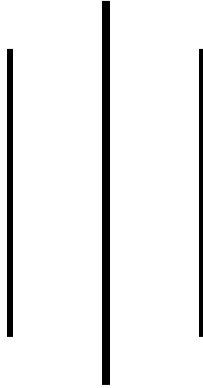
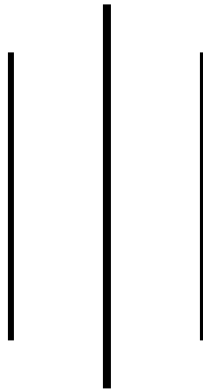


ECONOMIC SURVEY



FISCAL YEAR 2008/09



GOVERNMENT OF NEPAL

MINISTRY OF FINANCE

July 2009

Preface

The prime task of the present Government is uplifting the living standard of the Nepalese people in a sustainable manner along with the implementation of inclusive economic development with priority. We, however, do not find it easy in such a challenging situation caused by external and internal factors we have been passing through. Preparation of this Economic Survey for the fiscal year 2008/09 is an honest effort to reflect the current economic situation of the country in global and national perspective.

I feel pleasure to submit this Economic Survey before this dignified Legislative Parliament. The Survey reflects and narrates data and information observed on the status of major sectors of the economy based on critical analyses of those data and information, and changes in those sectors, achievements made, and problems and pertinent issues witnessed. This Survey, based on the data and information available, to the extent possible, encompasses analyses of the up dated information on Public Finance, Monetary, Financial, and External Sectors of the economy. This Survey also covers Agriculture, Industry, Tourism, Education, Health, and other dimensions of the Real Sectors of the economy. In the process, we have put all out effort to make it a well-organized and useful document. The Survey presents policy-related and structural topics and issues requiring immediate implementation with priorities for the development and reforms in the economy.

I am confident that this Survey will prove useful to Honorable Members of the Constitution Assembly and Political Parties. Likewise, this document should also serve as a handbook for Intellectuals, Professionals, Researchers, Teachers, Students, Industrialists, Entrepreneurs, and other people keenly interested on keeping track of the country's economic development.

Finally, I would like to thank all those involved in the preparation of this Economic Survey especially, the staff of Economic Affairs and Policy Analysis Division of the Ministry of Finance, the concerned officials of Nepal Rastra Bank, and experts of the subject matter. Likewise, I express my grateful thanks to all the line Ministries, Departments and other entities, which provided necessary data, information and other details in the process of completing this work.

July 2009

Surendra Pandey
Minister for Finance

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- There are some additional tables, change in formats and statistical presentation of tables so it differs from previous years.
- Some statistics are round-up, so it may differ with total.
- Blanks or ... or – shown in tables refer not availability of statistics and negligible figure.
- Some statistics may differ with previous tables due to updated statistics of National Account Statistics.

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Acronyms

ADB	- Asian Development Bank
ADSL	- Automatic Dependent Subscribers Line
Advanced Economies	- United States, Euro Area Number 16), Japan, United Kingdom, Canada, and Other Advanced Economies
AFIS	- Aeronautical Flight Information System
AIDS	- Acquired Immune Deficiency Syndrome
AIP	- Aeronautical Information Publications
AMHS	- ATS Message Handling System
AMT	- Aircraft Maintenance Technician
ANC	- Ante-natal Care
AOC	- Air Operation Certificate
API	- Annual Parasite Incidence
ARI	- Acute Respiratory Infection
ART	- Antiretroviral Therapy
ASA	- Air Service Agreement
ASEAN-5	- Indonesia, Thailand, Philippines, Malaysia, Vietnam
ATM	- Air Traffic Management
ATS	- Air Traffic Services
ATSEP	- Air Traffic Safety Electronic Personnel
AVSEC	- Aviation Security
BCG	- Bacille Calmette-Guérin
BDS	- Bachelor of Dental Science
BDSPO	- Business Development Service Provider Organization
BIMSTEC	- Bay of Bengal Initiative for Multi- Sectoral Technical and Economic Cooperation
BSP	- Bio-gas Support Program
CAP	- Community Action Plan
CBD	- Convention on Biological Diversity
CB-IMCI	- Community-Based Integrated Management for Child Illness
CBR	- Community-Based Reform
CDCF	- Community Development Carbon Fund
CDM	- Clean Development Mechanism
CDMA	- Code Division Multiple Access
CDS	- Central Depository System

CEDAW	- Convention on Elimination all forms of Discrimination Against Women
CEO	- Chief Executive Officer
CER	- Certified Emission Reduction
CFIT	- Control Flight into Terrain
CITES	- Convention on International Trade and Endangered Species
COSCAP-SA	- Cooperative Development of Operational Safety and Continuing Airworthiness Program – South Asia
CPR	- Current Prevalence Rate
CRC	- Camera Ready Copy
CSSP	- Community School Support Program
CTEVT	- Council for Technical Education and Vocational Training
CUTE	- Common User Terminal Equipment
CYP	- Couple Year of Protection
DAG	- Disadvantaged Group
DCP	- Designated Check Pilot
DFID	- Department for International Development, UK
DGHR	- Dangerous Goods Handling Requirements
DOTs	- Direct Observation Treatments
DPMAS	- District Poverty Monitoring and Analysis System
DPPR	- Disaster Preparedness Program Review
DPR	- Detailed Project Report
DPT	- Diphtheria, Pertussis and Tetanus
DRF	- Debt Relief Fund
EC	- European Community
ECD	- Early Childhood Development
EDV	- Electronic Diversity Visa
Emerging and Developing Economies	- Africa, Central and Eastern Europe, Common Wealth of Independent States, Developing Asia, Middle East, Western Hemisphere (Total Number 139)
EIA	- Environmental Impact Assessment
ENT	- Ear, Nose and Throat
EIF	- Enhanced Integrated Framework
EPA	- Education for All
EPZ	- Export Processing Zone
EU	- European Union
EWARS	- Early Warning Reporting System
FD	- Flight Data
FISIM	- Financial Intermediation Services Indirectly

	Measured
FM	- Frequency Modulation
FNCCI	- Federation of Nepalese Chambers of Commerce and Industry
FOR	- Flight Operation Requirement
FSTF	- Full Subsidy Tuition Fee
GDP	- Gross Domestic Product
GFATM	- Global Fund for AIDS Tuberculosis Management
GHC	- Grievance Hearing Cell
GIS	- Geographical Information System (digital mapping system)
GMPCS	- Global Mobile Personal Communication System
GNI	- Gross National Income
GPS	- Global Positioning System
GSM	- Global System for Mobile Communications
GNSS	- Global Navigation Satellite System
GTZ	- Gesellschaft für Technische Zusammenarbeit (German Technical Cooperation)
ha	- hectare
HIV	- Human Immunodeficiency Virus
HIV/AIDS	- Human Immunodeficiency Virus/ Acquired Immune Deficiency Syndrome
HPAI	- Highly Pathogenic Avian Influenza
ICAO	- International Civil Aviation Organization
ICT	- Information and Communication Technology
IDA/PRSC	- International Development Association/Poverty Reduction Strategy Credit
IEC	- Information, Education, and Communication
IEE	- Initial Environment Examination
IFAD	- International Fund for Agricultural Development
IFRS	- International Financial Reporting Standards
ILO	- International Labour Organization
ILS	- Instrument Landing System
IMCI	- Integrated Management and Child Illness
IMF	- International Monetary Fund
ISDN	- Integrated Services Digital Network
ISIC	- International Standard Industrial Classification
IT	- Information Technology
ITU	- International Telecommunication Union
IUD	- Intrauterine Device
IUSOAP	- ICAO Universal Safety Oversight Audit Program
KG	- Kilo Gram

KOICA	- Korean International Cooperation Agency
LDO	- Light Diesel Oil
LDTA	- Local Development Training Academy
LIBOR	- London Inter-Bank Offered Rate
LMFF	- Liquidity Monitoring and Forecasting Framework
LOA	- Letter of Agreement
Major Advanced Economies	- United States, Japan, Germany, United Kingdom, France, Italy, and Canada (Group of Seven, G-7)
MBBS	- Medicinae Baccalaureus et Baccalaureus Chirurgiae (Latin), (Bachelor of Medicine, Bachelor of Surgery)
MC	- Minimum Conditions
MCPM	- Minimum Conditions for Performance Measures
MD	- Doctor of Medicine
MDA	- Mass Drugs Administration
MDGs	- Millennium Development Goals
MDR	- Multi-Drug Resistant
MFDR	- Operationalization of Managing for Development Results
MOU	- Memorandum of Understanding
MS	- Master of Science
MT	- Metric Ton
MTEF	- Mid-Term Expenditure Framework
MTO	- Mineral Turpentine Oil
MUAN	- Municipalities Association of Nepal
MW	- Medium Wave
NASC	- Nepal Administrative Staff College
NASP	- Network for the Availability of Scientific Publications
NATTA	- Nepal Association of Tour and Travel Agents
NCAR	- Nepal Civilian Authority Regulation
NCASTP	- National Civil Aviation Security Training Program
NCD	- Non-Communicable Diseases
NDHS	- Nepal Demographic and Health Survey
NFHP	- National Family Health Program
NLSS	- National Living Standards Survey
NPA	- Non-Performing Assets
NSIC	- Nepal Standard Industrial Classification
NTCS	- Nepal Trade Competitiveness Study
NTV	- Nepal Television
OFID	- OPEC Fund for International Development

OPD	- Out-Patient Department
OVOP	- One Village One Product
PABX System	- Public Telephone Exchange System
PATA	- Pacific Area Travel Agency
PBM	- Performance-Based Monitoring
PCF	- Per Capita Funding
PCO	- Public Call Operator
PERI	- Program for Enhancement of Research Information
PGDP	- Population Gender and Development Program
PLR	- Personnel Licensing Requirement
PMAS	- Poverty Monitoring and Analysis System
PMEU	- Program Monitoring and Evaluation Unit
PMTCT	- Prevention of Mother to Child Transmission
PNC	- Post-Natal Care
PPP	- Public-Private Partnership
PPP	- Purchasing Power Parity
PRSP	- Poverty Reduction Strategy Paper
PSI	- Population Service International
PSTF	- Partial Subsidy Tuition Fee
PSTN	- Public Subscriber Telephone Network
RCAG	- Remote Center Air/Ground
RFF	- Rescue Fire Fighting
RUPP	- Rural-Urban Partnership Program
RWRMP	- Rural Water Resource Management Project
SAFTA	- South Asian Free Trade Area
SAPTA	- SAARC Preferential Trading Arrangement
SBA	- Skilled Birth Attendant
SDC	- Swiss Development Cooperation
SEZ	- Special Economic Zone
SITC	- Standards International Trade Classification
SMD	- Strengthening Maintenance and Development Process
SNA	- System of National Accounts, 1993
SPS	- Sanitary and Phytosanitary
STI	- Second-Tier Institution
SW	- Short Wave
TA	- Technical Assistance
TB	- Tuberculosis
TIA	- Tribhuvan International Airport
TITV	- Thai International Television

TOR	- Terms of Reference
TRADE	- Tariff Relief Assistance for Developing Economies
TT	- Tetanus Toxoid
TYIP	- Three-Year Interim Plan
UDLE	- Urban Development through Local Efforts
UDLE/RUPP	- UDLE/Rural-Urban Partnership Program
UMN	- United Mission to Nepal
UN	- United Nations
UNCTAD	- United Nations Conference on Trade and Development
UNDP	- United Nations Development Program
UN-HABITAT	- United Nations Human Settlement Program
UNICEF	- United Nations Children's Fund
UNSECAP	- UN Social and Economic Commission for Asia and the Pacific
UNWTO	- UN World Tourism Organization
UPU	- Universal Postal Union
USAP	- Universal Security Audit Program
USOAP	- Universal Safety Oversight Audit Program
VCT	- Voluntary Counseling and Testing for HIV
VHF	- Very High Frequency
VOR/DME	- Very High Frequency Omni Range / Distance Measuring Equipment
VSAT	- Very Small Aperture Terminal
WB	- World Bank
WHO	- World Health Organization
WFP	- World Food Program
WLL	- Wireless Loop
WTO	- World Trade Organization

Executive Summary

1. The global economy is passing through the first ever post World War II era big economic crisis. Estimates are that in addition to contraction in the world economy, employment opportunities will diminish with deepening of poverty especially in developing countries. The catastrophic effect the crash of the US real estate business is causing the US, other advanced economies, and developing countries face adverse effect of economic contraction, instability, and uncertainty. Consequently, the global economic growth has shrunk by 2.0 percent in 2008 from that of 2007. Further deepening of crisis is expected to pull down the economic growth rate by 4.5 percentage points culminating into negative growth of 1.3 percent. The advanced economies have launched relief and assistance programmes with huge economic packages to cope with the financial crisis and bring recovery to their economies. Still, achievements of these efforts are yet to be observed. This is a matter of concern to the world economy.
2. The world economy that grew by 5.2 percent in 2007 dropped to 3.2 percent in 2008, estimated to turn negative by 1.3 percent in 2009. Of the global economic growth rate, growth of advanced economies will be negative by 3.8 percent, while emerging and developing economies will have to content with 1.6 percent growth. The economy of newly industrialized countries is estimated to be negative by a higher 5.6 percent rate.
3. Nepal's two neighbors, China and India achieved 9.0 and 7.3 percent respective growth rates in 2008, with estimates of such growth limited to 6.5 percent and 4.5 percent respectively in 2009.
4. Nepal's economic growth rate in FY2008/09 is estimated to decline. In comparison to 5.3 percent GDP growth achieved at producers' price in FY2007/08, is estimated to grow in this fiscal year only by 4.7 percent. If the agriculture sector suffered due to adverse weather situation, not-agriculture sector could not perform, better either especially due to problems like energy crisis and strikes (*bandhs*).
5. Non-agriculture sectors of the economy that recorded expansion in FY2008/09 in comparison to the previous fiscal year have been, education (from 3.3 to 9.9 percent); construction (3.1 percent to 5.7 percent); and transport, communication, and warehousing (from 7.1 percent to 7.8 percent). Similarly, real estate, rent, professional services (4.4 to 4.5 percent); and public administration and defense (from 0.4 percent to 3.3 percent) also have recorded growths during the period.

6. Other sectors except those mentioned above recorded either minimal or negative growth in FY2008/09 in comparison to FY2007/08. For example, agriculture and forestry (from 4.7 to 2.1 percent); aquaculture (from 7.1 percent to 4.5 percent); mines and explorations (from 2.8 to 2.5 percent); Wholesale and retail trade (7.0 to 4.7 percent). Likewise, hotel and restaurant (from 8.5 percent to 5.1 percent); financial intermediation (from 13.8 to 3.3 percent); health and social works (from 13.6 to 6.5 percent); and social and personal services (from 11.1 to 6.1 percent) also recorded declined growth in their respective sub-sectors. Among the sub-sectors recording negative growth in production are, production industry (from 0.2 to -0.5 percent); and electricity, gas and water (from 3.7 percent to -1.1 percent).
7. Observation of the structure of GDP shows among the production sector of the economy, agriculture occupied 32.4 percent, followed by wholesale and retail trade 13.7 percent, transport, communication, and warehousing 10.5 percent. Among other remaining sub-sectors, real estate and professional services 8.3 percent, manufacturing industry 6.8 percent, and construction 6.4 percent. Likewise, education, financial intermediation, and electricity, gas and water have their respective 6.0 percent, 4.8 percent, 1.7 percent shares to GDP. Of the remaining portion, education, public administration, and defense shared 2.0 percent, hotel and restaurant 1.5 percent, and health and social works contributed 1.3 percent to GDP.
8. In recent years, there has been a steady growth in the tertiary sector with its increasing contribution to the Nepalese economy, but its expansion rate shrunk this year to 5.9 percent against 7.0 percent growth in the previous year. Share of this sector in GDP stood at 51.7 percent as compared to 51.6 percent in the previous year. Likewise, the primary sector, which grew by 4.7 percent in the previous year gained additional growth of 2.2 percent, by raising the level of this sector's contribution of 33.3 percent in the previous year to 33.1 percent this year. Growth of the secondary sector remained the same to that of previous year's level of 1.8 percent with a marginal change in the share to GDP at 15.7 percent in the preceding year to 15.0 percent in the current fiscal year.
9. The ratio of domestic savings to GDP at current prices in FY2008/09 stood at 8.0 percent as compared to 11.2 percent in FY2007/08. Similarly, the ratio of national saving reached 32.3 percent in FY2008/09 from 31.5 percent in the previous year. Consequently, the ratio of investment to GDP down slid from 31.8 percent to 29.7 percent between these two periods. Ratio of net exports of goods and services to GDP, which remained adverse by 20.6 percent in the previous year, has reached 21.7 percent during this period.

10. The ratio of revenue mobilization to GDP grew to 14.8 percent as compared to the ratio of 13.2 percent in FY2007/08 because of encouraging growth in revenue collection.
11. Both the domestic and external debts are on increase on the backdrop of widening gap between the expenditure and income. Consequently, the ratio of outstanding debt to GDP, which stood at 39.6 percent during the first eight months of FY2007/08 has climbed to 41.0 percent during the same period of FY2008/09. Of the total outstanding debt, the ratio of foreign debt climbed from 26.4 percent to 28.5 percent, while that of domestic debt remained contained at 12.5 percent as compared to 13.2 percent in FY2007/08. In terms of outstanding debt in numbers, it was 323.87 billion in mid-March 2008, comprising of Rs. 216.20 billion foreign and 107.67 billion domestic. These numbers by mid-March of 2009 have grown by 21.5 percent (26.6 percent foreign and 11.4 percent domestic) totaling Rs. 393.59 billion comprising of 273.61 billion foreign and 119.98 billion domestic.
12. The Government of Nepal added up another 17.5 percent investment in public enterprises between FY2006/07 and 2007/08. By FY2007/08, investments made in the public enterprises totaled Rs. 165.61 billion comprising of Rs.91.92 billion as shares and Rs. 73.69 billion as loans. In FY2007/08 such investment amount stood at Rs. 140.94 billion with Rs.75.80 billion as shares and Rs. 65.14 billion as loans. The total Government of Nepal owned share investment fund with public enterprises, which was Rs. 38.90 billion in FY2006/07 grew by 23.7 percent reaching to Rs. 48.11 billion in FY2008/09.
13. Inflation rate in the current fiscal year has remained very high. The point-to-point based CPI, which rose by 7.2 percent in mid-March 2008 recorded a growth rate of 13.1 percent by mid-March 2009. During the same period, the wholesale price index also has shot up from 6.6 percent to 12.3 percent. Likewise, the GDP deflator price index also rose steeply from 6.3 percent in 2007/08 to 12.2 percent in FY2008/09.
14. Economic growth in recent years has shown a positive trend in general, showing no visible impact on the growth in deposits with the banking system. The 13.4 percent growth in savings mobilization observed in the first eight months of FY2007/08 grew by 12.1 percent in the first eight months of FY2008/09. The remittance flow on one hand, and expansion of commercial banks and their branches on the other, has helped the growth in bank deposits.
15. Exports, which had decreased by 2.9 percent during the first eight months of FY2007/08 has risen by 17.1 percent during the first eight months of

FY2008/09. Imports, nonetheless, has shown the rising trend with 26.1 percent growth in the review period of this fiscal year as compared to 19.2 percent growth recorded during the same period of the previous fiscal year. The income from remittance, which amounted to Rs. 82.42 billion in the first eight months of the previous fiscal year has reached to Rs. 131.0 billion during the review period of this fiscal year.

16. The numbers of visitors to Nepal in the calendar year 2007 had increased by 37.2 percent while their number decreased by 5.0 percent during the same period in 2008. In the number term, 526,705 tourists had visited Nepal during 2007 while the number declined to 500,277 in 2008. On average days of stay, it has marginally decreased from 11.96 to 11.78 days. Despite the fall in tourist arrivals in FY2008/09, this sector earned foreign exchange worth Rs. 16.82 billion in the first eight months as compared to the earnings of Rs. 18.65 billion the sector made in the whole duration of FY2007/08. Nevertheless, the growth rate of foreign exchange earnings during the first eight months of 2007/08 was 76.3 percent as compared to the growth of 54.5 percent achieved during the review period of this fiscal year.
17. In the perspective of the development of the social sector as a priority sector of the Government, there have been steady improvements in the health and education sectors. Participation of the Government and the private sector is on increase. Similarly, both groups have been demonstrating their enhanced vigor in the health sector. In this context, the Government, in recent years by giving high priority to the public health, has carried out the distribution of 40 different types of medicines through hospitals and health centers. The number of primary, lower secondary and secondary schools that stood at 29220, 9739, and 5894 respectively in the academic year 2007/08 has gone up to 30924, 10636, and 6515 respectively in the academic year of 2008/09. In the previous academic year the total number of students was 6.534 million, which reached to 6.064 million in this academic year. Likewise, universities in Nepal are actively pursuing the work of preparing highly qualified human resource by bringing qualitative improvement in them. Consequently, the number of students engaged in studying in different disciplines is increasing steadily.
18. Foreign currency reserve is at the satisfactory level with a favorable Balance of Payments, especially due credit to high remittance income despite sluggish economic growth and heavy pressure of rising prices. Three major reasons apparent causing the adverse situation against economic expansion and development are, disruption on movements being created from time to time, industrial relations, and energy supply. Though capital expenditure is not up

to the level of expectation, progress achieved in revenue mobilization in the Government sector has been very much encouraging.

19. A big question mark has emerged on our skill of overall economic management in a situation where the Nepalese economy entangled in the vortex of economic sluggishness amidst the double-digit price rise thereby adversely affecting the purchasing power and living standard of the Nepalese people. Hence, there is the necessity of wider reform initiatives on development efforts, investments, and regulatory areas for expanding the economy. The nation is also being made to bear adverse supply shock due to frequent *Bandhs*, *chakka jams*, strikes etc. For this, national imperative is making sufficient legal arrangements and ensuring effective enforcement of those provisions for completely banning *Bandhs*, strikes especially against transportation and movements of the people for allowing the country's economy move ahead in a smooth and natural way, and also providing relief to the people's livelihood.

Macroeconomic Indicators

Description	Unit	Fiscal Year							
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Economic Activities									
Real GDP * Producers' Price	Annual %age change	0.1	3.9	4.7	3.5	3.4	3.3	5.3	4.7
*Basic Price including Financial Intermediation	"	0.5	3.4	5.1	3.0	4.0	3.1	5.3	3.9
**Agriculture	"	3.0	3.3	4.7	3.4	1.7	0.9	4.7	2.1
**Non-Agriculture	"	-1.0	3.5	5.4	3.3	5.4	4.3	5.7	4.8
Per Capita GDP (at constant prices)	"	-2.0	1.6	2.5	1.5	1.5	1.4	3.4	2.3
Real GDP *At Producers' Price	Billion Rs.	-2.5	1.6	2.3	2.1	1.9	1.7	3.3	3.7
*Basic Price including Financial Intermediation	Billion Rs.	442.05	459.49	481.00	497.74	514.49	531.68	560.12	586.23
**Agriculture	Billion Rs.	427.40	442.13	464.83	480.35	499.54	515.08	542.44	563.44
**Non-Agriculture	Billion Rs.	158.42	163.68	171.39	177.31	180.26	181.96	190.46	194.52
GDP (At Producers' Current Price)	Billion Rs.	268.98	278.45	293.43	303.04	319.28	333.12	351.98	368.92
Overall Agriculture Production Index		459.44	492.23	536.75	589.41	654.08	728.18	818.40	960.01
Real GDP * At Producers' Price	Annual %age change	2.4	3.7	3.2	2.8	1.7	0.9	4.7	2.2
*Food Grains and other crops	Billion Rs.	2.3	2.0	3.4	1.5	1.4	-2.7	7.3	3.4
*Livestock Products	Billion Rs.	2.5	3.2	3.4	2.1	2.5	3.1	2.6	2.4
*Vegetables, fruits, and Nurseries	Billion Rs.	5.1	3.6	5.0	9.3	6.0	6.4	9.6	9.6
*Forestry Products	BillionRs.	1.9	1.9	1.0	0.2	-2.5	1.7	0.2	0.2
Index of Major Industrial Products	Billion Rs.	-6.6	2.4	2.1	2.6	1.9	2.1	-2.2	-1.5
Gross Consumption/GDP	%age	90.5	91.4	88.3	88.4	91.0	90.3	88.8	92.0
Gross Domestic saving/GDP	%age	9.5	8.6	11.8	11.6	9.0	9.7	11.2	8.0

<i>Description</i>	<i>Unit</i>	<i>Fiscal Year</i>							
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
<i>Gross National Savings/GDP</i>	%age	24.2	23.8	27.3	28.4	29.0	28.5	31.3	32.3
<i>Gross Fixed Capital Investment /GDP</i>	%age	19.6	19.9	20.3	19.9	20.7	20.4	21.1	21.2
*Government/GDP	%age	3.8	3.0	2.8	2.9	2.7	2.9	3.1	4.1
*Private/GDP	%age	15.8	16.9	17.6	17.0	15.3	17.5	18.0	17.1
<i>Gross Investment /GDP</i>	%age	20.2	21.4	24.5	26.5	26.8	28.0	32.8	29.7
<i>Gap between Gross Domestic Saving and Gross Investments/GDP</i>	%age	-10.7	-12.8	-12.7	-14.9	-17.8	-18.3	-21.6	-21.7
<i>Net exports of goods and Services (Export-Import)/GDP</i>	%age	-10.8	-12.9	-12.8	-14.9	-17.9	-18.3	-20.6	-21.7
*Imports /GDP	%age	28.5	28.6	29.5	29.5	31.3	31.3	32.7	37.4
*Exports/GDP	%age	17.7	15.7	16.7	14.6	13.5	13.0	12.1	15.7
<i>Total Population</i>	Million Rs.	23.7	24.2	24.7	25.3	25.9	26.4	27.0	27.6
Prices									
<i>Consumer Price Indexⁱⁱ</i>	%age change	2.9	4.8	4.0	4.5	8.0	6.4	7.7	12.0
<i>व्यं प्रतिशतⁱⁱ</i>	%age change	3.9	3.1	4.0	5.9	6.9	7.4	6.3	12.2
*Agriculture	%age change	3.5	0.8	2.7	3.5	4.3	6.2	7.2	15.0
*Non-Agriculture	%age change	4.1	4.5	4.8	7.1	8.2	7.7	5.9	10.8
*Wholesale Price Index ^{iv}	%age change	4.9	3.8	4.1	7.3	8.9	9.0	9.1	10.6
<i>Salary and Wages Index^v</i>	%age change					3.9	9.8	9.7	20.3
*Salary	%age change					0.3	6.3	10.9	20.8
*Wages	%age change					5.3	10.9	9.4	20.1
Public Finance									
<i>Revenues</i>	%age Change	3.2	11.5	10.9	12.5	3.1	21.3	22.7	32.1
<i>Total Government Expenditures</i>	%age Change	0.3	4.9	6.5	14.7	8.1	20.5	20.8	32.4

<i>Description</i>	<i>Unit</i>	<i>Fiscal Year</i>							
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
*Recurrent Expenditure	%age Change	6.6	6.6	6.6	11.0	8.6	15.1	18.6	33.5
*Capital Expenditure	%age Change	-12.5	-9.8	3.3	18.4	8.3	34.2	34.7	37.0
*Principle Payments	%age change	13.1	48.6	12.9	25.4	5.4	17.4	-2.2	11.0
<i>Debt Servici (Principal/Interest</i>	%age Change	17.5	32.6	7.1	13.9	3.4	12.2	-0.7	20.8
<i>Revenue/GDP</i>	%age	11.0	11.4	11.6	11.9	11.1	12.1	13.2	14.8
*Tax Revenue/GDP	%age	8.6	8.7	9.0	9.2	8.8	9.8	10.4	12.2
*Non-Tax Revenue/GDP	%age	2.4	2.8	2.6	2.7	2.3	2.3	2.8	2.6
<i>Total Government Expenditure /GDP</i>	%age	17.4	17.1	16.7	17.4	17.0	18.4	19.7	22.2
*Recurrent Expenditure/GDP	%age	10.6	10.6	10.3	10.5	10.2	10.6	11.2	12.7
*Capital Expenditure/GDP	%age	5.4	4.5	4.3	4.6	4.5	5.5	6.5	7.6
*Principal Payment/GDP ^{vi}	%age	1.4	1.9	2.0	2.3	2.2	2.3	2.0	1.9
<i>Debt Servicing (Principal/Interets)/GDP</i>	%age	2.7	3.3	3.2	3.4	3.1	3.2	2.8	2.7
<i>Foreign Grants/GDP</i>	%age	1.4	2.3	2.1	2.4	2.1	2.2	2.5	3.6
<i>Budget Deficit/GDP</i>	%age	5.0	3.3	2.9	3.1	3.8	4.1	4.1	3.8
<i>Foreign Loan/GDP</i>	%age	1.7	0.9	1.4	1.6	1.3	1.4	1.1	1.1
<i>Domestic Loan/GDP</i>	%age	1.7	1.8	1.0	1.5	1.8	2.5	2.5	2.6
<i>Grants and Loans Received/GDP</i>	%age	3.1	3.2	3.5	4.0	3.4	3.6	3.6	4.7
<i>Total Outstanding Debt</i>	Billion Rs.	293.75	308.08	318.91	307.20	328.68	320.41	366.01	399.75
*Outstanding Domestic Loan	Billion Rs.	73.62	84.65	86.13	87.56	94.71	103.78	116.04	133.38
*Outstanding Foreign Loan	Billion Rs.	220.13	223.43	232.78	219.64	233.97	216.63	249.97	266.37
<i>Outstanding Debt per capita</i>	Rs.	12395	12731	12911	12142	12690	12137	13556	14484
<i>Total Outstanding Debt/GDP</i>	%age	63.9	62.6	59.4	52.1	50.3	44.0	44.7	41.6
*Outstanding Domestic Debt/GDP	%age	16.0	17.2	16.0	14.9	14.5	14.3	14.2	13.9
*Outstanding Foreign Debt/GDP	%age	47.9	45.4	43.4	37.3	35.8	29.7	30.5	27.7
<i>Outstanding Foregin Debt/Revenue</i>	%age	436.4	397.4	373.5	313.2	323.7	247.0	232.3	187.3

<i>Description</i>	<i>Unit</i>	<i>Fiscal Year</i>							
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
<i>Outstanding Foreign debt/Export</i>	%age	468.9	447.5	431.8	374.1	388.4	364.8	421.8	385.4
<i>Debt Service (Principal and Interest Payments)/Recurrent Expenditure</i>	%age	25.0	31.1	31.2	32.0	30.5	29.7	24.9	21.5
<i>Outstanding Foreign Debt/Foreign Exchange Reserve</i>	%age	207.9	206.4	178.8	169.1	141.8	131.2	117.6	95.1
Money and Banking									
<i>Domestic Credit</i>	%age change	10.4	10.4	9.9	13.8	7.8	16.7	21.3	18.2
*Private Sector	%age change	5.2	13.2	14.3	14.2	14.4	18.9	22.9	21.1
*Net Government Credit	%age change	22.4	5.9	1.8	11.3	10.4	10.4	11.2	-34.7
<i>Share of the Private sector in the Banking Sector credit</i>	%age	65.7	67.4	70.1	70.3	75.5	75.8	77.7	79.6
<i>Narrow Money Supply (M1)</i>	%age change	9.3	8.6	12.2	6.6	14.2	12.2	21.6	18.3
*Currency	%age change	15.2	2.2	11.1	8.8	13.3	7.4	19.9	26.3
*Current Accounts	%age change	-3.5	25.0	14.4	2.2	16.0	22.8	25.0	3.7
<i>Broad Money Supply (M2)</i>	%age change	4.4	9.8	12.8	8.3	15.6	14.0	25.2	19.5
*Time Deposit	%age change	2.1	10.4	13.1	9.2	16.4	14.9	27.0	20.0
<i>Total Deposit</i>	%age change	5.2	13.2	14.3	14.2	8.8	12.3	24.3	21.1
<i>Total Deposit/GDP</i>	%age	36.6	38.4	39.9	39.3	41.2	42.8	48.3	48.5
<i>Total Domestic Credit/GDP</i>	%age	44.2	45.5	45.9	47.5	49.3	49.5	53.4	53.8
*Private Sector/GDP	%age	29.0	30.7	32.1	33.4	37.2	37.6	41.5	42.9
*Net Government Credit/GDP	%age	13.0	11.9	10.7	10.8	10.8	10.8	10.6	9.7
<i>Narrow Money Supply/GDP</i>	%age	16.8	17.0	17.5	17.0	17.3	17.4	18.9	19.0
*Currency/GDP	%age	12.1	11.6	11.8	11.7	11.9	11.5	12.2	13.2
*Current Deposit/GDP	%age	4.7	5.5	5.7	5.3	5.6	6.0	6.6	5.8
<i>Broad Money Supply/GDP</i>	%age	48.8	50.0	51.7	51.0	53.0	54.3	60.5	61.6
*Fixed Deposit/GDP	%age	32.0	32.9	34.2	34.0	35.6	36.9	41.7	42.6
External Sector									
<i>Export (Goods)</i>	%age change	-15.6	6.4	8.0	8.9	2.6	0.9	12.0	12.0
<i>Import (Goods)</i>	%age change	-7.2	15.8	9.6	9.7	16.3	10.3	23.9	20.0
<i>Export/Import Ratio</i>	%age change	43.7	40.2	39.6	39.3	34.7	30.5	26.7	24.1
<i>Trade Deficit</i>	%age change	0.7	23.1	10.7	10.2	25.1	19.2	20.2	23.3

Description	Unit	Fiscal Year							
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09 ¹
Income from Tourism	%age change	-26.1	35.7	54.5	-43.3	8.7	6.0	84.2	35.3
Expenditure on Tourism	%age change	3.8	7.7	62.4	-3.3	23.4	32.0	32.2	51.5
Remittance Income	Million Rs.	4,722.0	4,754.0	5,420.0	5,859.0	6,554.0	9,769.0	10,014.0	18,301.0
Remittance Income	%age change	0.7	14.0	8.1	11.9	49.0	2.5	42.5	28.3
Current Accounts Balance	Million Rs.	18,161.0	1,1615.0	14,598.0	11545.0	14,225.0	-902.0	23,680.0	23,392.0
Export/GDP	%age	10.2	10.1	10.0	10.0	9.2	8.2	7.5	7.2
Import/GDP	%age	23.4	25.3	25.4	25.4	26.6	26.7	26.6	28.1
Trade Deficit	%age	-13.2	-15.1	-15.3	-15.4	-17.4	-18.6	-19.1	-20.9
Income from Tourism/GDP	%age	1.9	2.4	3.4	1.8	1.5	1.4	2.3	2.6
Expenditure on Tourism/GDP	%age	1.2	1.3	1.9	1.6	1.8	2.2	2.5	3.3
Remittance Income/GDP	%age	10.3	11.0	10.9	11.1	14.9	13.8	17.4	19.1
Current Accounts Balance	%age	4.0	2.4	2.7	2.0	2.2	-0.1	2.9	2.4
Balance of Payments	Million Rs.	-3,343.	4,364.0	16,005.0	5,742.0	25,598.0	5,904.0	29,675.0	30,005.0
Foreign Currency Reserves	Million Rs.	105,901.0	108,229.0	130,205.0	129,896.0	165,033.0	165,126.0	112,624.0	128,000.0
Foreign Currency Reserces	%age change	0.7	2.2	20.3	-0.2	27.0	0.1	28.8	27.4
<u>Capacity of Reserves to Imports</u>	Months of Imports Equivalent								
*Goods Imports	Months of Imports Equivalent	11.6	10.4	11.5	10.4	11.4	10.2	11.5	12.0
*Goods and Services Imports	Months of Imports Equivalent	9.8	9.0	9.7	8.8	9.6	8.4	9.3	10.0
Exchange Rate ^{vi}	USD = Rs.	76.88	77.79	73.79	72.06	72.32	70.49	65.02	76.84

¹ Annual Preliminary Estimates (Based on 8 month data)

¹ Base Year 1995/96 = 100

¹ Base Year 2001/02 = 100

¹ Base Year 1999/2000 = 100

¹ Base Year 2004/05 = 100

¹ Annual Average of buying and selling rates, 11 months average of the current fiscal year.

Note: Ratio of GDP is calculated at the current producers's Prices

Major Challenges of the Economy

1. Economic Activities

- 1.1. The sluggish economic growth has been a major problem in the economic development process of Nepal. Based on available data estimates by second year of implementation of the three-year interim plan, achieving 5.5 percent growth target does not seem possible. Moreover, achieving 7.0 percent growth targeted for FY 2008/09 seems more difficult. Achieving the targeted economic growth rate has been difficult despite positive trend of peace process and security situation. Agriculture has been the major contributing sector in Nepalese economy from the production, employment, and livelihood aspects. Our economy having background of planned development process for last five decades, improving the weakness in irrigation system, an important factor for the development and promotion of agriculture, is a challenge in the agriculture sector.
- 1.2. A number of factors like, zeal for raising investment level, identifying environment for investment or opportunity for investment have their own roles to play in non-agriculture sector. More important than these factors are, unhindered energy supply, non-problematic industrial relation, and stable industrial and labor policies. In case of Nepal, more than 12 hours of daily load shedding, sour industrial relations, and frequent (and unexpected) changes in industrial and labor policies have hindered the growth of industry, other businesses, and services. As a result, non-agriculture sector also does not seem to achieve the target set for the interim plan or the current fiscal year. This is our challenge.
- 1.3. The persistent trend of consumption exceeding whatever percentage of increase achieved in income in the current fiscal year as compared to its preceding year has left undesired effect on savings. GDP growth remained at 4.7 percent this year in comparison to 5.3 percent growth in the preceding year. Growth rate of consumption, however, rose from 3.3 percent in the previous year to 6.0 percent this year, due to which growth rate of savings in the current fiscal year turned negative by 6.9 percent. If consumption growth could be contained to previous year's level (3.3 percent) other things remaining the same, savings would have increased by 16.3 percent thereby helping GDP to gross savings ratio rise by 11.6 percent. Hence, inability to adequate mobilization of mechanisms, institutions, and appropriate tools at the national level necessary for creation of environment to encourage savings has also been a challenge.

- 1.4. With less employment opportunity in Nepal, thousands of youths have gone abroad seeking foreign employment. Those people have been repatriating part of their incomes for supporting livelihood of their kiths and kin back home. In totality, such income through repatriation contributes around 20 percent to GDP. Greater portion of this repatriated income, however, is being spent on imports of basic household consumer items. Besides positive aspects of such income like increased imports, and supporting livelihood of dependents, it would have helped nation's economy gain competitiveness thereby supporting lasting development, if it could be reused to enhance production process. As such, failure to utilize repatriated income on this aspect has also been a challenge.
- 1.5. In a situation where cheap labor force or service is being exported due to absence of economic structure necessary for diversification of production and exports of goods and services, labors have been returning from a number of countries facing the economic recession. It is a challenge of making credit and other motivational arrangements for creating productive employment opportunities for turning such returned and local labor force into productive means. Maximum utilization of physical infrastructures created through planned development efforts in the past, and existing human resource have not been achieved to the extent of desired level for expansion of economic activities. Such a challenging situation calls for carrying out development activities by synchronizing all available resources in the coming days.
- 1.6. Judicious and equitable distribution of means and resources is imperative for maintaining social goodwill and peace. Promoting balanced and broad-based economic activities is the top necessity to face up to the challenge of gradually widening income disparity.
- 1.7. The country has enormous potential for raising GDP through maximum utilization of opportunities available in the areas of agro-processing industry, tourism, hydropower, high-value herbs processing industry, education, and health. Mobilization of domestic and foreign investments becomes very much necessary for enhancing the use of available exclusive natural wealth. Amidst the current uneasy atmosphere to attract investments, attention of all concerned needs to be drawn towards this reality. It is a challenging responsibility of creating interest of all concerned towards the fact that investments in such industries can make solid contribution towards reducing unemployment and alleviate poverty.
- 1.8. Relative importance of agriculture in Nepal's economy is expected to grow more in the days ahead. This sector occupies one-third share of GDP while its contribution especially to rural employment has been very high. The

strong role agriculture plays in the national economy is evident from the fact that the country's more than 80 percent population live in rural areas with their dependence on agriculture as major source of income. While taking into consideration the current global food crisis, necessity of attaining self-dependency in the agriculture sector has become more evident. Therefore, there is the necessity for giving prime importance to adoption of improved agriculture system with fully assured irrigation facility. Besides, this sector needs additional support for its development with priority accorded to organic fertilizer, warehousing, improved seeds, agriculture extension service, and construction of agricultural roads. Provision of training on agriculture and entrepreneurship development has become utmost necessity so as to enabling human resource engaged in this sector to adopt appropriate technology.

- 1.9. The economy needs to expand economic activities, which would support gaining high and sustainable economic growth and meet people's aspiration in the process of intensification of inclusive socio-economic shape of development. For this, taking short and long-term measures is very much necessary. In the process, there is a need to pursue inclusiveness as a process and opportunity for development while considering the role of administrative machinery and quality human resource. Bringing the intended improvement to these areas is necessary to achieve the above-mentioned objectives. There is no doubt about economic activities to gain momentum if competitiveness could be enhanced by containing the cost the economy by easing movements and transport (of goods and services) by discouraging the present trend of creating frequent obstructions on roads transport. In addition, it is a challenge of expanding industrial and trading, and other commercial activities by bringing appropriate improvement in industrial labor relations.

2. Public Finance

- 2.1. It has been a challenging task making the revenue mobilization process dynamic, better, efficient and productive in a sustainable manner for the growth of revenue surplus mainly by meeting the recurrent expenditure and principal repayment expenditure in order to increase development activities through revenue mobilization in the days to come. Likewise, it is imperative to allocate best possible amount of resources for capital investment and take special care towards reducing non-prioritized and unproductive expenses. Such measures are expected to contribute to economic expansion and help create sustainable base for achieving the goal of economic development.

- 2.2. On one hand, there is need to keep Government fiscal deficit within the appropriate limit for maintaining economic balance, and on the other, it is necessary to increase public expenditure to materialize the commitments of the Government towards fulfilling limitless aspirations of the people. It has been a big challenge to maintain a balance between these two situations and to make the transformation process of developing the economy of a country like Nepal more dynamic.
- 2.3. From the point of view of excessively heavy reliance on foreign aid for the Government executed development and construction works, there is the possibility of negative impact on the country's economic structure in the long-term and its overall economic equilibrium, with added potential risk to the health, sustainability, and strength of development efforts. Hence, it is necessary to make efforts to increase revenue, grant component in foreign aid, optimum utilization of resources through effective project management, improve recurrent expenditure management, and pay attention to the expansion of capital expenditure.
- 2.4. The widening of gap between the Gross Domestic Savings Ratio and Investment will hinder regular development activities on one hand while making resource management and foreign loan services more complex on the other. Therefore, it is necessary to give special attention to increase Gross Domestic Savings Ratio, control unproductive recurrent expenditure and increase productive utilization of development funds by maintaining foreign debts and services at a healthy level for sustainable Government finance and overall economic development of the country.
- 2.5. The trend of revenue mobilization has remained satisfactory in recent years. To maintain this, there is a challenge to control tax leakages after identifying the possible leakage areas, and increase the revenue mobilization specially the VAT and income tax, which are the major instruments of tax revenue. Since, there is a need to enhance work efficiency, effectiveness and professionalism of revenue administration, a strong challenge has been there to make necessary arrangements for achieving desired results.
- 2.6. Since the growth of production and productivity are the sustainable bases of growth in revenue, the long-term revenue policy needs to be fully compatible with growth elasticity. Effective implementation of policies for fuller utilization of domestic resources, attracting foreign resources, expanding the tax net so as to make the revenue growth suitable for a longer period, and making necessary adjustments is felt necessary.

3. Price and Supplies

- 3.1. A big question mark has emerged on our skill of overall economic management in a situation where the Nepalese economy entangled in the vortex of economic sluggishness amidst the double-digit price rise thereby adversely affecting the purchasing power and living standard of the Nepalese people. Hence, there is the necessity of wider reform initiatives on development efforts, investments, and regulatory areas for expanding the economy. The nation is also being made to bear adverse supply shock due to frequent *Bandhs*, strikes etc. For this, national imperative is of making sufficient legal arrangements and ensuring effective enforcement of those provisions for completely banning *Bandhs*, strikes especially against transportation and movements of the people for allowing the country's economy move ahead in a smooth and natural way, and also providing relief to the people's livelihood.
- 3.2. Fluctuation in the petroleum price in international market has its effect on the Nepalese price situation. There is no other better alternative than to adopt automatic price adjustment system to avoid the problem of adopting sudden price hike measures like in the past. The price of petroleum products needs to be adjusted proportionately until this system is not brought in effect taking the stiff fall in their prices in international market into account. There has been a challenge to give moral suasions as an indirect way to reflect its demonstrative effect on other sectors and reduce their prices.
- 3.3. The proper mobilization of cooperatives that are scattered all over the country would smoothen the supply system due to which the price of goods and services could be closely monitored with the possibility of creating artificial shortage minimized. Therefore, it is a challenge to bring effectiveness in the supply of goods and services and in their sales and distribution through the development and management of cooperative organizations.
- 3.4. The steep price rise of sugar and sugar products has also been one of the factors of inflation. Adequate supply of sugar can be ensured through its imports as a short-term solution, while the level of domestic production has to be raised in the longer-term. For this, consolidated effort of both the Government and private sectors needs to be mobilized, regular operation of sugar factories has to be ensured and sugarcane farming has to be extended.
- 3.5. There is a need to improve the existing warehousing capacity to avoid the domestic food crisis emanating from the global food-crisis situation as

experienced in the past. Likewise, due to open border, farmers store their agricultural produces (potato, onion etc.) in Indian markets. As a result, there will be dual pressure on prices of these commodities. Aside those agricultural produces, it is a challenge of maintaining buffer stock of commodities such as salt, oil, sugar, pulses and food grains at different buffer zones with the involvement of the Government and private sector for getting rid of the problem by ensuring smooth and regular supply of these commodities when needed.

- 3.6. As monetary expansion aggravates inflation, it needs continuous monitoring. Since stability is the major objective of monetary policy, one cannot argue on the importance of effective monetary management for maintaining its stability. Hence, there is a challenge to make the open market operations capable and robust, an important tool for the implementation of monetary policy towards maintaining price stability through monetary management.

4. Money and Banking

- 4.1. Nepal's financial sector has encouragingly progressed after fiscal liberalization in the country. Consequently, establishment and operations of Banks/Financial Institutions, and non-Financial Institutions has substantially increased. The range of financial inclusiveness has widened, environment for capital mobilization eased, and opportunities in the banking sector extended with the expansion of the financial sector. As the banking business operates at high-risk environment, the degree of risk grows in proportion of its expansion. Hence, scope of regulation and supervision needs to be widened for overall enabling and strengthening of the financial sector by constantly guarding the trend of steadily escalating risk.
- 4.2. An enabled and robust financial sector is necessary for enhancing effectiveness of the Monetary Policy and dynamism of the economy. Two large and older banks i.e., Nepal Bank Ltd., and Rastriya Banijya Bank occupy a large share in Nepal's financial system. Financial Sector Program is ongoing since last few years for improving the financial situation of these banks. Some improvement in financial situation has been achieved through the implementation of the said programme though; the non-performing loan is still big chunks in their loan portfolios accompanied by negative capital fund. The aggregate health of the banking sector is affected as the loans mobilized by these two banks in the past could not be realized naturally weakening the management of credit. Hence, expeditiously

reducing the share of non-performing loans remains the persistent challenge.

- 4.3. In the perspective of the umbrella Act concerning Development Banks, Saving and Credit Cooperatives, and NGOs operated Micro-finance institutions already enacted, making necessary arrangement for regulation, inspection and supervision, of micro-finance institutions through the establishment of a Second-Tier Institution is another challenge.
- 4.4. With a number of banks and financial institutions getting involved in channelling credit flows to the ultra poor, issues like double/triple counting of loan investments, identification of targets, and deciding their scope of work etc have emerged. If there is the necessity of drafting the Act, Rules, Manual, and programmes for effective execution of the Microfinance Policy 2008, it is a challenge of ensuring a sustainable financial source for Rural Self-Reliance Fund.
- 4.5. Bringing down the level of non-performing loan is very much necessary for reforming the financial sector and sustaining it. Despite the idea for the establishment of Asset Management Company floating around since last few years, it has yet to materialize. The existing huge amount of non-performing assets of the Banks and financial institutions has been a challenge against the development and sustainability of the financial sector. It is a challenge of arranging necessary infrastructures including financial, physical, and human resources for strengthening of Debt Recovery Tribunal and establishment of Asset Management Company as measures toward bringing down the level of non-performing loans.
- 4.6. Secured Transactions Act, 2063 (2007) is already enacted. Now, there is a need of making permanent arrangement for Security Transactions Registration Office to promote economic activities and materialize the true spirit of the Act.
- 4.7. In addition to evaluation of achievements of financial institutions, it is necessary to ensure transparency in various aspects of their transactions. Establishment of a Credit Rating Agency has yet to materialize despite policy initiations made towards that direction. Such type of institution helps in making the financial market competitive while ensuring its sustainability through the market process. It will be appropriate to establish a Credit Rating Agency in the country with the help of a reputed foreign credit rating agency.

- 4.8. It is necessary to make the country's policy stance clear on Deposit Insurance by conducting detailed analysis and review on the subject matter with the economic and financial aspects of Banks and financial institutions. Major reason for conducting such a detailed study would be inter alia, to encourage savings for the economic development of the country; mobilization of savings for capital formation; enhance credibility of banks and financial institutions; protect the interest of depositors; and adopt the positive aspects observed in advanced and developing countries as well.

5. Capital Market

- 5.1. The absence of Regulatory provision of Trusteeship for protecting the interests of service providers to beneficiaries of Institutional Treasury Bills, Group Investment Fund, and Depository is negatively affecting the growth of the share market. On this background, drafting of a Trustees Bill has become imperative. There is a challenge to develop efficient and competitive financial market through the integrated and collective effort of Financial Market Regulatory Agency, Nepal Securities Board, Nepal Rastra Bank, and Insurance Board (*Beema Samiti*) to enhance the level to support infrastructure building and other development activities through enhancing access to the capital stock.
- 5.2. There is the necessity of giving priorities to enactment of legal provisions and their executions pertaining to transaction of shares offered for sale by the promoters or private companies and individuals and their right to renounce.
- 5.3. It is necessary to provide appropriate advice on investment related matters, since share market mechanism, and intended investments in these markets are of technical nature. Similarly, establishment and growth of professional institutions for diversification of portfolio management need to be encouraged. Likewise, in the scenario of demand already developed for integrated Debt Market, Derivatives and Future transactions, it has become necessary to carry out study and develop a concept on provisions for the infrastructure development required for the management of these instruments.
- 5.4. It is necessary to accumulate the capital fund by issuing debentures in order to avoid the scarcity of investment instruments for institutional investors and to provide these instruments to them through Stock Exchange Market by making specific regulatory arrangement of Group and Unit Plans. There is a need to make tax provisions based on shares according the existing market situation. Likewise, tax on returns from

Group Investment Plan and Citizens' Unit Plan has to be reviewed in order to develop and promote the indirect investment instruments by encouraging small savings obtained from such plans. There is a need to bring uniform tax provision on Government Development Bonds irrespective of individual or institutional investor. Likewise, there is also the need for allowing selection of areas of investment for mobilization of savings by the contracted institutions through the removal of restrictions in respective Incorporating Acts based on the principle of institutional diversification.

- 5.5. There are a number of areas requiring attention of policy makers and implementers as well in the area of reforming the share market of Nepal. To mention some of those include, making arrangement for enough human resource for autonomy of the Nepal Stock Exchange and its financial operation rules; legal enforcement of the Board; and enhancement of its Monitoring and Supervision capacity. In the current scenario of limited access of share dealers to shares transactions, there is also the necessity of making the electronic transactions, transfer of shares, and ownership transfer process more efficient along with a system for clear identification of investors engaged in the share business. Another necessity is to open up the secondary share market to NRNs and other international institutional investors. Similarly, there is a need to pay attention for its domestic expansion and internationalization as well. In addition, there is a need to review the existing ownership and management structure of Nepal Stock Exchange, and give it a modern institutional shape. In the perspective of the private sector interest to enter into the share market operations, it is a challenge to bring in the private sector company into the fold.
- 5.6. It is necessary to bring the principles of good governance in effect to make it compatible for the development of trustworthy and reliable private sector. There is a need to take initiatives to provide trainings to the potential investors to equip them with adequate knowledge on entry and exit from the share market, risk and gain factors and long-term investments.
- 5.7. There is the necessity of listed institutions to abide by the provision of conducting timely audits so as to ensure their transparency and reliability. There is also the need for making institutional arrangement for coaching and training services to make the stock exchange business more efficient and competitive by attracting more numbers of share brokers to the market. Such institutional arrangement for coaching and training is equally necessary for, laying a strong foundation for generating confidence of

general investors in the stock exchange market; enhancement of capacity of the workforce engaged in stock exchange business including issuance agencies, stock trading, stock exchange market, and people responsible for carrying out regulatory functions.

- 5.8. The secondary market for the Government Development Bond is not vibrant due to excessive (more than 99 percent) participation of organized institutions in the primary issuance; and the ignorance of the general investors about issuance of Development Bonds, and lack of facilities available in the secondary market transactions. Hence, there is the necessity of generating interest of the general investors through the promotion of extension services like training and coaching for encouraging them to participate in the primary market and making them aware of risks and benefits of secondary market as well. In addition, there is the need of establishment and development of a Credit Rating Agency for providing services to investors on shares, bonds and other instruments of open market operations.

6. External Sector

- 6.1 Export promotion has been a challenge failing to meet the quality for goods on demand included in the exportable items list as well as poor access to information of the market that may otherwise provide equal comparative advantage for export to every exporter. In the same manner, lack of products and their countrywide diversification at a desired level, quality enhancement of products with price competitiveness, and the country's export sector lagging behind, have been serious challenges for the economic development and expansion.
- 6.2 The rising trend of global financial crisis and its effect in rapidly shrinking World economy is slowly making its impact also in Nepal. Although the present economic crisis may not immediately affect our traditional exports like, carpet, Pashmina and readymade garments, it will surely show its impact in the secondary phase and serious effect in the long-run by negatively affecting foreign employment and the remittance, which is a strong pillar of the Nepalese economy. Hence, to increase export and to promote foreign employment amidst this unfavourable situation is a challenge.
- 6.3 Technological mastery is the necessary condition for industrial progress, competitive capacity enhancement and easy entry/ access in the world market, especially for high-value (low volume) goods. Because of technological and administrative weaknesses, Nepalese exporters have

difficulties to meet the quality standard, measurement, timely delivery and packaging as demanded by foreign importers. Taking into consideration the huge competition in the international market, the importers need to get analytical information about the production cost and other factors while making contracts with importers of high value goods. Nevertheless, exporters' insufficient capacity on such matters and the difference in business cultures has made the process more complex. Therefore, the challenge is to bring changes in the business culture, improvement in production capacity, use of most modern technology in order to enhance productivity as well as competitiveness.

- 6.4 Though Non-resident Nepali related Act is enacted for attracting and encouraging Non- Resident Nepalese (NRN) to invest in Nepal, a number of regulations and by-laws are yet to be formulated and implemented. Despite the commitment made by NRN community to create an Investment Fund of about US dollar 100 million, this process could not be carried forward due to the lack of legal instrument. Therefore, the challenge is to formulate provisions for the effective implementation of the Act and Regulations related to NRN.
- 6.5 The garment industry, which has been sick for the last few years, is now facing more challenges due to the contraction in world economy. The main reasons for the decline in the garment industry is the end of quota system, highly competitive international market, labour problems and the frequent strikes/*bandhs* etc. The timely delivery of goods is adversely affected by frequent power cuts causing obstacles for smooth transportation, and the frequent strike calls in factories/industries with various demands by the workers. In this context, how to sustain the garment export is a major challenge.
- 6.6 Market diversification is another major problem in the export field. For example, the export to Bangladesh, USA, Germany and China remained 63 percent out of the total export to third countries during the FY2008/09. Although the subject of diversification of goods has been a part and parcel of each and every Development Plan and Government policies, no concrete step has been taken for expansion and diversification of exportable goods, identify export market and to establish a relationship between the two. It is necessary to strengthen the competitiveness in the world market so as to gain comparative advantage through the present liberalization and globalization. It is necessary to implement suggestions made through various studies (Study of IMF on comparative cost benefit in 2006, and Joint Study by International trade Centre and Trade and Export Promotion

Centre in 2007) at the earliest possible, if Nepalese export has to have a sustainable growth. As Nepal has already been a member of regional and multilaterals organizations like SAFTA, BIMSTEC and WTO, the challenge is to initiate integrated reformative activities at the policy, institutional and structural level so as to provide maximum benefit to the Nepalese economy.

7. Poverty Alleviation and Employment

- 7.1 The need for reintegration and reorientation of poverty alleviation programs is vividly clear in order to make poverty friendly. The challenge is still present of narrowing the ever-growing gap between the affluent and the poor by giving continuity to the policy as well as to program for poverty reduction. The existing Poverty Monitoring and Analysing System (PMAS) and District Poverty Monitoring and Analysing System (DPMAS) should be used as useful instruments in formulating policy, plans and programmes concerned with poverty reduction.
- 7.2 In order to enhance poor community's access to employment opportunities, it is necessary to emphasise on their capacity building and empowerment to increase competitiveness. Social inclusive and targeted programs must be implemented in order to reduce the distance from poverty and backwardness of those people not yet mainstreamed into the development process due to economic, social and cultural reasons. It is imperative to promote productive self-employment by increasing majority of people's access to local skills, resources and technology.
- 7.3 There is an urgent need to make effort towards providing foreign employment opportunity to Nepali people by prioritizing investigative works against fraud and cheatings in foreign employment to make them prompt, efficient for their timely accomplishments. There is a problem in the process adopted by the Government authorized organizations to verify foreign employment related documents with regard to providing foreign employment opportunities in 107 countries. Hence, appropriate alternative arrangements have to be made to avoid this problem.
- 7.4 Since agricultural occupation could not be developed as a dependable profession, it is still an occupation for mere subsistence with low productivity and low income resulting in semi and disguised employments. It is necessary to bring rural sector in the mainstream of development by reducing the existing invisible unemployment in agricultural sector and by creating new employment opportunities, which is a great challenge at present.

8. Agriculture, Industry and Tourism

- 8.1. After the policy implementation for delivering agriculture extension service with the involvement of the private sector, the organizational structure of the ministry of agriculture has been changed with a view to deliver such services through the private sector. Subsequently, the numbers of service center/sub-centers delivering those services are reduced. But, the private sector could not be attracted to deliver extension services as expected, due to which services could not be delivered as per expectation. Likewise, failure to reconstruct and rehabilitate the infrastructures destroyed during the conflict has caused Farms, Centers, and Offices not able to produce quality output and deliver quality services.
- 8.2. There exists a policy arrangement for providing rebate on electricity to be used for irrigation. The farmers have not been able to enjoy such facility, as they are required to pay the minimum monthly base tariff even when they have not used electricity for this purpose.
- 8.3. Due to the long absence of elected people's representatives at local levels, tasks could not be performed as per the Local-Self Governance Act and Regulations, which has been causing problems in formulating and implementing proposed plans and programs. As a result, expected out puts could not be achieved. Due to the lack of formal information of the programs of NGO/INGO, the resources provided to the district are unknown causing the duplication of the program.
- 8.4. The necessary infrastructure to meet the quality standard of WTO for exporting agro-products to international market has been inadequate. There is a need of national policy to ensure the food security.
- 8.5. Supply of chemical fertilizers is inadequate as compared to projected demand. There has been direct impact of the price hike on the import of fertilizers due to the excessive rise in their international market price. Though the farmers have not experienced the shortage of fertilizers since they meet their fertilizer needs through informal channels, it is making difficult to keep track of actual consumption of fertilizers. Likewise, there have been complaints of poor quality fertilizers getting imported in absence of a quality monitoring.
- 8.6. Problems, such as uneasy situation in Terai, weak industrial security, tensions created between labors and managements, closures/strikes from time to time, load-shedding, and shortage of petroleum products have

brought adverse impact on the growth of production in the industry sector. Sugar, Jute, and food industries have not been able to operate to their full capacity due to price hike of raw materials, reduced imports, closures /strikes, and low supply of electricity. Industries remained uncompetitive due to their inability to improve in their technical capacity and processing technology resulting in their closure and sickness. Likewise, cheap imported and smuggled garments have led to the closure of domestic textile industries. The industrialization process could be dynamic due to these reasons.

- 8.7. Nepal has not been able to extend reliable air services networks in order to enable tourists from various countries fly in directly. Nepal visiting tourists are still having problems due to failure in establishing network among Hotels, travel and tour operators within the country itself in order to provide them with adequate information. The Government, non-government and private investors in tourism sector are engaged more on promotional activities than on infrastructure development due to which this sector is not accorded investment priority. Reconstruction and expansion of conflict-destroyed infrastructures (Airports) have been the challenging tasks to bring them in operation due to the dearth of resources. Likewise, tourism promotional activities have been hindered due to failure in providing basic infrastructures like roads, drinking water, electricity and communication services and carrying out construction works in a coordinated manner. The prospects of integrated and coordinated infrastructural tourism development by identifying new tourist sites have not been fully utilized, while the judicious distribution of benefit received from this sector has been a challenging task.
- 8.8. Despite abundance of opportunities for tourism development in Nepal, it has not been able to generate adequate income by developing it to the desired level. Implementation of sustainable development programs by analyzing the achievements of tourism programs for rural poverty alleviation has remained a major challenge. The potential benefit of goods and services that could be achieved by making the visitors use our products has not been possible for failure in promoting and producing local products at the desired level. The heritage conservational works could not be made effective due to the lack of adequate resources, organizational structure and data and information. Carrying out tourism activities by making them environment-friendly is also a challenge. Despite the fact that tourism sector cannot attain sustainable development in absence of local body's initiatives, the legislative, policy and legal arrangements could not be made, absence of which has been a stumbling block against effectiveness

in responsibilities, ownership and coordination for tourism development at local levels.

9. Public Enterprises

- 9.1. Most of PEs are running at losses having negative net worth. They have not provisioned fund to meet liabilities for staff on one hand and, unfunded contingent liabilities such as gratuity, pensions, provident fund etc. being piled up on the other. This will ultimately put heavy financial burden on Government's shoulders. A tendency of more and more dependency on the Government is growing among the loss-making PEs and on the contrary, profit-making PE's are enjoying and demanding more facilities than necessary. Most PE's have not made their mandatory annual auditing while some others have not made it for many consecutive years. This has resulted in the decreased public confidence, which may negatively affect the process of reforming these PEs. Most PEs lack the access to appropriate and new technology, and operating capital, which is a great challenge for their progress and sustainability.
- 9.2. Some PEs tend to hide the exact details from public and neglect the Government's policy of rightsizing the staff, despite operating at loss. Furthermore, some go on recruiting more staff, leading to the increase of overhead cost. Realization and commitments is necessary on part of the concerned Ministries and Public corporations of bearing responsibilities for their implementation (for cutting costs and bringing efficiency) as per the need of time. A coherent policy relating to the appointment of staff and availing them other facilities with due considerations of available resources is a matter of challenge. Lack of skilled human resources and appointment of unnecessary number of unskilled work force in most PEs is another challenge.
- 9.3. In this age of liberalization and globalization public enterprises, which have a great role in the country's economic development, need to undergo adjustments to meet the challenges of more liberal, more open and more competitive economy; but the overall progress of the PEs does not seem satisfactory towards achieving the goals. With every change in Government, there is a change in the Board of Directors and Chief Executive Officers blocking the smooth speed of management and operation. There is a question of existence with some PEs- finding no freedom in deciding their product's prices as per the market rate; for instance, Nepal Oil Corporation. So a need for long- term solution to meet such challenges is strongly felt. The lack of coherent policy and mechanism for monitoring and follow-up of these PE's is another problem. Therefore,

Ministries must make the monitoring, assessment and follow-up of at least the PEs under them, more effective.

10. Energy and Forestry

- 10.1. It seems appropriate to implement renewable energy program in coordination with the private sector engaged in this business in line with the concept of the Government of Nepal on Public Private Partnership. As renewable energy installations tend to be demand-based, and absence of adequate human resource with the Center (AEPC), support of the private sector becomes imperative. It is a big challenge to enhance the level of private sector participation.
- 10.2. Despite availability of some major sources of alternative energy like biogas, micro-hydro, solar and wind energy, utilization of these sources could not be made to the desired extent. Two major challenges for developing these alternative energy sources to reasonable level are (a) inability to garner adequate financial resource, and (b) lack of improvement in peace and security situation.
- 10.3. The Government of Nepal is implementing various alternative energy programs/projects with the grant assistance from donor organizations, but failure to keep pace of the development of physical infrastructure, technology, and human resource accordingly has been a major obstacle.
- 10.4. Majority of people do not have access to electricity service due to failure in making reasonable utilization of hydropower production sector, which is considered very important from economic development point of view. Possibility of electricity export is also low due to very high cost for generating electricity in the country. Hence, there are dual challenges to deal with, including meeting the domestic energy demand through sensible utilization of available resource wealth; and supporting the national economy by exploring and making use of cost-reduction technology thereby enhancing the level of electricity export.
- 10.5. Encroachment of forests in the name of land-mafias, resettlement of landless and freed labors, and development of physical infrastructures have cast major doubt that whether the Government can maintain its commitment of retaining 40 percent of the country's total area under forests. In addition, ever-declining status of forests is adversely affecting biodiversity, thereby aggravating climate change in Nepal. Investment in the forestry sector is dismally low as compared to its contribution to GDP.

- 10.6. Physical destructions of district, and area forest offices and range posts during the conflict period has been causing difficulty in program operations. Lack of transport vehicles, and arms and ammunitions are coming in the way of combating smugglings of forestry products and controlling poaching activities. Difficulty in controlling poaching activities, inability in checking encroachments in some national parks and reserves and buffer zones, and inability in containing damages caused by uncontrolled fire are also some more challenges.
- 10.7. Despite added management responsibility with declaration of buffer zones around 11 protected areas, no additional human resource is added yet, making effective service delivery difficult and also affecting management of Parks/Reserves. Delay in amending National Parks and Wildlife Conservation Act, 2029 (1973) and Buffer Zone Management Rules, 2052 (1995) to make these laws and rules timely is creating difficulty in resolving the existing problems. In addition, there is a need to declare additional conservation areas and manage them. Due to temporary allocation of 10 soil conservation offices, there has been obstacle in carrying out soil conservation and watershed management activities. In addition to this, programs are very few in numbers against their demand.
- 10.8. The sector faces a number of challenges that need due attention like: (a) inability to fully reconstruct the destroyed physical infrastructures; (b) lack of human resource for managing buffer zones; (c) absence of adequate study/research on the contribution of this sector; (d) inadequacy of resources; (e) pending Draft CITIS Bill awaiting approval; and (f) absence of programs to minimize the loss of lives and properties from wild-lives.

11. Transport and Communication

- 11.1. There has been technical error with no uniformity in the vehicle testing system due to the lack of Vehicle Fitness Test Machine and Vehicle Test Center. The service delivery system could not be made prompt as expected since there has been no time-relevant improvement in organizational structure and in existing working system and tasks could not be performed through scientific, computerized and networking systems.
- 11.2. Lack of a separate long-term transport management policy in the transport management sector and failure to revise vehicle and transport management Acts and Regulations with the changed context, fix transport fair scientifically, and depute transport inspectors until now despite the provision of deputing such inspectors in the Acts have been the major

problems. Since driving license and vehicle registration certificate formats could not be improved to make them more modern and scientific, the monitoring in these fronts has been difficult.

- 11.3. Carrying passengers beyond the carrying capacity of the vehicles, allowing commuter to hang on the running public vehicles, placing passengers over the hood, transporting commercial goods by passenger vehicles, parking vehicles randomly along the road have been the striking problems due to which accidents are on rise. Failure to bring third party insurance in effect, continuation of syndicate practice, security lapses in offices and staff have also been other dilemmas. Geographical complexity in the development of road transportation, unavailability of essential materials for road construction, inability to approve programs on time, and failure to mobilize people's adequate participation have been the other major challenges.
- 11.4. Maintaining the flight security in line with international standard by Nepal as an ICAO member country has been its major responsibility. Lack of skilled human resource in CAAN required for security checking, regular monitoring of flights operated by various aviation companies and the tendency of current employees to fly abroad in the quest of foreign employment have been striking problems in the aviation sector. It is therefore necessary to take initiative by Nepal Government, CAAN and Airline Companies for the retention of current skilled employees and development of skilled human resource and experts. The dearth of professionals and skilled man power has resulted in the delay in project implementation and day-to-day operation. Hence, it is necessary to revise the organizational structure and make necessary arrangement for deputing the employees and fulfilling the vacant posts.
- 11.5. Due to Nepal's geographical structure and complexity, the only international airport in Nepal is facing difficulty to extend its operation period due to technical complexity in installing modern instruments in air services required to attract maximum number international airline services. Likewise, efforts are needed to secure foreign support by the Nepal Government since CAAN's internal resource has not been able to afford the cost required for the construction, development and extension of various airports.
- 11.6. Districts have been making ample demands for the airport construction. Since it is not feasible to construct social service oriented airports in remote areas of Nepal as per the principal of Return on Investment policy CAAN needs to operate on, it is a challenge therefore, as how airports can be

constructed, operated, and maintained sustainably in remote areas by striking a balance between social and economic perspectives of modern day air transportation requirements. Likewise, investment policy, selection criteria have to be formulated and arrangements for distribution of compensation by GoN against the acquisition of land required for the airport construction and handing over ownership to the CAAN together with resources and mechanism required for the project have to be ensured.

- 11.7. High-skilled manpower at professional level is required to operate technically more advanced aviation security related instruments but there has been no separate wing of skilled manpower in Nepal to operate such instrument and Nepal police have been carrying out functions as such with their ordinary skills. Therefore, necessary arrangements have to be made in order to develop human resource in this regard. Likewise, frequent posting of trained aviation security employees from the airport security services to other departments has obstructed in enhancing professional competency to replace the vacant posts. Though National Civil Aviation Security Committee has made several decisions to establish a separate aviation security wing so as to enhance such professional competency, which could not be effected. Therefore, it is urgently necessary to take steps to bring those decisions into effect.
- 11.8. Inability to move along with the speedy development of Information and communication Technology sector, dearth of resources for investing in the information and communication sector, ICT sector and lack of coordination in the implementation phase as expected etc. have been some major challenges in this sector. Failure in using public awareness received from other means of multi-mass media in an integrated and coordinated manner, lack of sufficient manpower and disproportionate expansion of effective means of communication are the other challenges in this sector.
- 11.9. Lack of provision for human resource management in postal service, inability to extend rural telecommunication services as per the commitment made by license holding telecommunication service providing companies , deterioration in quality of mobile telephone services due to inadequate supply of electricity, failure to extend the transmission signals of Radio Nepal and Nepal Television as expected and difficulty in collecting Motion Picture Development fee have been other major challenges in this sector. Utilizing potential capacity of communication, making necessary arrangements to provide telephone service to meet peoples' demand, and maintaining quality in the available services have also been the striking challenges in the communication sector.

12. Social Sector

- 12.1. Failure is witnessed in reaching understanding with umbrella organizations of teachers on the transfer of the management of community schools to the communities. Amidst the need to run a number of programs in partnership with local bodies (VDCs, Municipalities, and DDCs), absence of local Government has created the problems of coordination and partnership. Absence of update bases for incurring expenditures has created problems in programmes implementation. The Travel Expenses Rules, 2064 (2008) has also create problem in programme operations. The second round of CA Election has affected the second phase of Teachers' Training Programme. There is shortage of accounts staff in 20 Educational Training Centres (kha) and five Educational sub-centres. Actual data of teachers due for long-term training is not available. Despite the effectiveness of the programme continued since 2029 (1972), problems have grown due to several reasons like, decreasing trend of WFP assistance; delay in tendering process for transportation of nutritious food; absence of regular monitoring, and non-reimbursement of expenses spent on such activities; operating the midday meal programme as a project etc. It is necessary to form a high level Mechanism for resource mobilization to resolve these problems. It is also necessary to formulate procedures for the User's Groups to participate in the transportation. Besides, measures should be taken to allocate fund for regular supervision and expand the midday meal programme nationwide.
- 12.2. Displacement of the Certificate level on one hand, and lack of co-ordination between the rules and regulations of Secondary Level Education and those of Higher Education on the other, has become a major problem. Besides, the Government investment in higher education is minimal whereas campuses run by the private sector make the people pay higher prices, which is a major obstacle for people below poverty line from remote areas to access higher education opportunity. Another problem is the lack of even the basic infrastructures, classrooms, and laboratory facilities in community-run Higher Secondary Schools. Similarly, there is a big shortage of necessary teaching materials. Additional problem is the problem in timely dispatch and delivery of materials to and from the HSEB due to lack of basic infrastructures like electricity, transport facilities etc. Inability of accessing higher education by women, *Dalits* despite their willingness due to traditional superstitious beliefs, gender and caste discrimination and awareness is another prominent problem. Among other problems to count a few are: (i) higher education (10+2) still being understood as college level education rather than part of school-level

education; (ii) the growing trend of higher secondary schools to emphasize on quantity of education rather than its quality and value the number of students passed; (iii) higher secondary schools trying to take affiliation on the surface just by imitation, and not by identifying the real needs; and (iv) insecurity of teachers working in higher secondary levels with no set rules on terms, conditions and facilities for their services resulting in lack of responsibilities and accountabilities.

- 12.3. A number of measures and steps are necessary for resolving problems apparent in Higher Secondary level education of the country. Such measures include: (i) a clear policy on Higher Secondary Education; (ii) develop HSEB as a pure educational and academic place; and (iii) the Government to pay special attention on physical and educational requirements of Higher Secondary Schools. Besides, job security related issue of teachers need to be addressed. Other additional measures could be: maintain necessary coordination with all stakeholders while drafting new laws and regulations; initiate special programs for remote and backward areas; and finally, full displacement of certificate level and divert resources to Higher Secondary level Education system.
- 12.4. The Kathmandu University has already prepared its 10-year perspective target. Its main objective is to develop itself as a World-Standard University. The university is striving to expand teaching and research works as the pre requisites for the above purpose. There is a thinking of providing the students all the facilities close to global standards. The objectives are to prepare at least 100 professors of international standard, to raise the level of faculties, and to increase student capacity to 5,000. The University has the target as well as challenges of capital growth, capacity enhancement and student enrollment, etc. Likewise, to identify financial resources for research and studies, and arranging resources is another problem. However, attempts are continued to set up a Trust Fund that could help in meeting immediate needs, providing special facilities to foreign scholars when necessary, to conduct extra-curricular activities and help those people committed to the welfare of the University.
- 12.5. The Purbanchal University is facing problems in carrying out policy, legal, institutional, and structural reforms as meeting of the University Senate and Convocations (Graduation Ceremonies) could not be held in absence caused by overdue delay in the formation of the Senate since 2006. In addition, certificates could not be distributed to students who have crossed levels. Failure to appoint University officials has impacted negatively on the appointments (permanent and temporary), and promotion of staff and

teachers. Besides, the University has not been able to achieve the progress as expected due to financing difficulty emanating from the very low level of the Government grant, service and facilities (exemption of customs duty, VAT, Local Development Fees etc), for the necessary for its institutional development.

- 12.6. Nepal sanskrit University is facing mobilization of internal resources as a serious challenge due to various reasons. *Ayurvedic* Treatment methods and Yoga education has become famous worldwide, but the University has not been able to launch such classes in absence of resources. Various medicinal herbs scattered in the Himalayan region, Hills and Plains of the country, are being used as grass and firewood. These precious herbs need to be preserved in Herbal gardens but is hard due to lack of resources. The trend of converting Sanskrit Secondary schools into general High Schools has checked the flow of students to Sanskrit University. Hence, a separate policy for conducting Sanskrit Secondary schools is necessary. The less attraction to study Sanskrit at higher education level is also because of the unavailability of hostel facilities for girls.
- 12.7. The growing discrimination in the quality of health services available between urban and remote areas, and ever-increasing cost of maintaining general health condition and that of newborn babies is a challenging situation. On one hand people are not able to avail health service due to rise in different types of diseases and pandemics, while on the other it has become more difficult to ensure services of doctors and other health workers in rural areas. In addition, people are deprived of treatments through basic health services as per their needs also because of the geophysical condition of the country. In addition of encountering the above problems, the present challenge is to achieve the goal of global slogan "Health the People's Basic Right".
- 12.8. The field of local development is as broad and important; there are numerous problems and challenges. Absence of representatives in local bodies for a long period has created problems at different stages of development process from planning to implementation thereby negatively affecting delivery of services to the people. Delays in progress are observed especially in districts of Eastern Hills and Terai for insecurity of staff working at local levels. Desired results could not be achieved in the areas of development, construction, and service delivery due to vacancy of positions of VDC Secretaries and technical staff. The number of incomplete and ongoing projects has been rising for reasons like growing tendency of initiating large number of new projects without considering available

resources; lapses in regular maintenance and management of completed projects; and preferences given to new projects at the cost of ongoing projects. The ad hoc attitude of building infrastructure has made negative impact on environment and uncertainty of implementation and sustainability of projects. Local bodies have failed in achieving expected results because of their managerial weakness and weak capacities. The tendency of scattering resources than investing by prioritizing the projects is mainly due to the failure of devolution of authority to local bodies in the spirit of decentralization and the Local Self-Government Act, 1999 on the one hand, and absence of framework for implementation of rural infrastructure in the spirit of the Act on the other. Such a situation has made it difficult and complicate to achieve quality result from implemented projects.

- 12.9. Reimbursements against expenditures made on the projects have not materialized due to failure in receiving documents on time. Development projects have failed to impress upon their impacts/outcomes as local bodies either tend not to select projects based on analysis of development opportunities (in terms of resource availability) or ignore periodic plans. Donor-assisted projects have faced difficulty in achieving the target due to non-allocation of pre-decided matching fund. Lack of coordination and duplication have caused ineffectiveness in sectoral allocation of fund ultimately leading to the failure of qualitative achievement. In the context of managing internal resources of local bodies, there is lack of coordination and participation between Ministry of Forests and Soil Conservation and other concerned agencies. The danger of alarming environmental damage and potential natural disaster due to uncontrolled and unmanaged use of natural resources has caused by environmental destruction loom large. Because the proviso of ILO 169 is understood differently at local levels, there is a growing tendency among local communities of creating obstacles on resources DDCs mobilize.
- 12.10. Lack of resources for the implementation of programs concerned with elimination of child labour is one of the major challenges. In addition, there are numerous problems faced by the labour sector like, difficulty in supervision and monitoring of industries and enterprises throughout the country from the present 10 labour offices; failing to establish foreign employment as a secured, organized and dignified field; and inability to send skilled manpower and therefore, failing to get expected results. In addition, the impact of global financial crises resulted in less opportunities abroad, and the increasing trend of returning home; failure in supplying skilled manpower to meet national/international demands, and failure in

improvising training programmes for self-employment; failure in achieving expected success in the skill development of officials, are some other prominent problems in the field of employment.

- 12.11. Empowering women and their mainstreaming are overshadowed by lumping together of women, children, senior citizens, and disables under a single Ministry for Women, Children and Social welfare. There is also lack of budgetary resource at the national level for implementation of programmes. Challenge, therefore, is of expansion of cooperation for enhancing effectiveness and usefulness while reducing duplications in programs carried out by mushrooming agencies and institutions. It is also a challenge of making this sector accountable.
- 12.12. Due to the rising wage rates and price-hike in construction materials, it seems that projects started with earlier cost estimates are not going to be complete with budgetary allocations made based on such estimates. Frequent strikes and Closures (*Bandha*) of roads as well as problems faced on supply of fuel have created serious obstacles on project implementation. The quality and service level of drinking water is falling due to the pressure of growing population and increasing water pollution. Environment of urban and sub-urban areas is getting polluted due to the lack of appropriate sewerage management systems. Hence, management, proper use and conservation of drinking water through people's active participation and perennial supply of pure water to all have been great challenges.
