

**Right Honorable Speaker,**

1. I feel pride and pleasure for being able to present the budget for Fiscal Year 2007/08 to this esteemed House today as a Finance Minister of the interim government which was formed in the successful aftermath of the historic Peoples' Movement and the commencement of the peace process. On this occasion, I offer tribute to all martyrs of the Peoples' Movement and express heartfelt gratitude to all Nepali sisters and brothers.
2. I have already presented to this august House the Economic Survey, 2007 that explains the current trends and features of the country's socio-economic indicators and also their challenges and prospects.
3. It was my estimate that the GDP growth rate would reach 4.5 percent in the current Fiscal Year. Owing to the lack of visible improvement in the law and order situation and investment climate, and also due to the adverse weather, the production of major crops has declined resulting in the estimated GDP growth rate of only 2.5 percent at actual producers' prices. The consumer price rise is expected to stand at 6.6 percent compared to the 8 percent of previous fiscal year.
4. In FY 2005/06, the actual expenditures of the government totaled Rs. 110 billion 889.2 million, of which the recurrent expenditures were Rs. 67 billion 17.8 million, capital expenditures Rs. 29 billion 606.6 million, and repayment of debt principal Rs. 14 billion 264.8 million.
5. The revised estimate of total expenditures for FY 2006/07 is Rs. 131 billion 851 million, of which recurrent expenditures would reach Rs. 80 billion 331.1 million, capital expenditures Rs. 36 billion 379.9 million and repayment of debt principal Rs. 15 billion 140 million.
6. With regard to revenue mobilization, compared to the collected revenue amount of Rs. 72 billion 282.1 million in FY 2005/06, the current year has a revised estimate of collecting the revenue of Rs. 86 billion 135.5 million which is in excess of the original target.

**Honorable Speaker,**

7. We have a series of notable political achievements to our credit following the historic Peoples' Movement. The historic "Comprehensive Peace Accord" has been concluded on November 21, 2006 to resolve peacefully the decade-long armed conflict. The Interim Constitution of Nepal has been enforced based on eight-party consensus. A culture has developed to bring to conclusion all problems through dialogue and negotiation. A tendency has evolved to engage in mutually consulted and shared decision making among political parties. The Constitution itself has guaranteed the representation of women, Dalits, indigenous and ethnic communities, Madhesis, and the people from backward regions in the proportional elections for Constituent Assembly. November 22, 2007 has been declared as the date for the Constituent Assembly elections. Necessary laws have been enacted to conduct the election. Citizenship certificates have been distributed to those over 2.615 million people who were deprived of citizenship. Verification of Maoist combatants has commenced. Programs such as honoring and supporting the martyrs' families and providing relief to those affected by conflict are being launched. The access to road transportation has expanded to various parts of the country including in the headquarters of Jumla and Kalikot districts of Karnali zone, releasing new hope and energy among the local people. A new wind of development is thus seen blowing for some time in the countryside.
8. Still a few significant promises made in the current year remain undelivered. The problems on law and order are still there, due mainly to the country's passing through a transitional phase. The tasks such as bringing Maoist cantonment management to a completion, returning the seized properties and rehabilitating the internally displaced people remain still incomplete.
9. It feels like the issues relating to economic development have been sidestepped by the political issues which have received a prime space in the national agenda. Incidents causing industrial unrest have often been noticed. Industrial climate has not improved. Export has declined because of the loss of competitiveness due to high cost of production. Problems of unemployment have not been rightly addressed. An inclusive and judiciously balanced economic

growth through increased investment in the rural and backward areas has been long overdue. The dividend that we should have reaped from the immense economic growth our neighbors have achieved has evaded our courtyard.

10. Problems long suppressed and put aside since centuries are now unfolding one by one. Challenges that the new generation needs to confront are piling up. Demands for the right to development are becoming increasingly vocal. With the democracy restored, villages are competing to claim for more and more infrastructure development such as schools, health services irrigation, motorable roads and electricity for a quickly visible economic prosperity. In a number of villages, huge amounts of local donations have funded road constructions. Millions of rupees have been raised for accessing electricity by the local communities, now awaiting the government assistance. The government should come forward to help such movements of community pro-activism in all possible way.
11. We can build a well-developed Nepal if we can transform people's growing awareness and aspirations for their rights into a creative energy and unleash each Nepali's potential to an optimal extent. If we fail to move towards economic development utilizing the open moment with enormous potential and pursuing a positive disciplined and all-inclusive attitude and commitment, we will risk falling from the height of freedom, self-respect and political feat that were so hardly won by the sacrifice of the countless of martyrs, and end up with despair, dejection and deprivation instead.

**Hon'ble Speaker,**

Now, I would like to present the objectives, policies and programs of the next fiscal year's budget.

12. While formulating the budget for the next fiscal year, I have made an attempt to address the serious challenges currently being faced by the democratic government that was formed after the last year's Peoples' Movement. In doing so, care has been taken to protect the gains achieved by the government during this period. I have undertaken as the principal guideline of the budget the spirit of the

Peoples' Movement expressed in the prime goal of building a "prosperous, modern, federal, inclusive and just Nepal", the Interim Constitution and the common minimum programs agreed among eight parties. I have adopted a policy of according priority to the programs that would promote the peoples' rights to education, health and employment enshrined in the Constitution, distribute economic outcomes judiciously, enhance native, cooperative, private and public entrepreneurship to reduce economic inequality, and uplift the underprivileged regions, classes, gender, castes, and communities. Following are the objectives of the budget for the coming fiscal year:

- a) **Sustainable Peace, Stability and Strengthening of the Democratic System,**
- b) **Poverty Alleviation and Economic Prosperity,**
- c) **Investment Promotion,**
- d) **Human Development,**
- e) **Reconstruction, Rehabilitation and Relief.**
- f) **Sustainable Peace, Stability and Strengthening of the Democratic System**

13. A day rarely downs in a nation's history that would change its course in an unprecedented way. We all Nepalese are now awaiting the arrival of that epoch-making day. That day is going to gift us democratic rights and privileges for which we will not have to struggle again and again. On November 22, 2007, Constituent Assembly elections will be held ensuring a free, impartial and fearless atmosphere. With the objective of building a conducive climate for fearless voting by the people of all regions, gender, caste, class, and ethnic communities and conducting elections in a free and fair manner, all necessary cooperation will be extended to the Election Commission. I have appropriated Rs. 3.5 billion for elections and election related security. The money for this purpose will be made available from the Peace Trust Fund as well.
14. Security agencies will be mobilized so as to ensure free movement and safety of the lives and properties of the common people. All those violating the law will be punished by bringing them under the purview of law. With a view to making the police forces competent and strong by raising the morale of the police personnel, these organizations will be modernized and equipped

with adequate resources. I have allocated Rs. 9.56 billion for police forces.

15. A State Restructuring Commission will be formed which will recommend on the inclusive and federal structure of the state to find its place in the Constitution to be drafted by the newly formed Constituent Assembly. The participation and representation will be ensured of Madhesis, Dalits, women, indigenous and ethnic communities, and people from all classes and groups in all apparatuses of the state structure on an inclusive basis.
16. The Draft Three-Year Interim Plan will be finalized on the basis of the recommendations of the recently-concluded meeting of the National Development Council as well as in keeping with the development strategy exclusively suited for Himal, hills and Madhes regions of the country. The Plan will be brought to implementation effective next fiscal year.
17. The government policies relating to the management of cantonments for Maoist combatants, reintegration and rehabilitation of the Maoist combatants, democratization of the Nepal Army, utilization of the properties of the late king Birendra and his families, in the national interest, and nationalization of the properties of the Royal Palace will be implemented on a time-bound basis.
18. In order to avoid a situation of representational deficit at the local level, necessary institutional arrangements will be made, and local self governance bodies will also be formed thorough consensus.
19. Community participation will be emphasized in the local level development activities. In this respect, I have continued the Village Development Committee block grant of Rs. 1 million for the construction of economic infrastructure such as irrigation, drinking water, road, bridge, and school construction and rural electrification. In addition to this, necessary fund will be provided from Rural Reconstruction and Rehabilitation Project for economic infrastructure development. This new program will create additional employment opportunities for the marginalized rural communities. The Constituency Development Program will be continued.

20. All government agencies, NGOs and INGOs implementing development projects and programs at the district level will be made accountable to the District Development Committees by strengthening the involvement of the local bodies in all phases of development including in the formulation, implementation, monitoring, evaluation and sustenance of the District Level plans and programs.
21. Activities like agriculture, livestock services, cooperatives, health, education and infrastructure development to be implemented at the local level will be devolved to the local bodies. Ministry of Local Development will prepare necessary guidelines and procedures by mid August of the next Fiscal Year. Monitoring to be carried out from the centre will also be strengthened. A sum of Rs. 13 billion and 80 million has been allocated for the Ministry of Local Development.
22. Detailed engineering works for the construction of the Legislature-Parliament building will be commenced. Necessary budget has also been allocated, among others, for strengthening the parliament.

#### **(b) Poverty Alleviation and Economic Prosperity**

##### **Agriculture and Rural Infrastructure: Foundation of the Economy**

23. It has been realized that agriculture is the mainstay of poverty alleviation. Hence, commercialization and increasing productivity of this sector will be emphasized. In addition to increasing investment for the rural roads, irrigation and market promotion activities, direct allocation of Rs. 5 billion and 820 million has been made for the development of agriculture sector. Compared to the allocation made in the current Fiscal Year, proposed allocation has been increased by 47.3 percent. Increased allocation for the agriculture sector is expected to contribute to commercialization and diversification, advanced technology and availability of the fertilizer and seeds. It is also expected that generous allocation in the agriculture sector will ensure other facilities including availability of agricultural credits, and further promote research

activities and expansion of the markets for the agriculture products.

24. Plantation of tea in the Eastern hill districts will be expanded aiming at increasing the income of the farmers by focusing on high-value cash crops and off-season agro products. Coffee plantation will be expanded in the Western hilly districts. By expanding onion cultivation in the additional 2400 hectares of Saptari, Siraha, Bara, Sarlahi, Dhanusha, and Rupandehi, attempts will be made to substitute import of onions. Under 'One Village One Product' scheme farming of trout fish as well as production of *Lapsi*, Sweet Orange (Junar), and *Bel* will be continued in the coming Fiscal Year. More emphasis will be given to orange production in the mid hill districts. Fish farming will be implemented as a campaign to meet ever increasing demand for the fresh water fish. In order to facilitate export of organic products, necessary arrangements will be made for the issuance of the certificate that will meet international standard.
25. To meet the growing need for the installation of necessary equipment and to establish tea processing factory particularly in Ilam and Jhapa districts of the Eastern Development Region, a capital subsidy equivalent to 25 percent of the total cost of the machinery equipment or an interest subsidy equivalent to 80 percent of the interest to be paid for the loan borrowed will be made available for five years. Cooperatives willing to establish processing factories will have an option to opt for any one category of subsidy, and such subsidy will be provided for five years. Subsidies facility similar to that to be provided to tea producers who will be establishing processing factory with participation of the cooperatives will also be extended to cooperatives producing milk so as to avoid milk holiday.
26. Interest subsidy will be continued for tea, cardamom, and coffee farming. This subsidy will also be continued for the construction of cold storage, to meet the electricity charges of the chilling centre operated by the cooperatives centre, and to meet the demand charges of the electricity consumed by the swallow tube wells and floriculture. Existing limit of Rs. 10 thousand with interest subsidy for the agriculture credit has been increased to 15 thousand.

Subsidy will also be provided for the transportation of agriculture inputs and chemical fertilizer in 26 districts.

27. For the purpose of conducting research on sugarcane farming, working as resource centre for enhancing capacity of the sugar factories and coordinating the sugarcane farmers and factories, a Sugarcane and Sugar Board will be established with the representation from among sugarcane producers and sugar factory owners.
28. An arrangement will be made to provide unused public land to the landless people on the long-term lease to utilize it on commercial and cooperatives farming.
29. In order to expand the wholesale and retail markets for the collection of the agricultural products, the agro-markets infrastructure will be developed in various places of Dhading, Chitwan, Bara, Sindhuli, Sunsari, Rautahat, Sarlahi, Solukhumbu, Siraha and Mahottari districts .
30. Agriculture research will be emphasized and a Gene Bank will be established for the long term protection of biodiversity.
31. A decade has elapsed since the implementation of Agriculture Perspective Plan. A mid term evaluation of its implementation will be carried out. An integrated development of agriculture sector will be initiated by consolidating its strengths and correcting its weaknesses as indicated by the evaluation.

### **Land Reforms**

32. Service delivery will be made effective by computerizing the records, land ownership certificates and other documents available in the Land Revenue Offices and Survey Offices through Geo-Information System. Beginning from the next Fiscal Year, land ownership certificates will be provided through computer system in five Land Revenue Offices of the Kathmandu Valley and six Land Revenue Offices of Kaski district. There will be gradual extension and expansion of computerized system in other Land Revenue Offices as well.

33. A passbook will be made available to the landowners from the VDCs as a proof of revenue payment to free them from the problem of double payment of revenue in case of their failure to keep safe receipts of their earlier payments.
34. Necessary infrastructure to implement scientific land reform programs will be developed by ending the feudal land ownership system. Efforts will be made to incorporate an integrated record of the landholding of a landlord in a single certificate of land ownership. The pending tasks will be completed to end the dual land ownership. Necessary amendments will be made in the relevant laws to ensure the participation of the landless people. The rehabilitation program for the Free *Kamaiyas* (bonded land labourers) will be given continuity.
35. Under the national land utilization project, land utilization maps of 36 districts including Kirtipur and Lekhnath municipalities have been already prepared. Formulating the law for environmental balance and sustainable development, and to increase agriculture production, land utilization project will be implemented in the districts for which a land utilization map has been already prepared. I have allocated Rs. 970 million for the Ministry of Land Reforms and Management.

#### **Irrigation Facility and Water Induced Disaster Control**

36. Necessary allocation has been made to expand surface irrigation and ground water irrigation facilities including irrigation system by introducing newer technology in 30 thousand hector in the coming Fiscal Year. A sum of Rs. 3.99 billion has been allocated for the expansion of such irrigation facilities. Groups of water user farmers will be encouraged to operate and maintain small and medium sized irrigation facilities while the government will be responsible more on the operation and maintenance of the large scaled irrigation schemes.
37. Headwork construction of the Sikata Irrigation Project will be continued, and construction of the main canal will also start.
38. Implementation of the Irrigation and Water Resources Management Project will start in various districts of the Western

part of the country. Under this project, construction of 51 surface irrigation projects, and 7 cluster irrigation systems that would provide irrigation facilities in 300 hectares in a cluster of 100 shallow tube-wells extending from Nawalparasi to Kanchanpur will be started. The handover process of the irrigation management of 24 thousand hectare area under Kankai, Sunsari-Morang, and Narayani Irrigation System will be started. The construction work of 147 medium scale projects including Singikhola, Mallaj, Singhat, Khopijangha, Lalbakaiya of Terai, hills, and mountain region, will be conducted.

39. Additional 4 thousand shallow tube-wells will be constructed in 20 Terai districts. For this, government will provide subsidies during the construction phase on the basis of geographical situation, and farmers' demand. In addition to this, the construction work of 25 deep tube-wells will be completed.
40. I have made necessary allocation to encourage for the construction and maintenance of irrigation projects according to the farmers' demand. To this end, and also based on the participation of concerning farmers, I have proposed to provide subsidy in small irrigation projects for farmers' cooperatives up to Rs 300 thousand, and for farmers users groups up to Rs 100 thousand.
41. Hundreds of demands have been received from the public for river training projects on a spontaneous basis. Given the limited resources, all of these demands can not be met. Thus, it has been realized that projects should be selected on the basis of disaster victim groups' participation, and with identifying the genuine demands to achieve maximum benefit from the available resources. Therefore, arrangement has been made that from the coming fiscal year, for river training control, government will provide inputs such as Gabion wires, nylon nets, empty bags as well as the technical support whereas, the earth work should be done through public participation. For the natural river training control, plantations of cane, bamboo, and reed at the river bank will be encouraged.

### **Local Infrastructure Development**

42. While constructing the agricultural and local roads, policy that encourages the economic utility of such roads and promotes the market for agricultural productions will be adopted. In the rural area, in coming fiscal year, 706 K.M. earthen road including the agricultural and local level roads, and 580 K.M. gravel road will be constructed through implementing the rural road projects. Upgrading and regular maintenance of 405 K.M, and 3700 K.M. road respectively will be carried out. I have allocated Rs 3.35 billion for this purpose.
43. In the coming fiscal year, construction of 249 new, and 311 ongoing suspension bridges will be carried out. Among the on going, 215 suspension bridges, and 5 concrete bridges will be completed.

#### **Expansion of Alternate Energy**

44. Electricity will be generated through construction of 3250 K. W. small scale and micro hydropower projects in places where such facility is not available from the national grid system. In addition to this, 20 thousand domestic solar electricity system, and 25 thousand small capacity solar lamps will be distributed. Through alternate energy, 32 thousand biogas plants will be constructed in the potential areas. In addition to this, 500 solar dryer cooker, 1255 improved water mills, and 50 thousand improved ovens will be installed. I have allocated Rs. 1.05 billion in these programs which will be run with coordination and cooperation of non-governmental organizations through the Alternate Energy Promotion Centre.

#### **Forest, Vegetation, Wildlife and Watershed Preservation**

45. Government investment in the forestry sector has been declining for the past few years. In the coming fiscal year, with a significant increase in the capital expenditure, I have allocated Rs 2.30 billion for the forestry sector. Through this, programs such as forestry, vegetation, wildlife, watershed preservation and promotion, and tree plantation will be conducted which will contribute to poverty reduction through the increase in forest based productions and environmental preservation.

46. Tree plantation will be conducted producing 5 million seedlings of a cane, bamboo and herbs, etc. both in the public and private lands in order to extend the forestry area, minimize current pressure on government owned forest, improve the supply, and increase the income opportunity. Emphasis will be given to intensive development of herbs such as *Pipla*, *Timmur*, *Sajyoon* which carry commercial potential.
47. Additional 482 community forest user groups will be formed giving priority to leasehold forestry within the community forestry. Priority will be given to the preservation of forest and environment of the *Churiya* area.
48. A compatible forest management policy will be adhered to for making the block forest of 5 districts of the Terai and inner Terai commercially productive. Likewise, identifying the treeless national forests, a policy measure will be taken to hand over 5 such forests to private entrepreneurs on the long term contract basis for commercial plantation.
49. With the contribution of forest entrepreneurs, a separate ‘Forest Development Fund’ will be established. From the coming fiscal year, the forest entrepreneurs will contribute additional Rs 5 per cubic feet while purchasing the timber, and a corresponding amount will be deposited in the Fund from government’s part as well. The deposited amount in the Fund will be spent in tree plantation and forest preservation. The Ministry of Forestry and Soil Conservation will prepare a Fund manual by mid -September 2007.

**Infrastructure development: Road, electricity, and communication**

**Road**

50. Expected economic activities could not be carried out in certain areas of the country due to the lack of road facilities. That road transportation results in multiple benefits is self evident. The recent road connection in two districts of Karnali and its positive impact on economic activities is a burning example. Therefore, I have allocated Rs 9.34 billion to develop road connectivity throughout the country to increase opportunities of economic gains, and subsequently, to improve the livelihood of the people. This amount is higher by Rs 1.59 billion and Rs. 2.48 billion,

compared to last year's appropriation and this year's revised estimation of the expenditure respectively.

51. Under the Terai Road Development Program, construction work of 591 K.M road, including the *Hulaki* and feeder road in Jhapa, Morang, Saptari, Siraha, Dhanusha, Mahottari, Sarlahi, Bara, Rupandehi, Kapilbastu, Banke, Bardiya, and Kailali districts will be started in the first phase from the coming fiscal year.
52. It has been aimed to provide roads facilities within three years to the district head quarters having no road access. According to this, Jajarkot will have road access within 3 months to come. The district headquarters of Sankhuwasabha, Bhojpur, Khotang, Solukhumbu and Mustang will have roads access within the next fiscal year. The on-going roads construction work of Bajura, Manang and Humla will be continued. Similarly, construction of the road connecting Dolpa and Mugu district headquarters will be launched.
53. A national transportation network will be expanded by developing the roads which signify the regional values in different geographical regions of the country. The construction and upgrading of Ranke-Ravi- Budhabare-Bhedetaar roads of Eastern Mahabharat region and Chatara-Gaighat-Katari-Sindhuli-Hetauda roads of Chure region will be initiated. The construction and upgrading work of Galchi-Trishuli-Safrubeshi-Rasuwegadhi roads will be initiated. Construction work of Gorkha-Barpak and Bhachhek-Sirandanda sector will be started. Mapping and construction work of Kaligandaki Corridor which can link the important valleys and cultural regions of Western regions will be undertaken. Baglung-Burtibang road will be up-graded. Mapping and track opening of Karnali corridor will be started for the additional infrastructure development of Karnali region. Similarly, I have allocated budget to promote further the work of Ghorahi-Nuwagaun-Tila-Ghartigaun-Mushikot portion. Construction of the remaining portion of Brmhadevmandi-Jogbudha-Darchula-Tinker roads of Far Western region will be given continuity.
54. Extended mapping and construction work will be continued in the next fiscal year so as to complete the remaining portion of the mid-hilly- highways connecting Jhulaghat of Baitadi district in the west from Chyangthapu of Panchthar district in the east within five

years on a phase-wise basis. This work will be accomplished on a campaign scale by mobilizing people's participation.

55. Under the roads up-grading program, blacktopping of Chandranighapur-Gaur, Belbari-Choharwa, Biratnagar-Rangeli, Bardanga-Urlabari, Damak-Gauriganj, Bhaluwang-Peuthan, Sanfebagar-Mangalsen, Aamilia-Tulsipur-Salyan and Chakchake-Liwang roads will be launched. The up-grading work of Fidim-Taplejung, Tamakoshi-Manthali-Khurkot, Dhalkeber-Janakpur, Khodpe-Bajhang, Surkhet-Kalikot, Batadi-Satbanjh-Gokuleshwar, Sunkoshi-Okhaldhunga and Basantpur-Terathum (Manglung) roads will be commenced.
56. In order to cope with the traffic challenges of the high-traffic areas inside Kathmandu valley, Soalteemode- Kalankee-Nagdhunga road will be widened. Ringroad-(Gulf Course)-Bagmati road will be constructed for coping with Kalankee bi-pass and Chabahil bi-pass. The construction of Bagmati corridor, Dhobikhola corridor and Bishnumati corridor roads will be given priority.
57. With the purpose of constructing short-distance alternative highways connecting Kathmandu and minimizing the cost of transportation, feasibility study and mapping work of short distance fast track roads connecting Kathmandu valley with Terai will be accomplished.
58. The construction work of the industrial corridor of Pathlaiya-Birgunj-Dry Port and Sunauli-Parasi road portion will be continued.
59. I have provisioned more than double increment in the budget of Roads Board to ensure resources required for the regular, occasional and periodic maintenance of already constructed roads.
60. The construction works of 30 bridges under erection in the main highways and sub-highways will be completed and the construction of remaining bridges will be continued. After necessary study, preliminary work for the construction of Mechi and Rajapur bridges will be launched.

### **Hydro-power**

61. Despite abundant reserve of water resources, the country is unfortunately facing the problem of load shedding every day and

electricity worth billions of rupees has to be imported. In order to end this situation quickly, it is essential to attract domestic and foreign investment. Entrepreneurs are attracted for investments in this sector due to the growing domestic and external demand for energy. This is the opportune time to gain national prosperity by utilizing the hydro power of Nepal. Therefore, programs will be operated so as to mobilize domestic resources for small and medium scale and foreign investment for large scale hydro power projects with the aim of producing 5000 MW hydroelectricity within next 10 year's period. I have allocated Rs. 7.65 billion in the hydro electricity sector next year.

62. The production of Middle Marsyangdi hydro electricity project, which is going to be completed next year, will be connected to the central grid, resulting enhancement in the supply of electricity to some extent.
63. With the aim of accomplishing 30MW Chamelia hydro electricity project by 2011, the ongoing construction work will be given continuity. Access road for the Kulekhani-III hydro electricity project is under construction. To complete this project by 2010, the construction work of tunnel and power house will be started.
64. Construction work of the hydro electricity projects like Kabeli "A"(30 MW) and Riddi Khola (2.4 MW) will be further accelerated. The construction of hydro electricity projects like Rahughat hydro power project, Trishuli-3 A (60 MW) and Upper Trishuli-B (40 MW) will be expedited by mobilizing financial resources. The construction of access road and works on detailed engineering of Upper Tamakoshi will be completed and construction work will be started next fiscal year by mobilizing financial resources.
65. The large hydro power projects like West Seti, Arun III and Upper Karnali will be implemented shortly with foreign investments.
66. Rural level electricity distribution system will be managed to serve additional 35 areas next year through community electricity distributing agencies under the community rural electrification and distribution management program. If any private electricity generating company wishes to run/operate electrification program, arrangement of cost sharing will be provisioned on the basis of the proposal. Next year, some 185 thousand households will be

benefited from entire program of rural electrification. Besides this, additional Rs. 1 billion has been already made available to complete the unfinished rural electrification projects which can immediately generate electricity to the people. This additional investment would help complete the unfinished electrification program in the entire districts of Terai and 587 VDCs of 37 other districts like Sindhuli, Palpa, Dailekh, Kaski, Tanahu, Gulmi, Ilam, Arghakhanchi and Gorkha. Additional 415 thousand people will be benefited with this scheme.

67. In order to attract private sector in the electricity generation business, the law related to survey license, power generation, and power purchase agreement etc. will be simplified and arrangement will be made to grant permission within a short span of time. "Electricity bond" will be issued for the purpose of securing necessary capital for the generation of electricity.
68. The tendency of holding for long and not initiating the trade even after receiving the license to produce hydro electricity projects has created hindrances to the power development. The individuals or companies who do not initiate their work even after receiving license will be charged with increased rate of annual renewal fees to discourage this temperament. Arrangements will be made to cancel the license if the works are not carried out within specific period.

### **Information and Communication**

69. Programs will be carried out with the goal of “telephone at each village, mobile phone in everybody’s hand and internet in each house” with a view to making communication available at people’s doorsteps and in everybody’s hands. Program will be initiated to provide at least two telephone lines in each of the 1007 Village Development Committees which still lack telephone facilities. I have reduced the telephone ownership fee by 33% in order to facilitate the general public’s access to telephone service.
70. With the full utilization of existing optical fiber, microwave and satellite link, a program of installing tele-centers will be initiated for providing citizen’s access to modern information technology. Initiatives will be taken to expand the network of Broadband Internet service down to the village level. Information and communication technology will be expanded down to the rural

areas by making the postal service fast, smooth, reliable, commercial and diversified.

71. Law related to right to information will be formulated in order to ensure the citizen's right to information. Necessary amendments will be made in law with a view to protect the rights and benefits of the working journalists.
72. New transmission centers will be installed in Terathum, Namche of Dhankuta and Chamere of Surkhet to expand the transmission of Nepal Television. A sub-station of Radio Nepal will be installed in order to cover its broadcasting in the various districts and areas of Karnali Zone. I have allocated a sum of Rs. 2.13 billion for the Ministry of Information and Communication.

### **Urban Development**

73. National Housing Policy, 1996 will be refined with a view of promoting planned housing development and promotion of private sector investment in the areas of housing and land development. The provision of land holding ceiling will be waived for the planned housing construction companies with the condition that the land will be utilized for the same purpose within five years. Necessary policy will be formulated to facilitate leasehold property transaction.
74. Program related to infrastructure works will be initiated to develop cluster housing areas in some places of Humla and Kalikot districts where the study related to providing physical facility by integrating scattered settlements was concluded this year. Feasibility study on developing cluster housing area will be carried out in Pyuthan and Myagdi districts next year.
75. The unplanned urbanization has made it difficult to acquire land for additional physical infrastructure development in such unplanned areas. The government cannot afford the infrastructure development costs like road and sewerage by providing compensation for land from its own resources. Hence, a Land Development and Acquisition Policy will be formulated for urban development, which will make a provision of beneficiaries' contribution to the infrastructure development.
76. I have allocated necessary amount for the physical infrastructure development for Integrated Urban Development in Itahari of

Sunsari and Attaria of Kailali. In addition to the initiation of construction of a ring road in Biratnagar, planned urban development work will also be carried out. The preliminary work on the construction of outer ring road in Kathmandu will be completed.

77. The role of the Solid Waste Management and Resource Mobilization Center will be directed towards the field of technical assistance, while the local bodies will be made fully responsible for solid waste management. As “Rivers can not be the destination of sewerage”, necessary policy will be followed to prevent contamination of river water in urban areas including Kathmandu Valley. I have set aside a sum of Rs. 1.27 billion for the urban development program.

#### **Targeted Programs for Poverty Alleviation**

78. The impacts and effectiveness of the programs already implemented aiming at alleviating poverty will be reviewed, and a policy will be followed to uplift the living standards of the deprived community, class and area through affirmative actions and targeted programs. A sum of Rs. 51 billion has been allocated for the programmes such as rural infrastructure, capacity development, grant to local bodies, programmes based on people’s participation, and social security that would directly contribute to poverty reduction,.
79. Intensive program on poverty alleviation will be carried out in 40 districts including districts of Karnali Zone, which are considered backward on the basis of Human Development Index, and also in all the Village Development Committees of southern Madhesh bordering with India. Income generating programs like promotion of traditional skills and innovation led enterprise; community infrastructure like roads, bridge, drinking water and irrigation; and capacity development programs like education, health and training will be carried out by directly targeting the ultra poor, women, Dalits, indigenous people, Janajatis and backward Madhesi communities. As many as 80 thousand households will be benefited from the implementation of 3 thousand 500 projects in the next Fiscal Year. I have allocated a sum of Rs. 1.77 billion for this program in the Poverty Alleviation Fund.
80. Maternal and Infant Care Fund will be established in 25 poor districts considered to be backward on Human Development Index. Essential health services related to emergency and indoor

services will be provided free of cost from the district hospitals having a maximum of 25 beds and the primary health centers.

81. Various programs will be implemented with a view to raising the income earning of the poor and backward class through agriculture. These programs include off-season vegetable growing in plastic sheds, goat exchange program in 38 districts, fisheries by women's group at the highway side of Kailali and Kanchanpur districts, Parwar farming extension in 11 districts of Madhesh, potato farming in 20 districts and ultra poor targeted program in 10 districts. Community livestock development program will be implemented in 22 districts having a high population density of Dalits and freed bonded labor. Program on commercial farming of 12 priority herbs will be implemented in 12 poor districts.
82. The "One family One job" program in Karnali being implemented since this Fiscal Year will also be continued effectively.
83. I have given continuity to the day meal and cooking oil distribution program in 11 districts having food shortage, very low accessibility to the education and low enrollment rate of girls. Additionally, the day meal program is continuing in Karnali zone.
84. A scholarship at the rate of Rs. 350 annually will be provided to the girls students for all Dalits studying in primary level, all girls students of Karnali Zone and fifty percent girls students among the talented and deprived of each schools in other districts. Scholarship at the rate of Rs. 1700 annually will be provided for 40 thousand talented girls students and 20 thousand talented boys students in secondary and lower secondary level. An annual scholarship of Rs. 600 at the primary level and Rs. 1700 at the lower-secondary and secondary levels will be provided to all students from marginalized cast groups namely Chepang, Raute, Mushahar, Dom, Dushad, and Badi.
85. I have allocated budget for the programs to be implemented by National Commission for Upliftment of Indegeneous Janajatis; Deprived, Suppressed and Dalit Upliftment Development Committee; National Dalit Commission and Gumba Management and Development Committee. From these programs, various programs including preservation of endangered languages and scripts, preparation of dictionary and grammar in mother languages, literacy program and scholarship in higher and

vocational education, maintenance of ancient Gumbas will be conducted.

86. I have made provision of 20 percent rebate on land registration fee for Dalits. Dalit related programs will be effectively monitored by National commission for Dalits.
87. I have allocated some amount for the preservation of lakes situated in Madesh. Necessary budget provision has been already made in this fiscal year for the operation of Janakpur Railway, which is the only railway service in Nepal. Provision has been made for its development and other improvements in the next year.

### **Women Empowerment**

88. Women are significantly contributing to national economy. In the next year, the programs which support gender equality will be conducted by ascertaining their participation in economic, social and political process for women empowerment. I have brought into effect the concept of gender responsive budget. According to this, I have allocated an amount of Rs. 19.09 billion in the next fiscal year for programs directly benefiting the women.
89. The Women Development Program related to poverty alleviation, gender equality and social mobilization, which is being implemented in 1624 village development committees, will be expanded to additional 54 village development committees.
90. I have given continuity to the provision of 20 percent rebate in registration fee on land ownership transfer to women.
91. Women's Participation will be increased for the posts such as volunteer, development organizer/co-planner and social mobilizer.
92. I have given continuity to the programs related to economic, social and legal empowerment and institutional development which are being implemented in 15 districts including Baitadi, Bajura, Bajhang, Achham, Doti, Kalikot, Jumla, Mugu, Ramechhap, Sindhuli, Dhanusha, Sarlahi, Mahottari, Rautahat and Bara.
93. I have continued the incentive allowances for mothers during their delivery period. A Women Health Volunteer Fund and a Motherhood and Infant Care Fund will be established. Furthermore, programs related to motherhood and infant health will also be broadcasted in local language.

94. Housing development plan will be implemented under immediate relief program for economic and social upliftment of women in 10 districts seriously affected by conflicts.
95. Special programs will be conducted in 40 districts for economic self-sufficiency of deprived, ultra-poor, landless, Dalits, Janajatis and Madhasi women. Special programs will be launched for upliftment of Badi women.
96. Senior citizens' health care program will be launched in all districts by extending health services and facilities to senior citizens in order to provide solid contribution for their social security. A free treatment provision has been made through Shahid Gangalal Heart Foundation for the treatment of serious heart patients over the age of 75 and the children below 15 years with poor economic condition.
97. I have given continuity to the Allowances to be received by senior citizens, disabled, weak and helpless widows. Additionally, an amount of 10 percent of the monthly pension amount as medical allowances will be added to the pension for government pension holders over the age of 75 by the next fiscal year. I have allocated Rs. 950 million for the senior citizens' program.
98. The social security situation of senior citizens is being complicated due to a shift to nucleus family oriented structure from joint family structure. Thus, a law will be prepared to implement a contributory pension system for reliable security of labor, workers and self employed senior people apart from government employees.

**(C) Investment Promotion**

**Industry and Export**

99. Industrialization is not possible without the development of organized private sector with an enterprising and risk-bearing ability. It is necessary to raise the morale of private sector decreased for the last few years. To address this situation, a policy has been undertaken in the next year's budget to guarantee industrial and investment security, reform in legal and organization structure for creation of investment climate, procedural simplification, additional provision for sick industry rehabilitation and opportunities for foreign, non-resident Nepalis and private sector investment.

100. It is necessary to free industries from incidents such as *bandha*, strikes, *gherao* and lock-up. For this, new measures will be adopted by finding the basis of compromise among the management and laborers. Due to the almost daily obstructions in highways, consumers are bound to purchase high priced goods in the internal market, supplies are interrupted and exports are down. A law will be enacted to stop obstructions in national highways and feeder roads and impose penalty for violators. A separate Industrial Security Force will be established to guarantee security in industrial corridor.
101. A Special Economic Zone related law will be enacted for development and management of industrial estates, export processing zones, tourism and recreational spots and special commercial areas. Rajbiraj Industrial Estate will be transformed to Special Economic Zone. A Garment Processing Centre, covering 150 bighas, will be established in Simara, Bara. A preliminary study for the construction of Special Economic Zone will be started in Nepalgunj of Mid-Western region and in appropriate place of Kailali or Kanchanpur of Far Western Region.
102. An Investment Board with full authority will be set up for industrial investment promotion. It will have a separate office and all the facilities to investors will be provided through this Board.
103. The financial accessibility is not easy at the present financial market for technical and skillful youth entrepreneurs to transform their vision into successful economic transaction. An appropriate policy will be made public soon to address the situation including the provision of covering the risk insurance by Government of Nepal on entrepreneurial capital fund invested by operating company.
104. Strict policy will be adopted to discourage all forms of carteling and syndicate systems which increase the business cost, hit the consumers and exert negative impact on efficiency of the economy.
105. There is a negative effect on exports and credibility of Nepali products in international market due to the competition with fake goods for the products such as Carpet and Pashmina using Nepali arts and skills. To correct this situation, a special label of Nepali Carpet and Pashmina will be developed and provision will be made to put such labels compulsorily in Carpets and Pashminas exported from Nepal. A provision will be made to bear 70% of the

cost of first registration of such labels and trademarks in imported countries by Government of Nepal and remaining by related producer's unions. The Government of Nepal will help related producer's unions in creating necessary infrastructure for regulation of labels.

106. Arrangement will be made to clear by mid January 2008 all applications pending with One Window Committee for the customs duty draw-back facilities under the Industrial Enterprises Act
107. If sold to permitted export houses, tax as per the law will be refunded to concerned industries, assuming that such sales are equivalent to export. Customs facility will be provided at the premises of export house and goods will not be inspected again at export customs point if goods are delivered in a sealed container from export house to export points.
108. To encourage exports, a provision will be made to provide facility of bank guarantee for all the taxes levied on imports of raw materials imported by those industries which have exported more than 60% during the period of last 12 months. Provision will be made to release such bank guarantee from the related customs point. Likewise, provision will be implemented to refund the tax on flat rate from customs point to export oriented industries at the time of export.
109. For trade facilitation, the construction work will continue to expand multimodal system at Mechi Customs point next year. Feasibility study will be carried out for construction of dry port in Kavre-Sindhupalchok and Rasuwa- Nuwakot area considering the existing weak physical facilities for trade through Chinese border.
110. The commercial banks can not provide long term loans easily for hydropower production and infrastructure related industries which need long period for commercial production. In addition, single obligor limit is also a hindrance for investment in such sectors. To improve the situation from next year, Nepal Rastra Bank will issue necessary directives. Banking sector will be encouraged to establish Infrastructure Bank.
111. Private sector will be encouraged to establish two cement industries in Dang and Surkhet considering increasing consumption and demand of cement. For this, road and electricity services, as

infrastructures facility, will be provided in concerned industries' areas. The lime stone mines, consumed by Udayapur Cement Factory, will be open also for private sector by not limiting the scope of necessity for the Factory.

112. "Industrial Rehabilitation Fund" related procedures have already been approved for rehabilitation of sick industries from internal conflicts. A provision will be made to contribute in the Fund by Nepal Rastra Bank and Commercial Banks. I have allocated Rs.500 million from Government of Nepal.
113. With the long term vision of developing infrastructure for medical tourism and teaching in higher education, the foreign investors including private sector will be encouraged to develop and operate the infrastructure of universities and specialized hospitals. The government will assist in land acquisition to build such infrastructures in the regions excluding Kathmandu Valley.
114. An appropriate arrangement will be made for removing the obstacles seen in the course of ensuring the Non Resident Nepalis participation in the country's development by utilizing their knowledge, skill, capital, and technology.
115. The carpet and garment industries will be provided 75 percent income tax rebate for five years effective from the transfer year if such industries relocate themselves outside the Kathmandu Valley. The Government will build infrastructure like, road, electricity, and sewerage in those areas if two or more industries have been transferred to a single location with a provision of retaining one thousand or more workers there.
116. In order to increase the employment opportunities through the development and promotion of Small and Cottage Industries, a Micro Enterprise Policy will be implemented. A separate fund will be established under the micro credit program in order to increase self employment through such programs for the trained human resources.
117. In order to enhance the competitive capacity by taking advantage of the available opportunities in the world market, it is necessary to seek a way out to facilitate Nepalese entrepreneurs for investing abroad. With this measure, there will be an increase in the national income as well the international credibility of the Nepalese

entrepreneurs and national capitalists in the long run. By acknowledging this fact, a legal provision will be made stipulating certain conditions to make the foreign investment open for those industries which transfer technology from Nepal, establish an auxiliary subsidiary company abroad by the Nepalese holding company under operation as a public limited company in Nepal, and the mutual fund investing in portfolios instruments of foreign capital market. Nepal Rastra Bank will prepare other procedures in this regard.

### **Tourism Development**

118. A new Tourism Policy, 2007 will be formulated by incorporating the long term vision and broad-based reform agenda of the tourism sector. In order to increase the quality and quantity of tourists under the Special Tourism Promotion Program next year, Non Resident Nepalese (NRNs), Nepalese diplomats, residential and honorary consulates, Nepalese students and worker communities abroad will be mobilized to implement “ Send Home a Friend” program. Likewise, the renowned Nepalese mountaineers, athletes, and others will be involved by awarding the brand ambassador to promote "Nepal For All Seasons" program.
119. Necessary infrastructure building works will be started in order to construct second International Airport which is feasible in Nijgarh of Bara district. The Government will attract foreign investment by building necessary infrastructures including land acquisition for the construction of international airport of regional level in Bhairahawa and Pokhara.
120. Modern equipment will be installed in Tribhuvan International Airport to make airlines flights well managed and more reliable.
121. The sick hotel industries are now passing through a revival stage. As the arrival of tourists is being increased, hoteliers are required to increase their investment to maintain the standard of hotels as per the guests' expectations. The Government will provide hoteliers some concession on customs duties on the import of furniture and fixtures in order to minimize the investment cost to some extent. The customs exemption will also be provided to the hoteliers for the importation of the vehicle for the use of tourist as well.

122. The national heritages of cultural significance will be preserved. A budget is allocated for the development and preservation of the Lumbini Area Development, Greater Janakpur Area Development, and Pashupati Area including other culturally and archeologically important sites. A provision has been made for deducting the expenses of upto Rs. 1 million for the income tax purpose if such amount is invested by Nepali firms and companies in schemes devoted to preservation of national religious and cultural heritage sites and development of sports infrastructure.

### **Financial Sector Reform**

123. Insolvency Administration Office and Secured Transaction Registrar's Office will be established next year. Anti Money Laundering Act and Banking Fraud Control Law will be promulgated to control financial crimes. Likewise, a separate Commercial Bench in 6 different Courts will be established to expedite the hearing and decision of the cases related to the financial sector.
124. Small depositors have not been attracted to the capital markets due to the lack of Mutual Investment Fund. Due to this, on the one hand, the investment has not been competitive and on the other, the liquidity position has been rising. A trust law will be formulated to allow the commercial banks with certain standard to manage the mutual fund. An arrangement will be made to establish a regulatory body for the regulation and supervision of the Pension and Mutual Investment Fund related transaction.
125. An arrangement will be made to allow the Non Resident Nepalis and organized foreign investors to invest in the secondary securities market.
126. The foundation for reinsurance market has been built up due to the expansion in the size of life and non life insurance business. The Insurance Committee will be made active next year to start reinsurance business. The cost of insurance will be reduced by reviewing the fees payable to Insurance Committee by the Insurance Companies.
127. The supervision, monitoring and evaluation work by Nepal Rastra Bank will further be strengthened to maintain financial health of the banks and financial institutions. Actions against the willful defaulters of the banks and financial institutions will be continued.

The Priority has been given to strengthen the institutional capability of the Loan Recovery Tribunal.

128. The micro credit program will be made available to the doorstep of the poor and deprived people to ensure their access to the financial services. A micro credit policy will be brought next year. A responsible institution will be set up at the central level to strengthen and supervise the micro credit institutions.
129. In order to develop Nepal Stock Exchange an autonomous body by divesting the government ownership, an arrangement will be made to sell its ownership to the listed companies, employees of the Nepal Stock Exchange and the public.

### **Public Enterprises Reform**

130. Government's share investment in the Public Enterprises has reached more than Rs. 68 billion until FY 2006/07. Out of this investment, less than RS. 40 billion only has remained as government investment showing 42 percent capital loss. The total accumulated loss is more than Rs. 47 billion. In order to manage government investment in public enterprises by considering such a severe economic mismanagement, institutional reform will be implemented and the Privatization Act will also be amended.

### **Labor and Foreign Employment**

131. The labor pact has been concluded recently with United Arab Emirates for the protection of rights of the labors going to foreign employment. Similarly, the works of concluding labor pact are in the final stage with Malaysia and South Korea. The labor pacts will continue with other countries also. Necessary arrangement will be made for the insurance scheme of Rs.500,000 to every person going to foreign employment for the period of agreement. The provision of Labor Attache will be made gradually in the countries where the Nepalese labors are high in number. The access and capacity of Nepalese Embassy will be increased in other countries. A foreign employment rehabilitation fund will be established for recuing those victimized in course of foreign employment.
132. Skills development training programs will be launched considering the demand of national and international labor market. Priority shall be given to martyrs' families, peoples injured in People's Movement, handicapped, blind, women, conflict affected people

and under privileged community including very poor for the training programs which promote the industries based on local raw materials. In the coming year, I have arranged a budget to provide training opportunities for 33,000 people from the government agencies.

133. A significant amount has been deposited in the National Welfare Fund established under the Bonus Act. To utilize this Fund for the larger benefits of laborers, a separate working manual will be issued soon.

#### **Economic Diplomacy**

134. With an emphasis on economic diplomacy, Nepalese embassies will be mobilized for economic co-operation, tourism promotion, trade expansion and diversification, promotion of foreign employment and promotion of foreign investment. Machine readable passport system will be initiated to comply with the international standard. A sum of Rs. 1 billion 140 million has been allocated for the Ministry of Foreign Affairs.

#### **(d) Human Development**

##### **Education**

135. I have allocated Rs. 28.39 billion for the Ministry of Education and Sports. This is an increase of Rs. 5.38 billion as compared to the allocation of the last year's budget.
136. A serious shortfall of teachers has been noticed in schools where the proportion of student to teacher is high, as the number of teacher could not increase in proportion to the students. To address this problem, following arrangement will be made in the next fiscal year:

An additional grant will be provided for hiring 12000 teachers in those primary, lower secondary, and secondary schools where student-teacher ratio is high. The teacher grant scheme will be initiated on trial basis. The grant will have to be utilized by the School Management Committee for hiring teachers with priority from among women, *dalits*, and the disabled holding teacher's

license. It is believed that pressure on the financial resources will be less with the use of about 3800 teachers from this policy.

137. A grant of to Rs. 450 thousand per school will be provided to School Management Committee for the construction of classroom and physical facility on the basis of the design and map approved by the Committee. The grant will be provided to schools for the construction of school buildings which have their own income sources on the basis of cost sharing. Ministry of Education and Sports will issue directives related to the grant before mid August 2007. More than 6000 class rooms and 1500 toilets for girls of more than 2500 schools will be constructed out of the amount of Rs 1.50 billion allocated to the Ministry.
138. At least 2500 schools will be handed over to the community in the coming year as there has been seen considerable improvement in the quality of education of schools already handed over to the community.
139. With view to publishing and distributing cost free text books in time on a cost-effective basis, the priority of all textbooks of the primary level will be arranged through the private sector by mid-November 2007.
140. *Madarasa, Gumba and Gurukul* will be expanded up to lower Secondary and Secondary level by continuing its mainstreaming into the primary education. I have given continuity to Samahit education program to increase the access to education for the handicapped and those children who have special educational need.
141. A grant worth Rs. 50 thousand each will be provided under the "Village Education Program" to those 300 Village Development Committees of 30 districts, where the literacy rate is less than 40 percent, by setting up Community Learning Centres to conduct the literacy related activities. With this scheme, 104 thousand people will be literate, 50 thousand people will get literacy education and 8 thousand two hundred eighty women, *Dalits*, and indigenious,

- Janajati*, will participate in literacy education and income generation program.
142. The primary level teachers totaling 25 thousand and lower secondary level teachers numbering 15 thousand will be offered in-service training. In addition to this, 490 deprived and *dalits* women will be provided pre-service training with subsistence allowance.
  143. Agriculture and Forestry University will be established in Rampur, Chitwan by merging both the institutes of Agriculture and Forestry under the Tribhuvan University. Actions shall be initiated in cooperation of local people and Tribhuvan University to build a regional university by amalgamating the constituent campus of the Far Western and Mid-Western region.
  144. Arrangements will be made to institutionalize sports from the school level. In view of helping the Nepalese people earn a distinct identity in international competition, the government investment will be increased for the development of cricket, Tae-kwondo and football.
  145. I have proposed to earmark Rs. 12 billion and 180 million in health sector. This figure is Rs. 2 billion and 870 million more as compared to the previous year. I hope, the proposed budget will contribute to the prompt and qualitative delivery of basic health services. The implementation of this budget, I hope, shall contribute to curb the population growth rate, reduce child and maternity mortality rate, improve the physical facilities in hospitals and hence to increase the average life expectancy.
  146. The number of beds in hospitals shall be increased. Construction of hospitals and health centers shall be given continuity. Budgetary provision has been made to upgrade 25 sub health posts into health centers on the basis of population and geographical location. Concessions shall be made available to the students of community schools while providing medical services in government hospitals and primary health centers. Additional budget has been earmarked to improve the supply of medicines and equipment in the hospitals and

- health centers. Mandatory provision has been made to explicitly mention an indication "For free distribution and not for sale" in the external cover of the medicines that are meant for free distribution.
147. Integrated child disease management program will be implemented in 64 districts with additional 16 districts to reduce infant mortality rate. 10 million vitamin tablets and 80 million Iron tablets will be distributed. School vaccines program will be implemented in 44 districts as well as administering polio drops program will be continued.
  148. Vaccines will be provided against encephalitis. Spraying medicines will be launched in a broader scale to control *kalajar*.
  149. A program will be launched establishing a permanent fund in every village development committee to encourage women volunteers who are under the family planning and secured maternity program. Thirty five (concerning the eradication of *Prolapse* 25, ENT 5 and specialist 5) free mobile health camp will be launched. Nepal Medical Association and Non-Governmental Organizations will be mobilized to operationalize the camp.
  150. The policy taken by the Government of Nepal in current year to send doctors, who have completed M.B.B.S. under the scholarship program of the Government of Nepal to provide their services in remote and rural area health centers, will be continued.

### **Drinking Water**

151. Diarrheal disease has taking toll of several lives due mainly to non availability of safe drinking water. The incident related to contamination of drinking water has shadowed the achievements made so far in drinking water distribution. In this context, basic rights of the people will be protected by ensuring them with the availability of safe water. Similarly, drinking water projects will be constructed in areas with no drinking water facilities, and water distribution system will also be improved where facilities already exist. Communities' participation will be emphasized in the drinking water sector. A sum of Rs. 5 billion and 330 million has been

- allocated for the drinking water sector. Some 1.95 million people are expected to be benefitted with basic water facilities after the implementation of this budget.
152. Amongst ongoing drinking water and sanitary projects, 126 will be completed in the coming Fiscal Year. Similarly, some 449 drinking water projects under phases five and six will also be completed through rural water and sanitary fund.
  153. Under the Small Town Drinking Water and Sanitation Project, 18 projects of Ratnagar, Lekhanath, Birendranagar, Sunwal, Tribhuvannagar, Tulsipur, Budhabare, Birtamod, Belbari, Bardhaghat, Lamahi including other places will be completed.
  154. The implementation of Melamchi Drinking Water Project will be carried forward.
  155. Necessary allocation has been made for the maintenance of the drinking water supply system in Biratnagar, and for supplying additional water from new sources.
  156. Arsenic test will be completed in 350 thousand shallow tubewell drinking water scheme in Jhapa, Morang, Mahottari, Chitwan, Banke, Bardiya and Dhang districts.

**(E) Reconstruction, Rehabilitation and Relief**

157. A guaranteed environment will be made to all internally displaced people (IDPs) to return to their homes. The relief package will be provided to rehabilitate IDPs, which includes expenses for transportation, educational relief, house repairs and construction, and foods. Similarly, an interest free agriculture credit of for five years will be provided to enable to them cultivate first crops.
158. Social reunion and security program will be launched for rehabilitation of conflict victims such as orphans and single women. Assistance will be provided for transplanting artificial limbs to those who were physically deformed during conflict.
159. Agriculture Development Bank will exempt payment of interest to those borrowers who pay principal amount within fiscal year 2007/08 for the loan amount up to Rs 50 thousand that was lent

during fiscal years 2000/01 - 20054/06. Those qualifying for this exemption will be a person or one of his family members who were killed in the conflict, internally displaced people and people who were physically deformed during conflict. For other conflict victims, an interest rebate of 50 percent will be provided to those who manage to pay full principal amount and 50 percent interest for the loan amount up to Rs 50 thousand. Besides these, concessions will also be provided to other borrowers.

160. Reconstruction of Village Development Committees' buildings, communication repeater stations, health posts, police posts, bridges, power houses, which were destroyed during the conflict, will be carried out. In order to complete reconstruction works within stipulated time, cost and design based on new thinking, the Ministry of Peace and Reconstruction will prepare and implement long, medium and short term plans. I have earmarked a sum of Rs. 1 billion and 80 million from the internal resources for the next fiscal year for this purpose.
161. Monthly subsistence allowances and free education up to bachelor level being provided to martyrs' family will be continued. An arrangement will also be made for providing monthly subsistence allowances to completely disabled and free treatment facilities to martyrs' family members in the public hospitals.
162. A 100 percent rebate will be provided in all kinds of registration fees and duties while transferring ownership titles to the family members such as husband, wife, son and daughter of martyrs who lost their lives during Peoples' Movement.

#### **Peace Fund**

163. A separate Peace Fund is in operation and will be continued for next three years to carry out activities such as Cantonment Management of Maoist Combatants, Maintenance of Law and Order, Election for Constituent Assembly and Management of Internally Displaced People. Necessary arrangements have been made for both Government and donors to contribute to this Fund. I have earmarked Rs 1 billion from the Government to this Fund. I expect that donors will provide additional fund to this Fund. The monthly income and expenditures of the Fund will be made public in a monthly basis.

Similarly, the income and expenditures of the Fund will be audited by the Office of the Auditor General of Nepal.

**Hon'ble Speaker,**

**Improvement in Service Delivery and Effective Implementation Arrangement**

164. A policy of respecting free judiciary, rule of law and human rights will be given continuity. National Human Right Commission will be made operational and activated for human rights protection and promotion. I have allocated additional budget for all levels of courts to assist in rendering justice and to improve operations of Office of the Attorney General and Government Advocate Office. I believe, this will further contribute in the effective performing of justice. I have allocated Rs 969.9 million for courts.
165. Existing laws related to civil service, police service, military service and other government services will be reformed in order to make these services inclusive, service oriented and responsible.
166. In order to make public service delivery more effective and prompt, a Master Plan of E-Governance Working Procedure will be implemented. For this, I have allocated necessary budget.
167. The records on citizenship and passport distribution will linked to the computer network and thus service delivery will carried forward.
168. The Notary Public Council has been established in order to perform the functions like attesting the documents, certifying the copies of the original documents and issuing affidavits, for travelling abroad. In order to minimize the compulsion of the people to come to the center to get such documents, the deserving people who can perform these functions in the district level will be authorized by providing notary public certificate.
169. It is necessary to review pay scale of government employees from time to time to help maintain ethics and promote work efficiency and for sustaining their livelihood. In line with this, to ensure that the recommendations of High Level Pay Commission, 2061 could be fully implemented with a new action plan in the beginning of FY 2009/10, I have increased a total of 27% on basic pay scale including converting the existing 10% allowances. The new pay

scale for the government employees will be implemented from the 17<sup>th</sup> of July 2007.

170. From the viewpoint of controlling corruption, corruption sensitive agencies and sectors will identified and an island of integrity will be identified and in addition to the work of converting such sectors into an Island of Integrity, the investigation and prosecution relating to corruption and irregularities will be made efficient and realistic. A Campaign of zero tolerance against the corruption shall be launched with the support and participation of the civil society and non-governmental organization.
171. A sum of Rs. 10 billion and 890 million has been allocated fir Nepal Army's regular operation. Necessary amounts required for Nepal Army to be involved in the protection of National Parks and Wildlife Conservation, and for development works to be implemented by Nepal Army, has been provisioned in concerned ministries' allocation.
172. National interest will be given topmost priority on foreign aid mobilization. Mobilization of bilateral and multilateral assistance related to development and construction work contributing in sustainable peace process will be arranged.
173. Effective implementation of policy and program in the current fiscal year will be continued in the coming fiscal year. For this, an arrangement has been made to have progress review meeting on the 7<sup>th</sup> day of each month under the chairmanship of Minister and a bimonthly meeting will be organized at the concerned Ministry for effective monitoring and evaluation of the program.
174. An arrangement has been made wherein all ministries and constitutional bodies will make public their annual programs and plans within mid July. Such programs will be approved and necessary work instructions will be issued within first quarter of the year. The annual progress report and financial statement by all ministries will be made public compulsorily within first four months of a fiscal year.

175. The system of delivering approved programs and authorization to concerned entities within mid-August will be observed compulsorily. The authorization for unconditional block grants to local bodies will be issued directly by the Ministry of Finance within 23rd July of a fiscal year. And capital expenditures allocated for Karanali Zone and Bajura District will be freezed only in mid November of next fiscal year.

**Hon'ble Speaker,**

176. To implement policies and programs as stated above, I have allocated a total expenditure of Rs. 168 billion and 995.6 million. Of which, Rs. 98 billion 172.4 million and 91 thousand has been estimated for recurrent expenditure; Rs. 55 billion 261.6 million and 82 thousand for capital expenditure, and Rs. 15 billion 561.4 million and 27 thousand for repayment of principal amount. This estimate is higher by 17.4 percent as compared to total allocation of fiscal year 2006/07 and 28.2 higher than the revised estimate of the same period. The revised expenditure as compared to estimate is 22.2 higher in recurrent expenditure, 51.9 in capital expenditure, and 2.8 in repayment of principal.
177. Of the total expenditure, Rs. 93 billion 743 million and 45 thousand has been earmarked for general administration, and Rs. 75 billion 252.5 million and 55 thousand for development programs.
178. Out of the total expenditure, Rs. 99 billion 605.9 million and 56 thousand will be borne from current source of revenue; Rs. 27 billion 460.9 million and 14 thousand from foreign grant, and Rs. 17 billion 367.4 million and 30 thousand from foreign loan. Thus, a total of Rs. 44 billion 828.3 million 44 thousand will be mobilized from foreign aid. However, despite resource mobilization from these two sources, there will be a deficit of Rs. 24 billion 561.3 million..

## **Revenue Policy and Programs**

**Hon'ble Speaker,**

179. While formulating revenue policies, I have taken main basis of the suggestion received from Revenue Advisory Committee, other trade organizations, professionals and experts. I have accorded high importance to the areas of helping to revitalize export, industries based on domestic raw materials and reforming investment climate. I have adjusted revenue policy and rates in accordance with commitments to the bilateral and multilateral treaties and agreements for which Nepal is a signatory.
180. I have already expressed in the preceding paragraphs about the extended facility to carry over the losses for income tax purpose by the industries, customs rebate to cut down the cost of the tourism industries, and income tax rebate for the infrastructure industries. I have also mentioned earlier the reform in the customs refund process to reduce the cost of exporters. Now, I present other revenue policies and reform programs.
181. In view of the recent depression in export trade, export duty has been reduced in corrugated sheet, synthetic yarn, galvanized iron pipe, plastic products, rice bran and molasses. Similarly, export duty levied on veritable ghee has been reduced by 50 percent.
182. Bonded warehouse and cash guarantee facilities have been provisioned for exporting industries for their import of packaging materials that are not produced in Nepal.
183. A facility of bank guarantee shall be extended to air service operator while importing engine of the aircraft temporarily in lieu of sending its own engine abroad for repair.
184. Fifty percent rebate on imports tariff will be given to micro bus and mini bus to be imported by the private and government hospitals as

- per the beds capacity. In addition, I have proposed only one percent duty on the import of ambulance and dead body carrying vehicle under certain provision for the private hospitals.
185. Considering the situation of price escalation and to give some relief to those having been able to live with marginal income, I have increased the tax exemption limit to Rs. 115 thousand for an individual and Rs. 140 thousand for the couple.
  186. Arrangement has been made to allow loss carry forward system of one income year up to 12 income years in case of infrastructure industry and 7 income years in case of other enterprises.
  187. Individuals having income from house rent until Fiscal Year 2005/06 but failing to pay tax in accordance with the Income Tax Act, 2001 (BS 2058) shall be allowed amnesty of remaining fees and interests provided 15 percent of such house rent income is paid before mid January, 2008.
  188. Except tax exempted agencies, non filers as well as cooperatives, association or agencies who submit their returns and pay their unpaid income tax before mid December 2007 will be given rebate on fees and the interest.
  189. The provision for unexpected risk set aside in the reserve fund by individuals doing general insurance business in accordance with Insurance Act and Rules shall be allowed as expenses for deduction; and the fees and interest due to such expenses not allowed earlier shall be exempted.
  190. In order to make Value Added Tax refund process faster, arrangements have been made to provide refund within 30 days from the date of application in case of regular exporter.
  191. In order to provide relief to the people of the areas where the electricity has not reached and to promote solar energy, arrangements have been made to provide Value Added Tax exemption on the batteries used in the machinery and equipments producing power from solar energy on the recommendation of Alternative Energy Conservation Center. Zero rate facility shall be provided to local industries which produce and sell such batteries.

192. Provision of refund has been made for the amount payable as tax derived from deducting input tax from output tax collected by the clothes, tyre tube and match factories using wooden stick. Sugar Mills and Wheat Flour Mills shall be provided the refund of 50 percent of the amount to be derived as above.
193. Existing bank guarantee or cash deposit system has been removed for the export of excisable goods under self removal system. From this, it is expected to minimize the shortage of current capital in the industries and help to encourage export.
194. Keeping in view of the highest interest of taxpayers and make tax administration easy, the deadline for the submission of excise tax return under self-removal system has been changed to 25<sup>th</sup> day instead of existing 7<sup>th</sup> day of the month after the transaction occurred.
195. For the purpose of providing relief to the brick industries being affected due to unusual situation in the past, exemption shall be provided on arrears including interest, penalty and late fee up to mid July 2006, if they pay all excise duty arrears before mid January 2008.
196. There is a slight increase on the excise duty being levied on cigarette, liquor and cement. Excise duty shall be levied on the imports and domestic production of all types of paints.
197. Legal arrangements for administrative procedure have been made so as to complete necessary formalities for submitting tax returns and making tax payments through electronic devices within this Fiscal Year in order to facilitate the taxpayer.
198. Registration fee for the transaction of land purchase and sale with value exceeding Rs. 25000 has been reduced to 33 percent.
199. Arrangement has been made not to impose any fee for the registration of the mortgage made against the loan provided by co-operatives authorized by Nepal Rastra Bank to deal in financial transactions.

200. In order to provide relief and encourage conflict-stricken and sick cinema halls, arrangements have been made to provide the rebate in penalty on the arrear of cinema development fee up to mid July 2006 if they settle unpaid cinema development fee before mid January 2008.
201. I have provided rebate to Nepali newspapers on fee payable under “Hulak Darta Samachar Patrapatrika”. Nepal Government has highly acknowledged the contribution made by Frequency Modulation Radios in rural area for disseminating information. Accordingly, the rebates on renewal fee and royalty given in the current year will be continued in the coming year as well. In order to minimize their operation cost, I have made the arrangement of providing complete rebate on annual renewal fee and 50 percent on royalty. Likewise, rebate being provided to television agencies will also be continued.
202. From the revenue policies reforms, and from the adjustments and changes made in the tax rates and administrative reforms, additional Rs. 4 billion and 61.3 million revenue is expected to be mobilized. However, there will be a net budget deficit of Rs. 20 billion and 500 million.
203. The net budget deficit of Rs. 20 billion and 500 million equivalent even after the mobilization of additional revenue as proposed above will therefore be financed from domestic borrowing. It is hoped that domestic borrowing proposed to be mobilized will have no effects on macroeconomic balance and stability. Nor will it be inhibiting private sector’s borrowing. Alternatively, in addition to making it active and effective it will also help contribute to short term and long term government securities’ related transactions.

**Hon’ble Speaker,**

204. At the end of Fiscal Year 2007/08, that is, from the implementation of the proposed budget, Gross Domestic Product growth rate is estimated to be at 5 percent. Inflation will be around 5 percent.
205. Nepal Rastra Bank will announce monetary policy soon in order to make positive effects on macro economic indicators including price situation in the course of proposed budget implementation and

enhance sustainably country's international trade and balance of payment situation.

206. I take this opportunity to express my gratitude to my fellow ministers, members of the Interim Legislature - Parliament, Finance Committee, Members of the National Planning Commission, and leaders of the political parties for their kind cooperation and suggestions through various means during the preparation of this budget. Also, I would like to express my appreciation to Nepal Chamber of Commerce and Industries including representatives of other industrial and business communities, professional, economists and respected Nepalese sisters and brothers.
207. On behalf of the Government of Nepal, I would like to express my sincere appreciation to the friendly countries and donors' communities for their continued assistance in the socio economic development endeavors. At the same time, I am also confident that donors' communities will continue to extend such support for the development of the country.

**Right Hon'ble Speaker,**

208. Every possible effort has been made to meeting and accommodating the increasing demand for, and aspirations of the members of the Interim Legislature-Parliament, political parties, various organizations, and members of the civil society. I regret however and also render my sincere apology for not being able to accommodate all the aspirations due mainly to resources constraints and current economic situation.
209. I have annexed more categorized details about the proposed estimate of revenue and expenditure. Also, progress reviews of the ministry-wise policies and programmes of the current Fiscal Year budget, progress report of the public enterprises, statements of technical and other assistance, expenditure details under various budget heads and sub-heads, and the source book have been separately submitted.
210. Finally, I am confident that implementation of this budget would definitely contribute to poverty reduction and help in making investment-friendly climate in the country. This budget will help creating favorable situation to boost the economic activities like social and physical infrastructure development, income generation in local levels, and employment. In addition, I expect that it will

provide opportunities to live with dignity and freedom utilizing our own rights and sovereignty which we all Nepalese seek continuously. Also, I am hopeful that I get all support from the political parties, and Nepalese sisters and brothers in the implementation of this budget. Thank you !

Jai Nepal !