-fill site affected area, and acquiring land and carrying out the infrastructure works following the identification of the alternative land-fill site. During the first eight months of the current fiscal year, the work of earthwork, stone masonry, gabion wall-pipe culvert along the Ghattekhola-Bancharedanda land-fill site section is under way. Under post closer of Shisdol site, technical support has been made available to the municipalities in the soil covering, surface water cut off drain and waste management.

Rural Road, Suspension Bridge, Monastery Construction and Maintenance

- 12.80 In FY 2006/07, under Ministry of Local Development, works completed included construction of 50 suspension bridges and 16-km road under Remote and Special Region Development, construction of 51-km rural road under Constituency Development Program, construction of 35 monasteries, Lama Visit one time, Monastery Survey in 4 districts, and research and study of 5 monasteries under Monastery Management and Development Program, construction of 31 suspension bridges, comprehensive repairs of 65 suspension bridges as well as fabrication and construction of 46 suspension bridges under the Local Roads, construction of 45-km rural road which also created employment opportunities for 11,500 people under Rural Access Program, construction of 110-km all-weather road, 10-km seasonal road and 31 rural bridges along with carrying out the function relating to capacity enhancement and consultancy services under Rural and Decentralization Projects, and conducting 778-km walkover survey, 391-km detailed survey design, and construction of 22-km road and 20 suspension bridges under Decentralized Rural Infrastructure and Livelihood Improvement Project.
- 12.81 In FY 2006/07, 350-km rural road was constructed, 3-km of river was controlled, 377 small micro projects were completed, 10,581 MT of

food was distributed and employment opportunities for 78,466 people benefitting 64,346 households were created, and 611-km out of 702-km rural road was made motorable under Rural Community Infrastructure Development Program. Similarly, construction of 740-km track, gravelling of 148-km road, periodic maintenance of 822-km road, survey of 752-km road, black-topping of 15.7-km road, and construction of 304 culverts were completed under Agriculture and Local Roads Project.

- 12.82 In FY 2007/08, under Rural Community Infrastructure Development, Program, the targets were conservation of 3 monasteries which are more than 500 years old, 20 monasteries which are more than 100 years, and 30 others which are less than 100 years, updating of monastery survey in 6 districts, and undertake Lama visit programs, skill-oriented 'Amchi' training, 'Thanka' painting, study and research as well as documentary production of old monasteries. The progress by mid-March 2008 include completion of monastery updating surveys in Nuwakot, Lamjung and Kaski, conducting study and research in old monasteries of Rasuwa, Ilam and Sindhupalchowk, and undertaking conservation task of 33 old monasteries which are less and above 100 years as well as older than 500 years. The Country Visit has been organized for 150 people.
- 12.83 In FY 2007/08, under Remote and Special Area Development, out of targeted 47 suspension bridge construction in 22 districts, only six bridges have been constructed during the first eight months of the fiscal year. Under Large and Local Level Suspension Bridge Construction and Maintenance, the targets with respect to suspension bridges along the local roads were construction of 135, fabrication of 60, survey of 101, and operation of 76 after contracting with the community. The targets for the completion, and the beginning, of the construction of the bridges were 6 each. The progress with respect to suspension bridges has been construction of 16, ongoing construction of 19, survey of 4, fabrication of 16, foundation and concreting of 14, and pole work of 7. With these constructions, employment equivalent to 10,500 labor days has been generated. Under the Decentralization Rural Infrastructure and Livelihood Improvement Project, the targets were providing conditional grants in 18 districts and making additional detailed survey design of 180-km road, construction of 100-km road, rehabilitation work of 105-km, construction completion of 25 ongoing suspension bridges, and initiating the construction of 20 additional suspension bridges in 8 districts. The progress in road construction has been 91.5-km,

generating 27,689 labor-day equivalent of employment. Regarding the suspension bridges, the progress has been survey design 10, iron parts fabrication 14, foundation and concreting 4, pole-work and concreting 3, construction completion of 6, and construction ongoing 84.

- 12.84 Under Agriculture and Local Road Projects, as per the target to construct 200-km rural road, 400-km gravel road, maintenance and improvement of 700-km, survey 700-km, black top 10-km and construct 5 road bridges, 125-km rural road has been constructed. 75-km gravelling and 25 other construction has been over. Program of investing 80 percent in 50 DDCs and 20 percent in 30 municipalities has been approved. Apart from these, under Rural Access Improvement and Decentralization Project, it was targeted to repair and maintain roads in 20 districts, to improve and extend 300-km rural road so as to make it vehicle run throughout the year, construct 36-km road on which vehicles run during summer only and construct 78 suspension bridges. Out of these targets, under the construction of 220-km throughout the year vehicles running roads, 22.5-km Batasil-Sandsil road has been completed. 16.5-km graveled road and 20-km unconcreted road have been completed. On suspension bridge, there are 11 survey designs, 15 iron parts fabricating, 13 foundations and concreting, 6 suspension roads spreading and setting and 7 are completed construction while 129 are under construction.

Karnali Development Special Package

- 12.85 In order to make people in the Karnali zone self-sufficient, an action manual to launch a program "One Family One Employment" was approved and work under this package started at the district level during FY 2006/07. Accordingly, 995 projects have been completed and 144 projects are under construction, generating employment opportunity at the rate of 13.5 working days for 61,467 households, with a total of 744,818 days of employment. Similarly, in FY 2007/08, the program "One Family One Employment" has been given continuity by the name "Karnali Employment Program". The main objective of this program is to ease the lives of Karnali people through providing them employment. This program has the target of giving employment to at least one member from those households which have not got employment in the projects or development activities run in their area or those which are not in a position to start employment and self-business of their own. Until the first eight months of FY 2007/08, Rs.163.6 million has been spent out of the total budget released in the previous year, thereby

completing 995 projects and 144 projects remaining under construction. These projects have created work opportunity equivalent to 744, 818 working days, as mentioned above. The annual review of Karnali Employment Program has been made in participation of the five districts of the Karnali zone. In FY 2007/08, budget of Rs. 22.2 million has been disbursed to all VDCs of Dolpa and Humla districts and planning in the rest three districts is underway. It is expected that the works will be completed within the set period.

Madhesi /Muslim/Backward Community Upliftment Program

12.86 Under this new program initiated for implementation with effect from FY 2007/08, necessary institutional framework will be created for empowerment, inclusion and comprehensive development of Madhesi and communities lagging behind like Kushwaha, Kurmi, Kumal, Kehar, Kewot, Kanu, Kabhar, Kalwar, Teli, Nuniya, Bhedihar, Mali, Mallah, Barai, Yadav, Rajbhar, Rajdhov, Lohar, Lodh, Sudi, Hajam, Amat, Badai, Binna etc., Muslim and other minorities. Through that framework, initiative will be taken for policy and structural improvement and change. Sidelined and underprivileged group will be identified and targeted programs will be implemented covering areas like job-oriented and awareness raising program, reproductive health, health education, sanitary, literacy and education motivation besides the institutional development programs. Similarly, other targeted programs include: capacity building, skill development, conservation and development of the mother languages of these communities, conservation of their local cultural heritages and landmarks, among others. Through the implementation of these programs, it is expected that appropriate policy environment will build in favor of Madhesis, Muslims and other minorities that have lagged behind in the development process. Thus, this program is expected to improve their economic, social and cultural status. In this regard, the Program Implementation Procedures 2064 BS has been approved.

Women, Children and Social Welfare

Program on Women, Children, Senior Citizens and Disabled

12.87 Nepal has been continuously making efforts since 2055 BS toward bringing about improvements in the legal, institutional and policy interventions for the successful implementation of the commitment that Nepal has made at the international level on matters regarding the women, children, senior citizens, and disabled, and for improving the

present status of women,. It is realized that women's social and economic empowerment would be instrumental in overcoming the social and economic backwardness that they have faced vis-à-vis their male counterparts. Accordingly, in order to achieve the goal of gender equality/equity, various programs and strategies are being adopted and implemented. As per the sentiment of the Protocol to uproot any sort of discrimination against women and to establish gender equality, there is a provision of gender equality as a fundamental right as also in the preamble to the Interim Constitution. Along with this, in policy intervention level, provisions with gender discrimination in 16 clauses of the Civil Code and 65 clauses of 13 other Acts have been amended through Amendment Act 2063 BS. Similarly, some additional provisions in Citizenship Act 2063 BS, Military Act 2063 BS, and Government Disputes Act, 2049 BS have worked as the milestone for bringing about equality for the women. The Women Rights Protocol (Voluntary Charter) and the SAARC Protocol 2002 for Controlling the Trafficking of Women and Children for Sexual Work have been accepted. Directory for minimizing the Chhaupadi practice has come into force since 2064 BS. The Anti-Human Trafficking Act 2064 BS has been passed and its draft Regulation has been prepared. The Zero-Tolerance Policy draft is also ready. The bills for controlling violence at home and controlling sexual-related violence at the workplace have been passed by the Cabinet. The discriminatory provisions in the prevailing Acts have been studied and the draft amendments have become ready.

- 12.88 An international conference on adoption of children has been held. Amendments to the Act and regulation relating to the children have been made and preparation of children's social security concept has been completed. With the implementation of measures like these, positive results have been witnessed in areas like the rise in the vital registration, improvement in health, increase in school enrollments, etc. Certainly, these signs confirm much more progress than that in the previous year. It has been realized that there must be supervision and evaluation of the programs launched by I/NGOs working in the field of children and these organizations should be provided with some concrete suggestions or guidelines so as to make their programs really supportive to the needs and requirements of the country. At present, the GON has been conducting many programs and has been successfully implementing its commitments at the national and international levels in the field of women, children, senior citizens, and disabled. Studying the

context minutely, the Ministry of Women, Children and Social Welfare has been doing its best ever since its establishment in its related field. Being extremely sensitive to the social and economic backwardness of women, attempts have been made to make their access in advocacy and earnings by fulfilling their need of education, sound health and other basic needs. For achieving this purpose, many programs are being held aimed at uprooting the unworked habits/malpractices prevailing in the society. In the field of children too, the Ministry is playing a vital role in the centre through making policy interventions and bringing about legal, institutional and structural provisions for the protection and promotion of children. Central Child Welfare Committee works at the central level, and in all the 75 districts, each has a Child Welfare Committee with its programs for children. Regarding the social protection, subsidy has been provided to the organizations working for the welfare of the senior citizens and disabled. Moreover, to promote these fields even more effectively, the I/NGOs' works have been prioritized.

- 12.89 In order to minimize the discrimination against women and to control violence against them, the relevance of the proposal no. 1325 of UNO has been brought into discussion. Through the House of Representatives, the Protocol's Voluntary Charter for elimination/eradication of all sorts of violence against women, SAARC Protocol, 2002 for controlling children and women's involvement in sexual work, SAARC Protocol, 2002 for the provision of regional child care promotion in South Asia, child right Protocol Voluntary Charter, 2002 against the use of children in armed force/conflict/war, child right Protocol Voluntary Charter, 2000 against child's trafficking, prostitution and vulgar pictures have been amended. In order to maintain gender equality, the Ordinance for amending Some Nepal Acts, 2063 BS and the Ordinance for the constitution of the National Women Commission, 2063 BS have been passed into law by the House of Representatives.

Provision for Senior Citizens

- 12.90 During FY 2006/07, several programs were conducted through the Ministry and other bodies following the preparation of the work plan for senior citizens. The Senior Citizens Act, 2063 BS was formulated and brought into implementation. There was gradual increment in the government facilities for the senior citizens and the disabled. As a result, it is felt that they have developed self-confidence and dignity in society. Similarly, senior citizen health care program is implemented in 52 districts of Nepal. October 1 has been celebrated as the International

Senior Citizens Day. In four care centers for senior citizens, income-generating programs were launched. To enhance respect for senior citizens and self-confidence in themselves, day care centers and care centers have been established. Similarly, since FY 2007/08, senior citizen treatment program has been extended in 75 districts and being implemented through women development offices. Again, with a view to increase their self respect, like previous years, this year too, October 1 has been celebrated with many programs throughout Nepal as 17th International Senior Citizens Day. To make senior citizens health program effective, all the women development offices in all 75 districts have been directed as per the Directives 2061 BS. With respect to programs for senior citizens, stock-taking, researching, etc. has been commenced on the basis of the surveys and the available studies. Economic assistance has been provided to the NGOs that run day care centers and clubs for senior citizens. In the Samaj Kalyan Kendra (Social Welfare Center) at Pashupati in Kathmandu, which is operated by the GON, 12 senior citizens have been recommended, with the number so far reaching 237. For the management of protection of the senior citizens, budget has been arranged.

Gender Equality Mainstreaming Program

12.91 In FY 2006/07, examination preparation classes were held for 337 women for the central level and 321 women from 5 districts with the objective of preparing for the main examination of the PSC. An attempt has been made to include women in economic, social and leadership development and to conduct women empowerment program from central to district level. Similarly, economic support has been provided for the campaign against girls trafficking in 26 districts. Special plans and proposals have been prepared in the subjects identified by Beijing Conference, and implementation of the strategy, plan and program is ongoing in partnership with I/NGOs. Two journalists have been awarded for their special contribution in the field of women empowerment. Similarly, skill-based training has been given to 25 women, from 8 districts, displaced due to the conflict. Scholarship has been awarded to 10 girls for women studies. Similarly, summarization of the reports prepared by 7 Ministries on gender issues and preparation of gender planning cycle and gender benefit analysis directory have been completed. In FY 2007/08, 275 women, from 5 districts, for the non-gazetted second class and 108 women for section officer have been given examination preparation classes. Just as in the previous years, the steering committees in 26 districts working against girls trafficking were

given economic support for the conduct of their programs. Similarly, for 50 conflict-stricken single women, economic support has been given for the successful conduct of vocational training while scholarship is awarded to 10 financially weak and backward women from remote districts for women studies. Necessity of women's empowerment, gender mainstreaming and gender equality for their participation in every sector of development has been well-recognized and plans have been made accordingly. Thus, to fulfill the objectives of enhancing the participation of the women in all aspects of development through their empowerment, protection and promotion of their rights, protecting the unalienable rights of children, and assuring senior citizens and disabled of their rights, the Ministry is playing a leading role by making necessary improvements in its policy-making in addition to formulating the required Acts and Regulations from time to time.

Program for Disabled

12.92 In FY 2006/07, as per the necessity of the disabled, skill-based training; scholarship programs and community-based rehabilitation programs were held. December 3 has been celebrated as the International Disabled Day. Based on their physical disabilities, they have been given assistive devices like white stick and wheeled chairs at free of cost through the organizations working in the field of disabled in many districts. Moreover, in all the 75 districts, disabled identity cards have been distributed through women development offices. The GON has approved and implemented the national policy and work-plan relating to the disabled 2063 BS and the definition and classification of the disabled 2063 BS. In FY 2007/08, the CTEVT, in agreement with the Disabled Assistance Fund, has been providing vocational training on various subjects for 65 disabled. Moreover, Community-Based Reform (CBR) program is being conducted in 25 districts. With a view to making the disability a subject of respect and self-motivation, among other days, the International Disabled Day (December 3) has been celebrated throughout the country. The women development officials and secretaries of VDCs in 10 districts have been given advocacy training with the purpose of making them sensitive toward the disability. In order to avail essential materials and manpower and to provide vocational training, National Disabled Federation and Nepal Disabled Association, Jorpati, were released first and second quadrimester budget respectively. After getting progress report, third quadrimester budget will be released. Orphan and Disabled Rescue Society Nepal has been granted assistance for conducting various programs. Out of the total allocated budget of Rs. 3.5

million, Nepal Leprosy Eradication Association has been released Rs. 2.4 million for the first and second quadrimesters. Nepal has already signed the Protocol of Disabled Right. Distribution of identity cards for the disabled has been initiated in 75 districts of Nepal.

Program for Child Rights

- 12.93 With a purpose of protecting children rights and fulfilling their basic necessities as per the International Protocol 1989, many programs are being held through the Ministry and its wings. Among them are the economic assistance to the institutions for the conduct of such programs, construction of child welfare building, celebrating Children's Day, support and rehabilitation programs for the children of prisoners, arrangement of awareness programs against child labor, etc. Similarly, as an instant support for the conflict-stricken children, various areas have been covered like health, school enrollment, scholarship, protection, establishment of resource and records center, etc. In 12 districts, Courts for children have been established. Children Tracing Coordination Centre has also been formed with arrangement of 104 free telephone lines. Through child welfare program, child helpline (1098) has been run and work procedures have been prepared. To rescue the children at risk, work has been started for finding street children and their proper management. Other programs include child protection and development program in 25 districts, child justice system strengthening program in 13 districts, and continuation of the institutional improvement program in 8 districts. In Kalikot district, the conflict-affected children have been assisted so as to bring them into the educational mainstream besides helping them in education and living. To run child care home with boarding facility, the minimum standards, 2064 BS, monitoring and evaluation directory, 2064 BS and child care and development program operation directory, 2064 BS are being prepared. The provisions relating to child welfare management staff and office operation, 2064 BS is ready. The Report on the Status of the Nepalese Children, 2064 BS has been published.
- 12.94 In order to run resource center, data collection work with respect to the I/NGOs working in the field of child welfare, child care centers and child clubs is being carried out. Moreover, the monitoring of 574 child care homes is going on. The initial report of the Child Right Protocol Voluntary Charter, 2000 against child's trafficking, prostitution and vulgar pictures has been prepared. To make a separate legal provision regarding the adoption of children, a committee has been formed and its TOR has

been approved by the GON. Up to now, 401 children have been permitted for adoption. According to the information provided by the child search coordination center, 2,982 children are lost, 1,751 children are traced, 445 children are traced but guardian-less, 57 children are frequent absconders, 56 children are recommended for child care centers but absconded, 35 children are at the child homes, 1,231 children are still untraced, and 9 children have been found dead. To make reforms and revisions in the Child Act, 2048 BS as per the changing needs and also to make it supportive to rights of the children, draft Child Act, 2064 BS was prepared and sent to the Ministry of Law, Justice and Parliamentary Affairs for their comments.

Women Empowerment Program

12.95 In FY 2006/07, under the women empowerment expansion program, many income-oriented schemes had been conducted through women's groups in 1,647 VDCs and 31 municipalities in 75 districts. Throughout the country, 316,349 women were grouped in 48,927 separate groups. Under the women's groups, there were 4,678 women committees and 1,150 (including not registered) organizations. Their total group saving was Rs.422.0 million, out of which Rs.392.0 million was invested. In FY 2007/08, the program was held all over 75 districts, covering 1,707 VDCs and 32 municipalities. There were 53,136 women's groups, with the number of Dalit women at 44,666, women from ethnic groups at 115,074 and other women at 83,509, totaling 343,249. There were 5,120 women committees and the registered and the ad-hoc women's organizations numbered 1,194. The total group saving amounted to Rs.483.1 million, out of which Rs.462.4 million was invested.

Labor and Skill Development

Child Labor Alleviation Program

12.96 In FY 2006/07, the Ministry of Labor and Transport Management launched Child Labor Alleviation Project under which subsidy was provided to the Funds for Child Development and Rehabilitation and Child Labor Alleviation. Preparation of materials for providing awareness about HIV/AIDS along with the publicity at the work-places was accomplished One employer was awarded as the role employer, two centers were established for the rescue of child laborers and their rehabilitation, three each of labor education program and strategic communication seminars were held, announcement against child labor through electronic media was made 50 times, message for awareness

against child labor was disseminated 295 times through Radio Nepal, and job-oriented trainings for 215 people among laborers and their family was conducted. Similarly, in FY 2007/08, the plan was to provide one-time subsidy for Child Development and Rehabilitation Fund and Child Labor Alleviation Fund, development and publicity of materials one time at the work-site for making people aware of the HIV/AIDS, strategic communication workshop one time, meeting on labor 50 times, broadcasting of anti-child labor awareness from media 50 times, arranging labor education program 3 times, carrying out studies on social protection one time, and organizing third labor conference one time. Among these, in the first 8 months of the fiscal year, the progress achieved was subsidy for Child Development and Rehabilitation Fund and Child Labor Alleviation Fund one time each, workshop on HIV/AIDS information and education and preparation of broadcasting materials one time, IEC materials soon to be published, strategic communication workshop one time, meeting on labor 12 times, awareness program against child labor broadcast through Radio Nepal and also in a process to be broadcast through the NTV, labor education program held once while the studies on social protection and the third labor conference are yet to be conducted.

Foreign Employment Situation

12.97 Foreign employment has proved as an alternative source of employment for the Nepalese. According to data provided by the Ministry of Labor and Transport Management, 205,033 people including 390 females had gone for foreign employment in FY 2006/07 while, during the first eight months of FY 2007/08, 152,652 people went for the foreign employment. Though the government of Nepal has permitted 107 destinations for foreign employment, Nepalese job seekers mostly go to Malaysia, Saudi Arabia, Qatar, Israel, UAE, Bahrain, Russia, New Zealand, Macau, USA, Canada, Seychelles, South Korea, Maldives, Singapore, Cyprus, Kuwait, Oman, Japan, Hong Kong, etc. On the basis of the data provided by the Ministry, the following trend of the number of going for foreign employment emerges;

Table 12(o) : Situation of Foreign Employment

Fiscal Year	Number of People Going for Foreign Employment
1999/00	35,543
2000/01	55,025
2001/02	1,04,739
2002/03	1,05,055

Fiscal Year	Number of People Going for Foreign Employment
2003/04	1,06,660
2004/05	1,35,992
2005/06	1,77,506
2006/07	2,04,533
2006/07*	1,08,985
2007/08*	1,52,682

*up to mid-March 2007 and 2008

Source: Ministry of Labor and Transportation Management

Vocational and Skill Development Training

12.98 Out of the target of developing 15,787 skilled manpower by the Ministry of Labor and Transport Management through its 14 skill development center and one training centre, different vocational and skill development trainings were conducted and 11,511 skilled manpower produced during first eight months of FY 2007/08. The details of the program and the manpower trained are as follows:

Table 12(p) : Vocational and Skill Development Training

S.N.	Name of the Program	Number of Participants			
		FY 2006/07		FY 2007/08	
		Target	Progress	Target	Progress*
1.	General Mechanics	195	196	190	190
2.	Electric Assembly	654	730	705	829
3.	Electric Assembly Upgrading	110	84	95	74
4.	Plumbing	412	452	435	504
5.	Plumbing Upgrading	40	–	–	–
6.	Hair Design	436	557	516	721
7.	Hair Design Upgrading	40	42	40	25
8.	Sewing and Cutting	714	901	780	1,292
9.	Electronics Maintenance	321	337	390	399
10.	Motorbike Maintenance	242	243	300	320
11.	Auto Mechanics	115	134	85	99
12.	Computer	330	364	440	539
13.	Welding	160	149	160	175
14.	Bamboo & Cane	70	81	75	48
15.	Pump Set Mechanics	30	30	30	34

S.N.	Name of the Program	Number of Participants			
		FY 2006/07		FY 2007/08	
		Target	Progress	Target	Progress*
16.	Female Residential	60	59	70	70
17.	Short-Term (Targeted Group)	–	–	–	–
18.	Special Skill Development Training Program for Foreign Employment	1,200	1,205	1,000	430
19.	Curriculum/Manual Preparation Training	–	–	–	–
Short-Term					
20.	(a) Skill-Oriented (1 week-3 months)	7,575	8,087	8,630	5,860
21.	(b) Foreign Employment-Oriented (4 weeks-6 weeks)	350	358	625	293
22.	Training in Monitoring, Evaluation and Transportation Expenses	–	–	–	–
23.	Website Operation	–	–	–	–
24.	1-Week Entrepreneur Training	150	79	150	39

* First eight month

Source: Ministry of Labor and Transport Management

Note: The duration of the various programs was (except for duration fixed and S.N.19, 21 and 22) 3 months and 6 months.

Challenges

- 12.99 The TYIP has targeted to raise the literacy rate for the population of above six years' age, from 63 percent at the end of the Tenth Plan to 76 percent at the end of TYIP. Other targets are to raise literacy ratio for the population above 15 years' age, from 52 percent to 60 percent and raising the net enrollment at primary level from 87.4 percent to 96 percent between the end of the Tenth Plan and the end of the TYIP. So, to meet these targets especially through the effective implementation of various formal and informal programs has remained quite challenging.
- 12.100 Problems faced in building a package through making curriculum in a more practical and harmonized way across various levels, lack of proper adjustment with respect to the teacher-students ratio, absence of initiatives toward developing education as a source of knowledge in place of developing only the examination-oriented attitude, lack of coordination between management committee and academic community, concentration of high-school graduates in the foreign labor markets, rather than preferring the domestic labor market etc. have been identified as the major problems in achieving the warranted returns from

the education sector. In these contexts, there arises a challenge to endure the effectiveness of educational sector through the policy-level, legal law and structural reform arrangements.

- 12.101 In the context of the UN MDGs, there is a challenge to ensure necessary mechanism and arrangements in order to meet the MDG target of universal enrollment in the primary education.
- 12.102 While there is increasing demand for the establishment, upgradation and transfer of health institutions, there are challenges in giving continuity to the free treatment facilities at health posts and sub-health posts, besides supplying the medicine and making proper manpower management at local level. Likewise, problems regarding the review of organization and job positions, lack of sufficient facilities to make health workers regular and punctual in their workplace, problems in managing ever-increasing population at the local level, other occasional problems experienced in the delivery of health services, problems in handing over the health institutions to locals due to absence of elected local bodies, inadequacy financial resources, lack of effective mechanism for ensuring the quality of medicines, etc. have remained among the major challenges toward ensuring expected access to, and quality of, the health facilities at the local level.
- 12.103 There is a major challenge to effectively run program for alleviating child labor within the context of poor resources and means base. It has also been difficult to have effective monitoring from only 10 labor offices in the country. Likewise, problems in making foreign employment reliable, systematic and dignified, low return from foreign employment due to lack of access to skilled jobs, lacuna will respect to arranging proper training for self-employment as per the needs of labor markets, and inefficiency of staffs in order to meet the demand of foreign employment market have also remained as the major challenge.
- 12.104 Women empowerment and gender mainstreaming has remained one of the striking problems due to attitude to limit the issues of gender within the purview of Ministry of Women, Children and Social Welfare. Similarly, lack of budget at national level to run programs, limited resource for sensitive areas and traditional thinking and attitude have also remained as the major challenges.
- 12.105 Due to lack of manpower at district technical office and absence of elected local bodies, there have been difficulties in approving and implementing programs. Similarly, lack of facilitation from center to

implement local level programs, lack of budget, lack of necessary information, lack of potential intensive investment in remote areas, low allocation of budget in comparison to selection of projects, lack of effective implementation of Karnali employment program due to low budget, problems in timely implementation of programs due to lack of coordination, monitoring and supervision have also remained as the major challenges.

- 12.106 Regarding the program implementation through local bodies, increase in cost due to price hike, delay in program implementation due to frequent change in leadership in municipality, effect in decision-making process and difficulties in making decision having long-term effect due to absence of political leadership, delay in construction of sewage and sewerage purification center due to lack of sufficient land, problem in integrated program and internal resource mobilization due to lack of local bodies, delay in program implementation due to absence of consensus among land owners for land acquisition have been identified as the major problems.