Unofficial Translation

ECONOMIC SURVEY

FISCAL YEAR
2001/2002

HIS MAJESTY'S GOVERNMENT
MINISTRY OF FINANCE
JULY 2002
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FOREWORD

It is indeed a matter of great pleasure for me to make the Economic Survey, 2001/02 public. It contains a review of the economic performances and the progress made in the major economic sectors through execution of the budget of Fiscal Year 2001/02. Review of the economic activities and indicators available for the first 8 months of the current Fiscal Year 2001/02 and that of the previous Fiscal Year 2000/01 form the basis of this survey. Some of the departures or changes made in this report from those of the previous years are as follows:

a. Data on Real Gross Domestic product are presented with FY 1994/95 as the base year; data related to various economic activities have been updated; and several new data are also included.

b. To make this report more useful, informative and objective, more grounds have been covered with new economic activities and information.

c. The report also differs from its predecessors in its style of presentation and inclusion of policy reform program under review.

d. It is also includes several information presented in various reports submitted to the Nepal Development Forum.

e. Emerging issues and the challenges of the Nepalese economy in the context of changes in external and internal environment are also highlighted.

I sincerely believe that this issue of Economic Survey will prove its worth to people’s representatives, intellectuals, economists, researchers, teachers, students and indeed, all Nepalese keenly interested in the development trends of the Nepalese economy.

Sher Bahadur Deuba
Prime Minister and Finance Minister

July 2002
CONTENTS

S.N.      SUBJECT MATTER                                      PAGE NO.
I.       INTERNATIONAL AND NATIONAL ECONOMIC ACTIVITIES     1
II.      PUBLIC FINANCE                                       13
III.     PRICE AND SUPPLY SITUATION                          29
IV.      MONEY, BANKING AND CREDIT SITUATION                 37
V.       CAPITAL AND MONEY MARKET                             62
VI.      FOREIGN TRADE AND BALANCE OF PAYMENTS                73
VII.     POVERTY ALLEVIATION AND EMPLOYMENT                  83
VIII.    AGRICULTURE                                         95
IX.      INDUSTRY, TOURISM AND PUBLIC ENTERPRISES             108
X.       ENERGY, FORESTRY AND ENVIRONMENT                      123
XI.      TRANSPORTATION AND COMMUNICATION                      138
XII.     SOCIAL SERVICES                                      151
XIII.    STATISTICAL TABLES                                   173
Some Explanatory Notes

Following explanatory notes relevant to this chapter and those following should appear in one of the inside pages of the front pages:

- Current year or this year means the current fiscal year 2001/2002 and last year or the previous year means the fiscal year 2000/2001.

- Review period means the first 8 months of the fiscal year beginning from mid July to mid-March. Review period in some context also means the first six months of the fiscal year. Accordingly, such references have been indicated as review period in parentheses in the paragraph where it appears first.
List of Charts

Chart 1 (a): Gross Domestic Product (at Constant Price)
Chart 1 (b): Gross Domestic Product (at Current Price)
Chart 1 (c): Investment, Capital Formation and Savings
Chart 2 (a): Government Revenue, Expenditure and Deficit
Chart 2 (b): Development Expenditure - Total, Social Services and Education
Chart 2 (c): Budgetary Deficit, Foreign Grant, Loan and Internal Loan
Chart 2 (d): Foreign Aid Commitment and Disbursement
Chart 3 (a): National Urban Consumer Price Index
Chart 4 (a): Determinants of Money Supply
Chart 4 (b): Growth in Money Supply
Chart 4 (c): Loan and Deposit with Commercial Banks
Chart 4 (d): Loan - Nepal Industrial Development Corporation
Chart 4 (e): Loan - Agriculture Development Bank
Chart 5 (a): Paid-up Value and Turnover
Chart 5 (b): NEPSE Index
Chart 5 (c): Issue Approved
Chart 5 (d): Market Capitalization
Chart 6 (a): Foreign Trade
Chart 6 (b): Gold & foreign exchange Holdings of the Banking System
Chart 8 (a): Weighted Foodgrain Production Index
Chart 8 (b): Weighted Cash Crops Production Index
Chart 9 (a): Weighted Industrial Production Index
Chart 10 (a): Electricity Generation and Consumption
Chart 11 (a): Extension of Road Facilities
Chart 11 (b): Expansion of Telephone Facilities
Chart 12 (a): Number of Public Schools
Chart 12 (b): Regional Distribution of Schools
Chart 12 (c): Number of Students Enrolled
Chart 12 (d): Extension of Health Services
Chart 12 (e): Expansion of Health Facilities
I

INTERNATIONAL AND NATIONAL ECONOMIC PERFORMANCES

International Economic Performance:

1.1 The global economy in 2001 experienced a slowdown due to cyclical phenomenon. During that year, the global economic growth rate substantially declined to 2.5 percent from 4.7 percent in 2000. The downswing of the business cycle was further fueled by fact that many economies faced the challenges of the macro-economic management; while several others faced economic and financial problems and after shocks of the crisis, oil price surged in 2000, stock exchanges slumped and prices of financial assets fell, investments and consumption by private sectors slowed down and the act of terrorism on September 11 sent the shock waves. Volume of world trade in 2001 witnessed a reduction of 0.2 percent due to decline in imports of commodities and services by 1.5 percent and export by 1.3 percent of developed economies.

Table 1 (a):

<table>
<thead>
<tr>
<th>Global Economic Growth Rate (Annual Increase in percentage)</th>
<th>2000</th>
<th>2001</th>
<th>Projection</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>2002</td>
</tr>
<tr>
<td>Global Production</td>
<td>4.7</td>
<td>2.5</td>
<td>2.8</td>
</tr>
<tr>
<td>Developed Economies</td>
<td>3.9</td>
<td>1.2</td>
<td>1.7</td>
</tr>
<tr>
<td>Major Developed Economies*</td>
<td>3.5</td>
<td>1.1</td>
<td>1.5</td>
</tr>
<tr>
<td>Other Developed Economies</td>
<td>5.3</td>
<td>1.6</td>
<td>2.5</td>
</tr>
<tr>
<td>Developing Countries</td>
<td>5.7</td>
<td>4.0</td>
<td>4.3</td>
</tr>
<tr>
<td>Developing Asia</td>
<td>6.7</td>
<td>5.6</td>
<td>5.9</td>
</tr>
<tr>
<td>China</td>
<td>8.0</td>
<td>7.3</td>
<td>7.0</td>
</tr>
<tr>
<td>ASEAN-4**</td>
<td>5.1</td>
<td>2.6</td>
<td>3.3</td>
</tr>
<tr>
<td>South Asia***</td>
<td>5.3</td>
<td>4.2</td>
<td>5.2</td>
</tr>
<tr>
<td>India</td>
<td>5.4</td>
<td>4.3</td>
<td>5.5</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>5.5</td>
<td>4.5</td>
<td>3.9</td>
</tr>
<tr>
<td>Pakistan</td>
<td>3.9</td>
<td>3.4</td>
<td>4.2</td>
</tr>
</tbody>
</table>

*USA, Japan, Germany, France, UK and Canada
**Indonesia, Malaysia, Philippines and Thailand
***Bangladesh, India, Maldives, Nepal, Pakistan and Sri Lanka

1.2 As the macro-economic management is being better focused and the positive signs of improvement in economic indicators and trade environment emerging, downswing in business cycle is expected to take positive turn soon. The global economy is expected to grow by 2.8 percent in 2002 and by 4 percent in 2003. Also, global trade is expected to increase by 2.5 percent in 2002 and 6.6 percent in 2003 (Table 1(b):

<table>
<thead>
<tr>
<th>World Trade Volume (Commodity and Services)</th>
<th>2000</th>
<th>2001</th>
<th>Projection</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>2002</td>
</tr>
<tr>
<td>World Trade Volume (Commodity and Services)</td>
<td>12.4</td>
<td>-0.2</td>
<td>2.5</td>
</tr>
<tr>
<td>Import</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developed Economies</td>
<td>111.6</td>
<td>-1.5</td>
<td>2.1</td>
</tr>
<tr>
<td>Developing Economies</td>
<td>116.0</td>
<td>2.9</td>
<td>6.4</td>
</tr>
<tr>
<td>Transitional Countries (formerly centrally managed countries)</td>
<td>113.2</td>
<td>10.8</td>
<td>8.0</td>
</tr>
</tbody>
</table>


1.3 The economic growth rate of Asian Developing Countries, which remained at 5.6 percent in 2002, is projected to be 5.9 percent in 2002 and 6.4 percent in 2003. The South Asian Countries, which registered growth of 4.2 percent in 2001, are expected to grow by 5.2 percent in 2002 and 5.6 percent in 2003. In 2001, economic growth of China was 7.3 percent, India 4.3 percent, Bangladesh 4.5 percent and Pakistan 3.4 percent. In 2002 and 2003 in China's economic growth is projected to remain at 7 percent and 7.4 percent, that of India 5.5 percent and 5.8 percent, Bangladesh' 3.9 percent and 4 percent and Pakistan's 4.2 percent and 5.1 percent. All these neighboring countries of Nepal have signs of gradual improvements in economic growth in the years to come. According to a projection of the IMF, consumer price index of South Asia will remain at 4.2 percent in both 2002 and 2003 (Table 1(c).
Overview of National Economy

1.4 FY 2001/02 turned out to be a year of exception from the standpoint of development performance and law and order situation. In the past, the government had been able to implement organizational, policy and regulatory measures to alleviate poverty with a broad based economic growth and to create congenial environment for development. In the current year, however, the economy could not build on this environment due to several hurdles to ongoing development activities. Amidst arson, killings, terror and violence, government remained effortful to continue development activities. As a result, the basic tenet of the state to protect life and property of its citizen on the part of the government overshadowed the priority to development works. Under the situation, the government was forced to declare the state of emergency in the country. Development performance of FY 2001/02 needs to be reviewed in this perspective.

1.5 In FY 2000/01, Gross Domestic Product (GDP) on agriculture sector registered at factor cost (constant price of 1984/85) a growth rate of 4.2 percent and non-agriculture sector 4.4 percent resulting in 4.9 percent growth of the GDP. For the current year, the GDP is estimated to increase by 0.8 percent with agriculture and non-agriculture sector registering of 1.7 percent and 0.2 percent growth rates respectively. The government has been able to minimize if not totally shield, the adverse effects of the internal and external disturbances to the economy. As a result, the growth rate has
remained positive due to recourse to pragmatic measures of structural importance taken by the government. This remains as the most important development features of FY 2001/02. The main indicators of economic activities are presented in Table 1(D).

1.6 Analysis of the GDP growth by industrial origin reveals that the growth rate has decreased to 1.7 percent in the agriculture sector compared to a growth rate of 4.3 percent in the last year. The main reason behind this decline was attributed to the decrease in the production of rice by 1.2 percent due to drought in the Eastern Development Region in the beginning and excess rainfall after paddy plantation causing soil erosion in the paddy fields. During the current year, growth rate of electricity, gas and water is expected to witness a notable growth rate of 14.9 percent as compared to 7.9 percent last year. Completion of Kali Gandaki A (144 Megawatt) and Bhotekoshi (36 Megawatt) has contributed high growth rate in this sector. Due to terrorist activities of Maoists, inward migration of people to the Kathamandu Valley has increased significantly. And as a result, construction activities are expected to increase significantly by 4.9 percent compared to 0.9 percent last year contributing to a favorable impact on macro economic front. Industry and Trade on the one hand and Restaurant and Hotels on the other, were the hard hit sub sectors and their growth declined by 5.9 percent and 6.4 percent compared to the corresponding growth rates of 3.6 percent and 2.8 percent last year. Reasons behind this decline in GDP are: insecure situation faced by industries, pending the renewal of the Nepal-India Trade and Transit Treaties, decrease in the tourist arrival by 21.2 percent, drop in the production of carpet and garments by 23.1 percent and 28.8 percent respectively and a sharp drop in export of Pashmina Shawl by 78.5 percent explain the estimated decline in GDP. Community and Social services sector is expected to increase only by 3.2 percent as compared to 15.0 percent last year. Finance, leasing and real estate are also expected to grow at lower rate of 2.7 percent this year as compared to 3.8 percent last year.

1.7 GDP at the current price had increased by 8.6 percent amounting to Rs. 426 billion in FY 2000/01. Rate of increase, this year, is expected to be 4.7 percent amounting to Rs. 446 billion.
1.8 In the FY 2000/01, the contribution of agriculture sector to GDP at the factor cost on constant price was 37.9 percent and that of non-agriculture sector was 62.1 percent. Contributions of these sectors are expected to correspond to 38.1 percent and 61 percent in the current year.

1.9 In the current year, increase in per capita income expected to be positive. Compared to the GDP of Rs. 17,718 (equal to US $240) last year, it is estimated to increase by 2.1 percent to Rs. 18,083 (equal to US $236). It is evident that there was a marginal rise in the per capita income in terms of Nepalese currency whereas in terms of US Dollar it decreased marginally due to change in the exchange rate.

1.10 The Ninth Plan has envisaged an annual growth rate of 6 percent with the contribution of growth rates of 4 percent by the agriculture and 7.3 percent by the non-agriculture sectors. However, annual growth rate of the economy is estimated to be 3.9 percent with the annual growth rate of 2.9 percent in the agriculture and 4.6 percent in the non-agriculture sectors.

1.11 In the current year, the GDP growth rate (at the current price of factor cost) is estimated to be 4.3 percent with the growth rate of 4.9 percent and 3.9 percent of agriculture and non-agriculture sectors respectively. Corresponding to 3.0 percent and 10.3 percent of agriculture and non-agriculture sectors and GDP growth of 7.4 percent last year, the total value of GDP is expected to reach Rs 410 billion this year as compared to Rs. 393 billion last year.

**National Product:**

1.12 The GDP growth rate at current price is estimated to be 4.6 percent this year as against 8.6 percent last year. Due to this low growth, the per capita GDP growth has been limited to 2.4 percent. In FY 2000/01 the per capita GDP was Rs. 18416 equal to US $250. In FY 2001/02, it is estimated to grow by 2.4 percent amounting Rs. 18,852 or equivalent to US $246 due to the devaluation of Nepalese currency vis-à-vis US dollar during this year.
Resources and its utilization:

1.13 The proportion of total consumption to GDP (at producer current price) was 85.4 percent in FY 2000/01 whereas it is estimated to be 86.8 percent in FY 2001/02. The private sector consumption in FY 2000/01 was 75.4 percent and that of public sector was 10 percent. In the current fiscal year the former is estimated to be 76.2 percent and the latter 10.6 percent. Total consumption is estimated to decline this year to 6.1 percent growth as compared to 8.5 percent last year due to reduction in consumption by private sector to 5.5 percent from 7.3 percent of previous year. The increase in public consumption is estimated to be 10.8 percent as against 18.5 percent last year. As a result, the ratio of investment to GDP (at producer's current price) is estimated to be 23.6 percent in FY 2001/02 against that of 24.3 percent of FY 2000/01. The domestic saving has also dropped to 13.2 percent in FY 2001/02 from 14.7 percent of FY 2000/01.

1.14 The ratio of export of goods and services to GDP (at producer's current price) in FY 2001/02 has decreased to 18.2 percent from 22.4 percent of FY 2000/01. The ratio of import of goods and services to GDP has also gone down to 28.8 percent from 32 percent of FY 2000/01 resulting in decrease of export / import ratio from 0.70 of the last fiscal year to 0.63 this year.

1.15 There are expectations of changes in the trend of total capital formation. It is also estimated that the total fixed capital formation increased by 7.9 percent in FY 2001/02 compared to 6.4 percent in FY 2000/01, which is regarded as a positive indicator. Despite the present uncomfortable situation, capital formation in private sector rising from the negative growth of 0.3 percent to 12.3 percent last year indicates underlying efforts of the government. Under heavy claim on public resources for on security and consumption purposes. The ratio of total fixed capital formation to GDP at producer's current price increased marginally to 19.7 percent in FY 2001/02 from 19 percent of FY 2000/01. The ratio of total fixed capital formation of public sector to GDP decreased to 7.4 percent in FY 2001/02 from 7.6
percent of FY 2000/01, whereas this ratio in private sector has increased to 12.3 percent from 11.4 percent between these two years. The contribution of private and public sectors to capital formation is 59.9 percent and 40.1 percent in FY 2000/01 and 62.3 and 37.7 percent in FY 2001/02 respectively. Thus the decrease in GDP, National Product and the resources utilization in FY 2001/02 compared to FY 2000/01 mirrors the direction of macro-economic performance.

**Challenges:**

1.16 Persisting low growth rate of agriculture sector, is due to its existing dependency on monsoon rain. There is a great potential to increase in overall production of agriculture sector if the agricultural land is complimented with reliable irrigation facility. To make the provision of reliable irrigation system to cultivated land is a challenge. As the contribution of this sector to GDP still remains significant, GDP will remain prone to fluctuations.

1.17 The proportion of investment to GDP must be increased to ensure sustained economic growth, but the present rate of high consumption and low savings has exerted negative impact in this regard. Curtailment of consumption level from both the public and private sectors pose a challenge.

1.18 Increasing savings and investment and reducing the consumption thereby further accelerating the pace of development remain another challenge. Mobilization of all available machineries in augmenting both public and private savings and investment of such savings is equally challenging.

1.19 Minimizing the gap between import and export of goods and services is yet another task and equally important for the economic stability. To address this task, regulatory measures to keep the import within a limit as well as measures to promote exports are needed.
II

PUBLIC FINANCE

Financial Growth and Budget

2.1. Revenue mobilization, which was 11.3 percent of GDP in FY 1999/2000, increased by 0.6 percentage point in FY 2000/01 and reached to the level of 11.9 percent of the GDP. Total expenditures in FY 2001/2 increased by 1.9 percentage point to the level of 19.4 percent from the previous year’s level of 17.5 percent. Thus, the gap between total revenue and expenditure in FY 2001/2 increased by 1.3 percentage points to the level of 7.5 percent from the previous year’s level of 6.2 percent of GDP.

Table 2(a)
Ratios of Government Expenditure and Revenue to GDP
(at Producers Current Prices)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Government Expenditure</th>
<th>Revenue</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Regular</td>
<td>Development</td>
<td>Total</td>
</tr>
<tr>
<td>1993/94</td>
<td>6.3</td>
<td>10.6</td>
<td>16.9</td>
</tr>
<tr>
<td>1994/95</td>
<td>8.8</td>
<td>9.0</td>
<td>17.8</td>
</tr>
<tr>
<td>1995/96</td>
<td>8.7</td>
<td>10.0</td>
<td>18.7</td>
</tr>
<tr>
<td>1996/97</td>
<td>8.6</td>
<td>9.5</td>
<td>18.1</td>
</tr>
<tr>
<td>1997/98</td>
<td>9.0</td>
<td>9.6</td>
<td>18.6</td>
</tr>
<tr>
<td>1998/99</td>
<td>9.1</td>
<td>8.3</td>
<td>17.4</td>
</tr>
<tr>
<td>1999/2000</td>
<td>9.1</td>
<td>8.4</td>
<td>17.5</td>
</tr>
<tr>
<td>2000/01</td>
<td>10.4</td>
<td>9.0</td>
<td>19.4</td>
</tr>
</tbody>
</table>

2.2. Revenue surplus in FY 1999/2000 accounted for 26.4 percent of the total development expenditures, which dropped to 16.5 percent in FY 2000/01. Declining growth rate of 14.0 percent in revenue mobilization and escalating growth rate of 23.9 percent in regular expenditures were the main causes for this fall in revenue surplus. Revenue could not be mobilized as expected because of the disruption in the economic activities due to security reasons; while
the regular expenditures continued to expand. These factors contributed to the decline in revenue surplus.

2.3 In FY 1999/2000, fiscal deficit was 55.6 percent of the total development expenditures, compared to 65.3 percent in FY 2000/01. Volume of fiscal deficit and the sources to meet it is given in the Table 2(b):

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Total Development Expenditure</td>
<td>26542.6</td>
<td>28943.9</td>
<td>28531.3</td>
<td>31749.2</td>
<td>37065.9</td>
</tr>
<tr>
<td>ii. Sources of Financing (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Revenue Surplus</td>
<td>23.3</td>
<td>19.9</td>
<td>21.7</td>
<td>26.4</td>
<td>16.5</td>
</tr>
<tr>
<td>b. Foreign Grant</td>
<td>22.4</td>
<td>18.7</td>
<td>15.2</td>
<td>18</td>
<td>18.2</td>
</tr>
<tr>
<td>c. Deficit Financing</td>
<td>54.3</td>
<td>61.4</td>
<td>63.1</td>
<td>55.6</td>
<td>65.3</td>
</tr>
<tr>
<td>1. Foreign Loan</td>
<td>(34.1)</td>
<td>(38.2)</td>
<td>(41.5)</td>
<td>(37.2)</td>
<td>(32.5)</td>
</tr>
<tr>
<td>2. Internal Loan</td>
<td>(11.3)</td>
<td>(11.7)</td>
<td>(16.5)</td>
<td>(17.3)</td>
<td>(18.9)</td>
</tr>
<tr>
<td>3. Change in Cash Balance</td>
<td>(8.9)</td>
<td>(11.5)</td>
<td>(5.1)</td>
<td>(1.1)</td>
<td>(13.9)</td>
</tr>
</tbody>
</table>

**Government Finance**

2.4 Total public expenditure in FY 2000/01 increased by 20.5 percent over the corresponding figure of the previous fiscal year and stood at Rs. 79,835.1 million of the total public expenditure in the current year, regular and development expenditures increased by 23.9 percent and 16.7 percent respectively. Development expenditure accounted for 46.4 percent of the total public expenditure in FY 2000/01, which was 47.9 percent in FY 1999/2000.

2.5 Of the total public expenditure of Rs. 66,272.5 million in FY 1999/2000, 64.8 percent was met from revenue, 8.6 percent from foreign grant, 17.8 percent from foreign loan, 8.3 percent from internal loan and the balance 0.5 percent from the change in cash balance. The sources of financing total public expenditure in FY
2000/01 were revenue (61.2 percent), foreign grant (8.5 percent),
foreign loan (15.1 percent), internal loan (8.8 percent) and cash
balance changes (6.4 percent). Thus, as compared to the previous
fiscal year, the increases in foreign loan and cash balance used to
finance the public expenditure stood at 2 percent and 1350 percent
respectively.

Regular Expenditure

2.6 Regular expenditure in FY 2000/01 increased by 23.9 over the
previous year and reached Rs. 42,769.2 million. Debt servicing in FY
2000/01 increased by 3.5 percent over that of the previous year. Of
the total regular expenditure, expenditures on debt servicing
accounted for 24.3 percent, social services 25.4 percent, economic
services 3.8 percent, and miscellaneous items 18.4 percent. Similarly,
expenditures in general administration accounted for 14.6 percent,
defense 8.9 percent and the balance in other items. Of the total
regular expenditure incurred in FY 2000/01, expenditures for social
services and defense marked increments of 30.7 percent and 9.5
percent, respectively over the previous year, whereas expenditure on
economic services declined by 26.7 percent. The overall expenditures
incurred in the first eight months of FY 2000/01 on constitutional
bodies, foreign services, revenue administration, judicial
administration, financial administration, planning, loan investment
and miscellaneous items increased by 53.4 percent over the
corresponding figure of the previous fiscal year. During the first
eight months of the previous fiscal year, regular expenditure stood at
Rs. 29,009.6 million, whereas it increased by 19.0 percent and
amounted to Rs.34, 529.5 million in the same period of the current
fiscal year.

Development Expenditure:

2.7 Development Expenditure stood at Rs. 37,065.9 million, an increment
by 16.7 percent over the corresponding figure in FY 1999/2000. If the
pattern of regular and development expenditures is observed,
regular expenditure has been exceeding the development
expenditure since FY 1998/99. During FY 1997/98 the ratios of regular and development expenditures to the total public expenditure were 48.4 percent and 51.6 percent respectively, whereas they were 52.1 percent and 47.9 percent respectively in FY 1999/2000. The ratios stood at 53.6 percent and 46.4 percent respectively in FY 2000/01. Thus, the share of regular expenditure in the total public expenditure has been increasing. The review of the public expenditures of the first eight months has indicated a decline in development expenditure by 31.8 percent to Rs. 12,171.7 million in the current fiscal year as compared to the previous year’s corresponding figure of Rs. 17,856.0 million.

2.8 Development Expenditure on economic services increased by 13.2 percent, social services by 3.8 percent, financial administration and planning by 5.86 percent, and general administration by 17.7 percent in FY 2000/01. Under social services, expenditures on education and local development increased by 8.2 percent and 11.2 percent respectively in FY 2000/01 as compared to FY 1999/2000, whereas expenditures on health and drinking water in FY 2000/01 declined by 7.21 percent and 0.7 percent, respectively.

2.9 Under economic services, expenditures on agriculture, irrigation, power and transport increased by 11.5 percent, 29.8 percent, 23.0 percent and 14.0 percent, respectively in FY 2000/01 as compared to their corresponding figures in FY 1999/2000. During FY 2000/01, expenditures on economic services, social services and other sector account for 57.0 percent, 34.7 percent and 8.3 percent of the total development expenditure, respectively.

2.10 In order to make budget allocation and release procedures more realistic and monitoring and evaluation friendly as well as avoid the circumstances of uncertainty to secure project expenditures, His Majesty’s Government has introduced the concept of rolling budget under which a three-year medium-term expenditure framework for programming and budgeting has been brought in practice (Box 2(1).
Sources of Finance (Revenue):

2.11 In FY 2000/01 revenue mobilization increased by 14.0 percent over the corresponding figure in FY 1999/2000 and stood at Rs. 48,893.6 million. In FY 1999/2000, increment in revenue mobilization was 15.1 percent.

2.12 As regards the composition of revenue, tax revenue and non-tax revenue accounted for 79.5 percent and 2.05 percent of total revenue, respectively in FY 2000/01. In FY 1999/2000, the corresponding ratios were 77.3 percent and 22.7 percent.

2.13 During FY 2000/01, tax collection increased by 17.2 percent as compared to FY 1999/2000 and reached Rs. 38,865.1 million. Customs revenue increased only by 16.1 percent. Similarly, tax revenue from production and consumption of goods and services increased by 20.7
percent. Collection of value-added tax increased by 22.3 percent in comparison to previous year, whereas taxes on income, profit and property increased by 20.3 percent. Income tax revenue alone increased by 23.5 percent in FY2000/01 over that of the previous year.

2.14 Non-tax revenue increased by 2.9 percent in FY 2000/01 over that of FY 1999/2000 and reached Rs. 10,028.8 million. Of this, collection of dividend dropped by 6.8 percent, and also principal and interest payment recorded a shortfall of 6.8 percent.

Level of Revenue Collection During First Eight Months of FY 2001/2

2.15 During the first eight months (the review period) of the current fiscal year, total revenue collection stood at Rs. 29,148.7 million. This is 3.0 percent higher than the corresponding figure of the previous fiscal year. Of the total revenue collection, Rs. 23,878.6 million was tax revenue, while non-tax revenue was Rs. 5,270.1 million. Tax revenue during this period increased by 4.6 percent also due to the Voluntary Declaration of Income Source by the taxpayers and 10.0 percent of the self-assessed tax by mid-January 2002. This has proved an effective measure in tax collection.

2.16 Customs revenue collection amounted to Rs. 7,979.8 million during the review period of the current year. The collection is 2.1 percent higher than the corresponding figure of the previous fiscal year. Income tax revenue stood at Rs.4,550.2 million during the period, higher by 7.6 percent against Rs. 4,228.6 million of the previous year.

2.17 Collection of value-added tax amounted to Rs.7,609.8 million during the review period this year. It is higher by 3.2 percent than the corresponding figure of this period last year. Taxes from production and consumption of goods and services amounted to Rs. 10,054.0 million, which is 1.7 percent higher than that of the pervious year. Revenue from registration of real estate as well as land revenue increased by 87.5 percent in the review period of the
current year and reached Rs. 574.2 million. In the previous year the corresponding amount was Rs. 306.3 million.

2.18 Non-tax revenue decreased by 3.7 percent during the review period of this year and reached Rs. 5,270.1 million against Rs. 5,470.5 million of the last year.

Foreign Aid Commitment

2.19 Foreign aid commitment in FY 2000/01 stood at Rs. 31,287.0 million, which was 53.0 percent higher as compared to that of the previous year. Of this, share of grant and loan were 45.7 percent and 54.3 percent, respectively.

2.20 Out of the total foreign aid commitment in FY 2000/01, bilateral assistance was Rs. 17,495.9 million and multilateral assistance Rs. 13,790.8 million. Bilateral and multilateral assistance thus constituted 55.9 percent and 44.1 percent of the total foreign assistance, respectively. In FY 1999/2000, total foreign assistance consisted of Rs. 11,293.4 million (55.2 percent) from bilateral sources and Rs. 9,154.6 million (44.8 percent) from multilateral sources.

2.21 The meeting of the Nepal Development Forum, which is the community of donors continually assisting Nepal for its development, was convened for the first time in Nepal from 4-7 February 2002. An extensive discussion on Nepal’s development efforts and situation was held in the meeting in a cordial atmosphere. The meeting, among others, agreed on the implementation of MTEF and on mobilizing foreign assistance in accordance with the foreign aid policy prepared by the Government. (Box 2 (2).
Grant and Loan:

2.22 During the review period of the current year, foreign aid commitment increased by 58.3 percent as compared to that of the previous year and totaled Rs.30, 398.8 million in the ratios of 67.5 percent as grant and 32.5 percent as loan. This total was made of Rs.15, 707.0 million from bilateral sources and Rs. 14,691.8 million from multilateral sources. During the corresponding review period of the previous year, the ratios of grant and loan assistance were 28.7 percent and 71.3 percent, respectively, while the shares of bilateral and multilateral sources were 28.2 percent and 71.8 percent respectively. The grant portion of the total aid during the review period increased by 272.4 percent over that of the review period of the previous year.


Commitment and Utilization

2.23 During the review period of the current FY 2001/02, total aid commitment increased by 58.3 percent against that of the previous year to a total of Rs. 30,398.8 million. Sectorwise, Rs. 6,135.0 million (20.2 percent) was committed for water supply, Rs. 681.3 million (2.2 percent) for agriculture, irrigation and forestry, Rs. 3,943.5 million (13.0 percent) for transport and communication, Rs. 758.5 million (2.5 percent) for power, Rs. 2,007.4 million (6.6 percent) for education, Rs. 1,583.8 million (5.2 percent) for rural development, Rs. 4,895.6 million (16.1 percent) for health sector and Rs. 10,393.7 million (34.2 percent) for other sectors, respectively.

2.24 Disbursement of foreign assistance in FY 2000/01 was Rs.18,797.4 million, which was 7.3 percent higher than that of FY 1999/2000. Of this, disbursements of foreign loan and grant were Rs. 12,044.0 million and Rs. 6,753.4 million, respectively. In FY 1999/2000, total foreign aid disbursement of Rs. 17,523.9 million consisted of Rs. 11,812.2 million and grant of Rs. 5,711.7 million. As compared to FY 1999/2000, disbursement of foreign grant assistance in FY 2000/01 has increased by 18.2 percent. Disbursements from bilateral and multilateral sources in FY 1999/2000 were 28.1 percent and 71.9 percent compared to 14.7 percent (Rs. 2,771.2 million) and 85.3 percent (Rs. 16,026.2 million) in FY 2000/01, respectively.

2.25 By sectors, disbursement of foreign assistance to agriculture, irrigation and forestry compared to that of FY 1999/2000 increased by 17.6 percent to Rs. 3,774.9 million and to transport, power and communications by 13.2 percent to Rs. 9,235.1 million in FY 2000/01. Disbursements to social services, on the contrary, decreased by 0.6 percent to Rs. 5,759.5 million and to industry and commerce by 93.3 percent to a low of Rs. 19.9 million.

Outstanding foreign and internal loans:

2.26 As revenue surplus alone is not enough for meeting the development expenditure, foreign grant as well as foreign and internal loans have to be mobilized to meet such expenditures. Continuation of foreign
loan is on the rise for the past several years mainly due to depreciation of Nepalese currency vis-à-vis the convertible foreign currency; the burden of debt services has been increasing year by year. As compared to FY 1999/2000, the net outstanding foreign loan increased by 5.7 percent in FY 2000/01 to the total of Rs. 201,550.6 million.

2.27 After readjusting the foreign loan receipts and payments during the review period of the current year, net outstanding foreign loan liability of the government increased by 4.6 percent to the total of Rs.207, 331.9 million by mid-March, 2002. During this period total foreign loan receipt amounted to Rs.5, 614.5 million, and payments of principal and interest to Rs. 2,775.6 million and Rs. 1,026.8 million, respectively.

2.28 The outstanding internal loan by mid-July 2001 was Rs. 60,043.7 million, 10.5 percent higher than that by mid-July, 2000. The share of Nepal Rastra Bank in internal loan was 29.0 percent (Rs. 17,399.7 million), that of commercial banks and other institutions 42.3 percent (Rs. 25,392.9 million) and of private sector 28.7 percent (Rs. 17,251.1 percent). In terms of the instruments of loan, development bond amounted to Rs.5, 962.2 million (9.9 percent), national savings bond Rs.12, 476.4 million (20.8 million), special bond Rs.13, 994.3 million (23.3 percent) and treasury bill Rs. 27,610.8 million (46.0 percent). By mid-March, 2002, total internal loan amounted to Rs. 69,439.6 million.

2.29 During the review period of the current year, internal loan increased by 19.1 percent against that of the previous year. Of this, Nepal Rastra Bank and commercial banks shared 33.1 percent and 38.2 percent, respectively; and other institutions and private sector shared 28.7 percent. Treasury bill occupied the first position with 59.2 percent share, national savings bond 17.8 percent; special bond 12.6 percent, development bond 9.8 percent and citizen savings bond 0.6 percent.

2.30 Ratios of primary deficit, Fiscal deficit and Loans to Gross Domestic Products
Table 2(c):
Primary and Fiscal Deficits

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Fiscal Deficit*</th>
<th>Primary Deficit**</th>
<th>Loan/GDP Ratio***</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996/1997</td>
<td>14,362</td>
<td>11,645</td>
<td>59.9</td>
</tr>
<tr>
<td>1997/1998</td>
<td>17,778</td>
<td>15,239</td>
<td>66.4</td>
</tr>
<tr>
<td>1998/1999</td>
<td>17,991</td>
<td>15,594</td>
<td>64.1</td>
</tr>
<tr>
<td>1999/2000</td>
<td>17,667</td>
<td>14,412</td>
<td>64.5</td>
</tr>
<tr>
<td>2000/2001</td>
<td>24,188</td>
<td>20,927</td>
<td>63.8</td>
</tr>
</tbody>
</table>

* Total Revenue + Foreign Aid - Total Expenditure
** Fiscal Deficit - Net Interest Income (difference of interest income and payments)
***Calculated on Outstanding Loan by end of Fiscal Year

Fiscal deficit in FY 1999/2000 was 4.7 percent of the GDP at factor cost. Such deficit further widened to 5.9 percent in the following year. Primary deficit in FY 1999/2000 and 2000/01 were 3.8 percent and 5.1 percent of GDP, respectively. The high ratio of outstanding loan to GDP in FY 2000/01 manifests the increasing trend of debt burden in the economy.

Budget Deficit and Sources of Financing

2.31 In FY 2000/01, budget deficit rose to Rs.24,188.1 million, which was 36.9 percent higher than that of FY 1999/2000. Of the various sources of financing budget deficit in FY 2000/01, mobilization of foreign loan met Rs. 12,044.0 million, while Rs. 7,000.0 million and Rs. 5,144.1 million were met by mobilizing internal loan and changes in cash balance.

Challenges:

2.32 Analysis of revenue and expenditure in terms of GDP shows the higher ratio of total expenditure than of revenue signaling an alert to adverse impact on economy in the long run. For the last two years, development expenditures are seen decreasing compared to the regular expenditures. To maintain economic stability, important tasks ahead are to rationalizing the regular expenditure, diverting development expenditure to highly productive sectors, broadening...
the tax basis, and reducing the size of deficit financing.

2.33 In the context of the prevailing trend of revenue mobilization in the current fiscal year vis-à-vis the revenue estimates for the forthcoming fiscal year, it is a challenge to the government to make revenue mobilization more effective by identifying new areas for revenue collection and through administrative reform measures and optimum mobilization of existing manpower.

2.34 The need for huge amount of funds has become an impending challenge to the public expenditure management due to the need of reconstructing public infrastructures destroyed by Maoist terrorist activities, and implementing income generating rehabilitation programmes for distressed and displaced families by terrorist activities.

2.35 Implementation of development projects are facing impediments due to Maoist terrorist activities. Therefore, a common mechanism needs to be setup between security-providing agency and the development related ministries in order to carry out development activities and security measures side-by-side. Line ministries in the infrastructure-destroyed districts are to be focused to reconstruction, which will require enhanced resources. Similarly, in the districts where infrastructures were destroyed, concentrating of development activities of concerning line ministries on rehabilitation works has become a challenge to the government.

2.36 To mobilize foreign assistance in such a way that reduces the gap between commitment and disbursement and to make its utilization more result-oriented for achieving national goal of poverty reduction also pose a big challenge.

2.37 The role of public enterprises in the economy needs to be redefined. Private sector needs to be encouraged to concentrate their investment to those sectors where they have competitive edge and the privatization of the public enterprises needs to be smoothened.
III

PRICE AND SUPPLY SITUATION

National Urban Consumer Price (NUCP) Index:
3.1 Point-to-point analysis of NUCP index for the first 8 months (review period) of the current year at FY1995-96 price indicated a rise of 0.1% compared to a drop by 0.01% during the review period of the last year. In the review period of this year, the price index increased by 3%, which is higher than the rise in price index by 2.1% during the corresponding period last year. In the review period price index of food and beverages rose by 3.9% and that of non-food and service by 1.9%. Region wise, the Consumer Price Index for Terai rose by 0.4% as opposed to a fall of 1.6% last year but in the Hills and Kathmandu Valley, indices dropped by 0.6% and 0.2% respectively during the review period of this year whereas those indices had increased by 3.3% (Terai) and 0.4% (Kathmandu Valley) last year.

3.2 Level of foodgrain production remained constant during the review period of this year. Price index, also in point-point term, for all the commodities slid up by a margin of 0.1% attributable to increased production of cash crop, regularity in the supply of essential goods, sizable squeeze in the expansion of broad money supply and a gradual improvement seen in the Indian Wholesale Price index and also due to comfortable level of food grain production in India. Prices, on the whole, rose very marginally during the review period, notwithstanding the fact that the prices of non-food and services group remained under some pressure (para.3.7). Otherwise, the prices of most of the items under food and beverages group registered a drop (Para 3.3) while those for items under education, educational materials and entertainment group phenomenally dropped (Para. 3.9).
3.3 The price of food and beverage group decreased by 1.9 during the review period of this year compared to 5.8 % decrease last year. Prices of food grains and associated items like meat, fish, eggs, oil and butter, beverages and snacks, which carry a greater weight of the basket, were under some pressure compared to a precipitous fall of 14.7 % last year. Those of vegetables, fruits, lentils, spices, milk and milk product and sugar under this group were seen falling in this period.

3.4 The price of lentils dropped by 1.7% in the review period of FY 2000/01, where as it dropped by a margin of 0.8% during this review period due to satisfactory production and supply situation both in India and Nepal. Prices of vegetables and fruits continued to fall from 18.4% during the review period of the last year to 19.9% this year. Increased production of potatoes and onion as major items under this sub-group both in Nepal and India and also the regular supply of important seasonal vegetables and fruits had contributed to the fall in prices. Similarly, spices sub group also saw downslide by 2.9% compared to an increase of 0.7% in previous year mainly due to improvement in prices of locally produced items like garlic, chilly, etc. and noticeable price-fall of imported spices like cumin seed and black pepper.

3.5 The price of meat, fish and egg increased by 1.2 % in the review period of this year as against the increase of 1.8% last year. Reduced supply of live goats from the hills and the Terai, increase in price of animal feed and the consequent pressure on price of poultry compared to that of the last year were the main contributors to the price rise observed during this year. Prices of dairy products decreased by 1.1% due to encouraging level of milk production in the Terai, which helped improve supply situation. The price of oil and ghee, however, increased by 2.9% compared to the fall by 1.4 % last year. Increase in production cost of mustard, which pushed price of oil and the sizable export of vegetable ghee and oil to India both contributed to the rise in price.
3.6 The price of sugar and sweets also followed the suit with a decrease in their prices by 3.6% this year contrary to an increase of 7.6% registered last year. Better production of sugar than that of the last year and the import of 40,000 metric tons of sugar by the National Trading Ltd. to buttress the supply helped lower the price. In addition, the decrease in price of brown sugar (Chaku) also had the combined effect on decreasing price of this sub-group this year. Price of beverages hiked further by 4.6% from 2.2% of last year. During this year, the price of imported horlicks was hiked while the change in excise duty by the govt. on soft drinks like Coca Cola and Fanta, as well as alcohol and beer also contributed to the increase in their prices. The price of food and snacks served in restaurants also went up by 2.4% compared to 7.5% increase during the review period of the last year due to the increase of prices of beverages, goat meat, poultry, oil and ghee.

**Non-food Commodities and Services:**

3.7 The price of items under this category increased by 2.0% during the review period this year compared to 6.5% last year. Except Education, Education materials and Entertainment sub-group, increase in prices of all other items under this category ranged between 0.1% and 6.0% compared to 0.8% to 14.3% increase in the previous year. The price of clothing materials and ready-made garments sub-group went up by 2.1% due to some price increase in imported clothes and ready-made garments and increased cost of stitching compared to 2.7% increase last year. Price of footwear sub-group also increased by 1.0% as against 0.8% increase last year due to the price hike by the manufacturers and increased price of shoe polish.

3.8 The price of household goods sub-group increased by 2.5% compared to an increase of 7.6% last year. Increase in prices of drinking water, imported household goods as well as house rent contributed to this year’s price rise. The price of transport and communication, which increased by 6.9% in the previous year, was increased by 0.1% only during the review period of this year. Marginal increase is attributable to 5% surcharge on telephone
The price of medicine and personal hygiene sub-group increased by 6.0% against 4.3% increase last year due to price increase in imported medicine from India coupled with fee of doctors as well.

3.9 The price of education, educational materials and entertainment sub-group which spiraled by 14.3% last year plummeted to 1.5% decrease within the review period this year largely due to cuts in tuition fees in the government funded schools. The price of cigarettes sub-group increased by 4.2% compared to 0.8% increase last year as the excise duty on tobacco products were revised upwards by the government.

**National Wholesale Price Index (NWP) Index:**

3.10 Nepal Rastra Bank has developed NWP index with FY 1999/2000 as base year in line with commitment as envisaged in 1995/96 Budget Speech and the Ninth Plan as well to expand the coverage of price statistics and to make it more meaningful. Accordingly, such index is being published regularly from the beginning of this fiscal year. It covers 71 commodities with 415 number of wholesale prices collected from 20 market centers of the country for 3 major groups of commodities, namely, agriculture (weightage 49.59%), domestic products (20.37%) and Imports (30.04%).

3.11 In point-to-point basis, during mid July 2001 to mid March 2002, NWP index decreased by 1.1% during the review period this year. The index of agricultural goods dropped by 4.2%, as the level of production, on the whole, was satisfactory; and more farmers took farming of vegetable and livestock on a commercial scale. Together they helped ease the supply situation. Indices of both domestic industrial products and of imported goods increased by 4.3% and 0.5% respectively. Despite diminishing prices of tea and sugar, prices of cigarette, beverages and edible oil and ghee rose due to change in tariff. Marginal increase observed in the index of imports was due mainly to increased prices of chemical fertilizer, horlicks, powder milk, sheet glass, etc.
Wholesale Price Index is found in use for many years in many countries of the world to measure inflation, track price movement, control prices, and analyze big projects, to mention a few. Its use is also found in National Accounts. In Nepal, one and only available index was the Urban Consumer Price Index till FY 2000/2001. With the on-going changes in economic structure and activities, this index alone was not enough to do analyses of costs and prices. Accordingly, realizing the need for wholesale price index, the Nepal Rastra Bank has started publishing NWP index from the start of the current fiscal year.

**Average Retail Prices of Selected Commodities:**

3.12 Average prices (per kilogram or per liter) of 10 selected agricultural commodities prevailing in mid-July, 2001 when compared with those in mid March 2002, prices of 3 commodities were found increased and those of 7 decreased. Dry onion price soared by 11.1%, that of wheat by 4.4% and of goat meat by 1.8%. Prices on the downslide were those of potato (26.3%), ginger (25.2%), coarse grain rice (4.7%), black lentils (3.6%), mustard oil (2.3%), yellow lentil (0.6%) and refined butter (0.1%). Similar analysis done for the corresponding months of previous year showed that the prices of black lentil, mustard oil, goat meat and dry onion had increased while those of 6 items had decreased.

3.13 In the Hills, prices of wheat, refined ghee, goat meat and dry onion between mid-July 2001 and mid March 2002 increased while those of the 6 remaining items of the list increased. In the corresponding months of the last year, not only prices of wheat and dry onion but also those of black and yellow lentils, mustard oil and goat meat had increased; and those of potato, ginger, coarse grain rice and refined butter had decreased. In Terai, wheat, lentil, and goat meat were selling at higher prices while 7 other items were selling at lower prices during the review period.
In the corresponding months of the previous year, the price of mustard oil, refined ghee, goat meat and dry onion had increased and those of other 6 commodities had decreased.

3.14 In the Hills, between mid March 2001 and mid March 2002, prices of coarse grain rice, mustard oil, refined ghee, goat meat, potatoes and dry onion were higher while those of other 4 commodities were lower. For the same period in the Terai, the prices of coarse grain rice, wheat, black lentil, mustard oil, goat meat and potatoes increased while those of remaining 4 decreased. Between these two periods, nationwide, prices of black lentils, mustard oil, and goat meat and potatoes had increased while those of other 6 commodities decreased.

3.15 Comparison of monthly national average retail prices during the first 8 months of the current year with those of the previous year for the similar period, 5 commodities selling at higher prices were potatoes (23%), mustard oil (10.2%), goat meat (6.1%), dry onions (4.2%), and black lentils (1.6 %) but the others selling at lower prices were ginger (16.2%), wheat (7.8%), coarse grain rice (7.2%), yellow lentil (3.9%), refined butter (2.8%).

3.16 Prices of petroleum products like petrol, diesel and kerosene during the review period of current year remained unchanged at Rs. 46.00, Rs. 26.50 and Rs. 17.00 respectively as they were during the same period last year. Supply of these as well as a few other products this year registered some increases, e.g., petrol by 8.3% to 65,694 KL, diesel by 3.2% to 344,345 KL, air fuel by 11.6% to 73,236 KL, and LP gas by 35% to 54,139 MT. In review period, however, the supply of kerosene decreased by 2.8% to 316,042 KL.

**Challenges:**

3.17 The price and supply system in Nepal continues to be erratic and uncertain. Food and host of essential goods on these counts are largely dependent on agricultural production, situation effecting other internal production and international trade scenario.
3.18 The quality and price of the goods and services originating from the public enterprises are not yet as competitive. High price of electricity with limited access of the people to it, and uncertain and limited supply of drinking water are the examples of the public utilities the consumers continue to face problems. Augmenting the supply of and access to such commodities and services at competitive prices remain as tasks ahead.

3.19 Stability in prices and supply of essential commodities including of food grain being supplied to the low income people and those living in the remote and difficult areas calls for urgent attention to the better supply management.

3.20 Competitive environment, which ensures efficiency of the market mechanism, benefits the producers, investors, the government, and the consumers in general through production efficiency and price. Eventually it paves the way for the economy to set on a sustainable course. For a drive towards such a course, the economic management objectives and the priorities have yet to be geared and implemented.

3.21 The Nepal Rastra Bank Act, 2058 enables NRB to work for price and balance of payments stability as one of the main objectives. Accordingly, its task ahead is to design and implement a monetary policy that helps realize the said objective.
IV

MONEY, BANKING AND CREDIT

Monetary and Financial Sector Policy:

4.1 Main objectives of the monetary policy are: (a) to regulate liquidity for higher and sustainable economic growth; (b) maintain a favorable balance of payments and (c) contain the rate of inflation within a desirable limit. It also includes: promotion of financial stability and development of secure, healthy and efficient payment system as other objectives. The enforcement of the Nepal Rastra Bank Act, 2001 primarily aims at realizing these objectives by strengthening the hands of the Nepal Rastra Bank (Box 4(1).

<table>
<thead>
<tr>
<th>Box. 4 (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objective, Duties and Rights as provided in the</strong></td>
</tr>
<tr>
<td><strong>Nepal Rastra Bank Act, 2001,</strong></td>
</tr>
</tbody>
</table>

**Objectives:**

a) To formulate and maintain appropriate monetary and foreign exchange policy for stable price and balance of payments situation required for sustainable economic development.

b) To manage the required liquidity and stability of banking and financial sectors;

c) To develop secure, healthy, and efficient payment system;

d) To monitor, supervise and evaluate banking and financial system; and

e) To enhance trust of citizens in overall banking and financial system within the country.

**Rights, duties and functions:**

a) To issue currency notes and coins in the market;

b) To formulate and implement necessary monetary policy for price stability;

c) To formulate and implement foreign exchange policy;

d) To determine the foreign exchange rate adjustment regime;

e) To operate and manage foreign exchange reserves;

f) To issue license to commercial banks and financial companies for carrying out financial transactions and regulate, inspect, supervise and monitor such transactions;

g) To function as the banker, advisor and fiscal agent of His Majesty's Government;

h) To function as a bank of commercial banks and financial institutions, and as a lender of last resort.

i) To establish, promote and regulate the systems of payments, clearing and settlements; and

j) To carry out other important functions as necessary towards realizing the objectives enjoined by the Act.
Bank Rate and Relending

4.2 In view of decline in liquidity situation and persistent sluggishness in the economy, Nepal Rastra Bank, on 20 January 2002, revised the bank rate, relending rate, and the mandatory Cash Reserve Ratio (CRR) to provide further flexibility to the monetary policy. Such revised re-lending rates are: 2.0 percent for export credits in foreign exchange; 3.0 percent for rehabilitation of sick industries; 4.5 percent for Grameen Bikash Banks (Rural Development Bank) and export credits in Nepalese currency; and 5.5 percent for all other types of re-lending.

<table>
<thead>
<tr>
<th>Description</th>
<th>15 July 2001</th>
<th>20 Jan. 2002</th>
<th>Difference in %age points</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Rate of re-lending by banks on export credits in foreign currency</td>
<td>4.0</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>2. Rate of re-lending by financial institutions for the rehabilitation of sick industries</td>
<td>4.5</td>
<td>3.0</td>
<td>1.5</td>
</tr>
<tr>
<td>3. Rate of re-lending to Grameen Bikash Banks and for export credits in Nepalese currency</td>
<td>5.5</td>
<td>4.5</td>
<td>1.0</td>
</tr>
<tr>
<td>4. Rate for all other types of re-lending</td>
<td>6.5</td>
<td>5.5</td>
<td>1.0</td>
</tr>
</tbody>
</table>

The 2 percent difference in re-lending rate (in column 5) will apply only to cases of interest rates not exceeding 4 percent on export credit in foreign currency.

4.3 Cash deposit requirements in the Nepal Rastra Bank by the commercial banks and the Agricultural Development Bank have been revised and made effective as of 20 January 2002 for the following liabilities: 8.0 percent of the current and savings deposits; and 6.0 percent of the time deposits. Cash-in-hand to be 3.0 percent of the total deposit liability remained unchanged.
Box 4(3)
Revised Mandatory Cash Reserve Ratio requirement (in percent)

<table>
<thead>
<tr>
<th>Description</th>
<th>15 April 2001</th>
<th>20 Jan. 2002</th>
<th>Difference in % points</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Current and savings deposits</td>
<td>8.0</td>
<td>7.0</td>
<td>1.0</td>
</tr>
<tr>
<td>2. Time deposits</td>
<td>6.0</td>
<td>4.5</td>
<td>1.5</td>
</tr>
<tr>
<td>b. Deposit requirement for Required cash-in-hand</td>
<td>3.0</td>
<td>3.0</td>
<td>-</td>
</tr>
<tr>
<td>(percent of total deposit liabilities)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Commercial Banks

4.4 In a bid to reform management structure of Nepal’s two oldest commercial banks, agreement has been signed with M/s Deloitte Touche Tohmatsu, an American management company selected for the management of Rastriya Banijya Bank. Existing management committee of Nepal Bank Ltd. has been dissolved and the selection process for a new management committee has been completed. Process is underway to conclude agreement on leasing the management of this to the ICC Bank of Ireland.

Box 4 (4)
Prudential Norms Issued to Commercial Banks


a) Provision of Capital Fund: Commercial Banks are required to maintain primary capital and capital fund in terms of a percentage of their risk weighted assets (RWA) as follows:
For FY   | Primary Capital | Capital Fund  
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Percent of RWA)</td>
<td>(Percent of RWA)</td>
</tr>
<tr>
<td>2001/02</td>
<td>4.5</td>
<td>9.0</td>
</tr>
<tr>
<td>2002/03</td>
<td>5.0</td>
<td>10.0</td>
</tr>
<tr>
<td>2003/04</td>
<td>6.0</td>
<td>12.0</td>
</tr>
</tbody>
</table>

b) **Classification of loans and Provisioning for the Bad Debts:** Credits and purchases of bills by the commercial banks have been classified as secure, less secure, doubtful and bad for the purpose adequate provisioning. Accordingly commercial banks are required to make provisions for possible losses as follows: 1 percent for secure loan, 25 percent for less secured, 50 percent for doubtful and 100 percent for bad loans.

c) **Limits set for lending and other facilities:** Following directives have been issued to the commercial banks: Fund based loan to an individual, firm, company or mutually trusted borrowers not exceed 25 percent of the primary capital and non fund and extra-balance sheet facilities like LC, Guarantee, Acceptances, Commitments etc. not to exceed 50 percent of the primary capital. For loans made prior to issuance of the directives, banks are required to adjust the ratios by the following dates:

<table>
<thead>
<tr>
<th>Cutoff date</th>
<th>Fund based loans (% of primary capital)</th>
<th>Non-fund based Facilities (% of primary capital)</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 July 2002</td>
<td>not exceeding 40</td>
<td>not exceeding 75</td>
</tr>
<tr>
<td>15 July 2003</td>
<td>not exceeding 25</td>
<td>not exceeding 50</td>
</tr>
</tbody>
</table>

d) **Accounting policy and formats for financial information:** Formats of financial information and accounting for commercial banks with explanatory notes have been designed and circulated to the commercial banks, for their use. The note includes formats of accounting notes to accompany with the financial statements, balance sheet, profit and loss accounts and their allocation. Explanatory notes on various accounting terms have also been included in the said circulation.

e) **These directives (norms) have been issued to the commercial banks to minimize their vulnerabilities to liquidity, interest rate changes, changes in foreign exchange rates and other credit risks**

f) **Institutionalizing Good Governance:** Official and staff of the bank
management are expected to exhibit high integrity and capability to deal efficiently with the sophistication and diversities of the modern banking business. Accordingly, code of conduct of the Directors, their duties and responsibilities, appointment of the chief executive, code of conduct also for the banks employees, provision of audit committee and limitations to lending operations are some of the important highlights of the requirements to be met by the bank.

g) Timetable for implementation of the Guidelines: The guidelines issued to the commercial banks includes a timetable for reporting on the compliance to the corrective measures advised by the inspection and supervision missions and the action plans put in place.

h) Guidelines for Investments in Stocks and Securities: Commercial banks are also required to minimize exposures to risks involved in investing the deposits of the savers and other financial resources at their disposal in earning assets.

i) Statistical Information and Reporting: Commercial banks are required to compile and submit their financial reports keeping in view: (a) Nepal Rastra Bank Act, (b) Commercial Banks Act, (c) International Accounting System, (d) Nature and type of their respective transaction, (e) Directives of the Nepal Rastra Bank and (f) Monetary and Financial Statistics Manual 2000 of the IMF.

j) Transfer or Sale of Promoter's Shares: Directives issued by the Nepal Rastra Bank relating to the promoter's share, include following: (1) To transfer or sale promoter's or group of promoters' shares prior approval of the Nepal Rastra Bank will be essential. (2) An individual of organization possessing shares of particular group of promoters by way of transfer or purchase will be deemed as the same group.

4.5 As the Nepal Bank Ltd. and the Lumbini Bank Ltd. were found delinquent in observing the instructions of the Nepal Rastra Bank disregarding the interest of their depositors, failing to run the bank efficiently and to discharge their duties and responsibilities, Nepal Rastra Bank suspended the Boards of Directors of both banks in March 2002 as per the clause 86(1) of the Nepal Rastra Bank Act. Three-member managing committee for each of these banks has been installed to carry out the functions of the Board of Director and to run the banks.

4.6 The proposals of Siddhartha Bank Ltd and Laxmi Bank Ltd with their registered headquarters at Kathmandu Metropolis and Birgunj Sub-
Metropolis respectively have been approved to operate as commercial banks. The Siddhartha Bank Ltd. has the authorized capital of Rs. 1 billion of which Rs. 500.0 million will be issued and paid-up to do banking all over the country. Laxmi Bank Ltd. will have authorized capital of Rs. 240.0 million and Rs. 120.0 million will be issued and paid-up with jurisdiction to do banking countrywide except in the Kathmandu Valley. This Bank has also been issued the license to operate in April 2002.

**Development Bank**

4.7 Between April 2001 and March 2002, altogether 7 development banks have been issued licenses to carry out financial transactions. Of these 7, the Nepal Cottage and Small-scale Industries Development Bank Ltd. Kathmandu and Small Farmers Development Bank Ltd. Kathmandu have been licensed to conduct financial transactions as national level development banks. The United Development Bank Ltd., Bara, Narayani Industrial Development Bank Ltd., Ratnanagar, Chitwan. DEPROSC Development Bank Ltd., Ratnanagar Chitwan, Chhimek Bikas Bank Ltd, Hetauda and Swabalamban Bikas Bank Ltd., Janakpur are licensed to conduct financial transactions as district level development banks with the coverage of 1 to 10 districts at the most. DEPROSC, Chhimek and Swabalamban Development Banks have been established as micro-finance development banks and the Small Farmers Development Bank Ltd., to provide wholesale credits and on-lending facilities for the development of small farmers.

4.8 The directives issued to the development banks established under the Development Bank Act, 2052 have been amended. As per the changed provision, average weekly liquidity maintained by the development banks will be considered as their liquid assets and those accepting deposits in excess of stipulated limit of their capital fund shall not be allowed to distribute dividends until their deposits are maintained to the such limits. In addition, new directives for ADB/N, NIDC, development banks and micro-finance banks are being drafted.
Rural Development Banks:

4.9 For a gradual implementation of structural reform program in rural development banks, a "Rural Development Bank High Level Coordination and Guidance Committee" has been instituted under the chairmanship of the Deputy Governor of the Nepal Rastra Bank. Accordingly, the committee has issued productivity norms to all 5 Gramin (Rural) Banks. The prescribed norms aim at enhancing productivity in staff and bank branch terms leading to breakeven point in 5 years. It further requires the rural banks to prepare a business action plan based on the productivity norms; have that approved by the respective management committee and to submit to the said high Level Committee. The Committee in its guidelines has also asked to initiate a process of selecting the chief executive officer through open competition and accomplishes the selection process by mid-July 2002. There is yet another Committee constituted to review existing personnel rules for ensuring uniformity in the service conditions and benefits to the employees.

4.10 Total of accumulated losses of the rural development banks by the FY 2000/2001 reached to Rs. 162.8 million. As one time rescue, HMG and the Nepal Rastra Bank, have decided to make up this loss by way of capital grants to the concerned rural banks. Accordingly, HMG is going to share 30 percent (Rs. 50.0 million) and Nepal Rastra Bank the balance of Rs. 112.8 million (70 percent). Following this rescue, the Rural Micro Finance Development Center has been instructed to start providing wholesale credit to the rural banks immediately. The Far-Western Grameen (Rural) Development Bank will have its excess staff quit under a golden handshake scheme within current fiscal year. HMG and the Nepal Rastra Bank both have agreed to share 30 percent and 70 percent of the total cost of this scheme respectively. As a test case of privatization of the rural banks, works are underway to initiate the process of privatizing 44.5 percent of Nepal Rastra Bank's share in the Western Gramin Development bank Ltd. (between mid-June and mid-July 2002) to start with as one of such banks not in loss.
Finance Companies: 

4.11 Number of finance companies registered and licensed under the Finance Companies Act 2042 to conduct financial transactions has totaled 52. Additional 4 companies namely, World Merchant and Finance Company Ltd. Hetauda, Capital Merchant Bank and Finance Ltd. Kathmandu, Crystal Finance Ltd. Kathmandu, and Royal Merchant Banking and Finance Ltd. Kathmandu, have been issued such licenses between April 2001 and March 2002. These companies are already in operation.

Box 4 (5).

Regulatory Guidelines to Finance Companies

Following guidelines have been issued to regulate the finance companies effective January 2002:

(1) Capital Fund: finance Companies are required to maintain minimum primary capital fund and total capital fund against the total risk weighted assets (RWA) in following percentages beginning in FY 2001/2002 to FY 2003/2004

<table>
<thead>
<tr>
<th>FY</th>
<th>Percent of RWA</th>
<th>Minimum Primary Capital Fund</th>
<th>Total Capital Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2001/2002</td>
<td>5</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>FY2002/2003</td>
<td>5.5</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>FY2003/2004</td>
<td>6</td>
<td>12</td>
<td>12</td>
</tr>
</tbody>
</table>

(2) Financial Resource mobilization and Liquid Assets: Finance Companies (FCS) are allowed to collect deposits and loans up to 10 times of the primary capital fund. Of the total deposits mobilized, savings deposit may not exceed 25 percent. As regards the liquidity level, FCs are required to keep of percent of the total deposit liability in the forum of liquid assets of which 8 percent should be in cash in vault or with NRB or in the current account of commercial banks. Balance of 5 percent may be in government securities or NRB boards or fixed deposit in commercial banks.

(3) Clarification of Loans and Loss Provisioning: Under the guidelines, loan, credits and collaterals in the basis of ageing of principal amount falling due by December-January (Month of Poush) and June-July (Month of Ashad) of every FY are to be classified as good, less than good, doubtful and bad - 1 percent, 25
percent, 50 percent and 100 percent of the amount corresponding to the order of the classified loans should be provisioned.

(4) Exposure of loan and credit facilities per customer: FCs may extend fund-based loan, credit and deed not exceeding 25 percent and in cases of non-fund based facilities not exceeding 50 percent per customer. FCs are also debarred from investing or extending loan in any single sector in excess of prescribed percent of its total loan and credit and collateral.

(5) Interest Rate: FCs may fix the interest rates on its loan and credit as well as on deposits except fixing one flat rate on loan and credit.

(6) Audit: FCs will be required to have their balance sheets and the profit and loss accounts audited within 5 months after the close of each fiscal year; and to submit such accounts with their relevant schedules as audited to NRB at least one month ahead of the annual general meetings. In addition, they are also required to have completed internal auditing of their financial transactions and accounts for every 6 months and submit the internal audit report approved by their Boards of Directors to the NRB within 3 months after the end of the half-year period concerned.

(7) Institutional Good Governance: In any Board of Directors only one individual from one family can be elected or appointed. At least 50 percent of the total membership of a Board will be required to be at least graduates. Duties and responsibilities of the Board of Directors have also been specified and code of conduct for every Director to observe has been enforced. Required qualification for a chief executive and selection process as well as code of conduct for employees of FC have also been prescribed.

(8) Expansion of branches, net profit and dividend and sale of promoter's share: Guidelines as issued also deal with these aspects. Draft of Finance Company Rules to ensure clarity and transparency of FCs work process are being finalized in its final stage.

Cooperatives:

4.12 Nepal Rastra Bank has issued permits to 34 savings and credit cooperatives among the cooperatives registered with the Department of Cooperatives under the Cooperatives Act, 2048, to conduct limited banking transactions. The Bank has not issued any such permit after April 2000. Share capital of such cooperatives has reached Rs. 240 million with deposits totaling Rs. 1,470.0 million and credits totaling Rs. 1,270.0 million. Of the 34 cooperatives, 11 are operating in rural
areas as small farmers cooperatives and 23 are in urban and semi-
urban areas.

4.13 Among organizations registered under Organization Registration
Act, 2034, and seeking permission to conduct micro-finance business
under the Financial Intermediary Act, 2055, Nepal Environment and
Pollution Eradication UNESCO Club, Kathmandu, the Society of
Local Volunteers for Development Efforts (SOLVE, Nepal) Dhankuta,
and Women Entrepreneurs Association of Nepal (WEAN) Lalitpur,
are the ones licensed to do so during the period of 8 months between
mid-January 2001 and mid-March 2002. With this, number of Non-
Governmental Organizations (NGOs) permitted to conduct micro-
finance transactions has totaled 16.

Monetary Situation:

4.14 Among monetary aggregates, broad money during the review period
of current year increased by 3.6 percent which is lower compared to
9.6 percent last year due to decrease in net foreign assets. Narrow
money during review period of the current year grew by 9.7 percent,
which is near to 10.2 percent increase last year. Despite a decline in
net foreign assets, nominal growth rate of time deposits as
contractionary factor accompanied by a decline in net unclassified
liabilities caused expansion of narrow money supply almost at par to
the previous year's rate. Of the two components of narrow money,
currency circulation increased by 14.5 percent against 9.4 percent
increase in the previous year. The rise in money circulation this year
is attributable to the growing tendency of holding cash by the people
particularly due to close down, transfer or merger of bank branches
with the security concern. Another component of narrow money, the
current account deposit, declined by 0.8 percent as compared to 11.7
percent increase during the corresponding period of previous year.

4.15 Net foreign assets, one of the expansionary factors of the money
supply, decreased by 2.1 percent during the review period of current
year compared to 14.4 percent increase last year which is explained
by significant fall in the inflow of foreign exchange from export, net
services and capital transactions. Another factor, net domestic
borrowing, which had increased by 8.3 percent last year increased by
3.8 percent to a total of Rs. 194.5 billion by mid March 2002. Reduction in claims of monetary sector on State Owned Enterprises (SOEs) and the private sector are the main reasons for nominal rate of increase in domestic borrowing.

4.16 Out of the net domestic borrowings, the share of net lending from the monetary sector to the Government increased by 2.0 percent this year to a total of Rs. 49,630.0 million due to the use of over-draft of Rs. 790.0 million by the government as compared to 0.5 percent increase last year. Claims on the private sector, which shares a significant portion in the net domestic credits increased only by 4.8 percent to a total of Rs. 132.89 billion by mid March 2002. Rate of such increase in comparison to the last year is 10.9 percent. This fall in claims on the private sector is due to reduction in credit demand from exports, imports, and tourism and industry sector owing to external and domestic factors

4.17 Claims on SOEs during the review period this year increased by 0.5 percent, which had increased by 10.4 percent during such period of the previous year. Reasons for this marginal increase in claims on SOEs are: partial payment by Nepal Industrial Development Corporation (NIDC) of its debenture held by Nepal Rastra Bank; fall in cash transfer by the branches of the Agricultural Development Bank to the head office; and partial payment of liabilities by some of the non-banking institutions. As a result of marginal rate of growth in the credit flows to SOEs and the private sector, share of the Government has increased during the review period of the current year. Of the total internal borrowings from the banking sector by mid March 2002, share of the Government, SOEs and the private sector stood at 25.5 percent, 6.2 percent, and 68.3 percent respectively corresponding to 22.5 percent, 6.6 percent and 70.9 percent by mid-March 2001.

4.18 Time deposit- a significant factor of broad money supply has increased nominally by 0.6 percent (Rs. 840.0 million) in the review period of the current year totaling Rs. 144.71 billion by mid March, 2002. It had increased by 9.3 percent (Rs.111.7 billion) during the
review period of previous year. The marginal increase in time deposits during this period can be attributed to reduction in the interest rate by commercial banks, closures, relocation and merger of rural branches, decline in economic growth, and voluntary declaration of income source and formation of Property Investigation Commission.

4.19 The net non-monitory liabilities decreased by 3.9 percent during the review period of this year compared to 13.1 percent increase last year due to an increase of 7.5 percent in net domestic assets this year compared to 6.0 percent increase last year.

**Commercial Bank Resources and their Uses:**

4.20 The total resources of commercial banks during current year's review period dropped by 1.6 percent to Rs.208.2 billion by mid March 2002 compared to 11.3 percent increase last year. The decline in both current and fixed deposit liabilities and slower growth of savings deposit and a drop in net other resources, all worked towards negative growth of aggregate resources. The total resources utilization during the review period increased marginally due to the decline of liquid assets held by NRB and in its balance with the foreign banks declined coupled with the marginal increase in claims against the private sector under the loans and credit portfolio.

4.21 Total deposit liabilities of the commercial banks this year increased by a margin of 0.4 percent against 10.9 percent increase last year. The current deposit during the review period this year dropped by 2.1 percent contrary to rise by 14.4 percent last year. The saving deposit increased by 2.9 percent compared to 13.4 percent increase last year. Fixed deposit growth remained negative by 2.2 percent this year compared to 7.2 percent growth last year. The credit of NRB to the commercial banks amounted to Rs. 5.5 million by the mid March 2002. The net other liability of the commercial banks this year dropped by 1.6 percent while it had increased by 11.3 percent during the review period of last year. Such a decline this year is explained by the slowdown in economic activities due to prevailing external and
internal factors adversely affecting the loan recovery and investment to low profitability posture of the commercial banks.

4.22 Growth of total liquid assets of the commercial banks during this year's review period remained negative compared to a growth of 17.6 percent last year. Out of the total liquid assets, balance held in NRB and foreign banks declined by 29.2 percent and 23.0 percent respectively while cash balance and foreign currency balance both increased by 0.8 percent and 31.6 percent respectively. Corresponding increases in their balances registered last year were 30.3 percent (held with NRB), 10.1 percent (held with foreign banks), 18.5 percent (cash in hand) and 11.1 percent (foreign currency).

4.23 Total credit and investment rose by 5 percent during the review period of this year. It had risen by 9.2 percent during the same period last year. Credit to HMG from the commercial banks increased by 4.6 percent. It had decreased by 4.4 percent last year, which had declined, by 4.4 percent in the same period of last year. Credit to the SOEs from the commercial banks increased by 0.9 percent only while it had increased by 13.0 last year. Credit to the private sector increased by 5.9 percent, which had increased by 10.9 percent last year. The decline in demand for the credit from import and export business, tourism and industry sectors contributed to these declines. Foreign bill purchased by commercial banks decreased by 24.7 percent this year compared to the increase by 23.8 percent last year. These were 12 interventions in foreign currency market by mid-March of 2002. In 6 interventions excess foreign currency equivalent to Rs. 5,010.0 million brought and 6 interventions were used to meet the demand of foreign currency to the tune of Rs. 7,040. 0 million.

Expansion of Commercial Bank Branches:

4.24 Under the existing security situation of the country, more flexible policy is in place. As several branches of the commercial banks were either merged or relocated or closed, total number of branches declined from 430 in mid-July 2001 to 403 by mid January 2002. There were 31 closures and 4 new branches installed during the period.
Most vulnerable to the current security situation were the branches of the RBB (180 branches) and those of the NBL (154 branches). During mid-July 2001 to mid-January 2002 period, 18 branches of RBB and 13 of NBL were relocated or closed or merged. Thus, the total operational branches by mid-January 2002 were 162 and 141 respectively. During the same period the Nepal Arab Bank Ltd., Everest Bank Ltd., Lumbini Bank Ltd., and Machhapuchhre Bank Ltd each added one more branches. The total operational branches of these commercial banks by mid-January 2002 were 15 of Nepal Bangladesh Bank Ltd. 14 of Nepal Arab Bank Ltd., 11 each of Everest bank Ltd. and Himalayan Bank Ltd., 8 of Nepal S.B.I. Bank Ltd., 9 of Standard Chartered Bank Nepal Ltd., 7 each of Nepal Bank of Cylon Ltd. and the Bank of Kathmandu Ltd., 6 of the Nepal Indo-Suez Bank Ltd., 5 of the Nepal Industrial and Commercial Bank Ltd., 4 of the Lumbini Bank Ltd., 2 of the Machhapuchhre Bank Ltd. and 1 of the Kumari Bank Ltd.

Other Banking and Financial Institutions:

4.25 Loan investment of the ADB/N, NIDC and the Employees Provident Fund (EPF) rose up by 17.6 percent to a total of Rs. 5,520.0 million during the review period of current year compared to the decline by 1.1 percent last year. In this total, ADB/N shared 60.3 percent, NIDC 1.0 percent and the EPF 38.7 percent by mid-January 2002 corresponding to 68.8 percent of ADB/N, 1.0 percent of NIDC and 30.2 percent of EPF by mid-March 2001. Loan recovery of these institutions during the review period of this year increased by 10.5 percent to a total of Rs. 2,920.0 million contrary to a decline of 14.0 percent last year. Net loan investment, thus, rose by 26.9 percent this year to Rs. 2,590.0 million compared to 22.8 percent increase last year. Outstanding loan during the review period this year increased by 20.7 percent to Rs. 26,010.0 million as against the increase of 17.0 percent last year. ADBN’s share in the outstanding loan by mid-March 2002 was 60.5 percent, that of NIDC was 7.8 percent and EPF’s was 31.7 percent corresponding to 64.8 percent (ADB/N), 9.2 percent (NIDC) and 26.0 percent EPF by the same month last year.
4.26 ADB/N distributed a total of Rs. 3,330.0 million loan—an increase of 3.1 percent during the review period of current year compared to a fall of 16.9 percent last year. NIDC is loan distribution rose by 20.5 percent to total of Rs. 60.0 million as opposed to 38.0 percent decline last year, while the total loan distribution by the EPF increased by 50.4 percent to a total of Rs. 2,130.0 million this year compared to rise of 80.9 percent registered for the review period of last year.

4.27 Principal amount recovered by ADB/N during the review period of current year rose by 13.6 percent to the total of Rs. 2,460.0 million in contrast to the decline of 19.5 percent last year. Principal recovery of NIDC totaled Rs. 50.0 million with a decrease by 39.4 percent, though this decrease was less than 44.6 percent of the last year. That of EPE totaled Rs. 410.0 million increasing nominally by 3.8 percent compared to 68.2 percent increase during the review period of last year.

4.28 Outstanding loan of the ADB/N by mid-March 2002 stood at 15,740.0 million—an increase of 12.7 percent—compared to 13.7 percent increase by mid-March 2001 over that of same month a year before. That of NIDC increased by 2.2 percent to a total of Rs. 2,030.0 million by mid-March 2002 compared to improvement by 15.7 percent by the same month last year. That of EPF increased by 47.2 percent this year totaling Rs. 8,240.0 million, which is close to 48.6 percent increase of the last year.

4.29 Gramin Vikas Banks are in operation one each in all the five development regions of the country to provide credit without collateral to the deprived rural people especially for women in group for their income generation activities. By mid-January 2002, these five banks through their 4,563 centers, served 1,58,740 members in 31,776 groups. Total number of VDCs covered to the direct benefit of the members was 947 in 42 districts of the Kingdom. Since the operation of these banks to mid-January 2002, a total of Rs. 5,330.0 million worth of credit was disbursed to 145,120 members. Out of the disbursed credit, Rs. 4,420.0 million was recovered and Rs. 910.0 million remained outstanding by the said month while, total savings...
amounted Rs. 310.0 million comprising of collective savings of Rs. 290.0 million and individual savings of Rs. 20 million. A total of 1163 staffs have been working in several offices under these five banks. The activities of each banks are as follows:

**Table 4 (A)**  
*Activities of the Gramin Vikas Banks (Mid January 2002)*

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Description</th>
<th>Eastern</th>
<th>Middle</th>
<th>Western</th>
<th>Mid-western</th>
<th>Far-Western</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Covered Districts (Total)</td>
<td>Jhapa, Morang, Sunsari, Saptari, Siraha, Udayapur, Ilam and Dhankuta</td>
<td>Jhanusha, Mahottari, Routahat, Bara, Pasa, Chitwon, Lalitpur, Sarlahi, Makwanpur, Nuwakot, Kabhre and Dhading</td>
<td>Rupajdehi, Nawalparasi, Kapilvastu, Palpa, Shyana, Tanahun, Kaski, Gulmi, Parbat, Bajung, Lamjung, Gorkha and Arghakhanchi.</td>
<td>Banke, Bardia, Dang and Surkhet</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(8)</td>
<td>(12)</td>
<td>(13)</td>
<td>(4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>V.D.Cs (number)</td>
<td>259</td>
<td>246</td>
<td>261</td>
<td>101</td>
<td>80</td>
<td>947</td>
</tr>
<tr>
<td>3</td>
<td>Centers (number)</td>
<td>1334</td>
<td>1044</td>
<td>1075</td>
<td>534</td>
<td>576</td>
<td>4563</td>
</tr>
<tr>
<td>4</td>
<td>Groups (number)</td>
<td>10585</td>
<td>6632</td>
<td>7559</td>
<td>3695</td>
<td>3305</td>
<td>31776</td>
</tr>
<tr>
<td>5</td>
<td>Members (number)</td>
<td>50284</td>
<td>32491</td>
<td>39071</td>
<td>18475</td>
<td>18419</td>
<td>158740</td>
</tr>
<tr>
<td>6</td>
<td>Member borrowers (number)</td>
<td>46922</td>
<td>31276</td>
<td>38847</td>
<td>16289</td>
<td>11786</td>
<td>145120</td>
</tr>
<tr>
<td>7</td>
<td>Loan distribution (Rs.000)</td>
<td>2433331</td>
<td>667935</td>
<td>1129914</td>
<td>484725</td>
<td>616234</td>
<td>5332139</td>
</tr>
<tr>
<td>8</td>
<td>Loan Recovery (Rs. 000)</td>
<td>2117946</td>
<td>488999</td>
<td>899757</td>
<td>398437</td>
<td>518368</td>
<td>4423507</td>
</tr>
<tr>
<td>9</td>
<td>Outstanding loan (Rs.000)</td>
<td>315385</td>
<td>178936</td>
<td>230157</td>
<td>86288</td>
<td>97866</td>
<td>908632</td>
</tr>
<tr>
<td>10</td>
<td>Group savings (Rs. 000)</td>
<td>107616</td>
<td>40453</td>
<td>66101</td>
<td>31898</td>
<td>42516</td>
<td>288584</td>
</tr>
<tr>
<td>11</td>
<td>Individual Saving of (Rs. 000)</td>
<td>6761</td>
<td>6578</td>
<td>6777</td>
<td>2320</td>
<td>1498</td>
<td>23934</td>
</tr>
</tbody>
</table>
### Table 12

<table>
<thead>
<tr>
<th></th>
<th>Total saving (Rs.000)</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>12.</td>
<td></td>
<td>114377</td>
<td>47031</td>
<td>72878</td>
<td>35431</td>
<td>44014</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Personnel (Number)</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>13.</td>
<td></td>
<td>344</td>
<td>272</td>
<td>246</td>
<td>140</td>
<td>161</td>
</tr>
</tbody>
</table>

4.30 The total number of other development banks established under the Development Bank Act 2053 BS has reached 11 with the addition of 2 by mid-January 2002. Overall resources of these banks during the first 6 months (review period) of the current FY, reached Rs. 4,240.0 million with a significant increase of 37.5 % compared to the corresponding period of the last year. The total capital fund of the development banks increased by 22.5 percent to Rs. 520.0 million compared to such review period of the last year. Total deposit of these banks increased by 43.3 percent compared to that of last year to a total of Rs. 3,220.0 million. Loan and credit advanced increased by 31.3 percent in the review period of current year and reached Rs. 2,680.0 million. Total liquid assets increased by 64.2 percent to a total of Rs. 1,040.0 million during this period.

4.31 There has been a significant increase of financial resources of 49 finance companies with the addition of one during the period of mid-January 2001 to mid-January 2002. The total resource of these companies reached to a total of Rs.17, 030.0 million with an increase of 18.7 percent over that of mid-January 2001. Deposit, which is the major resource of the finance companies, totaled Rs. 12,740.0 million by mid-January 2002, an increase of 21.0 percent over that of mid-January of previous year. Capital fund also significantly increased (by 25.3 percent) and reached Rs. 2,450.0 million in the same period. Overall investment in credits reached Rs.11, 980.0 million with an increase of 16.8 percent over that of mid-January 2001, while the investment alone stood at Rs. 1,830 million with an increase of 16.6 % over that of the mid-January last year. Liquid assets increased by 28.8 percent to Rs. 1,830.0 million by mid-January 2002. Ratio of overall liquid assets (government securities included) to deposit stood at 21.0 percent compared to 21.7 percent at mid-January, 2001.
4.32 The total number of finance cooperatives licensed by NRB to operate limited banking business has reached 34 so far. The total resource of such cooperatives increased by 18.1 percent to a total of Rs. 2,150.0 million during the review period (first 6 months) of current year; capital fund increased by 31.6 % to the tune of Rs. 240.0 million and the deposit increased by 15.2 % to reach the total of Rs.1, 470.0 million. Loans advanced rose impressively by 66.5 percent and reached Rs. 90.0 million, credit held in investment increased by 20.8 percent and reached Rs. 1,270.0 million and investment increased by 7.6 percent and reached Rs. 200.0 million. Number of NGOs licensed to transact limited banking operations reached 16 with the addition of 3 during the review period of current year. There has been a record increase of 77.4 % in their resource mobilization totaling Rs. 27.5 million in the review period of current year.

4.33 There are 17 insurance companies including Rastriya Beema Sansthan and the Deposit Insurance and Credit Guarantee Corporation (P) Ltd. Two of these, namely, the National Insurance Corporation and National Life and General Insurance Company conduct both life and non-life insurance business. Three companies are in life insurance business only while 11 others operate only non-life insurance. The Deposit Insurance and Credit Guarantee Corporation (P) Ltd. transact credit guarantee and animal insurance only. It is estimated that the overall premium collection by three companies in the current year, increased by 29.6 percent over that of last year and reached Rs. 2,790.0 million. In the total, share of the non-life and life insurance contributed 66.9 percent and 33.1 percent respectively. Corresponding shares of these, last year were 74.1 percent and 25.9 percent. The overall resource of the insurance companies in the current FY is estimated to Rs. 12,190.0 million with an increase of 24.0 percent compared to that of last year. Total investment of the insurance companies is estimated to be Rs. 9,800.0 million with an increase of 16.7 percent in relation to the amount of last year. The total income of Rs. 780.0 million is estimated to be generated from the investment of three companies compared to Rs. 720.0 million earned last year.

4.34 Loan investment by the EPF during review period of current year jumped by 53.8 percent to reach a total of Rs. 1,300.0 million compared
to the amount of last year. The credit to the depositors in the review period this year reached Rs. 730.0 million with an increase of 18.7 percent over the amount of the last year. Credit flow to the industry increased 1.5 times compared to that of last year and amounted to Rs. 570.0 million. The capital recovery during the review period of current year increased by 4.7 percent and reached Rs. 320.0 million over that of last year. Outstanding loan totaled Rs. 7,500.0 million against Rs. 4,580.0 million of the last year.

4.35 Total resource of the Citizen Investment Trust is estimated to increase by 69.5 percent over that of last year. It's capital fund is estimated to rise by 12.7 percent to Rs. 50.0 million; while the fund collection is estimated to increase by 73.5 percent to Rs.1, 730.0 million. Investment is estimated to stand at Rs. 1,200.0 million with an increase of 38.5 percent over the amount of last year. In the total investment, 77.0 percent is estimated to be in government securities, 6.2 percent in fixed account, and 16.8 percent in shares and bonds. It is estimated that the loans and credits by the Trust will increase 2.5 times of last year's level to the total of Rs. 560.0 million. Cash reserve increasing by 33.5% is expected to total Rs. 200.0 million.

Challenges:

4.36 Given the overall macro-economic stability conducive to the flexible monetary policy in place, it has not been effective in producing expected results through expansion in economic activities. In the context of low growth of both narrow and broad money supply as well as of loans advanced to the private sector by the banking sector, there is a case for changes in monetary policy with adequate safeguards to the economic stability. The tools of monetary policy have yet to come into full play to realize the set targets.

4.37 There lies a task of meeting private sectors demands for financial resources at reasonable cost and quality and of realizing economic growth and development objectives through optimal use of resources. Implementation of economic policy couple with sound financial management has become all the more important.
4.38 Government have issued guidelines to the financial intermediaries to regulate their businesses prudently in the best interest of the depositors and to set the banking and finance sectors on an orderly course of efficiency which is so important for productive investment and promotion of economic activities.

4.39 Institutional good governance, managerial efficiency, organizational development and reform are in low profile in the main banking and financial institutions. SOEs, in particular, need to reorient to these values as priority tasks ahead.

4.40 State owned bank and finance companies are ridden with mounting bad debts. Other financial institutions are not exceptions either. Implementations of monetary and fiscal policies to reduce the size of bad debt have become a concern of paramount importance to the government.

4.41 Gramin Vikash Banks has to be strengthened and reorganized with top priority for the poverty alleviation. To mitigate the problems of poverty and unemployment and uplift the status of women, Gramin Banks have to be made more effective with its branches all over the country and with sufficient resources. Given the security situation of the country, mobilizing resources for the institutional and organizational extension and development of the network pose daunting challenges to HMG.
V

CAPITAL AND MONEY MARKET

Primary Market:

5.1. During the first nine months of the FY 2001/02, 8 more companies have been licensed to mobilize capital equivalent to Rs. 783.3 million by issuing public and right shares through the primary market of securities in addition to 9 licensed last year to mobilize Rs. 634.3 million. Thus, the capital mobilization by the companies licensed this year will increase by 23.5%. It is expected that 5 more companies in line to obtain similar licenses to mobilize Rs. 577.3 million will be licensed.

Table 5(a):
Trends of the Primary Market

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<td></td>
<td></td>
<td>2000/01</td>
<td>2001/02</td>
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<tr>
<td>1 Permission for Capital Mobilization</td>
<td></td>
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<tr>
<td>(a) Ordinary Shares</td>
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<tr>
<td>(b) Right Shares</td>
<td></td>
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<tr>
<td>(c) Preferential Share</td>
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<tr>
<td>(d) Debenture</td>
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<tr>
<td>2 Number of Companies</td>
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</tr>
</tbody>
</table>

Secondary Market:

5.2. By mid April 2002, number of listed agencies totaled 119 including 4 listed last year. Market capitalization value has stood Rs. 28,990.00 million with a decline of 37.4% during the review period of the
current year as compared to Rs. 46,349.4 million last year. The market capitalization value of listed securities had stood Rs. 50,230.0 million during the review period of FY 2001/02.

5.3 In the review period of current year, value of securities transactions declined by 70.8% to the total of Rs. 684.0 million (2356370 shares) compared to Rs. 1,850.0 (1541860 shares) million equivalent of securities during such period of last year.

5.4 NEPSE index has stood at 193.8 points with a decline of 154.6 points at the end of the first eight months of FY 2001/02 compared to 395.8 points by the same date last year.

5.5 Of the 119 listed companies, Nepal Stock Exchange Limited has categorized 31 companies in category "A" and the remaining companies in category "B" pursuant to the provision of the Securities Listing Bylaws, 2053 during the current fiscal year. Only 26 out of the 112 listed companies were included in category "A" during the last fiscal year.

Table 5(b):
Trends of the Secondary Market

<table>
<thead>
<tr>
<th>Headings</th>
<th>Fiscal Year</th>
<th>1996/97</th>
<th>1997/98</th>
<th>1998/99</th>
<th>1999/00</th>
<th>2000/01</th>
<th>First 8 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities Transactions (Rs. million)</td>
<td>416.2</td>
<td>202.6</td>
<td>1500.0</td>
<td>1155.0</td>
<td>2344.2</td>
<td>1858.5</td>
<td>684.0</td>
</tr>
<tr>
<td>Number of Shares Transactions (in &quot;000&quot;)</td>
<td>9443</td>
<td>1195</td>
<td>4857</td>
<td>7674</td>
<td>4989</td>
<td>2483.49</td>
<td>2356.37</td>
</tr>
<tr>
<td>Number of Companies in Business</td>
<td>67</td>
<td>68</td>
<td>69</td>
<td>69</td>
<td>67</td>
<td>64</td>
<td>67</td>
</tr>
<tr>
<td>Number of Transactions</td>
<td>12428</td>
<td>16104</td>
<td>15814</td>
<td>29136</td>
<td>46095</td>
<td>31042</td>
<td>25445</td>
</tr>
<tr>
<td>Market Capitalization (Rs. Million)</td>
<td>12,698.0</td>
<td>14,289.0</td>
<td>23,508.0</td>
<td>43,123.3</td>
<td>46,349.4</td>
<td>50229.7</td>
<td>28994.6</td>
</tr>
<tr>
<td>Percentage of Transactions over Market Capitalization Value</td>
<td>3.3</td>
<td>1.4</td>
<td>6.4</td>
<td>2.7</td>
<td>5.1</td>
<td>0.37</td>
<td>2.4</td>
</tr>
<tr>
<td>Percentage of Market Capitalization Value over Gross Domestic Product</td>
<td>4.7</td>
<td>4.9</td>
<td>7.1</td>
<td>11.8</td>
<td>11.8</td>
<td>7.1</td>
<td></td>
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</table>
Paid up Capital of Listed Securities (Rs. Million)  
<table>
<thead>
<tr>
<th></th>
<th>4,476.5</th>
<th>4,959.8</th>
<th>6,487.4</th>
<th>7,482.2</th>
<th>8,165.2</th>
<th>77,706.5</th>
<th>9021.6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Listed Companies</td>
<td>95</td>
<td>101</td>
<td>107</td>
<td>110</td>
<td>115</td>
<td>112</td>
<td>119</td>
</tr>
<tr>
<td>NEPSE Index (in points)</td>
<td>176.3</td>
<td>163.3</td>
<td>216.9</td>
<td>360.7</td>
<td>348.4</td>
<td>395.85</td>
<td>193.8</td>
</tr>
</tbody>
</table>

**Security Board**

5.6 During the review period of current year, the Board registered the ordinary and right shares the companies wanted to issue and granted the permission. It also persuaded the companies to work for improvement in the flow of financial information particularly the financial statements towards making the market transparent, reliable and efficient in addition to the various efforts to build legal infrastructure.

5.7 In order to make stock brokering reliable, transparent, and disciplined, the Board issued the Guideline of Professional Ethics of stockbrokers, 2058 to become effective from September 2001.

5.8 In addition, the Board also developed and distributed the formats of financial information to the Nepal Stock Exchange Ltd., the brokers and other companies for them to follow with a view to ensure uniformity, standard and transparency.

5.9 Pursuant to the Board’s policy of preparing necessary legal infrastructure to protect the interest of the investors and market development, a new law related to securities is under formulation process in order to strengthen market monitoring and supervision capacity and make the securities transactions regulatory system more effective.

5.10 The Board has also issued and enforced Guidelines Related to Bonus Share, 2058 in order to make bonus share issuance system and process simple and transparent. It is also expected that the guidelines for registration and issuance of right share, which has been drafted to make the system and process related to issuance of right share simple and transparent, will be implemented by the end of this fiscal year.
Box 5.1
Reforms in the Securities Issue System

- Guidelines related to Bonus Share Issue, 2058 and its main provisions:
  - Paid up capital should be equivalent to the inscripted value of shares in order to issue bonus share
  - Should have earned profit for the last three consecutive years, and the bonus shares intended to be issued should be funded under the capitalization of premium shares paid-up in cash and the free reserves set aside after the deduction of statutory reserves.
  - The provision of refraining from issuing bonus shares from the surplus generated by revaluation or sales of any fixed assets and the provision of refraining from dividend distribution restricted by law.

- Guidelines for Securities Registration and Issuance Permission, 2057 and its main provisions:
  - Only the companies that have completed at least one year's operation can take part in public issue;
  - The provision to show the basis for issuing shares by adding premium value;
  - The professional or professional body preparing the projected financial statements contained in the Prospectus to be held accountable.
  - The provision of issuing public shares of tourism, transport, trading and industry related companies only under the guarantee of legally authorized securities brokers
  - The provision of refraining from selling shares owned by the promoters before completion of three years of the date of publication of the Prospectus, or the date of the operation of business, whichever is later.

Nepal Stock Exchange Limited (NSEL):

5.11 As per the provision of capital gain tax, which was mentioned in the Budget Speech of 2001/02, His Majesty's Government collected nearly Rs. 0.96 million worth of tax from securities transactions of NSEL during the review period of the current year.

5.12 As mentioned in the Budget Speech of 2001/02, NSEL made public the names of 25 listed companies which failed to publish financial statements for the last two years, as first step towards de-listing such
companies. As none of these companies responded to the notice nor their existence could be located by NSEL, de-listing process is underway.

**Securities Dealer:**

5.13 During the first nine months of the FY 2001/02, 27 security brokers, 9 securities issue and sales management agencies (out of 10 last year) and 2 securities dealers have renewed their licenses pursuant to the provisions under Securities Business Act, 2040. All of these companies and one market maker company were in business during such period last year.

**Group Fund and Unitary Scheme:**

5.14 Citizen Investment Trust (CIT) is managing Citizens Unitary Scheme as well as other programs of group savings as the tools of alternative investment to the savers and investors entering the capital market. The total collection of the trust has reached Rs. 1,160.7 million including Rs. 197.0 million collected during the review period of the current year. In the total collection, 33.9% is in Citizen Unitary Scheme, 50.9% under Employees Savings Growth Program, 8.3% under Investors Account Scheme and 6.8% under Gratuity Fund. Of the amount mobilized by the Trust, 53% has been invested in government bonds, 30% in fixed deposit in banks and financial companies, 14% in time-bound credit and 3% in shares of companies.

5.15 As the time-period of the N.C. M. Mutual fund operated by NIDC has expired, works to continue this by restructuring are near finalization. It is estimated that N. C. M. Mutual fund of to Rs. 100 million as inscribed values will be available in the market by the end of current year.

5.16 In the absence of trust act and considering the demand of such instruments in the market, the Securities Board under its Act has made a policy of allowing to operate more of mutual funds under the management and responsibility of private sector finance companies.
A draft guideline for mutual fund operations is ready for implementation, hopefully, by the end of the current fiscal year.

**Long-term Government Bond:**

5.17 The amount of the long-term government bonds during the review period of the current year stood at Rs. 28,333.0 million with a decline of 12.6% compared to the last fiscal year. Amount of such bonds had declined by 2.69% in FY 2000/01 against the amount of previous year and stood at Rs. 32,432.9 million. Of the total government bonds by the review period of the current year, the amount in National Savings Bond was the largest with Rs. 12376.4 million (43.7%), next the Development Bonds with Rs. 6,800.7 million (24.0%), the Special Bonds with Rs. 8738.0 million (30.8%) and the last was savings with Rs. 417.9 million (1.5%). Of the total of these bonds, NRB owned 16.2%, financial and other corporations owned 54.1%, and the individuals and other private sector entities owned 29.7%.

5.18 Compared to FY 2000/01, the transactions of the above-mentioned government bonds through market makers in the secondary market declined by 29.3% and stood at Rs. 340.0 million by the review period of FY 2001/02. During the FY 2000/01, the amount transacted totaled Rs. 481.2 million. Compared to FY 2000/01, NRB's transactions in such of the bonds in the secondary market declined by 64.9% and stood at Rs. 451.6 million during the review period of FY 2001/02. In FY 2000/01, NRB had transacted Rs. 1287.6 million worth of such bonds.

**Treasury Bills:**

5.19 Compared to the last fiscal year, the outstanding amount of treasury bills by the review period of FY 2001/02 increased by 48.9% and reached Rs. 41106.6 million. In FY 2000/01, the treasury bills increased by 31.3% as compared to that in FY 1999/2000 and to the total of Rs. 27610.8 million. Among the owners by the review period of the current year, NRB's share was 35.3% or Rs. 14498.1 million, while the share of financial and other corporations was 64.7% or Rs.
26608.4 million. The weighted average interest rate of treasury bills stayed at 5.4% by the mid March 2002.

5.20 Compared to FY 2000/2001, the repo and outright purchase of treasury bills by NRB during the review period of FY 2001/02 decreased by 15.5% and stood at Rs. 49,944.6 million equivalent, while the sales increased by 2.8% to Rs. 30236.2 million. NRB had purchased treasury bills equivalent to Rs. 57106.9 million and sold Rs. 29,412.0 million equivalent by repo and outright purchase in the secondary market of the treasury bills during the FY 2000/2001.

**Inter-bank Credit:**

5.21 Compared to the last fiscal year, the inter-bank credit declined by 35.9% and has stood at Rs. 1230.7 million by the review period of FY 2001/02. Credit amount borrowed from foreign banks totaled Rs. 83.3 million. The interest rate on inter-bank credit, which remained at 4.3% in FY 2000/01, increased to 4.5% by the review period of current year.

5.22 In order to increase the liquidity of the commercial banks during this period, changes were made in mandatory cash reserve ratio by the NRB. Accordingly, with a decrease of 1 percentage point on current and savings deposit liability, ratio was reduced to 7% from 8%, ratio on fixed deposit liability was reduced by 1.5 percentage point to bring it down to 4.5% from 6%. As a result, liquidity of the commercial banks increased approximately by Rs. 2000 million.

**Achievements of the Ninth Plan:**

5.23 In summary, the process of developing the role and responsibilities of the Securities Board as central regulatory body and the Nepal Stock Exchange Limited as front line regulatory body has been initiated during the Ninth Plan. During the plan period, the policy of establishing direct relationship between Securities Board and securities operators was implemented and their operations conducted on individual basis were institutionalized. In order to
make the securities issue system more simple and transparent through flow of financial statements and information from the concerned institutions, new formats have been developed and implemented to ensure the continuity, uniformity and standard of such information. Reforms were also made in the Nepal Chartered Accountant Association Act in the process of creating legal and institutional infrastructure in order to make the accounting and auditing standards of the institutional sectors compatible with the international standards. Guidelines related to the professional ethics of securities brokers and issuing and sales managers were implemented in order to make the job of securities operators prestigious and reliable. Awareness programs were also conducted in order to enhance awareness to observance of rules, regulations and the provisions under them and to increase awareness on securities market.

**Major Challenges:**

5.24 **The major challenges of capital and money market are:**

- To continue upgrading the standard and scope of securities market wide and market dynamic in order to increase institutional investors, increase internal savings and level of investment, and to change the tendency of credit oriented investment.

- To strengthen the legal framework related to the capital market in order to make the market reliable by reforming flow of information and knowledge in the capital market.

- To simplify the entry and exit process of market makers and other securities operators, who can play important role in the stability and dynamism of the capital market.

- To make the transactions in the secondary market of securities more competitive and transparent in order to minimize the unnatural ups and downs in the NEPSE index.
• To develop favorable market for the investor having different views on the risks due to the dominance of ordinary shares and shortage of securities tool of other nature.

• To mechanize securities transactions system timely.

• To improve the underdeveloped situation of the institutional bond market.

• To enhance the awareness of the investors engaged in the capital market or the potential ones and enable them to make well-informed decisions.

• To make transactions of resources at non-banking sector more simple and transparent by introducing short-term instruments of credit in the money market.

• To develop bond market by varying the rate of return on long-term government bonds according to the payment period.

• To reduce the current heavy pressure on liquidity of the banking sector
VI
FOREIGN TRADE AND BALANCE OF PAYMENT

6.1 International trade and payment were encouraging in previous year, unfortunately, starting with this fiscal year, the situation of the export and imports are not satisfactory. Export to third countries are gradually deteriorating as the limited trade partner countries of Nepal have been facing economic recession worsening further by terrorist attack in America of September 11, 2001. Besides this, since few years back peace and security situation of the country has been fragile, internal activities of the country have slowed and the consequent impact on external performance has been adverse.

Export:

6.2 Total export during the review period of the last year increased by 20.2%. But due to unfavorable internal and external circumstances, right from the beginning of this current fiscal year, the export dwindled by 7.8% totaling to Rs. 34,930.0 million. In terms of US$ export increased by 12.5% last year but this year it increased by 11.3%. Export to other countries decreased significantly but export to India increased gradually. Export to India last year was 44.4%, whereas this year export increased by 63.1% during the review period of this year. Analysis the export/import ratios of the review period, total export cover 50% of the total import, compared to 49.6% last year. Due mainly to excess of import over export contributing to improvement in export/import ratio through marginally.

6.3 In the review of country wise export to India during the review period of this year increased by 31.0% to Rs. 22,060.0 million compared to the increase of 28.3% last year. Increased export items in India primary goods seed as medicinal herbs, pulse, cinnamon, turmeric, fruit, vegetable, catechu, sand, stone, crude jute, black millet, leather, jute goods, cardamom, etc. Manufacturing items that increased significantly are: vegetable ghee by 225.6%, noodles by 35.8% and
polyester yarn by 48.3%. Export of industrial goods, e.g. Chyawanprash, M.S. pipe, P.P. fabric, plastics goods, copper wire, hair oil, shopping bag, writing and printing papers, disposable glass, coconut oil, chemical materials etc also increased. Although this year, export of Pasmina woolen ware to India dipped low by 79.3%, when compared to its leading portion last year. Export of toothpaste, biscuits, animal feed, zinc oxide, candle, cloth, sugar, handicrafts, particleboard yarn, and soap also declined.⁶

6.4 Third country export during the review period of last year had increased by 14.4%. On the contrary, it decreased by 38.9% to Rs. 12,880.0 million. Since few years back main commodities exported to the third country got significant decline. Exports of readymade garments declined by 42.1% totalling Rs. 5,390.0 million as compared to last year. Export of woolen carpet also declined by 26.5% totalling Rs. 4,260.0 million. Export of pashmina woollen ware also decreased by 74.2% totalling Rs. 950 million. In the same way significant decline in Handicrafts, leather, pulse, tea and medical herbs also followed the suit during the review period of the current year.

⁶ In spite of the increased of the 31.0 percent in export to India decrease is expected due to imminent impact on some of the major items of export under the protection regime included in the recently renewed bilateral trade treaty.
Box No. 6.1

**New provisions under the renewed Nepal-India trade treaty.**

Nepal- India trade treaty of 1996 is very liberal towards promoting bilateral trade between the two countries. One of the provisions under this treaty stipulated that either of the two parties purposing review of the treaty would require a review before its renewal. Indian side this time raised issue of export surge of some items and purposed reviewed of the treaty. After many rounds of bilateral discussion some changes to the Protocol with some new provisions included, the treaty has been renewed on March 2002 without any changes in the treaty itself. New provisions under the protocol are:

Provision of no quantitative restrictions and customs duties for commodities produced in Nepal was guaranteed by 1996 treaty under its Article 5 and the protocol under it, has been cancelled. That has been deleted and the new mandatory provision included requires the Nepalese products destined for export to India to contain not more than 75% of new materials imported from the third countries to enjoy exemption from duties and quota for a period between 2058/11/22 and 2059/11/21. It further requires that after 2059/12/21, such exports to continue to enjoy said exemptions should not contain of raw materials imported from the third countries in excess of 70%.

Major items under export surge as claimed by India are: Acrylic yarn vegetable ghee, copper product and zinc oxide. To enjoy exemptions from duties on the export of these items, following quotas have been fixed under the new provision: vegetable ghee 100,000 metric ton, acrylic yarn-10, 000 metric ton, copper based products-7500 metric tons and zinc oxide- 2500 metric tons. Any export exceeding these quotas are to be governed under Most Favored Nation regime.

The Article 9 of the 1996 treaty has made provision of restrictions in trade in the interest of protecting items of public moral, human animals heritage of high value, export and import of gold governed by law and such other objects as agreed by both parties. Under the new provision, accordingly cottage industry has been included for its protection. Under this provision, if the import in either country increases exceedingly to the extent of disrupting income, employment and production in the short run, such country can bring matters to the joint committee installed by the parties for review and suitable measures of control. Should such committee not remit the case within 60 days, country proposing control measures can adopt the measures of control it may deem necessary. Measures so taken will be a subject of review by the Nepal-India Intergovernmental committee.

**Import:**

6.5  Due to the slowdown in the economic activities both internally and externally, in FYs 1997/98 and 1998/99, import declined
significantly. As the situation started to ease up at the outset of FY 1999/2000, import also started to pick-up. With the reappearance of the disturbances from the beginning of the current year, economic activities have slackened and so did the import and export as well. During the review period of the current year, total import declined by 8.5% totalling Rs. 69,840,0 million. Of the total import, 41.2% came from India and 58.8% from third countries. Compared to total import of Rs.76,350.0 million with an increase of 8.9% last year. During the current year import from India occupied 37.8% and 62.2% from the third countries. In terms of US$ increase in import is calculated to be 1.9% for the last year and the decrease this year as 12.0%.

6.6 During the review period of last year, import from India had been up by 13.3% whereas, this year it decreased by 0.4% totalling Rs. 28,790.0 million. Import of all the commodities by groups except petroleum products, decreased. Even the industrial raw materials and construction materials eligible for import by paying convertible foreign currencies which kept rising in previous years also declined during the review period of this year, by 4.1% totalling Rs. 5130 million. This quantity is equal to 17.8% of total import from India. Last year’s import of these commodities had increased by 11.1%, and was equal to 18.5% of the total import. Trend of importing some industrial raw materials and construction materials from India has steadily rise up after the induction of the government policy to allow import of those goods by paying convertible foreign currency. Under this category import of machinery, MS billets, M.S. wire rod, hot rolled sheets, cold rolled sheets, carbon block, sodium carbonate, cement, electric generators, and transportation goods has increased, while that import of steel sheets, aluminium billets/rod, industrial chemicals, GI wire, textile, thread, electricity goods, polyester fibre has declined. Among traditional items imported from India like transportation goods, accessories, chemical fertilizer, chemicals, yarn, cloth, plastic wares, agriculture tools machinery, fruit, vegetable, dairy products, live animals, tobacco, cement, readymade garments and other machinery & parts an among the traditional item of impart of India. Their import has also decreased. However, the import of salt, pulse, petroleum, tyre and tube, electrical goods, medicine,
cosmetics, radio, television, dry cell battery, sugar and coal has gone up.

6.7 Third country imports during the review period of this year decreased by 13.5% totalling Rs. 41,050 million. Where as compared to the increase of this amount 6.3% last year. The commodities on the decline are: powder milk, edible oil, betel nut, construction goods (steel wire), pipe & pipe fittings, bitumen, raw wool, palm oil, cotton, fat, paraffin wax, PVC compound, textile dye, cigarette paper, thread, zinc ingot, copper wire rod tyre & tube, computer parts, storage battery, television, deck & its parts, transportation goods & its ancillaries, aircraft spare parts, textile, readymade garments, machinery & equipment parts and gold. In the same review period, imports of petroleum, plastics granules, chemical fertilizer, dry cell battery, soybean oil, electric equipment & spare parts, medicine and medical instruments increased.

Trade Balance:

6.8 In the total trade volume of import is much higher than that of export. During the review period last year export rate was considerably higher than that of export leading to the trade deficit of just 0.4%. But during the review period of this year, both import and export decreased, in with import declining more than export. Consequently, the trade deficit narrowed by 9.2% to the total of Rs. 34,910.0 million. If we consider country wise trade deficit of review period, trade deficit with India was 19.3% and 80.7% with third countries. Last year trade deficit with India the third countries were 31.3% and 68.7% respectively. Trade volume of import and export increased gradually along with increase in international trade. In the review period of current years, decline in import and export caused the total trade to decline.

Balance of Payment:

6.9 During the review period of current year, current account deficit widened by 22.5% mainly due to rapid decline in net services income even if the trade deficit narrowed down and the net transfer income
went up. Added to this, deficit falling down due to the increment of the net transfer income. It is rapidly decline in net service import, which is directly increasing the current balance deficit. Likewise, the foreign loan inflow plummeted and that of miscellaneous capital also declined resulting in rapid deterioration in the balance of payment in the situation of the country. During this period, total export declined by 6.1% totalling Rs. 26,370.0 million and total import declined by 7.9% totalling Rs. 52,510.0 million. With the import declining at a faster rate trade deficit dropped by 9.7% to the total of Rs. 26,140.0 million from Rs. 28,960.0 million of the last year. Service sector is one of the major items of Nepal's international trade suffered. Income from tourism sector decline by 18% that from transport by 32% from investment by 9.2% and from other services decline by 64.1%. The government income not accounted for in any headings, however, was up by 19.6%. As a result, total service income decline by 27.8% to the total of Rs. 14,180.0 million as compared to that of the corresponding period of last year. In payments services increases in transportation expenses, government expenses (not included in any other headings) travel and investment, contributed to the total increase of 13.0% amounting to Rs. 9,660.0 million as compared to that of last year. Net impact of reduced income and increased payments under services was dropped of 59.2% an important contributor to the private sector remittances transfer income increased by 28.6% totalling Rs. 9,400.0 million as compared to review period of last year. During the same period, grant to the government and excise duties from India increased by 12.6% and 14.3% respectively. Refund net transfer income increased by 20.1% totalling 13,890.0 million as compared to that of last years review period.

6.10 The current account deficit, during the first 6 months of current year increased by 22.5% totalling Rs. 7,730.0 million as compared to corresponding period of last year. Under the capital account, inflow of foreign loan decreased by 26.4% totalling Rs. 4,570.0 million. Net miscellaneous capital inflow also decreased by 39.7% totalling Rs. 3,740.0 million as compared to the same period of last year. Payments of external loan rose by 4.6% totalling Rs. 2,320.0 million as compared to last year. Consequently, the balance of payments during the
review period this year ran into deficit of Rs. 1,740.0 million contrary to the surplus of Rs. 3,800.0 million last year.

Foreign Exchange Reserve:

6.11 Continued up surge in foreign exchange reserve, till first 8 months of the last year, has changed it course. Such reserve has increased by 14.6% last year. This year it decreased by 1.2% to the total reserve of Rs. 103,900.0 million. Nepal Rastra Bank and commercial banks own 77.4% and 22.6% of the total respectively. Of this total, 73.3% is in convertible currency and 27.7% in non-convertible currency. Total reserve of 80,440.0 million held by Nepal Rastra Bank consists of 67.7% in convertible and 32.3% in non-convertible currencies. Rs., 23,450.0 million worth of reserve held by commercial banks consists of 88.0% convertible and 12.0% non-convertible currencies. The total reserve of this amount is estimated to cover value of one years import. Reserves held by the banking sector till first 8 months of last year were estimated to afford 11.5 months import of the country. As compared to mid-July 2001, foreign assets held by the banking sector decreased by 1.2% by mid-March 2002 to the total of Rs. 104,950.0 million. While the foreign liabilities increased by 3.4% to Rs. 19,030.0 million. During such period of last year, foreign assets and liabilities increased by 15.3% and 20.5% respectively. Net foreign assets by mid-March 2002, diminished by 2.1%, as opposed to an increase of 14.4% by such date last year and totaled Rs. 85,930.0 million.

Exchange Rate:

6.12 Nepalese rupees continued to depreciate against some of the international foreign currencies as in previous years As compared to mid-July 2001, Nepalese currency depreciated by 3.5% against the American Dollar by mid-March 2002, compared to the depreciation of 4.4% during the corresponding period of the previous year. During this review period Nepalese currency depreciated by 4.7% against Pound Sterling by 5.6% against Euro and by 8.3% against Swiss Frank. During the first 8 months of current year, Nepalese currency appreciated by 2.7% against the Japanese Yen.
Challenges:

6.13 Gradual decline in foreign exchange reserve needs to be checked by increasing export to third country, and by increasing income from tourism, other services, transfers and grants.

6.14 Effective implementation of the national economic policies grand to enhancement of domestic production, industrialization, promotion of export and import of goods and services as well as investment calls for an urgent attention.

6.15 The context of initiatives underway for Nepal's accession to the World Trade Organization, National economic policies decisions and activities needs to be streamlined and activated in a manner that helps promote in industrialization, generation of resources, international trade and investment.
VII

POVERTY ALLEVIATION AND EMPLOYMENT

Poverty Alleviation:

7.1 The Ninth Plan targeted to reduce population living under poverty level by 10-percentage point and bringing down existing poverty level from 42 percent to 32 percent. Accordingly different economic and social development programs were continued in FY 2001/2002.

7.2 Various economic reform programs underway aim at increase in economic growth, intensification, diversification and commercialization of agriculture sector, and expand the basis of employment and self employment opportunities in industry, tourism, construction, transportation and services sectors. Similarly, pro- poverty alleviation programs such as education for rural areas and weak and deprived segment of the population, targeted program on health and education, social mobilization programs, special sector programs, revitalization of backward women and population growth control are in different phases of implementation.

7.3 HMG has also launched targeted programs such as rural infrastructure development, rehabilitation of freed bonded labor, participatory district development programs, local governance, village and town partnership etc. with resources of its own and the assistance of donor agencies. Poverty Alleviation Fund (PAF) has been established with a view to conduct poverty targeted programs in an integrated manner and also for their monitoring and evaluation. The draft of an act governing the operation of PAF is in final stage.
Box 7.1
Establishment of Poverty Alleviation Fund

HMG has established Poverty Alleviation Fund with the following objectives:

- To target poor person, family or community for uplifting their economic and social status through social mobilization, increasing their access in necessary services and actively involving them in local development process leading to enhancement of their capacity in decision making.

- To identify individual, family and community which are economically and socially backward and under the poverty level. To launch capacity building programs and programs relating to social and economic infrastructures with a view to uplift their economic and social status.

- To mobilize national and international resources through coordination of agencies engaged in poverty alleviation.

7.4 Various programs have been launched to enhance the capacity and involvement of down trodden people in income generating activities through social empowerment, which is an effective means of poverty alleviation. Women development program as another prong of the poverty alleviation includes formation of women group and their institutional development, group savings and credit, community development, intensification of social awareness, conducting income generating vocational and skill oriented training programs, leadership development and improvement in maternity health.

7.5 In order to improve food accessibility of Kamaiya families freed in Dang, Banke, Bardiya, Kailali and Kanchanpur districts, infrastructures related programs have been launched with the participation of Kamiya as Food Security Program under Rural
Community Infrastructure Program. Under the rehabilitation program, 9 thousand homeless Kamiayas of 5 districts have started house construction by acquiring 5 Katthas of land and Rs.10 thousand per family. Other social mobilization programs are also under way. Under such program, during the review period this year, 208 KM of roads, including construction and rehabilitation of rural roads. 14.7 KM of mule track, 8.65 KM under small irrigation, 1.65 KM under river training and fishpond in 12.5 hectares have been constructed.

7.6 Under the Remote Areas and Special Sector Programs, programs relating to drinking water, small irrigation, suspension bridge, electrification, mule track, motorable road and different income generating activities are under implementation. During the review period of current year, construction of mule track/motorable road of 30 KM has been completed, while 6 drinking water projects, 15 suspension bridges and construction of 6 irrigation projects are almost complete. Activities such as agriculture, livestock, skill oriented training, community development program, credit service, community shallow tube well under the Western Poverty Alleviation Project are implemented in 8 districts of Western Terai, namely, Nawalparasi, Rupendehai, Kapilvastu, Dang, Banke, Bardiya, Kailali and Kanchanpur. Currently, rural infrastructure program, village access program, local development and construction and agriculture roads are also being implemented, while tourism program for rural poverty alleviation with a view to alleviate local poverty and empowerment through tourism have also been initiated.

7.7 In order to improve the capacity and income of down trodden people, 224 groups under the Community Forestry Program and 43 groups under the Leasehold Forestry Program have been installed. Similarly, poverty alleviation oriented goat rearing and poultry farming programs in 9 districts of far Western Development Region are also underway.

7.8 Small Farmers Development Project, Rural Development Bank, Intensive Banking Programs have been launched under the government sector by targeting poor group of rural area. Necessary
economic resources will be made available to rural poor with a view to generate economic activities. Small farmers of 457 VDCs were benefited through 242 Small Farmers Development Projects launched in FY20 00/01. Services were also rendered to 101 VDCs of 31 districts by 101 Small Farmers Cooperatives handed over by ADBN. A total of 112 VDCs were covered by cooperatives demonstration activities in the review period this year, which included five cooperatives and six demonstrative activities in six VDCs. Until the FY 2001/2002 a total of 2 hundred 26 thousand and 305 farmers have been assembled in the 33 thousand 288 groups formed under the Small Farmers Development Projects and Small Farmers Cooperatives. During the same fiscal year, a sum of Rs. 432.1 million was invested while Rs. 368.1 million was repaid under the Small Farmers Development Projects. During the same period, SFCs invested Rs. 392.3 million and a sum of Rs. 295.2 million was repaid. During the review period of the current year, Small Farmers Development projects invested Rs. 226.9 million, while a sum of Rs. 234.6 million was invested under the Small Farmers Cooperatives. In order to conduct income generating activities for rural poor especially women by providing credits without collateral, Rural Development Banks rendered their services to 1 hundred 58 thousand 740 members of 31 thousand 776 groups through 4 thousand 563 centers of 947 VDCs of 42 districts by mid January 2001. Of the members belonging to groups, 1 hundred 45 thousand 120 members were provided a total credit of Rs. 5332.1 million by mid January 2001.

7.9 In the FY 2000/01 GDP growth at factor cost remained at 4.8 percent while population growth stood at 2.2 percent, therefore, per capita GDP growth rate remained at 2.6 percent. According to preliminary estimate of the FY 2001/02, Growth rate will be only by 0.8 percent due to rapid decline in GDP, and population growth has remained 2.2 percent as a result of which per capita GDP will be negative by 1.4 percent. In the Ninth Plan period, it is estimated that GDP will grow by 3.9 percent and population by 2.2 and thus per capita income is estimated to grow only by 1.7 percent.
Table: 7(a)
GDP, population growth and per capita income growth rate:

<table>
<thead>
<tr>
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<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>3.3</td>
<td>4.5</td>
<td>6.2</td>
<td>4.8</td>
<td>0.8</td>
<td>3.9</td>
</tr>
<tr>
<td>Pop. Growth Rate</td>
<td>2.2</td>
<td>2.2</td>
<td>2.2</td>
<td>2.2</td>
<td>2.2</td>
<td>2.2</td>
</tr>
<tr>
<td>PC/GDP Growth Rate</td>
<td>1.1</td>
<td>2.3</td>
<td>4.0</td>
<td>2.6</td>
<td>-1.4</td>
<td>1.7</td>
</tr>
</tbody>
</table>

7.10 According to the mid-term evaluation of the Ninth Plan, it is estimated that during the first three years poverty increased by 0.976% percent while per capita GDP increased by 2.13 percent and therefore, poverty elasticity is estimated to remain at 0.46 percent. Taking into account the increase in per capita GDP in the FY 2000/2001 and decrease in per capita GDP in the FY 2001/2002, the per capita annual income growth during the Ninth Plan remained at 1.7 percent. Based on the above statistics, although poverty continued to decline during the Ninth Plan Period, the poverty-declining rate last year dropped from 0.976 percent to 0.78 percent due to lags surfaced in implementation of poverty alleviation programs. Owing to this, the target of reducing poverty by ten percent during the plan period could not be materialized and thus the level of poverty is estimated to remain at 38 percent.

* Based on the statistics of the first three years of the Ninth Plan, poverty-declining rate is estimated to remain at 0.976 percent (based on per capita income growth rate at 2.13 percent and poverty elasticity at 0.46 (0.46X2.13=0.9763)). Based on the assumption that per capita income declined by 1.44 percent in the FY 2001/2002, poverty-declining rate (0.46X1.74) is estimated to drop by 0.78 percent.
Box 7.2

Poverty Reduction Strategy Paper

The Strategy Paper formulated mainly to address poverty alleviation and social development includes:

- Identification of state of poverty
- Creation of conducive environment for development, economic stability and poverty alleviation
- Formulation of sectoral policies and programs aimed at social upliftment and poverty
- Allocation and mobilization of resources of resources for poverty alleviation
- Strategy for poverty monitoring and evaluation

7.11 The reasons behind the decline in the effectiveness of poverty alleviation are law and order situation not favorable to development, economic growth rate not moving ahead as desired, deficiency in the development of social and economic infrastructures, lack of access of poor to the non agriculture sector and desirable changes not taking place in the traditional customs and culture. Similarly, other reasons are high population growth rate, lack of good governance, lack of effective public expenditure management system, lack of strong public delivery system, lack of effective targeted programs, etc.

Employment:

7.12 In order to achieve desired objective of poverty alleviation, it is necessary to increase employment opportunities and provide employments to unemployed and underemployed labor force. It has been targeted to reduce the unemployment level from 4.9 percent to 4 percent and underemployment level from 47 percent to 32 percent during the Ninth Plan period.

7.13 To achieve this target, attempts have been made to improve the employment situation through conducting employment programs focused to absolute poor, identification and development of labor force according to demand, conducting self employment programs through creation of productive employment opportunities and
enhancing accessibility of labor force to capital and productive resources.

7.14 It is estimated that income generating as well as self-employment opportunities have been increasing due to availability of easy and small credits to poor peoples through poverty alleviation programs conducted by government and non-government sectors. Similarly, additional employment opportunities have been created by the increased participation of private sector in industrial, banking, insurance, hotel, cooperatives, health, airlines and education sectors as a result of economic liberalization program adopted by the government. In the same manner, a conducive environment has been created for self-employment through resources made available through the expansion of rural development bank and other banks. The activities of non-governmental organizations have also helped to solve unemployment problem to some extent.

7.15 According to the results of national census of 1991 and 2001, there has been a substantial change in the employment sector. In the comparative analysis of economically active manpower, the result of the national census of 1991 demonstrated that 81.2 percent of the population are dependent on agriculture, fishery and forestry sector, whereas according to the results of national census of 2001, only 65.7 percent of the population are dependant on this sector. The analysis of active manpower involved in different economic sectors reveals that in production and industrial sector it has increased from 2 percent to 8.8 percent and in commerce, restaurant and hotel, it has increased from 3.5 percent to 9.9 percent. Involvement of economically active population also increased in areas such as electricity, gas and water, construction, transportation, communication and storage, finance and real estate, whereas involvement in community and social services decreased from 10.2 percent to 7.8 percent. According to the national census of 1991, there were 7.34 million economically active population and according to the national census of 2001 this has increased to 9.9 million. According to this, the economically active population increased by 3 percent during that period. According to the census of 1991, out of the total population, 40 percent was economically active, and
according to the census of 2001, this has increased to 43 percent. During that period, the population growth was 2.2 percent and the growth of economically active population was 3 percent, which shows that there was maximum pressure in job market.

Table 7 (B):
Percentage of Involvement of Economically Active Manpower in Different Economic Sectors (Percentage)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Active manpower (%) of total population</td>
<td>Active manpower (% of Total Population)</td>
</tr>
<tr>
<td>1</td>
<td>Agriculture, Fishery and Forest</td>
<td>59,61,788 81.2</td>
<td>65,04,689 65.7</td>
</tr>
<tr>
<td>2</td>
<td>Mines</td>
<td>2,361 -</td>
<td>16,048 0.2</td>
</tr>
<tr>
<td>3</td>
<td>Production, Industry</td>
<td>1,50,051 2.0</td>
<td>8,72,253 8.8</td>
</tr>
<tr>
<td>4</td>
<td>Electricity, Gas and Water</td>
<td>11,734 0.2</td>
<td>1,48,218 1.5</td>
</tr>
<tr>
<td>5</td>
<td>Construction</td>
<td>35,658 0.5</td>
<td>2,86,418 2.9</td>
</tr>
<tr>
<td>6</td>
<td>Commerce, Restaurant and Hotel</td>
<td>2,56,012 3.5</td>
<td>9,84,662 9.9</td>
</tr>
<tr>
<td>7</td>
<td>Transportation, Communication and Storage</td>
<td>50,808 0.7</td>
<td>1,61,638 1.6</td>
</tr>
<tr>
<td>8</td>
<td>Finance and Real Estate</td>
<td>20,847 0.3</td>
<td>76,687 0.8</td>
</tr>
<tr>
<td>9</td>
<td>Community and Social Services</td>
<td>7,52,019 10.2</td>
<td>7,68,916 7.8</td>
</tr>
<tr>
<td>10</td>
<td>Others</td>
<td>28,004 0.4</td>
<td>58,273 0.6</td>
</tr>
<tr>
<td>11</td>
<td>Unidentified</td>
<td>70,298 1.0</td>
<td>22,395 0.2</td>
</tr>
<tr>
<td></td>
<td>Grand Total</td>
<td>73,39,580 100.0</td>
<td>99,00,196 100</td>
</tr>
</tbody>
</table>

Source:
2. Census, 2001

7.16 The midterm evaluation of the Ninth Plan reveals that unemployed labor force is 3.3 percent and under employed is 43.4 percent.
Table 7 (C):
Status of Full Employment and Under Employment

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a) No. Fully</td>
<td>3,65,870</td>
<td>4,17,402</td>
<td>3,97,230</td>
<td>3,39,901</td>
</tr>
<tr>
<td>Employed</td>
<td>3.7</td>
<td>4.2</td>
<td>3.9</td>
<td>3.3</td>
</tr>
<tr>
<td>No of Under</td>
<td>43,80,814</td>
<td>43,81,553</td>
<td>43,89,123</td>
<td>43,85,028</td>
</tr>
<tr>
<td>Employed</td>
<td>46.3</td>
<td>45.6</td>
<td>44.7</td>
<td>43.4</td>
</tr>
</tbody>
</table>

Source: NPC, Secretariat, Mid-Term Evaluation of Ninth Plan, 2001

7.17 The gradual decline in unemployment shows that there has been gradual increase in employment. In the FY 1998/99, the number of employed labor force was 9.452 million, which reached to 9.828 million (4% increment) in the FY 1999/2000. It is observed that the number of employed and underemployed is declined in FYs 1999/2000 and 2000/2001.

7.18 HMG is trying to create employment opportunities inside and outside the country. In order to create employment and self-employment opportunities to unemployed and underemployed labor force by imparting training and skills, such training are provided by 14 skill development centers and 2 vocational training centers under the Department of Labor. In this connection, regular training in 27 trades including electronics, plumbing, welding, carpentry and auto mechanics. In FY 2000/2001, training was provided to 5 thousand and 835 peoples in different skill oriented and vocational subjects, which were on demand by the labor market. During the review period of current year 2001/2002, training were provided to 3 thousand and 107 people in different skill oriented and vocational subjects. In the FY 2000/2001, training were provided to 11 thousand and 389 peoples in skill and entrepreneur development by the Cottage and Small Industries Development Board, compared to 4 thousand 871 persons last year.

7.19 During the review period of the current year, training in different subjects were provided to 8 thousand and 71 people by CTEVT while
the Nepal Tourism and Hotel Management Center provided training to 696 persons and this Center has provided training to altogether 16 thousand 993 peoples till now. Also, training has been conducted in different trades and skills such as institutional development, record management and account management under the Women Development Program. During the review period of the current year, 103 women who were economically backward and under the poverty level were trained. In order to make disabled people self-reliant through self-employment, loan without collateral have been advanced.

7.20 The Employment Promotion Commission has been playing the role of coordinator as well as facilitator with a view to tap the domestic and foreign employment opportunities and to conduct skill oriented and other promotional activities in a coordinated manner. The Commission has conducted different programs during the review period of the FY 2001/2002 to make employment-oriented programs performance based. These include study on skill development, data collection on the status of employment of those with skill oriented training, promotion of foreign employment, and medical transcription training based on labor market information and information technology. With the assistance of the Commission, transcription training of 9 months were provided to 1 thousand 350 unemployed persons of Western, Central and Eastern regions.

Foreign Employment:

7.21 Due to an increase in foreign employment in the recent years, there are indications of some improvements in unemployment and underemployment situations. In the FY 2000/2001, permission were provided to 55 thousand 25 persons for foreign employment on institutional basis. By mid-April 2002, permissions were given to 77 thousand and 388 persons for foreign employment. The major countries providing foreign employment are Malaysia, Saudi Arabia, United Arab Emirates and South Korea. According to the census of 2001, more than 7 hundred thousand Nepalese are visiting different countries. Of this, 96 percent are living as employed in foreign countries.
Table 7 (D)
Number of people visiting foreign countries, according to census of 2001
(Countries listed are those, which received more than 1 percent of total visitors)

<table>
<thead>
<tr>
<th>Countries</th>
<th>Numbers</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>5,89,050</td>
<td>77.3</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>67,460</td>
<td>8.8</td>
</tr>
<tr>
<td>Qatar</td>
<td>24,397</td>
<td>3.2</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>12,001</td>
<td>1.7</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>12,544</td>
<td>1.6</td>
</tr>
<tr>
<td>USA, Canada, Mexico</td>
<td>9,557</td>
<td>1.2</td>
</tr>
<tr>
<td>Other Countries</td>
<td>47,172</td>
<td>6.2</td>
</tr>
<tr>
<td>Grand Total</td>
<td>7,62,181</td>
<td>100.0</td>
</tr>
</tbody>
</table>

7.22 Although vocational and skill oriented training help to provide employment, all receiving training have not been able to get employment. Of the total 60 thousand 500 hundred trained in various skills between FY 1998/1999 and 2000/2001, only 20 thousand 252 persons or 33 percent were employed.

Table 7 (E):
Number of Skill oriented trained people and employment situation

<table>
<thead>
<tr>
<th>SN</th>
<th>Dev. Reg.</th>
<th>No. of Trainees</th>
<th>No. of jobs *</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Eastern</td>
<td>14183</td>
<td>6077</td>
<td>Ilam: NA, Jhapa PR</td>
</tr>
<tr>
<td>2</td>
<td>Central</td>
<td>22746</td>
<td>6323</td>
<td>from all dist.</td>
</tr>
<tr>
<td>3</td>
<td>western</td>
<td>12641</td>
<td>4262</td>
<td>Syanja: NA</td>
</tr>
<tr>
<td>4</td>
<td>Mid-Western</td>
<td>4877</td>
<td>2036</td>
<td>Jumla, Mugu, Salyal: NA</td>
</tr>
<tr>
<td>5</td>
<td>Far-Western</td>
<td>6053</td>
<td>1554</td>
<td>From all dist.</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>60500</td>
<td>20252</td>
<td></td>
</tr>
</tbody>
</table>

*Number of jobs includes paid jobs and self-employed
Sources: Employment Promotion Board

7.23 Highlights on status of poverty alleviation and employment promotion programs:

a) The programs centered on poverty alleviation have helped reduce poverty and contributed to poverty alleviation.
b) Through social mobilization, there has been increase in peoples participation and social awareness and has contributed positively to poverty alleviation.

c) In order to promote employment through skill and entrepreneur development, the government, non-government and private sectors have been providing skill oriented training which have increased number of skilled and semi-skilled labor force and thus there has been gradual decline in the number of unemployed.

Challenges:

7.24 The targeted programs on poverty alleviation have not reached in rural and remote Himali regions in sufficient numbers as the numbers of absolute poor are living in these regions; the expansion of targeted programs on poverty alleviation is in itself a challenge.

7.25 As the large extent of targeted groups have not benefited from the programs conducted by government, non-government and civil society to the greater extent, benefit management of economic and social programs directed to these target is a challenge.

7.26 As micro-credit is seen as an effective mechanism for self-employment, expansion and institutionalization of micro-credit is a challenge.

7.27 As economic growth is a prerequisite for employment expansion, emphasis should be given to employment oriented economic activities and upgrade current productivity level that generates maximum employment opportunities.

7.28 Exploration, identification, and utilization of poverty alleviation technology, which helps increase productivity, and their expansion to remote and difficult areas for the expansion of employment oriented economic growth remains a challenge.
VIII

AGRICULTURE

Production Position:

Crops

8.1 In FY 2000/01 productions of major food crops had increased by 2.6 percent as compared to that of the previous year. Preliminary estimate of production of these crops during the current year suggests an increase of 1.1% only to a total of 72,47,000 metric tons. The total area under these crops is estimated to have declined by 0.5 percent to 3.3 million hectares in the current fiscal year compared to that of the increase in last year. Production despite the decline in cropping area in the current year as attributed to favorable monsoon, disease control, easy access to agricultural inputs and improvement in productivity.

8.2 Production of major cash crops, which increased by 7.3 percent last year, is expected to continue its upward trend by 2.8 percent to reach a total of 3.78 million metric tons in the current year. The area under these crops cultivation is estimated to increase only by 0.3 percent to reach 393,000 hectares.

8.3 Production of lentils, fruits, vegetable and other crops combined is estimated to increase only by 3.2 percent to reach 2.46 metric tons in the current fiscal year compared to the increase of 9.6 percent last year.

8.4 Shares of food crops and cash crops in the total production of major crops are estimated to be 65.6% and 34.4% respectively compared to 66.1% and 33.9% last year. Areas under cultivation of these two
crops are estimated to be 89.4% and 10.6% respectively as they were in last year.

8.5 The cropping intensity is expected to be 168 percent in the current year.

8.6 The demand for food grain was 43,83,443 metric tons against the supply of 44,51,939 metric tons in FY 1999/00. In FY 2000/01, demand for food grain is estimated at 44,30,128 metric tons against the supply by 45,13,179 metric tons.

8.7 Per capita vegetable consumption is estimated to have increased to 59 kg in FY 2000/01 against 55 kg in FY 1999/00.

Major Food Crops:

8.8 Paddy: Paddy production increased by 4.6 percent during FY 2000/01 compared to the previous fiscal year. It is preliminary estimated to decline by 1.2 percent resulting in the total production of 41,65,000 metric tons in the current year. The productivity of paddy with an increase of 1.5 % is estimated to be at 2.74 metric tons per hectare in the current year as compared to that of the previous year. Areas under this crop in the current year as per preliminary estimate will to decline by 2.7% as compared to that of the last year. As a result, both total production and productivity are estimated to shrink due to insufficient rainfall during peak season of paddy plantation from mid-June to mid-July of 2002 in sizeable areas of the Eastern Region.

8.9 Maize: Production of maize in FY2000/01 had increased by 2.7 percent as compared to the preceding year. In the current year, production is expected to increase by 1.8% to the total of 15,11,000 metric tons. Productivity is expected to rise by 1.7 percent yielding 1.83 metric tons per hectare against that of the last year. Area under this crop is expected to increase only by 0.2% against that of the last year.
8.10 **Wheat:** Total wheat production in the FY 2000/01 declined by 2.2% as compared to that of the preceding year. In the current year, it is expected to increase by 8.6% to the level of 12,58,000 metric tons in relation to that of the last year. Its productivity is expected to increase by 4.4 percent yielding 1.88 metric tons per hectare compared to the previous year. Cropping area under this crop is estimated to rise by 4.1 percent with substantial increase under wheat crop due to favorable winter rain to the total of 0.667 million hectares.

8.11 **Barley:** Barley production had dropped off by 3.2 percent in FY 2000/01 against that of the past year. It is estimated to increase by 3.3 percent to the level of 31,000 metric tons in this year. The area covered by barley is expected to remain unchanged and its productivity is expected to gradually improve. Farmers of Terai area are motivated to cultivate different cash crops replacing barley.

8.12 **Millet:** Millet production had registered 4.0 percent decline FY 2000/01 in relation to the preceding year. In the same way it is estimated to further drop by 0.3 percent to reach the total 2,82,000 metric tons in the current year. The Area covered is also expected to decrease by 0.8 percent as against of that of the last year apparently due to sharply declining cultivation in the Terai region.

**Production position of Cash Crops:**

**Cash Crops**

8.13 **Sugarcane:** Sugarcane production had fallen by 5.2% in FY 2000/01 as compared to that of past year. In the current year 22,48,000 metric tons will expected to be produced with an increase of 1.6% as per the preliminary estimate in the current FY. The area covered by sugarcane is expected to remain unchanged. Productivity is expected to improve however, by 1.6% yielding 38.1 metric tons per hectare.

8.14 **Oilseed:** Oilseed production which increased by 7.3 percent in FY 2000/01 as compared to that of the previous year estimated to rise by 2.3 percent to total of 1,35,000 metric tons this year. Its productivity is
expected to rise by 2.8% yielding 0.72 metric tons per hectare despite the area expected to remain unchanged.

8.15 **Tobacco:** Tobacco production had increased by 5.3 percent in FY 2000/01 in comparison with the last fiscal year, and its production is estimated to fall by 2.5 percent to the level of only 3,900 metric tons in the current FY. Similarly, the area covered by tobacco is expected to drop by 2.5 percent whereas productivity seems to be remaining unchanged in the running fiscal year.

8.16 **Potato:** Potato production which recorded growth of 11.0 percent last year is expected to increase by 5.0 percent to a total of 13,80,000 metric tons this year. Area under this crop is estimated to rise by 1.5%. Productivity is also expected to rise by 3.4% yielding 10.53 metric tons per hectare this year.

8.17 **Jute:** Jute production had recorded the 5.0 percent growth registered in FY 2000/01 as compared to the last year. Growth rate is estimated to remain unchanged with total production of 16,100 metric tons for the current year. Both area covered and productivity are also expected remain the same as last year.

8.18 **Tea:** Tea cultivation is growing as a commercial farming in Eastern Development Region. Its production increased by 30 percent to the total of 6,628 metric tons in FY 2000/01 against the total 5,085 metric tons a year before. It is expected to increase only by 5.6 % with production reaching 7,000 metric tons this year. Area under tea farming is estimated to grow by 4.2 % to the total of 12,500 hectares as compared to 12,000 hectares last year. The number of tea farmers is estimated to reach 5,500.

8.19 **Coffee:** Coffee cultivation is also developing as commercial venture in the Western Region. Its production increased to 88.7 metric tons in FY 2000/01 as compared to 72.4 metric tons in the previous year. This year, production is estimated to rise by 1.5 percent to total of 90 metric tons area under new cultivation to expand by 6.1 percent to reach a total of 450 hectares, and the number of farmers associated in this farming is estimated to be 3,000.
8.20 The productivity of major food and cash crops are found improving and at least same in this year as compared to the last Fiscal Year.

Table 8(A):

<table>
<thead>
<tr>
<th>Crops</th>
<th>FY 2000/01</th>
<th>FY 2001/02</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Food crops</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paddy</td>
<td>2.70</td>
<td>2.74</td>
</tr>
<tr>
<td>Maize</td>
<td>1.80</td>
<td>1.83</td>
</tr>
<tr>
<td>Wheat</td>
<td>1.80</td>
<td>1.88</td>
</tr>
<tr>
<td><strong>Cash crops</strong></td>
<td>318.36</td>
<td>325.78</td>
</tr>
<tr>
<td>Sugarcane</td>
<td>37.49</td>
<td>38.10</td>
</tr>
<tr>
<td>Oilseeds</td>
<td>0.70</td>
<td>0.72</td>
</tr>
<tr>
<td>Tobacco</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Potato</td>
<td>10.18</td>
<td>10.53</td>
</tr>
<tr>
<td>Jute</td>
<td>1.45</td>
<td>1.45</td>
</tr>
</tbody>
</table>

Other Crops

8.21 **Lentil**: Lentil production is estimated to be 250,000 metric tons increasing by 2.9% in this year as compared to 2.5% increase in last year.

8.22 **Fruits**: Fruits production in the current year is estimated to drop by 3.0% to the level of 473,000 metric tons as against the rise of 8.9% in last year due to this year being a lean period in the production cycle of mango that occupies a significant share in total fruit production.

8.23 **Vegetable**: The production of vegetable had gone up by 11.0 percent in FY 2000/01 compared to that of previous year, but this year, production is expected to increase only by 5.0 percent to a total of 4,736,000 metric tons.

8.24 **Climate**: In totality, climate was favorable and enough rainfall was recorded within the country in this year. Starting two months of 2002
experienced a high rainfall about 395 mm as against of only 4 mm rainfall was recorded corresponding period of last year in the country.

Livestock:

8.25 **Meat**: Meat production increased by 2.7 percent in FY 2000/01 as compare to the last year. A total production of this year is expected to rise by 2.3 percent to a total 199,000 metric tons.

8.26 **Milk and dairy products**: Milk and dairy products increased by 2.5 percent in FY 2000/01 over that of last year. This year's production level expected to rise by 3.1 percent to a total of 11,59,000 metric tons.

8.27 **Eggs**: Total egg production is estimated to go up by 6.1% compared to 5.5% increase last year and the total units to be 538.42 million units of egg in this fiscal year.

8.28 **Fish**: Fish production which increased by 4.9 percent in FY 2000/01 is expected to rise further by 5.2 percent to a total of 35,000 metric tons in the current year of this total fish production, share of fish pond is estimated at 17,000 MT and 18,000 MT of other sources.

8.29 Base year for agriculture production indicators was FY 1984/85 up to last year and it changed as FY 1994/95 in the present fiscal year, because of the change of the base year, indicator is expected to increase by 1.7 percent and it results increment in total indicators 123.24 in the last fiscal year and 125.36 in the current fiscal year.

Chemical Fertilizer, Improved Seeds and Insecticides:

8.30 **Chemical Fertilizer**: Use of chemical fertilizer on an average, has improved due to improved supply from the private sector participation. However, the supply of chemical fertilizer by the Agriculture Inputs Corporation (AIC) has declined by 36.6 percent in FY 2000/01. Supply is from AIC is expected to total 23,600 metric tons in the current year. Total supply during the review period of
this year amounted to 11,500 metric tons as against 12,300 metric tons last year. National Fertilizer Policy (Box 8.1) has been made public this year. Prices of Urea, D.A.P. and Potash has slightly declined while that of sulphate did not change.

<table>
<thead>
<tr>
<th>Box 8.1</th>
</tr>
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<tbody>
<tr>
<td>National Fertilizer Policy, 2058</td>
</tr>
<tr>
<td>1. Enhancement of fertilizer application through Policy reform and infrastructure management.</td>
</tr>
<tr>
<td>2. Promotion of integrated crop nutrition management for efficient and balanced use of fertilizer.</td>
</tr>
<tr>
<td>3. Establishment of a reliable, competitive and transparent fertilizer import and distribution system.</td>
</tr>
<tr>
<td>4. Mechanism to determine the fertilizer price.</td>
</tr>
<tr>
<td>5. About 20 percent of potential consumption of chemical fertilizer to be stored as reserve. Maintenance of chemical fertilizer reserve of 20 percent of potential consumption</td>
</tr>
<tr>
<td>6. Motivation for establishment of network of fertilizer sellers and distributors in districts.</td>
</tr>
<tr>
<td>7. Promotion for establishment of chemical fertilizer industry within the country.</td>
</tr>
<tr>
<td>8. Encouragement to private and co-operative sectors for investment in fertilizer factory of neighboring countries.</td>
</tr>
<tr>
<td>9. Establishment and strengthening of laboratories to make the quality control system effective</td>
</tr>
</tbody>
</table>

8.31 **Improved Seeds and Insecticides:** The use of improved seeds is expected to have increased because of growing participation of private sectors as well as plenty of seed distributed through relief measures. The AIC had distributed 231 MT of paddy seeds, 7 MT of maize seeds and 1,656 MT of wheat seeds in FY 2000/01. During the review period of current year, 2,650 metric tons of improved wheat
seeds have been distributed by the AIC compared to 1 metric ton of paddy, 3 metric tons of maize and 1,311 metric tons of improved wheat seeds distributed during same period of the last fiscal year. The AIC has stopped the transaction of insecticide.

8.32 **Irrigation**: HMG and the ADB/N are the main parties currently engaged in irrigation development. In FY2000/01, irrigation facilities were expanded to additional area of 29,661 hectares, of which 27,282 hectares were under projects launched by the government and 2,379 hectares under ADB/N. During the review period the current year, additional 3,017 hectares of land has been irrigated by the projects launched by ADB/N, while there has been no addition under government program. In comparison, during the review period of last year additional 1,732 hectares (government projects 1,530 hectares and ADB/N 202 hectares) of land had been irrigated. By the end of current year, additional irrigation facilities to a total 44,022 hectares of land has targeted comprised 39,539 hectares and 4,483 hectares under the Government projects and the ADB/N respectively.

Only 17,66,000 hectares of land is estimated as potential for irrigation out of the total arable land of 2,642,000 hectares. To date only 42% as 1,104,000 hectares of land is found irrigated. Only 4,52,000 hectares of land is estimated to be irrigated throughout the year.

**Agricultural Credit:**

8.34 Access to agricultural credit is vital to uplift the living standard of the agro-based rural people. During the FY 2000/01, ADB/N disbursed a total of Rs. 8,036.00 million worth of credit; recovered Rs. 6063.60 million; and is Rs. 14876.6 million stood as outstanding at the end of the fiscal year. During the review period of this year, Rs. 5227.20 million an increase of 9.9% was recorded under loan investment as against Rs. 4755.2 million during such period of last year. Of this total, the highest portion, 48.6 percent, was claimed by agro-industry, marketing and godown construction and the lowest portion, 0.3 percent, by fruit farming sector.
Small Farmers Development Program:

8.35 Under the ADB/N's Small Farmers Development Program, altogether 2,26,305 small farmers are associated in 33,288 organized groups of 101 VDCs farmers of 457 VDC areas have been benefited by the execution of 242 projects in 31 districts in FY 2000/01. During FY 2000/01, ADB/N transferred 101 Small Farmers Cooperation (SFC) in 31 districts. Under the program, there are 2,26,305 farmers organized in 33,288 groups. Investment of ADB/N in SFDP amounted to Rs. 432.1 million and Rs. 368.1 million had been recovered in the last year. Similarly, SFCs invested Rs. 392.3 million and recovered Rs. 295.2 million during the same period. The investment of SFCs stood at Rs. 778.4 million up to the end of last year. As of the review period of the current year, investment in SFDPs stood at Rs. 226.9 million and recovery at Rs. 204.4 million. Similarly, investment of SFCs stood at Rs. 234.6 million and recovery was at Rs. 185.0 million during the period. The total amount of the investment of SFDPs and SFCs has reached Rs. 926.9 million and Rs. 854.5 million respectively by the review period of current year. Group savings of member farmers of these agencies totalled Rs. 242.6 million.

Agriculture Research Council:

8.36 Nepal Agriculture Research Council (NARC) was established in 2048 B.S. with the objectives of uplifting the living standard of the general people through high-level study and research in problems and prospects of agriculture sector. To date the NARC has tested different sorts of crops and recommended 187 high breed varieties of 43 crops with full methods package of farming. A few tested varieties are in process of recommendation. The Council has also developed a cost effective technology for optimizing turn around time. It has already recommended different varieties of paddy like cold resistant and blast disease immune as Chandannath 1 and 3 for Jumla. Manjushree-2 and Khumal-11 are the other varieties for Kathmandu Valley, which are generally considered as Blast disease immune, excess soil fertility resistant, and good for beaten rice. The policy of
agriculture research focuses on sustainable improvement package for better livelihood.

**Export and import situation of agricultural products:**

8.37 According to S.I.T.C. group, during the review period of this year, the total export value was equivalent to Rs. 3961.2 million by exporting of food grains, live animals, tobacco and beverages as compare to Rs. 3307.4 million by exporting the same goods in the corresponding period of the last year. Likewise, commodities equivalent to Rs. 5172.4 million was imported during the review period of current year as against of about Rs. 4736.2 million in the same period of preceding fiscal year.

8.38 In the perspective of the current Ninth Plan, it is expected that the production of food crops in terms of 2096/97 as base year is estimated to have increase by 13.3 percent to a total of 7.247 million metric tons, major cash crops to increase by 35.2 percent to a total of 3.783 million metric tons in the current year. Production of pulses, fruits and vegetables to increase by 22.9 percent amounting to total production of 2.459 million metric tons.

8.39 Annual economic growth rate of agriculture sector is estimated to be 2.9% only as against the target 4.0%. The main reasons behind the low economic growth in agriculture sector are less than expected investment production decline due to unfavorable monsoon in the first and the fourth year of the plan, and subsidy abolition in shallow tubewell in third year of the plan affecting the irrigation expansion adversely.

**Challenges:**

8.40 Agriculture sector continues to be dependent on favorable monsoon as the pace of expansion of irrigation facilities is slow of farmers' participation in proper maintenance of irrigation system is lacking. Damages to the irrigation structure and irrigated area by floods and landslides are common occurrences. Nor the intensive program in
place for the irrigated area is adequate. Agriculture production as well as productivity to continues to remain stagnant.

8.41 Despite the policy to engage private sector in supply of agriculture inputs such as chemical fertilizer, improved seeds and plants in place, supply is not adequate. Soil types information system for appropriate use and management of chemical fertilizer has yet to be developed to maintain soil quality and fertility. High breed animals and artificial insemination activities are not enough.

8.42 Agriculture has yet to go a long way to commercialize and competitiveness. Importation of agriculture and livestock products at lower prices from neighboring countries due to open border, and lack of rural road network and development of export oriented agriculture pockets continue as hindrances to realize returns from investment made in agriculture. Nor the private sector's investment and partnership as important goals of the agriculture perspective plan have emerged as attraction.

8.43 Research in Tea and Coffee production as cash crops for extensive farming and quality improvement is felt as conspicuously lacking.
IX

INDUSTRY, TOURISM AND PUBLIC ENTERPRISES

Industrial Production:

9.1 Production of the most of the items under Food and Beverages group had increased in FY 2000/01. Production of leather and leather products, wood and wooden goods, paper and stationery boards, other chemicals, plastic goods, non metallic minerals and steel utensils, electrical goods and equipment and industrial equipment did well compared to that of the last year. Among the products that are expected to record noticeable increase are noodles (452 metric tons), biscuits (456 metric tons), sugar (1157 metric tons), tea (887 metric tons) vegetable ghee (6653 metric tons), soap (5459 metric tons), detergent powder (144 metric tons), cement (9263 metric tons), beer (1629 thousand liters) cigarette (395 million units) and synthetic cloth (1334 thousand meters) There was a marginal decrease in the production of biri, cotton textiles, jute goods, and rubber goods FY 2000/01.

9.2 In FY 2001/02, indicates production of most of the industrial goods as compared to that of last FY is estimated to decrease. Declines are expected in biscuits by 145 metric tons, beer by 554 thousand litres, liquor by 185 thousand litres, and cigarette by 79 million units, and cotton textiles by 785 thousand meters. Products that are expected to surge are: noodles by 727 metric tons, sugar by 3887 metric tons, tea by 488 metric tons, vegetable ghee by 3632 metric tons, soap by 810 metric tons and cement by 17902 metric tons.

Industrial Production Index:

9.3 GroupWise industrial production index in FY 2000/01, had increased by 6.3 percent as compared (base year 1986/87 = 100) to the previous FY. During this FY industrial production index of food group recorded an increment of 6.7 percent. Increments were recorded in the soft drinks by 3.4 percent, tobacco products by 5.8 percent, textiles by
2.4 percent, leather and leather goods by 7.5 percent wood and wooden goods by 8.3 percent, paper and stationery boards by 3.0 percent, other chemicals by 6.6 percent, plastic goods by 2.0 percent, nonmetallic minerals by 3.8 percent, iron and steel goods by 3.5 percent, electric goods and equipment and industrial equipment by 7.8 percent and dry cell battery by 8.0 percent. However, the production index of rubber had decreased by 2 percent. In FY 2000/01, remarkable growth was recorded in the production indices of some goods. Among them were: tea by 12.0 percent, strawboard by 14.0 percent, soap by 11.0 percent, shoes by 9.1 percent, noodles by 7.5 percent, beer by 7.5 percent and cigarette by 6.0 percent.

The total industrial production index is expected to surge by 2 percent in the current FY as compared to that in FY 2000/01 but the main industrial production Indices of major industrial outputs are, however, expected to slide this year from that of last year e.g., index of soft drinks to decrease by 3.5 percent, of tobacco product by 1.8 percent, leather and leather goods by 1.6 percent and paper and stationery boards by 0.6 percent. Textiles, biri liquors and beer are also expected to follow the suit with a decline of 31.6 percent, 34.5 percent, 4.7 percent and 2.4 percent respectively. Indices expected to increase are those of noodles by 11.2 percent, cement by 8.3 percent, tea by 5.9 percent non-metallic minerals and shoes each by 4.9 percent. Marginal increase is estimated in overall industrial production index this year is attributable to changes in consumption pattern, decrease in consumption propensity, changes in the structure of export trade and the present social environment.

**Foreign Investment in the Industrial Sector:**

The flow of foreign capital and technology are an effective means to mobilize capital, human and natural resources in order to make the economy more responsive efficient and competitive in the process of industrialization of a country. Foreign investment not only facilitates inflow of capital and modern technology but also infuses competitive corporate culture, technical skill and access to the international market, which are equally important factors for the industrial development. In FY 2000/01, 96 enterprises with the project cost
amounting to Rs. 7,901.2 million were given permission. By May 2002, this year 53 enterprises with total project cost of Rs. 2,777.5 million and fixed capital investment of Rs. 1,228.2 million were given permission. By April 2002, 742 foreign investment industries were given permission to establish. This fact in itself is a testimony to the open liberal economic policy followed by the government. All these industries together have the total fixed capital of Rs. 65,818.7 million and the total project cost amount to Rs. 78,331.7 million. The total foreign investment in these industries turns out to be Rs. 20,556.3 million and 87,569 people will have additional employment opportunities after these industries become operational.

9.6 Out of 96 industries given permission to operate under direct foreign investment in the FY 2000/01, 54 were related with production of goods, 19 with hotel and resort, 13 with service industries, 4 with belonged to electricity, drinking water, and cooking gas and 6 were related with transport and communication, housing and construction and agro forestry. The country wise involvement revealed that Indian investment turned out to be in 37, Chinese investment in 15, Japan in 8, United Kingdom, United States of America each in 7, South Korea in 5, Austria, Finland, Spain and Switzerland each in 2 and Brazil, British Vergin Island, Canada, Federal Republic of Germany, Hongkong, Netherlands, New Zealand, Singapore and Sri Lanka each in one enterprise.

9.7 As of the first eleven months of the current FY 2001/02, 53 industrial enterprises were given permission to operate under the direct foreign investment. Out of this, 20 were related with production of goods, 11 with hotel and resort, 16 were service oriented, 2 each in the agro-forestry and construction and one each in transportation and communication, and electricity and gas. The country wise involvement revealed 16 were from India, 7 were from China, 6 from Japan, South Korea and United States of America in 4 each, United Kingdom and Federal Republic of Germany each in 2, Bangladesh, Australia, Guatemala, Israel, Italy, Malaysia, Newzeland, Poland, Singapore, Switzerland, Taiwan and Turkey each in one enterprise.
Capacity Utilization:

9.8 Some selected industries were studied to assess the utilization of their production capacity. It was found that the capacity utilization of sugar, match and cement in FY 2000/01, decreased as compared to those in previous FY but the capacity utilization of cigarette, beer, shoes and jute goods industries were found to have increased. As compared to FY 1999/00, jute and cigarette factories utilized their 80 and 72 percent capacity respectively this year. Those of beer, match, and sugar turned out to be 59 percent, 58 percent and 44 percent respectively and while that cement was 41 percent and 23 percent of shoe industry.

Industrial Estates:

9.9 Industrial estates have been established with a view to contribute to industrialization by providing physical infrastructure and other facilities for industrial enterprises at one spot. HMG has established 11 industrial estates, which are located at Balaju, Patan, Bhaktapur, Hetauda, Dharan, Pokhara, Butawal, Nepalganj, Rajbiraj, Birendranagar, and Dhanakuta. The industrial estate in Dhanakuta is under construction stage. Out of total areas of land under these estates, 5080 ropanies of land have been fully developed and 3395 companies have been leased out to different industries. Altogether 348 industries are in operation and 89 industries have been shut down while 31 industries are under construction. Industries operating in these industrial estates have generated direct employment to 13339 people. Feasibility studies in more than 16 places including Nuwakot, Janakpur, Ilam, Chitwan, Jhapa, Kailali, Kanchanpur, Dang, Kavrepalanchowk, and Tanahu have been completed. Nepal Industrial Development Corporation

Nepal Industrial Development Corporation (NIDC):

9.10 NIDC has contributed to industrialization of the country by providing financial resources to the on going and new industries. The volume of loan disbursed by NIDC for establishment of new
industries and their operation is in downward trend. In FY 2000/01, the loan disbursement dropped 24.1 percent as compared to that of the last year. In the current FY, out of total loan disbursed, the share of hotel and tourism, large scale industries and miscellaneous industries turned out to be 12.9 percent, 51.9 percent and 35.2 percent respectively.

9.11 By the review period of the current year, the loan disbursement had decreased by 28.9 percent as compared to that of last year. During the review period, the disbursement had gone down by 11.6 percent in hotel and tourism by 57.7 percent in the large-scale industries and by 30.7 percent in the miscellaneous industries. Project promotion, loan approval and loan repayment have been seriously affected due to shortage of long-term investment fund for the last few years. As NIDC lends long-term capital the problem of shortage of long term investment fund will not change unless it is provided resource for long term financing.

**Cottage and Small- Scale Industries (CSI):**

9.12 CSI have contributed to the economic and social upliftment of the country by mitigating the problem of unemployment and poverty. So CSI have been provided loan from the Intensive Banking Programme of the commercial banks. In the FY 2000/01, 1060 SCIs were provided loan amounting to Rs.167.1 million. As of the first six months of the current FY, loan of Rs. 62.3 million been disbursed to 389 CSI.

9.13 In the FY 2000/01, 9317 CSIs were registered which was less by 8.0 percent as compared to those in previous FY. The registration of private firms, private limited and partnership firms has gone down by 5.9 percent, 21.3 percent and 25.9 percent respectively. Likewise investment in the CSI sub-sector has gone down to Rs. 7,320.0 million. As of the first eight months of the current FY 2001/02, 5955 CSIs were registered with the investment capital of Rs. 4,920.0 million.
**Industrial Enterprise Development Institute:**

9.14 With a view to promote entrepreneurship, quality management, promotion of technology and development of technical manpower for industrial development Industrial Enterprise Development Institute has been operating training programmes in business creation, business management, entrepreneurship development and research and consultancy services. As of the April 2002, it had already imparted skill development training to 284 people and 136 people were trained in institutional development of the local institutions.

**Mines and Geology:**

9.15 At present there are 21 seismic stations in operation to record tectonic movement of the earth all the time with a system of public alarm within an hour of earthquake measuring more than four Richter scale. The engineering and environmental geological map of Pokhara and Kathmandu valley, Butwal and Dharan Municipalities have been completed with the help of Remote Sensing and Geographic Information System capability in place. Municipalities have been using these maps for their urban planning, land use planning, infrastructure and development works, solid waste management, pollution control and improvement in the quality of drinking water and environment protection.

9.16 Exploration works in Arghakhanchi, Baitadi, Udayapur and Syangja districts are underway to assess the availability of cement grade limestone deposit and dolomite. In course of promoting mining industry in the country, a data package of Salyan district has been prepared to develop cement industry and sold out and the evaluation committee has been evaluating the proposals to set up a cement industry in Chaukune of Surkhet district based on limestone deposit there. Similarly the activity of preparing data package for the establishment of limestone based cement industry in Nigale of Dhanakuta district is underway. The proposals submitted by the private sector for the establishment of a natural gas plant in the
Kathmandu Valley has already been evaluated and the agreement with the nominated party is being drafted.

**Tourism:**

9.17 Analysis of tourist arrival, growth rate and duration of their stay in Nepal reveals that from December 1999 to December 2000 the tourist arrival had gone down by 5.7 percent and dropping further to 21.2 percent from December 2000 to December 2001. During this period the average number of days of tourist stay in Nepal is estimated to have decreased from 11.9 days during the period of December 1999 to December 2000 to 11.4 days during the period of December 2000 to December 2001.

9.18 Analysis of the purpose of tourists visit to Nepal reveals that majority of tourists come to Nepal for pleasure, trekking and mountaineering. During 2000, 56.6 percent came for pleasure, 23.2 percent for trekking and mountaineering, 5.9 percent for trade 4.5 percent for official visit, 4.0 percent for pilgrimage, 1.2 percent for conference and seminars and 4.6 percent for other purposes.

9.19 Country wise analysis of total tourists arrival in 2001 reveals that 10.6 percent were from North America, 1.3 percent from Central and South America, 34.2 percent from Western Europe, 1.5 percent from Eastern Europe, 0.4 percent from Africa, 3.6 percent from Australia and the Pacific Region and 48.4 percent from various Asian countries including India.

9.20 By the end of 2001, the country had 791 hotels out of which 97 were star hotels and 694 were non-star hotels. During this period 3 new star and 37 non-star hotels were opened. During the review period hotel beds in star and non-star hotels increased by 1.2 percent and 4.3 percent respectively and number of hotel beds available reached 9430 in star hotels and 26733 in non-star hotels. In the review period on the whole, the number of hotels and hotel beds increased by 4.7 percent and 3.4 percent respectively.
9.21 Analysis of the mountaineering expeditions and summiteers in 2001 the number of expedition teams had gone down but the summiteers increased. During the review period, 112 mountaineering teams were issued expedition permit and 836 summiteers scaled different mountains. The collection of the revenue in the form of royalties had increased by 6.2 percent and expenses incurred by the climbers had also increased by 10.7 percent as compared to those of the previous year.

9.22 Nepal Academy of Tourism and Hotel Management has been established with the objective of producing efficient manpower for the tourism industry. The Academy imparts training in different subjects and standards to promote investment in tourism industry in the rural areas, fulfill demand of skilled manpower for small and big entrepreneurs of tourism industry and in operation of tourism industry. During FY 2000/01, the Academy trained to 1128 people in different subjects and in the first eight months of the current FY, 696 people were trained in different subjects.

Box. 9.1
Recent Activities in the Tourism Sector

- HMG has opened up additional 103 mountains (effective from 1 March 2002) for the promotion of mountain tourism in the country. It will also help develop remote areas. The total number of mountains permitted for the climbers now reached 263.

- The mandatory provision of deputing a liaison officer in all mountaineering expedition teams has been amended and mountaineering expedition teams which scale the mountains peaks not higher than 6500 meters now do not require liaison officer anymore. As per the new provision the expedition teams do not require a liaison officer for 89 peaks but it is mandatory for such teams to register their details in the Nepal Trekking Association.

- In the process of opening up protected areas in Nepal, 6 tourists destinations in Taplejung, Sankhuwasabha, Solukhumbu, Manang, Humla and Darchula have been opened up in the initial stage.

- A Memorandum of Understanding between Nepal and China was signed on 26 November 2001 to facilitate the visit of Chinese Citizens to Nepal. Nepal became the first nation in the South Asia to receive the Approved Destination Status by
China in process of promoting tourism in the South Asia.

- Visa system has been amended by bringing it to two types of Single Entry and Multiple Entry from the existing three types of visa. The charges for single and multiple entry visas have been fixed at US $ 30 and US $ 50 respectively and duration of multiple entry visas has been extended to five months.

**Foreign Exchange Earning From Tourism:**

9.23 Foreign exchange earnings from tourism sector in the FY2000/01 was equivalent to Rs. 11,717.0 million which was less by 2.9 percent as compared to that of last year. In the first six months of the current FY, the earnings reached Rs. 4,354.6 million representing 16.5 percent of the total foreign exchange earning from the export of goods. Two other ratios calculated for this period also revealed that of foreign exchange earned from the tourism in the total export of goods and services was 10.7 percent and 8.7 percent in the total foreign exchange earnings. In comparison to such ratios of FY 1999/00 however three ratios declined this year.

9.24 Nepal Tourism Board is engaged in qualitative improvement in tourism industry, and promotion and maintenance of infrastructure, and promotion and management of international tourism market. For promotion of tourism, it has sponsored various international fairs and taken part in them. It has also been involved in production and distribution of publicity materials and documentary films. From this FY, the board has implemented Destination Nepal Campaign with partnership between the government and the private sector to promote tourism industry and create awareness among the people.
Box. 9.2

**Destination Nepal 2002/03**

Destination Nepal Campaign will start from December 2002 and end in December 2004 as a two-year programme. The International Year of Mountain 2002, International Year of Eco Tourism 2002 and Visit South Asia 2003 are also integrated under this Campaign.

**Objectives:**
- To promote public awareness among people about tourism
- To promote and maintain Nepal as a reliable attractive and secured destination with wide international publicity

**Target:**
By the end of 2003, the total number of tourist arrival in Nepal will be 500000. And foreign exchange earnings are estimated to be US $ 180 million during this period.

**Public Enterprises:**

9.25 In FY 2000/01, HMG’s investment in the forms of share capital and transport and operating subsidies had gone down by 20.7 percent and 53.5 percent respectively as compared to those of the previous year. In the current FY, the loan capital investment has increased by 16.0 percent while the capital subsidies has not been provided. In the FY2000/01, the cash flow of HMG to the public enterprises had increased by 3.8 percent as compared to that of the last FY. In the current FY, it is expected to increase by 11.7 percent. In this FY, share capital investment and operating subsidies are estimated to increase by 96.5 percent and 6.2 percent respectively and, the loan capital investment is expected to decrease by 1.4 percent.

9.26 The cash flow from these enterprises to HMG had increased by 3.1 percent in FY 2000/01 as compared to that in FY 1999/00 and due to 33.7 percent increase in the payment of income tax. Amount of royalties, interest and principal payments came down by 10.9 percent, 6.7 percent and 4.0 percent respectively. In the current FY, it is estimated that the cash flow from these enterprises to HMG will go down by 15.2 percent and income tax payment to drop by 62.3 percent. Payments of royalties, interest and principle are estimated to go up by 2.7 percent, 19.6 percent and 7.0 percent respectively. Analysis of net cash flow reveals that more cash flow took place from
these enterprises to HMG in FY 2000/01 and in current FY; such flow is expected to be reverse from HMG to these enterprises.

9.27 The analysis of financial efficiency of the enterprises reveals that most of the public enterprises incurred operating losses, which amounted to Rs.1353.2 million in FY 2000/01. In the current FY, these enterprises are expected to earn operating profit, which will amount to Rs. 2378.3 million. By FY 2000/01, the net capital investment in these enterprises totalled Rs. 82,910.5 million. This figure is expected to rise to Rs. 112,604.2 capital million. The analysis of profit from the net capital investment in FY 2000/01 reveals the negative ratio of 1.6 percent. The profit is expected to turn positive by 2.1 percent in the current FY.

**Privatization of Public Enterprises:**

9.28 Privatization has been accepted as an important component of the liberal economic policy. Since FY 1999/00, 17 different public enterprises have been privatized.

**Table No. 9 (a)**

<table>
<thead>
<tr>
<th>SN</th>
<th>Name of the Companies</th>
<th>Year of Privatization</th>
<th>Mode of Privatization</th>
<th>Sales Price (in thousand)</th>
<th>Ratio of Share with</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Management</td>
</tr>
<tr>
<td>1</td>
<td>Bhrikuti Paper Mills</td>
<td>October 1992</td>
<td>Asset and Business Sale</td>
<td>229,800</td>
<td>70</td>
</tr>
<tr>
<td>2</td>
<td>Harisiddhi Bricks and Tiles</td>
<td>October 1992</td>
<td>Asset and Business Sale</td>
<td>214,830</td>
<td>72</td>
</tr>
<tr>
<td>3</td>
<td>Bansbari Leather and Shoe Company</td>
<td>March 1992</td>
<td>Asset and Business Sale</td>
<td>29,854</td>
<td>75</td>
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<tr>
<td>4</td>
<td>Nepal Film Development Corporation</td>
<td>November 1993</td>
<td>Share Sale</td>
<td>64,662</td>
<td>51</td>
</tr>
<tr>
<td>5</td>
<td>Balaju Textiles Industry</td>
<td>December 1993</td>
<td>Share Sale</td>
<td>17,716</td>
<td>70</td>
</tr>
<tr>
<td>6</td>
<td>Raw Collection and Hide Processing</td>
<td>December 1993</td>
<td>Share Sale</td>
<td>3,990</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Enterprise</td>
<td>Date</td>
<td>Type</td>
<td>Shares Sold</td>
<td>Management Share</td>
</tr>
<tr>
<td>---</td>
<td>------------------------------------------------</td>
<td>------------</td>
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<td>------------------</td>
</tr>
<tr>
<td>7</td>
<td>Nepal Bitumin &amp; Barrel</td>
<td>January 1994</td>
<td>Share Sale</td>
<td>13,172</td>
<td>-</td>
</tr>
<tr>
<td>8</td>
<td>Nepal Lube Oil</td>
<td>January 1994</td>
<td>Share Sale</td>
<td>31,057</td>
<td>-</td>
</tr>
<tr>
<td>9</td>
<td>Nepal Jute Development Corporation</td>
<td>1993</td>
<td>Liquidation</td>
<td>Liquidation</td>
<td>-</td>
</tr>
<tr>
<td>10</td>
<td>Tobacco Development Corporation</td>
<td>March 1994</td>
<td>Liquidation</td>
<td>Liquidation</td>
<td>-</td>
</tr>
<tr>
<td>11</td>
<td>Nepal Foundry Industry</td>
<td>March 1996</td>
<td>Share Sale</td>
<td>14,473</td>
<td>-</td>
</tr>
<tr>
<td>12</td>
<td>Raghupati Jute Mills</td>
<td>August 1996</td>
<td>Share Sale</td>
<td>82,204</td>
<td>-</td>
</tr>
<tr>
<td>13</td>
<td>Biratanagar Jute Mills 2</td>
<td>December 1996</td>
<td>Management Contract</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>14</td>
<td>Nepal Bank Limited 3</td>
<td>March 1997</td>
<td>Share Sale</td>
<td>125,140</td>
<td>-</td>
</tr>
<tr>
<td>15</td>
<td>Agriculture Tools 4</td>
<td>May 1997</td>
<td>Share Sale</td>
<td>95,100</td>
<td>-</td>
</tr>
<tr>
<td>16</td>
<td>Bhaktapur Brick Company 5</td>
<td>August 1997</td>
<td>Lease</td>
<td>20300 (Ten Year's Lease)</td>
<td>-</td>
</tr>
<tr>
<td>17</td>
<td>Nepal Tea Development Corporation 6</td>
<td>June 2000</td>
<td>Share Sale and Lease</td>
<td>267,105</td>
<td>65</td>
</tr>
</tbody>
</table>

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1. Includes value of management share
2. As a semi-public corporation, its Board of Director’s took the final decision regarding Management Contract
3. Share of HMG has been reduced to 41 percent
4. As the buyer did not comply with the provision of the contract and it has been brought under the government ownership.
5. As the leasing partner did not comply with the provision of the contract, it has been brought under government management. 100 percent HMG share.
6. Land has been leased out and the shares have been sold out but the deal closure date has not yet been fixed.

Out of these 17 enterprises, assets and business of three enterprises and share of 9 enterprises were sold out, management contract was introduced in one, one was leased out only and the land of one enterprise was leased out along with the sale of shares. Two enterprises were liquidated. In the current FY, Nepal Transport Corporation and Cottage Industries and Handicraft Sales Emporium have been closed down and Sajha Transport has been liquidated. Public notice has been issued in the case of Hetauda Textiles Company for the proposed scheme of selling out its assets and business. In the case of the Butwal Power Company, the preferred bidders
have been selected in the process of selling out 75 percent share of HMG. Negotiation is underway to fix the process of Sales Purchase Agreement. The process is underway to set up two separate companies dealing separately with seeds and chemical fertilizer by liquidating Agriculture Inputs Corporation. In the next FY, the government is expected to privatize three enterprises as per its commitment to the privatization programme.

**Challenges:**

9.29 In the context of declining trend in production of some goods and low capacity utilization in others there are very many constraints to overcome like prospects of marketing, capital supply, technology product orientation and industrial management. For this, challenging activities like reform in the existing policy, creation of investment friendly environment, managing capital resources industrial research and development and such other activities to facilitate industrial development pose challenges for the years to come.

9.30 Tourism industry with 10 percent in the total foreign exchange earnings and 3 percent in gross domestic product is heading towards crisis. The number of tourists arrival and their stay in Nepal have not been increased due concentration of tourist promotion activities in a limited geographical regions, lack of extension of development of tourist infrastructure, lack of security, environmental pollution and lack of wider publicity. Security and maintenance of law and order are essential elements that contribute to promote tourism industry in the country. So it is imperative to plan and implement programmes of rural tourism and development of new tourist spots while wider publicity, security management and environment protection calls for urgent attention.

9.31 Most of the public enterprises have been unable to meet their target of producing goods and services and their effective delivery. As a result, lack of capital management and capital formation in these enterprises persist even though government's investment in both share and loans is on the rise. To enable the public enterprises enhance their capabilities as required by the restructuring and the
privatization agenda implementation have become imminent. To start such process staff retrenchment as a precondition requires adequate funding. The privatization process has to be shortened. Improvement in management, production of goods and services and their effective delivery for the improvement of financial health of these enterprises have been the paramount challenges and should be expedited with evaluation.

9.32 Modern technology, technical skill, corporate culture and access to international markets are some of the important values to attract enhanced investment in the economy.
X

ENERGY, FORESTRY AND ENVIRONMENT

Energy:

10.1 Energy consumption in the FY 2000/2001 has increased by 2.4 percent to 7912 Tons of Oil Equivalents (TOE) as compared to previous year and expected to increase by 3.2 percent to 8162 TOE in the FY 2001/2002.

10.2 When we divide source of energy into two parts - traditional and commercial - of the total energy consumption in the FY 2000/2001, traditional energy occupies 86.2 percent while the portion of commercial energy was 13.8 percent. In the FY 2001/2002, consumption of traditional energy is expected to remain at 85.3 percent while the portion of commercial energy will remain at 14.7 percent, which shows Nepalese economy still heavily relying on traditional source of energy.

10.3 Of the total traditional energy consumption in the FY 2000/2001, share of fuel wood was 76.6 percent, agriculture and cattle residue was 3.8 percent and 5.8 percent respectively, while in the FY 2001/2002 it is expected that the consumption of fuel wood will remain at 75.9 percent while that of agriculture and animal residue will be 3.7 percent and 5.7 percent respectively. Similarly, of the total commercial energy consumption in the FY 2000/2001, the share of Petroleum was 9.3 percent, Coal 3.1 percent and electricity 1.4 percent, while in the FY 2001/2002 the share of Petroleum is expected to remain at 9.7 percent, Coal 3.6 percent, and electricity 1.4 percent.

10.4 Of the total energy consumption in the FY 1999/2000, share of residential sector was 89.3 percent, industrial sector 4.6 percent, commercial sector 1.1 percent, transportation sector 3.9 percent and agriculture sector 0.9 percent. In the FY 2000/2001, share of residential sector was 88.9 percent, industrial sector 4.8 percent,
commercial sector 1.2 percent, transportation sector 4 percent and agriculture sector 0.9 percent. Of the total energy consumption in the FY 2000/2001, substantial portion was in residential sector in which traditional energy (fuel wood) occupies 76 percent and that of petroleum 3.2 percent. Of the total energy consumption in the FY 2000/2001, share of traditional alternative energy was 0.36 percent.

**Electricity:**

10.5 The country has a total hydropower potentiality of 83 thousand megawatt, of which 373.2 megawatt has been exploited by the end of the FY 2000/2001. If we include 183 kilowatt production of Sage Khola small hydropower plant completed by a private sector during the current fiscal year, total production goes up to 373.6 megawatt (0.5 percent of total capacity). Of the total hydropower production, 368.3 megawatt has been in the national grid and the rest 5.3-megawatt has been produced by small hydro power plants and distributed locally. Similarly, share of thermal power production is 56.8 megawatt and

<table>
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<th>Box 10 (1)</th>
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<tbody>
<tr>
<td><strong>Hydropower Development Policy 2001</strong></td>
</tr>
<tr>
<td>HMGN has approved this policy</td>
</tr>
</tbody>
</table>

**Objectives:**
- Utilization of water resource potentiality of the country by producing electricity in low cost
- Supply of qualitative and reliable electricity within the country in a reasonable price
- Linking of electrification with economic activities
- Expansion of rural electrification projects for the economic development of rural sector, and
- Development of hydro electricity as export commodity

**Main Policies**
- Encouragement provided to operate hydroelectricity on the basis of BOOT (Build-Operate-Own-Transfer) principle
- Implementation of multipurpose big storage project to gain maximum achievement out of down stream benefit
- Introduction of procedure which is transparent and incentive oriented in order to attract local and foreign investors
- Capital market in the country will be encouraged to invest in hydroelectricity
- Encouragement will be provided to export electricity on the basis of bilateral and multilateral assistance
- Government entities will be restructured to encourage community/cooperative, local and private sector in the expansion and distribution of electricity on competitive basis
that of solar power is 100 kilowatt. As of now, all 75 districts have been connected by power.

10.6 In connection with the expansion of hydropower in the country, the production from all three units of Kali Gandaki Hydropower Plant (144 megawatt) have stated their production- the greatest hydropower plant of Nepal so far - financed jointly by His Majesty's Government of Nepal, Nepal Electricity Authority and loan assistance of Asian Development and the government of Japan. While the construction of Indrawati III Hydropower Plant, financed by private sector, is in the final stage. By the completion of these two power plants at the end of this fiscal year, an additional 151.5 megawatt will be added in the total hydropower production and will reach to 524.9 megawatt (0.6 percent of total capacity). The constructions of Chilime Khola of Rasuwa (20 megawatt) and Piluuwa Khola of Sankhusashava (3 megwatt) financed by private sectors will be completed by the next fiscal year. The production from Middle Marsangdi Hydropower Plant, Lamgunj (70 megawatt) has started from this fiscal year. The operation of small solar power plants - Heldung (500 kilowatt), Gamgad (400 kilowatt) in Humla and Mugu districts have started from the last fiscal year.

10.7 The electricity purchase agreements of Phemekhola, Panchther (995 kilowatt) and Khudikhola, Lamjung (3450 kilowatt) were concluded by the end of the last fiscal year, while Nepal Electricity Authority has concluded such agreements for Melungkhola, Rasuwa (5 megawatt), Langtangkhola, Rasuwa (10 megawatt) and Sunkoshi Sano, Sindhupalchowak (2.6 megawatt) during this fiscal year.

10.8 In line with the expansion of the electrification, different level voltage lines are operating, these include single circuit 1040 km, double circuit 367 km under high voltage 132 KV, single circuit 205 km, double circuit 161 km, four circuit 2.5 km and 1536 km of 22 km and 33 KV levels under the joint 66 KV and 132 KV lines. In the current FY, the construction of Kaligandaki 'A' Butwal (44 km) and Hetuda Dhalkevar and Butwal-Bardhaghat second circuit (174km) under the 132 KV and Basantpur-Terathum (15 km) under 33 KV
are completed. The construction of Kaligandaki 'A' Pokhara (66 km) under the 132 KV is in the final stage. Currently, Ilam-Phidim-Taplejung (100 km), Sitalpati-Mukhikot (50 km), Buipa-Okhaldhunga (33 km) and Chinchu-Jajarkot (70 km) of 33 KV level are under construction. As there has been understanding with India to exchange electricity of 150 megawatt as against the arrangement of 50 megawatt, there has been agreement in principle to construct transmission line for the exchange of additional electricity in 3 more points of Nepal - India border. In this direction, necessary study and preparation have been carried out to construct transmission line- Butwal-Sunauli (25 km), Parwanipur-Birgunj (25 km), Dhalkebar-Bhittamod (45km) - of 132 KV capacities. Necessary study and preparation have been initiated to construct 132 KV capacity Kathmandu-Ringmon transmission lines to strengthen the capacity of transmission in Kathmandu Valley due to increasing urbanization.

10.9 Load Dispatch Project has been in operation with the objectives of connecting main substation and powerhouses of kingdom to Load Dispatch Center with communication system and SCADA system.

10.10 In the power distribution side, electrification will be continued in all districts connected by power financed through HMGN and NEA. While there has been loan agreement with Asian Development Bank for the electrification in additional places in 35 districts of the kingdom, the negotiation is underway with the World Bank for the electrification of additional places of Bhaktapur, Lalitpur, Nuwakot, Dhading and Kavreplanchowak districts. Necessary works for seeking assistance are being under taken for the electrification in the districts of Mid Western and Far Western regions.

10.11 In order to expand hydropower services, detailed feasibility study is continuing. The detailed study and infrastructure development has been carried out for Kulekahi III and Chameliyagad projects. In connection with carrying out study of dam projects, 102 projects were identified, four attractive projects such as Upper Seti (Tanahu), Madi Isaneswor (Kaski, Lamjung), Langtang (Rasuwa)
and Madi/Begnas (Kaski) have been selected for study and feasibility of two projects have been continued. Updating of feasibility study of Kankai Multipurpose Project is undertaken while with view to develop hydropower with joint investment of NEA and private sector, studies have undertaken to projects such as Upper Karnali, Khimti-2, Thulo Dhunga, Upper Tamakoshi and Upper Modi 'A'. In this FY, the studies are in different stages for the projects below 5 megawatt as identified in Master Plan Study of Small Hydropower.

10.12 In the FY 2000/2001, the total supply of power, including hydropower, thermal power and imported from India, was 1868.4 GWH, in the current FY, this has increased by 27 percent to 2372.9 GWH. Of the total power, in the FY 2000/2001, the share of internal consumption was 1281.1 GWH and 126 GWH was exported to India and there was a deficit of 461.3 GWH. In the current FY, the share of international consumption will be 1472.5 GWH and export to India will 170 GWH and 730.4 GWH will remain as deficit.

10.13 Sector wide consumption of power in the FY 2000/2001 reveals that industry sector accounted for 37 percent, household sector 36.8 percent, commercial sector 6.7 percent; export 9 percent and miscellaneous 10.5 percent. In the FY 2001/2001, it is expected that consumption by industrial sector will account for 36.8 percent, household sector 36.5 percent, commercial sector 6.3 percent, export 10.4 percent and miscellaneous sector 10 percent.

10.14 The number of electricity consumer in the FY 2000/2001 was 765,000, by the end of FY 2001/2002 the number of electricity consumer will increase to 885,000. Similarly, in the FY 2000/2001 only 18 percent of total population used electricity, which is expected to reach 20 percent by the current FY.

Petroleum Products:

10.15 In the FY 2000/2001, the consumption of petroleum products have increased by 1.7 percent to 829,467 kilo liter, the cost of which is Rs 18685.7 million. The consumption of petroleum in the first eight
months of the FY 2000/2001 was 533,579 kilo liter this has increased by 4.1 percent in the first eight months of the current FY, the cost of which is Rs 11635.6 million. The import of petroleum product in the FY 2000/2001 is 33.6 percent of commodity exports. In the FY 2001/2002, it is expected to remain at 44.1 percent.

10.16. Diesel, Kerosene, Petrol and aviation fuels are among the widely used petroleum products. In the FY 2000/2001, the share of Diesel was 40.2 percent, Petrol 7.3 percent, Kerosene 39.2 percent, Civil aviation 7.9 percent and L.P Gas 4.8 percent. During the first eight months of the current FY, the consumption of Diesel was for 33.2 percent, Petrol 7.4 percent, Kerosene 45.5 percent, Aviation fuel 5.7 percent and L. P. Gas 5.5 percent.

Coal

10.17. Of the total commercial energy consumption in the FY 2000/2001, share of coal was 22.6 percent or 46,000 tons of TOE, which has increased by 20.7% to 2,97,000 tons of TOE in the current FY. In the FY 2000/2001, of the total coal consumption, 99.6 percent was in industrial sector and 0.4 percent was in residential sector.

Alternative Energy:

10.18. HMG has introduced Renewal Energy Subsidy System 2000 with the objectives of sustainable development of alternative energy and ensure energy supply in rural areas, development of small industries and professions through energy technology and thus uplift economic and social conditions of the poor people and to maintain regional balance and to reduce environment problem caused by destruction of forest in rural areas. Similarly, HMG has introduced Renewal Energy Subsidy Guidelines 2000 to efficiently mobilize and streamline grant fund received from different donor agencies. With a view to provide loans out of the grant received from Danish Government for solar energy and small hydroelectricity, an internal fund has been created and different activities have been initiated by the Alternative Energy Promotion Center.
Biogas:

10.19 Installation of biogas plant has been continued in the current FY. In FY 2000/01, total number of plants installed was 4,197 under the loan of Rs. 98.38 against the target 15,800 plants at the cost of Rs. 138.93 million. During the review period current year Rs. 32.767 million has been invested by ADB/N for the installation of 1600 plants.

Micro-Hydropower:

10.20 Micro hydropower plants serve very useful purposes of relieving local forests from exploitation of fuel wood and harnessing unutilized water source. The constructions of low capacity micro hydropower plants are continuing in current FY. In FY 2000/01, micro hydropower of 80.5 KW plants generating capacity were installed with the investment of Rs. 3.831 million. In current FY 2001/02, target was to install such plant to generate 500 KW by investing Rs. 27.5 million by ADB/N. During the review period, only 199 KW capacities had been installed with the investment of Rs. 11.0 million.

Solar Energy:

10.21 By topographical region, Nepal's solar energy potential has been estimated as 607-kwh/Sq.-meter/ day* in the Himali region, 6.33 Kwh in Hills and 7.07 Kwh in the Terai. National average of such potential is 4.5 Kwh. These potential remains very little exploited. In FY 2000/01, 508 solar energy systems were installed by investing Rs. 11.192 million by ADB/N. In current FY 2001/02, only Rs. 7.76 million has been invested for installation of 394 units against the target of investing Rs. 39.0 million.

* Source: Center for Energy Studies, Institute of Engineering, TU
Forestry:

10.22 Among the known natural resources forest is considered as next to water resources. It has become essential to improve, expand and conserve forests to meet daily need of fuel wood and construction materials as well as enhance revenue and ecological balance. Among major projects and program being implemented, National and Leasehold Forestry in 26 districts, Churia Forestry Development (GTZ) in 3 districts, Forestry Conservation & Plant–Genetic Center (DANIDA), Community Forestry Development (DANIDA) in 3 districts, Forestry Program for Livelihood (DFID) in 7 districts, Environment and Forestry Enterprises (USAID) in 8 districts, Sindhu-Kavre Forestry Development (AUSAID) in 2 districts and Natural Resources Management Sector (DANIDA) in 17 districts are the major ones. Likewise, National and Leasehold Forestry Development, Community Forestry Development (DANIDA), Natural Resources Management Sector Program (DANIDA) and Herbs Development Programs are being carried out as national priority projects.

10.23 A total of 1161 User groups (FUGs) were formed and 52,245 hectares of community forest have been transferred to the local level under the Community Forestry Development Program in FY 2000/01. The Program has benefited 98,685 families. During the review period of current FY, 230 users groups have been formed to manage 10,350 hectares of forest and transferred to those groups. The program has benefited 19,550 families. Under the Leasehold Forestry Program, a total of 119 FUGs were formed in 8 Districts of the Hills and 2 districts of the Terai in FY 2000/01. A total of 46,004 hectares of community forest was transferred to FUGs. During the review period of current FY, a total of 13 FUGs were formed in 24 districts if the Hills and 2 districts of the Terai where programs were in operation. During the same period, initial works have been completed for transfer community forest to the FUGs.

10.24 In FY 2000/01, a total of 78,18,000 tree saplings were produced against the target of 93,41,000 saplings under various programs and projects by forming 230 FUGs. Of this total, progress against the
targets set was as following: Department of Forests including the Community Forestry Development Program produced 24,77,000 saplings against the target of 26,10,000, by Hill Leasehold Forestry and Grazing Development Project produced 10,95,000 saplings against the target of 17,00000, by the National and Leasehold Forestry Project produced 19,54,000 saplings against the target of 2,100,000 and other various projects produced 21,52,000 against the target of 2,671,000. In addition, the Forestry Products Development Board produced 1,40,000 saplings against the target of 2,60,000 with the total of 7,818,000 saplings produced 83.7 percent of the target have been achieved during the year. In current FY, production target of 80,59,000 saplings has been fixed under above mentioned on going programs managed by the Department of Forests (79,19,000 saplings) and Forests Product Development Board (1,40,000 saplings). The necessary works has been completed for producing these saplings during the review period of this year.

10.25. In FY 2000/01, 82 percent (2,229 hec.) of the afforestation has been achieved by various projects and programs under the Department of Forest (target 2,605 hec.) and the Forest Product Development Board (target 111 hectares). During the review period of current year, preliminary works like clearing and fencing are underway in 2502 ha. set as targets under various programs.

10.26 In order to reduce the pressure of natural calamity such as flood, land slide and soil erosion, and to maintain ecological balance by protecting the important watersheds implementation of various programs are underway. Of the programs launched are: Bagmati Integrated Watershed Management Project (EU) in 5 districts, Watershed Management Project (DANIDA) in 3 districts, Sindhu-Kavre Soil Protection Program (AUSAID) in 2 districts, Upper Andhikhola Watershed Management Project (CARE/N) in 1 district, Community Development and Forest/ Watershed Management Project (JICA) in 2 districts, Shiwalik-Bhawar Watershed Protection Project in 9 districts, Soil Protection Program in 27 districts, Sustainable Soil Management in 4 districts, Upper Chhaldi Pahad Watershed Project (SDC) in 1 district. The Government has adopted the policy to carry out all works relating
to watershed management through the user's committee to mobilize people's participation.

10.27 In order to involve local people for the protection and development of herbs in the mountain region and to increase their opportunities of income generation, the government has adopted the policy of cultivating herbs in leasehold forest, community forest and in private forest as well. Recently, herbs conservation project and herbs development program have been launched to this effect. In FY 2000/01, herbs cultivation was carried out in 1197 hec. of land, which include 456 hectares under leasehold forest, 656 hec. under Herbs Production and Processing Company and 85 hec. under private sector management. Current year's goal is to expand the cultivated area by 751 hec. under the management of Community Forestry. Herbs Production and Processing Company and private sector. In FY 2000/01, herbs equivalent to Rs. 44.2 million was sold. During review period of current year, herbs worth Rs. 4.76 million have been sold.*

**National Parks and Wildlife Conservation:**

10.28 During the review period of the current year, the total area covered by the National Park and Wildlife Conservation increased to 18.3 percent of the total land of the country as against 18.1 percent in FY 2000/01.

10.29 As per the revenue sharing policy of the Government, fifty percent of the revenue raised from the Royal Chitwan (RCNP) and the Royal Bardia National Park (RBNP) are being made available to the buffer Zone community development works. Accordingly, Rs. 75.77 million to the RCNP and Rs. 13.63 million to the RBNP were disbursed by FY 2000/01 to the user groups concerned. Rs. 7.02 million released to the Langtang National Park remains yet to be spent. While only Rs. 50.2 million and Rs. 4.9 have been spent by the RCNP and RBNP respectively out of those disbursed amounts.

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* Included only 14 Districts.
10.30 In pursuance of the policy of promoting tourism in conservation areas, Tourism Management Plants for RCNP and RBNP are already approved. Such plants also for the Kanchanjunga Conservation Area and the She-Phoksundo National Park are under preparation.

10.31 HMG has adopted the policy of allowing hotels and lodges to operate in buffer zone only. Accordingly, new hotels will be located in these zones and the existing ones operating outside the buffer zones will be asked to relocate their after the expiry of their contracts. More than 40,000 people have benefited from the various programs of community development, income generation and skill training conducted in the areas. Such programs are operating in nine conservation areas.

10.32 The Timber Corporation of Nepal, entrusted with institutional marketing of traditional fuel wood and timber, sold 550,000 cu. ft. of logs, 20,600 cu. ft. of sawn timber, and 8,353 piles of fuel wood in FY 2000/01. During eight months of the current FY, the Corporation sold 169,400 cu. ft. of logs, 6,000 cu. ft. of sawn timber and 165 piles of fuel wood.

Population and Environment:

10.33 According to the census of 2001, population growth of the country during the period 1991-2001 increased by 2.24 percent and total population of the country in 2001 has reached to 2,31,51,423. The high population growth is due to high fertility rate. Recently completed Nepal Population and Health Survey (2001) by the Ministry of Health has revealed that the fertility rate of Nepal has remained at 4.1 children per woman. If the annual population growth rate of 2001 is to be continued, Nepal's total population will be double within 31 years.

10.34 In line with the long term target of reducing fertility rate to 2.1 percent level by the year 2016, the Ministry of Population and Environment, with a view to properly manage existing population, has initiated policies and carried out institutional reform programs in the FY 2000/2001 and 2001/2002. The policy reforms can be
feasible through interregional management efforts. Therefore different actions have been initiated in this regard. These include, gradual integration of population management aspects in different regional development activities. As boys and girls play prominent role in the demographic profile, different activities will be conducted by focusing them. Dissemination of population related information, and expansion of education and communication among groups who does not have access to mass communication will be launched by mobilizing local NGOs. Advocacy programs will be initiated among policy makers and other stakeholders Population management efforts will be expanded at the local level under the leadership of VDCs in line with local self-governance. Towards the institutional reforms, a section dealing with young boys and girls will be established in the Ministry of Population and Environment. Program targeting teenagers (aged 10-19) and youths (aged 15-24) will be conducted in an integrated manner. Attempts are also underway to coordinate various programs relating to population management by establishing committees of the Secretariat of National Population Committee and the establishment of Ministry of Population and Environment as national focal point.

10.35 In FY 2000/2001, two projects relating to national program and national census and environment information, education and communication were initiated by the Ministry of Population and Environment. In 80 places of 20 VDCs of Rautahat districts, different programs were initiated by mobilizing 20 NGOs and cooperatives focusing to such groups who do not have access to mass communication. These included informal population education camp, weekly and fortnightly awareness program through mass media such as radio, television and FM radio. These programs also included production and distribution of messages through different radios and televisions transmissions. Production and distribution of books, calendars and posters and publication of four monthly Tuki Magazine were also undertaken. These materials were distributed to all VDCs and secondary schools. Various district and regional level seminars and programs on Population and Development Integration were also conducted. During the
revised period of current year, most of these activities have been given continuity.

10.36 In FY 2000/2001, pollution index was prepared and electrical board, air pollution monitoring center were established and benchmarks for air, water and sound were also prepared. In FY 2001/2002, in addition to giving continuation to these programs, green sticker program as demanded by municipalities, namely, Biratnagar, Birgunj, Pokhara, Bhairawa, and Nepalgunj were introduced. In current FY, programs such as environment impact assessment, long term environment policy formulation, land use and protection and promoting public awareness are under way.

Challenges:

10.37 The demand for energy in the country is increasing and substantial portion of energy consumption is supplied by traditional energy. This has caused a great pressure in the forest and thus environmental imbalance is increasing. The great challenge today is to complete the construction of ongoing power projects as soon as possible and add smaller hydropower projects to enable more of the population accessing to electricity and help to check deforestation as well.

10.38 Biogas, small hydropower, solar energy and wind power are the main sources of alternative energy of the country. Feasibility studies of many of these have been carried out, but their proper development is yet to take place. In the present context, security problems, difficulty in supply of construction materials and lack of subsidy in adequate are the constraints to progress.

10.39 According to the census of 2001, the population growth of 2.24 percent during 1991-2001 periods is a matter of concern calling for an effective population management at work.

10.40 There has not been effective control over the trafficking of rare wild animals. The CITES bill designed to address this has yet to be approved due to which a legal basis for wild life farming is sorely lacking.
10.41 In FY 2000/2001, per capita electricity consumption was 80.8 kwh, which is considered as very low. To increase per capita consumption, supply of power needs to be increased.
XI

TRANSPORTS AND COMMUNICATION

Road Transport:

11.1. It was targeted to link all the districts by road transport except seven remote districts: Humla, Mugu, Manang, Dolpa, Solukhumbu, Khotang and Mustang during the Ninth Plan period. By the end of this period, however, only 65 districts have been connected with the road network. By the end of FY2000/01, total road network built stood at 15,702 km. Of this, black topped totalled 4,566 K.M., gravelled 3,786 km. and fair weather 7,350 km. During the review period of current year, a total of 157 km. (27 km. black topped, 65 km. gravelled, and 65 km. fair weather) of road length was added. Total length of road by this period reached to 15,059 km. (black topped 4,593 km., 3,851 km. and seasonal 7,015 km.).

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Type</th>
<th>End of FY 2000/01</th>
<th>Added up to mid-march</th>
<th>Total (Up to mid-March 2002)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Black topped</td>
<td>4,566</td>
<td>27</td>
<td>4,593</td>
</tr>
<tr>
<td>2</td>
<td>Gravel</td>
<td>3,786</td>
<td>65</td>
<td>3,851</td>
</tr>
<tr>
<td>3</td>
<td>Fair Weather</td>
<td>7,350</td>
<td>65</td>
<td>7,415</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>15,702</td>
<td>157</td>
<td>15,859</td>
</tr>
</tbody>
</table>

Vehicles:

11.2. By the end of FY 2000/01, the total number of vehicles in the country was 305,395, which increased by 10.9 percent during the review period of current FY, 2001/02 to the total of 338,892. Thus, the number of vehicles per kilometre of road in the current fiscal year is 21 as against the 19 vehicles for the last year.
### Table: 11(b)
**Total Number of Vehicles by type by FY 2001/02**

<table>
<thead>
<tr>
<th>Type</th>
<th>Till in FY 2000/01</th>
<th>Addition during the review period</th>
<th>Total</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bus</td>
<td>10,546</td>
<td>676</td>
<td>11,222</td>
<td>6.4</td>
</tr>
<tr>
<td>Minibus</td>
<td>2,961</td>
<td>336</td>
<td>3,297</td>
<td>11.3</td>
</tr>
<tr>
<td>Truck, Tanker</td>
<td>21,580</td>
<td>1,116</td>
<td>22,696</td>
<td>5.2</td>
</tr>
<tr>
<td>Car, Jeep, Van</td>
<td>59,115</td>
<td>2,921</td>
<td>62,036</td>
<td>4.9</td>
</tr>
<tr>
<td>Tractor</td>
<td>23,991</td>
<td>2,102</td>
<td>26,093</td>
<td>8.8</td>
</tr>
<tr>
<td>Motorbike</td>
<td>176,476</td>
<td>26,055</td>
<td>202,531</td>
<td>14.8</td>
</tr>
<tr>
<td>Three wheeler</td>
<td>6,934</td>
<td>221</td>
<td>7,155</td>
<td>3.2</td>
</tr>
<tr>
<td>Dozer, Crane and others</td>
<td>3,792</td>
<td>70</td>
<td>3,862</td>
<td>1.8</td>
</tr>
<tr>
<td>Total</td>
<td>305,395</td>
<td>33,497</td>
<td>338,892</td>
<td>11.0</td>
</tr>
</tbody>
</table>

| Number of Vehicles per km of Road. | 19 | - | 21 | - |

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**Other Means of Transportation:**

11.3. The operation management of railway, ropeway and trolley bus service was done by the Nepal Yatayat Sansthan (Transport Corporation of Nepal), which now stands as dissolved by the decision of the government.

**Policy and Institutional Progress:**

11.4. As, the main objective of the road transportation is to reduce the total transportation cost, which is the ultimate goal of the government as well, the government has adopted the policy of decentralizing the management of local roads through the Ministry of Local Development by strengthening the local DDCs and VDCs and handing over the management of local roads to these institutions. In recent years, the government achieved progress towards this goal and now local level road projects are being executed through the Ministry of Local Development.

11.5. Substantial progress has been achieved in strengthening the planning and monitoring capacity of the Department of Roads. To
prepare the road network planning, pavement condition and to keep the records of traffic survey data, etc., highway management information system (HMIS) has installed and operating. A Ten-Year Road Master Plan and a Twenty Year Road Plan are also under preparation. Separate unit has been established to monitor the Plan and the work is in progress.

11.6. The Road Board Act has been approved by the Parliament to establish a Road Maintenance Fund. In order to increase the capability of roads division, Strengthen Maintenance Division (SMD) has been established in 23 Divisions of the Department of Roads. Accordingly, regular maintenance works are being done. In order to develop the planned maintenance process the Strengthen Maintenance Division, Geo-environment Unit and Bridge Unit have been created under the DOR. Database system has been established for plant management. The Mechanical Training Centre has been conducting training programs. In order to make the works of the Department of Roads transparent, preparatory works have been done for Video Documentation Program. Preparation works have also been completed to start post evaluation process from the next year. To increase the road safety, Traffic Engineering and Safety Unit has been created in the department. To start prepare the traffic sign standard and to keep the accident data records keeping works have also been initiated.
Air Transport Service:

11.7. Keeping in view the varied topography of the country, it is a distinct need to extend air transport service in Nepal. During the current fiscal year, the civil aviation fields and its infrastructure were destroyed by the terrorist activities incurring a great loss to the country. In order to provide aviation facility to the remote area residents “Remote Service Fund” has been established and necessary steps have already been taken to activate it. A high level commission has been instituted and works has been initiated in order to ensure air safety, reliability and to provide standard and easily accessible services to the public.

11.8. According to the His Majesty’s Government’s policy to extend and improve the international airport, the 1-6 packages programs, under the Asian Development Bank’s loan assistance, are being implemented. Under these packages, construction of air cargo building extended international terminal building, airlines/operation building, airport fire station and airfield maintenance building have been completed in the current fiscal year and they are in operation. In line with the government’s policy to develop airfields at Bhairawa, Biratnagar and Nepalgunj, and develop as hub airports, the terminal building in Biratnagar has been expanded to start a regional flight to Calcutta, but presently, the flight remains closed due to the lack of sufficient number of passengers. Construction of a new terminal building in Bhairawa has already been started.

11.9. Pursuant to the government’s policy to promote recreational aviation activities, such as flying club, ballooning, gliding, hot air ballooning in Kathmandu and power gliding from micro light aircraft in Pokhara are in operation. Entertainment aviation activities like paragliding and hand gliding are also being encouraged. In order to launch a search and rescue operation, especially for tourists, at the time of natural calamity and other emergencies, Nepal Civil Aviation Authority is working in close coordination with other airlines for landing of aircrafts through Rescue Coordination Centre at the time of emergency.
11.10. In order to strengthen the Civil Aviation Authority, Terms of Reference (TOR) of business plan and cargo management is under preparation. Similarly, the TOR for consultancy service for the construction of heliport in the Tribhuvan International Airport and for the establishment of Information Management Service (MIS) cell in the airport are also being prepared.

11.11. Necessary equipment and services have been identified for the Tribhuvan International Airport Modernization Project Phase II. In order to develop a satellite-based communication system in near future, technical specification and preparation of tender documents are in the process to establish a V-SAT communication system in Kathmandu, Biratnagar, Pokhara, Bhairawa, Nepalgunj and Lukla airports.

11.12. In order to develop the satellite global positioning system (GPS) based air navigation system within the country, GPS route structure chart and approach plates have been prepared in the current fiscal year. Direct international ATS route named as G-348 route has been established between Kathmandu and Bagdora.

11.13. As identified by the Civil Aviation Safety Committee, automatic message switching system (AMSS) terminal has been fixed at the Civil Aviation Authority’s head office. Similarly, technical infrastructure, such as details of aeronautical information publication (AIP) have been developed and put on the web page in the current fiscal year. Along with this, necessary works have been done in the field of extension of fire control and life rescue services.

11.14. An amended Memorandum of Understanding (MOU) has been signed between Nepal and Thailand after review of the existing aviation agreement to increase the number of flight seats between the two countries. Necessary actions have been taken to ratify the conventions and protocols approved by the ICAO.

11.15. In line with the government's policy to encourage private sector in the field of aviation as well, 32 private airline companies have
received AOC. Out of these, 18 airlines are currently in operation. As the government has a policy to improve and expand the rescue operation and the fire control service at the standard of ICAO, the Tribhuvan International Airport has been upgraded to ICAO category VIII standard. Fire extinguisher equipment and ambulance services are available in Nepalgunj, Biratnagar, Pokhara and Bhairawa airports. Important tourist airports at Lukla, Bharatpur, Jumla and Jomsom are now equipped with the fire extinguisher.

Information and Communication:

11.16. **Postal Service**: By the end of fiscal year 2000/01, it was estimated that the postal service would be available through a total of 4033 post offices including central-1, regional-5, district- 70, area- 827 and extra departmental- 3130 post offices all over the kingdom. By the end of fiscal year 2001/02, there will be 4013 post offices operating with the addition of 15 area post offices and reduction of 35 extra departmental post offices to those of the previous year. In order to review the postal service provided by the additional post offices and to ascertain the number of personnel involved, a task force was formed. Based on the task force’s recommendation, a total of 1346 posts have been abolished. In order to bring effectiveness in payment of money order— one of the popular services of the postal department— the present revolving fund has been increased to Rs. 13,375,000 and the payment amount has also been increased as well. Internal express mail service (EMS) is available to 43 urban areas and 2 semi-urban Village Development Committees. The expedited mail service is available to 26 different countries of the world. To fulfil the demand of post boxes, more than 17,500 post boxes have been made available. Postal network has been extended to almost all municipalities and village development committees as per HMG policy. A bill has been drafted to make the postal service professional, competitive and self-reliant in future.

11.17. **Tele-communication Service**: During the current fiscal year, a total of 67 licences have been issued by the Nepal Tele-
communication Authority including 17 Internet licences (including e-mail), 10 V-SAT service, 25 service providers, 8 radio paging network, 1 video conferencing and 6 fax mail services. In fiscal year 2000/01, 61 licences were issued to the private sector which include, 15 internet (including e-mail), 7 V-SAT services, 23 service providers, 8 radio paging network, 1 video conferencing, 6 fax mails and 1 cellular mobile service.

11.18. As of mid-February 2002, 1761 VDCs among 3914 VDCs in the kingdom are facilitated by telephone service compared to 1726 VDCs benefited last year. Under the special rural telecommunication program, a proposal was invited from the private sector to provide telephone service in the villages of eastern Nepal; an operator was selected; and the letter of intent was also issued. The selected operator, however, has refused to receive the licence on the plea of the security reasons. The process to invite a fresh proposal is under way. As of fiscal year 2001/02, 99 VDCs of remaining four development regions are provided with the telephone service through WLL system by the NTC.

11.19. As of mid February 2002, NTC is providing telephone service through its 142 exchanges that existed last year. Total capacity of such exchanges is 375,312 telephone lines, out of which 312,032 lines are in operation. During the same period of the last year, a total of 275,558 telephone lines were in operation. Cellular mobile lines are in operation in Kathmandu valley, Biratnagar, Birgunj and Pokhara. Out of total capacity of 20,000 mobile lines, a total of 18,102 lines have been distributed so far compared to 11,117 mobile lines in use last year. Total circuit capacity has reached to 1084, enabling direct international access to 131 countries. The number of customers in waiting list for new telephone lines has reached to about 282,257. During the review period of FY 2001/02, a total of 22,000 telephone lines were distributed in the Kingdom compared to 19,781 telephone lines during the same period last year.
Table 11(c):
Extension of Telephone Exchange Service

<table>
<thead>
<tr>
<th>Heads</th>
<th>Mid July 2001</th>
<th>Mid-March 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grand Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Urban areas</td>
<td>58</td>
<td>58</td>
</tr>
<tr>
<td>(b) Telephone distributed</td>
<td>288,036</td>
<td>312,032</td>
</tr>
<tr>
<td>(c) Per thousand/telephone line</td>
<td>12</td>
<td>14</td>
</tr>
</tbody>
</table>

Note: All exchanges are in digital automatic.

11.20. **Newspapers:** As of mid February 2002, compared to mid-April, 2001, the total number of newspapers registered in various districts of the kingdom reached 3192 against 2870 of last year. Among these are 218 daily against 193 of last year, 12 half-weekly against 9 of last year, 1119 weekly against 1008 of last year, 235 fortnightly against 220 of last year, 906 monthly against 787 of last year, 223

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**Box 11(2)
Current Communication Policy on Newspapers**

- To exercise the freedom of opinion and expression and right to information guaranteed by the constitution, every citizen has right to publish a newspaper in any language.
- For the institutional development of the newspapers journalism to be treated as an industry.
- To create a congenial environment for the development of private sector journalism as competitive, and self-reliant in economic and infrastructure terms thus to work towards the goal of establishing journalism as free, dignified and respectable profession.
- To classify newspapers on the basis of their circulation and regularity of publication for the purpose of their access to newsprint and other materials at fair price.
- His Majesty’s Government would make available the government notices and advertisements relating to public service to private newspapers depending upon the classification made by the government based on distribution status, standard of the newspaper and its regularity.
- To create the congenial environment that the government and semi-governmental companies and industries would provide advertisements to private newspapers.
- To provide right to collect news without fear within the bounds of law.
- To provide concession to news exchange and transportation of newspapers.
- Based on predetermined criteria, government try to make available concessional loan to private sector to buy press.
- Make available the public advertisements and other facilities to monthly, bimonthly and quarterly published magazines as well, based on the classification.
- To protect the right and welfare of labour journalists working in publication institutions in the status of industry. Necessary acts and regulations would be enacted to provide protection to this profession.
- To check the publication and importation of vulgar magazines and newspapers creating negative impact in the society.
bi-monthly against 205 of last year, 357 quarterly against 334 of last year, 16 four-monthly against 15 of last year, 52 half-yearly against 49 of last year and 53 yearly against 50 of last year. The government adopted the concept of ‘Communication Village’ to unite the institutions related to journalism –Department of Information, Press Council and Federation of Nepalese Journalists -in one place and to integrate their works. Necessary physical infrastructures of these institutions have been developed in the ‘Communication Village’ located in Tilganga, Kathmandu. Recently, these three institutions have started their operation from the new ‘Communication Village’.

11.21. **Television Broadcasting**

**Service:** During the current fiscal year, broadcast of Nepal Television is extended to 18 hours a day compared to 16.5 hours last year through its 12 broadcasting centres located in different places of the kingdom. Construction of a broadcasting centre building and a tower in Gorkha, Choupatta (Dang) and Budhitola (Kailali) has

<table>
<thead>
<tr>
<th>Box 11(3)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Communication Policy on Broadcasting</strong></td>
</tr>
<tr>
<td>• To regulate radio and television separately under their own acts.</td>
</tr>
<tr>
<td>• To enact laws relating to the satellite and cable television to regulate them.</td>
</tr>
<tr>
<td>• To classify the programs broadcast from the government owned news media into national service and a business service.</td>
</tr>
<tr>
<td>• To broadcast programs in different national languages based on the concept of regional broadcasting.</td>
</tr>
<tr>
<td>• To increase private sector participation in the production of programs broadcast by the radio and the television.</td>
</tr>
<tr>
<td>• To allow private sector to broadcast educational and entertainment programs, if interested, based on fixed criteria, by allocation of broadcast time.</td>
</tr>
<tr>
<td>• Based on certain conditions and process, allow foreign news media’s educational and entertainment programs, if they are not against the national interest.</td>
</tr>
<tr>
<td>• Remaining under the framework of broadcasting act, allow organised private sector to establish frequency modulation (FM) broadcasting systems in certain areas for educational and entertainment programs.</td>
</tr>
<tr>
<td>• To assist Radio Nepal and the Television in expanding their broadcasting.</td>
</tr>
</tbody>
</table>
been completed in the current fiscal year. It is estimated that 55% of total population living in the 40% of the total area of the kingdom is receiving the television broadcast. During the last fiscal year, Nepal Television’s service reached to 32% of the total land area of the kingdom. In order to make Nepal Television’s broadcast viewable throughout the kingdom, provisions have been made to broadcast it through the satellite. Under the government’s program to broadcast separate programs by establishing a second channel (metro channel), a studio building is under construction under the Chinese grant assistance. A total of 200 licenses have been issued to operate cable television service to private sector. As a result of the government’s policy to involve private sector in television broadcast service, licenses have been issued to three operators including a metro channel operation in Kathmandu and a terrestrial broadcasting operation.

11.22. Radio Broadcasting Service: During the current fiscal year, short wave broadcast of the Radio Nepal can be heard all over the country. Its medium wave transmission has reached to 60% to 80% of the total population. Area not covered by the medium wave frequency, extension of service through frequency modulation by mobilizing local participation, is on the process. With a view to reach listeners throughout the kingdom, V-SAT technology is in use. In order to establish FM relay stations in the five regional medium wave broadcasting centres, construction of studio building in 4 places and process of receiving necessary equipment in all five places is under way. In order to broadcast entertainment and informative programs from private sector as well, 25 licences have been issued to private sector to establish a community radio broadcasting centre, out of which 21 are in operation and 4 are yet to be started. Altogether 20 licences were issued last year to establish a community radio station.

11.23. Printing Service: In order to perform all printing jobs of HMG, Department of Printing is gradually developing, expanding and strengthening its capability to transform it into a security press. The Department has already started printing chequebooks of Nepal Rastra Bank and cooperative banks, and revenue stickers.
Construction of security printing press building, which is the infrastructure of security printing, is under way. Similarly, the process of capability expansion by adding some equipment is also under way.

11.24. **Cinema:** In the current fiscal year, the Motion Pictures Development Board has started coordinated efforts with related expert’s participation.

**Challenges:**

11.25. Increasing the capacity of the urban roads and regular maintenance of the existing road network according to the needs is essential.

11.26. Construction of the disturbed communication systems of the country due to the destructive activities is a great challenge the country facing now.
XII
SOCIAL SERVICES

12.1 To ensure access to education to all school-going age children a program called the Whole School Approach teacher and trainers were conducted in 36 training center and 2500 teachers were given modular training in FY 2000/2001. In 9 different primary school teacher-training centers 4342 teachers were imparted 330-hours primary school teacher training. Monitoring of education programs of 75 districts was completed. Under the special education programs 123 mentally and physically impaired children were given public awareness training. Short-term training to 150 resource teachers and 2.5 month training to 17 were also conducted. In the meantime, child development programs have been initiated in 2915 centers of 42 districts.

12.2 Sixty trainers were trained and 1400 classes of first and second level of women literacy programs were conducted during FY 2000/01. Course book for class one in Gurung language, class two in Magar and Rai languages, class 5 and 7 in Nepali language are under preparation for publication and course books for class 1 and 3 are being reprinted. The preparation of portfolio operation training for 2000 teachers is underway; two-day training for 2000 head-teachers has been completed; and printing of workbooks for 50,000 student of class 1, 2 & 3 is in progress. The task of question analysis is being carried out in 75 districts with a view to bring improvement in examination system. The Whole School Approach training has been completed in 5 centers under the refresher training and monitoring program.

12.3 Five model schools were established in five development regions in FY 2000/01. Three boarding schools selected in remote areas of Rasuwa, Mustang and Humla districts to develop infrastructure are in progress this year. In FY 2000/01, 63 computers were distributed
in 25 districts and distribution of additional 80 computers to 32 districts is in process in the current FY.

12.4 Primary School Nutritious Food Program implementation has been extended from 16 to 21 districts in current year. The 5 newly added districts are Udayapur, Ramechhap, Makwanpur, Nuwakot and Rasuwa. In 132 primary school of Udayapur District 24634 students received day meals while 186586 students of 1858 primary schools of 16 districts were distributed nutritious food as in the previous years. In FY 2001/02, 192 persons were given trainers training in head-teacher management. Lower secondary level Nepali, English, Science, Mathematics, Social Education, Health, Population and Environment education under the secondary education development program. Likewise, 4-week training to 543 persons, head-teacher training to 270 and short-term training to 635 persons were given under SEDU.

12.5 In FY 2000/01, foreign scholarships to 19 persons in medicine, 6 in Engineering, 2 in Dental science, 1 each in IT and Environment and 3 persons in post-graduate course were provided by Japan, Turkey, Russia, Bangladesh and the Peoples' Republic of China. In the same year, 89 students in medical and 3 in Dental Science were provided in-country scholarship. During the review period of current year 96 persons have been awarded scholarships in medicine and 11 in Dental Science under the in-country scholarship scheme and 18 persons in medicine, 7 in engineering, 3 in Dental, 1 each in IT and Environment Science were awarded foreign scholarships.

12.6 The high school level girls national football competition was organized in FY 2001/2002. Students of 16 districts equipped with infrastructure of football game had participated in the competition. National volleyball and athletics competitions were also held with the participation of 5 teams from each development region.

12.7 The educational statistics of primary, lower secondary and secondary level school students and teachers as of September/October 2001 is given below:
Table 12 (a)
Schools, Students and Teachers Ratios, 2001

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Primary</th>
<th>Lower Secondary</th>
<th>Secondary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student/School</td>
<td>145</td>
<td>137</td>
<td>83</td>
</tr>
<tr>
<td>Teacher/School</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Student/Teacher</td>
<td>38</td>
<td>38</td>
<td>19</td>
</tr>
<tr>
<td>Student/Trained teacher</td>
<td>69</td>
<td>76</td>
<td>31</td>
</tr>
</tbody>
</table>

Source: Ministry of Education and Sports

The ratios of student/school in primary, lower secondary and secondary level were 158, 127, and 95 respectively in the same period of the previous fiscal year. As of September 2000, the ratios of teacher/school were 4, 3 and 4 and student/teacher in primary, lower secondary and secondary level were 41, 38 and 21 respectively, while the student/trained teacher ratios in these schools were 88, 115 and 42 respectively, in September/October 2000.

12.8 The Seventh Amendment of the Education Act, 2058 BS has classified schools into two categories as community schools and institutional (private sector corporate) schools. The community schools receive government grant while the institutional schools are those regarded as trusts or as a company under the Act. Public schools and community owned schools fall under the classification of community schools while private schools are under institutional school category. The ratios of student/teacher in public, community and private schools in 5 development regions as of September/October 2001 are given below in table: 12 (b).

Table: 12(b)
Student/Teacher Ratios September/October 2001 (Estimate)

<table>
<thead>
<tr>
<th>Area</th>
<th>Student Teacher Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Primary</td>
</tr>
<tr>
<td>Nepal</td>
<td>38</td>
</tr>
<tr>
<td>Public</td>
<td>43</td>
</tr>
<tr>
<td>Community</td>
<td>17</td>
</tr>
<tr>
<td>Private</td>
<td>16</td>
</tr>
<tr>
<td>Eastern Region</td>
<td>39</td>
</tr>
<tr>
<td>Public</td>
<td>44</td>
</tr>
<tr>
<td>Community</td>
<td>21</td>
</tr>
<tr>
<td>Private</td>
<td>15</td>
</tr>
<tr>
<td>Central Region</td>
<td>40</td>
</tr>
</tbody>
</table>
The student /teacher ratios in Primary, lower secondary and secondary levels were 41, 38 and 21 respectively, in the same period of last year.

12.9 The following Table 12 (c) gives a detail of schools affiliated to Higher Secondary Education Council (HSEC) between school year of 1992/93 to 2001/02 pursuant to HMG policy to promote higher secondary education (10+2) system.

<table>
<thead>
<tr>
<th>Development Region</th>
<th>Public School</th>
<th>Private 10+2</th>
<th>Private 0+2*</th>
<th>Campus</th>
<th>Total No. Schools</th>
<th>Regional Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern</td>
<td>91</td>
<td>16</td>
<td>39</td>
<td>19</td>
<td>165</td>
<td>21</td>
</tr>
<tr>
<td>Central</td>
<td>89</td>
<td>68</td>
<td>114</td>
<td>50</td>
<td>321</td>
<td>42</td>
</tr>
<tr>
<td>a. Within Kath. Valley</td>
<td>17</td>
<td>57</td>
<td>83</td>
<td>27</td>
<td>(184)</td>
<td>(24)</td>
</tr>
<tr>
<td>b. Outside the Valley</td>
<td>72</td>
<td>11</td>
<td>31</td>
<td>23</td>
<td>(137)</td>
<td>(18)</td>
</tr>
<tr>
<td>Western</td>
<td>121</td>
<td>15</td>
<td>22</td>
<td>24</td>
<td>182</td>
<td>24</td>
</tr>
</tbody>
</table>
The number of student in higher secondary school has totaled to 49050 in 2001/02 academic year. The number of students and schools affiliated to HSEC since 1996/97 academic years are given below in table 12 (d).

Table 12(d):
Student and number of school affiliated to HSEC since 1996/97

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual enrolment of student</td>
<td>10200</td>
<td>14100</td>
<td>21100</td>
<td>32200</td>
<td>55959</td>
<td>49050</td>
</tr>
<tr>
<td>Annual addition of student</td>
<td>2700</td>
<td>3900</td>
<td>7000</td>
<td>11100</td>
<td>23759</td>
<td>(-)</td>
</tr>
<tr>
<td>Annual percentage change</td>
<td>36</td>
<td>38</td>
<td>50</td>
<td>53</td>
<td>74</td>
<td>(-)</td>
</tr>
<tr>
<td>No. of annually affiliated schools</td>
<td>70</td>
<td>120</td>
<td>80</td>
<td>103</td>
<td>177</td>
<td>94</td>
</tr>
<tr>
<td>Yearwise total</td>
<td>213</td>
<td>322</td>
<td>402</td>
<td>504</td>
<td>681</td>
<td>775</td>
</tr>
</tbody>
</table>

Source: Higher Secondary Education Board (HSEC)

In FY 2001/02, affiliated higher secondary schools increase by 13.8 percent against 681 of FY 2000/01 to the total of 775. Students in these schools were reduced by 12.3 percent to 49050 from 55959 of the previous year.

12.11 The number of schools affiliated to HSEC by geographical region is given on the table below:
Table: 12(e)
Schools Affiliated to HSEC till 2001/02 Academic Year by Geographic Regions

<table>
<thead>
<tr>
<th>Geographic Regions</th>
<th>Public School</th>
<th>Private School</th>
<th>Affiliated campuses</th>
<th>Total</th>
<th>Regional Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mountain</td>
<td>44</td>
<td>0</td>
<td>3</td>
<td>47</td>
<td>6</td>
</tr>
<tr>
<td>Hills</td>
<td>235</td>
<td>182</td>
<td>63</td>
<td>480</td>
<td>62</td>
</tr>
<tr>
<td>Terai</td>
<td>103</td>
<td>111</td>
<td>34</td>
<td>248</td>
<td>32</td>
</tr>
<tr>
<td>Total</td>
<td>382</td>
<td>293</td>
<td>100</td>
<td>775</td>
<td>100</td>
</tr>
<tr>
<td>Percentage</td>
<td>49</td>
<td>38</td>
<td>13</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Higher Secondary Education Board (HSEB)

12.12 Higher Secondary schools operating in government grant receiving schools during FY 2000/01 are given capital grants for structural and institutional development. From FY 2001/02, these stocks have been provided grant equivalent to one-year salary per school per teacher. With this measure the public higher secondary schools operating in poor communities are expected to improve their educational performances. Till FY 2001/02, 450 teachers have been trained in the process of making teachers training timely and objective.

12.13 In FY 2000/01, 486 students were awarded scholarships in line with the policy of promoting higher secondary education and a grant of Rs. 12.295 million was distributed to public schools.

Higher Education:

12.14 At present there are 5 universities namely, Tribhuvan University (TU), Mahendra Sanskrit University (MSU), Kathmandu University (KU), Purbanchal University and Pokhara University to provide higher education.

12.15 The detail of output production details of TU Institute of Technical Education is given in Table 12 (f):
Table: 12(f)

Production of TU Institute of Technical Education

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Engineering</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Certificate</td>
<td>417</td>
<td>255</td>
<td>332</td>
<td>647</td>
<td>559</td>
<td>648</td>
</tr>
<tr>
<td>2. Graduate</td>
<td>337</td>
<td>241</td>
<td>238</td>
<td>514</td>
<td>372</td>
<td>436</td>
</tr>
<tr>
<td>3. Masters</td>
<td>80</td>
<td>14</td>
<td>94</td>
<td>133</td>
<td>150</td>
<td>184</td>
</tr>
<tr>
<td>Agriculture and Veterinary Science</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Certificate</td>
<td>222</td>
<td>75</td>
<td>116</td>
<td>101</td>
<td>146</td>
<td>NA</td>
</tr>
<tr>
<td>2. Graduate</td>
<td>76</td>
<td>57</td>
<td>32</td>
<td>21</td>
<td>69</td>
<td></td>
</tr>
<tr>
<td>Medicine</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Lower level</td>
<td>146</td>
<td>18</td>
<td>84</td>
<td>80</td>
<td>77</td>
<td></td>
</tr>
<tr>
<td>2. Certificate</td>
<td>214</td>
<td>268</td>
<td>228</td>
<td>268</td>
<td>309</td>
<td>294</td>
</tr>
<tr>
<td>3. Graduate</td>
<td>73</td>
<td>48</td>
<td>139</td>
<td>67</td>
<td>90</td>
<td>109</td>
</tr>
<tr>
<td>4. Masters</td>
<td>8</td>
<td>49</td>
<td>23</td>
<td>41</td>
<td>59</td>
<td>47</td>
</tr>
<tr>
<td>Forestry</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Certificate</td>
<td>233</td>
<td>166</td>
<td>91</td>
<td>87</td>
<td>134</td>
<td>169</td>
</tr>
<tr>
<td>2. Graduate</td>
<td>192</td>
<td>124</td>
<td>88</td>
<td>87</td>
<td>95</td>
<td>103</td>
</tr>
<tr>
<td>Science and Technology</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Masters</td>
<td>288</td>
<td>361</td>
<td>451</td>
<td>346</td>
<td>164</td>
<td>415</td>
</tr>
<tr>
<td>Grand Total</td>
<td>1455</td>
<td>1222</td>
<td>1380</td>
<td>1557</td>
<td>1461</td>
<td>1682</td>
</tr>
</tbody>
</table>

Source: Tribhuvan University

In FY 1999/00, 1315 student (excluding agriculture and veterinary science) had received higher education from TU Institute of Technical Sciences. In FY 2000/01, it increased by 27.9 percent to the total of 1682.

Table: 12(g)

Number of Doctorates, FY 1995/96 - 2000/01

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Science and Technology</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>2. Management</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>3. Humanity and Social Sciences</td>
<td>12</td>
<td>8</td>
<td>9</td>
<td>8</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Grand Total</td>
<td>14</td>
<td>11</td>
<td>11</td>
<td>12</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Tribhuvan University
In both FY 2000/01 and 2000/01, 10 persons received Ph.D. from TU.

12.16 The total number of beneficiaries of TU health services provided through TU Teaching Hospital, B.P. Koirala Lions Eye Research Centre, Drug Addicts Care Centre and TU Health Centre, Kirtipur have totalled to 438,390 persons in FY 2000/01 compared to 348421 in the previous year.

12.17 In FY 2001/02 there are altogether 252 campuses of which 61 are under TU and 191 are affiliated to it. Altogether 177,858 students are currently attending higher education under TU and TU affiliated campuses. Number of Students in TU Campuses was 115,608 and 62250 in its affiliated campuses.

12.18 MSU was established for promotion and continuity of Sanskrit education in the kingdom. The number of student of MSU and its affiliated institutions decreased to 3252 in FY 2000/01 from 3616 of the previous year.

12.19 There were altogether 1497 students studying at KU (excluding the affiliated campus students in FY 2000/01 of which 1120 were boys and 377 were girls. In the current FY the number of students increased by 19.1 percent and reached 1783 including 498 girls student.

12.20 In FY 2000/01 there were altogether 1329 students studying in Purbanchal University and its affiliated campuses. Students increased by 114 percent in the current FY 2001/02 to the total of 2840.

12.21 In FY 2000/01, there were altogether 1668 students studying in Pokhara University and its affiliated campuses. In FY 2001/02, this number has increased by 76.6 percent to the total of 2946.

12.22 In the process of broadening the scope of its affiliation, Pokhara University has signed separate Memorandum of Understanding with Sowa Pharmaceutical University Tokyo, Japan, Toyama.
Medical and Pharmaceutical University, Japan and Dongkok University, Kyonju, Korea early this year. At present the number of affiliated institutions has reached seven.

12.23 According to the population census 2001, the literacy rate of the kingdom is 53.7 percent consisting female literacy rate as 42.5 percent and male 65.1 percent.

**Health:**

12.24 Till FY 2001/02, there are 83 hospitals, 10 health centers, 700 health post, 285 Ayurvedic hospitals, 3161 sub-health posts, 200 primary health centers. In these health facilities, there are 5310 hospital beds, 1259 doctors, 4775 nurses, 211 Kaviraj (senior Ayurvedic physicians), 220 vaidyas (Ayurvedic physicians), 5295 health assistants, 3190 local health workers and 62546 other health workers (trained traditional birth attendants and female health volunteers). Compared to the last FY 2000/01, Ayurvedic hospital increased by 3.6 percent, primary health center by 11.1 percent, hospital bed by 1.1 percent, nurses by 2.6 percent and Vaidya by 4.8 percent in the current FY 2001/02. The number of some health posts and sub-health posts have been reduced due to the upgrading of sub-health post to primary health center.

12.25 In FY 2000/01 the coverage by the first visit service to pregnant women was 40.5 percent, child delivery services by trained personnel was 13.8 percent and the rate use of family planning services was 37.6 percent. Corresponding coverage is expected to be 42, 14 and 39 percent in the current FY 2001/02. The coverage of BCG vaccine was 94.6 percent, DPT and Polio third dose was 80 percent, measles was 75 percent under the extended immunization program of FY 2000/01, and such coverage is estimated to be 96, 80 and 77 percent respectively, in the current FY 2001/02. In FY 2000/01 the annual rate of respiratory disease were 210/ thousand children (of which 4.1 percent was of severe nature). Likewise, the annual rate of occurrence of diarrhea was 177/thousand children of which 4.3 percent cases were of serious nature. In current FY 2001/02, the rate of infection of ARI and occurrences of diarrhea
have come down to 201 and 164 per thousand children respectively and the severity of both of the diseases is expected to remain 4 percent of the total annual cases.

12.26 In FY 2000/01, 18.3 percent of the children under the age of 3 suffered from malnutrition and 0.7 in thousand were found malaria infected in the examination of blood. Likewise, the rate of recovery of the TB disease was 79 in thousand cases and 33.4 percent of the population that came to public health institutions in FY 2000/01. In the current FY 2001/02 it is estimated that 16.5 percent of the children under the age of 3 suffered from malnutrition, 0.6 in thousand cases of blood sample examination were found infected by malaria and the rate of recovery of TB is 80 in thousand and 35 percent on the basis of public health institution visitors. As per the target, 20 primary health centers have been set up in the current FY 2001/02. At present there are altogether 180 primary health centers under Ministry of Health providing effective services as per the objective of increasing access of all to health services through the expansion of public health institutions.

12.27 Important indicators in the health sector of Nepal are presented in Table 12(h).

Table 12(h):
The Important Indicators in the Health Sector of Nepal

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Infant Mortality rate</td>
<td>128.0</td>
<td>107.0</td>
<td>107.0</td>
<td>102.0</td>
<td>102.0</td>
<td>102.0</td>
</tr>
<tr>
<td>Child Mortality rate (per thousand)</td>
<td>197.0</td>
<td>197.0</td>
<td>197.0</td>
<td>165.0</td>
<td>165.0</td>
<td>165.0</td>
</tr>
<tr>
<td>Crude birth rate (per thousand)</td>
<td>41.6</td>
<td>39.6</td>
<td>39.6</td>
<td>39.6</td>
<td>39.6</td>
<td>37.5</td>
</tr>
<tr>
<td>Crude death rate (per thousand)</td>
<td>16.9</td>
<td>14.8</td>
<td>14.8</td>
<td>14.9</td>
<td>14.0</td>
<td>14.0</td>
</tr>
<tr>
<td>Average Age</td>
<td>53.5</td>
<td>54.0</td>
<td>54.0</td>
<td>54.0</td>
<td>54.0</td>
<td>54.0</td>
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</tbody>
</table>

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<thead>
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</tr>
<tr>
<td></td>
<td>102.0</td>
<td>79.0</td>
<td>74.7</td>
<td>69.4</td>
<td>66.8</td>
<td>65.3</td>
<td>64.2</td>
</tr>
<tr>
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<td>------</td>
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<td>------</td>
</tr>
<tr>
<td>Infant Mortality rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Child Mortality rate (per thousand)</td>
<td>165.0</td>
<td>118.0</td>
<td>118.0</td>
<td>111.7</td>
<td>108.8</td>
<td>105.4</td>
<td>91.0</td>
</tr>
<tr>
<td>Crude birth rate (per thousand)</td>
<td>37.5</td>
<td>37.8</td>
<td>35.4</td>
<td>34.5</td>
<td>34.1</td>
<td>33.6</td>
<td>33.0</td>
</tr>
<tr>
<td>Crude death rate (per thousand)</td>
<td>13.8</td>
<td>11.9</td>
<td>11.5</td>
<td>10.7</td>
<td>10.3</td>
<td>10.0</td>
<td>9.6</td>
</tr>
<tr>
<td>Average Age</td>
<td>54.0</td>
<td>54.6</td>
<td>56.1</td>
<td>57.5</td>
<td>58.3</td>
<td>59.0</td>
<td>59.7</td>
</tr>
<tr>
<td>Maternity Mortality rate</td>
<td>475</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total fertility rate</td>
<td>4.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Ministry of Health/ Central Bureau of Statistics

Drinking Water, Sanitation and Sewerage:

12.28 According to the population census 2001, 15.9 percent of the total population is living in urban areas of 58 municipalities. This reflects increasing pressure on urban housing. In FY 1999/00, altogether 1538 drinking water and sewerage projects including 267 at central level and 1271 at district level were launched. In FY 2000/01, the total number of drinking water and sewerage projects increased by 10.1 percent to 1693 projects including 11 at central level and 1577 at district level.

12.29 In FY 1999/00 additional 525,000 people benefited from drinking water facility. In FY 2000/01, 466,202 beneficiaries were added.

12.30 Additional 45575 people have been provided drinking water and sewerage facility during the review period of current year under the drinking water and sewerage development program.

12.31 The Kalanki and Sundarijal drinking water treatment center projects implemented under Urban Area Drinking Water and Sanitation Rehabilitation projects have achieved 94.4 percent and 100 percent progress in FY 2000/01. Work progress of the Drinking Water Improvement and Extension Projects in Hetaunda was 100 percent, Bhairawa (75 percent), Birgunj (75 percent) and Manohara-
Lokanthali (95 percent). These were implemented under the Drinking Water Production and Increment Program.

12.32 Works of the following project implemented during during FY 2000/01 under Macro Sewerage Development Program have been completed: (i) Gongabu Area Sewerage Development Project (ii) Kupondole Sewerage Construction Project (iii) Sanepa Sewerage Construction Project (iv) Kuleshor Area Sewerage Construction Project (v) Kathmandu-Lalitpur Sewerage Rehabilitation, Maintenance and Pollution Control Project (vi) Detailed Study of Sewerage system in Madhyapur Thimi and Outside the Kathmandu Valley and (vii) Kodku Sewerage Treatment Centre Project.

12.33 During the review period of current year, the construction works of Bansbari Water Treatment Plant Protection and Replacement Well No.1 in Kathmandu, submersible pump procurement and fixation, construction of valve chamber and operator quarter at Kara Well No. 1 in Hetaunda were in progress. Leakage detection and maintenance works as well as removal of bundle pipes were underway in Kathmandu and Bhairahawa.

12.34 In FY 2000/01, Nepal Water Supply Corporation supplied 1480 liters of drinking water daily. During the review period of current year, however, the supply was 1400 liters a day. Five kilometers of sewerage was built in FY 2000/01 whereas only 2 kilometers of sewerage has been completed during the review period of this year.

Housing and Urban Development:

12.35 According to the population census 2001, 15.9% of the total populations are live in urban areas of 58 municipalities. This reflects an increasing pressure on urban housing. In course of fulfilling the housing needs of the nation 603 housing plots were sold in FY 1999/00, In FY 2000/01, there was five-fold increase in the sales of housing plots to 3629. Fair weather road of 5.25 kilometers, 825 meters long drainage, 17 cross-drain and culvert have been constructed in the settlement areas and Landowner Certificates have been distributed to 1510 families.
12.36 During the review period of current year, 844 housing plots have been sold. Likewise, the construction of 12.8 kilometers of fair weather road, 2225 meter long drainage, 78 cross drain and culvert and 17 hand-pump for drinking water and the distribution of 2000 Landowner Certificates are being carried out with a view to building physical infrastructure in residential areas. Works are being carried out to provide systematic settlement in Kathmandu Valley in the current FY 2001/02. Housing projects are being carried out in an integrated way in urban oriented Village Development Committees since the last 2-3 years.

12.37 Town Development Fund has been granted Rs. 480 million by KfW, Germany for a period of January 2001 to June 2005 and Rs. 880 million worth of loan by the Asian Development Bank for a period beginning from 2001 to 2006.

**Women, Labor and Skill Development:**

12.38 To the benefit of backward aboriginals, castes and women, training program in various skills have been continued in the current fiscal year.

12.39 Women Skill Development Center has produced 18 thousand pieces of handicrafts, trained 131 women, and took part in 6 exhibitions in the current fiscal year.

12.40 Under Women Skill Development Program, 4,500 pieces of various handicrafts have been produced, 47 persons have been trained and two exhibitions have been held in the current fiscal year. Women sensitization and income earning programs have been conducted under the umbrella of Poverty Alleviation Fund.

12.41 Preparatory classes were conducted for 100 women applicants to Public Service Commission examinations under the cooperation of MGEP. Drafts of four feature film series have been prepared for awareness against women trafficking in addition to the Jingle Radio Program broadcast.
12.42 Six month training program has been conducted for examinees of various districts under Women Self-respect and Rehabilitation Program in the first six months of the current fiscal year. This gives 33.3 percent achievement against the target.

12.43 Draft of National Prospective Plan for the elimination of child labor has been prepared in the current fiscal year pursuant to the policy of eliminating child labor in all forms. Students have been provided 33 percent discount in public transport services. Necessary actions towards providing loans to the poor and needy persons going to the foreign countries for employment are being taken.

12.44 Skill-oriented training to 220 poor and economically and socially backward women was given and 5,835 more people were trained in skills demanded by the market in FY 2000/01. Childcare centers were operated in fourteen places of seven districts and garment factories were visited 602 times to eliminate child labor.

12.45 In review period of current year, 55,025 people were approved for foreign employment compared to 25,840 workers leaving for foreign employment in the same period of previous fiscal year.

**Child and Social Welfare:**

12.46 Children of 'Deuki ' and 'Bhand' are provided opportunity to take SLC in boarding schools of the Kathmandu Valley. To make the deprived children self-reliant, vocational training, automobile repair, plumbing and general mechanics of one year in being provided.

12.47 Pursuant to the Children Act, 1991 imprisoned family's children and abused children are being sheltered in the "Children Reform House" built at Sanothimi. Children courts for easy access to child related justice have been established in all 75 districts.
Under the social security program, actions initiated in FY 2000/01 have been given continuity. Drafting of amendment to Protection and Welfare of Disabled Act, 2039 B.S. is in final stage. Similarly, the National Action Plan for the Disabled has been completed and it is in the process of approval. This Plan has been prepared in line with Ninth Plan, Handicapped National Policy – 1996, relevant provisions in other acts and regulations, and international and regional commitments.

Drafting of "Elderly Citizen Welfare Bill" has already been started form the current fiscal year. Similarly, in order to provide health facility to elderly citizen, the 'Elderly citizen Health service Program, Implementation Guidance- 2002" is in the final stage of publication.

Under the Handicapped Self-employment Program, Social Welfare Council has recommended for loan to 486 handicapped citizens between the FY 1998/99 and 2000/01. During the first eight months of the current fiscal year, micro-credit application forms of 600 persons and project documents have been collected and the preliminary works of selection process have been completed.

Achievements of Ninth Plan:

In the first 4 years of the Ninth Plan, about 1400 hospital beds, and 13,616 expert manpower and 85 Aurvedic Centers have been added. Preventive vaccination for the children has been expanded in this period. Similarly services of private sector have rapidly increased in urban areas. Fall of fertility rate from 4.6 to 4.1 in FY 2001/02, decrease of infant mortality rate from 74.7/thousand to 64, from 30.1 percent to 39 percent and average life expectancy rate to increase from 54.6 percent to 59.7 can be considered as satisfactory achievement in health sector.

Despite the target of providing drinking water to all, only 71.5 percent of the population has been served with this facility. In rural areas, 71.3 percent (14.5 million) and 72.6 percent (2.5 million) of urban population have access to drinking water supply. Water
supply provided under the program of NGOs, local development agencies are not included in the above figures.

12.53 By FY 2001/02, basic sanitation facilities are available to 25 percent (5.9 million) of the population including 20 percent (4.1 million) of the rural and 53 percent (1.8 million) of urban areas.

12.54 Women’s Right to Property Bill has been approved by the parliament and a separate Women Commission has been commissioned. Convention against women trafficking has been concluded in the eleventh SAARC Summit currently held in Kathmandu. Girl child are being provided scholarship to increase women’s literacy rate. Various programs have been launched to increase awareness about women’s education. Developing the indicators for of women’s participation in national development has been initiated. Training program in various skills that can generate income for women are also underway according to target.

12.55 Various scholarship and awareness programs have been arranged in all 75 districts for the under privileged classes. Different types of additional steps including political have been implemented to enhance the natural rights of the said classes. Necessary actions are being taken to establish an academy called Janajati Academy to accelerate the development focus for the ethnic communities have been initiated.

12.56 Minimum wages have been fixed for agriculture labor to improve their life standard as per the target. Various basic and vocational training program have been conducted to create additional employment opportunity to the laborers. The participation of NGO is increasing after recognizing their significant role in national development.

Challenges:

12.57 Basic education is not yet accessible to all in spite of the target of 70 percent in Ninth Plan. Constraints are being faced in enabling women and the children of the backward and deprived classes,
handicapped or disabled children to go to school. Reducing the repeaters and drop out ratios and mobilizing local resources for education are still facing so many difficulties take part in school level education. To reduce the repetition of classes and turnout ratios and to mobile local resources are urgent tasks to address.

12.58 Enabling the local bodies gradually for ownership of governance and ownership of primary education, health, drinking water and sanitation services are the tasks ahead to local bodies are our challenges. Secondary and higher education needs to be competent and self-reliant for which a strategy is needed to guide the agencies concerned towards autonomy.

12.59 Extending health services effectively to the remote hill areas by encouraging the doctors to serve their remains as pending tasks.

12.60 Urban development program has not been able to make sufficient headway due to several bottlenecks being faced in the forms of problems in removing built houses, surrendering land for road construction or improvement, and host of such other local problems of compensation where cooperation of the local community can hardly be exaggerated.

12.61 Strengthening social security net to the extent the country can sustain and its monitoring are also emerging as challenges.
STATISTICAL TABLES
List of Statistical Tables

1. INTERNATIONAL AND NATIONAL ECONOMIC PERFORMANCE
   Gross Domestic Product
   Gross Domestic Product by Industrial Origin (at Current Prices)
   Gross Domestic Product at Constant Prices by Source
   National Accounts: Summary

2. PUBLIC FINANCE
   Government Expenditure & Sources of Finance
   Tax Revenue
   Non-Tax Revenue
   Regular Expenditure
   Development Expenditure
   Foreign Aid Commitment by Major Sources
   Foreign Aid Commitment by Sectors
   Foreign Aid Disbursement by Major Sources
   Foreign Aid Disbursement by Sectors
   Foreign Loan & Debt Servicing
   Pattern of Ownership of Government Bonds & Treasury Bills

3. PRICE AND SUPPLY SITUATION
   Overall Urban Consumers' Price Index by Months
   National Urban Consumer's Price Index
   Consumer's Price Index by Commodities Group
   National Wholesale Price Index
   Average Retail Price of Some Major Commodities
   Monthly National Average Retail Price of Some Agricultural Commodities
   Price Situation of Some Petroleum Products
   Supply Position of Some Petroleum Products

4. MONEY, BANKING AND CREDIT
   Monetary Survey
Determinants of Money Supply
Sources of Funds and Their Use by Commercial Banks
Loan Disbursement by Commercial Banks
Distribution of Loans by Some Financial Institutions

6. FOREIGN TRADE, BALANCE OF PAYMENT AND FOREIGN CURRENCY RESERVES
   6.1 Directions of Foreign Trade
   6.2 Commodity Trade by SITC Group
   6.3 Export of Major Commodities to India
   6.4 Export of Major Commodities to Other Countries
   6.5 Income and Expenditures of Convertible Foreign Exchange
   6.6 Gold and Foreign Exchange Holdings of Banking System
   6.7 Balance of Payments Summary

8. AGRICULTURE
   8.1 Areas, Production and Yield of Principal Food Crops
   8.2 Areas, Production and Yield of Principal Cash Crops
   8.3 Other Crops Production
   8.4 Livestock Production
   8.5 Production Index of Agricultural Production
   8.6 Use of Chemical Fertilizer, Improved Seed and Insecticides
   8.7 Extension of Additional Irrigation Facilities
   8.8 Agricultural Credits and Collection
   8.9 Price of Fertilizer

9 INDUSTRY, PUBLIC ENTERPRISES AND TOURISM
   9.1 Production of Manufacturing Commodities
   9.2 Production Index of Manufacturing Industries
   9.3 Capacity Utilization of Some Selected Industries
   9.4 Distribution of Industrial Loans by Types of Industry
   9.5 Number of Cottage and Small Scale Industries Registered
9.6 Region-wise Loan Disbursement by Commercial Banks to Cottage and Small Scale Industry Sub-sector under Intensive Banking Program
9.7 Capacity Utilization of Some Selected Public Enterprises
9.8 Flow of Fund between HMG and Public Enterprises
9.9 Performance of Public Enterprises
9.10 Status of Industrial Districts
9.11 Number of Tourists Arrival and Length of Stay
9.12 Number of Tourists by Purpose of Visit
9.13 Tourist Arrival by Major Regions
9.14 Foreign Exchange Earnings from Tourism
9.15 Number of Hotels and Hotel Beds
9.16 Mountaineering Expedition Teams
9.17 Manpower Trained by Nepal Academy of Tourism & Hotel Management

10 ENERGY, FORESTRY AND ENVIRONMENT
10.1 Structure of Energy Consumption
10.2 Sources and Uses of Electricity
10.3 Consumption of Petroleum Products

11. TRANSPORTATION AND COMMUNICATION
11.1 Extension of Road Facilities
11.2 Number of Vehicles Registered
11.3 Extension of Transport Facilities and Goods Transported
11.4 Extension of Telephone Facilities

12. SOCIAL SERVICES
12.1 Number of Primary, Lower Secondary and Secondary Schools and Students
12.2 Number of Primary, Lower Secondary and Secondary School Teachers
12.3 Sectoral Distribution of Schools, Students and Teachers Under Public and Private Sector
12.4 Number of Students Enrolled in Higher Level of Education
12.5 Extension of Health Services
12.6 Extension of Drinking Water and Sewerage Facilities