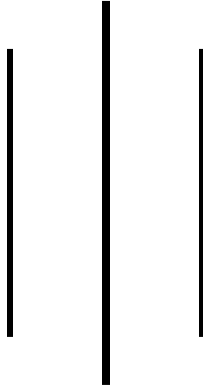
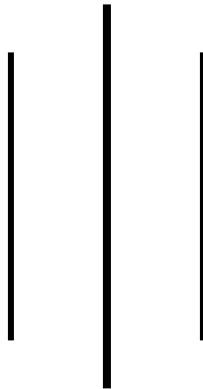


ECONOMIC SURVEY



FISCAL YEAR 2008/09



GOVERNMENT OF NEPAL

MINISTRY OF FINANCE

July 2009

Preface

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

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

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

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

July 2009

Surendra Pandey
Minister for Finance

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

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Acronyms

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

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

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

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

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

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

Executive Summary

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

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

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

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

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

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

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

Macroeconomic Indicators

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

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

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

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

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

¹ Annual Preliminary Estimates (Based on 8 month data)

¹ Base Year 1995/96 = 100

¹ Base Year 2001/02 = 100

¹ Base Year 1999/2000 = 100

¹ Base Year 2004/05 = 100

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

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

Major Challenges of the Economy

1. Economic Activities

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

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

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

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

2. Public Finance

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

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

3. Price and Supplies

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

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

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

4. Money and Banking

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

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

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

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

5. Capital Market

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

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

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

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

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

6. External Sector

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

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

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

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

7. Poverty Alleviation and Employment

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

8. Agriculture, Industry and Tourism

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

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

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

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

9. Public Enterprises

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

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

10. Energy and Forestry

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

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

11. Transport and Communication

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

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

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

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

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

12. Social Sector

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

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

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

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

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

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

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

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

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

1. Economic Activities

World Economy

Economic Growth

1.1 The global economy is encountering the first ever post World War II era big economic crisis. As a result, the world economy is expected to face dual problems of negative impact on domestic demand and economic growth on the one hand, and contraction of global exports and imports on the other. The consequence of reduced employment opportunities caused by the slowed down economic activities reflected in income vulnerability of the people will make them face severe livelihood problems. As compared to expansion in global economy by 5.1 percent, 5.2 percent and 3.2 percent in the years 2005, 2006, and 2007 respectively, it is estimated to turn negative by 1.3 percent in 2009. The global economy, however, is estimated to grow by 1.9 percent in 2010 if economic stimulus packages could be successfully adopted and executed. The estimated growth, as compared to growth rates achieved between 2006 and 2008, would still be quite low making outcome of troubled global financial and economic crisis clearly being felt. The following table provides clear picture how gradual slowdown appeared in aggregate global economic growth in 2008 as compared to years 2006 and 2007 expected to witnessing negative growth in 2009 among some groups of economies including advanced and newly industrialized Asian economies and slow down in economic growth rates in other groups namely, Newly Emerged and Developing Economies , African countries and Middle- East Countries.

Table 1 (a) : World Economic Growth rate

(Annual Percentage Change)

	2006	2007	2008	Forecast	
				2009	2010
World Output	5.1	5.2	3.2	-1.3	1.9
Advanced Economies	3.0	2.7	0.9	-3.8	0.0
Newly Emerged and developing	8.0	8.3	6.1	1.6	4.0
Developing Asia	9.8	10.6	7.7	4.8	6.1
African Countries	6.1	6.2	5.2	2.0	3.9
Middle-East Countries	5.7	6.3	5.9	2.5	3.5
Newly industrialized Asian	5.6	5.7	1.5	-5.6	0.8

Source: International Monetary Fund (World Economic Outlook), 2009

Consumer Price

- 1.2 Consumer Price Index (CPI) based inflation does not seem to come down in proportion to slowdown observed in economic growth. For instance, while economic growth rate of developed countries recorded 2.7 percent in 2007, the rate of inflation in those countries remained at 2.2 percent, which rose to 3.4 percent with downslide in growth rate to 0.9 percent in 2008. Similarly, with 3.8 percent negative growth forecast for economies of the same group of countries, corresponding inflation rate is estimated to be negative by 0.2 percent only. The characteristic of economic growth rate and inflation seem to be similar in case of newly emerged and developing countries as well. The following table clarifies such a trend:

Table 1 (b) : CPI Based Rate of Inflation

(Annual Percentage Change)

	2006	2007	2008	Forecast	
				2009	2010
Advanced Economies	2.4	2.2	3.4	-0.2	0.3
Newly Emerged and developing Economies	5.4	6.4	9.3	5.7	4.7
Developing Asia	4.2	5.4	7.4	2.8	2.4
African Countries	6.3	6.3	10.1	9.0	6.3
Middle-East Countries	6.8	10.5	15.6	11.0	8.5

Source: International Monetary Fund (World Economic Outlook), 2009

Net Aggregate Domestic Demand

- 1.3 The effect of present financial and economic crisis in the global economy on economic growth and inflation will be reflected in aggregate domestic demand. As there will be a reduction of employment opportunities with adverse impact on income of the people, demand for domestic and external goods and services for consumption and investment will also decrease thereby causing decline in aggregate demand, and ultimately stagnating the growth of the economy. The following table makes clear the status of demand forecast made for some developed and emerging Asian economies. It is clear that decline in demand of developed and newly emerging industrialized economies will have notable effect on the world economy.

Table 1(c) : Net Domestic (Household) Demand

(Annual Percentage Change)

	2006	2007	2008	Forecast	
				2009	2010
Advanced Economies	2.8	2.3	0.4	-3.3	0.0
United States of America	2.6	1.4	-0.3	-3.3	0.2
EU Countries	2.8	2.4	0.9	-2.9	-0.6
United Kingdom	2.6	3.5	0.6	-4.8	-1.0
Canada	4.7	4.3	2.4	-3.2	1.3
Newly Industrialized I Asian Economies	4.2	4.5	1.7	-5.4	0.7

Source: International Monetary Fund (World Economic Outlook), 2009

1.4 It can be concluded that reduction in domestic investments in the above-mentioned economies will hamper the vitality of economic activities thereby resulting in reduction in employment. Because of overall fall in demand, demand for labors from developing countries employed in those countries could also be curtailed. Possibility of aggregate fiscal imbalance looming large with decline in the flow of remittance, which occupies a major place among the sources of income for some countries, is going to be a matter of their concern. In addition, there is the possibility of decline in exports from developing countries to developed and Newly industrialized economies of Asia, following their decreased demand for consumer goods. Further, scenario forecast made for the year 2009 is very scary. Situation could improve a little if programs to be developed (to cope with the situation) by economically and financially affected countries, and the World Bank, IMF, Asian Development Bank and other international institutions, are successfully implemented. The IMF Global Economic Scenario, 2009 foresees some improvement in aggregate demand of some major economies for 2010, but (the report) sees it difficult even to restore the situation to 2006 and 2007 level.

Table 1(d) : World Trade
(Annual Percentage Change)
Volume of World Trade in Summary

	2006	2007	2008	Forecast	
				2009	2010
Volume of World Trade (Goods and Services)	9.2	7.2	3.3	-11.0	0.6
Exports					
Advanced Economies	8.5	6.1	1.8	-13.5	0.5
Newly Emerged and Developing Economies	10.9	9.5	6.0	-6.4	1.2
Imports					
Advanced Economies	7.6	4.7	0.4	-12.1	0.4
Newly Emerged and Developing Economies	13.2	14.0	10.9	-8.8	0.6

Source: International Monetary Fund (World Economic Outlook), 2009

1.5 The effect of financial and economic crises in the world economy is clearly mirrored on the world trade. The Table 1 (d) above clearly shows that decline in world trade volume, which began with rise in the price of petroleum products followed by significant price rise in food grains in some countries owing to various reasons, has been exacerbated by the recent economic recession. Exports from developed, newly emerged and developing economies grew by 8.5 and 10.9 percent respectively in 2006, which started declining for both groups thereafter. As per the estimates of IMF 2009,

exports of developed, and newly emerged and developing economies will decline by 13.5 and 6.4 percent respectively. Imports for these economies seem to follow similar trend. Imports of Advanced Economies recorded gradual decline during the period with marginal increase of 0.4 percent in 2008, while imports of newly emerged and developing economies showed notable increase in 2007 and 2008. According to IMF estimates, these economies will record a negative growth in their imports in 2009. Despite positive estimates in exports and imports for both groups of countries in 2010, it will again be difficult to maintain the growth recorded in 2006 and 2007.

Economic Growth Rates of Neighbors

1.6 From economic growth aspect, the years 2006 and 2007 have been encouraging for Nepal's two neighbors. China successfully achieved growth rates of 11.6 and 13.0 percent growth rates in those two years while growth rate that of India during these years stood at 9.8 and 9.3 percents respectively. Likewise, during the same period rates of economic growth of other SAARC countries except Nepal remained very encouraging. Growth rates afterwards have been normal in all countries.

Table 1 (e) : Economic Growth Rates of Nepal and Neighboring (SAARC) Countries
(Annual Percentage Change)

	2006	2007	2008	Forecast	
				2009	2010
China	11.6	13.0	9.0	6.5	7.5
Afghanistan	8.2	12.1	3.4	9.0	7.0
Bangladesh	6.5	6.3	5.6	5.0	5.4
Bhutan	8.8	17.9	6.6	5.7	6.6
India	9.8	9.3	7.3	4.5	5.6
Maldives	18.0	7.2	5.7	-1.3	2.9
Pakistan	6.2	6.0	6.0	2.5	3.5
Srilanka	7.7	6.8	6.0	2.2	3.6
Nepal	3.7	3.2	4.7	3.6	3.3

Source: International Monetary Fund (World Economic Outlook), 2009

National Economic Activities

1.7 Gross Domestic Product is estimated to grow this year by 4.7 percent at producers' price against the targeted 7.0 percent meaning that GDP will grow at the lower rate as compared to the target due to influence of external and internal factors. Of three major internal causes identified, major one is low (unsatisfactory) yield of winter crops due to lack of timely rainfall, second is contraction in non-agricultural sector industrial production due to energy load shedding and absence of any significant expansion in production of the

services sector. In addition, factors like closures (*Bandhs*), strikes in different forms - *chakka jams* for instance, and labor conflicts etc. also played critical roles in negatively affecting the expansion of overall economic activities. GDP in FY 2007/08 recorded a growth rate of 5.3 percent.

Agriculture Sector

- 1.8 Aggregate production of agriculture sector comprising of Agriculture, Forestry and Fishery is estimated to increase by 2.2 percent (at constant prices of FY 2000/01). Growth of this sector in the previous fiscal year was 4.7 percent. Contribution of this sector to GDP in the current fiscal year is estimated at 32.3 percent against previous year's 32.1 percent.

Non-agriculture Sector

- 1.9 Growth rate of non-agriculture sector in FY 2008/09 is estimated at 4.8 percent. This growth rate is less as compared to 5.7 percent growth recorded in the previous fiscal year. Major reason for this decline is the shortage of energy supply. Sub-sector that recorded negligible or negative growth is electricity, gas and water. This sub-sector is estimated to record a negative growth of 1.1 percent, which had recorded 3.7 percent growth in the previous fiscal year. In the previous fiscal year, Marshyangdi Hydropower Project completed under the German government assistance contributed to record growth in the sector. On the contrary, disruption in energy production of Kulekhani and flood in Sapta Koshi this year made energy supply situation uneasy thereby negatively affecting a number of economic activities.

Manufacturing Industry

- 1.10 Manufacturing as a sub-sector of non-agriculture sector recorded negligible progress. According to an estimate, this sub-sector's progress has been negative by 0.5 percent in this year. Despite low growth, progress made by the sub-sector was positive in the previous year.

Construction Industry

- 1.11 This sub-sector has recorded 5.7 percent growth rate, which is notable as compared to other sub-sectors. This sub-sector's growth rate was only 3.1 percent in the previous year. Satisfactory progress in overall construction sub-sector is attributable mainly to public and private sector initiated rapid growth in offices and residential construction activities in Kathmandu valley and other urban areas.

Wholesale and Retail Trade

- 1.12 This sub-sector's growth has been relatively satisfactory. As compared to 7.0 percent growth in domestic production of this sub-sector in the previous year, estimate is that growth will hover around 4.7 percent this year.

According to estimates, slump in demand of sales goods could be the reason for decline in growth rate of this sub-sector.

Hotel and Restaurant

1.13 In the previous year, this sub-sector had achieved a growth rate of 8.5 percent, which is estimated to remain at 5.1 percent this year. Worldwide economic growth affected by global financial crisis could be one of the causes for decline in growth of this sub-sector. Decrease in number of tourist arrivals and corresponding decrease in their spending caused by imbalances in various aspects of economic domain could be a factor for decline in growth of this sub-sector.

Transport, Communication and Warehousing

1.14 Growth rate of this sub-sector during the current fiscal year 2008/09 is estimated at 7.8 percent. This sub-sector had recorded 7.1 percent growth in the previous fiscal year. The sector could achieve such satisfactory growth especially due to gradual expansion of the communications sector. The sector would have achieved higher growth rate than present estimates if it were not affected by frequent closures (*bandhs*) and load shedding.

Financial Intermediation

1.15 Growth rate of this sub-sector is estimated to be only 3.3 percent in this fiscal year. The sub-sector had achieved 13.8 percent growth in the previous year. Reason for slowdown of the pace of financial intermediation has been mainly due to energy crisis and other obstructions being faced by various branches of financial activities.

Real estate and Commercial Services

1.16 According to estimates, this sector achieved growth rate of 4.5 percent this year as compared to 4.4 percent growth in the previous fiscal year. Expansion of this sector in the face of retarded growth in other sectors for investments has had positive effect on real estate and commercial services.

Public Administration and Defense

1.17 Estimates prepared based on public expenditure on public administration and defense, this sub-sector is expected to achieve 3.3 percent growth this year, which was limited to 0.4 percent in the previous fiscal year.

Education

1.18 Education sub-sector is expected to achieve a growth of 9.9 percent this year because of expansion of public expenditure on education with the objective of developing social infrastructure and quality human resource. The sub-sector had achieved growth of 3.3 percent in the previous fiscal year.

Health and Social Work

1.19 Growth of this sub-sector in FY 2008/09 remained at 6.5 percent as compared to 13.6 percent growth achieved in the previous fiscal year. This growth has been possible with the government commitment of gradually availing health services to the people and the private sector participation in this sub-sector. The progress, however, has been less than in the previous fiscal year.

Other Community, Social and Personal Services

1.20 This sector has achieved a growth of 6.1 percent, which was 11.1 percent in the previous year. This sub-sector comprises community services, other social and professional services provided by the government.

Sector Details

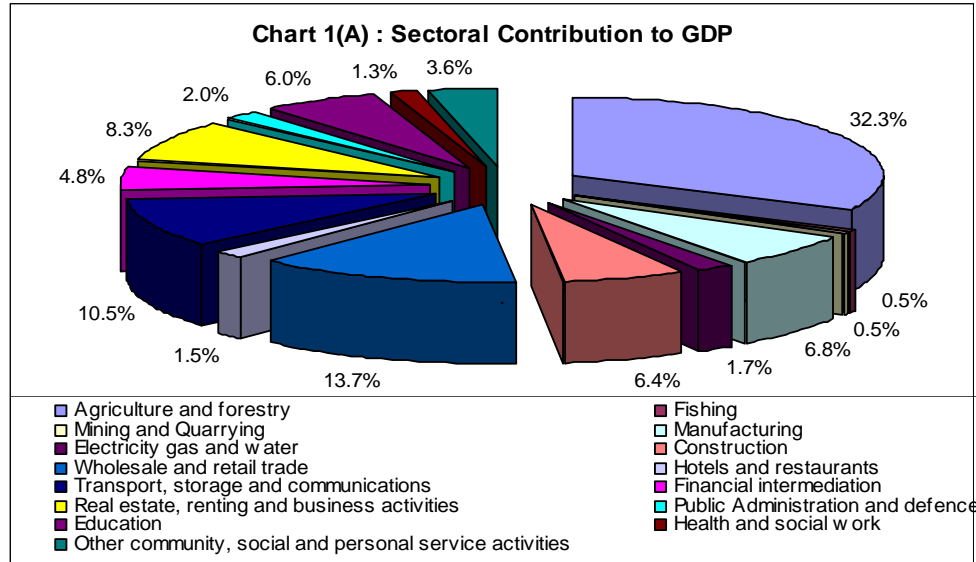
1.21 Primary sector comprise of Agriculture, Forestry, and Aquaculture. Domestic production of this sector in FY 2008/09 is estimated to grow by 2.2 percent, which had grown by 4.7 percent in the previous fiscal year. Secondary sector includes industrial production, electricity, gas, water, and construction. Growth of this sector is estimated to remain constant at 1.8 percent as in the previous fiscal year. Tertiary sector comprises service areas. This sector is estimated to grow by 5.9 percent as compared to 7.0 percent growth recorded in the previous fiscal year.

Structure of GDP

1.22 As per the ISIC classified structure of GDP, agriculture sector occupied 32.3 percent at consumer prices, with 67.7 percent occupied by the non-agriculture sector. There has been no notable change in the overall GDP structure between the current fiscal year (2008/09) and previous fiscal year with 32.6 and 67.4 percent shares of these two sectors respectively. A nominal change of percentage point, however, is noticed in the industry sub-sector under the non-agriculture sector. In the previous year, this sub-sector occupied 7.2 percent, which slightly decreased to 6.8 percent in the current fiscal year. Electricity, gas and water, which occupied 2.0 percent share of GDP in the previous fiscal year, is estimated to remain at 1.7 percent in the current fiscal year. Likewise, ratio of construction in GDP was 6.5 percent in the previous fiscal year while it is estimated to remain 6.4 percent this year. The following chart explains contribution of each sector to GDP in the current fiscal year.

Consumption

1.23 The gross consumption in FY 2008/09 at constant prices totaled Rs. 531.72 billion which is 6.0 percent higher than that of the previous year. This amount is 90.7 percent of GDP, which was 89.6 percent in the preceding year.



Out of the gross consumption in FY 2008/09, the government is estimated to consume 10.9 percent as compared to 10.5 percent in FY 2007/08. Observation of existing gross consumption structure between the government and private sector in FY 2008/09 shows that food, non-food, and services will occupy 60.1 percent, 27.9 percent, and 12 percent shares respectively. In FY 2007/08, shares of food, non-food, and services in gross consumption of the government and private sector put together were 59.8 percent, 27.8 percent, and 12.4 percent respectively. Observation of consumption pattern of the government and the private sector during the past two years shows no noticeable change in the consumption pattern in the private sector with food items still heavily weighing on gross consumption. Observation of consumption dynamics in FY 2008/09 shows that of total estimated increase of 6 percent in aggregate consumption, private sector consumption will rise by 5.7 percent, while that in government sector by 10.1 percent. In FY 2007/08, consumption of the private sector and the government sector had increased by 3.3 percent and 3.6 percent.

Savings

1.24 In FY 2008/09, Gross Domestic Savings is estimated to have declined by 6.9 percent at constant prices. In FY 2007/08, such savings had gone up by 26.9 percent. Because of consumption rising rapidly with negative growth in

savings, savings in FY 2008/09 is estimated to have contained at 8.0percent which was11.2 percent in FY 2007/08.

Capital Formation

1.25 Gross Capital Formation in FY 2008/09 is estimated to be around Rs. 150.42 billion at constant prices. It is 25.7 percent in proportion to GDP. As compared to the previous fiscal year, Gross Capital Formation is estimated to grow at 0.4 percent this year. Growth of 21.8 percent Gross Capital formed in the previous year was 26.7 percent in proportion to GDP. In FY 2008/09, the share of fixed capital formation out of Gross Capital Formation has been 77.3 percent with 22.7 percent share of change in stock. Such shares in FY2007/08 were 73.3 percent and 26.7 percent respectively. Out of Gross Capital Formation, the share of the government in 2008/09 is estimated at 19.5 percent while that of the private sector remained at 80.5 percent. In FY 2007/08, share of the government was 14.8 percent with the rest (85.2 percent) been shared by the private sector. The change shows that in FY 2008/09 share of the government has gone up on fixed capital formation with relative decrease in the participation of the private sector.

Net Export of Goods and Services

1.26 According estimates, imports, and exports of goods and services totaled Rs. 201.23 billion and Rs. 105.32 billion respectively in FY 2008/09 with a trade deficit totaling Rs. 95.91 billion. This deficit equals to 16.4 percent in proportion to GDP in comparison to 16.3 percent in FY 2007/08. In this fiscal year, exports of goods and services will be able to sustain 52.3 percent of total imports of goods and services. Such capacity in FY 2007/08 was 45.5 percent only. This is due to 64.9 percent growth recorded on the income from service sector with a very nominal growth in expenditure in that sector. In comparison to 7.4 percent growth in income from export of services, expenditure on imports of services had increased by 23.6 percent in the preceding year, which has comparatively helped improve the situation this year.

2. Public Finance

Outline of Government Finance

- 2.1 Looking at the financial transaction statistics of the government of Nepal, the total expenditure in the fiscal year 2007/08 was Rs. 161.35 billion of which 56.7 percent was current expenditure, 33.2 percent was capital expenditure, and 10.1 percent was expenses against principal repayment. Expenditure trend of the last couple of years shows share of recurrent expenditure in the total expenditure close to 60 to 62 percent from FY2001/02 to FY2005/06 while such ratio has found to have declined in subsequent years. Such decline has been expected from expenditure aspect. The share of capital expenditure in the total expenditure was about 26 percent during the fiscal years 2001/02 to 2005/06 while it showed increasing trend in the subsequent years. Similarly, from FY2002/03 to 2005/06, about 63-70 of the total expenditure has been financed through revenue mobilization. During this period, total average revenue increased by 13.7 percent, while average growth rate of total expenditure has been 12.6 percent.

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

Descriptions	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Expenditure	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Recurrent Expenditure	61.0	62.0	62.1	60.1	60.4	57.7	56.7
Capital Expenditure	30.9	26.6	25.8	26.7	26.7	29.7	33.2
Principal Repayment	8.0	11.4	12.1	13.2	12.9	12.6	10.2
Income	71.4	80.4	82.3	82.4	77.7	77.5	79.3
Revenue	63.0	66.9	69.7	68.4	65.2	65.7	66.7
Foreign Grants	8.4	13.5	12.6	14.0	12.5	11.8	12.6
Saving (+)/Deficit (-)	-28.6	-19.6	-17.7	-17.6	-22.3	-22.5	-20.7
Foreign Loan	9.6	5.4	8.5	9.0	7.4	7.5	5.6
Domestic Borrowings	10.0	10.6	6.3	8.7	10.7	13.4	12.7
Change in Reserves (-) Surplus	9.0	3.6	2.9	-0.2	4.3	1.6	2.4

Source: FCGO, and Central Bureau of Statistics

- 2.2 The average fiscal deficit is found to have increased by 8.6 percent from FY2001/02 to FY2007/08. During the same period, share of fiscal deficit in the total expenditure has continued to decline from 28.6 percent in FY2001/02 to 17.6 percent in FY2004/05. Though there have been some increases in expenditure after this period, it is still less compared to the base year. Of the resources to finance total fiscal deficit in FY2001/02, the share of Domestic Borrowings was 34.9 percent while there have been fluctuations in the share of such borrowing in the subsequent years. The share of Domestic Borrowing stood at 61.4a percent during FY2007/08. Cash balance that remained after repayment of foreign loans is reflected as change in reserve deficit.
- 2.3 The ratio of total expenditure and revenue to GDP has increased in FY2007/08 compared to that of FY2006/07. The ratio of Government Expenditure increased to 19.7 percent in FY2007/08 from 18.3 percent in FY2006/07. The revenue ratio increased to 13.2 percent in FY2007/08 from 12.0 percent in FY2006/07. The gap between revenue mobilization and total expenditure has reached to 6.6 percent in FY2007/08 from 6.3 percent in FY2006/07.

Table 2 (b) : Ratio of Government Expenditure and Revenue to GDP
(GDP at current producer's price)

(Percentage)

Description	Fiscal Years						
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Recurrent Expenditure	10.6	10.6	10.3	10.5	10.2	10.6	11.2
Capital Expenditure	5.4	4.5	4.3	4.6	4.5	5.5	6.5
Principal repayment Expenditure	1.4	1.9	2.0	2.3	2.2	2.3	2.0
Net Expenditure	17.4	17.1	16.7	17.4	17.0	18.3	19.7
Revenue Mobilization	11.0	11.4	11.6	11.9	11.1	12.0	13.2
Difference between Expenditure and Revenue	6.4	5.6	5.1	5.5	5.9	6.3	6.6

Source: FCGO, and Central Bureau of Statistics

- 2.4 There has been significant improvement in the revenue surplus in FY2007/08 compared to that of the previous fiscal year, calculated as the difference between revenue mobilization and recurrent expenditure. Such

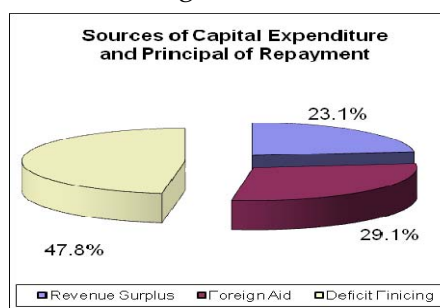
surplus is considered as a sustainable source to finance the capital expenditure and principal repayments. The ratio of revenue surplus to the capital expenditure and principal repayments in FY2006/07 was 18.7 percent while this ratio is calculated at 23.1 percent in FY2007/08. Of the sources to finance capital and principal repayments, the share of foreign grants in FY2007/08 has increased by 1.1 percentage point to 29.1 percent compared to that of the previous fiscal year. Similarly, such ratio of deficit financing in FY2007/08 decreased by 5.5 percent to 47.8 percent compared to that of the previous fiscal year.

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

(Percentage)							
Headings	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Capital & Principal Repayment Expenditure (Rs. Billion)	3120.83	3191.56	3389.05	4087.40	4387.14	5648.22	6990.30
a. Capital Expenditure	2477.34	2235.61	230.56	2734.07	2960.66	3972.99	5351.61
b. Principal Repayment	643.49	955.95	1079.49	1353.33	1426.48	1675.23	1638.69
Sources (in Percentage)							
a. Revenue Surplus	5.1	13.0	20.0	20.6	12.0	18.7	23.1
b. Foreign Grant	21.4	35.5	33.3	35.2	31.5	28.0	29.1
c. Deficit Financing	73.5	51.5	46.7	44.2	56.5	53.3	47.8
Foreign Loan	(24.7)	(14.3)	(22.5)	(22.7)	(18.8)	(17.8)	(12.9)
Domestic Borrowing	(25.6)	(27.8)	(16.5)	(21.9)	(26.9)	(31.7)	(29.3)
Change in Reserves	(23.2)	(9.4)	(7.7)	(-0.4)	(10.8)	(3.8)	(5.6)

Source: FCGO, and Central Bureau of Statistics

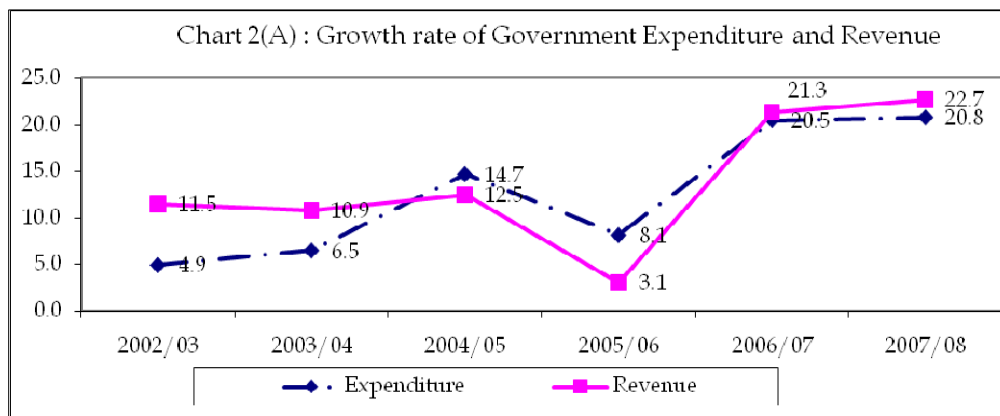
- 2.5. Of the sources of deficit financing, the share of foreign loan stood at 12.9 percent, share of domestic borrowings at 29.3 percent and the share of change in reserves was 5.6 percent in FY 2007/08. Similarly, the share of foreign loan was notable from FY2004/05 up to FY2006/07. In the fiscal year 2007/08, of the sources to finance capital and principal repayments, the share of revenue surplus stood at 23.1



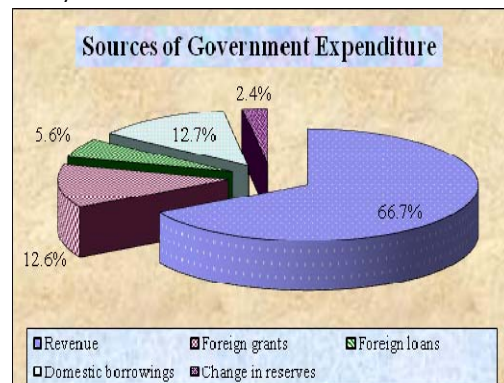
percent, share of foreign grants 29.1 percent, and the share of deficit financing 47.8 percent. The share of revenue surplus in FY 2007/08 remained at 4.4 percentage point more than that of FY 2006/07 while share of foreign grants slightly increased by 1.1 percentage point. Accordingly, the share of deficit financing has declined by 5.5 percentage point to 47.8 percent.

Government Finance

2.6 The total government expenditure in FY2006/07 had increased by 20.5 percent compared to the previous fiscal year while it increased by 20.8 percent in FY2007/08. Of this, recurrent expenditure in FY2006/07 was 15.1 percent while it increased by 18.6 percent in FY2007/08. The capital expenditure in FY2006/07 had increased by 34.2 percent while it increased by 34.7 percent in FY 2007/08. As compared to 17.4 percent growth on the repayment of principal in FY2006/07, it declined by 2.2 percent in FY2007/08.



2.7 The Government expenditure in FY2007/08 totaled Rs. 161.350 billion. Of the total expenditure of Rs. 133.605 billion in FY2006/07, revenue mobilization financed 65.7 percent, foreign grants 11.8 percent, foreign loan 7.5 percent, domestic borrowing 13.4 percent while the change in reserves shared 1.6 percent. Among the sources of financing the expenditure in FY2007/08, revenue mobilization contributed 66.7 percent, foreign grants 12.8 percent, foreign loan 5.6 percent, domestic borrowings 12.7 percent and change in reserves shared 2.4 percent.



Recurrent Expenditure

- 2.8 The recurrent expenditure in FY 2007/08 totaled Rs. 91.44 billion, which is 18.6 percent higher than that of the previous fiscal year. This expenditure for the previous fiscal year stood at Rs. 77.12 billion. Of the total recurrent expenditure, the share of constitutional bodies was 1.8 percent, general administration 15.2 percent, revenue and fiscal administration 1.0 percent, fiscal administration and planning 0.4 percent, judicial administration 0.7 percent and the share of foreign services was 1.1 percent. Likewise, share towards defense expenditure was 11.6 percent, social service 38.4 percent, economic services 10.1 percent, principal interest payments 7.0 percent and share of miscellaneous expenditure was 12.8 percent.
- 2.9 Of the total recurrent expenditure in FY2007/08, major portion of such expenditure (Rs. 35.73 billion) was on education, health, drinking water, local development, and other social services. Similarly, other major recurrent expenditures were on general administration constituting Rs. 13.94 billion, defense Rs. 10. 565 billion and economic services with Rs. 9.20 billion. In the same fiscal year, expenditure towards interest repayment of principal was Rs. 6.374 billion.
- 2.10 Analyses of some of the major recurrent expenditures show that expenditure on social services increased by 18.9 percent in FY2007/08 compared to the fiscal year 2006/07. During the same period, such expenditures on defense rose by 4.3 percent, general administration by 25.8 percent, judiciary administration by 16.0 percent, foreign services by 20.5 percent, economic services by 9.7 percent, constitutional body by 87.5 percent, and miscellaneous expenditures by 47.8 percent. However, such expenditure on revenue and fiscal administration has declined by 8.4 percent followed by a fall of 45.5 percent decline in expenditures on fiscal administration and planning. Expenditure on interest repayments, however, increased by 3.4 percent in FY2007/08 as compared to the previous fiscal year.

Capital Expenditure

- 2.11 Compared to the previous fiscal year, capital expenditure in FY2007/08 rose by 34.7 percent totaling Rs. 53.516billion. Such expenditure in FY 2006/07 was Rs. 39.730 billion. Among the major components of capital expenditure, economic services expenditure remained at Rs. 22.143billion, social services at Rs. 20.284billion and defense at Rs. 809.2 million. Likewise, capital expenditure on general administration stood at Rs. 1.774 billion, judicial administration Rs. 277.1 million, loan and investment Rs. 6.903 billion, constitutional organs Rs. 96.0 million, revenue and fiscal administration Rs. 191.1 million, fiscal administration and planning Rs.

79.8 million, foreign services Rs. 53.6 million, and miscellaneous expenditure Rs 906.2 million. On the total capital expenditure, economic services shared 41.4 percent, social services 37.9 percent, defense 1.5 percent, general administration 3.3 percent, judicial administration 0.5 percent, loan and investment 12.9 percent, constitutional bodies 0.2 percent, revenue and fiscal administration 0.4 percent, fiscal administration and planning 0.1 percent, foreign services 0.1 percent and miscellaneous expenditures 1.7 percent. When compared to the capital expenditure of FY2006/07, such expenditure rose by 30.6 percent on social services and that for economic services by 23.4 percent, while defense and general administration expenditures declined by 19.1 percent and 60.7 percent respectively. The expenditure on revenue and fiscal administration increased notably by 141.0 percent. Likewise, expenditure on administration rose by 15.2 percent while that of fiscal administration and planning put together rose sharply by 204.5 percent.

Principal Repayment

2.12 In FY 2007/08, the interest repayment on principal has remained at Rs. 16.387 billion. Such expenditure was Rs.16.752 billion in the previous fiscal year. Of the total principal repayment expenditures, the share of principal repayment against domestic borrowing was 52.0 percent and that of foreign loan was 48.0 percent in FY2007/08. When compared to the previous fiscal year. The principal repayment against domestic borrowings in FY2007/08 had decreased by 7.6 percent while that of foreign loan by 4.4 percent.

Expenditure Status of the First Eight Months of FY 2008/09

2.13 Based on total disbursement and operation of current accounts, total expenditure increased by 12.7 percent totaling Rs. 114.799 billion in the first eight months of the current fiscal year as compared to the same period of the last fiscal year. In the same period of FY2007/08, such expenditure was Rs. 101.823 billion. Of the total expenditure in the review period of FY 2008/09, recurrent expenditure accounted for Rs. 77.328 billion, capital expenditure Rs. 25.913 billion and principal repayment Rs. 11.559 billion. In the first eight months of FY2008/09, recurrent expenditure totaled to Rs. 64.606 billion, capital expenditure Rs. 26.693 billion, and principal repayment Rs. 10.521 billion. When compared to the first eight months of FY2007/08, recurrent expenditure has increased by 19.7 percent, while capital expenditure decreased by 2.9 percent in the same period of current fiscal year. Likewise, principal repayment expenditure also increased by 9.9 percent in the same period.

Revenue

- 2.14 Revenue mobilization, foreign grants and loan, domestic borrowings and change in cash reserves are used as fiscal instruments for financing government expenditures. When compared to FY2006/07, revenue mobilization in FY2007/08 increased by 22.7 percent to Rs107.625 billion. In FY2006/07, revenue collection had increased by 21.3 percent compared to its preceding fiscal year. The Government revenue had financed 65.7 percent of the total government expenditure in FY2006/07 while this source contributed to 66.7 percent of the total expenditure in FY 2007/08.
- 2.15 Of the total revenue, shares of tax revenue and non-tax revenue in FY2007/08 stood at 79.1 percent and 20.9 percent respectively. Such shares in FY2006/07 year were 81.1 percent and 18.9 percent respectively.
- 2.16 Tax revenue increased by 19.7 percent in FY 2007/08 compared to that of the previous fiscal year. Such revenue had increased by 23.8 percent in FY 2006/07 compared to its preceding fiscal year. Of the total tax revenue in FY 2007/08, the share of customs duty was 24.7 percent while the share of tax on production and consumption of goods and services was 48.2 percent. Likewise, the share of land revenue and registration was 3.4 percent and that of income, profit, and property tax was 23.7 percent.
- 2.17 Customs revenue increased by 26.1 percent on the tax revenue front in FY2007/08 as compared to FY 2006/07 while tax levied on production and consumption of goods and services increased by 15.7 percent. Income, profit, and property tax increased by 20.4 percent and land revenue and registration fees by 30.5 percent. Of the customs revenue, revenue from imports increased by 25.7 percent while that from exports decreased by 37.1 percent, and Indian excise refund increased by 58.0 percent in FY 2007/08. Excise duty levied on the production and consumption of goods and services has increased by 19.8 percent and value added tax by 14.3 percent.
- 2.18 Non-tax revenue increased by 35.5 percent to Rs. 224.67 billion in FY 2007/08 compared to that of FY 2006/07. Of the total non-tax revenue, the share of fees, fines, forfeitures was 11.4 percent; the share of income from government service and sales of goods was 21.8 percent, dividend was 22.4 percent, sales of royalty and government's properties was 25.7 percent, principal and interest was 15.3 percent and miscellaneous non-tax revenue was 3.4 percent. On the non-tax revenue front, the growth of firm registration fees was 41.6 percent and administrative fees, penalties, fines and forfeitures was 7.2 percent in FY 2007/08 compared to previous fiscal year. Dividend of service-oriented organizations is found to have increased by 2.0 percent and income of other government sectors by 2.9 percent. On

non-tax revenue side, principal repayments from companies and enterprises rose notably by 164.3 percent while payments of interest fell by 28.9 percent in FY2007/08 as compared to the previous fiscal year.

Revenue Status as of Mid-March of FY 2008/09

- 2.19 A total Revenue of Rs. 84.203 billion has been collected till mid-March of FY2008/09. Total revenue of Rs. 60.892 billion was collected in the same period of the previous fiscal year. Thus, the rate of revenue growth has been 38.3 percent till mid-March of FY2008/09 as compared to the same period of the previous fiscal year. Of the total revenue collection, Rs. 68.080 billion came from the tax revenue, and Rs. 16.123 billion from non-tax revenues. The tax revenue growth rate was 33.8 percent till mid-March of FY2008/09 as compared to the same period of the previous fiscal, year while the growth of non-tax revenue was 61.3 percent.
- 2.20 Customs revenue until mid-March of FY2008/09 compared to the same period of the previous year increased by 9.8 percent to Rs. 15.404 billion. During this period, tax on production and consumption of goods and services has increased by 36.3 percent to Rs. 32.962 billion compared to the same period of the previous fiscal year. Tax on imports has increased by 13.4 percent in the review period and the share of import revenue on the total customs revenue of this year stood at 82.9 percent whereas this share was 80.3 percent during the same period of the previous fiscal year. Export tax revenue has increased by 97.8 percent and the Indian Excise refund has decreased by 22.6 percent. Likewise, Registration fees increased by 102.0 percent, income tax (private sector) by 38.9 percent and vehicles tax by 43.2 percent.

Foreign Aid

- 2.21 Foreign aid commitment in FY2007/08 had increased by 32.9 percent in comparison to 76.9 percent growth registered in FY2006/07 than its preceding fiscal year. In monetary term, committed foreign aid amounted to Rs.37.23billion in FY2006/07 while such aid in FY2007/08 totaled to Rs. 49.186 billion. Of the total foreign aid commitment, bilateral assistance constituted Rs.13.106billion, whereas the multilateral assistance totaled to Rs.36.080billion. While classifying the foreign aid into grant and loan components for FY2007/08, grants amounted to Rs.41.064 billion and loans Rs.8.122 billion. As compared to the previous year, foreign grants had increased by 33.1 percent and loans by 31.8 percent in FY2008/09.
- 2.22 The sector-wise classification of foreign aid commitment for FY2007/08 shows the share of agriculture, irrigation and forestry as 8.8 percent, electricity 5.5 percent, local development 13.7 percent, education 8.7

percent, transport and communication sector 6.8 percent and others 56.5 percent.

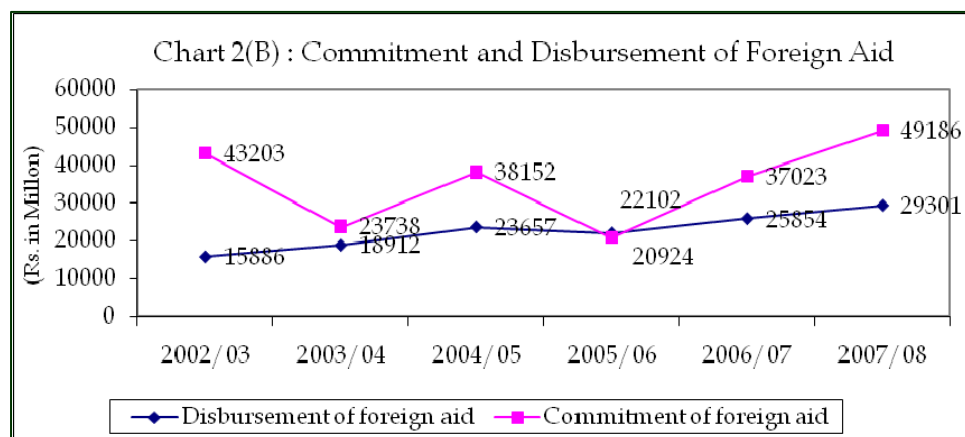
Grants and Loans

2.23 In the first eight month of FY2008/09, foreign aid commitment decreased by 11.4 percent to Rs.43.134 billion compared to the same period of the previous fiscal year. Of the total foreign aid commitment, committed grants amounted to Rs.38.255 billion (88.7 percent of the total) and the loans Rs.4.880 billion (11.3 percent of the total). In the first eight months of FY2007/08, the committed foreign aid amounted to Rs.48.670billion, of which grant was Rs.40.548 billion and foreign loans Rs.8.122 billion. Of the total commitment, the shares of grants and loans were 83.3 percent and 16.7 percent respectively.

Commitment and Disbursement

2.24 In the first eight months of FY2008/09, the share of bilateral assistance among the total commitment was 51.8 percent while that of multilateral assistance was 48.2 percent. In the same period last year, the shares of bilateral and multilateral assistance were 26.9 percent and 73.1 percent respectively. While analyzing sector-wise, foreign aid commitment in the first eight months of FY2008/09, the share of electricity sector was Rs.3.541 billion (8.2percent), education 1.308 billion (3.0percent), rural development Rs.12.512 billion (29.0 percent), drinking water and sewerage Rs. 1.883 billion, agriculture, irrigation and forestry 1.727 billion (4.0percent), transport and communication Rs.2.517 billion (5.8 percent), health Rs. 3.488 billion (8.1 percent) and other sectors Rs.16.16 billion (37.5 percent).

2.25 Disbursements of foreign aid in FY2007/08, as compared to FY 2006/07, increased by 13.3 percent to Rs.29.306billion. Of the total foreign aid disbursement in FY2007/08, Rs.20.321billion (69.4 percent) was grants and Rs.8.98 billion (30.6percent) as loans. In the previous year, foreign aid disbursement amounted to Rs.25.85 billion, of which Rs.15.80 billion (61.1 percent) was foreign grants and Rs.10.53 billion (38.9 percent) foreign loan. Of the total foreign aid disbursement in FY2007/08, Rs.19.093 billion (65.2 percent) was through multilateral assistance and Rs.10.208 billion (34.8 percent) as bilateral assistance. In the previous year, the multilateral aid disbursement had amounted to Rs.9.45 billion (36.5 percent) and bilateral assistance Rs.16.46 billion (63.5 percent).



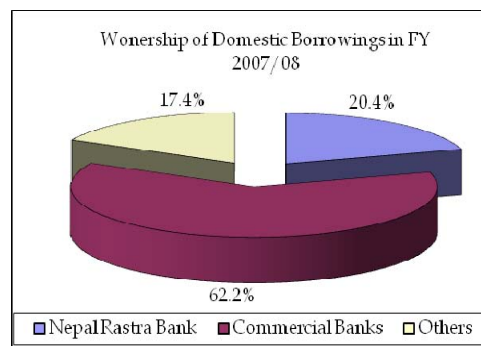
- 2.26 Foreign aid disbursement in FY 2007/08 on sectoral basis shows that, the social sector received Rs.18.193billion (62.1 percent of the total), transport, electricity and communication Rs.6. 710 billion (22.9 percent), agriculture, irrigation and forestry Rs.3.859billion (13.2 billion), industry and commerce Rs.78.7 million (0.2 percent) and others Rs.460 million (1.6 percent). Comparison of foreign utilization on sectoral basis between FY2007/08 and FY2006/07 reveals that utilization of aid in the social sector increased by 19.8 percent, transport, electricity and communication sector by 0.7 percent, agriculture, irrigation and forestry by 3.7 percent. Likewise, utilization of aid in industry and commerce sectors decreased by 32.6 percent, whereas this disbursement in other sectors put together increased by 165.7 percent.

Net Foreign Loans

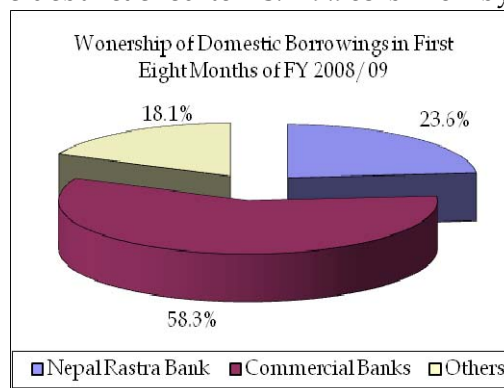
- 2.27 Foreign loan has been playing vital role in the Nepalese economy. The net outstanding foreign loan was Rs.216.629 billion in FY 2006/07 which further increased by 15.4 percent reaching Rs.249.965 billion in FY2007/08.
- 2.28 Net outstanding foreign loan by the end of first eight months of FY2007/08 (adjusting gross borrowing and principal repayment in the first eight months) was Rs. 216.207 billion, which increased by 26.6 percent totaling Rs.273.607 billion by the same period of FY2008/09.
- 2.29 As per the available data for the first eight months of the current fiscal year, the ratio of net outstanding debt to GDP is 28.5 percent. These ratios were 35.8 percent in FY 2005/06, 29.7 percent in FY 2006/07 and 30.5 percent in FY 2007/08.

Net Domestic Borrowings

2.30 Outstanding domestic debt increased by 11.8 percent to Rs.116.4 billion in mid-July 2008 from Rs.103.776billion in mid-July of 2007. Of the total outstanding debt by mid-July 2008, the share of Nepal Rastra Bank was Rs.23.686 billion (20.4 percent), with Rs.72.141 billion (62.2 percent) that of commercial banks, and other non-bank institutions and private sector shared Rs. 20.213 billion (17.4 percent). On analyzing domestic borrowing by instruments, 73.3 percent was Treasury Bills, 18.7 percent development bonds, 1.0 percent National Savings Certificate, 2.6 percent Citizens Savings Certificates and 4.4 percent special bonds.



2.31 In the first eight months of FY2008/09, outstanding domestic debt increased by 11.4 percent as compared to the same period of the previous fiscal year. The outstanding domestic debt reached to Rs.119.983 billion by Mid-March of 2009 of FY2008/09 from Rs. 107.668 billion in the same period of the previous fiscal year. Of the total outstanding debt at the end of the first eight months of FY 2008/09, Nepal Rastra Bank held 23.6 percent; commercial banks held 58.3 percent and other non-bank institutions and private sector held 18.1 percent. When analyzing domestic borrowing by instruments until the end of first eight months of FY 2008/09, Treasury Bills amounted Rs.86.609 billion (72.2 percent), development bonds Rs.23.729 billion (19.8 percent), National Savings Certificates Rs.1.117billion (0.9 percent), Citizen Savings Certificates Rs.3.467 billion (2.9 percent), and special bonds Rs.5.062 billion (4.2 percent). The outstanding domestic debt in the form of development bond rose by 31.3 percent, while National Savings Certificate fell by 26.4 percent and special bonds by 12.3 percent in the first eight months of FY 2008/09 compared to the level of the same period of FY 2007/08. In the first eight months of FY 2008/09 compared to the same period of FY 2007/08, domestic debt in the form of treasury bills increased by 7.7 percent and the Citizen Savings Certificates by 85.4



percent. The outstanding domestic debt to GDP ratio remained at 14.3 percent in FY 2006/07, 14.2 in FY2007/08 and 12.5 percent at the end of first eight months in FY 2008/09.

Fiscal Deficit

2.32 The persistence of fiscal deficit is due to less receipt of revenue and foreign grants as compared to the level of expenditure. As such, fiscal deficit increased by 11.0 percent to Rs.33.407 billion in FY2007/08 from Rs.30.092 billion in FY 2006/07. The fiscal deficit that was in a decreasing trend since fiscal year 2001/02 started showing increasing trend again from FY2004/05. The ratio of fiscal deficit to GDP, which was at 4.1percent in FY 2006/07 remained unchanged during FY 2007/08 as well.

Sources of Fiscal Deficit Financing

2.33 Fiscal deficit, the result of imbalance between expenditure and non-debt resources, is being financed through foreign loan, domestic borrowing and cash balance. Of the fiscal deficit of Rs.33.407billion in FY2006/07, Rs.8.980 billion (26.9 percent) was financed through foreign loan, Rs.20.496billion (61.4 percent) through domestic borrowing and remaining Rs.3.934 billion (11.7 percent) through the change in cash reserves. Sources of financing the fiscal deficit of Rs.30.092 billion in FY 2006/07 were foreign loan (Rs. 10.053 billion), domestic borrowing (Rs. 17.892 billion) and change in cash reserves (Rs.2.146 billion).

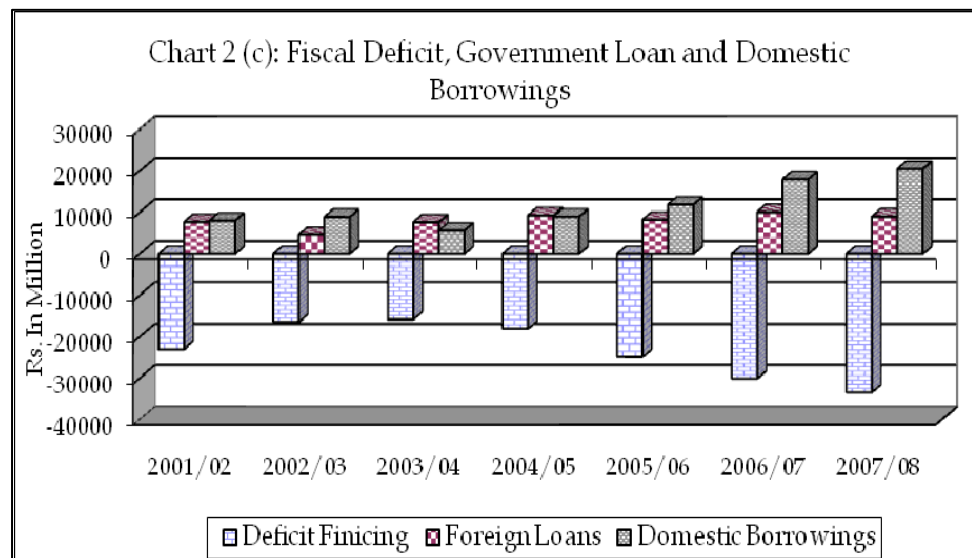


Table 2 (d): Fiscal Deficit

(Rs.in Million)

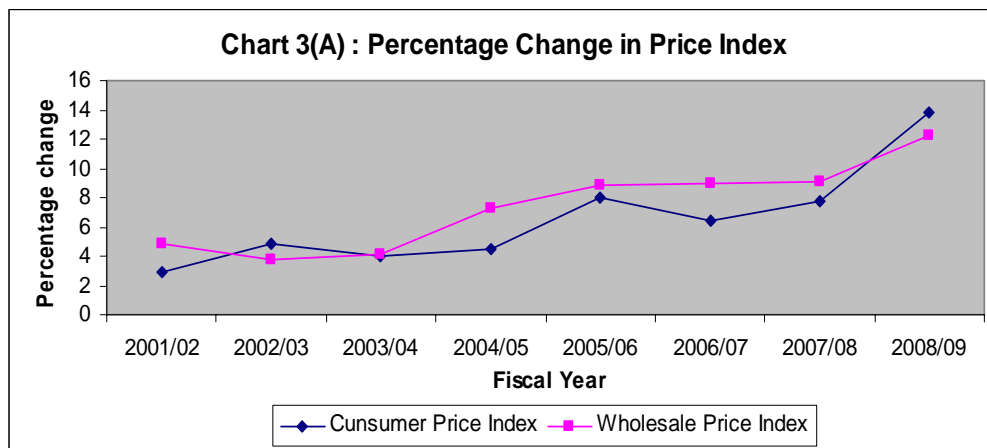
Fiscal Year	Fiscal Deficit	Fiscal Deficit/GDP Ratio (in Percent)
2000/01	24,188.1	5.5
2001/02	22,940.6	5.0
2002/03	16,437.2	3.3
2003/04	15,828.2	2.9
2004/05	18,046.5	3.1
2005/06	24,779.6	3.8
2006/07	30,091.7	4.1
2007/08	33,406.7	4.1

Source: FCGO, and Central Bureau of Statistics

3. Price and Supply

Structure of Inflation

3.1 Nepalese price situation tends to have affected more by structural and external factors. Structural factors include overall supply of goods and services available within the country such as agricultural and industrial products, and effects of closures and strikes on supply arrangements. Factors such as price hike of petroleum products in international markets and direct impacts of Indian inflation come under external factors. As monetary aggregates obviously affect aggregate demand, its impact in turn get reflected on the price situation. The rate of inflation increased by double digit due to excessive price hike of food and petroleum products towards the end of last fiscal year i.e., Mid-June 2008. Several efforts were made to maintain smooth supply arrangement, contain the money supply at the desirable level, and adopt anti-inflationary measures in the context of inflationary situation getting more challenging at the international level. Due to fall in the price of petroleum products and economic recession that hit western countries specially the United States of America around November 2008, commodity prices like fuel, rice, wheat, edible oil, iron, and copper fell notably at the international level, with a minimal impact in Nepal. Even falling prices in India during this period could not bring significant impact like in the previous years, nor did the rate of inflation fall. Still, inflationary pressure is persistent due to negative effect of strikes, and closures badly affecting the internal supply system. Effects of gradual depreciation of Nepalese Rupees against the US Dollar is also seen to some extent on the inflation especially in a import dependent country like Nepal to keep its supply system running.



Overall Consumer Price Situation

3.2 In mid-March 2009, annual point-to-point CPI-based inflation rate remained at 13.1 percent, which was 7.2 percent for the same period of FY2007. The average inflation rate in mid-March 2009 stood at 13.8 percent in the first eight months of current FY 2008/09, which was 6.4 percent during the same period of the previous fiscal year. As per the Monetary Policy of FY 2008/09 announced by Nepal Rastra Bank it was expected that the average CPI-based inflation would remain under control at 7.5 percent. However, through the mid-term review of monetary policy, the revised estimated CPI-based inflation is estimated to go up to 11.0 percent in FY 2008/09. Even in a situation when rate of inflation remained low in most of the countries and wholesale price index in the neighboring country India remained below 4.0 percent, rate of inflation in Nepal did not fall. Prices of food and services and inflation are less likely to fall due to increased hour of load shedding, closures, strikes, political instability, and the country passing through the transition period.

Table 3 (a) : Annual Inflation Based on Consumer Price Index

Months	In percentage				
	2004/05	2005/06	2006/07	2007/08	2008/09*
July/Aug.	2.4	7.3	7.3	6.3	13.1
August/Sep	2.6	8.2	6.6	7.0	13.5
Sep/Oct.	2.6	7.8	7.5	6.3	14.1
Oct/Nov	2.7	8.5	7.1	6.3	14.5
Nov/Dec	3.1	8.8	7.3	5.7	14.1
Dec/Jan	4.6	7.0	7.6	5.8	14.4
Jan/Feb	5.7	5.8	8.0	6.4	13.7
Feb/Mar	5.7	7.7	6.2	7.2	13.1
Mar/Apr	5.8	7.9	5.6	8.9	
Apr/May	6.4	9.1	4.6	9.2	
May/Jun	6.2	9.1	4.5	11.0	
Jun/Jul	6.6	8.3	5.1	12.1	
Annual Average	4.5	8.0	6.4	7.7	13.8

*First Eight Months Average

Source: Nepal Rastra Bank

3.3 Annual urban CPI (base year 1994/95=100) increased by 10 percentage point in mid-march 2009. This index during the same period of FY2007/08 was 7.2 percent. Analyses of CPI on the basis of geographical regions reveals that, these indices increased by 13.4 percent, 12.4 percent and 13.3 percent in mid-March, 2009 in Kathmandu valley, Hills, and Terai

respectively in comparison to increases of 7.0 percent, 7.5 percent and 7.1 percent in respective regions in the same period of the previous fiscal year.

Table 3 (b) : Point to Point Urban Consumer Price Index

Base Year (1994/95=100)

(Percentage Change*)

Region	Weight (percent)	Fiscal Year				
		2004/05	2005/06	2006/07	2007/08	2008/09
Kathmandu	30.8	6.1	5.5	6.4	7.0	13.4
Hills	18.8	6.6	7.6	5.2	7.5	12.4
Terai	50.4	5.2	9.0	6.5	7.1	13.3
Nepal	100.0	5.7	7.7	6.2	7.2	13.1

*Mid-March-change index in Mid-March;**provisional

Source: Nepal Rastra Bank

3.4 Average CPI of urban areas in first eight months of FY 2007/08 had increased by 6.4 percent compared to 13.8 percent in the same period of current fiscal year. By regions, average inflation in Kathmandu was 14.8 percent, hills 13.3 percent and Terai 13.4 percent in the first eight months of current fiscal year while these figures remained at 5.9 percent, 6.2 percent and 6.7 percent respectively in the same period of the previous fiscal year.

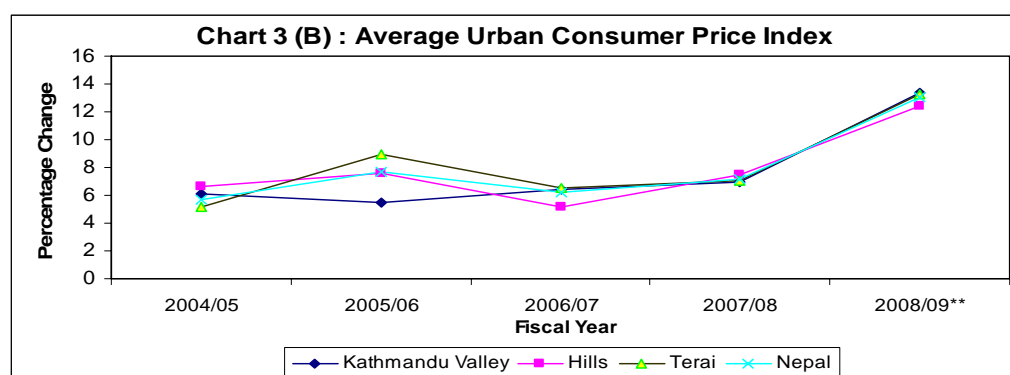


Table 3 (c) : Average Urban Consumer Price Index

Base Year (1994/95=100)

Percentage Change*

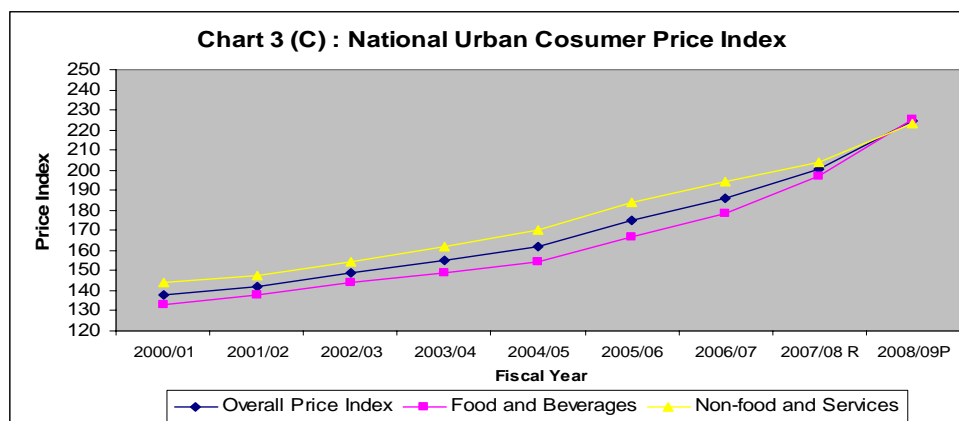
Region	Weight (percent)	Fiscal Year				
		2004/05	2005/06	2006/07	2007/08	2008/09
Kathmandu	30.8	4.8	6.1	6.7	5.9	14.8
Hills	18.8	3.1	8.4	7.0	6.2	13.3
Terai	50.4	3.2	8.3	7.6	6.7	13.4
Nepal	100.0	3.7	7.6	7.2	6.4	13.8

*Average price inflation of first eight months;**provisional

Source: Nepal Rastra Bank

Food and Beverages Group

- 3.5 The price level of food and beverages group with 53.2 percent weight in the overall CPI rose by 17.1 percent in mid-March 2009. The price rise in this group was 9.4 percent in the same period of the previous fiscal year. The higher increment in the price index of this group was due to the effect of substantial increase in prices of sugar and sugar products (53.0 percent), meat, fish and eggs (25.2 percent) pulses (24.6 percent), vegetables and fruits (21.8 percent) and restaurant meal (19.3 percent). The price in all subgroups under this group has increased.



Non-food and Services Group

- 3.6 Price of non-food and services group with 46.8 percent weight in the overall CPI increased by 8.8 percent in mid-March 2008. The index of this group had increased by 4.9 percent a year ago. This is attributed to increased prices of tobacco and tobacco products (16.3 percent) and transportation and communication (13.5 percent). In addition to this, prices of all sub-groups under this group have increased.

Table 3 (d) : Point to Point National Urban Consumer Price Index
Base Year (1994/95=100)

Consumable Goods	Weight (percent)	Fiscal Year				
		2004/05	2005/06	2006/07	2007/08	2008/09
Total (A+B)	100.0	5.7	7.7	6.2	7.2	13.1
A. Food and Beverage	53.2	4.7	6.2	9.2	9.4	17.1
Food grains and their products	18.0	5.8	13.2	7.8	14.9	13.0
Rice	(14.16)	5.5	14.8	3.4	19.4	15.4
Pulses	2.7	3.6	12.4	17.9	13.7	24.6
Vegetables and Fruits	7.9	4.0	1.5	18.4	-1.8	21.8

Consumable Goods	Weight (percent)	Fiscal Year				
		2004/05	2005/06	2006/07	2007/08	2008/09
Spices	1.9	-4.9	2.4	26.8	.07	10.9
Meat, Fish and Eggs	5.2	9.1	-1.2	12.0	5.3	25.2
Milk and Milk Products	4.0	0.0	5.1	6.9	7.6	17.0
Oil and Ghee	3.1	-7.5	-3.0	10.9	27.3	6.5
Sugar and Sugar Products	1.2	25.5	5.3	-12.2	-8.4	53.0
Beverages	2.3	3.2	10.4	3.1	2.2	14.2
Restaurant Meal	6.9	7.4	3.3	2.9	7.8	19.3
B. Non-Food Products and Services	46.8	6.8	9.1	3.2	4.9	8.8
Clothing and Readymade Garments	8.9	2.5	2.9	2.4	2.4	8.5
Clothing						
Cloths	(2.28)	2.7	2.2	1.2	0.5	8.1
Readymade Garment	(5.75)	2.1	3.0	2.5	2.6	7.1
Shoes	2.2	1.3	2.8	6.1	4.6	7.4
Household Goods	14.9	12.3	14.1	3.1	6.1	8.9
House Furnishing and Household Goods	(3.5)	4.8	3.7	5.9	4.2	12.6
House Rent	(4.2)	4.5	4.5	4.1	5.0	5.9
Sanitation	(1.3)	1.8	2.5	9.5	7.9	16.8
Fuel, Electricity and Water	(5.9)	20.4	22.8	1.4	6.9	7.7
Transportation and Communication	4.0	14.1	21.2	0.5	1.1	13.5
Medicine and Personal Care	8.0	1.1	3.0	2.4	5.8	4.8
Education, Education Materials and Entertainment	7.1	4.6	4.8	6.1	5.5	8.3
Tobacco and Tobacco Products	1.7	2.5	3.8	6.4	8.3	16.3

*Mid-March; Price Index of Mid-March;**provisional

Source: Nepal Rastra Bank

Region-wise Consumer Price Situation

- 3.7 Analysis of CPI on regional basis shows that price index of the Kathmandu Valley rose by 13.4 percent in mid-March 2009. This index had increased by 7.0 percent a year ago. The prices of food and beverages have increased by 19.2 percent and that of non-food and services by 7.7 percent. In the food and beverages group, there was a significant increase in the prices of sugar and sugar products, pulses, restaurant meals, rice and rice products and beverages. The price of sugar and sugar products has increased by highest rate (53.0 percent) while that of edible oil and ghee increased by the lowest rate (3.6 percent) in this group. Likewise, among the non-food and services group, the prices of tobacco and tobacco products (22.9 percent), transportation and communication (14.5 percent) and education, education materials and entertainment (8.9 percent) are at a relatively higher rate.
- 3.8 Region-wise, the price index of the Terai that stands with the highest weight in price index rose by 13.3 percent in mid-March 2009. This index had increased by 7.1 percent a year ago. The prices of food and beverages specifically of sugar and sugar products (51.4 percent), fish, meat and eggs (27.9 percent), pulses and vegetables and fruits (26.0 percent) have remained high. Likewise, the prices of transportation and communication (14.6 percent), tobacco and tobacco products (13.1 percent) and shoes (10.2 percent) that lie under non-food and services group have remained high as well.
- 3.9 Region-wise, the price index of the Hilly Region carrying the lowest weighted index of 18.8 percent rose by 12.4 percent in mid-March 2009. It had increased by 7.5 percent a year ago. The prices of food and beverages specifically in sugar and sugar products (56.6 percent), fish, meat and eggs (24.8 percent), pulses (26.0 percent), restaurant meal (20.2 percent) have remained high and the overall price index of this group rose by 15.9 percent. Likewise, the rise on the prices of cloths (22.1 percent), tobacco and tobacco products (14.9 percent) and readymade garments (13.3 percent) that come under non-food and services group has resulted in the rise of overall price index of this group by 8.5 percent.

Core Inflation

- 3.10 Core inflation, which is calculated using Exclusion Method (by excluding the prices of rice, vegetables and fruits, fuel, electricity and water, and transport from overall CPI), in mid-March 2009 stood at 12.5 percent. This was just 6.1 percent in mid-March 2008. The price of food and beverages group rose by 17.2 percent in mid-March 2009 compared to the rise of 7.4 percent a year ago. The prices of non-food and services group increased by

8.2 percent in mid-March 2009 compared to the 4.9 percent rise in the same period of the previous fiscal year.

Wholesale Price Index

- 3.11 National Wholesale Price Index (1994/95=100) on year-on-year basis increased by 12.3 percent in mid-March 2009. This growth was 6.6 a year ago. The national price indices of agricultural products, domestically produced industrial goods, and imported goods increased by 15.5 percent, 8.8 percent, and 10.0 percent respectively.
- 3.12 In the agricultural produces group, prices of fruits and vegetables, animal products and pulses have remained high. In the domestically produced industrial goods group, prices of plastic goods, leather shoes, jute products, and beverages and tobacco products have increased at higher rates, while in the imported goods group, prices of clothing, transport facilities, and machinery have remained comparatively high.

Table 3(e) : National Wholesale Price Index
(1999/00 = 100)

Group	Weight (percent)	Fiscal Year				
		Percentage Change*				
		2004/05	2005/06	2006/07	2007/08	2008/09*
Total	100	8.5	6.2	12.2	6.6	12.3
Agricultural Goods	49.6	7.6	4.7	19.9	4.9	15.3
Domestically produced Industrial Goods	20.4	4.3	3.5	8.7	9.0	8.8
Imported Goods	30.0	12.4	10.1	3.7	7.8	10.0

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

Source: Nepal Rastra Bank

National Salary and Wage Rate Index

- 3.13 The year-on-year national salary and wage index (2004/05=100) increased by 20 percent in mid-March 2009 as compared to the rise of 9.0 percent a year ago. Under the National Salary and Wage Rate Index, the salary index increased by 20.8 percent and the wage index increased by 20.1 percent. In the previous year, the index of the former had increased by 10.9 percent while that of the latter by 8.4 percent. The increase in the salary index was mainly due to the significant rise in the salary of government officials including army, police, teachers etc. The increase in the wage index was

because of the government decision of raising the minimum wage rates of laborers working in the industrial sector.

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

Group/Sub-Group	Weight (percent)	Percentage Change*			
		Fiscal Year			
		2005/06	2006/07	2007/08	2008/09*
Overall Index	100.0	4.3	10.1	9.0	20.3
1. Salary Index	27.0	0.4	6.2	10.9	20.8
1.1 Civil Service	2.8	0.0	10.0	23.5	28.1
1.2 Public Enterprises	1.1	4.4	6.7	8.8	21.9
1.3 Bank and Financial Institutions	0.6	10.0	3.0	50.5	18.2
1.4 Army and Police Force	4.0	0.0	11.4	9.3	30.9
1.5 Education	10.6	0.0	7.0	14.8	26.1
1.6 Private Organizations	7.9	0.0	1.3	-1.5	2.7
2. Wage Rate Index	73.0	5.7	11.4	8.4	20.1
2.1. Agriculture Laborers	39.5	7.3	10.9	6.0	26.9
2.2 Industrial Laborers	25.2	5.1	13.3	11.6	10.6
2.3 Construction Laborers	8.3	0.3	7.5	10.9	18.1

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

Source: Nepal Rastra Bank

Supply Situation

- 3.14 Of the petroleum products, the supply of diesel increased by 40.1 percent to 278,022, Kilolitres (KL) and the supply of kerosene decreased by 43.4percent to 57,966 KL in the first eight months of FY2008/09. The supply of diesel and kerosene in the same period of the last year was 198,410 KL and 102,408 KL respectively. Similarly, the supply of petrol increased by 13.8 percent to 77,112 KL compared to that of the previous fiscal year. In the same period last year, the supply of petrol was 67,732 KL. The supply of LP gas increased by 16.9 percent to 73,618 MT in the current fiscal year from 62,964 MT in the last fiscal year. Similarly, the supply of furnace oil decreased by 69.8 percent to 700 KL in the review period from 2,320 kilolitres a year ago. In the review period, the supply of aviation fuel increased by 4.4 percent to 48,264 KL from 46,243 KL a year ago.
- 3.15 The arrangement of fixing wholesale price (including VAT) for Petroleum Products based on Nepal Oil Corporation Depot sites or custom points still exists. Arrangements are made for the wholesale distribution of the petroleum products from Biratnagar, Birgunj, Amlekhgunj, Kathmandu, Pokhara, Bhairahawa, Nepalgunj, Surkhet, Dhangadi, Dipayal, Mahendranagar, and Janakpur. Under this system, the wholesale and retail

prices may differ from place to place. For example, the wholesale price of petrol to sold through the Birgunj Depot per KL is Rs. 72,862.95, while the price per KL in Dipayal is Rs 74,348.35. Average retail prices of diesel, kerosene, and LP gas in Kathmandu are Rs. 77.50 per liter, Rs. 55.00, Rs. per liter and Rs. 1,125 per cylinder respectively.

- 3.16 The Government has continued its policy of providing transport subsidy in the review period of this fiscal year as well under its policy of ensuring smooth supply of food grains in 30 remote hilly districts. As such, Nepal Food Corporation has been transporting food grains to those districts. The Corporation supplied 11,869 MT of food in FY 2007/08, a total of against the target of 11,896 MT set for the year. The Corporation supplied 11,320 MT of food grains by the end of first eight months of FY2008/09 against the target of 11,900 MT. The quantity of food grains supplied during the same period of the previous a year ago was 6,987 MT against the target of 4,700 MT. The annual target for the current fiscal year is set to 17,000 MT.

Retail Prices of Some Major Goods

- 3.17 Review of the retail prices of 10 daily consumable agricultural produces in this group revealed mixed result. During the first eight months of FY2008/09, the prices of eight commodities have increased while that of two commodities decreased. For example, the price of ginger rose by 47.6 percent, followed by mustard oil (26.2 percent) refined ghee (23.5 percent), coarse rice (19.0 percent) and mutton (17.7 percent). Likewise, there has been a nominal increase in the prices of pigeon peas, mustard oil and black-grams. Despite the rise in prices of most of the commodities, the prices of potato and dry onion fell by 9.9 percent and 4.5 percent respectively compared to that of the previous fiscal year.
- 3.18 By geographical regions, the prices of all 10 agricultural commodities have increased in Hilly Region in the first eight months of current fiscal year while the prices in Terai have increased only in eight of those commodities. Commodities with higher price rises in Hilly Regions by Mid-March of 2009 of the current fiscal year are ginger, mutton, refined ghee, while those in Terai are dry onion, ginger, potato, refined ghee and mutton. There has been fall in the prices of black-grams and mustard oil by 2.6 percent and 0.7 percent respectively in Terai region. The agricultural commodities with the overall price rise are ginger (54.5 percent), mutton (33.1 percent), mustard oil (31.8 percent) refined ghee (28.1 percent), pigeon peas (12.0 percent), dry onion (11.3 percent), coarse rice (10.2 percent), wheat flour (2.3 percent). Commodities that have recorded the fall in prices during the same period are potato (14.5 percent), and black gram pulse (1.0 percent).

4. Money and Banking

- 4.1. Nepal Rastra Bank, as the Central Bank of the country with its responsibility for the overall monetary management, has been regularly making public the Annual Monetary Policy since 2002/03. Such policy includes credit, foreign exchange, micro-finance, regulation and supervision of financial system and programs of the monetary sector as a whole. These policies have given high priority especially to internal stability (price stability and financial sector's stability) and external stability (favourable balance of payments and consolidation) as the main objectives of monetary policy. In addition, Policy and Programmes are designed with priority accorded to other objectives as mentioned in Nepal Rastra Bank Act.
- 4.2. Important factors like events developing in the international arena, the fast-changing global economy and its possible impact on Nepalese economy were also duly considered while formulating of the Monetary Policy for 2008/09 and its stance, prioritizing the objectives, and making selection of monetary instruments. During the time of framing the current policy, not only in Nepal but price of food grains and petroleum products were on excessive increase throughout the world causing price situation as the main problem.
- 4.3. The monetary policy needs so wisely and carefully designed that national as well as international challenges like, managing and maintaining liquidity, containing interest rates in a desirable limit, expanding credit in productive areas, and eventually higher level of economic growth could be achieved. The reason for a cautious stance of the Monetary Policy became more critical in a situation whereby apart from the rising prices of consumer goods in general, rapidly rising prices of real estate and shares exerting pressure for excessive flow of credit to these sectors could lead to potential destabilization of the financial sector as a whole.
- 4.4. At the time of monetary policy formulation for 2008/09, the real interest rate was negative due to the big gap between the high rate of inflation and the low bank interest rate to depositors. Such situation becomes favourable for investing on real estates and shares while negatively affecting efficient distribution and mobilization of financial resources. Similarly, if import goes on increasing (due to soft loan) without bringing any improvement on the export front, the external stability gets challenged. Apart from this, the expanding remittance of private sector and the Government of Nepal budget for FY2008/09 being larger than that in previous years with possibility of the impact of monetary expansion on price, FY2008/09 called for a contractionary and stronger monetary policy than ever before.

Box 4 (a): Salient Features of Monetary Policy for FY2008/09

1. The monetary policy was made rigid than before in consideration with the consumer price inflation, and the unprecedented rise in the price of real estate and investment on shares. Accordingly, the existing bank rate of 6.25percent was increased to 6.50percent, the mandatory cash reserve ratio (CRR) from normal 5percent to 5.50percent and the penal interest rate was raised from 2percent to 3 percent while enjoying standing liquidity facilities.
2. The circle of counterparts was widened in the processes of exercising the fiscal policy. Breaking the earlier tradition of including only commercial banks for exercising the fiscal policy, FY2008/09 has recognized other development banks and financial companies as their counterparts for carrying out the policy and allowed to exercise the open market operations utilizing the standing liquidity facilities.
3. In order to widen fiscal inclusiveness, the compulsory obligation for commercial banks to issue 3percent of their total credit for the marginally poor is given continuity, while it is increased to 1.5percent from 1percent for development banks. Likewise, financial companies are also obliged to channel 1percent of their total credit for the poor and deprived groups.
4. Realizing the difficulties encountered in monitoring the growing numbers of banks and financial institutions, a new instrument, Prompt Corrective Action has been devised since 17 October 2008.
5. The following quantitative targets were set:
 - The Balance of Payment (BOP) surplus estimated to be Rs.12 billion.
 - Broad money supply growth projected at 17.5percent (against the previous18.5percent) based on the mid-term analysis.
 - Growth of the domestic credit of the banking sector projected at 18.5 percent.
 - The early estimate of consumer price inflation as 7.5percent reframed to reach 11percent through the mid-term assessment.
6. The rate of re-financing in national currency for exporters fixed at 2percent by reducing 0.5percent from the earlier 2.5percent.
7. No change made in refinancing rate of 3.5percent for Grameen Bikash (Rural Development) Banks.
8. The 1.5percent refinancing rate for sick industries unchanged.
9. The re-finance rate of 3.5percent for cottage and small industries reduced to 2.5percent.
10. The provision to provide standing liquidity facilities to commercial banks for 5 days unchanged.
11. More liberal and elastic policy adopted on foreign currency exchange under BOP. For instance, the one time provision of foreign exchange equal to 30,000.00 USD for advance payment through draft/T.T. raised toUSD50,000.00 for imports from countries other than India.
12. The present limit of exchange facilities equal to USD2,000.00 for individuals /organizations/institutions has been doubled to USD4,000.00.

Fiscal and Economic Targets

- 4.5. Like in previous years, the main objective of the Fiscal Policy of FY2008/09 has been to maintain internal price stability and consistency of external sector as far as possible. To achieve the target, other things remaining the same, the preliminary average annual inflation rate was estimated to be contained at 7.5 percent, The bases for 18.5 percent money supply forecast made for FY2008/09 was on assumptions of achieving 7.0 percent economic growth rate, annual inflation rate to remain at 7.5 percent, with the BOP savings of Rs.12 billion. The growth rate of the narrow money supply was estimated at 16.0 percent while that of credit growth was estimated at 25.0 percent.

Monetary Instruments Implementation Policy

- 4.6. Nepal Rastra Bank has been using Open Market Operations as an important tool of monetary management. Beginning FY2008/09, in addition to commercial banks, development banks as well as financial institutions have been recognized as counterparts for implementation of monetary policy. NRB has adopted a new policy to include development banks and financial institutions while conducting OMO as a monetary instrument, and providing short-term liquidity facility against the Government Treasury Bills and Development Bonds.
- 4.7. The mandatory CRR and the liquidity in excess of daily transactions to be considered as targets for the operation of monetary instruments is given continuity in FY2008/09 as well. The OMO has also been continued as one of the prime monetary instruments as before. In addition, continuity is given to: outright sale auction, outright purchase auction, repo auction and reverse repo auction for regulating the flow or absorption of liquidity as monetary instruments.
- 4.8. A couple of monetary measures are taken as a tough signal to mitigate the potential instability in the overall economy due to inflation, price pressure exerted on various types of assets, and unbalanced budget. Such measures included, raising the mandatory CRR of 5 percent to 5.5 percent on domestic credit, and raising of the bank rate from 6.25 percent to 6.50 percent.

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

	(Percentage)				
Instruments	2004/05	2005/06	2006/07	2007/08	2008/09
Bank Rate	5.5	6.25	6.25	6.25	6.5
Refinancing Rates					
Export Credit (Domestic Currency)	3.0	3.5	3.5	2.5	2.0
Export Credit (Foreign Currency)	2.0	3.25	3.25	3.25	*+0.25
Sick Industries	1.5	1.5	1.5	1.5	1.5
Small and Cottage Industries					3.5
Mandatory Cash Reserve Ratio	5.0	5.0	5.0	5.0	5.5
Standing liquidity facility (Penal rate)	-	-	1.5	2.0	3.0

* Add to LIBOR Rate; Sourc: Nepal Rastra Bank

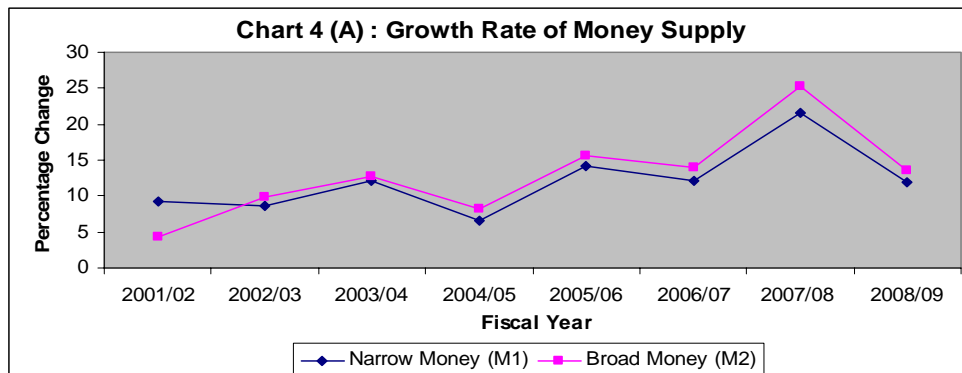
- 4.9 In order to facilitate the competitive capacity of exports, the refinancing rate of 2.5 percent in the past is reduced to 2.0 percent. The Rs.2.0 billion refinancing facility for sick industries has been retained in FY2008/09 by maintaining the 1.5 percent refinancing rate.
- 4.10. Excessive utilization of Standing Liquidity Facility (SLF) can bring about undesired results in the economy. With a view to check such potentiality and encourage inter-banking money market, the usual penal interest rate of 2 percent on SLF has been raised to 3 percent. The mandatory system of counting SLF by including penal interest rate on the average interest rate of the latest (91 days) Treasury Bill or the repo auction of the last one month, whichever is more has been given continuity.

Box 4 (b) : Mid-term Review of Monetary Policy for FY2008/09

NRB has continued making mid-term assessments of monetary policies each fiscal year. The present mid-term assessment report was made public on 22 March 2009. Monetary stance has been given continuity for the remaining period of FY 2008/09 in consideration with the operation of monetary policy up to the first six months of FY2008/09, based on the observation of developing incidences in national and international arena and their possible impact on Nepal's economic, financial and fiscal sector. Accordingly; bank rate, CRR, penal interest rate on SLF, and refinancing rates remain unchanged as per the arrangements made in the monetary policy. NRB has made it clear that it is alert about the prevailing situation of actual interest being negative, consumers' price inflation at a higher rate, the external situation unlikely to stay same in the remaining period, and the need to concentrate on monetary management in such a situation.

Status of Monetary Aggregates

- 4.11. During the first 8 months of FY2008/09, broad money supply has grown by 13.6 percent in contrast to 13.4 percent in the same period of the previous year. Despite some respite in the expansion of domestic credit than in the previous year, a substantial growth in net foreign assets in the monetary sector has resulted in the expansion of broad money supply this year.



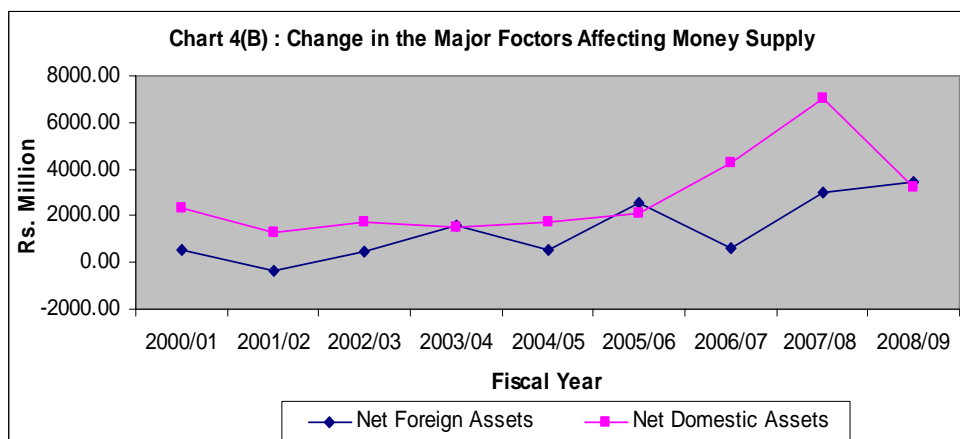
- 4.12. As compared to the review period of the previous fiscal year, the narrow money (M1) supply grew marginally from 11.3 percent to 11.9 percent during the same period of this fiscal year. Although there has been a decline in demand deposits by 6.6 percent, the growth of the money in circulation from the previous year's 13.9 percent to 21.9 percent this year is also one of the reasons for the growth in M1 during this period. During the review period, demand deposits decreased by 6.6 percent, while that of time deposits has increased by 14.4 percent in the review period like in the previous year.

Table 4 (b) : Factors Affecting Money Supply
(Annual changes, in Million Rs. and percent)

S.N.	Headings	First 8 months			
		2007/08		2008/09	
		Amount	Percent	Amount	Percent
1	Net Foreign Assets	13,633.0	103.0	3,4810.0	20.3
2	Net Domestic Assets	39,451.0	150.0	32,573.0	10.1
3	Net Domestic Credit	47,735.0	132.0	32,601.0	7.5
4	Net Credit to Government	-537.0	7.0	20,119.0	-23.1
	a) Net Claims on Government	3,805.0	-47.0	2,456.0	2.7
	b) Government saving	4,343.0	1,391.0	22,575.0	572.0
5	Credit to Public Enterprises	-613.0	-90.0	66.0	-5.3
	(a) Financial	-100.0	-58.0	-231.0	-13.8
	(b) Non-Financial	-513.0	-100.0	298.0	5.3
6	Lending to Non-Financial Institutions	2,102.0	1,101.0	2,132.0	70.1
7	Claims on Private Sector	46,783.0	171.0	50,522.0	14.9
8	Net non-Monetary Liabilities	8,284.0	85.0	282.0	-
9	Money Supply M2 (10+11)	53,084.0	134.0	67,383.0	13.6
10	Monety Supply, M1 (a) +(b)	14,327.0	113.0	18,307.0	11.9
	a) Currency	11,608.0	139.0	21,907.0	21.9
	b) Current Deposits	2,720.0	63.0	-3,600.0	-6.6
11	Time & Saving Deposits	38,756.0	144.0	49,076.0	14.4

*Unprocessed ; +Including Margin Savings

- 4.13. Net foreign assets (adjusted to profit/loss on foreign exchange valuation) increased by 20.3 percent to Rs. 34.81 billion during the first 8 months of current fiscal year against Rs. 13.63 billion in the same period of the previous fiscal year. The growth in net foreign assets is due to the encouraging growth in the inflow of remittances and foreign assistance to the Government.



- 4.14. During the review period, cash reserve has reached Rs20.95 billion with a growth of 14.5 percent against its increase of 12percent the previous year. Such growth in the cash reserve can be attributed to the growth in net foreign assets of NRB.

Table 4 (c) : Change in Reserve Money

(in Million Rs.)

	Mid-July 2007	Mid-March 2008	Mid-July 2008	Mid March 2009	Percent Change in First 8 Months*	
					2064/65	2065/66
Reserve Money	110,269.0	133,529.0	144,592.0	165,544.0	12.0	14.5
Narrow Money Multiplier	1.062	1.058	1.067	1.043	-0.6	-2.3
Broad Money Multiplier	3.316	3.360	3.426	3.399	1.3	-0.8

Source: Nepal Rastra Bank

* Estimates

Domestic Borrowing

- 4.15. Domestic borrowing has increased by 7.5 percent during the first eight months of FY2008/09 against the 13.2 percent in the previous year. Owing to Government of Nepal's low capital expenditure in comparison to high level of resource mobilization, the Government's cash reserve with NRB by mid-March has reached to Rs 26.52 billion. The growth rate of domestic lending has declined due to decrease in net claim on the Government by 23.1 percent accompanied by the reduced growth rate in the private sector lending.
- 4.16. During the review period, claim on non-financial institutions has increased by 5.3 percent or Rs. 297.8 million in contrast to the previous year's decrease of 10 percent or Rs. 513 million. Since Janakpur Cigarette Factory, Nepal Airlines Corporation, Janak Educational Materials Centre and Nepal Electricity

Authority used additional credit facilities, claims on them has increased accordingly.

- 4.17. The claim on financial institutions has grown by 40.45 percent or 1.90 billion in comparison to previous year's 55.3 percent or Rs.2.0 billion. The causal factor for such lower rate of growth is the decreased level of commercial banks' short-term investment on Grameen Bikash Banks.
- 4.18. Credit flow to the private sector has decreased by 14.9 percent during the review period as compared to the increase of 17.1 percent in the first 8 months of last year. Following the government's decision to write off the loan up to Rs.30,000 borrowed by small farmers and small entrepreneurs from the government owned banks, those commercial banks have written-off the above amount from their loan accounts. Hence, there is a resultant decrease in the credit flow to the private sector.

Status of Monetary Instruments

- 4.19. Till the first 8 months of FY2008/09, Rs.11.72 billion net liquidity were mopped up through OMO, among which Rs.7.46 billion was through direct sale auction and Rs 13.26 billion through reverse repo auction, totaling to Rs. 20.72 billion. Responding to the decreased liquidity absorption between February and March, liquidity flow worth Rs.9 billion has occurred through the repo auction. Despite high liquidity flow occurring through foreign exchange transactions, the huge cash reserve of the Government with NRB is the reason for a small decline in the liquidity of the banking sector. In the corresponding period of previous fiscal year, Rs.3.70 billion was absorbed through direct sale auction and Rs.5.57 billion through reverse repo auction totaling to Rs 9.27 billion. As Rs 9 billion was absorbed through repo auction, the net liquidity absorbed was Rs. 270 million during the period.

Table 4(d) : Open Market Operations

(In Million Rs.)

Description	2007/08		2008/09
	First 8 Months	Annual	First 8 Months
A Liquidity Absorption	927.0	2,142.0	20,72
Open Bidding	370.0	148.55	7,46
Reverse Repo Bidding	557.0	657.0	13,26
B Liquidity Flow	900.0	900.0	9,00
Purchase Bids	0	0	0
Re:p Bids	900.0	900.0	900
C Net Liquid Absorption_	270.0	1242.0	11,72

Source: Nepal Rastra Bank

- 4.20. During the review period, NRB purchased USD 1,266.4 million from commercial banks, out of which Rs. 972.4 million net liquidity was availed in the market. In the same period of last year, NRB had purchased USD 860.2 million from commercial banks and put net liquidity worth Rs.54.98 billion in the open market. The purchase of USD became higher from foreign exchange market owing to the higher inflow of remittances.
- 4.21. However, USD 1.0 billion was sold for purchasing Indian Currency (IC) worth 47.77 billion in the review period. During the corresponding period of the previous year, USD 9.10 million was sold to purchase Indian Currency worth 36.19 million.

Standing Liquidity Facility and Inter Bank Transactions

- 4.22. During the first 8 months of FY2008/09, commercial banks have spent Rs.83.23 billion in total under SLF in contrast to the total Rs.72.50 billion expensed in the corresponding period of the previous fiscal year. Meanwhile the inter banking transactions of commercial banks has reached to Rs 192.99 billion against Rs.190.82 billion in the previous Fiscal Year.

Short-Term Interest Rate

- 4.23. The short-term interest rate has increased in the eighth month of FY2008/09. The monthly weighted average interest rate of 91-days Treasury Bills remained at 6.83percent in mid-March which was 5.54percent during the same period of the previous fiscal year. In the same period last year, inter banking weighted average interest rate was 5.07 percent, which has slightly increased to 6.38percent by mid March this year.

Expansion of Financial Sector

- 4.24. The trend of financial sector expansion continued in the current fiscal year as well. As a result, financial sector is gradually becoming more intensified and consolidated. The number of (A Class) commercial banks has reached 25, (B Class) development banks 61, (C Class) finance companies 78, and (D Class) Micro Finance Institutions (MFIs) 13 by mid -April 2009. Likewise, the number of authorized cooperatives for operating limited banking activities and non-governmental organizations has reached 16 and 45 respectively. In addition to banks and financial institutions, there are 25 Insurance Companies, Employees Provident Fund, Citizens' Investment Trust and Postal Saving Banks making a total of 266 such institutions serving by mid- April.

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

Banks and Financial Institutions	Mid-July 2006	Mid-July 2007	Mid-July 2008	Mid-April 2009
Commercial Banks	18	20	25	25
Development Banks	29	38	58	61
Finance Companies	70	74	78	78
Microfinance Institutions	11	12	12	13
NRB Licensed Cooperatives (limited banking transaction)	19	17	16	16
NRB Lincensed NGOs (Dealing in Microfinance)	47	47	46	45
Insurance Companies	-	21	25	25
Employees Provident Fund	1	1	1	1
Citizens Investment Trust	1	1	1	1
Postal Saving Banks	1	1	1	1
Branches of Postal Saving Banks	-	117	117	117

Source: Nepal Rastra Bank

Financial Inclusion

- 4.25. In recent years, the financial sector has experienced significant expansion in the numbers as well as economic activities. Such credit expansions through diverse agencies and the wider area covered by commercial banks have laid the foundation and eased the process of financial inclusion.

Table 4(f) : Indicators of Financial Expansion and Deepening

	Mid April 2007	Mid-April 2008	Mi- April 2009*
<i>Commercial Bank Branches</i>	546	591	617
<i>Population per Branch</i>	47,120	44,499	42,832
<i>Deposits in Commercial Banks (in Million Rs.)</i>	325,770.0	375,590.0	481,440.0
<i>Per Capita Deposit (Rs.)</i>	12,663	14,282	18,217
<i>Loan and Advance of Commercial Banks (in Million Rs.)</i>	324,100.0	387,050.0	47,127
<i>Per Capita Loan (Rs.)</i>	12,598	14,717	17,833

Source: Nepal Rastra Bank

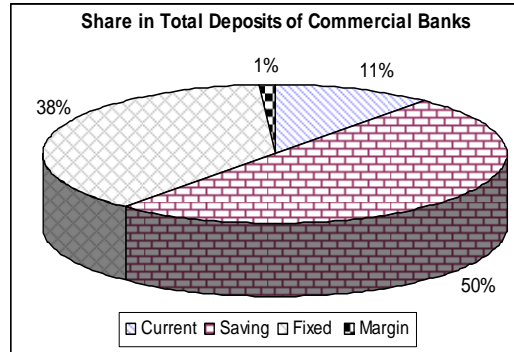
*Based on the data up to Mid-March 2009

- 4.26. A fair degree of progress is observed while associating the number of commercial banks and their branches with the total population of the country. The earlier ratio of 44,499 persons per branch by mid April 2008 has come down to 42,832 persons per branch by mid-April 2009. In the meantime, per capita

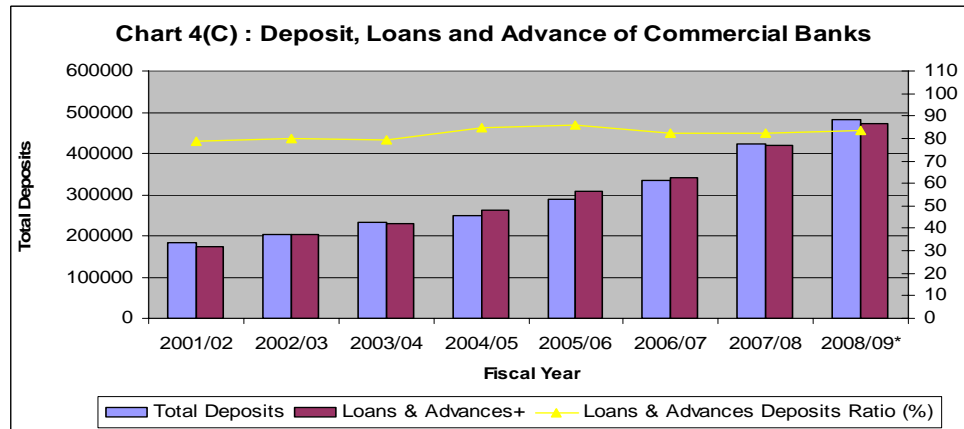
deposit of Rs.14,282 in April 2008 has increased notably to Rs.18,217 by April 2009. Likewise, per capita credit channeled through commercial banks has reached to Rs.17,833 by mid-April 2009 against the earlier Rs.14,717. This data shows the steadily rising trend of bank credits.

Deposit Mobilization and Credit Disbursement Situation of Commercial Banks

4.27. During the first eight months of FY 2008/09, the total deposit mobilization of commercial banks has increased by 14.2 percent (Rs.59.91 billion) amounting to Rs.481.44 billion against the growth of 12.3 percent or Rs.41.14 billion during the same period of the previous fiscal year. In the review period, saving deposits has increased by 14.1 percent and fixed deposit by 20.7 percent against the previous year's expansion of 12.2 percent and 14.5



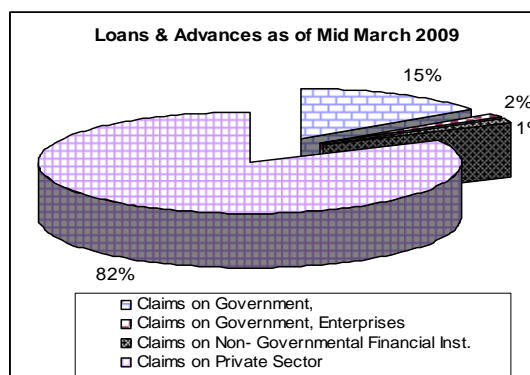
percent respectively. The increased periodic deposit rate owes to the public issue of shares by the Citizens' Bank and the Bank of Asia, with the collected amount deposited in commercial banks by the authorized banks and financial institutions.



4.28. The rate of credit flows of commercial banks to the private sector has declined during the review period. In the previous year, credit flow stood at 18.9 percent, which grew only by 15.1 percent this year. Out of the credit circulated to the private sector in the last fiscal year, 17.6 percent (10.99 billion) was to the productive sector, while it was 37.2 percent (7.35 billion) for construction sub-sector. The credit flow to the private sector on productive and construction-sub sector has increased by 10.7 percent (Rs.9 billion) and 16 percent (Rs.6.17 billion)

respectively. There is a decline in metal-based production, machinery, electric apparatuses, wholesale and retail business and services whereas consumption credit has increased.

- 4.29. During the review period, the liquid fund of commercial banks rose by 14.9 percent against 7.2 percent rise last year. This higher deposit growth is attributed mainly to the promising inflow of remittances. The deposit with NRB, one of the constituent factors of liquid fund, has increased by 6.7 percent against the growth of 7.9 percent in the previous year. Likewise, commercial banks' stock in foreign banks has increased by 22 percent to Rs.50.16 billion against the growth of 5.2 percent last Fiscal year.



Expansion of Commercial Banks Branches

- 4.30. The number of commercial banks that stood at 23 by mid- April 2008, has reached 25 by mid- March 2009. The number of branches has reached 617 by mid- December 2009 (with additional 62 branches) from 555 in 2008. The credit for this expansion goes to the improved situation of peace and security in the country boosted by the liberal policy adopted by NRB. To present the region-wise statistics of bank branches, there are 119 in Eastern Region, 302 in the Central, 120 in Western region, 48 in mid- West and 28 branches in Far-Western region by December 2009. During the first 6 months of FY 2008/09, one more development bank were established contributing to further expansion. The total number of banks and financial institutions, ranging from class A to class D has reached 173 at present. Notably the two new commercial banks added this year were upgraded from development bank and financial institution.

Table 4 (g) : Commercial Bank Branches

	Commercial Banks	Mid-July 2007	Mid-July 2008	Mid-April 2009
1.	Nepal Bank Ltd.	96	99	99
2.	Rastriya Banijya Bank Ltd.	114	114	119
3.	Nabil Bank Ltd.	17	26	28
4.	Nepal Investment Bank Ltd	14	19	24
5.	Standard Chartered Bank Ltd	10	13	12
7.	Himalayan Bank Ltd	15	17	18
7.	Nepal SBI Bank Ltd.	16	17	22
8.	Nepal Bangladesh Banl :td	17	17	17

	Commercial Banks	Mid-July 2007	Mid-July 2008	Mid-April 2009
9.	Everest Bank Ltd	20	26	29
10.	Bank of Kathmandu Ltd	13	22	25
11.	Nepal Credit & Commerce Bank Ltd	17	17	17
12.	Nepal Industrial & Commercial Bank Ltd	10	16	17
13.	Lumbini Bank Ltd	5	5	5
14.	Machhapuchhre Bank Ltd	12	18	23
15.	Kumari Bank Ltd.	8	12	15
16.	Laxmi Bank Ltd	9	13	16
17.	Siddhartha Bank Ltd.	5	7	10
18.	Agricultural Development Bank Ltd.	147	65	65
19.	Global Bank Ltd	1	7	9
20.	Citizens Bank Ltd	0	9	9
21.	Prime Bank Ltd	0	1	7
22.	Sunrise Bank Ltd.	0	6	12
23.	Bank of Asia ltd	0	5	10
24.	Development Credit Bank Ltd	0	3	5
25.	NMB Bank ltd.	0	1	4
	Grand Total	546	555	617

Sourc: Nepal Rastra Bank

Status of Non-Performing Assets of Commercial Banks

- 4.31. There have been some improvements on the non-performing loans of commercial banks in recent times due mainly to effective regulations and improved supervision by NRB, strong actions being taken against the black-listed debtors, and commercial banks' own willingness to stand themselves as efficient, capable and competitive entities in the current huge competitive environment. However, expected reforms are yet to be noticed on some government owned commercial banks and a few banks from private sector.

Table 4 (h) : Status of Non-performing Loan of Commercial Banks

(in Million Rs.)

Description	Mid-July 2007			Mid July 2008			Mid January 2009		
	Total Loan	Bad Loan	Percentage	Total Loan	Bad Loan	Percentage	Total Loan	Bad Loan	Percentage
Nepal Bank Ltd.	137,570.0	18,560.0	1,350.0	157,650.0	19,520.0	12,380.0	170,910.0	15,350.0	8,980.0
Rastriya Banijya Bank	2,487.1	687.7	27.6	2,749.5	595.2	21.65	2,821.0	528.2	18.72
Nabil Bank Ltd.	1,590.3	17.8	1.1	2,175.9	16.1	0.74	2,544.0	20.7	0.82
Nepal Investment Bank	1,776.9	42.2	2.4	2,752.9	30.9	1.12	3,313.6	40.4	1.22
Standard Chartered Bank	1,079.0	19.7	1.8	1,396.4	12.8	0.92	1,375.2	11.3	0.82

Description	Mid-July 2007			Mid July 2008			Mid January 2009		
	Total Loan	Bad Loan	Percentage	Total Loan	Bad Loan	Percentage	Total Loan	Bad Loan	Percentage
Himalayan Bank Ltd	1,779.4	64.2	3.6	2,018.0	47.7	2.36	2,141.6	40.1	1.87
Nepal SBI Bank Ltd.	1,006.5	45.9	4.6	947.0	300.5	31.73	1,339.7	35.8	2.67
Nepal Bangladesh Bank	916.9	364.6	39.8	1,274.6	48.8	3.83	958.4	278.0	29.01
Everest Bank Ltd	1,408.3	11.3	0.8	1,883.6	12.7	0.68	2,094.7	10.4	0.50
Bank of Kathmandu	969.4	24.3	2.5	1,274.8	23.7	1.86	1,365.2	24.3	1.78
Nepal Credit & Commerce Bank	512.2	160.7	31.4	528.1	86.7	16.42	631.3	65.2	10.32
Lumbini Bank	912.9	10.1	1.1	1,146.5	9.8	0.86	1,261.0	11.7	0.93
Nepal Industrial & Commercial Bank	494.4	100.7	20.4	536.6	80.0	14.92	556.9	68.7	12.33
Machhapuchhre Bank	732.0	8.5	1.2	896.4	9.3	1.04	1,044.3	56.6	5.42
Kumari Bank	906.2	6.6	0.7	1,144.1	15.2	1.33	1,303.1	13.8	1.06
Laxmi Bank	652.9	2.3	0.4	979.4	1.3	0.13	1,102.2	1.1	0.10
Siddhartha Bank	632.0	2.2	0.3	948.1	6.5	0.69	1,213.3	7.5	0.62
Agricultural Development Bank	3,444.0	618.5	18.0	3,660.5	428.1	11.69	3,654.1	473.3	12.95
Global Bank	260.3	-	-	514.0	1.0	0.19	593.1	0.7	0.12
Citizen's Bank	204.7	-	-	479.8	-	-	649.9	0.1	0.01
Prime Bank	-	-	-	515.6	-	-	787.0	-	-
Sunrise Bank	-	-	-	405.8	-	-	699.8	0.1	0.02
Bank of Asia	-	-	-	275.5	-	-	511.9	-	-
Development Credit Bank	-	-	-	369.2	-	-	513.6	9.1	1.76
NMB Bank	-	-	-	201.0	-	-	294.0	4.5	1.52
Total:	23,141.2	2,372.9	10.25	30,649.7	1,921.5	6.27	34,478.0	1,854.8	5.38

Sources and Uses of Funds of Financial Institutions

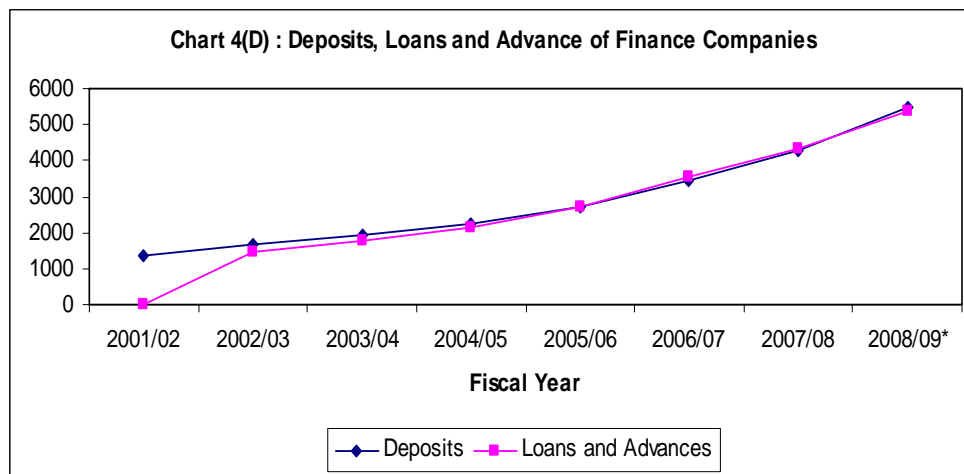
Development Banks ("B" Class Financial Institutions)

4.32 Total sources of funds of development banks reached Rs.50.2 billion by January 2009 with 25 percent growth as compared to July 2008. Total deposits of banks, their prime source of income, has increased to Rs. 37.09 billion in the review period. The total capital fund of these banks has reached to Rs.7.61 billion with a growth of 16.8 percent during the review period while the total borrowing declined by 8 percent in the second-half of current fiscal year which is a little more than Rs. 2.40 billion of the previous year. Loan and Advances that occupy a major part in mobilization of resources increased by 36.7 percent to Rs.32.40 billion.

Finance Companies ("C" Class Financial Institutions)

4.33 The aggregate sources of finance companies have reached Rs. 77.64 billion with a growth of 19.4 percent during the review period from Rs. 65.3 billion in the first half of 2008. The deposits of finance companies increased significantly by 27.7 percent to Rs. 54.72 billion in the review period. Similarly, the capital fund of those companies has reached Rs.10.50 billion (with a growth of 24.7 percent) whereas borrowings declined by 14.2percent to Rs.3.38 billion by January 2009.

4.34 On the uses side of funds, loan and advances of finance companies, has increased by 23.3 percent during the second half of 2008 and has reached Rs.53.50 billion against such amount of Rs. 43.37 billion by mid-July of the previous year. There has been a marginal decline of 1.4 percent worth Rs. 4.43 billion on investment during the review period. Likewise, the liquid fund has declined by 6.4percent and limited toRs. 12.16 billion during the first half of 2009.



Micro Credit Development Banks ("D" Class Financial Institutions)

- 4.35 Among the micro-credit development banks of ("D" class), there are five *Grameen Bikash Banks*, six *Grameen Bank Replicators* and 2 institutions for wholesale lending.
- 4.36 Total assets/liabilities of the wholesale lending micro-finance companies reached Rs.9.68 billion by January 2009. These institutions' total deposit and credit stood at Rs. 1.09 billion and Rs. 5.83 billion respectively whereas total credit and investment reached Rs. 5.53 billion and Rs. 670 million respectively in the review period.
- 4.37 The total paid-up capital of Rural Micro-finance Development Centre (RMDC), involved in wholesale lending of micro-finance, amounted to Rs.320 million by mid- March 2009. Its outstanding credit investment is 133.4 million during the review period.

Rural Self-Reliance Fund

- 4.38. Capital of Rural Self- Reliance Fund, availing wholesale credit to the Cooperatives and NGOs, stood at Rs.34.34 billion by mid-March 2009. Out of the total loan of Rs.229.4 million disbursed by the Fund till January 2009, it has collected Rs 117 million as principal.

Table 4 (i) : Transaction of Rural Self Reliance Fund

<i>Description</i>	Mid July 2007	Mid-January 2008	Mid-January 2009
<i>No. of districts (Credit Flow)</i>	48	50	50
<i>No. of Credit Recipient Institutions</i>	277	305	343
<i>Beneficiary Households</i>	12,228	13,420	14,962
<i>Loan Disbursed (in Million Rs.)</i>	132.6	165.0	229.4
<i>Loan Realized (in Million Rs.)</i>	81.2	89.8	117.0
<i>Loan Arrears (in Million Rs.)</i>	51.4	71.7	112.4
<i>Percentage of Overdue Loan</i>	8.5	9.85	9.00
<i>Payback (Percentage)</i>	91.5	91.15	91.00

Source; Nepal Rastra Bank

Cooperatives Operating Limited Banking Transactions

- 4.39. The number of NRB licensed financial institutions, established under the Cooperatives Act 2048 (1991) has reached 16 by April 2009. The total financial resources/capital fund of these cooperatives is Rs.431.6 million by mid-January 2009. Their combined deposits is Rs.3.17 billion, the credit and loans have reached Rs.2.82 billion.

Table 4 (j) : A Glimpse of Activities of Saving and Credit Cooperatives

<i>Description</i>	Mid-July 2007	Mid-April 2008
<i>No. of Cooperatives</i>	3,392	4,432
<i>Members (in '000)</i>	403	686
<i>Saving (in Million Rs.)</i>	89,630.0	15,730.6
<i>Investments (in Million Rs.)</i>	15,098.0	19,959.0

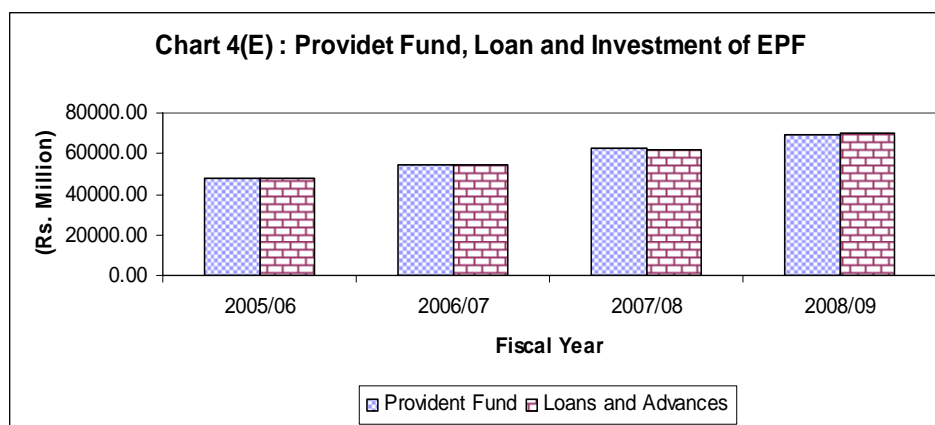
Source: Government of Nepal, Ministry of Agriculture & Cooperatives

Non-Government Organizations

4.40. Established under the Institutions Registration Act, 2034 (1977) and licensed by NRB for limited banking activities as provisioned by Financial Mediation Act 2055 (1999), these institutions have been expanded to 45 branches. The total credit flow of these institutions stood at Rs.982.5 million by mid-January as compared to Rs.961.2 million of credit flow by mid-June 2008.

Employees Provident Fund

4.41. Employees Provident Fund, established in 2019 B.S. (1964) under Employees Provident Fund Act 2019, manages provident fund collected from civil servants, military and police personnel, teachers, personnel of public enterprises and some other employees of private sector. The total resources/liabilities of this Fund has reached to Rs.74.92 billion by mid- March 2009 against Rs.67.94 billion by mid- June 2008. Meanwhile, the fund collected from employees has reached Rs.68.97 billion by mid- March 2009.



Citizens Investment Trust

4.42. Founded under the Citizen Investment Trust Act 2047 B.S. (1990) in April 1990, the Trust is primarily involved in activities like collection and mobilization of deposits from individual and institutions, and providing credit and loans. In addition, it acts as the issue- manager for facilitating shares and bonds on behalf of various organized institutions. The Fund's resources have reached Rs.14.53

billion by mid-March with a growth of 6.2 percent as compared to the sum collected by mid- July 2008. Collection of Funds, which is a crucial factor for liabilities has reached Rs.13.77 billion while investment of resources has reached Rs.11.37 billion during the review period.

Insurance Companies

- 4.43. Established under Insurance Act 2049, (1992) there are 25 insurance companies in operation by mid- April 2009. There are eight life insurance companies, 16 non-life insurance and one company dealing with both life and non-life insurance. From ownership perspective, three of them are operating with full foreign capital investment and three companies on joint capital venture of foreign insurance companies. Similarly, 18 companies are under private ownership, while the Government of Nepal owns one company. The total resources/liabilities of these insurance companies have increased by 10.2 percent to Rs.44.15 billion between mid-July 2008 and mid-January 2009.

Postal Savings Bank

- 4.44. Postal Savings Bank, under the Department of Postal Services of the Government of Nepal, launched its operations since 2033 B.S. (1974). Although 177 post offices were permitted to collect deposits, only 68 offices were carrying out banking services by mid-Jan 2009. The total deposit of Rs.820.7 million in mid- June has come down to Rs.783.7 million by January 2009. The total number of accounts holders is 39,383 so far.

Deposit and Credit Guarantee Corporation

- 4.45. Deposit and Credit Guarantee Corporation was established in October 1974 with objectives to encourage commercial banks for investing resources in the priority sectors and avail banking services to deprived people at their doorsteps. It has gone on guaranteeing loans and credit concerned with livestock, vegetable crops- farming, foreign employment, microfinance, deprived group, and credit for small and large industry in addition to credit in the priority sectors. The Corporation by mid-July had guaranteed Rs.421.9 million, which has shrunk to Rs. 277.5 million by mid-April 2009.

Credit Information Bureau

- 4.46. This Bureau initiated by NRB and established in 1990, is responsible mainly for collecting information about repayment of loans and availing such information to banks and financial institutions while preparing information on the black-listed credit defaulters. The ownership of this Bureau is shared by NRB, commercial banks, development banks and financial companies with 10percent, 60percent, 15percent, and 15percent respectively. The record available with the Bureau reveals that the number of blacklisted defaulters of banks and financial institutions has reached 3,432 from 3,423 6 between 6 months period of mid-

January and mid-April 2009. Nevertheless, 1,298 such defaulters were delisted from the black list during the review period.

Financial Sector Reform Program

- 4.47. The Financial Sector Reform Program (FSRP) is considered an important constituent factor for the wide-ranging reform of the financial sector as a whole. Following the Financial Sector Reform Strategy Paper 2000 AD, the Government of Nepal introduced this program with clear-cut guidelines through an announcement made in October of the same year. NRB is assigned with the responsibility of executing this program.
- 4.48. The main target of this reform program is to help financial sector become healthy, competitive, efficient, and professional by enabling it for sufficient contributions in the country's economic growth. The World Bank, Department for International Development (DFID) of UK Government, and loans and grants from Government of Nepal, are assisting the Programme. The main activities under the program include (1) re-engineering of NRB (11) restructuring of Nepal Bank Ltd. (NBL) and Rastriya Banijya Bank (RBB) in addition to capacity enhancement of the financial sector as a whole.

Box 4 (c) : Re-engineering of Nepal Rastra Bank

Continuity is being given to the re-engineering of NRB under the FSRP to make it stand as a sound, competent and efficient Central Bank while negotiating with the changing economic environment, both at home and abroad. In order to achieve these goals, NRB is carrying out the programs like- Human Resource Development (HRD) and management; more effective and empowered regulatory and supervisory strategies; restructuring the Bank depending on the services; computerization of the Bank; standardization of Bank's audit system and right-sizing, making banking services more accessible, easier and efficient.

- 4.49. Following World Bank's recommendation to appoint six Chartered Accountants to implement the re-engineering programs in the process of financial reform, NRB formed a task force of seven chartered accountants already employed in the NRB. This body has already submitted its proposals with practical recommendations and they are in the process of implementation.
- 4.50. The two separate Bid Specification on Software/Hardware Communication and Disaster Recovery System developed by international IT Consultants for the restructuring of the Bank's Information Technology that were submitted to the Bank were returned to the consultants for making necessary revisions and submit it by 20th April 2008. Since there was no response from the other end by the given deadline, the contract signed between the IT consultants and NRB the Bank cancelled the contract with the World Bank's approval.

- 4.51 Upon completion of the contract period of the consultant working as the Public Relation Officer and expired on 1 July 2008, the process to appoint a new Public Relations Officer is underway. However, the Bank has not extended its contract signed with the Human Resource Consultant upon its expiration in April 2009.

**Box 4 (d) : Structural Reform of Nepal Bank Ltd. and
Rastriya Banijya Bank**

NRB has taken over the control of NBL until mid-March 2011 in accordance with the Section 86 (C) of NRB Act 2002. A three-member team from NRB succeeded the management since the expiry of the contract with the Consultant of the Bank of Scotland (Ireland) on 21 July 2007. The team of experts has been appointed at the recommendation of the CEO to work under his direct supervision. Meanwhile, NRB has taken the initiative to request the World Bank for further grant assistance for the remuneration of the newly recruited management team.

The re-structuring of RBB is being carried out by a management committee composed of the Chief Executive Officer (CEO) and Chief Information Technology Officer (CITO). In order to continue the restructuring of the Bank, the contract of the present management team has been extended (with World Bank's consent) until 15 January 2010.

Both of the banks undergoing reform programs have been generating net profit since FY2003/04. They have not only formulated and implemented internationally accepted practices to maintain sustainability but also have reduced the negative capital fund. Needless to mention both of these banks still need more reforms to advance and make progress.

Source: Nepal Rastra Bank

- 4.52 There has been some progress in Nepal Bank Limited (NBL) and Rastriya Banijya Bank (RBB) after the introduction of their Restructuring Program. NBL, which was continuously at loss of billions of rupees since 1999, has constantly reduced such losses limiting at Rs.250 million by FY2002/03. The net loss during Fiscal Years of 2003/04, 2004/05, 2005/06, 2006/07, and 2007/08 has made net profit worth Rs.710 million, 1.73 billion, 1.21 billion, 230 million and 530 million respectively. Similarly, the bank has made a net profit of Rs.450 million by January 2009.
- 4.53 The net loss of RBB which was Rs 7.07 billion in FY2001/02 and Rs.4.84 billion in 2002/03, was turned into net profits of Rs 1.04 billion in FY2003/04; Rs.1.32 billion in FY 2004/05; Rs.1.62 billion in FY2005/06; Rs.1.68 billion in FY2006/07 and Rs 1.77 billion in FY2007/08. Meanwhile the targeted profit of Rs.940 million by January 2009 has reached to Rs.1.11 billion showing a promise.
- 4.54 There seems a gradual progress in taking both banks - NBL and RBB - away from their negative net worth status in the past. After undergoing restructuring program, the negative net worth of NBL, Rs 9.80 billion in June 2004, gradually decreased to Rs.8.90 billion in 2005, Rs.7.16 billion in 2006, Rs.6.30 billion in 2007, Rs.6.25 billion in 2008 and Rs.5.72 billion by January 2009. Similarly, RBB's

capital fund, which was negative by Rs.22.39 billion in 2004, has marginally improved to Rs.21 billion in 2005; Rs.20 billion in 2006; Rs.18.59 billion in 2007; Rs.17.21 billion in 2008; and Rs.15.50 by June 2008 that shows the reversing trend of negative net worth. Likewise, the target to limit the negative net worth at Rs14.57 billion during the first 6 months of FY2009 has marginally crossed having Rs 14.49 billion negative net worth by January 2009. Nevertheless, rapid and substantial progress in this direction is imperative.

Table 4 (k) : Negative Net Worth

(In billion Rs.)

<i>Mid-July</i>	Nepal Bank Ltd.	Rastriya Banijya bank
2003/04	9.80	22.39
2004/05	8.90	21.00
2005/06	7.16	20.00
2006/07	6.30	18.59
2007/08	6.25	17.21
2008/09	5.72	15.50
Mid-Jan 2009	5.56	14.49

Source: Nepal Rastra Bank

- 4.55 Out of the total credit of NBL, Non-Performing Assets (NPA) till mid July 2004 stood at 60.47 percent, which gradually decreased in the subsequent years. The NPA between by mid-July of 2004, 2005, 2006, 2007 and 2008 gradually came down to 53.64 percent, 49.64 percent, 18.18percent, 13.49 percent and 12.38 percent respectively. Eventually, it has come down to 8.9 percent by mid-January 2009. The sliding down of NPA since 2005/06 onwards is due to writing-off of bad loans, which has again showed the trend of reviving back. The recovery of the written- off loan is a challenge in itself for the banks. Similarly, RBB's non-performing asset as such has not decreased in quantitative term as desired, its level, however, is decreasing. The non- performing loan of RBB by June 2003/04 was 60.15 percent of the total credit which has been limited to 57.64 percent in 2004/05; 50.70 percent in 2005/06; 37 percent in 2006/07; 28.63 percent in 2007/08 and 21.65 percent in 2008/09. During the first 6 months of the current fiscal year, out of the total credit of RBB the ratio of non-performing asset has remained at 18.72 percent.

Table 4 (l) : Overdue Loan in Total Loan and Advances

(Percentage)

<i>Mid-July</i>	Nepal Bank Ltd	Rastriya Banijya Bank
2003/04	60.47	60.15
2004/05	53.74	57.64
2005/06	49.64	50.70
2006/07	18.18	37.00
2007/08	13.50	27.60
2008/09	12.38	21.65
Mid-Jan 2009	8.98	18.72

Source: Nepal Rastra Bank

- 4.56 The obligatory auditing of both banks that were overdue for the last several years were resumed in case of NBL since 1999/2000 covering up to the period of 2007/08. In addition to updating of the audit, financial statements on activities are regularly being published on quarterly basis. The external audit of RBB, that remained pending for some years, has been resumed after the new management took over. By far the external audit of FY2007/08 has been completed while the preliminary audit report for FY2008/09 has been submitted to NRB. Meanwhile, all the details concerned with the recent external audit are updated and internal audit has been completed as well.
- 4.57 Both NBL and RBB have developed and put into practice their Management Plan, HRD Plan, and Skill Enhancement Plan for necessary human resource and right- sizing of institutions. Staff Needs Assessment has been completed and both banks have submitted their respective Capital Plan and Successor Plan to NRB.
- 4.58 The Volunteer Retirement Scheme as an attempt of right-sizing in NBL has been successful to reduce the total number of staff of 6,300 in June 2001 to 2,885 by January 2009. Similarly, HR Information System, HRD Plan etc. are exercised for developing human resource and rightsizing it. HR Need Assessment has been completed and Performance-based Rewarding System is implemented. To right size the employees call for Volunteer Retirement Scheme has implemented for the 5th time. The RBB has also succeeded in reducing the size of its staff slowly. The 5,583 employees in 2002 were brought down to 3,417 by June 2005; 3,301 by next June 2006; 3127 in June 2007 and 3002 by June 2008, and 2,939 by January 2009.
- 4.59 The Management Team of NBL has formulated and adopted various plans, policies and directives for making banking system more robust and competent, especially by improving the credit management, credit policy and directives. Assets and Liabilities Management (ALM) Guidelines designed and applied, and Asset Liability Committee (ALCO) formed especially for better credit management. Besides, strategic policies like New Audit Manual, Internal Audit Manual, and classification of Accounts heads, HR Plan, Skill Enhancement Plan, Portfolio Status and Plan, Budget Plan, Strategic Plan etc are designed and applied. NBL has prepared and implemented. a number of Manuals and Guidelines such as - the Credit Write-off Regulations Anti-money Laundering Policy, Investment and Treasury Operation Manual, Review of Internal Audit Manual, Trade Finance Manual as well as Credit Policy and Directives in addition to the application of Credit Write- off.
- 4.60 To provide prompt, efficient and well-managed banking services, computerization of 44 branches of NBL is completed and additional 38 branches are identified where computerized system are going to be applied. NBL has

recently introduced Any Branch Banking System (ABBS) in 27 of its branches. The total deposit and credit of the bank have undergone computerized system with 79 and 89 percent respectively. As in the case of RBB, computerized system for efficient, prompt and manageable services, Information Technology Policy has been formed and accordingly, Pumory Plus (a banking software) is in operation among the 40 branches of RBB. Pumory Plus is also applied in two departments under the Head Office while in other 37 branches outside Kathmandu, Rastriya Banijya Bank System (RBBS) is in operation. Integrated Banking Information System (IBIS) are already in full implementation. About 86 and 96 percent of deposit and credit of RBB has undergone computerized system by January 2009. Under restructuring of NBL and RBB, processes to appoint a new Chief Executive Officer through open competition has already been started.

- 4.61 Review of the restructuring process of both banks shows that there has been an increase in net profit since FY2003/04; the negative net worth of both banks gradually reduced; various plans, policies and directives of international standard has been designed and implemented to ensure stability of banks. Likewise, internationally accepted management practice and rightsizing models are introduced. Hence, the progress made so far seems positive. Despite this, repayment of non - performing loans is not satisfactory.

Table 4 (m) : Status of Nepal Bank and Rastriya Banijya Bank

Description	Mid-July 2002/03	Mid-July 2007/08	Mid-January 2009*
Nepal Bank Ltd.			
Net profit (in Million Rs.)	(252.0)	529.0	450.0
Capital Fund (in Million Rs.)/() Negative	(98.3)	(57.2)	(55.6)
Non-Performing Loan (Percent)	60.47	12.38	8.98
No. of staff	5,250	2,885	2,852
Rastriya Banijya Bank			
Net profit (in Million Rs.)	(48.5)	1,770.0	110.0
Capital Fund (in Million Rs.)/() Negative	(22,390.0)	(155.0)	(14,490.0)
Non-Performing Loan	60.15	21.65	18.72
No. of staff	5,402	3,002	2,939

* Unprocessed

- 4.62 While reviewing the progress made so far on the overall capacity enhancement of financial sector, computerization of the Credit Information Centre Ltd. is launched. The Information Centre's Committee is involved in necessary discussions and forwarding the processes concerned with Bid Documents submitted to the project for its computerization. Likewise, trainings/studies /observation tours and visit programs are being conducted for capacity

enhancement of the staff of the Credit Recovery Tribunal. The computerization of the Tribunal will soon be carried out.

Box 4 (e) : Capacity Enhancement of Overall Financial Sector

The Phase III of Financial Sector Reform Program aims at overall capacity enhancement of the overall financial sector. In order to consolidate the Central Bank's role on regulatory and supervisory responsibilities to enable the bank perform its role in an efficient manner enactment of a tough law is necessary. For this, integration of existing laws is essential as well. Such integrated and consolidated Acts and regulations will certainly ease to control/regulate other banks and institutions of similar nature. Meanwhile, programs of gradual reform on legal structure of the financial sector and their capacity enhancement are continued.

Establishment of Banks and Financial Institutions

- 4.63. Responding to the applications for the establishment of six banks namely, Janata Bank, Century Bank, Mero Bank, Sangrila Bank, Civil Bank Ltd., and State Bank of Nepal, processes (in different phases) are underway to issue licenses to banks.
- 4.64. Following the decision of in April 2009, NMB Bank with its Head Office in Kathmandu metropolitan, is granted license to operate banking services of class "A" in May 2009. Similarly DCBL Bank Ltd. and Kist Merchant Banking and Finance Ltd. are granted license in May 2009 for conducting "A" Class banking services.
- 4.65. The request letters received so far about the merger of five 5 financial institutions namely, Mahalaxmi Finance Ltd. Butwal Finance Ltd. Siddhartha Finance Ltd. Birgunj Finance Ltd and Himchuli Development Bank, have been studied. Nepal Rastra Bank responded to applicants based on its circular of 5 September 2008 that it can be considered if application for such merger is received subsequent to raising the level of their capital fund.
- 4.66. During the review period, the number of "B" class banks reached 60 from 58 banks. Meanwhile, Development Credit Bank Ltd. (DCBL) of "B" class has been upgraded to "A" class whereas 3 new development banks have been established. Among the new banks, Jyoti Development Bank is located in Kathmandu, Purnima Development Bank Ltd. at Siddhartha Nagar Municipality and Shine Development Bank is located at Butwal Municipality of Rupandehi district. Processes in various phases are underway for 39 new banks planned for establishment.
- 4.67. Since no "C" class financial company was established in the review period their number is contained to the previous⁷⁸ by mid-March 2009. Out of these, 53 financial companies are based in Kathmandu, whereas 25 are located outside

valley. Meanwhile, 8 more financial companies are in the different phases of their establishment process.

- 4.68. The number of "D" class microfinance companies has reached 13 against earlier 12 with one more Micro Finance Development Bank added during the review period. The new one, Shree Naya Nepal Micro-finance Development Bank is based at Dhulikhel of Kavre district.
- 4.69. There has been no change in the number of cooperatives with limited banking services registered under Cooperative Act and limited to 16 (as before) by mid-March 2009.
- 4.70. The number of non- governmental organizations working as intermediary agency, has limited to 45 by mid-March following the cancellation of licenses of Nepal Gramin Bikash Samaj Kendra Biratnagar, and Chhimek Samaj Sewa Sanstha, Kathmandu.

Regulatory Arrangements for Banks and Financial Institutions

- 4.71 Following the directives and defined conditions, the credit channeled to hospitals through commercial banks (A), development banks (B), financial companies (C) will be considered as the credit to deprived group.
- 4.72 Actions have been taken for further steps including payments against deposits of defaulters listed in the black list. The list has so far 70 creditors in the first list, 33 in the second list and 238 in the third list totaling to 341 individuals.
- 4.73 Licensed financial institutions (except national banks and financial institutions) are obliged to flow credit against security of fixed capital within their designated geographical area by not going beyond the district. However, there is no such restriction on project loans.
- 4.74 Regarding promoter shareholders' claim on right shares, preferential shares or debenture, it should first be approved by the Credit Information Bureau and proved as delisted from the blacklist. Provisions are made to handover the promoters' shares to shareholder themselves unless they are legally distributed, bought, sold, or forfeited.
- 4.75 Regarding managers, CEOs, auditors and Secretary of bank and financial institutions; or individuals or their family members directly involved in the management of bank and financial institutions' auditing are restricted to carry on defined activities while in office or till one year after retirement. Individuals from the above positions, or working at any other organization/ institution under their ownership or control are barred from performing the defined activities.

Box 4 (f) : Major Highlight of the Directives on Margin Lending

1. Credit having the nature of Margin lending should not exceed the period of one year of circulation. Neither the renewal nor restructuring/re-tabulating can be made on such types of credit.
2. Credit flow against the guarantee of shares with nature of margin lending could be provided up to 50 percent of the average value of the closing price of the shares for the last one hundred eighty working days or up to fifty percent of prevailing market price, whichever is less. This system is continued while the provision is made for margin call based on defined conditions.
3. Provision has been made to make coupon rate transparent on the deposit and no other fee or commission or perks can be taken while accepting deposits of any kind.
4. Provision has been made to prepare compulsorily all the necessary documents in Devnagari scripts and Nepali language from 3 May 2009. However, this is not compulsory in transaction with foreign citizens.

- 4.76. Arrangements have been made to consider the promoters' share investment in D class financial institutions by licensed banks of A, B and C class and financial institutions as the credit flow to the deprived group.
- 4.77. In addition to submission of Directives Form Nos. 9.1 to 9.13, a Form 9 (a) has been added to be filled up by Banks and Financial Institutions with all financial details as mentioned in the form. These forms should be submitted to the Financial Institutions Regulation Department and the concerned Supervision Department of Nepal Rastra Bank within two weeks of the end of every month.
- 4.78. While issuing Subordinated Term Debt and Redeemable Non-convertible Preference Share unguaranteed by banks or financial institutions, the existing provisions are given continuity under the defined conditions.
- 4.79. Banks and financial institutions are bound to avail credit and loans against security of Fixed Deposit Receipt (FDR) of their own banks/financial institutions only. They have to obtain pre-approval from NRB in case they have to avail credit/loans against other banks'/financial institutions' Fixed Deposit Receipt.
- 4.80. While making quarterly payments of interest on the credit/loan, banks and financial institutions are obliged to add interest on the account of depositors in the same manner.
- 4.81. Banks and financial institutions are not allowed to lend more than one-third of their net deposit liabilities while mobilizing their financial resources.
- 4.82. There is an obligatory provision for the managers/directors of banks to submit details on Self-Declaration (of income) in the defined form to NRB. Financial institutions should submit to NRB details/ registration/log books about their promoters.

- 4.83 The minimum balance of the capital fund of banks and financial companies must be maintained any time at the defined ratio. Failing to do this, they are subject to face actions.
- 4.84 All banks of A, B and C class and financial companies, while lending to or investing on other banks and financial institutions; are obliged to consider and accept them as Inter bank Transactions/Borrowing/Investment and not as Regular Credit facility.
- 4.85 Licensed banks and financial institutions can assist in making pre-investment on promoters' shares at their will for the purpose of capital sufficiency. But, the defined criteria should be met.
- 4.86 While flowing the credit of any kind, banks and financial companies must compulsorily prepare the document, guarantee paper or approval letter in *Devnagari* script and Nepali language under the existing law. This is obligatory to any borrower or guarantor (individual, firm, company and institution).

Box 4 (g) : Directive on Upgrading of Bank and Financial Institutions

1. On request made by NRB Licensed Financial Institutions of B and C class for upgrading, necessary arrangements to proceed would be made.
2. Provision of upgrading financial institutions of D to C class is made on request from them provided the request submitted to NRB and requirements fulfilled.

- 4.87 According to the Clause 69 of the Bank and Financial Institution Act 2063 (2006), two or more banks or financial institutions can merge with each other and request for the license on upper class Bank. However, process will advance only after finalizing the accumulated and increased capital fund.
- 4.88 New arrangement has been made for licensed banks and financial companies for their cross-holding promoter shares and their right share as defined by NRB.

Box 4 (h) : Directive on Deprived Sector Lending

- (i) Continuity is given to the present obligation of disbursing at least 3 percent of total credit for commercial banks in deprived sector in FY2008/09 as well. Development banks and financial companies are obliged to disburse minimum 1.5 percent and 1 percent respectively for deprived class since 18 October 2008.
- (ii) Concerned with foreign employment, especially, for Dalit, ethnic groups, women, oppressed, Madheshi, minority and backward societies (as defined by Government of Nepal) NRB has continued availing refinance to commercial and development banks equal to Rs.500 million as/ on loan security for these groups at the interest rate of 1.5 percent. Commercial and development banks can not take interest more than 4.5 percent from these deprived groups as long as they enjoy re-finance facilities from NRB.
- (iii) Banks and financial institutions would be entitled to lend youth and small

enterprisers up to Rs.200 thousand without security under Youth and Small Entrepreneurs Fund Act 2009. Such loans will be considered as deprived sector credit in turn.

- (iv) Under the Renewable Power Technique ,Micro Hydro Power Project of 50 kilowatt, Solar Home System, Solar Cooker, Solar Dryer, Solar Pump, Bio-gas, Improved Water Mill, Improved Cook Stoves, and Wind Energy, not exceeding Rs 60,000 per family is counted as deprived sector credit
- (v) The loan up to Rs.0.4 million for purchase/construction of house to individuals qualified for deprived sector under defined circumstances would be considered as deprived sector credit.

- 4.89 Relating to capital increase for any purpose, they must compulsorily present the details of income source in the designated pattern to be invested while purchasing promoters' shares.
- 4.90 Banks and financial institutions maintaining capital fund ratio can issue public shares with pre-approval of NRB. However, they are obliged to automatic cancellation of the portion of right shares (except on mentioned circumstances), in case shareholders do not purchase shares, or deny to sell or transfer the right of share to others.
- 4.91 Policy arrangement has been made for individuals/firm,/company/household or organized institution to limit their investment of 15percent paid amount on promoters' shares of banks(class A,B,C) or financial institutions. Promoters' share holders of banks and financial companies who fail to do this or cross the limit are restricted from cash debenture, bonus shares, and right shares availed by banks/financial institutions.
- 4.92 Banks and financial companies are bound to make the final decision within five days of claim, if for any reason, the beneficiaries claim the repay of bank guarantee they have secured after completing all formalities.
- 4.93 The "D" class micro- finance companies are provisioned for providing micro credit up to Rs.60 thousand against adequate security to individuals even though they are not integrated in groups.
- 4.94 Banks and financial companies enriched with SWIFT (Society for Worldwide Interbank Financial Telecommunication) technology can transfer the amount from NRB's account in Thapathali through SWIFT Message.
- 4.95 Licensed banks and financial companies are allowed to invest on hydropower projects; they can do this as per their own rules and regulations up to 25percent of their preliminary capital. Nevertheless, they are bound to make Power Purchase Agreement with concerned agency along with other obligations, in case they invest 25 to 50 percent on such projects.

- 4.96 Arrangements have been made for inclined companies to pay through electronic payment of purchased goods and services such as internet, mobile etc under the existing laws and regulations.
- 4.97 NRB has reframed Capital Adequacy Framework 2007 according to the new standard (BASEL II) as per demand of time. The updated Capital Adequacy Framework 2008 is under full implementation since July 2008.
- 4.98 Provisions are made to complete share distributions allocated for general public within two years of operation of licensed banks and financial institutions.
- 4.99 While disbursing credit on security of fixed deposit (FDR Loan) and other guarantee papers, the interest rate should not be below the coupon rate. This system is applicable to inter banking credit services of all licensed banks and financial institutions; excluding other companies.
- 4.100 Licensed banks (A, B and C) and financial institutions can carry out Share Deposit Policies under designated conditions.
- 4.101 Policy arrangements have been made for approving permission for additional shareholding ratio by changing the capital structure of commercial banks, provided that they make formal request to NRB for consideration.
- 4.102 NRB has clarified that besides holding Promoters' shares, those who hold shares of banks and financial institutions fulfilling the due process of public offerings by such authorized institutions, any national or international person or institution holding shares acquired through the Promoter, the Promoter's group or private placement would be considered as the Promoter and Promoter's Group for the regulatory purpose of NRB.
- 4.103 After the formation of Complaints Hearing Unit and Complaints Management Committee 386 complaints were registered by mid-March 2008. Out of these, hearings on 305 complaints have already been completed while necessary inter - bank/inter- finance companies' exchange of documents is underway for the remaining 81 complaints.

Inspection and Supervision of Banks and Financial Institutions

- 4.104 NRB has adopted a policy of scientific inspection and supervision for sustainable growth of economy by developing healthy and competitive banking and financial institutions and increasing public confidences .Such supervisions are based on standards defined by international agencies and universal principles and practices. In order to minimize the risks emerged by the growing number of banks and finance companies and viewing the limited supervision capacity, Risk Based Supervision as an instrument has been emphasized in recent years. Inspection and supervision processes at micro- level have been

regularly advanced, especially for troublesome banks and financial institutions. A separate monitoring mechanism has been developed for the purpose.

- 4.105 The inspection and site-supervision of the overall banking and financial sector is continued also in FY2008/09. Weaknesses and deficiencies encountered during site supervision are addressed on the spot as far as practicable. Regular directions on corrective measures are provided based on the supervision report, to make the implementation more effective. Based on the reports from site supervision reforms are being made in organizational structure and restructuring of supervision unit giving high priority to monitoring and implementation of these reforms.

Box 4 (i) : Progress of Inspection and Supervision upto mid-March 2009

On-site Inspection

The overall site supervision of 21 commercial banks has been completed by the end of mid-March 2009 while inspection of 4 other banks will have completed by the end of the current Fiscal Year. Likewise, 14 development banks, 42 finance companies, 6 cooperatives with limited banking services and 4 non governmental organizations on micro finance have been supervised on the site.

Off-Site Supervision

During the review period off-site supervision of 72 financial institutions have been completed while the off-site supervision of 6 financial companies is pending as the details of their audit of FY2006/07 has not been availed.

Special Inspection

During the review period special supervision of 9 development banks and one micro-finance development bank has been as per felt need.

Follow-up and Targeted Supervision

Follow-up supervision of one development bank and one finance company was made while targeted supervision of 17 development banks and 10 finance companies' have been completed during the review period.

- 4.106 Continuity is given to take pre- approval by commercial banks from NRB before publishing their financial details. A few banks are made to pay fine for not maintaining compulsory reserve fund as directed and for not disbursing credit on deprived sector. The structural reforms are made on Off-site supervision in order to make it more effective and time relative. Software Data base of big borrowers has been prepared and commercial banks have been informed about it. The regular updating of Check List on Early Warning System is being carried on the desks of concerned banks.
- 4.107 Continuity is given to the regular follow-up programs on liquidity in order to address problems concerned with commercial banks' existing liquidity. The daily follow up on commercial banks' liquidity through a separate supervisory unit has been helpful in identifying the real liquidity in banking sector.

5. Capital Market

Primary Market

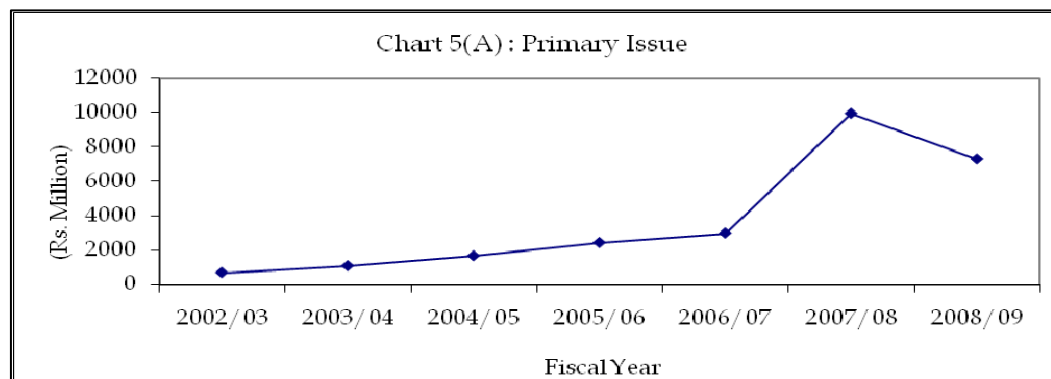
5.01 In the first nine months of FY 2007/08, 30 companies issued securities and mobilized capital equivalent to Rs.7.315 billion. Of the 30 companies, 4 companies issued ordinary shares, 24 issued right shares and two issued debentures. This amount is more 46.7 percent higher than the amount mobilized through the issuance of securities in the same period last year. In the first nine months of FY 2007/08, 26 companies had mobilized Rs.4.986 billion by issuing securities.

Table 5 (a) : Primary Market Trend

(In Million Rs.)

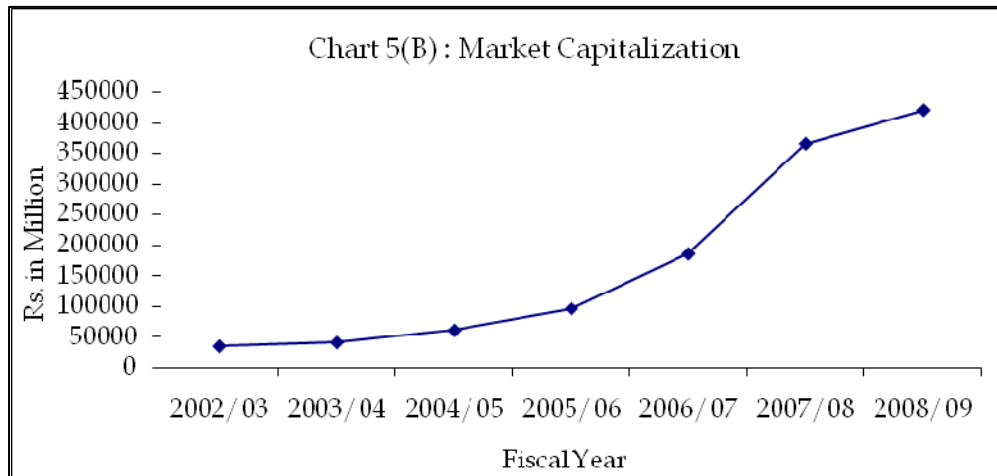
Description	Fiscal Year						First Nine Months	
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2007/08	2008/09
	1 Capital Mobilization	69.66	109.04	167.23	244.33	229.55	996.82	498.65
2 Ordinary Shares	39.43	65.75	37.75	57.98	38.02	92.48	40.24	99.30
3 Rights Shares	16.22	7.0	94.93	101.35	126.53	609.34	308.41	557.25
4 Preference Shares	-	-	-	-	40	-	-	-
5 Debentures	-	30.00	30.00	85.00	25	295	150	75
6 Mutual Funds	10.00	-	-	-	-	-	-	-
7 Citizens Unitary Plan	4.01	6.29	4.55	-	-	-	-	-
8 Number of Capital Mobilizing Companies	18	14	14	29	34	64	26	30

Source: Securities Board of Nepal



Secondary Market

5.02 In the first nine months of FY 2007/08, 15 more companies got listed in Nepal Stock Exchange Limited (NEPSE). With this, the total number of companies listed with NEPSE has reached 157. The number of listed companies was 142 at the end of FY 2007/08. Market capitalization increased by 74.7 percent totaling Rs. 421.159billion by mid-April of FY2008/09 from Rs.241.128billion a year ago. The total value of capitalized NEPSE turnover touched a record high to Rs. 612.0 billion on 31 August 2008, which was Rs. 366.30billion at the end of FY2007/08.



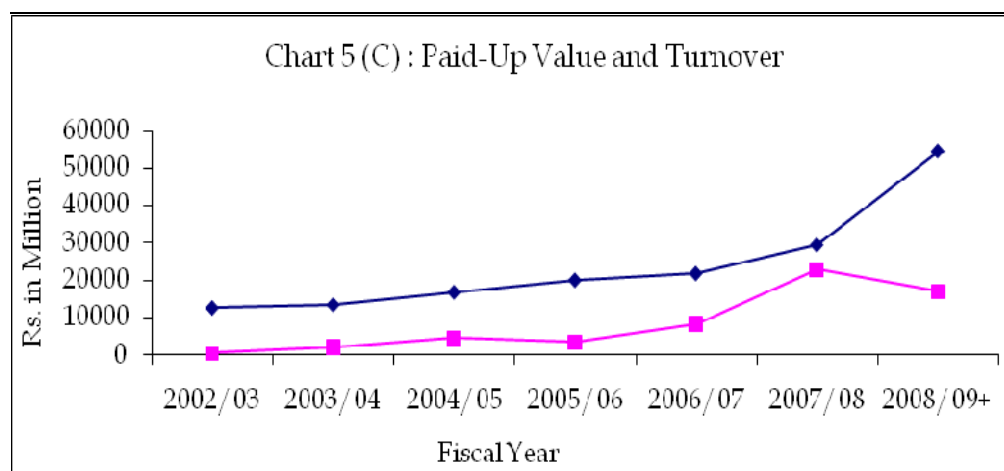
- 5.3 Altogether, 22.16 million units of shares were traded in the first nine months of FY 2008/09 as compared to 18.735 million units traded in the same period last year with an increase of 13.8 percent. Total value of such transactions was Rs.16.983billion as compared to Rs. 14.925 billion in the same period of the previous fiscal year
- 5.4 The paid-up value of listed shares steeply rose by 122.38 percent reaching Rs. 54.681billion in the first nine months of the current fiscal year as compared to Rs. 24.589billion in the corresponding period a year ago.
- 5.5 The number of share transactions conducted in first nine months of FY2008/09 grew by 58.3 percent totaling 151,942 shares from 95,970 shares transacted in the same period of FY2007/08.

Table 5 (b) : Secondary Market Trend

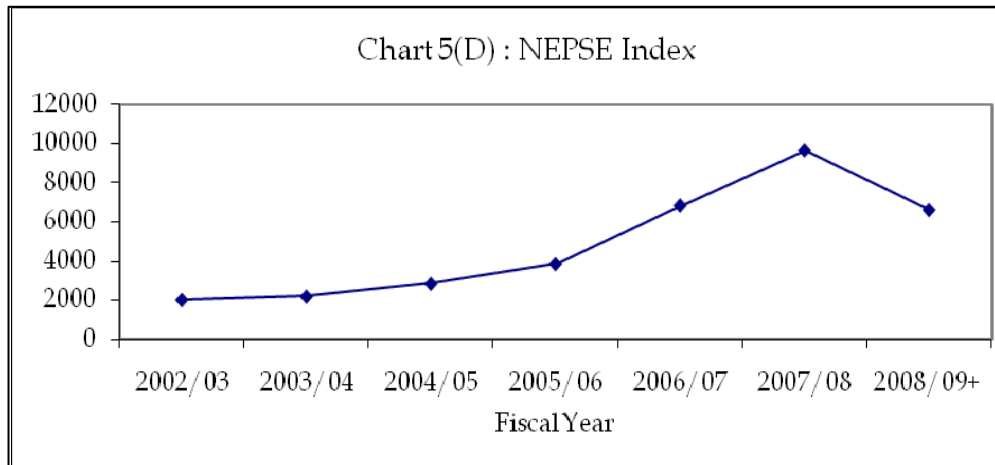
(In Million Rs.)

Description	Fiscal Year							
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	First Nine Months	
							2007/08	2008/09
Share transaction value	575.8	2,144.3	4,507.7	3,451.4	8,360/.1	22,820.8	14,925.4	16,982.8
No. of shares transacted ('000)	2,428	6,468	18,434	12,222	18,147	28,599.77	18,735.88	22,106.57
Transactions (No.)	69,163	85,533	106,246	97,374	120,510	150,800	95,970	151,942
Market capitalization value	35,240.4	41,424.8	61,365.9	96,813.7	186,301.3	367,247.5	241,127.8	421,159.1
Percent of transaction in market capitalization value	1.63	5.18	7.34	3.56	4.48	6.23	6.22	4.03
Market capitalization as percent of GDP	7.16	7.72	10.41	14.98	25.90	40.66	-	-
Paid-up capital value of listed shares	12,560.0	13,404.9=	16,771.9	20,008.6	21,798.8	29,462.0	24,589.0	54,681.0
No. of listed companies	108	114	125	135	135	142	146	157
No. of companies under transaction	81	92	102	110	116	136	130	164
NEPSE Index (in point)	204.86	222.04	286.67	386.86	683.95	963.36	746.69	661.27

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



- 5.6 During the first nine months of FY2008/09, NEPSE Index stood at 661.27 points with a decline of 85.42 percent from 746.69 points in the same period of the previous fiscal year.



Securities Board of Nepal (SEBON)

- 5.7 The Securities Board of Nepal has brought out the Shares Registration and Issuance Rules, 2008 (commenced from 12 November 2008) with incorporation of additional provisions for registration and issuance of shares; and Share Issuance Guidelines, 2009 (commenced from 22 March 2009).
- 5.8 The Securities Board of Nepal initiated for establishment of Securities Data Management System, at the end of the previous fiscal year, with the grants assistance from the International Development Association (IDA). Establishment of the system aimed at: (a) creation of securities related Central Data Bank by setting up internal and external direct information relationship; (b) efficient management of data system and information related to securities; (c) Mechanization of all internal operations of the Central Data Bank; (d) enhancement of the Share Market Monitoring capacity of the Board; and (e) prepare the Board for providing share market related information to national and international investors. The Project, during this period of nine months of the current fiscal year, has accomplished about 80 percent achievement including training the Board personnel on data management, procurement of hardware and software, preparation of various modules on information flow and the Central Data Bank. Once the project is completed, companies listed as well as making fresh issues can submit required statements online to the SEBON as per the Securities Act and Regulations.

- 5.09 During the review period the Board, upon revelation of a Broker found to have owned the businesses of more than one businesses and hiding the fact, fined the broker with Rs. 100,000 under the sub clause (4), Clause 101 of the Securities Act, 2063 (2007). In addition, a Law Enforcement Committee is formed on 8 April 2009 for effective execution of provisions of Securities Act and Regulations.
- 5.10 A Committee was formed under the coordination of the Chairperson of the SEBON as per the Secretary level decision of the Government of Nepal on 13 January 2009 for the establishment of a Central Savings Depository System. The Committee completed its task and submitted its Report on 15 March 2009. Accordingly, a Committee established with the Chairperson as a Coordinator, as per the Secretary level decision of the Government, is carrying out the task towards establishing the System.
- 5.11 The SEBON has issued Merchant Banking License to 15 companies as per the Share Traders (Merchant Banker) Rules, 2064 (2008) during first nine months of the current fiscal year. This number stood at nine in the same period of the previous fiscal year. Merchant Banking business is expected to be more competitive with the entry of additional Merchant Bankers.
- 5.12 The SEBON, during the review period, permitted issuance of primary shares to 30 companies subsequent to registration of Shares worth 7 billion 315 million 477 thousand one hundred Rupees. In addition, the Board registered the Stock Dividend worth 2 billion 629 million 405 thousand six hundred Rupees of 40 companies and accordingly permitted issuance of Bonus Shares.

Nepal Stock Exchange Limited

- 5.13 The NEPSE, in the first nine months of FY 2008/09, collected Rs. 678.079 million as capital gain taxes from share transactions and deposited in revenue accounts. The capital gain tax in the review period of FY 2008/09 is higher by 2.6 percent more than Rs.661.2 million collected as the capital gain tax in the same period last year.

Box 5 (a) : Central Depository System of Securities

Central Depository System of Shares include services like keeping records of shares, protecting them and returning ownership rights of the shares issued in the sharemarket by taking the ownership from the shareholders. Central Depository System of Shares may carry out functions like registering and documenting the rights of shareholders of the concerned companies, limiting the share numbers within the authorized numbers and clearing and settlement of share transaction. The shares, in Central Depository System, can be kept within central depository company through dematerialized and book entry system. In other words, the

precondition of the central depository system is the dematerialized of immobilized situation of the shares and the right transfer after the share transactions will be transferred through book entry which is exactly similar to the banking system that the money is being transferred.

The complete service providing Central Depository System will enhance the level of confidence of the investors through the developing opportunities for level playing fields for the share market; keeping records of right ownerships; protecting the ownership right of the shareholders; transferring the ownership and making payments; and making utilization of the developed share instruments. In addition, the Central Depository System will also help making the capital market more liquid, attracting foreign investors, and abiding the International Standards through the creation of environment for efficient and risk-free transactions of shares.

Establishment and operation of a Central Depository System has become imperative also from the perspective of the necessity of making effective and efficient arrangement for the current partially mechanized share transactions system into the fully mechanized system so that the secondary market could be opened for foreign institutional investors and NRN as well.

Based on the Report of the Committee formed for the Central Depository System, the process has been initiated for the establishment of a Public Company on the basis of agreement reached principally that Nepal Stock exchange, Citizens's Investment Trust, Credit Information Bureau, and six commercial banks of the country will own 50 percent, 15 percent, 10 percent, and 25 percent of the company shares. In addition to necessary preparation for registration of the System, drafting of the Memorandum of Association and By-laws for the Company, preparation is underway for the Procurement of hardware/software flexible enough for necessary modification in view of present status with foresight on the share market of the future so that a dependable and sustainable system could be established and operated.

- 5.14 As per the provision of the Securities Listing Regulations 2006, a total number of 78 listed companies have been classified as category A institutions in FY 2008/09. The number of companies listed in category A during the review period is more by 7. In FY2007/08, the number of companies listed in category A among the total registered companies was 71.

The Share Traders

- 5.15 At the end of first nine months of FY2008/09, the number of share brokers stood at 23, merchant bankers 15, seven issue managers for the government treasury bonds, and three market makers. The number of such traders in the same period of the previous fiscal year was, 23 share brokers, 9 merchant bankers, 7 issue managers for government treasury bonds, and three market makers.

Mutual Fund

- 5.16 The trading of NCM Mutual Fund worth Rs.100 million created on the Trusteeship of NIDC, and managed by NIDC Capital Market is carrying out the trading of Units issued under the Fund since brought into operation by listing it in Nepal Stock Exchange Market Limited in August 2003. Total value of the NCM Mutual fund by the end of first nine months of FY2008/09 was Rs.476.630 million with the Net Assets Value of the per Unit of Rs. 39.

Citizens Investment Trust (CIT)

- 5.17 The Citizens Investment Trust, in addition to funds collected through the Citizen Unit Scheme, collects funds from other plans it is operating including the Increment Approved Retirement Fund, Gratuity Fund Scheme, Investor Accounts Scheme, Insurance Fund Scheme, Defined Contribution Pension Plan etc. CIT, in the first nine months of the current fiscal year, added Rs. 5.03 billion the total fund accumulation amounting to 14.20 billion. Of the amount collected in the review period, 59.22 percent was in Employees Savings Increment Approved Retirement Fund, 4.68 percent in Citizen Unit Scheme, 10.65 percent in Investor Account Scheme, 15.53 percent in Gratuity Fund Scheme, 9.68 percent in Insurance Fund Scheme, and 0.25 percent in the Defined Contribution Pension Plan. The total fund collected during the first nine months of FY2007/08 stood at Rs. 9.168 billion.
- 5.18 The CIT in 2008/09, as compared to first nine months of the previous fiscal year, has invested additional amount of Rs. 4.985 billion making its total loan portfolio management reach to Rs.14.011 billion. Of the total investment, portfolios comprise of 11.63 percent in the Government Treasury Bonds and other fixed interest bearing instruments; 10.45 in periodic loans; 1.89 percent in share investment of companies; 9.45 percent in preference shares and debentures of companies; 11.0 percent on participants lending and home loans; and the remaining 55.57 in the fixed deposit accounts.
- 5.19 In the review period, total sale of the Unit Scheme introduced by the CIT has reached Rs.664.0 million with 13,415 participants in the scheme. The scheme has distributed the dividend of 6.25 percent per unit to participants during this period. The net amount of the fund by mid-April of 2008 stood at Rs. 698.2 million.

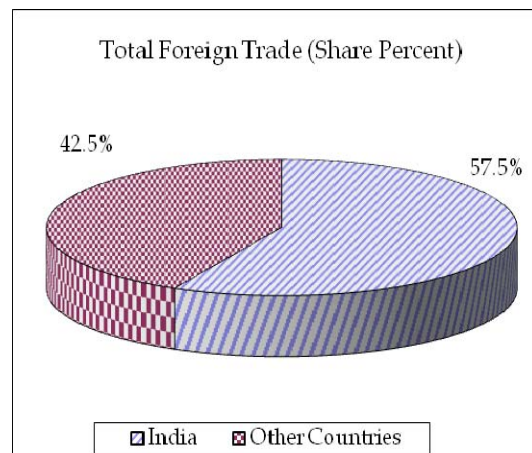
6. External Sector

Framework

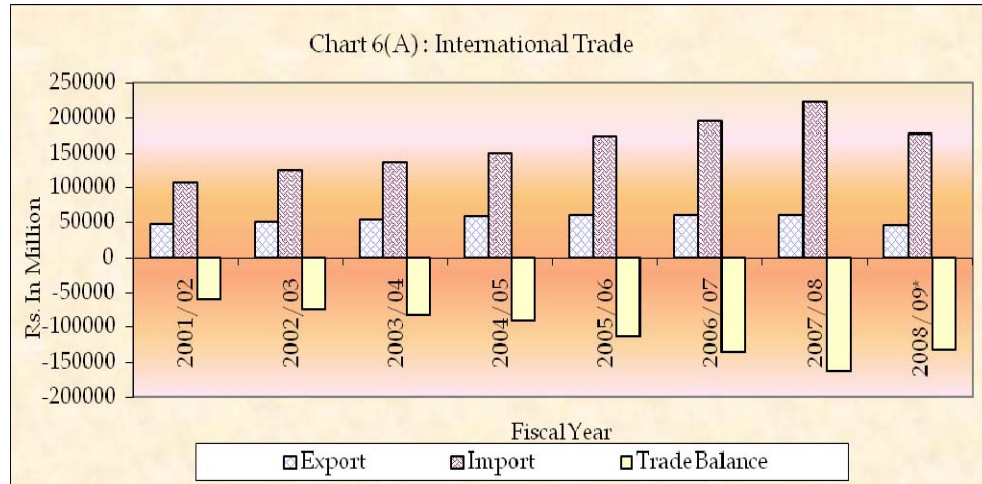
- 6.1 Current Account, the very crucial part of Balance of Payments, has continued to remain surplus in recent years. Despite deficit in the trade in goods, services and other incomes, the inflow of remittance, pension and foreign grants have resulted in notable savings in transfers having positive effect in the current accounts. Thus, the balance of payments on the whole, has remained surplus leading to a comfortable position of the foreign currency reserve for the last few years.
- 6.2 The existing arrangement of pegging the exchange rate of the Nepalese currency with the Indian Currency is continued for maintaining the price stability. The policy of leaving the market to determine the rate of exchange for foreign currencies other than the Indian Currency is also continued. Though current account is convertible, capital account is not. In addition, factors like not allowing foreigners in making portfolio investments in Nepal, and absence of a policy for Nepalese making investments overseas are limiting the flow of foreign exchange to some extent.

Foreign Trade

- 6.3 There has been an expansion of net export as well as import in the first eight months of FY 2008/09. During this period, the volume of foreign trade grew by 24.2 percent reaching to Rs220.32 billion. The growth of foreign trade for the same period of last fiscal year was 37.1 percent with 17.1 percent increase in export and 26.1 percent increase in imports. The share of export in total foreign trade is 20.1 percent with the major chunk of 79.9 percent to the export. The share of export and import to the total foreign trade for the previous year was 21.3 percent 78.7 percent respectively. The increasing tendency of import without the growth in export has led to the expansion of trade deficit. Consequently, trade deficit for the first eight months of FY2008/09 has reached 29.5 percent, which was 37.7 percent during the same period of the previous year. The share of foreign trade

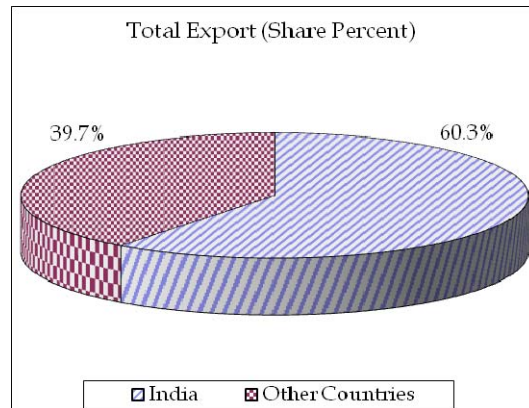


with India is 57.5 percent, whereas the share with other countries is 42.5 percent



Export

6.4 During the first eight months of FY2008/09, the total export has increased by 17.1 percent to Rs44.30 billion, against the decrease of 2.9 percent in the same period of the previous fiscal year. The increasing tendency of export to other countries has been significant whereas it is just moderate with India. Consequently, the share of export to India fell by 60.3 percent from 68.2 percent of total exports of the previous year. In US dollar terms it decreased by 1.1 percent in the current fiscal year against the increase of 9.1 percent in the



previous year. One major factor for this decline is the depreciation of Nepalese currency vis-a-vis by 15.6 percent with US dollar (as compared to eight months of the previous year). The ratio of total export to total import decreased by 25.2 percent in comparison to 27.1 percent in the previous year as a result of the increase in imports during the first eight months of the current Fiscal Year.

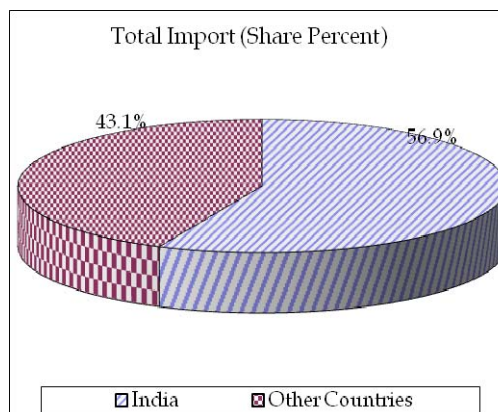
6.5 Looking at the data on trade with India, export increased by 3.6 percent during the first eight months of the current FY to Rs26.72 billion against the decline of 6.9 percent during the same period of the previous year. Export of commodities like; readymade garments, shoes, rice, toothpaste, GI Pipe, and

noodles increased whereas export of vegetable ghee, CGI sheets, jute and jute-products, M.S pipe and plastic goods had decreased. Structurally, the share of export to India during the first eight months of current Fiscal Year is 29.8 percent for the primary products and 70.2 percent for manufactured goods, which was 30.8 percent for primary and 69.2 percent of manufactured goods in the previous year.

- 6.6 Export to countries other than India during the review period of this fiscal year increased by 46.1 percent to Rs.17.58billion in comparison to increase of 6.9 percent in the same period of the previous fiscal year. The reason for this increase of export to third countries is the increased demand for pulses from Bangladesh, in addition to the increased market for woollen carpet, pashmina and herbal products and other goods in the third countries. On the group-wise structure, the share of exports of primary and manufactured products to the third countries was 37.4 percent and 62.6 percent respectively, which was 20.1 percent and 79.9 percent in the previous fiscal year.

Import

- 6.7 In case of imports, the total import increased by 26.1 percent to Rs.176.2 billion in the first eight months of the current fiscal year in comparison to the increase of 19.2 percent during the same period of the previous fiscal year. In US Dollar terms, the increase of total import for this year is 6.5 percent, which was 34.5 percent for the previous year. Total import from India declined to 56.9 percent from 63.4 percent of the previous year whereas the share of import from the third countries increased by 43.1 percent from 36.6 percent in the previous year.



**Table 6 (a) : Status of Foreign Trade
(First eight months)**

Description	Percentage Change		
	2063/64	2064/65	2065/66**
Exports: FOB	-6.6	-2.9	17.1
- India	-6.4	-6.9	3.6
- Other Countries	-7.0	6.9	46.1
Imports: C.I.F.	-1.1	19.2	26.1
- India#	2.3	24.9	13.1

Description	Percentage Change		
	2063/64	2064/65	2065/66**
- Other Countries	-6.4	10.5	48.7
Trade Balance	2.0	30.2	29.5
- India	8.6	45.2	17.0
- Other Countries	-6.2	11.7	49.4
Total Trade	-2.6	37.7	24.2
- India	-0.3	15.0	11.0
- Other Countries	-6.6	9.8	48.2
Share in Total Trade			
- India	63.2	64.4	57.5
- Other Countries	36.8	35.6	42.5
Share in Total Exports			
- India	71.1	68.2	60.3
- Other Countries	28.9	31.8	39.7
Share in Total Imports			
- India	60.5	63.4	56.9
- Other Countries	39.5	36.6	43.1
Share in Total Trade Balance			
- India	55.2	61.6	55.7
- Other Countries	44.8	38.4	44.3

* Unprocessed

Petroleum products included in India from FY1999/2000

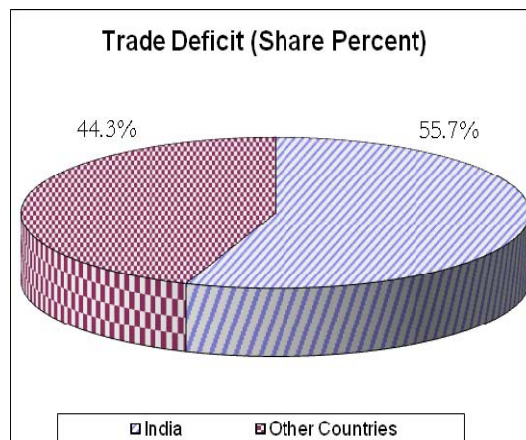
Source: Nepal Rastra Bank

- 6.8 During the first eight months of the current FY, imports from India increased by 13.1 percent amounting to 100.7 billion. The total foreign trade with India had increased by 24.9 percent during the corresponding period of the previous fiscal year. There has been a substantial increase in import of goods like petroleum products, vehicles and their accessories, cold rolled sheets in coils, other machineries with their parts, and garments. However, import of goods like M.S. billet, wire goods, chemical fertilizers, rice and M.S. wire rods declined during the same period. Due to the arrangement made for payment in foreign exchange, imports from India has declined by 8.6 percent limiting to Rs18.16 billion. During the corresponding period of the previous year, such import was worth Rs19.86 billion. The goods items eligible for imports by using foreign currency has reached 135 by mid-March. Structurally, imports of primary and manufactured goods stood at 42.4 percent and 57.6 percent respectively during the eight months of the current fiscal year, that were 39.4 percent and 60.6 percent respectively for the corresponding period of the previous year.

6.9 The total import from countries other than India was 10.5 percent, which has gone up by 48.7 percent amounting to Rs 75.95 billion during the review period. There has been a substantial growth in imports of goods like gold, MS Billet, electric and electronic goods, medicines, and computers and their parts. However, there is a decline in imports of palm oil, raw wool, telecommunications equipment, dry cell batteries and dyes. Structurally, contribution of primary and manufactured goods during the first eight months of the current fiscal year remained at 17.9 percent and 82.1 percent in comparison to 25.1 percent and 74.9 percent respectively during the same period of the previous year.

Trade Balance

6.10 During the first eight months of the current fiscal year, the total trade deficit increased by 29.5 percent amounting to Rs.131.73billion because of the substantial rise in imports and diversification of its bases as compared to total exports. The trade deficit in the corresponding period of the previous year had increased by 30.2 percent amounting to Rs. 101.75 billion. During the review period, trade deficit with India touched Rs. 53.36 billion with 17.0 percent growth, whereas the trade deficit with other countries totaled Rs. 58.38 billion with a notable growth of 49.4 percent. The trade deficit with India rose by 45.2 percent in comparison to the 17 percent rise in trade deficit with other countries during the corresponding period of the previous fiscal year.



Box 6 (a) The New Foreign Trade Policy

- The New Foreign Trade Policy declared replacing the 19-year old Foreign Trade Policy has embraced the norms of World Trade Organization (WTO) as well as the norms and practices of other Regional arrangements on Trade. Special priority has been given to the important constituent factors of WTO- Service, trade and intellectual property policy.
- The policy has given emphasis to Tourism, Education, Health and the Four Modes of WTO under the Service Trade. Mode Four has conceptualized the guarantee of protection for foreign workers

visiting abroad for employment. In order to encourage Mode Four at national and international levels, this policy has been included in our new Trade Policy. However, Mode Four is yet to be adopted. The new policy has mentioned about the formation of Trade Promotion Council to promote Service Trade.

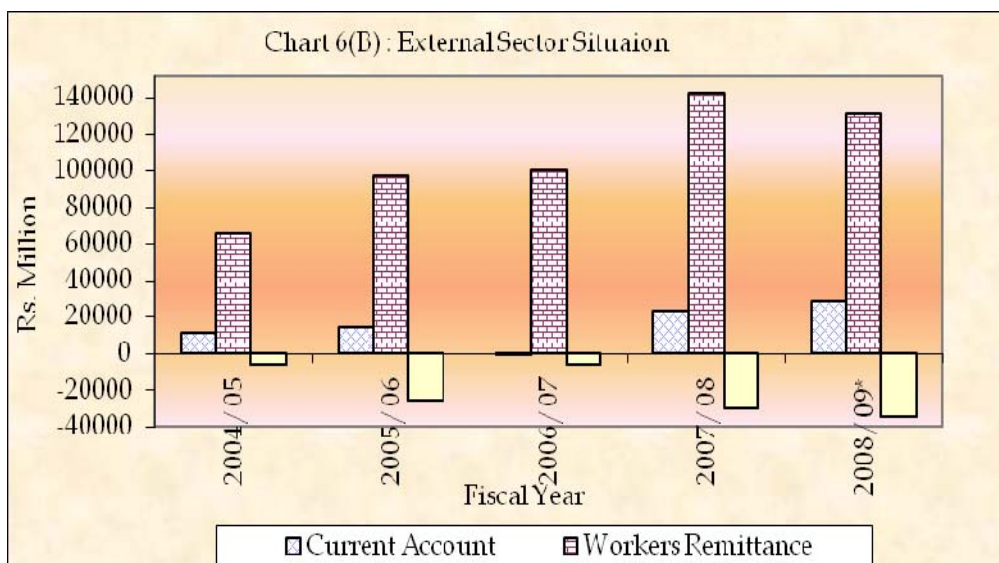
- For the first time in history, the Policy has envisioned the provision of initiating legal arrangements for the protection Nepali goods under Intellectual Property Rights Act. Necessary legal arrangements will be made concerning the Patent Rights, Trade Mark, Geographical Indication and Copy Rights including Industrial Properties Protection Act
- So far as the goods for trade is concerned, readymade garments, carpets, Pashmina wool and handicrafts have been given priority as before. Likewise, special priority is given to tea, leather goods, vegetable seeds, cardamoms, lentils/pulses and floriculture, ginger medicinal herbs etc. The policy has envisaged a 23-Member Board of Trade and Commerce Promotion, which has also mentioned that Trade Promotion Council will be formed by integrating the present Export Promotion Centre for the growth and promotion of Nepali goods. High priority has been given to Special Economic Zone

Balance of Payments

- 6.11 Despite the growth in the trade deficit, the Current Account Balance is in surplus with overall favourable Balance of Payment during the first eight months of the current fiscal year. It is mainly due to the growth in Net Transfer Income through encouraging growth in remittance as well as income from investments.
- 6.12 Total exports, with adjustment of the trade transactions bypassing the customs, has reached Rs.46.31 billion with a growth of 17 percent whereas imports totalled Rs.172.78 billion with an increase of 25.9 percent. As a result, trade deficit grew by 29.5 percent Rs. 126.47 billion as compared to last year's 32 percent in the previous fiscal year.
- 6.13 During the review period, income from tourism sector has increased by 54.5 percent and incomes of the government other than included elsewhere by 25.1 percent and income from other services by 27.4 percent. Consequently, total income from service sector reached Rs.34.47 billion with a growth of 38.5 percent as compared to the corresponding period of the previous fiscal year. The growing trend of Nepali students going abroad for higher education has resulted in an increase of travel expenses

during the review period by 58.1 percent. Since travel expenses and other payments have increased, total service repayments increased by 27.1 percent amounting to Rs.43.78 billion as compared to the corresponding period of the previous year. Thus, the net service income has remained negative by Rs 9.31 billion during the review period.

- 6.14 The Capital Account has recorded a capital transfer equivalent to Rs131.01 billion with the growth of 58.9 percent during the review period. Grants and pension have increased by 83.3 and 1.2 percent respectively. The net transfer income has reached to 157.52 billion with a growth of 53.5 percent, and hence the net surplus in the current fiscal year is Rs.28.94 billion, which was in deficit by Rs.1.54 billion in the corresponding period of the previous year.
- 6.15 During the review period, the Capital Account transfer stood at Rs. 4.63 billion as compared to such transfer receipts of Rs. 6.72 billion in the corresponding period of the previous year, showing a marginal decline than in the previous fiscal year.
- 6.16 In Financial Account, other investment assets of Rs 3.41 billion is added to the previous fiscal year's income of Rs. 5.79 millions during the same period of the last year. So far as other investments and liabilities are concerned, the government borrowing amounted to Rs 5.1 billion, while repayment of the principal amount equaled to Rs 5.42 billion. The total foreign deposit liability increased by Rs 12.48 billion during the review period with the Balance of Payments recording a surplus of Rs.14.81 billion by Mid-march of current fiscal year in comparison to Rs. 13.63 billion for the corresponding period of last year.



Foreign Exchange Reserves

6.17 The total foreign assets of the banking sector reached Rs 271.46 billion with an increase of 27.3 percent till Mid March of the current fiscal year as compared to the increase of 10.2 percent for the corresponding period of the last year. The foreign liabilities, however, increased by 30.9 percent against the previous year's 5.4 percent reaching to Rs. 54.72 billion. Thus, the net foreign reserves grew by 26.4 percent to Rs 216.74 billion

Box 6 (b): The Proposed Legislation on Special Economic Zone

- Provisions like export processing, export trade zone, tourism sector, as well as other sectors as decided by the government of Nepal, will be for the parts of the proposed Special Economic Zone (SEZ). All the commercial activities, manufacturing of goods and services carried out within the Special Economic Zone will lie beyond the scope of the tax.
- To encourage foreign investors, six-months non-tourist visa facility will be provided to foreign investors along with other facilities like, operate bank account in foreign exchange, invest in industry and trade, and visit Nepal for study and research for further researches on Nepal to encourage the foreign investments. Families of such investors will also be provided visa as long as they continue to invest in the country.
- Government will make necessary arrangements arrangement of security, banks, post offices and other facilities within the SEZ. Moreover, the Draft Bill also makes it clear that the government will facilitate in importing machine tools and equipment if necessary.

Table 6 (b) : Gross Foreign Exchange Reserves

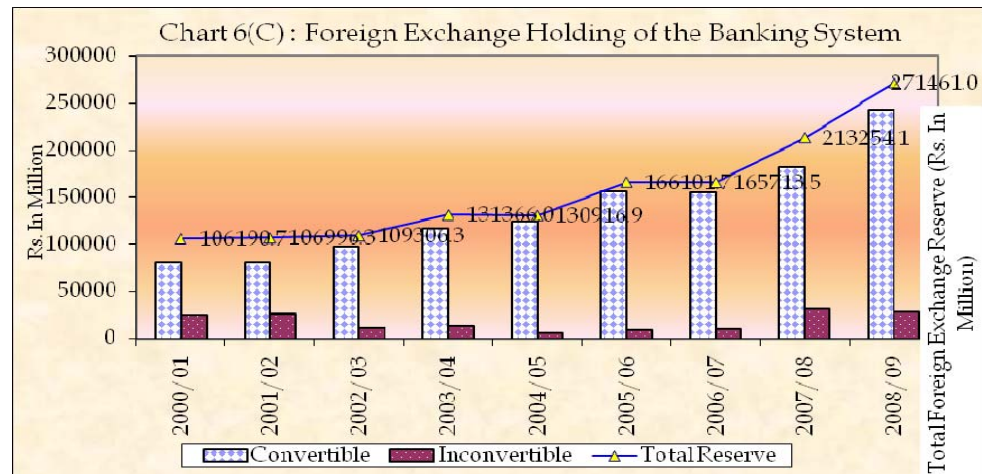
(In million Rs.)

Description	Mid-July 2006	Mid- March 2006	Mid-July 2007	Mid- March 2007	Mid-July 2008	Mid- March 2009	Percentage change (July-March)	
							2064	2065
Nepal Rastra Bank	131,970	142,060	129,610	144,290	169,680	218,460	11.3	28.7
Commercial Banks	33,060	35,020	35,500	37,690	42,940	52,340	6.2	21.9
Total Reserves	165,030	177,080	165,110	181,980	212,620	270,800	10.2	27.4

Source: Nepal Rastra Bank

6.18 As compared to Mid-July of 2008, the total foreign exchange reserve with the banking sector increased by 27.4 percent amounting to Rs.270.80 billion by Mid-March of 2009. During the same period of the previous year, such reserve had increased by 10.2 percent. The contribution of Nepal Rastra

Bank in the reserve was 80.7 percent, while that of other commercial banks was 19.3 percent of the current reserve. Viewing the import tendency as of now, the foreign exchange reserve with banking sectors seems enough to afford the import of goods for 12.3 months and goods or goods and services for 9.9 months. Till Mid March 2008, the reserve with banking sector was just enough to afford the import of 11.3 months and that of goods and services for 8.9 months.



Box 6 (c) : Procedural Reforms in the External Sector

Nepal Rastra Bank has adopted the following Procedures while adopting the External Sector Reform measures in FY2008/09.

- Foreign Exchange Repatriation facility made available to International Airlines operating in Nepal, their GSA/PSA and Travel Tour Agents for making payments to the concerned Airlines against the air tickets sold in foreign currency through Class 'A' Banks based on furnishing of details as set by Nepal Rastra Bank.
- Provision is being made to provide Foreign exchange facility for the supply order of Foreign Missions or International Agencies or organization for payment for goods imported from India in foreign exchange at FOB price. Such facility will be made available for the import of construction materials, machine and equipment if payments have to be made in foreign currency under the bilateral and multilateral Agreements.
- Upper limit of import through Draft/TT with the payment of foreign exchange from the third countries except India has been raised from US dollar thirty thousand to US dollar fifty thousand at a time.

- Repatriation companies are allowed to hold foreign exchange in their accounts for such amount received through repatriation.
- Limit of exchange facilities being made available to individuals and institutions through "A" class banks and the national level "B" class financial institutions is extended to US dollar 4,000 on the basis of submission of required papers.
- Any Class 'A' or 'B' Banks can directly release 10 percent money deposits made against advance payment to foreign parties including L/C payments upon submission of the proof of the completion of work.
- Provision is made for providing exchange facility through Class 'A' Banks for companies/projects selling electricity to Nepal Electricity Authority (NEA) for sales proceeds in foreign currency under the Power Purchase Agreement (PPAs) with Nepal Electricity Authority on submission of PPA, and recommendation from the NEA.
- Provision of foreign exchange facility is available to Foreign Missions in Nepal to repatriate back home the amount collected against visa fees through "A" class banks and "B" class national level financial institutions.
- With an objective of minimising the impact of global economic crisis on importers and hedging them against the potential rapid fall in prices in the international market, importers importing goods under the Trust Receipt or similar provisions are extended 180 days credit (instead of earlier 90 days).

Exchange Rate

6.19 A mixed trend in the exchange rate of Nepalese currency against major international currencies was noticed during the first eight months of current fiscal year. Nepalese Currency depreciated by 17.02 percent against the US dollar between the period of July 2008 and March 2009, which had appreciated by 0.56% in the corresponding period of FY2007/08. Nepalese currency appreciated against Sterling Pound and Euro by 19.02% and 3.28% percent while it depreciated by 5.99 percent and 25.09 percent against Swiss Franc and Japanese Yen during the same period.

Prices of Crude Oil and Gold

- 6.20 The price of Crude Oil Brent was US Dollar 110.75 per barrel in March 2008, which sharply fell by 59.2 percent at US\$ 48.15 in March 2009. However, the price of crude oil has shown increasing trend in recent days.
- 6.21 Gold price in the international market has declined by 6.7 percent to US dollar 928 per ounce between March 2008 and March 2009.

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

	Mid July			Mid-March			Percentage Change			
	2006	2007	2008	2007	2008	2009	Mid-July		Mid March	
							2007	2008	2008	2009
Oil (Dollar per Barrel)*	76.54	79.73	143.25	61.02	110.75	45.18	4.2	79.7	81.5	-59.2
Gold (Dollar per Ounce)**	663.25	666.0	986.0	643.25	995.0	928.0	0.4	48.0	54.7	-6.7

* Crude Oil Brent

** London Based.

Source: Nepal Rastra Bank

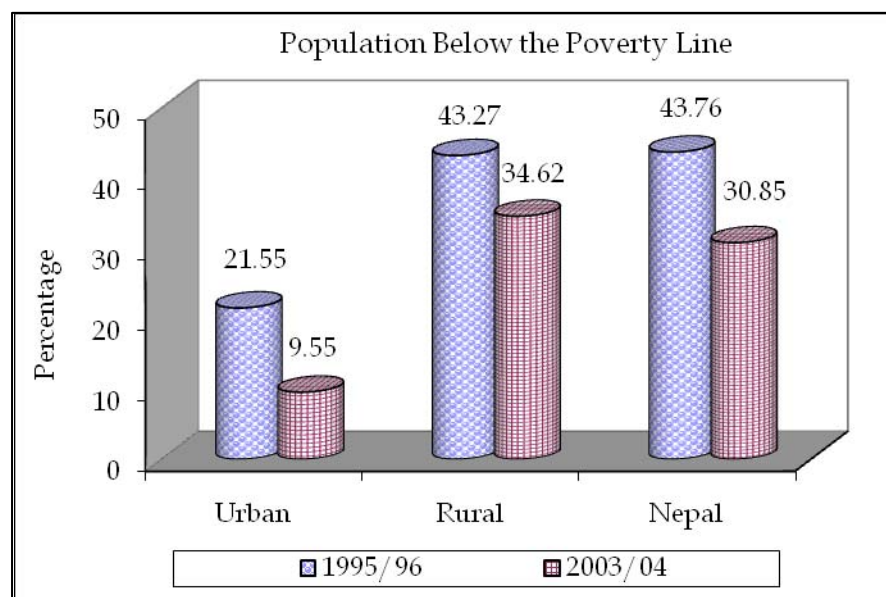
7. Poverty Alleviation and Employment

Poverty Alleviation

- 7.1 Poverty can be explained as a set of complex deprivation where potentials are curbed by scarcity, hunger, disease, unemployment, sufferings, powerlessness and negligence of human dignity. Poverty is studied from different dimensions such as, income, human, and social inclusion. Analyses of poverty incidence, poverty gap, and squared poverty gap are essential in the context of poverty alleviation. The poverty line is determined by whether purchasing power necessary for acquisition of basic goods and services is within or beyond the threshold of income. The poverty incidence refers to the number of people below the poverty line out of the total population, whereas poverty gap is a measure of population of the poor measured in terms of gap between the poverty line and the people below it. Likewise, indicator of the Squared Poverty Gap shows the intensity of different levels of poverty amongst the poor. Assuming an average of Rs.76,695 as the national poverty line according to Nepal Living Standard Survey (NLSS), 2003/04 around 30.85 percent of the population is still found to be below the poverty line. According to the same survey, in terms of Purchasing Power Parity (PPP), which is calculated on the basis of an income of One US dollar a day, the internationally adopted measurement standard of the by the World Bank, around 24.1 percent population is found to be living below the said poverty level.
- 7.2 The gap between urban and rural as well as various geographical regions and groups is still stunningly wide in Nepal. According to the Nepal Living Standard Survey (NLSS, 2003/4), during the review period of 1995/96 to 2003/04, urban poverty has decreased notably by 12 percent, whereas rural poverty has declined only by 8.65% and averaging a 10.91 percent reduction in poverty on the whole. Major reasons for this urban/rural difference are, income from remittance, fast growing urbanization, increase in average wage in the agriculture sector, and increase in the number of economically active population. However, the increased income gap in this period has widened the gap between rich and the poor. According to Gini coefficient, the indicator for income inequality, which was 0.34 in 1992/93 reached 0.41 in 2003/04 suggesting that income level of the rich has grown faster than that of the poor. Therefore, poor-oriented initiatives should be taken for policy-wide, structural and program-level reforms.
- 7.3 According to the Nepal Living Standard Survey (NLSS,2003/04), there is an unequal distribution of poverty in the dimensions of caste/ethnicity,

regional and occupational level. Among those under the poverty line, 67.0 percent are engaged in agro-based employment and 11 percent are agricultural labourers. This indicates that 78 percent of the total poor have made agriculture sector their prime means of employment. Among the various caste/ethnicity, the percentage of poor is 46 percent among *Dalits*, 44 percent among Hill ethnic groups, 41 percent among Muslims, 35 percent among Terai ethnic groups and 31 percent among other minority groups are below poverty line. Similarly, 40 percent of *Newars* 18 percent of Bramin/Chetri and 21 percent of the Middle class in the Terai population live below poverty line. Out of the total poor, 29.4 percent of population live in rural areas of Mid and Eastern hills. The percentage of Rural Poor is 23.6 percent in Western Hills, 23.5 percent in Eastern Tarai, 18.9 percent in Western Tarai, and 4.7 percent live in urban areas. Similarly, it is assumed that 7.5 percent live in High Mountainous Region, 47.1 percent in the Hills, and 45.4 percent in the Tarai out of the total poor.

- 7.4 Going back again to the NLSS 2003/04, the main reasons for the decline in poverty rate, as already mention in the foregoing paragraph, are remittance income, fast growing urbanization, increase in average wage in the agriculture sector, and increase in the number of economically active population. During FY 1995/96, percentage of urban population below poverty line was 21.6 percent which fell relatively sharply to 9.6 percent by 2003/04, but in the same period the population below poverty line in rural areas decreased to 34.4 percent from 43.3 percent. In addition, poverty gap in Nepal is estimated to be 7.6 percent and squared poverty gap as 2.7 percent.



**Table 7 (a) : Poverty Measures (1995/96 - 2003/04)
(Percentage)**

Areas	Population below poverty		Poverty Gap		Squared Poverty Gap	
	1995/96	2003/04	1995/96	2003/04	1995/96	2003/04
Urban	21.6	9.6	6.5	2.2	2.7	0.7
Rural	43.3	34.6	12.1	8.5	4.8	3.1
Nepal	41.8	30.9	11.8	7.6	4.7	2.7

- 7.5 The present 3-year Interim Plan aims at making people realize actual change by minimizing the current situation of unemployment, poverty and inequality, and assist in stabilizing sustainable peace in the country. Focussing on the main target, this present Plan, which has been formulated differently from the previous plans with more participatory processes, has given top priority to reconstruction, rehabilitation and social reintegration. In order to achieve these goals, this plan has envisioned 6 strategies, and they are: (1) Special Emphasis on Relief, Reconstruction and Reintegration (2) Employment and Poverty-oriented Broader Economic Growth (3) Promotion of Good-governance and Effective Service Delivery (4) Increased Investment on Physical Infrastructure Development (5) Emphasis on Social Development, and (6) Implementation of Targeted Programs and Inclusiveness.
- 7.6 The Three-year Plan has given high priority to increase the level of investment in infrastructures like power development, roads, irrigation, and communications that support reconstruction and rehabilitation, inclusiveness, tourism, and industry. Similarly, invest more on health, education, drinking water, and sanitation for Human Resource Development. The plan has a target of reducing the population below poverty line to 24 percent from the present level of 31 percent. Accordingly, the over all focus of the Plan is on poverty alleviation.
- 7.7 Out of the total 451 development projects implemented during FY2008/09 through various Ministries, Secretariats, Departments and agencies, 318 are Top Priority (P1) Projects, 115 Second Priority (P2) Projects, and 18 categorized as Priority Three (P3) Projects. Number of Projects that emphasize on Relief, Reconstruction, and Reintegration as a Strategic Pillar of the Interim Plan total 19; projects that focus on employment and poverty for broad-based economic growth are 112. Similarly, 99 projects are on good governance and effective service delivery; 154 projects for increasing investment on physical infrastructure development; and 67 projects are for

social development and implementation of targeted programs. Efforts are underway for distribution of grants assistance to local bodies based on the Poverty Index and go for extensive devolution of authority. In this way, Rs71.165 billion or 57.30 percent of the total developmental budget has been allocated towards poverty alleviation in FY2008/09. The whole national efforts are geared for "Build New Nepal" based on equality/equity, inclusiveness with gradual improvisation. Special 49 projects are placed under "Build New Nepal" Campaign, for which arrangements have been made for special monitoring from Hon'ble Prime Minister's level. It is expected that these attempts will ultimately be helpful in raising living standard of the people by reducing employment-related, human social poverty. Likewise, a large part of technical assistance, and investment of NGOs is also are also centred on poverty alleviation.

- 7.8 The Interim Constitution, 2007 has established the right to food-sovereignty as a fundamental right. The Interim Plan has addressed food security policy, strategy and programme as interrelated issues by accepting food production, availability, access, and stability as dimensions of food-sovereignty. There is a target of investing about Rs. 1.3 billion in a new project under a campaign for resolving the food shortage and provide immediate relief to the people vulnerable to starvation. The Project is expected to help towards reducing the food-crisis related poverty and bring improvement nutrition situation of such vulnerable people.
- 7.9 National Development Volunteer Service Program is launched in 42 districts with the objective of "Poverty Alleviation Amongst the Poor and Backwards". Volunteers have been availed as facilitators in communities of, *Dalits*, poor, and socially excluded groups in the areas of health, education, infrastructure development and social mobilization. The Program has speeded with the local bodies' participation in income-generation and poverty alleviation.
- 7.10 Processing of the result on labour force survey conducted under the household survey activity for managing the poverty reduction data is being carried out. Activities like-preparations for the National Population Census, questionnaire-setting and pre-testing, deciding on the census areas, stakeholder consultations, mapping, discussions and trainings, pilot counting preparations, and other technical as well as administrative works have been completed. Preparations are ongoing for conducting Nepal Living Standard Survey (NLSS). Some other activities carried out are, updating of the Nepal Info CD, publication of Nepal MDGs Indicators, Nepal in Figures 2008 and statistics on industrial census completed. In addition, processes are heading forwards to publish Statistical Pocket Book 2008. Attempts are being made for amending present legal structure for the

implementation of the National Aggregate Statistical System as well as conducting the National Agriculture Census 2008.

Inclusive Development and Targeted programs

- 7.11 Social Inclusiveness and Targeted Programs are ongoing with objectives of freeing the people from poverty and backwardness, who are unable to get mainstreamed into the development process due to socio-economic and cultural factors. These programs have encapsulated women, *Dalits*, ethnic groups, *Madheshi*, ultra poor and small farmers, and other minority groups together with the rural people living in remote areas of the country.
- 7.12 Out of the average 450 programs/projects implemented annually in the Tenth Plan period, on an average 35 projects implemented belonged to this strategy. Likewise, the Three-year Interim Plan has further prioritised and taken the Social Inclusiveness and Targeted Program as one of the strategic pillar. The number of projects under the strategic pillar increased 60 in FY2007/08, the number further grew to 67 in FY2008/09 with the forecast of spending Rs. 23 billion 690 million 837 thousand to be spent.
- 7.13 The Current Three Years Interim Plan has emphasized in establishing a just society by reducing the gap between the affluent and the excluded groups of society through the elimination of existing regional, caste/ethnic and other forms of deprivations and discriminations. That is why the Interim Plan has stressed in the implementation of inclusive and targeted projects. To mention some of the notable achievements, the Interim Constitution of Nepal 2007, the structure of Constitution Assembly, provisions for appointments in civil service as well as other public organizations can be viewed as steps towards inclusiveness.
- 7.14 The present challenge is the effective implementation of programs while giving logical conclusion to the proclaimed Peace Process by strengthening and effectively managing the conflict. Besides, ensuring access of the targeted groups to poverty reduction oriented programs, implementation of more poverty reduction programs, and directing the coordinated and intensive efforts of all the stakeholders of development towards poverty reduction are other challenges. With combined efforts of all stakeholders and well-wishers, success in achieving the target of poverty alleviation can be fairly expected as a Peace Dividend.

Poverty Monitoring

- 7.15 The earlier practice of monitoring and evaluation, limited to financial and physical progress monitoring arrangements were substantially reformed during the Tenth Plan. In this context, a separate Poverty Monitoring Analysis System (PMAS) was not only developed, but also institutionalized

at the central level The practice of publishing only the mid-term progress reports prior to the Tenth Plan has been rectified by the publication of annual progress report based on the definite Indices of PMAS. In the current fiscal year, PMAS is undergoing the time-relevant revision process.

- 7.16 The process of improvising the Poverty Monitoring Analyses System (PMAS) is going on as planned in the Interim Plan. It is an ongoing effort towards institutionalization of annual monitoring of the level of outcome and impact of programme and project implementation through improvement in the earlier system of monitoring limited to physical and financial progresses. Since then, the PMAS Index based first, second, third, and fourth annual progress reports of the Tenth Plan, which is considered as a Strategy Paper on Poverty Reduction, have been published with preparation of the fifth and final progress report underway. Analysis of the first annual progress report of the current periodic plan, based on this very system, is ongoing for publication.
- 7.17 A Draft District Poverty Monitoring Analyses System (DPMAS) was prepared and distributed to all DDCs during the implementation phase of the Tenth Plan for improvisation of the existing Monitoring and Evaluation arrangement at the district-level for it into a well-managed and robust Monitoring system through the implementation and institutionalisation of PMAS. The Interim Three-Year Plan has made commitment to institutionalise this system by extending the support from the centre necessary for capacity enhancement at the local level. Timely improvisation of this system is targeted in the current fiscal year.
- 7.18 Result-based Framework and Guidelines for the National Planning Commission, Ministry of Physical Planning and Works, and Ministry of Local Development have been prepared at the central level with the support of Operationalisation of Managing for Development Results (MfDR) Project. Four districts namely Jumla, Dang, Dhanusha and Jhapa have been studied and selected, necessary DPMAS software developed, and training imparted for using the software in the process of institutionalization at the district level. Program to strengthen and expand DPMAS is continued in the current fiscal year.
- 7.19 People's perception and feedback on outcomes and implementation of projects and programmes is very much necessary. Considering this reality, sample Citizens' Report Card based on the Framework of Community-based Poverty Monitoring System, has already been prepared and tested during the Tenth Plan Period for making the process systematic. Likewise, work on institutionalization of Participatory Monitoring Mechanism as a medium for beneficiary participation in monitoring and analysis, and

putting across their impressions (on the implementation and outcome) of projects and programs is ongoing as commitment made through the Three-year Interim Plan.

Poverty Alleviation Fund

- 7.20 Poverty Alleviation Fund was established in 2060 B.S. (2003) with the objective of supporting the demand driven Poverty Alleviation activities based on demand and participation of beneficiaries at the community level. This Fund is in operation as an autonomous entity under the Poverty Alleviation Fund Act, 2063 (2006) established with the objective of supporting the program targeted to the people in the lowest rung among the ultra poor targeted for inclusive development, and as outlined in PRSP and the ongoing Three-year Interim Plan. This independent organization has been carrying out its programs in 55 districts. The Fund is doing its best to reducing poverty through the means of social mobilization, income generating and community infrastructure development activities, and capacity enhancement through the nearly 4,000 community-based micro projects.
- 7.21 The Fund, guided by five Principles - (*Antodya*) i.e. Social inclusiveness, Transparency, Demand-driven Program, and Direct fund flow to the community, is carrying out the poverty-focused program in participation of the ultra poor and backward class of the people. The program is being operated by organizing and institutionalising Community Organizations (COs) with representation of the same poor communities to implement projects. In order to provide necessary assistance to this venture, a collaborative effort has been continuing with the involvements of NGOs, CBOs, Private organizations and local institutions as partner organizations (POs).
- 7.22 The Program was initiated in FY2005/06 in 6 districts with the initial US\$15.0 million Grant support of IDA (World Bank), and later topped up by another USD25.0 million By FY2008/09, the program was already in operation in were in operation in 25 districts, with another 15 more districts added. Out of the remaining 35 districts, 15 more districts will be covered by the FY2009/10. In case of the remaining 20 districts, programs will be started through the 'Pocket Approach', thus to have covered all 75 districts by FY2009/10.
- 7.23 Based on satisfactory results the program has yielded in terms of poverty reduction, it has been given continuity with the conclusion of US\$100 million additional grant from IDA (WB) to carry on poverty alleviation activities. In addition, an Agreement was signed with the International Fund for Agricultural Development (IFAD) on May 9, 2008 for a grant

assistance of US Dollar 4 million for agricultural development and the programs are under implementation. Agreements have been signed with 221 Partner Organizations (POs) to assist the Community Development Program. These POs have been facilitating in the implementation of the program through providing support to activities like social mobilization, institutional development of the communities and preparation of projects for the communities. The process of selecting POs for 15 districts added in this fiscal year is in its final phase. These POs, in addition to facilitating social mobilization; provide capacity development and skill development training; and help in the institutional development of Community Organizations, preparation of community projects, and facilitate implementation of projects through technical support, they also function as a link between communities and the fund and as a communication bridge.

- 7.24 During FY2007/08, the Fund has channelled Rs.1 billion, 551 million 674 thousand for income generation and community infrastructure projects upon signing agreements with Community Organizations against the target of channelling Rs. 1 billion, 422 million 945 thousand to 3,812 community-based projects. Likewise, POs have been provided with Rs 246.77 million for project operations.

The Progress Report for first eight months of FY2008/09

- 7.25 Of the target of providing Rs. 2 billion 137 million 489 thousand to 4,048 community projects of the Community Organizations in FY2008/09, Agreements for a total sum of Rs 685.71 million have been signed and disbursed accordingly for 1,816 income generation and community infrastructure development projects of targeted communities during the first eight months of this fiscal year. In the same period, Rs. 163.378 million has been disbursed to POs as well. The target is expected to be fully met by the end of the fiscal year. Concerning the issuance of Identity Cards to the poor household members within the program area of the Fund, the process of identification of those implementing the Fund supported program, or those registered with the Fund in affiliation with other target groups, and their registration for phase-wise issuance Cards has been initiated. In addition, a draft sample of such Identity Card is being prepared in coordination with the Ministry of Local Development and District Administration office.
- 7.26 So far, 9,954 Community Organizations have already been formed in 722 VDCs of 46 Districts since initiation of the program. Among the affiliated members in such organizations, 31,895 are *Dalits*, 28,575 belong to ethnic groups, and 395,545 come from other communities. Women participation is 70,155 in total. The 9,322 Community Organizations have concluded

Agreements with the Fund upon preparation and submission of income generating and community development projects. Subsequently, the Fund has so far provided Rs 4 billion 511 million 281 thousand Community Organizations. A total of 9,150 projects are in implementation under income generating program like animal husbandry, vegetable farming, horticulture, fruit processing, woollen carpet weaving, goat raising, poultry, bamboo products, pig framing, fish ponds, groceries, motor cycle repair workshop and Rickshaw operations. On community infrastructure activities, 1,776 project have been already implemented including drinking water, small irrigation, small hydro power, rural roads, bridges schools and health posts. These projects have benefited 342,854 households. Among the beneficiaries, 67.7 percent belong to extremely poor group, 24.8 percent are middle-poor, 8.3 percent poor and 0.2 percent marginally poor.

Employment

- 7.27 According to the population Census 2001, economically active population in the labour market was estimated at 10.482 million. The Tenth Plan made a forecast for generation of additional 1.53 million employment opportunities during the plan period. The Forecast was based on the potential effects of production increase in various sectors of the economy, and inter-sectoral linkages. Thus, it was estimated that the total employment would reach to 11.012 million at the end of the Tenth Plan. According to the Tenth Plan, the number of economically active population was estimated to reach to 11.580 million toward the end of the plan period, out of which only 4.1 percent were estimated to remain unemployed. The number of semi-employed was estimated to decline by 22.3 percent by the end of the Plan period. Since an extensive performance review of the Tenth Plan is yet due, exact status of the progress could not be established.
- 7.28 The main objective of the Tenth Plan was poverty reduction, and realising this objective could be possible only through raising employment opportunities. As such, various policy measures have been in operation toward this end. With a target of reducing poverty to 32 percent from the 42 percent by the end of the Plan period, various programmes were implemented with the major focus on the Plan strategy i.e. high, sustainable and broad-based economic development, Social sector and Rural Infrastructure Development, Targeted programs and Good Governance.
- 7.29 At present, a number of policies are in operation including, enhancement of employment opportunities through the expansion of economic and social development activities; promotion of labour intensive businesses for increasing access of the poor to employment opportunities; implementation

of income generation and employment programmes targeting the backward class of the people and geographical regions; Carry along the aspects of the professional efficiency and basic rights of labourers in a balanced way; and maximize the foreign employment opportunities by producing the skilled human resources. Information as how much employment was created as a result of implementation of these policies during the Plan period is not available as progress review of the Plan is not complete yet.

- 7.30 Despite the growing number of Nepalese going on foreign employment, the number of unemployed persons does not seem to have come down. According to the population Census 2001, the unemployment rate was 5.1 percent of the population above the age 10 years old. However, the Nepal Living Standard Survey (NLSS) 2003/04 indicates 2.9 percent unemployed among the people of 15 or above age group; 74.3 percent were employed; and remaining 22.8 percent were economically inactive. Among the unemployed 3.1 persons were male and 2.7 percent female.

Table 7 (b): Employment Situation in Nepal, 2003/04

(Population of 15 years of age or above)

Region	Employed	Unemployed	Inactive	Total
By Gender				
Male	73.3	3.1	19.6	100
Female	71.7	2.7	25.6	100
By Development Region				
Eastern	74.9	2.9	22.2	100
Central	72.4	3.3	24.3	100
Western	73.2	2.7	24.1	100
Mid-Western	77.0	2.8	20.2	100
Mountain	80.4	1.4	18.2	100
By Geographical Region				
Mountain	86.7	1.3	12.0	100
Hills	76.0	2.1	21.9	100
Terai	71.1	3.8	25.1	100
Nepal	74.3	2.9	22.8	100

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

- 7.31 The decade-long conflict in the country had negative impact on industries and factories, by which some factories were fully closed, some were partially closed, and many of the functioning factories also could not operate in their full capacities. Consequently, many of the factory workers were compulsorily deprived of employment opportunities. On the other

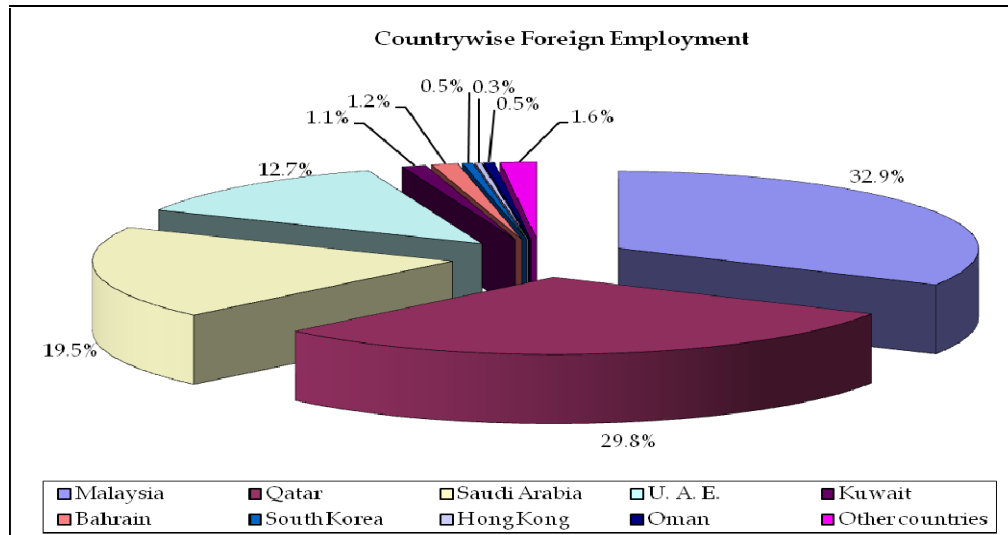
hand, the government's inability to create new employment opportunities as a result of its campaign of making a small and efficient government is also reflected in the rise in unemployment.

- 7.32 Because of the insufficient employment opportunities, the number of Nepalese going abroad for employment is growing year by year. The number of people going abroad for employment to Arabian countries except Malaysia and South Korea is high. By the end of FY2006/07, the total number of people going abroad with institutional approval is 978,125. Likewise 229,373 people receive approval during FY2006/07 and by Mid April of 2008/09. In addition 86,783 persons received approval making the total approved number for foreign employment to 1,394,281

Table 7 (c): Destinations for Foreign Employment

S.N.	Country/ Area	Total Number by FY 2006/07	Target for FY2007/08	The number by mid-May FY2008/09	Total Number
1	Malaysia	3,78,696	49,445	30,036	4,58,177
2	Qatar	2,66,094	83,896	66,031	4,16,021
3	Saudi Arabia	1,90,469	42,214	39,406	2,72,089
4	U. A. E.	1,05,941	43,828	26,890	1,76,659
5	Kuwait	11,939	1,461	1,608	15,008
6	Bahrain	6,583	4,335	5,691	16,609
7	South Korea	6,441	0	56	6,497
8	Hong Kong	3,704	189	56	3,949
9	Oman	1,344	2,205	3,143	6,692
10	Other countries	6,914	1,800	13,866	22,580
	Total	9,78,125	2,29,373	1,86,783	13,94,281

- 7.33 Observation of the trend of Nepalese seeking jobs abroad, the majority of them, i.e. 458,177 persons (32.9 percent) have gone to Malaysia followed by 416,021 (29.8 percent) to Qatar. The third destination is Saudi Arabia 272,089 (19.5 percent). Similarly, 176,659 (12.7 percent) to U.A.E., 15,008 (1.1 percent) to Kuwait, 16,609 (1.2 percent) to Bahrain 6,457 (0.5 Percent) to South Korea 6,692 (0.5 percent) to Oman, 3,949 (0.3 percent) to Honkong, and 22,580 (1.6 percent)Nepalese have gone in other countries for employment.



7.34 By mid April of the current fiscal year 2008/09, the total number of people going abroad for foreign employment was 186,783, out of which 30,036 to Malaysia, 66,031 to Qatar, 39,406 to Saudi Arabia, and 26,892 to UAE. Of the people gone abroad for employment during the same period, 5,691 are in Bahrain, 3143 in Oman.

8. Agriculture, Industry and Tourism

Agriculture

- 8.1. Since Nepal is agro-based country, majority of the people still rely on agriculture, which has remained the major source of employment and income. Agriculture contributes the largest share to the GDP. Obviously, the country cannot steer the trajectory of sustainable development in the absence of agricultural development. In the light of this undeniable fact, the agriculture is accorded the topmost priority in previous development plans. Agriculture Business Promotion Policy 2063 (2006) has been executed aiming at fostering the national economy and making it competitive in the regional and global markets thereby developing the strong foundation to make the agricultural practices more commercial and competitive.

Box 8 (a): Major Activities in Agriculture Sector

1) **One Village, One Product Program:** One Village, One Product Program, based on the concept of Public-Private Partnership, has made remarkable achievement within three years of its execution. Under this program, Ramechhap, Sindhuli, Nuwakot, and Rasuwa were selected for sweet orange, rainbow trout fish, *bel*, *lapsi* respectively whereas Agro-Tourism program is in operation in Lekhnath Municipality of Kaski district. Similarly, Simbidian Orchid farming program is initiated in Lalitpur district.

2) **Bird-flu Control Program:** Since Highly Pathogenic Avian Influenza (HPAI) H5NI virus was detected for the first time in Mechinagar Municipality Ward No. 10 of Jhapa, the area was declared as virus affected district as per the Bird flu control declaration 2064 (2007) of the Government of Nepal. Chickens totaling 23,987 together with eggs, egg crates, chicken feed, and other birds pigeons, and *Mainahs* were destroyed. In the same process, compensation for such destruction amounting to Rs. 3,167,788.00 was distributed.

3. **Cooperative Farming Program:** The Cooperative Farming Program Manual, 2065 (2008) has been issued for the implementation of this program. A notice to this effect was published in 33 districts on the basis of its working procedures. Pig and poultry farming programs are being implemented under this program in Bhojpur, Kathmandu, Kaski, Dang, Bardiya, Kailali, Banke and Saptari districts.

4. **Cooperative Store Cheaper and Better:** Cooperative Stores Operation Rules, 2065 (2009) is in implementation. Subsequent to wide publicity made through Radio, TV, FM Stations, and Newspapers for awareness raising, proposals are invited with expectation of wider participation from the willing Cooperative Stores

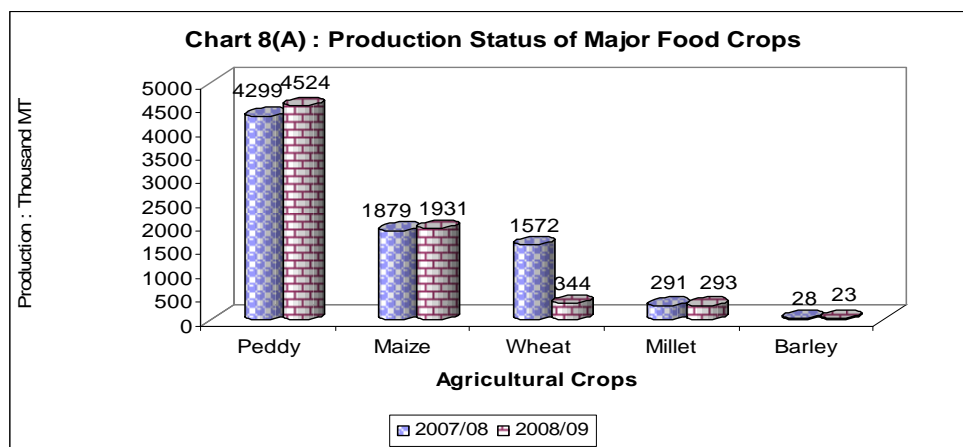
Production Status

- 8.2 Production of major food crops (Rice, Wheat, Maize, Millet, and Barley) increased by 740,000 MT (10.1%) in FY 2007/08 to 8,069,000 MT as compared to the previous year. The preliminary estimations show that the production of these crops will rise further by 46,000 MT (0.6%) reaching 8,115,000.00 MT in the current fiscal year as compared to the preceding fiscal year. The area covered by such crop in FY 2007/08 was 3,416,000 hectares, which was 3.4 percent increase in cultivated area. This figure is expected to reach 3,418,000 hectares by the end of current fiscal year. Despite the fact that Wheat production fell by 14.5 percent in the current fiscal year, there has been minor growth in the overall productions of food crops due to the production growth in rice by 5.2 percent, maize by 2.8 percent and millet by 0.7 percent.
- 8.3 On cash crops, the production of oilseeds (mustards, sunflower etc.) fell by 1.5 percent in FY 2007/08 to 134,000 MT as compared to the previous year. Preliminary estimations show that the production of these crops will increase by 1.5 percent totaling 135,000 MT this year. In FY 2007/08, area under such crops decreased by 2.2 percent totaling 184,000 hectares. As per the preliminary estimates, the area under this crop will reach to 181,000 hectares with minor increment in the current fiscal year. The area had decreased by 2.2 percent to 180,000 hectares in FY 2007/08. In FY 2008/09, there has been minor growth in the area under cultivation of potato, its production, and productivity as compared to that of last year, while area and production of sugarcane, tobacco, and jute crops are expected to fall in the same fiscal year.
- 8.4 Production of pulses (lentil, black gram, pigeon peas, soybean, etc.) is expected to drop by 5.2 percent to 256,000 MT this FY 2008/09 as against the production of 270,000 MT in the last fiscal year. However, fruit production is expected to rise by 6.0 percent to 669,000 MT this fiscal year against last year's 631,000 MT. Similarly, the production of green vegetables is expected to rise by 7.3 percent to 2,724,000 MT from 2,539,000 MT. There has been continuous growth in the production of green vegetable as cash crops in recent years.
- 8.5 As a share of the output of the major agro-products in FY 2007/08, food crops comprised 49.8 percent; cash crops 29.0 percent; and 21.2 percent shared by rest of the crops. It is expected that, of the total crops, food crops share will be 49.6 percent while the share of cash crop will be 28.1 percent, and the share of the rest will remain 22.3 percent in the current fiscal year. Reason for gradual decline in production of cash crops is due to shrinking cash crop cultivation area since preceding years.

8.6 As per preliminary estimates, GDP in agriculture and forestry sector in the current fiscal year will rise by 2.1 percent as compared to the previous year. Based on Agro-production Index, the current fiscal year is expected to witness a rise in food crops by 1.7 percent, green vegetables by 6.4 percent, fruits by 5.2 percent, meat by 2 percent and milk by 3.5 percent as against that of the previous fiscal year. Likewise, such estimations show that forest and forest products will witness a 3.2 percent rise.

Production Status of Major Food Crops

8.7 **Paddy:** Preliminary estimate shows the growth in paddy cultivated area, production, and productivity in the current fiscal year. Paddy production is expected to rise by 5.2 percent to a little more than 4.5 million MT as against the last year's production of 4.3 million MT. This has been the second consecutive rise in paddy production. Similarly, cultivated area is expected to rise by 0.5 percent (from 1,549,000 ha. in the last fiscal year to 1,556,000 ha). productivity of rice crop is also expected to rise by 5.0 percent, to 2,907 Kg. per ha. Due to early start of monsoon rains, and sufficient rainfall between mid July and mid September, there has been increase in Paddy cultivated land and productivity with the increment in overall rice production.



8.8 **Maize:** The production of maize in the current FY 2009/09 is expected to rise by 2.8 percent to 1,931,000 MT as against the 1,879,000 MT produced in the last fiscal year. The preliminary estimate is that the productivity will rise by 2.0 percent to 2,205 Kg per ha. in the review year. Likewise, the area under maize cultivation is also expected to increase slightly and reach 875,000 ha. Despite having low maize production in some districts due to excessive rainfall and widespread diseases, there has been better maize production in hilly and mountain regions and increase in the area of non-seasonal and spring maize and the rise in overall production of maize.

- 8.9 **Wheat:** Wheat production is expected to fall by 14.5 percent totaling 1,344,000 MT in the current fiscal year as against 1,544,000 MT in the last fiscal year. The fall in wheat estimated production and area under cultivation of wheat is due to the absence of long monsoon rain and snowfall. Cultivation area of the crop is expected to shrink by 1.6 percent to 695,000 ha. from 706,000 ha. of the last fiscal year with subsequent fall in the productivity of wheat by 13.1 percent expected for this year.
- 8.10 **Barley:** Production of barley is expected to record a fall year despite its cultivation area remained the same in the current fiscal year to that of the previous year. The total cultivation area and the production of Barley is estimated at 25,817 ha and 23,244 MT respectively in the year in review. The reason behind the decline in its production could be mainly due to inclination of farmers towards other cash crops and long winter drought.
- 8.11 **Millet:** Millet is estimated to register a marginal increase of 0.7 percent to 293,000 MT this fiscal year as against last year's 291,000 MT. Productivity of this crop is also expected to increase by 0.5 percent to 1101 Kg. per ha as against last year's 1,096 Kg per ha.

Production Status of Cash Crops

- 8.12 **Sugarcane:** There has been fall in the cultivation area of sugarcane, which has been one of the major cash crops, by 7.9 percent to 58,000 ha in the fiscal year 2008/09. Correspondingly, its production is also expected to fall by 5.3 percent with the total production output of 2,354,000 MT. Due to problem faced by farmers in selling their sugarcane production, farmers are showing less interest resulting in the fall in its cultivation area, production and productivity.
- 8.13 **Oilseeds:** Production of oilseeds (mustards, sunflower etc) is expected to rise by little in the current fiscal year than the previous year reaching the quantity to 135,494 MT. The cultivation area is also expected to rise by 0.6 percent to 158,000 ha. Though there has been a fall in production of mustard seeds due to lack of rainfall in Terai districts during flowering season and the rampancy of pests (aphids), aggregate production of oilseed is expected to increase with the rising trend in cultivation and production of sunflower in recent years.
- 8.14 **Potato:** Potato production in the current fiscal year is expected to rise by 1.4 percent totaling 2,083,000 MT and with its cultivation area expected to rise by 0.6 percent to 158,000 ha. with the total productivity of 15,203 Kg per ha. Though there has been reduction in the production of this crop due to the infection of blast disease in pocket areas, Some growth in its total production is expected due to the satisfactory harvest of monsoon-season potato crop.

- 8.15 **Tobacco:** This crop is expected to fall by 4.5 percent in the current fiscal year yielding to just 2497 MT. Cultivation area for this crop has been on the continuous decline for the past few years. This year, the cultivation area of the crop is estimated at 2,542 ha. The reason behind its low production is mainly due to the declining interest of farmers in its production.
- 8.16 **Jute:** In the current fiscal year, cultivation area, production and productivity of this crop farmed in six eastern districts: Jhapa, Morang, Sunsari, Saptari, Siraha and Udayapur, is expected to fall by 1.6 percent, 7.5 percent and 5.5 percent respectively.
- 8.17 **Pulses:** The total production of pulses (lentils, pigeon pea, black gram, soybean etc.) in this year is expected to decrease by 5.2 percent, totaling 256,000 MT. The cultivated land area is also estimated to fall slightly totaling 313,000 ha. Total production of pulses is expected to fall due to no rainfall in the winter season as there has been decrease in the production of pulses such as lentil, pigeon peas, and other legume species (of beans) that are grown on non irrigated lands.

**Table 8 (a): Productivity of Agricultural Crops
(Kg/Ha)**

Products	Fiscal Year	
	2007/08	2008/09*
Food crops	2361	2374
Rice	2775	2907
Maize	2159	2205
Wheat	2225	1934
Millet	1096	1101
Barley	1076	900
Pulses (legume Crops)	842	815
Horticulture Crops		
Potato	13110	13203
Vegetables	12200	12300
Fruits	9941	10227

*Estimates

Source: Agricultural Business Promotion, and Statistics Division. Ministry of Agriculture & Cooperatives

Production Status of Other Crops

- 8.18 **Fruits:** Fruit production is estimated to rise by 6.0 percent in the current fiscal year 2008/09 thereby reaching 669,000 MT as against the previous year's 631,000 MT. Area of cultivation for this crop is expected to increase by 3.1 percent from 63,432 ha to 65,390 ha. There has been slight reduction in the production of mango though, due to the inclusion of commercial banana farming in the list and the rise in the production of apple and orange, the overall production of fruits is expected to rise.

- 8.19 **Vegetables:** Vegetable production this year is expected to rise by 7.3 percent reaching 2,724,000 MT from the previous fiscal year's 2,539,000 MT. Area under vegetable cultivation is estimated at 221,000 ha. Vegetable farming is widely accepted by farmers thereby resulting in the constant rise in area coverage and production for the past few years.
- 8.20 **Spices:** In the fiscal year 2008/09, among the spices, production of ginger is expected to rise by 15 percent, garlic by 11 percent, turmeric by 58 percent, cardamom by 33 percent and chilly by 9 percent, and area coverage of these crops have also been increasing.
- 8.21 **Tea, Coffee and Cotton:** Of the industrial crops, production of coffee, tea, and cotton have increased by 12 percent, 10 percent and 5 percent respectively in the current fiscal year 2008/09.
- 8.22 **Honey:** The number of beehives is expected to remain almost the same as that of last year, i.e. 125,000 in number. Total honey production, however, is estimated to rise by 15 percent to 750 MT this year. Despite increase of modern bee species such as *Apis Cerana* and *Apis Mellifera*, the decline in the beehives of wild bees like *Mudhe* and *Khopre* has been observed.
- 8.23 **Floriculture:** The country has some 550 nurseries while Katmandu valley alone has 56 flower show-rooms. Nurseries and show-rooms from around the country are estimated to have carried out transactions of around Rs. 260 million from floriculture trade. This amount exceeds the previous year's transaction of this crop by some Rs. 40 million. Production Status of Livestock.
- 8.24 **Number of Animals/Birds:** The number of cattle heads is estimated to have increased by 1.2 percent in the current fiscal year, reaching 7,175,000 in total. Of the total number of cattle, the number of milch cows is only 932,000, or 13 percent of the total. Similarly, the number of buffaloes (male and female) increased by 4.0 percent totaling 4,680,000. The number of the milch buffaloes is 1,212,000, or 25.9 percent of the total. The number of sheep slightly declined 0.8 percent to 802,000, that of goats increased by 4.1 percent to 8,473,000. The number of pigs reached 1,044,000 during the same period, an increase of 3.0 percent. Similarly, the number of fowls declined by 0.8 percent to 24,400,000 as against last year's total of 24,600,000. In the previous fiscal year, poultry farming could not achieve the targeted growth in the production of fowls as the import of breeding hens from India was banned due to and bird flu pandemic in Bangladesh and the Indian States of West Bengal and Bihar. The number of ducks is expected to fall by 2 percent, totaling 383,000.
- 8.25 **Milk:** According to estimates, in the current fiscal year, total milk production from cows and buffaloes is estimated to record a rise of 4.0

percent (excluding yak and Nak), totaling 1,445,000 MT. Of the total figure, 413,000 MT of milk is expected from cows, while 1,031,000 MT is from the buffaloes.

- 8.26 **Meat:** Total meat production during the current fiscal year is expected to grow by 3.3 percent to 241,049 MT. Of the total production, buffaloes' share would be 157,000 MT, that of sheep 2,711 MT and that of goats 48,203 MT. Similarly, pig's share would amount to 16,779 MT, chicken's share 16,600 MT and duck contributing 229 MT. Though the production of fowl meat has been stable due to spread of bird flu in Bangladesh and India and the import ban on breeding hens from India, overall meat production recorded a nominal increase due to increase in the production of buffalo meat, and mutton.
- 8.27 **Eggs:** The number eggs production is expected to fall by 0.2 percent, marking 629.9 million from last year's 631.2 million, of which the hen eggs would make 616.2 million while that of ducks would comprise 13.7 million.
- 8.28 **Fish:** Current fiscal year is expected register a fall in fish production by 3.9 percent to 46,875 MT. Out of the total production, 50 percent is estimated to be produced from fish ponds while the rest to be collected from other natural sources.
- 8.29 **Wool:** Sheep-wool production is estimated to decline from 585 MT last year to 583 MT this year.

Impact of weather

- 8.30 Despite the negative impact in some areas brought about by the Monsoon-floods with onset of monsoon beginning from the third week of July to the end of August 2008 in some parts of Terai, enough precipitation enabled paddy plantation in non-irrigated (upland areas) helping increase the area under paddy cultivation and productivity thereby increasing overall paddy production. Maize production, however, got adversely impacted due to water logging. Reports from the Department of Hydrology and Meteorology states that months ending in mid-June received 131 percent, mid-July 88 percent, mid-August 101 percent and mid September 94 percent of rainfall. Enough rainfall during the paddy-growing season, had a positive impact on production of this crop.
- 8.31 Climate in the current fiscal year appeared favorable for winter crops like wheat, barley, pulses and fruits. Rainfall reports of different places state that January, February and March received less than an average rainfall. Of the 35 stations, 11 did not receive rain at all, 4 stations with minimum rain while Okhaldhunga received less than 50 percent of rain and the rest received nominal amount of rain.

Impact of Natural Disaster

- 8.32 The recent Saptakoshi flood and excessive rainfall in the Kailali and Kanchanpur of Western Terai and nominal rainfall in the other parts of the country have affected the annual food crops this year. Similarly, about 31,000 ha. of land were destroyed by inundation, river cutting and sand. Likewise, due to the lack of precipitation, some parts of Mahottari, Kavrepalanchowk could not have paddy plantation.

Chemical Fertilizers and Improved Seeds:

- 8.33 **Chemical Fertilizers:** Agriculture Inputs Company Ltd (AIC), since its establishment, has been selling and distributing chemical fertilizers to farmers as per their demand. Beside fertilizers, the company is also conducting studies on procuring other types of chemical fertilizers, micronutrient fertilizers, and organic compost. In FY 2007/08, the AIC supplied 3,285 Nutrients MT (NMT) of chemical fertilizers. In the first eight months of FY 2007/08, the company distributed 2,896 NMT of chemical fertilizer. Total fertilizer sale of the company during the same period of current fiscal year is estimated to shrink to 826 NMT.
- 8.34 **Improved Seeds:** As per the policy of involving private sector in transactions of improved seeds, the National Seeds Company Limited has been distributing quality seeds through dealers in order to avail the seeds at the farmers' door-steps. To meet its goal of selling and distributing seeds, the Company has started collecting quality seeds from its own farms and from farmers under the Seed Promotion Program and selling them at the local market after proper treatment through the disease controlling pesticides and germicides. In FY 2007/08, the company had distributed seeds in quantities of 900 MT of paddy, 2879 MT of wheat and 30 MT of maize. In the first eight months of FY 2007/08, the company had distributed seeds of 92 MT of paddy, 2451 MT of wheat and 6 MT of maize. In the first eight months of FY 2007/08, the company has sold seeds 196 MT 2870 MT of paddy and wheat seeds respectively while seed distribution for these crops in the first eight months of FY 2008/09 stood at 111 MT and 2950 MT respectively. Seed distribution of maize and paddy, however, remained below target. Inability in collecting quality seeds from the farmers despite set agreements, farmers' growing interest in hybrid seeds of vegetables, and other seeds except the food crops seeds, entry of low quality seeds from the open Indian border, and high transportation cost of the seeds in the hilly regions have been the main factors for inability to meet the set target.
- 8.35 **Irrigation:** As in the past years, development projects related to irrigation have been executed at the government level, and by the ADBL. In FY

2007/08, irrigation facility managed by the government reached 14,015 ha of arable land and that extended through the ADBL reached 84 ha. In the first eight months of FY 2008/09, 2,580 ha of land have been irrigated under government agencies while 32 ha of land have been brought under irrigation through ADBL projects, with land brought under irrigation in by FY 2008/09 totaling 2,612 ha.

- 8.36 **Agricultural Credit:** Flow of agricultural credit, the factor playing an important role in agro-production, has received continuity. ADBL extended a credit of Rs.18.53 billion in FY 2007/08. The Bank recovered Rs.17.46 billion while its arrears in the same fiscal year stood at Rs.25.71 billion. During the first eight months of FY 2007/08, Rs.10.38 billion was extended as credit while, during the same period in FY 2008/09, the credit amount increased by 14.1 percent to Rs.11.84 billion. Of the total loan disbursed, highest disbursement is on agro-industry, marketing and warehouse construction comprising almost 51 percent, 17 percent on agro-business, 16 percent on food and cash crops, 11 percent on residence and land development and one percent each on tea/coffee and horticulture with remaining 3 percent on the rest.
- 8.37 **Small Farmers Development Bank (SFDB):** The SFDB is involved in uplifting the economic and social status of small farmers and deprived people in the rural parts of the country. It is involved in empowering small farmers and the downtrodden through implementation of microfinance program and promotion of co-operatives in villages for the institutional development of stakeholders. Social mobilization, livestock insurance program, small farmers' institutional development program and micro-finance program are the major activities of the SFDB. The number of institutions affiliated with the SFDB was 219 by the first eight months of FY2007/08 with the reaching 220 with only one more institution added by the same period of the FY2008/09. A total of 139,368 small farmer families are affiliated to 220 Small Farmers' Cooperative Institutions constituted in 39 districts benefiting 724,713 people. The SFDB floated a credit amount of Rs. 353.5 million in the first eight months of FY2008/09 and collected principal amount of Rs.204.9 million while interest collection during the same period stood at Rs.399 million. The SFDB, through ADBL, has carried out livestock insurance program in 174 VDCs. in FY 2007/08, a total of 4,472 livestock were insured for Rs.576 million. In the first eight months of the current fiscal year, additional 1,118 livestock were insured for Rs.144 million on the initiation of local institutions. The SFDB had conducted Small Farmers' Institutional Adoption Program in 12 VDCs in FY2007/08, and this program has been conducted in 4 additional VDC in the current fiscal year. Under the credit exemption program for small farmer and small

cottage industry entrepreneurs, 33864 downtrodden and small farmers with loans approved for Rs. 30,000 or less were exempted the principle amount of Rs. 577.9 million and interest of Rs. 296.5 totaling Rs. 874.4 million until the mid-January of 2006. Likewise, principle amount of Rs. 644 million has been recovered until the first eight months of the current fiscal year under the program to exempt entire interest for farmers and entrepreneurs, who paid back the principle amount of more than Rs 30,000 up to 100,000.

- 8.38 **Nepal Agriculture Research Council (NARC):** With a view to provide support to the food supply focusing on increasing population pressure, various research programs are being conducted to increase the production, productivity and utilization of the APP recommended major food crops such as paddy, wheat, maize, barley, buckwheat, millet, etc. Likewise, there are programs to identify the genetic quality of crops including paddy, maize, and buckwheat through the biotechnology research. Continuity has been given to research on aquaculture and food crops such as pulses and oilseeds, potato, green vegetables, fruits and flowers on the vegetable side and on the exporting crops such as milk, meat, and eggs to increase their production. Genetic resources of more than 10,500 different crops including various botanical species found in Nepal has been preserved in the recently established gene bank. Like in the past years, top priority has been given this year as well to complete the construction of gene bank building.
- 8.39 **Status of Imports and Export of Agro-Products:** According to SITC group classification, the first eight months of FY 2007/08 had witnessed an export of food stuffs, live animals, tobacco and other beverages worth Rs.7,401.4 million. In the first eight months of the current fiscal year, value of exported goods is estimated at Rs.13,012.8 million. Likewise, in the first eight months of the last fiscal year, above-mentioned category of goods worth Rs.8,302.1 billion were imported. According to estimates, goods worth Rs. 12, 858.6 million have been imported in the first eight months of the current fiscal year.
- 8.40 **Cooperative Institutions:** As per the policy to protect and develop cooperative system in Nepal and provide impetus to economic and social development efforts, through cooperatives, various activities are being carried out to enhance the efficiency of cooperatives by giving continuity to the cooperative registration process while ensuring their quality and quantity. Audio-visual programs for the awareness raising on cooperatives have been produced and disseminated. Meetings of the coordination committee for invitation of proposals for opening cooperative shops in all districts was held, and documents like various guidelines, by-laws, and other materials for the promotion of cooperatives have also been prepared.

In the last fiscal year, 668 farmer groups were cooperatized, while in first eight months of this fiscal year, such number has reached to 325. In order to enhance the efficiency of cooperative movement and the managerial aspect of cooperatives through skilled cooperative workers or trainers, 12425 individuals associated with cooperatives, and officials were trained in the first eight months of the current fiscal year.

- 8.41 **Land Reform:** By FY2008/09, land registration certificates are being issued through computerized system from 11 Land Revenue Offices including 5 in Kathmandu valley and each one in Kaski, Kailali, Tikapur, Biratnagar, Belbari and Makwanpur districts. Initiatives to provide land ownership certificates through computerized system in additional 27 Land Revenue Offices are at final stage. By the end of this fiscal year, 38 offices will start issuing such certificates. Considering the fact that excessive pressure and workloads that are witnessed in district based Land Revenue and Survey Offices, initiatives are underway for establishing additional 5 such offices of each entity in Kathmandu Valley to improve their service delivery system. Likewise, survey and measurement licenses are being issued to ensure expeditious and easy availability of survey and measurement map services to citizens.

Industry

- 8.42 The FY2008/09 budget aimed at making significant contribution to the GDP through rapid industrialization initiatives; creating industry-friendly and conducive investment environment; developing industrial infrastructure; providing policy support; and involve poor, backward, marginalized ethnic communities and groups in industrial activities in order to generate income opportunities by using available resources. As per the industrial production Index of Central Bureau of Statistics (CBS), since there has been fall in the production of edible oil, vegetable ghee, other readymade garments, the production of these production is expected to decline. According to preliminary CBS estimates, manufacturing industry GDP will decline by 0.5 percent in the current fiscal year as against the last fiscal year.
- 8.43 **Special Economic Zone (SEZ):** With a view to reducing the cost of exportable goods in international market and enhancing their competitive capacity, the concept of Export Processing Zone (EPZ) has been developed to encourage production practices based on labor value competition through exempting or setting aside different taxes imposed on import of necessary raw materials. The Three Year Interim Plan (TYIP) has adopted the strategy to set up a Special Economic Zone (SEZ) to attract national and international investments at feasible sites for export-oriented industries.

The SEZ comprises export-related EPZ, Special Trading Zone, Tourism/Recreation, and Banking Area. The prime objectives of SEZs are attracting foreign investment, boosting export, earning foreign exchange, and introducing high-quality new technology. As a payback to the facilities availed within the SEZ, the industries inside it are required to produce goods of international quality and export between 70 and 100 percent of their production.

- 8.44 Studies on establishing and regulating SEZ and activities related to drafting of law, conducting feasibility study and construction of basic infrastructure were started in FY2003/04 in the light of attracting foreign investment and achieving high economic growth rate. As per the study, four sites including Bhairahawa Export Processing Center, Birjung, Panchkhal and Ratmate Jiling of Nuwakot have been identified as ideal sites for EPZ. Among these sites, development of necessary infrastructure is continued with the expectation of completing the construction of Bhairahawa Export Processing Zone on about 34 hectares of land within this fiscal year. Feasibility study relating to setting up SEZ in Simara has already been started with the completion of access road maintenance in the current fiscal year 2008/09 and construction of boundary wall, inner roads, and land development works have been initiated. Likewise, detailed feasibility study will be conducted for the establishment of SEZs in Panchkhal, Jhapa and Dhangadi and acquisition of land will be initiated in the current fiscal year. Pre-feasibility study will be completed for such establishments in the current fiscal year as well.
- 8.45 **Micro-Enterprise Development Program:** Activities are underway since last fiscal year aiming at achieving MDGs, poverty reduction and conflict mitigation and resolution. To this effect, 21 offices are transformed into NGO/Private Companies, and established as Business Development Service Provider Organizations. Special programs are being carried out in four districts (Siraha, Saptari, Sarlahi and Kapilvastu) toward conflict mitigation and maintaining sustainable peace. Inter-groups of micro-entrepreneurs have been formed at market centers and associations at district level in all the 25 districts to serve the micro-entrepreneurs in safeguarding and promoting their rights and mutual benefits. The micro-entrepreneurs in these districts are assistance through this institutional mechanism.
- 8.46 After the implementation of micro-enterprise policy with its subsequent endorsement towards the end of last fiscal year 2007/08, the target was to provide self-employment opportunities to 4825 people including *Dalits*, indigenous, ethnics, *Madhesis*, and Muslims with low income, and other groups specially women and unemployed youth groups through UNDP

supported Micro-Enterprise Development Program in the current fiscal year. A total of 8947 people were provided skill oriented and entrepreneurship trainings and other supports to create business opportunities. Likewise, 30 new industrial business technologies were transferred thereby creating new employment opportunities for 10,224 people.

- 8.47 In the fiscal year 2008/09, as per the target set to develop micro-entrepreneurs by providing self-employment opportunities to *Dalits*, indigenous, ethnics, *Madhesis*, and Muslims having low income and other groups specially women and unemployed youth groups in 30 districts with five additional districts of Jumla, Kalikot, Dailekh, Dolakha and Surkhet through micro-enterprise development program. In addition, skill oriented and entrepreneurship trainings and necessary support was provided to 5698 people for creating business opportunities. Likewise, within this period, 13867, persons were imparted entrepreneurship training, and new employment opportunities created for 6543 persons. In the recently added 5 districts, 6 new business development service delivery institutions have been established.

World Trade Organization (WTO)

- 8.48 Nepal has completed its 6th year as a WTO member. As per the commitment to WTO, some new Acts and Regulations have been formulated and brought into implementation. Some Acts and Regulations have been amended and some are along the process of revision and refinement in order to make them WTO-friendly. National capacity enhancement program has been implemented in the context of enhancing competency with the change of time to raise Nepal's identity in world trade sector. Likewise, a High Level Steering Committee has already been formed for the optimal utilization of national and international resources, and enhancing effectiveness of available technical assistance through better coordination mechanism. In this context, Enhanced Integrated Framework (EIF) Steering Committee led by the Chief Secretary of the Government is formed in order to enhance Nepal's trade efficiency through coordination and mobilization of support to be received under Enhanced Integrated Framework (EIF). On instruction of the Committee, initial homework for collection of proposals has begun in the process of availing assistance.

Box 8 (b): Activities after Nepal's accession to World Trade Organization (WTO)

1. Nepal Trade Competitiveness Study, that was carried out in 2003 in world bank's support to make Nepal's Trade competitive, has been updated as per the changed context through UNDP supported Enhancing Nepal's Trade Related Capacity

Project. This has provided continuity to the tasks like boosting trade related capacity of the government and private sectors related to trade, increasing the level of participation of stakeholders in formulating trade and industrial policies and trade analysis, skill development and creating investment-friendly environment.

2. Since it is imperative to open alternative transit route to facilitate Nepal's trade, pre-feasibility studies are being conducted to open Singbad-Rohanpur transit route and Jawaharlal Nehru Port of Mumbai as well.
3. Feasibility study in the areas of tourism and information technology service is being conducted through United Nation Trade and Development Conference (UNCTAD) in the first phase to reduce trade deficit, maintain balance in foreign trade, and identify feasible sector in trade services.
4. Preliminary works for the infrastructure development are being carried out through European Union supported EC-Nepal WTO Technical Assistance to avoid non-tariff barriers in export trade of Sanitary and Phytosanitary (SPS) areas.
5. People's awareness programs are given continuity for maintaining coordination with private sector with a view to create awareness about the opportunity and challenges that Nepal possesses after WTO membership. Trade related awareness and capacity enhancement programs are being implemented in collaboration with various Geneva-based international organizations related to Trade including UNCTAD and WTO.
6. Continuity is given to the interaction programs for providing information by experts with regard to the WTO's negotiations through WTO Reference Center on a monthly basis.
7. New Trade Policy, 2008 has come into effect upon GoN approval. Drafts of new Industrial Policy, Foreign Investment Policy, Quality Control Act, and SEZ Act have been prepared.
8. The custom duty rate is adjusted annually as per the commitment to provide market access opportunity for commodities trading.

Source: Ministry of Industry, Commerce and Supplies

Status of Industrial Production by Groups and Industrial Indices

- 8.49 Compared to the previous fiscal year 2007/08, this fiscal year is likely to witness a fall in production of major food items such as tea, sugar, vegetable ghee and other products like, hides, wood and wooden products, paper and paper products, other chemicals, minerals, and non-metal products. In the current fiscal year production of noodle among the food group is likely to go up by 1,469 MT. Likewise, other products to follow growth are, shoes by 19,000 pairs, beverage (squash) 2.222 million litres, liquors by 718,000 litres, and cigarettes by 418.0 million sticks, while production of industrial goods other than these are expected to fall.
- 8.50 In FY 2007/08, the indices of industrial production by groups had declined by 0.2 percent as compared to the previous fiscal year. That year witnessed a rise in majority of food items such as other food items by 5.0 percent, other chemical products by 6.0 percent, and fabricated metal products by 10.5 percent while products such as oil, vegetable ghee, plastic goods and clothing are expected to fall nominally.

- 8.51 As per preliminary estimates for FY2008/09, the industrial indices of the last FY 2007/08 decreased to 103.03 from 104.55. Such indices are likely to rise this year on cereals and animal feeds and other food stuffs, tobacco, garments, wood and wooden materials and plastic goods, while oil, vegetable ghee, milk products, beverages, clothing hides and leather goods, paper and paper products are expected to fall this year.

Foreign investment in Industries

- 8.52 Foreign Investment and Technology Transfer Act has been amended to ensure effectiveness and align it with changing times and for opening the door for foreign investment in new sectors. One-Window Committee has been reformed for an easy access to tax exemption and duty drawback facilities for industries. With the objective of granting necessary permission, services and facilities to foreign investors through one-window system for attracting foreign investment as per the existing Act to achieve rapid economic growth in the country, Foreign Investment Promotion Committee Working Procedure, 2062 BS (2005 AD) is already in effect. Likewise, considering foreign investment, which is essential for country's economic growth, new industrial and foreign investment policy will be introduced in the current fiscal year 2008/09 to achieve the economic growth rate as envisaged through Public-Private Partnership. Special attention is paid for easy processing, promotion of technology transfer, flow of foreign investment, productivity and enhancement of industry's work efficiency of the private sector to be able to compete in global market by utilizing the comparative advantage as per the proposed policies. Similarly, arrangements have been made to provide diesel at subsidized rate by the government to industries willing to generate electricity through the means of captive and co-generation. Customs duty and other taxes will be fully exempt on imports of generators to compensate for electricity shortage faced by the industries due to load shedding.
- 8.53 Company Act, Insolvency Act, Non-resident Nepali Act, Competition Act, Cyber Act, as in the form of second phase enhancement program are already in effect for the effective promotion of commerce and industries, and healthy and competitive markets supporting the leadership role of private sector and creating conducive environment for corporate establishment and investments. Special Economic Zone Act and Investment Board Acts are in the process of their enactments.

Table 8 (b): Industries Approved for Foreign Investments in FY 2007/08
(Amount in Million Rs.)

Industry Type	Numbers	Total Project Cost	Total Fixed Cost	Foreign Investment	Employment Generated
Industrial Product	51	3,028.0	1920.0	1244.0	3,775
Service Industry	55	3,370.0	2,454.0	813.0	1,513
Tourism Industry	67	783.	697.	745.0	2,180
Construction	13	2,119.0	1,585.	1,804.0	1,143
Energy	8	7,346.0	7,288.0	2,868.0	967
Agro-based	11	127.0	100.0	107.0	377
Mining	7	3,630.0	2,853.0	2,230.0	722
Total	212	20,403.	16,897.0	9,811.0	10,677

Source: Department of Industries, Tripureshwore

- 8.54 Foreign investment and technology transfer is essential for leading the nation's economic system towards attainment of self-sufficiency through building a robust, strong, dynamic and competitive economy through optimum utilization of available natural and human resources. Foreign investment fosters capital, modern technology, managerial and technical skills, access to international market, and culture of professional competition. In addition to this, the country heads for a strong and independent economy on the foundation of rapid industrialization and internal revenue generation. In this light, 212 industries were granted permission to establish on joint venture with fixed capital of Rs.16.90 billion, project cost of Rs 20.40 billion and foreign investment of Rs. 9.81 billion.
- 8.55 Of 212 industries that were granted permission in the fiscal year 2007/08, 51 were related to industrial production, 55 were service industries, 67 were tourism industry, 13 were construction industries, 8 were energy, 11 were agriculture, and 7 were related to mining industries. From country-wise investment perspective in these industries, china has its investment in 39 industries, India in 37, South Korea in 23, UK in 19, USA in 13, Germany in 11, Australia in 8, Netherland in 6, Japan in 5 and other nations have their investments in 40 industries.

Table 8 (c): Industries permitted for Foreign Investment (FY 2008/09*)
(In Million Rs.)

Industry Type	Numbers	Total Project Cost	Total Fixed Capital	Foreign Investment	Targeted Employment (Numbers)
Industrial Product	25	823.	485.0	797.0	1,180
Service Industry	38	1,684.	1,286.0	801.0	1,317
Tourism Industry	45	613.0	563.0	576.0	1,140
Construction	1	89.0	32.0	57.0	8
Energy	7	3,220.0	3,160.0	2,170.0	879

Agro-based	3	580.0	173.0	267.0	549
Mining	17	479.0	417.0	474.0	2,635
Total	136	7,488.0	6,616.0	5,142.0	7,708

* first Eight Months

Source: Department of Industries, Tripureshwore

- 8.56 In the first eight months of the current fiscal year, permission has been granted to 136 industries with the fixed capital of Rs. 6.62 billion, project cost of Rs. 7.49 billion and foreign investment of Rs. 14 billion to establish industry in foreign and joint investment. Of the 136 industries permitted for such investment, 25 are in production sector, 38 are in service industry, 45 are tourism, 7 are energy, 3 are agriculture, and 17 are in mineral sector. As per the country-wise distribution of these 136 industries, 46 industries are invested by China, 27 by India, 9 by UK, 7 by USA, 5 by Japan, 4 each by France, Singapore and South Korea and 2 each by Germany, Netherlands, Spain and Switzerland and 24 by other countries. Of the 127 permitted industries for foreign investment in the first eight months of the previous fiscal year 2007/08, India is involved in 26 industries, china in 13, Japan in 5, USA in 7, UK in 10, South Korea in 15, Germany in 8 and other countries in the rest 43 such industries.

Table 8 (d): Industries Permitted for Foreign Investment by Mid-March 2009

(Amount in Million Rs.)

Industry Type	Numbers	Total Project Cost	Total Fixed Capital	Foreign Investment	Targeted Employment (Numbers)
Industrial Products	634	447,260.0	318,520.0	172,250.0	72,941
Service Industry	482	250,330.0	205,860.0	114,970.0	25,285
Tourism Industry	479	183,720.0	173,070.0	68,500.0	22,099
Construction	40	34,360.0	25,480.0	25,950.0	2,890
Energy	37	43,720.0	38,220.0	26,510.0	2,848
Agro-based	21	54,000.0	40,940.0	28,810.0	4,219
Mining	50	293,590	275,260	84,440.0	9,310
Total	1743	1,306,980.0	1,082,350.0	521,430.0	139,592

Source: Department of Industries, Tripureshwore

- 8.57 To attract foreign investment through adoption of relevant, practical, and liberal policy, a total of 1,743 industries were granted permission until the first eight months of FY 2008/09. Fixed capital of those industries stands at Rs.108billion with their total project cost of Rs.131billion. A total of Rs 52billion as foreign investment in these industries has been recorded. Once in operation, these industries will generate employment for 139, 592 Nepalese citizens.

Table 8 (e): Foreign Investment by Country

S.N.	Countries	FY 2007/08	(Number of Industries)	
			First 8 Months	
			2007/08	2008/09
1	India	37	26	27
2	China	39	13	46
3	Japan	5	5	5
4	USA	13	7	7
5	UK	19	10	9
6	South Korea	23	15	4
7	Germany	11	8	2
8	The Netherlands	6	3	2
9	Canada	2	2	1
10	France	3	-	4
11	Russia	4	-	1
12	Switzerland	2	-	2
13	Australia	8	-	1
14	Singapore			4
15	Others	40	38	24
	Total	212	127	136

Source: Department of Industries, Tripureshwore

Capacity Utilization of Some Industries

8.58 Among some selected industries, utilization of production capacity of shoes industries of was found to have increased nominally in FY2007/08 as compared to that of FY2006/07 while such utilization of production capacity of sugar and cement was found to have decreased. Of the total production capacity, cigarette and jute industries utilized 88 percent and 66 percent of their respective capacities in FY2007/08 while sugar and cement industries utilized 31 percent and 41 percent respectively.

Status of Industrial Estates

8.59 Industrial estates were established with objective to support industrial development through provision of physical infrastructures and other services essential for the establishment, operations and promotion of the industries. At present, there are 11 industrial estates including Balaju, Hetauda, Patan, Nepaljung, Dharan, Pokhara, Butwal, Bhaktapur, Birendranagar, Dhankuta and Gajendra Narayan Singh Industrial District. Among the 408 industries established in industrial estates till mid March of FY 2007/08, 75 are closed, and 66 still under construction. Among industrial estates under the Industrial Estates Management Limited, it has had fixed capital investment of Rs.196.3 million while the investment from the private sector stands at Rs. 10.184 billion. Of the total 284 ha of land

occupied by industrial estates, 250 ha of land is in fully developed, of which 179 ha. is leased to various industries. Industries in the industrial estates have employed a total of 13,500 people. Industrial estates providing higher number of employment are Balaju, Hetauda, Butwal, Pokhara and Patan respectively.

Sick Industries

- 8.60 Considering the situation of industrial sickness in view of the unfavorable environment during the period of conflict and political uncertainty, the GoN has been implementing policy and programs since FY 2001/02 to mitigate the adverse situation of the ailing industries. The monetary policy for the current fiscal year has made a provision of refinancing up to Rs.2.0billion to sick industries. In first eight months of this fiscal year, Rs. 7 million has been refinanced to one of the hotels. Refinancing by mid-March of the previous fiscal year 2007/08 stood at Rs. 30million reaching a total of Rs. 67million and 655 thousand by the end of that fiscal year.

Nepal Industrial Development Corporation (NIDC)

- 8.61 NIDC was established with the objective of promoting national economy through mediation and provision of quality and reliable banking and financial services in the industry, commerce and service businesses. With the annulment of the NIDC Act, 2016 BS under which it had been operating previously, the institution now works as a "B" category development bank as provisioned under the Banks and Financial Institutions Act, 2063 BS. NIDC had collected a total of Rs.251.1 million (principal Rs.127 million and interest Rs.124.1million) in FY2008/09 with its investment of Rs. 1.375billion. Similarly, with partial sale of its promoters share at Nabil Bank at Rs.945.3 million including the collection of principal, interest and share income, it has collected a total of Rs. 1 billion 194 million and 600 thousand. The corporation has collected a total of Rs. 72. 5 million including the collection of principle of Rs. 12.8 million, interest of Rs. 16.6 million and other income of Rs. 43.1 million from its investment in the first eight months of current fiscal year 2008/09.

Cottage and Small-scale Industries

- 8.62 The number of cottage and small-scale industries registered in FY2007/08 was 6,504 while this figure rose by 50.55 percent reaching 9,792 in the current fiscal year 2008/09. Among the registered cottage and small-scale industries, fixed capital investment is expected to stand at Rs. 6.3billion in the current fiscal year while this figure was Rs. 4.67 billion for the last fiscal year.

Industrial Enterprise Development Academy

8.63 The Academy has been conducting several programs for industrial and economic development contributing to the growth of entrepreneurship, techniques, resource, modern technology, quality management skills and technical manpower. Accordingly, it is conducting activities like creating new business ventures, business management, trainings, counseling, and research works in industry. In first eight months of the current fiscal year, the Academy has trained 100 persons in small business venture creation, 50 persons in trainers' training, 30 in counseling industrialists, 35 in income-generation for single women, 40 in income-generating training for conflict-affected women, 40 in developing business skills for the *Dalits* and people from ethnic communities.

Mines and Geology

8.64 A physical map of hilly region of the country covering around 109,000 square km area in the scale of 1: 50,000 and 1: 63,360, is being prepared and would soon be published to facilitate geological survey, geo-engineering and geo-environmental studies, operation of National Seismic Center, and carry out smooth and planned operation of mineral exploration and mining development. Agreements are concluded with private-sector investors for establishing limestone-based cement industries in Baitadi, Udayapur, Dhankuta, Salyan and Arghakhanchi districts. In addition, a similar agreement is reached with individual investors for operating an iron-ore based industry in Ramechhap district. Medium-grade coal has been located in Dang, Salyan, Rolpa and Palpa districts. Natural gas deposit of 310 million cubic meters is discovered over 26-square km area of the Kathmandu valley. Proposals are invited from private investors for the promotion of industries based on natural gas deposit of Kathmandu valley, copper, and silica sand of Makwanpur. Besides, process for inviting proposals from investors for the promotion of gold reserve based industry in Rolpa and Gandhari (Dang) limestone reserve is underway. Among 10 exploration blocks that were allotted on the basis having prospect of petroleum reserves in Nepal, 2 foreign companies have been granted permission for the exploration of 7 such blocks and preparation are underway for the exploration of other three blocks as well. In order to conduct earthquake-related studies in the Himalayan region, seismic networks are established across the country so as to continuously monitor and record for collecting data on the basis of which Micro Seismic Epicenter Map and Epicenter Map of Nepal have been published. The department has issued licenses for the operation of various mineral reserves located at 71 different places of the country, and 379 exploration licenses have been issued.

Tourism

- 8.65 While analyzing the number of tourists visiting Nepal, their growth trend and length of stay, the number of tourists had increased by 37.2 percent to 526,705 during the calendar year 2007. The number of tourists in the calendar year 2008 totaled 500,277 with a decline of 5 percent. In 2006, the average length of tourist stay was 11.96 days, while this has come down to 11.78 days in the calendar year 2008.
- 8.66 Most of the tourists arriving to Nepal are found to be pursuing recreation, trekking and mountaineering. Of the tourists visiting Nepal in calendar year 2008, 30.6 percent visited for recreation, 20.0 percent for trekking/mountaineering, 4.6 percent for trade, 8.6 percent for formal visit, 9.0 percent for pilgrimage, 1.4 percent for meeting/seminar and 19.5 percent for other purposes. Review of the data for the same period of last fiscal year shows that the 41.4 percent visited for the purpose of recreation, 19.2 percent for trekking/mountaineering, 4.6 percent for trade, 4.1 percent for formal visit, 10.0 percent for pilgrimage, 1.5 percent for meeting/seminar, and 19.2 percent visited for other purposes.

Box 8 (c) : Major Activities in the Tourism Sector

New Tourism Policy 2008 is in process of publication and implementation. Formulation of New Tourism Master Plan is proposed for the coming fiscal year.

Nepal Tourism Vision 2020: Ministry of Tourism and Civil Aviation, in collaboration with concerned industry entrepreneurs, and Nepal Tourism Board, has issued Nepal Tourism Vision 2020. Under this, vision, target, objectives and strategies have been set to attract 2 million tourists in 2020.

Nepal Tourism Year 2011: with a view to celebrate the year 2011 as Nepal Tourism Year, production and distribution of publicity materials, and promotional programs are being carried out subsequent to establishment Secretariat, and formation of the main Committee and 14 sub-Committees.

Development of New Tourism Destinations: Development of tourism is considered as a major component of poverty alleviation and new economic development policy of Nepal. In the process, grants have been made available and the construction works initiated in Srientu, Halesi, Manakamana-Gorakhnath of Gorkha, Swargadwari of Pyuthan, Khaptad region, Ramroshan region of Accham, Gadimai-Simaraunagad of Bara for the development of tourists destination through the creation of necessary infrastructure. Likewise, integrated tourism Development program has been initiated in Karnali zone.

Royalty Exemption: From the beginning of this fiscal year, royalty exemption will be availed for next five years to mountaineering expedition teams destined to mountains of western and mid western regions.

Medical Tourism: Process is initiated for collecting information on Ayurved-based exclusive treatment services being made available through Nepalese

health institutions in the process of developing Nepal as a medical tourism destination in collaboration with the private sector, Nepal Medical Association, and Ministry of Health and Population. Objective is to develop Nepal as a prominent center for meditation, yoga and natural-therapy while publicizing traditional treatment methods like Ayurveda and development of medical tourism in participation of the private sector.

Agro-Tourism: With the policy to increase the use of agro-products in tourism areas and routes by producing locally, Agro-tourism training programs in coordination with Agriculture Training Directorate are on the implementation process for the growth of agro-products in some important rural tourism areas as such.

Home Stay Program: With a view to incorporate the tourism with poverty alleviation, feasibility study is underway at 14 different places to conduct Home-Stay program which is based on the model that the tourists stay at homes of local people and visit nearby tourist spots.

Construction of International Airport: feasibility study is being carried out for the construction of international airport in Nijgadh of Bara district. Fencing work in the Chhinnedanda of pokhara based airport is going on, while the compensation distribution for additional land required for the construction of Gautam Buddha airport of Bhairahawa is in preliminary stage.

Airport Upgrading: upgrading and capacity extension works are being carried out in 9 domestic airports that are regarded important from regional and tourism point of view.

Source: Ministry of Tourism and Civil Aviation

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

S.N.	Description	Status as of 15 Jan. 2008	Target for 15 Jan. 2009	Progress as of 15 Jan. 2009
1.	Tourists Arrival (in '000)	526,507	700,000	500,277
2.	Tourist Stay (days)	11.96	13	11.78
3.	Earning from Visitors (Million Rs.)	101.250*		186.530**
4.	Income Per Visitor (Rs.)	19,223.28		37,285.34
5.	Per Day Spending by Tourists (Rs.)	1,607.30		3,165.14
6.	Average Exchange Rate/USD	70.49		65.02
7.	Tourist Spending Per Day (USD)	22.80	63.00	48.68
8.	Foreign Exchange Earning (Million USD)	143.64	300.00	286.88
9.	GDP (Billion Rs.)	728.178		818.402
10.	Contribution to GDP (Percent)	1.4	3	2.3
11.	Direct Employment ('000)	83	100	88
12.	Regular International flight arrivals to Nepal (Numbers)	20	25	20
13.	One-way air seats creation in International Sectors ('000)	4,000	3,250	3,700

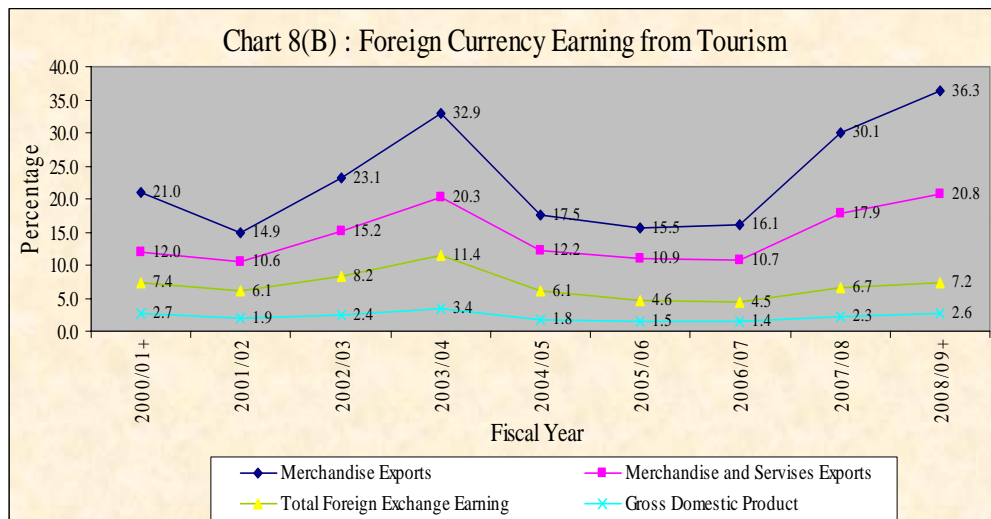
* Fiscal Year 2006/07, ** Fiscal Year 2007/08

Source: Ministry of Tourism and Civil Aviation

- 8.67 Of the total tourists' arrival during the calendar year 2008, 27.5 percent were from Western Europe, 7.6 percent from North America, 3.2 percent from Australia and Pacific Region, 2.6 percent from Eastern Europe, 1.5 percent from Central and South America, 0.3 percent from Africa and 1.4 percent from other countries. Among the total visitors, 55.9 percent were from Asia comprising 18.2 percent Indian tourists. Though shares of tourists arriving from North America, Central and South America, Asia, Australia and Pacific have declined in comparison to the figure during the same period in the preceding year, the tourist arrivals from Africa and other countries have increased.
- 8.68 Data as to the number of hotels and hotel beds in 2007 shows that the number of star hotels decreased by 8.6 percent to 96 while the number of non-star hotels reached 573 with the addition of 61 hotels. During this year, the number of hotel beds in hotels other than star hotels increased by 12.4 percent reaching 16,743 beds. During the review period, the total number of hotel increased by 8.4 percent with 5.7 percent increment in their bed numbers.
- 8.69 While analyzing the status of mountaineering teams and number of mountaineers, the number of mountaineering teams has decreased until mid March 2008, as compared to that of calendar year 2007. The number of mountaineering team during the calendar year 2007 reached 202 from 162 while this number was only 162 in the calendar year 2008. The number of mountaineers in the calendar year 2008 was 1,128, which came down to 1009 by mid-March, 2009. The GoN collected royalty of Rs. 239.4 million in the calendar year 2008 from the mountaineering team, while this figure by mid-March 2009 was Rs. 35.4million.
- 8.70 Nepal Tourism and Hotel Management Academy (NATHAM) has remained involved in generating human resource required for tourism development. With the objective of developing tourism in rural areas, people in rural areas have been encouraged to invest in tourism business and provided with necessary trainings for operating such businesses. To generate skilled manpower for developing both small and large tourism business in urban areas, 3-Year Bachelor in Travel and Tourism Management course has been started since FY 2003/04. Similarly, to develop skilled human resource for tourism development, Bachelor in Hotel Management, various hotel management trainings, trekking and tour guide, tour travel agency and ticketing, cook, leader, water-rafting guide, hospitality course, and mobile trainings at various tourist spots are offered. In FY 2007/08, the Academy had trained 1,514 subjects to various students. Within first eight months of FY 2007/08, these numbers reached to 1335

students have been trained by the Academy. As of now, the total number of manpower trained by the Academy exceeded 26,000.

8.71 **Foreign Exchange Earnings from Tourism Sector:** Foreign exchange earnings in FY 2007/08 had increased by 84.2 percent totaling Rs.18.365 billion from tourism sector than that of the preceding year. Likewise, during the first eight months of FY 2008/09, foreign exchange earnings reached Rs.16.825 billion which is 54.5 percent more than the earnings during the same period of the preceding year. The foreign exchange earned in the first eight months of FY 2008/09 was equivalent to 36.3 percent of total foreign exchange earned from the exports of goods, 20.8 percent of total foreign exchange earned from total exports of goods and services, and 7.2 percent of the total foreign exchange earnings during the period.



8.72 Nepal participated in ITB-2009 held in Berlin, Germany which is the world's largest tourism fair. Likewise, Nepal participated in World Mart organized in UK, MITT-2009 in Moscow, Russia, FITUR-2009 organized in Spain, North India Sales Mission, Sales Mission organized in China PATA Annual Meeting, UNWTO conference in Teharan, aviation concerned ICAO seminar in Canada. Various fairs and celebrations were organized through Nepal Tourism Board by branding “Naturally Nepal: Once is Not Enough” for promoting tourism in Nepal.

9. Public Enterprises

- 9.1 A trend of rapid expansion of Government financed public enterprises began in Nepal since the decade of 1960s with primary objective of building basic infrastructure, production and distribution of manufactured goods and assisting in the overall development of the country. Among the existing 36 enterprises fully or partially owned by the Government, there are 7 enterprises in industrial sector, 6 in business sector, 7 in service sector, 3 in public utility sector and 8 are in the financial sector. Since the production and service delivery of these enterprises with Government's heavy investment, are directly concerned with general public, regular monitoring and follow-up is necessary to enhance their efficiency. So, the analyses of regular annual progress reports of these enterprises get incorporated in Economic Survey of every year. The present analysis includes, target and progress carried out by the public enterprises and the brief financial details of FY2007/08 as well as objectives and revised cost-estimation, and information about the proposed objectives of such enterprises charted out for the coming years. In addition, the capital structure of each enterprise, profit and loss, and situations of Shareholders' fund, liabilities to be paid, details of investment and assets, auditing status, status of human resources, and, current programs as well as future investment programs have been included. The information are collected from the concerned enterprises, Financial Controller General Office and Ministry for Finance, to avail reliable and factual data.
- 9.2 The total fixed asset of the above said 36 enterprises has reached to Rs.123.85 billion by the end of FY2007/08 from Rs. 110.61billion in FY 2006/07. During this period, fixed asset of Nepal Electricity Authority, Udaypur Cement Industry Ltd., and Nepal Telecommunications Company grew by Rs.8.41 billion, Rs.2.86 billion, and Rs.1.37 billion respectively. During the same period however, following the decision made on 29 September 2007, a Kathmandu Valley Drinking Water Management Board was by breaking down Nepal Water Supply Corporation into two separate entities. Since the fixed asset of the company was also transferred with the split, the net fixed asset of Nepal Water Supply Corporation also fell by Rs.2.48billion. The Shareholders' Fund composed of all public enterprises with full and majority share holding of the Government at the end of FY 2007/08 stood at Rs.46.62 billion. Based on the information from the Financial Comptroller General's Office, the value of the Government's share investment of Rs.81.92billion in 36 PEs has already depleted by 43 percent by the end of FY2007/08, but the Government's loan investment on PEs,

which stood at Rs.71.74 billion in FY2006/07, grew to Rs.83.31 billion during the same period.

- 9.3 A glance to the overall financial situation of 6 PEs reveals that 17 Corporations have earned net profit, whereas 19 Corporations made losses during FY2007/08. There were only 14 loss-making PEs in FY2006/07 as compared to the present 19, which indicates their deteriorating financial situation. Similarly, the net profit of PEs has decreased to Rs.4.94billion in FY2007/08 against the net profit of Rs.7.74 billion during the same period of FY2006/07. Among the profit- making PEs, Nepal Telecom Company Ltd. has made a net profit of Rs.7.94 billion and Rastriya Banijya Bank Rs.1.77 billion, contributing to net profit of the PEs. On the contrary, the total loss of Nepal Oil Corporation reached to Rs.5.57billion in FY 007/08 from Rs.1.92billion during the previous fiscal year. Hence, the overall net profit PEs has decreased. With the price-reduction in petroleum products in the international market during FY 2007/08, and the adjustments in the price yet to be made, it is expected that Nepal Oil Corporation's net profit will reach Rs.5.3 billion, resulting in estimated total profit of Rs.18.42billion of these PEs. Nepal Government received dividend amounting to Rs. 1.513 billion from four PEs in FY2007/08, equivalent to 1.8 percent of the total share investment.

Sector-wise Analysis

Industry Sector

- 9.4 In FY 2007/08, seven PEs in the industry sector have made sales transaction worth Rs.4.35billion, an increment of 4.2 percent as compared to the transactions in its immediate preceding fiscal year. Mainly the Dairy Development Corporation, Hetaunda Cement Industry Ltd, Janakpur Cigarette Factory Ltd and Udayapur Cement Industry Ltd have made sales transactions worth Rs.1.80 billion, Rs. .0.99 billion, Rs.0.96 billion and Rs.0.51 billion respectively during FY2007/08. In comparison to the previous year, Hetaunda Cement Industry Ltd, has achieved an encouraging 41.4 percent growth in total sales whereas the total sale of Udayapur Cemet Industry Ltd decreased by 39.1 percent during the same period. There is a moderate growth in the sales of Dairy Development Corporation during this period. Since Nepal Orind and Magnesite has written-off and deducted the sales amount of Rs. 20 million from capital investment while preparing financial report.

Profit and Loss situation

- 9.5 During FY2006/07, the total net loss of 7 PEs under the industry sector was Rs. 272.7 million, which reached to Rs. 435.9 million in 2007/08, almost

doubling the loss. Among the prime losers, Udayapur Cement Industry Ltd made a loss of Rs. 266.0 million while Janakpur Cigarette Factory saw a loss of Rs.154.5 million. Udayapur Cement Industry Ltd is losing for reasons like, decline in production, and net sales amidst the high cost of production. The total loss of Nepal Orind Magnesite Private Ltd. has touched Rs.3.58billion with an addition of Rs.86.1 million in the current year alone. The Dairy Development Corporation, which had made a profit of Rs.14.7 million in FY2006/07 incurred a net loss of Rs.89.8 million in FY2007/08 owing to the allocation in gratuity and increase in other administrative expenses.

Debt, Assets and Share Holders' Fund

- 9.6 There seem to have no particular change occurred in the total outstanding Rs.3.63 billion debt of the industry sector in 2007/08 from that of FY2006/07. Similarly, the net fixed asset of Rs.1.82 billion has grown to Rs. 4.67 billion during the period. Capitalization of Rs. 3.0 billion of Udayapur Cement Industry Ltd, which was being shown as asset under construction for many years in the past, is the main reason for growth in the net fixed asset of the sector. Shareholders' fund includes their share capital, accumulated loss and profit, and reserved funds. By the end of fiscal year 2007/08, the share holders' fund of all 7 PE's has shown negative (-Rs. 1.777billion) balance. Overall, the progress report of the Industrial sector for FY2007/08 does not seem satisfactory. Nepal Orind Magnesite Ltd has made no progress at all, and is continuing to add to the Government's economic burden each year.

Business Sector

- 9.7 In FY2007/08, the total sales transactions of all 6 PEs under the business sector category has reached Rs. 41.7 billion from Rs. 38.78 billion in FY2006/07, registering an increase of 5.9 percent over the previous year. Among all enterprises under the business sector, Nepal Oil Corporation is the highest contributor with 95 percent of total sales value. Review of FY 2006/07 and 2007/08 shows increase of Rs.2.42 billion in Nepal Oil Corporation's sales transaction. Nevertheless, growth is observed in sales transactions of some other PEs too. However, there has been a heavy decline on the sales of Agriculture Inputs Company limiting to Rs. 161.5 million in FY2007/08 against its sale of Rs. 449.1million in the previous year raising the question of sustainability of the Corporation.

Profit and Loss Situation

- 9.8 All PEs under the business sector incurred a total net loss of Rs.5.69 billion in FY2007/08. This amount is much higher than the previous year's net loss

of Rs.1.96 billion caused to the business sector mainly due to sharp rise of 190 percent loss to Nepal Oil Corporation during the period. Among the Corporations of this sector, National Seeds Company and Nepal Food Corporation are in the situation of registering net profits owing to the grant assistance from the Government of Nepal to them worth Rs.5.0 million and 38.95 million respectively. National Trading Limited and The Timber Corporation of Nepal have also registered profits this year. The Agriculture Inputs Company registered the loss worth Rs.164.2 million in FY2007/08. Because of Nepal Oil Corporation's net loss worth Rs.5.57 billion, the overall financial situation of business sector has incurred the net loss.

Debt, Assets and Shareholders' Fund

9.9 By mid-July 2007, the long-term and short-term debt of PEs have reached Rs.10.77 billion and Rs.3.36 billion respectively. Nepal Oil Corporation's long-term and short-term debt has reached Rs.10.71 billion and Rs.2.40 billion respectively, In addition, the Corporation owes Rs. 1.24 billion dues to Indian Oil Corporation. Because, the increasing trend of debt and dues Nepal Oil Corporation owes, the overall debt of the business sector is also on increase. In comparison to FY2006/07, the short-term debt of Agriculture Inputs Company in FY2007/08 declined by 22.0 percent to Rs.722.0 million. Besides, the debt obligation of Nepal Food Corporation also came down to Rs. 173.2 million from 408.9 million. The net fixed asset of the business sector is worth Rs. 1.83 billion, major shares of which Agriculture Inputs Company and Nepal Oil Corporation own worth Rs. 790.0 million and Rs. 490.0 million respectively. In the FY2007/08, no substantial change is noticed in the fixed asset in the PE's of the business sector. Although, the Shareholders' fund as a whole is negative, Shareholders' fund of four Corporations of this sector namely Agriculture Inputs Company, National Seeds Company Ltd, The Timber Corporation of Nepal and National Trading Limited has remained positive.

Service Sector

9.10 The total operating income of 7 PE's under the service sector decreased by 22 percent to Rs.5.50 billion in FY2007/08 in comparison to previous year's income with contributions of net operating incomes of Rs. 3.31 billion and Rs. 1.50 billion of Nepal Airline Corporation and Civil Aviation Authority respectively. As compared to FY2006/07, Civil Aviation Authority and Industrial Estates Management Company have expanded their transactions. However, Nepal Airlines Corporation's total income fell to Rs.3.31 billion in contrast to the income of Rs.5.21 billion during the previous year. Among those PEs whose operating income has declined are Nepal Engineering Consultancy Services Centre Ltd, and National

Construction Company of Nepal, whereas National Productivity and Economic Development Centre and Nepal Transit and Warehousing Management Company's operating income have increased.

Profit and Loss Situation

9.11 The net profit of all PEs under the service sector fell sharply by 55 percent in FY2007/08 to Rs.215.3 million from Rs.475.5 million in its immediate preceding year. Three Public Enterprises, that were able to make net profits were the Civil Aviation Authority, Industrial Estate Management Company, and Nepal Transit and Warehousing Management Ltd with the shares of Rs. 412.7 million, Rs. 19.5 million and 8.5 million respectively during the period. Nepal Airlines Corporation which earned a net profit of Rs. 342.1 million in FY2006/07 made a net loss of Rs. 197.1 million in FY2007/08 owed mainly to higher administrative expenses without any increase in service transactions. Likewise, National Construction Company Nepal Ltd, Nepal Engineering Consultancy Services Centre and National Productivity and Economic Development Centre have been operating at losses.

Debt, Assets and Shareholders' Fund

9.12 Among PEs in the service sector, only Nepal Airlines Corporation and Civil Aviation Authority are using loans. Overall, the service sector owed Rs.1.80 billion long-term and Rs. 369.3 million short-term debts by FY2007/08. Similarly, the sector's Shareholders' Fund and net fixed assets in this period stood at Rs.9.74 billion and Rs.10.31 billion respectively. The Civil Aviation Authority of Nepal has added Rs. 4.0 billion to its assets through capitalization.

Social Sector

9.13 The total operating income of 5 PEs in the social sector amounted to Rs. 1.16 billion in FY2007/08, which is more by Rs. 153.3 million than that of its preceding year. During the period, Janak Education Materials Centre made the most sales transactions worth Rs. 680 million, Nepal Television worth Rs.230 million, and Gorkhapatra Corporation worth Rs.220 million. Social sector PEs recorded increase in their overall transactions in FY2007/08 as compared to FY2006/07.

Profit and Loss Situation

9.14 There has been a slight improvement in the situation of net loss in the social sector from Rs.128.5 million in FY2006/07 to Rs.124.9 million in FY2007/08. Gorkhapatra Corporation and Janak Educational Materials Centre Ltd, that were making profit in FY2006/07, incurred losses in FY2007/08. During the

review period, Nepal Television, Janak Educational Materials Centre, Gorkhapatra Corporation, Grameen Aawas Company Ltd., and the Cultural Corporation all incurred losses worth Rs. 75.1 million, Rs. 31 million, Rs. 11.8 million, Rs. 6.6 million and Rs. 0.4 million respectively. The magnitude of loss of Nepal Television and Grameen Aawas Company Ltd, however has decreased to some extent in FY2007/08 than in the previous fiscal year. In considerations with the progress made during FY2007/08, the net loss of the sector in FY2008/09 is estimated at Rs. 88.4 million.

Debt, Assets and Shareholders' Fund

9.15 Among the PEs in the social Sector, only two Corporations, i.e. the Cultural Corporation and Gorkhapatra Corporation have long term debt obligations worth Rs. 184.3 million and 24.6 million respectively. The long-term debt obligation of the Cultural Corporation was Rs. 102 million in 2004/05, Rs. 127.3 million in FY2005/06; Rs. 162.3 million in 2006/07, and Rs.184.3 million in 2007/08 showing the gradually increasing trend. The Gorkhapatra Corporation, which had a debt obligation of Rs.25.1 million in FY2006/07, has been able to bring it down slightly. The net fixed asset of the social sector Corporations, which amounted to Rs. 1.6 billion in FY2006/07 stood at Rs. 1.4 billion by the end of FY2007/08. In the current fiscal year, the Cultural Corporation has notably increased its fixed asset. The Shareholders' fund of this sector amounted to Rs. 1.49 billion by the end of the current fiscal year, which stood at Rs.1.68 billion in FY2006/07. None of Corporation in this sector has the Shareholders' fund negative. To sum up, despite satisfactory sales situation of PEs in this sector, there has been no improvement in their loss-making positions.

Public Utility Sector

9.16 The total operating income of three PEs under the Public Utility Sector has stood at Rs.32.21 billion in FY2007/08. This is an increase 12.35 percent when compared with the operating income in FY2006/07. Because a separate Kathmandu Valley Drinking Water Management Board has been formed for managing water supply in Kathmandu Valley, the scope of Nepal Water Supply Corporation has shrunk to the areas outside the Valley resulting in the decline of total operating income worth Rs. 241.7 million in FY2007/08. To the contrary, the operating income of the Nepal Electricity Authority grew by 4 percent reaching Rs.15.18 billion. Similarly, the operating net income of Nepal Telecom Company Ltd increased by 24.8 percent to Rs.16.79 billion from Rs.13.45 billion in FY2006/07.

Profit and Loss Situation

9.17 During FY2006/07 the profit of PEs in this sector was Rs.5.57 billion, which increased to Rs.7.2 billion in 64/65 with a growth of 26 percent. During FY2007/08 Nepal Telecom Ltd singly made a net profit of Rs.7.94 billion, largely contributing to lead the whole profit-making utility sector. Nepal Electricity Authority and Nepal Water Supply Corporation have borne a loss of Rs.909.3 million and Rs.16.7 million respectively. The net profit of Nepal Telecom Company is expected to reach Rs. 10.14 billion by the end of FY2008/09.

Debt, Assets and Shareholders' Fund

9.18 By the end of the FY2007/08, the long-term debt liabilities of Nepal Water Supply Corporation and Nepal Electricity Authority reached Rs. 449.6 million and Rs.51.63 billion respectively. The major investment of this sector is on fixed assets. By adding the construction in process, net fixed assets of these PEs totalled Rs.105.56 billion in FY2007/08 from worth Rs.98.25 billion in FY2006/07.

Financial Sector

9.19 The total operating income of 8 PEs under the financial sector has increased by 8 percent to Rs.10.93 billion in FY2007/08, while compared to the income of FY2006/07. During this period, Nepal Industrial Development Corporation substantially increased its income by selling Nepal Arab Bank's 265,570 units of shares it owned raising its operating income to Rs.1.13 billion. Similarly, Rastriya Banijya Bank has increased its operating income to Rs.3.30 billion from Rs.2.83 billion in FY2006/07. However, there has been a decline in the total operating incomes of Agriculture Development Bank and Credit and Investment Guarantee Corporation Ltd. The remaining PEs have slightly increased their operating incomes. Since there has been an overall increase of Rs.81.26 million in the total operating income, the financial situation of the PEs of this sector is positive. Meanwhile, Agriculture Development Bank has been permitted to operate its services as of Category A (ka) bank from Nepal Rastra Bank since FY 2005/06, it has expanded its various banking activities accordingly.

Profit and Loss Situation

9.20 The net profit of the financial sector has decreased by 2.4 percent to Rs.3.96 billion in FY2007/08 against Rs. 4.6 billion that of FY2006/07. The net profit of Rastriya Banijya Bank, Nepal Industrial Development Corporation and Nepal Stock Exchange in FY2007/08 increased to be 1.76 billion, 8.8 million, 742.4 million, and 79.1 million Rupees respectively. On the contrary, the profit of Agricultural Development Bank and Rastriya Beema Sansthan has

decreased. Savings and Credit Guarantee Corporation Ltd., which earned profit of Rs.100.1 million in 2006/07 is now at a loss worth Rs. 28.5 million in the current fiscal year. There is no worth-mentioning improvement in the profit of Citizen Investment Trust and Nepal Housing Development and Finance Company.

Debt, Deposit Investment and Share Holders' Fund

9.21 The long-term debt of PEs in this sector amounted to Rs.8.33 billion by the end of FY2007/08. Nepal Industrial Development Corporation has debt liability of Rs.232.0 million, Rastriya Banijya Bank Rs.2.517 billion, and Agriculture Development Bank Rs.257.4 million. The Life Insurance Fund liability of Rastriya Beema Sansthan amounting to Rs.7.15 billion has also been included in the debt obligations. Among the 3 PEs under the financial sector, Agricultural Development Bank, Rastriya Banijya Bank and Nepal Housing Development and Finance Company have conducting their business by accepting deposits from the general public. Similarly, Nepal Industrial Development Corporation also has received approval to operate general banking services. The accumulated deposits of such PEs in FY2007/08 totalled to Rs.93.94 billion, which is much higher than the previous fiscal year's Rs.83.55 billion registering an increase of 12.43 percent. On credit expansion, there has been a marginal increase of Rs.53.83 billion by the end of FY2007/08 against Rs.52.38 billion in the previous fiscal year. Likewise, the net credit flow of these PEs marginally increased from Rs.52.38 billion in FY2006/07 to Rs. 53.83 billion by the end of FY2007/08. Overall, financial institutions' aggregate Shareholder' fund remained negative by Rs.7.95 billion. It is due to that fact that although, Shareholders' Fund of PEs other than that of Rastriya Banijya Bank has been positive, this particular Bank's Rs.15.46 billion fund in negative has affected by turning the whole PEs' Shareholders' fund negative in aggregate. The negative asset of Rastriya Banijya Bank has been gradually coming down after the Bank was brought in operation on the Management Contract under the Banking Sector Reform Program with the World Bank Assistance in 2003. The negative asset of the Bank that stood at Rs.22.39 billion in FY2001/02 has come down to Rs.15.46 billion by the end of FY 2007/08.

Status of Auditing

9.22 Despite the legal provision to conduct annual audit of all PEs, in practice however, some PEs are still found to ignore their responsibility of getting their accounts audited within the stipulated time-frame. To state more precisely, only 19 PEs have completed audit of accounts up to FY2007/08, whereas 9 PEs have made it up to FY2006/07. and 3 PEs have completed

their audit only up to FY2005/06. Though some improvements is observed among the PEs to comply with auditing and accounting requirements of the law, the task of auditing could not get completed as expected neither in terms of time nor in the manner, proving their incapability and lack of accountability. The following table presents the poor performances of some of the PEs failing towards fulfilling their legal responsibilities for annual auditing:

Box 9 (a) : Public Enterprises with Weak Audit Status		
S.N.	Name of the Public Enterprise	Latest Audit year
1.	Nepal Orind Magnesite Pvt. Ltd.	2000/01
2.	Rastriya Beema Sansthan	2001/02
3.	Udayapur Cement Industry Lid.	2004/05
4.	Gorkhapatra Corporation	2004/05
5.	Nepal Industrial Development Corporation Ltd.	2004/05

Reform in Corporations' Board of Directors

9.23 The Government has endorsed a policy of appointing competent, enterprising and professional individuals to represent the Board of the PEs limiting their size to 5 members. So far, these policy provisions have been actualized in almost all PEs. However, the number of Board of Directors of some PEs are specified by the concerned Acts and Regulations and limiting their size to 5 members in such PEs through reframing those Acts and Regulations is yet to be made. Names of such PEs are mentioned below:

Box 9 (b) : Number of Board Directors in some Public Corporations		
S.N.	Name of the Public Enterprise	No. of Directors
1.	Nepal Oil Corporation Ltd.	8
2.	Civil Aviation Authority	8
3.	Nepal Housing Development Finance Company Ltd.	8
4.	Nepal Water Supply Corporation	7
5.	Nepal Electricity Authority	7
6.	Nepal Airlines Corporatopm	7
7.	Rastirya Beema Sansthan	7
8.	Udyayapur Cement Indistry Ltd.	6
9.	Nepal Food Corporation	6
10.	Savings and Credit Guarantee Corporation Ltd.	6
11.	Nepal Stock Exchange Ltd.	6
12.	Gorkhapatra Corporation	6
13.	Grameen Aawas Co, Ltd.	6

The Government of Nepal's Share and Loan Investments

9.24 According to the Financial Comptroller General's Office (FCGO), the Government's share investment in 36 PEs totals to Rs. 81.92 billion, from which the Government has earned a net dividend of Rs.1.51 billion by the end of FY2007/08. Likewise, the loan investments owed to the Government amounts to Rs.73.819 billion by the end of FY2007/08. Of this, domestic and external loans comprise of Rs. 13.001 billion and Rs. 60.69 billion respectively. Despite discrepancies in accounts as submitted by the concerned PEs and that was prepared by the FCGO in the progress report of FY2006/07, no progress was made towards addressing the issue even in FY2007/08. The progress reports and details about the share and investment of a number of PEs still need to tally and get audited accordingly. Failing to do this for a long period will certainly have a negative impact, not only the auditing will become more and more complex, but also the real picture of the financial conditions of the PEs can be known. Therefore, initiations to finalize auditing is unavoidably essential. The differences in details noticed on Government's loan investment are presented below:

Table 9 (a): Discrepancies in Accounting of Government Lending to Public Enterprises

(In Million Rs.)				
S.N. (1)	Name of the Public Enterprise (2)	As shown by the PE (3)	As shown by FCGO (4)	Difference (5)=(3)-(4)
1.	Nepal Drugs Ltd.	122.0	108.5	13.5
2.	Udayapur Cement Industry Ltd.	1,740.0	2,225.0	-485.0
3.	Nepal Orind Magnesite Pvt. Ltd.	349.3	357.0	-7.7
4.	Nepal Food Corporation	-	4.2	-4.2
5.	The Timber Corporation of Nepal	54.8	57.8	-3.0
6.	National Construction Co. Nepal Ltd.	-	1.0	-1.0
7.	Civil Aviation Authority	1,022.0	2,327.8	-1,305.8
8.	Nepal Water Supply Corporation	449.6	3,748.5	-3,298.9
9.	Nepal Electricity Authority	51,635.7	54,615.9	-2,980.2
10.	Nepal Telecom Ltd.	-	104.3	-104.3
11.	Agricultural Development Bank Ltd.	-	401.8	-401.8
12.	Nepal Industrial Development Corporation Ltd.	-	6.5	-6.5
	Total	55,373.4	63,958.3	-8,584.9

Table 9 (b) : Discrepancies in Government Accounting of Share Investments in Public Enterprises

(In Million Rs.)

S.N. (1)	Name of the Public Enterprise (2)	As shown by the PE (3)	As shown by FCGO (4)	Difference (5)=(3)-(4)
1.	Nepal Herbs Production and Processing Co. Ltd.	27.5	39.7	-12.2
2.	Agricultural Inputs Co. Ltd.	415.9	413.6	2.3
3.	National Seeds Co. Ltd.	118.5	110.1	8.4
4.	Nepal Food Corporation	990.5	999.3	-8.8
5.	Nepal Oil Corporation Ltd.	95.1	290.8	-199.7
6.	Civil Aviation Authority of Nepal	10,921.3	14,716.6	-3,795.3
7.	Grameen Aawas Co. Ltd.	23.3	27.3	-4.0
8.	Nepal Water Water Supply Corporation	470.1	1,407.7	-937.6
9.	Nepal Electricity Authority	28,610.0	29,086.6	-476.6
10	Nepal Telecom Ltd..	13,72,00	14,99,50	-1,27,50
11.	Agricultural Development Bank Ltd.	10,325.0	10,361.8	-36.8
12.	Nepal Industrial Development Corporation Ltd.	412.7	349.2	63.5
13.	Citizens Investment Trust	6.0	4.0	2.0
	Total	66,135.9	72,801.7	-6,665.8

Status of Employees/ Workers

9.25 The number of employees in 36 PEs with Government's full/ majority ownership was 34,170 by the end of FY2007/08, which is estimated to reach 36,457 in FY2008/09 and 37,450 by FY2009/10. In general, Corporations have a common pressure of over-staffing, but the production and delivery of goods and services of these Corporations have not improved in comparison to the number of staff, workers, and productivity of their counterparts with similar nature in the private sector. With this situation, the overhead cost and financial burden has continued to increase whereas productivity of workers has decreased - ultimately leading to the decreased productivity of the entire sector. Enjoying the privilege of Government protection, most employees/workers lack motivation to become competitive, instead, they are getting more and more facility seekers. These PEs are undergoing the problem of decision-making in absence of

any improvement on professional autonomy. Despite these shortcomings, some PEs are effectively carrying out their duties of production and delivery of goods and services.

Unfunded Liabilities

9.26 Most PEs have not covered various payment liabilities such as gratuity, payments against accrued leave, etc. in their fund which gets more burdensome for unanticipated potential obligations. By the end of FY2007/08, such unfunded liability totalled to Rs.4.96 billion, whereas the potential liability has reached Rs.16.36 billion. The unfunded liabilities of PEs and existing potential liabilities are as follows:

Table 9(c) : Unfunded Potential Liabilities of Public Enterprises

(In Million Rs.)

S.N.	Name of the Public Enterprise	Unfunded	Potential Liability	Total
1.	Dairy development Corporation	281.4	0	281.4
2.	Herbal Production and Processing Center Ltd.	120.8	1.5	122.3
3.	Hetauda Cement Industry Ltd.	0	0	0
4.	Janakpur Cigarette Factory Ltd.	649.9		649.9
5.	Nepal Drugs Ltd.	88.1		88.1
6.	Udaypur Cement Industry Ltd.	7,00		7,00
7.	Nepal Orind Magnesite Pvt. Ltd.	32,00	0	32,00
8.	Agricultural Inputs Co. Ltd.	164.7	1.5	166.2
9.	National Seeds Company Ltd.			0
10.	National Trading Ltd.	103.8	370.3	474.1
11.	Nepal Food Corporation	296.0		296.0
12.	Nepal Oil Corporation Ltd.	0	0	0
13.	The Timber Corporation of Nepal Ltd.	73.435	0	73.435
14.	Industrial Estates Management Ltd.	13.2		13.2
15.	Nepal Construction Company Nepal Ltd.	20.0		20.0
16.	Nepal Transit & Warehousing Co. Ltd.	12.8		12.8
17.	Nepal Engineering Consultancy Services P. Ltd.	0	0	0
18.	Nepal Airlines Corporation	34,712.0	0	34,712.0
19.	National Productivity and Economic	0	0	0

<i>S.N.</i>	<i>Name of the Public Enterprise</i>	<i>Unfunded</i>	<i>Potential Liability</i>	<i>Total</i>
	Development Centre Ltd.			
20.	Civil Aviation Authority		949.62	949.62
21.	Cultural Corporation	7.7	0	7.7
22.	Gorkhapatra Corporation	0	0	0
23.	Janak Educational Materials Ltd.	107.0	9.5	116.5
24.	Nepal Television	84.2		84.2
25.	Grameen Aawas Company Ltd.	901.6		901.6
26.	Nepal Water Supply Corporation	234.5	0	234.5
27.	Nepal Electricity Authority	31,512.7	10,210.4	10,525.5
28.	Nepal Telecom Ltd.	1,637.0	3.2	1,640.2
29.	Agricultural Development Ltd.	0	2,198.1	2,198.1
30.	Rastriya Beema Sansthan	0	0	0
31.	Nepal Industrial Development Corporation	0	0	0
32.	Rastriya Banijya Bank Ltd.		2,619.7	2,619.7
33.	Savings and Credit Guarantee Corporation Ltd			0
34.	Nepal Housing Development & Finance Co.			0
35.	Nepal Stock Exchange Ltd.	0	0	0
36.	Citizens Investment Trust	0	0	0
	Total	4,955.8	16,363.8	21,319.6

Privatization, Liquidation and Termination of PEs

9.27 The Government initiated the process of privatization, liquidation and termination of PEs in 1993 with the objectives of raising the private sector's productivity through their skills enhancements, ease the Government's financial and administrative burden, increase the private sector participation, and ensure effective and efficient delivery of goods and services. Since then and between 2008/09, the Government has divested 60 PEs through adoption of various modalities including the sale of businesses assets, partial disinvestment of shares, sale of current assets, leasing of buildings and land, management contract, liquidation, and termination, etc. The details of such disinvestments are presented below:

Table 9(d) : Disinvested and Liquidated Public Enterprises

S.No	Name of Enterprise	Year of disinvestment or liquidation (A.D.)	Privatization Process	Shares Disposed (Percent)	Amount received through Disinvestment (Million Rs.)
1.	Bhrikuti Paper Factory	1992	Business and Assets \ sale	-	229.80
2.	Harisiddhi Brick & Tile Factory	1992	Business and Assets \ sale	-	214.83
3.	Bansbari Leather Shoes Factory	1992	Business and Assets \ sale (except Land)	-	29.85
4.	Motion Picture Development Company	1993	Shares Disinvestment	51.0	64.66
5.	Balaju Textile Industry	1993	Shares Disinvestment	70.0	17.72
6.	Raw Hide Collectin and Sales Center	1993	Shares Disinvestment	100.0	4.00
7.	Nepal Bitumument & Barrle Industry	1994	Shares Disinvestment	65.0	13.13
8.	Nepal Lube Oil	1994	Shares Disinvestment	40.0	31.06
9.	Nepal Jute Development and Trading Co.	1993	Liquidation	-	-
11.	Tobacco Development Co.	1994	Liquidation	-	-
12.	Nepal Metal Co.	1996	Shares Disinvestment	51.0	14.47
13.	Raghupati Jute Mills	1996	Shares Disinvestment	65.0	82.20
14.	Nepal Bank Ltd.	1997	Shares Disinvestment	10.0	125.14
15.	Agriculture Project Services Center	2001	Liquidation	-	-
15.	Nepal Tea Development Corporation	2000	Shares Disinvestment	65.0	267.11
16.	Biratnagar Jute Mills*	2002	Management Contract	-	-
18.	Himal Cement Industry Ltd.**	2002	Liquidation	-	-
18.	Cottage Handicraft Sales Emporium	2002	Liquidation	-	-
20.	Nepal Coal Ltd.	2002	Liquidation	-	-
20.	Hetauda Textile Industry	2002	Liquidation	-	-
21.	Nepal Transport Corporation	2002	Dissolve	-	-
22.	Butwal Power Company	2003	Shares Disinvestment	75.0	Rs. 874.2 million and US\$ 1.0 million
24.	Birganj Sugar Factory Ltd.	2003	Liquidation	-	-
24.	Agricultural Tools Factory	2003	Liquidation	-	-

S.No	Name of Enterprise	Year of disinvestment or liquidation (A.D.)	Privatization Process	Shares Disposed (Percent)	Amount received through Disinvestment (Million Rs.)
	Ltd.				
25.	Bhaktapur Brick Factory Ltd.	2004	Asset Sale and Leasing	-	Rs.14.50 million from asset sale, and Rs. 31.9 million as rent for 10 years
26.	Lumbini Sugar Factory	2006	Asset Sale and Leasing	-	Rs. 78.6 million from asset sale and Rs. 4.2 million annual rent.
27.	Nepal Rosin & Turpentine Ltd.	2006	Asset Sale and Leasing	-	Rs. 110.1 million from asset sale and Rs. 3.01 million annual rent
28.	Agriculture Lime Industry Ltd.	2006	Liquidation		
29.	Nepal Drilling Co.	2006	Liquidation		
30.	Nepal Telecommunication Company Ltd.	2008	Shares Disinvestment	8.53	Rs.4,264.14 million

* Though given in management contract, the Government is currently operating upon failure to run as per the contract .

** Liquidation void through the Court decree, due process restarted for re-liquidation.

9.28 Monitoring has not been carried out since privatization of PEs. Some PEs are closed after privatization, and employment opportunities have been curtailed due to failure on enhancing investments, production, and productivity of even those in operation. Meanwhile, the Task Force formed to explore the exact situation and key problems of the privatized PEs has submitted its report with issues and recommendations. No process for privatization has moved ahead in FY2008/09. Among the privatized PEs, the liquidation process of Bhaktapur Brick Factory is completed and the company has been dissolved by the Company Registrar's Office. Liquidation process of Agricultural Lime Industry has reached its final phase. Experiences gained through privatization initiated 15 years ago have revealed a number of challenges in the implementation of privatization process.

Key Problems Concerned with the Implementation of Privatization

9.29 The process has faced obstacles on arriving at the conclusion of privatization resulting from disputes between the Government and the buyers due to difference in valuations carried out separately by the Government appointed evaluators and that appointed by the potential buyer. One of the main reasons behind this is the difference of opinion

during the physical verification upon conclusion of agreement on the amount, quality and the condition of assets as mentioned in the Information Memorandum prepared during the process of privatization. Such problems appeared in the privatization processes of Balaju Textiles, Raghupati Jute Mill, Bhaktapur Brick Factory and Nepal Rosin and Turpentine etc. with the dispute not resolved yet. Likewise, in some cases, privatization could not be concluded due to failure of the buyer to make use of the leased land because of encroachment. Raghupati Jute Mill and Nepal Tea Development Corporation are the examples of such issues. Even some buyers have preferred to go in litigation showing disagreement on the amount due to the Government. This has created the problem in realising the Government dues and, also in closing the privatization process of such PEs for once and all. Examples of such problems are Harishiddhi Brick and Tile Factory, Bhrikuti Paper Industry, and Agricultural Tools Factory.

- 9.30 Assets of liquidated and terminated PEs could not be disposed off. The assets of Hetauda Textile Industry could not be sold even after its liquidation six years ago with its machines being very old and obsolete. Similar situation exist in cases of Nepal Drilling Company, Birganj Sugar Factory, and Agricultural Tools Factory. In addition, failure in monitoring whether the objective of privatization have been achieved has created a situation whereby actual status of such (privatized) PEs could be known. It has necessitated creation of a mechanism for carrying regular monitoring and evaluation of the privatized PEs. The Government has borne huge financial liability in the process of privatizing the PEs. There is situation whereby the Government would have to bear further financial burden for the PEs with liquidation, termination or disinvestment process still incomplete. It is very much necessary to get rid of the situation where the Government has to continuously invest whether it is a minority shareholding companies like the Biratnagar Jute Mills, or a public entity or a limited company. For instance the Government is taking responsibilities against the common business principles of liabilities of public entities to be borne out of their assets; and liabilities to limited companies to be limited within the amount invested as shares in that particular company. The Government has borne the liabilities as presented in the following table in the process clearing liabilities of the PEs the Government lately liquidated or divested its shares.

Table 9 (e) : Government Investment for Payment of Liabilities of Public Enterprises

S.N.	Name of the Public Enterprise	Up to FY 2007/08	In 2008/09	Total
1	Himal Cement Company	37,00.00	6,02.00	43,02.00
2	Bhaktapur Brick Factory	20,62.31	-	20,62.31
3	Birganj Sugar Factory	70,67.24	27.16	70,94.40
4	Agricultural Tools Factory	5,29.76	15.00	5,44.76
5	Nepal Rosin & Turpentine Ltd.	18,08.12	-	18,08.12
6	Lumbini Sugar Factory	50,89.67	-	50,89.67
7	Agricultural Lime Industry Ltd.	8,15.95	9.91	8,25.86
8	Nepal Coal Ltd.	83.91	-	83.91
9	Nepal Transport Corporation	36,16.85	13,60.68	49,77.53
10	Hetauda Textile Industry	53,60.35	-	53,60.35
11	Cottage Handicraft Sales Emporium	8,10.33	-	8,10.33
12	Nepal Tea Development Corporation Ltd.	11,86.71	3.31	11,90.02
13	Biratnagar Jute Mill	45,14.09	-	45,14.09
	Total	3,66,45.29	20,18.06	3,86,63.35

Source: Ministry of Finance

Box 9 (c) : A Review of Biratnagar Jute Mill

Biratnagar Jute Mill, a Public-Private-Partnership venture registered under Company Act 1993 BS (1936 AD) has been operating since 1996 BS (1939 AD). It had played an important role in the country's industrialization, export-business and foreign exchange earning in those days, contributing largely to the nation's economy in the early days of industrialization. Based on the national raw-material jute, it had helped not only providing employment to many, but also raised the living-standard of the jute farmers of Morang, Sunsari and Jhapa districts. In fact, this industry performed well for nearly 5 decades of its operation. Initially, the Government's share on it was 16 percent against the private sector's 84 percent. However, the Government's control over the Mill started in about the year 2026/27 BS (1969/70 AD) by purchasing the private sector's share that raised the Government share in the Mill to 46.5 percent. Then the private sector slowly pulled its hand while the Government's control over management, appointments of staff and workers began to increase, making the Mill more dependent on Government eventually starting its downfall. Among the 15 Chairpersons/ Executive Officers appointed so far, 10 were appointed on political ground (Since 2052BS (1995 AD) onwards). The Government tried to operate this Mill adopting various modalities; such as, **Management Contract, Long-term Lease, Direct Operation, Handling through Political Appointment**, and so on. Despite these attempts and heavy capital investment the industry could not make profit. Presently, there are 1,535 working staff of which 1,002 are

permanent, 36 temporary staff, 112 managerial level personnel, and 385 exchange workers on monthly wage. The staff and other personnel have had rarely any opportunity for skill development, modernization of technology, diversification of products, and enhancing the productivity of the Mill. As there is no control over leakage, this mill bears 14 percent processing loss in sharp contrast to 3 percent such loss on average in similar industries of the private sector. The total annual production capacity of the Mill is 120,000 metric tons. Nevertheless, the Mill had produced up to 140,000 metric tons at times in the past but it has been reduced to 17,000 metric tons in the later years. Moreover, there has been no reduction in the salary and perks of the managerial and other staff, or workers whether the industry has been in a state of loss, shut down or sick. The Nepali saying of "Enjoy having butter even though you have to take loan" seems true to this industry. The Industry occupies a land of 67 Bighas (about 42 Ha) of land in the heart of Biratnagar City, merely utilizing the area of 564,000 sq.ft. for the factory and warehouses. Its 7.5 Kattha (about 0.4 Ha) land in Damak municipality of Jhapa district is left barren-uncultivated and unutilized. Based on the financial details of FY 2005/06, the Mill's net fixed asset is worth Rs. 4.3 million and investment worth Rs.200,000 whereas the net operating property is negative by Rs.807.4 million. The seemingly huge negative operating income is due to the short-term loan worth Rs.699.8 million has been included in the operating obligations. According to the Him Gona Consultant's Assessment Report, the fixed asset at present could be as much as 1.2 billion at the current prices. In viewing unaudited financial details of Biratnager Jute Mill Ltd has a net loss worth Rs. 1.35 billion negative, out of which share capital is Rs.10.7 million, reserved fund Rs. 3.7 million and reserve loss is Rs.13.74 million till 2006/07. By reassessing the fixed asset and managing staff liabilities worth Rs. 400 million, the net worth could be negative by Rs. 810 million. The loans of various banks and Government debts make a total of more than Rs. 1.43 billion by excluding interest, fees, fine etc. The liability worth Rs. 250 million or above is left to be paid for retired staff, Rs. 9 million against gratuity, provident funds, and provisions for sick leave. In this way, calculating other liabilities as well, the Mill has due obligation equal to Rs. 400 million. The monthly liabilities of workers and staff. has been increasing by Rs. 7.5 million per month resulting in the daily expense burden of Rs. 250 thousand for the nation. Presently the total liability of the industry is more than Rs. 1.56 billion. The industry lacks owners/workers/ staff with a strong feeling of belongingness and attachment (sense of My Industry/My Factory). Thus the industry has remained no more an industry, but a platform/playing ground of politics. Finally, the Ministry for Industry has decided to close the factory by making pay -off to its staff /workers.

10. Energy and Forestry

Energy

- 10.1. Energy consumption in FY 2007/08 increased by 2.3 as compared to FY 2006/07 totaling 9,146 Tons of Oil Equivalent (TOE). Consumption during first eight months of the current FY has reached 9,344 TOE.
- 10.2. In FY2007/08, consumption ratio of traditional, commercial, and renewable sources of energy remained at 87.8 percent, 11.5 percent, and 0.7 percent respectively with no change in ratio of consumption of these sources during first eight months of FY 2008/09. It proves the continued high dependency of Nepalese economy on conventional energy source.
- 10.3. In FY2007/08, of the total conventional energy consumption, share of fuel wood, agricultural residues, and livestock residue was 89.2 percent, 4.2 percent, and 6.6 percent respectively. There has been no change in consumption ratio of these sources during first eight months of FY2008/09. Of the total commercial energy source consumed in FY2007/08, Petroleum products (POL), coal, and electricity had respective shares of 64.2 percent, 17.5 percent, and 18.3 percent. Minor change, has however, is in observed in the consumption of two commercial energy sources during first eight months of FY2008/09, i.e. 63.7 percent and 18.8 percent for POL, and electricity respectively with no change in proportion of coal consumption.

Electricity

- 10.4. By the end of FY2007/08, various hydropower projects generated 650 MW of electricity. Of the total hydropower so generated, 645 MW is connected to the national grid, while rest of the energy generated from small hydropower stations and not connected to the national grid have been providing electricity services at local levels. The total electricity generated has reached 703 MW including 53.41 MW from thermal power stations and 100 KW from solar plants.
- 10.5. By first eight months period of FY2008/09, (79 MW) Middle Marsyangdi Hydropower Project built under the German Government assistance has been commissioned, started commercial production, and connected to national grid. Construction of other two projects, i.e., (30 MW) Chameliya Hydropower Project in Darchula of Far-West Region, and (14 MW) Kulekhani III in Makwanpur are underway. Domestic investment has been garnered to carry out construction of Upper Tamakoshi Hydropower Project, the project is transformed into a company, and construction of access road and other works have started. Humla and Mugu, where solar

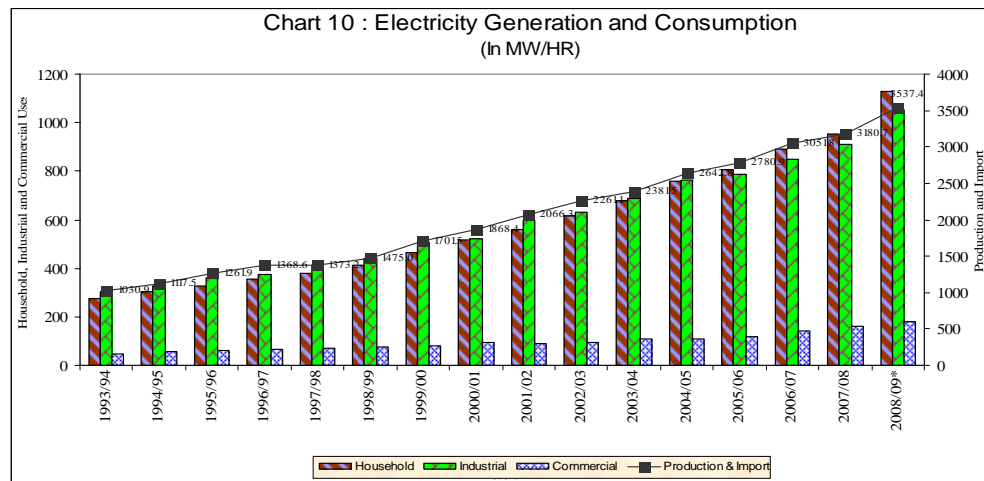
energy has been only source of electricity, construction of (500 KW) Heldung under construction has been completed, while construction of (400 KW) Gamgad is underway for dependable electricity services in those two districts.

- 10.6. Private sector enthusiasm in electricity generation has been satisfactory in FY2008/09 like in previous years. Hydropower projects under construction in the private sector are being completed and brought in operation one after another. In the process, construction of two projects namely (0.996 MW) Pati Khola, and (0.979 MW) Seti II have been completed this year and generating electricity. Hydropower projects under construction and expected to be completed by the end of this fiscal year are: 2.4 MW Ridi Khola; 0.991 MW Upper Handi Khola; 0.99 MW Lower Piluwa Khola; and 2.4 MW Mai Khola. Likewise, Power Purchase Agreements (PPAs) have been completed for 0.980 MW Charanawati, 0.580 MW Golma Gad, 1.850 MW Bhairab Kunda, 9.658 MW Sipring Khola, 9.900 MW Lower Modi I, 0.990 MW Jiri Khola, 0.990 MW Chakey Khola, 5.0 MW Dapcha Roshi, and 0.985 MW Upper Puwa I.
- 10.7. In the process of electrification, 2044.66 Km circuits Km. of 132 kV high voltage transmission lines, 357.96 circuits Km. of 66 kV lines, 9.7 Km. circuits Km. of 66 kV underground lines, and 2550.5 Km. of 33 kV lines are in operation by the end of FY2007/08. In the process of construction of 132 kV 'Ringmen' transmission line for capacity enhancement in Kathmandu valley to cope with ever-growing urbanization, construction of 132 kV Thankot-Chapagaun-Bhaktapur transmission line under the ADB assistance is near its completion. Construction of a (75 Km) 220 kV transmission line is underway under the WB assistance for transmission of electrical energy from the existing Khimti hydropower station and future projects in the periphery. Construction of various 33 kV transmission lines are underway including 90 Km Ilam-Phidim-Taplejung, 50 Km Sitalpati-Musikot, 33 Km Buipa-Okhaldhunga, 70 Km. Chhinchu-Rakam-Jajarkot, 45 Km Ghorahi-Holeri, 90 Km Udipur-Besisahar-Manang, 155 Km Dipayal-Sanfebagar-Manma-Jumla, and 40 Km Dhankuta-Hile-Leguwa-Bhojpur. Studies and preparatory works are underway for construction of 400 kV (75 Km) transmission lines between Duhabi-Jogbani, Butwal-Sunauli, and Dhalkebar-Bhittamod based on principally agreed power exchange capacity enhancement agreement concluded between Nepal and India. The construction work will be carried out in pursuance of planned construction of transmission lines at three separate points between Nepal and India. Out of these three, works are underway for construction of Dhalkebar - Bhittamod transmission to start in FY2009/10 and complete by FY2010/11.

- 10.8. The Government of Nepal and Nepal Electricity Authority (NEA) are carrying out electricity distribution works in all electricity accessible districts from their own sources. Both Phase I and II of Electrification in Kailali and Kanchanpur has been completed under the assistance of the Government of Denmark. In addition, electrification is completed in additional locations of 27 districts under the assistance of Asian Development Bank (ADB). Electrification started in additional locations of Bhaktapur, Lalitpur, Nuwakot, Dhading, and Kavrepalanchok districts through the World Bank assistance is continued with the target of completion in FY 2009/10.
- 10.9. Rural electrification work is in progress in participation of 149 community-based institutions with a target of providing access of electricity to 135,000 household. This is an activity carried out under the community-based rural electrification expansion program.
- 10.10. A number of activities are underway for hydropower feasibility studies and preparing detailed study reports. Studies for identification of other feasible projects towards meeting the energy demand are also continued. Efforts are underway for garnering resources for detailed study of storage type 127 MW Upper Seti Hydropower project, as immediate execution of such a project is felt necessary to remove the present demand and supply imbalance in national electricity supply system caused by seasonal variation. Bids are invited for construction of Upper Trishuli (A), while feasibility study is continued on Upper Trishuli (B) hydropower project. An updating study is being carried out on Rahughat Hydropower Project proposed for construction through Indian assistance. Detailed studies initiated on some other attractive storage-type projects like Nalsiaugad, Madiishaneshwor, and Seti-Trishuli.
- 10.11. A total of 3,180.66 Gega Watt Hours (GWH) of electricity was supplied in FY2007/08 comprising 1,798.61 GWH from hydro-electricity, 9.17 GWH from thermal, 960.47 GWH purchased from the private sector, and 412.41 GWH imported from India. Of the total electricity thus supplied in the same year, 2287.41 GWH was consumed domestically while 61.5 GWH was exported to India. According to estimates for FY2008/09, available electricity will total 3,537.41 GWH comprising 2,828.934 GWH from hydropower plants, 14.5 GWH from thermal plants, and 684.0 GWH import from India. Of the total availability, 2,666.6988 will be consumed domestically and 54.0 GWH export to India.
- 10.12. In FY 2007/08, consumption of electricity on sector basis industries consumed 39.2 percent, household 40.4 percent, commerce 6.6 percent, non-commerce 4.6 percent and miscellaneous 9.2 percent. Such ratios in FY

2008/09 estimated for industry, household, commerce, non-commerce, and miscellaneous sectors are 38.1 percent, 41.7 percent, 6.8 percent, and 13.4 percent respectively.

- 10.13. The numbers of electricity consumers are growing annually. By the end of FY2007/08, the number of customers grew by 9.1 percent totaling 1 million, 524 thousand 610. In FY2008/09 total number of electricity customers is estimated to reach to 1 million 677 thousand by recording 10 percent growth.



Petroleum Products

- 10.14. In FY 2007/08, consumption of petroleum products recorded a decline of 6.97 percent totaling 627,701 Kilotitre (KL). In the meantime, however, consumption of LP gas had increased by 3.5 percent reaching 96,837 metric ton. Consumption of these two products in first eight months of FY2007/08 had totaled 420,417 KL, and 62,964 Metric Tons respectively while consumption of petroleum products during the same period of FY2008/09 increased by 2.7 percent totaling 431,745 KL, and that of LP gas recorded a surge of 16.9 percent reaching 73,618 MT.
- 10.15. Diesel, kerosene, petrol, and aviation fuel occupy major shares in consumption of petroleum products. Diesel, kerosene, petrol, and aviation fuel among petroleum products consumed in FY 2007/08, except LP gas, shared 48.2 percent, 24.7 percent, 16.1 percent, and 10.9 percent respectively. Observation of consumption of these items during first eight months of FY2008/09 reveals that the proportion of diesel, petrol, kerosene, and aviation fuel consumption stood at 59.8 percent, 17.6 percent, 11.5 percent, and 11.1 percent respectively.

- 10.16. Nepal Oil Corporation is engaged in sale/distribution of petroleum products in required quantities throughout the country by importing and storing as necessary. Homework is underway for the supply of petroleum products by laying pipeline between Raxaul depot of Indian Oil Corporation in India, and Amlekhganj depot of Nepal Oil Corporation in Nepal for facilitating distribution of petroleum products. In addition to capacity enhancement of existing depots and construction of new depots, initiation is made for implementation of recommendations pertaining to structural reforms made by various Commissions /Committees formed in preceding years.

Coal

- 10.17. Consumption of coal in FY2007/08, as compared to the previous fiscal year, totaled 185 TOE with an increase of 28.1 percent. Consumption has gone up by 13.2 percent reaching 187 TOE during first eight months of FY2008/09 as compared to the same period of FY2007/08.

Alternative Energy

- 10.18. The Government of Nepal has established Alternative Energy Center (AEPC) with multiple objectives of fulfilling energy supply in rural areas through development of alternative /renewable energy technology; improving socio-economic condition of rural people through operation of cottage industries and micro-enterprises by using energy technology; maintaining regional balance; and reducing the environmental impact emerging in rural areas due to excessive deforestation. In order to meet these objectives, the Center has been carrying out a number of activities including necessary help and advisory services to the government in developing energy technology policy; developing short and long-term plans; implementing programs by maintaining coordination with energy related organizations/institutions; and maintain quality control, monitoring and evaluation etc.
- 10.19. Rural Energy Fund is established under the AEPC and in operation for mobilization of financial resources received from the Government of Nepal, Norwegian, and Danish Governments for solar energy and micro-hydro projects in a well-managed, simplified, and efficient manner. The fund is also meant for maintaining coordination with banks for arranging loans. Establishment of the fund has enhanced access of people to new and sustainable energy systems in rural areas not connected by the national transmission grid thereby improving their living condition through improvement in their health and education and direct support to income generation and employment. Likewise, the center with the help of KfW of Germany, has established a credit unit and providing credit with the

objective of helping low-income people to install bio-gas plants. The Government has been providing subsidy, and customs duties and VAT relief on imports of renewable energy related equipment. Beginning this fiscal year, duty relief is being provided for solar energy equipment imported for urban solar homes electrification under the urban solar electrification program .

- 10.20. AEC, upon identification of high wind pressure areas in a number of districts and installation of data loggers, has been collecting wind data. Preparation of wind energy policy is in final stage for managing development and expansion of wind energy based on those data.
- 10.21. There is enormous potential for uses of various renewable energy sources including biogas, micro-hydropower, solar energy (photovoltaic and thermal), improved water mills, improved cooking stoves and wind energy etc. The Government of Nepal, since the year 2000 AD has been providing subsidy for the promotion and development of rural energy for improving the living standard of low-income rural people through maximum utilization of this source of energy. Process initiated for the approval of subsidy working procedures for execution of Energy Subsidy Provision 2008 by revising earlier Renewable (Rural) Energy Provision 2006. Objectives of amendment in existing policy provision are for enhancing development effectiveness; bringing simplicity in services and efficiency; increasing accessibility of socially backward and rural poor; making subsidy arrangement proportional, inclusive, and effective; and adjusting inflation to subsidy.
- 10.22. Amidst absence of a comprehensive a national policy for promotion and development of alternative and rural energy in Nepal, Rural Energy Policy 2063 (2006) is in implementation for supporting poverty reduction initiative for appropriate development and expansion of rural energy. In pursuance of this policy till last year, Rural Energy Development Sections in 25 District Development Committees were established and functioning through financial support of UNDP and World Bank under the Rural Energy Development Program (REDP). Now, the program is expanded in 40 districts and those sections in each DDC transformed into District Energy and Environment Unit.

Table 10 (a) : Status of Alternative Energy/Bio Gas

S.N.	Activity Description	Progress in first 8 months of FY 2008/09
1.	Distribution of Solar Drier/ Cooker (Nos.)	178
2.	Biogas Plants Installed (Nos.)	1,319
3.	Improved Cooking Stoves (Nos.)	9,863
4.	Home Solar Energy System Installed (Nos.)	39.480
5.	Improved Water Mills Installed	673
6.	Micro-hydro electricity production (kW)	2,721

Source : Alternative energy promotion center

- 10.23. Currently, operation, promotion, and expansion of AEPC activities are being carried out as per the Alternative Energy Promotion Development Board Rules 2054 (1997), which required to be updated in line with changing times. Accordingly, two separate Rules namely, Alternative Energy Promotion Development Board Personnel Services Rules (2007), and Financial Rules 2064 (2007) have been drafted with approval under process.

Forestry

- 10.24. The Government of Nepal has adopted its forestry management policy with multiple objectives like: (1) maintain environmental balance by conservation of forests, vegetation, watershed, and biodiversity; (2) Ensure sustainability of forestry products of conserved forests, and ensure social empowerment, gender equity, social justice, equality and good governance; (3) Encourage promotion of forestry based industry and entrepreneurship thereby creating employment opportunities for economic and social progress of ultra poor and oppressed by ensuring their accessibility and rights on forests; (4) Develop internal market and promote export for raising income level of backward class of people, *Dalits*, Indigenous, *Ethnics*, *Madhesis*, oppressed, handicapped and others left behind; and ultimately (5) Support equitable development while contributing to poverty reduction through implementation of judicious distribution system of forestry products.

Box 10 (a):Forest Resource Data	
Forest Area	4.27 Million Ha. (29 percent)
Bush and Shrubs	1.56 Million Ha. (10.6 percent)
Total Stem Volume	388.0 million Cubic Meter
Shorea Rubusta (Sal) in Total Volume	28 percent
Total Biomass	429 Million Ton
Average Stem Volume	178 Cubic Meter per Ha.
Numbers of Average Trees	408 per Ha.

Source: Ministry of Forests and Soil Conservation

- 10.25. Ministry of Forests and its related departments have continued to carry out various projects and programs every fiscal year through internal resource and foreign aid as per 6 primary and 6 support programs set by Forestry Development Master Plan for long-term development of forestry sector. Altogether, 22 programs and projects are ongoing in various districts including National and Leasehold Forestry, Community and Private Forests, Ecological system and Genetic Resources Conservation, Soil Conservation and Watershed Management, Herbs and Aromatic Plants, and other forestry products related programs.
- 10.26. Altogether 29,025 square kilometers (19.7 percent) land area comprising National Parks, Wildlife Conservation, Protected Areas, Games Conservation, and Buffer Zone has been declared as protected areas and are being managed accordingly.

Box 10 (b):Forestry at a Glance	
Community forestry	
Number of Community Forest User Groups	14,559
Area of Handed Over Community Forests	1.23 million Ha.
Number of Beneficiary Household	1.66 Million
Number of Women managed Community Forests	795
Leasehold Forestry	
Number of Leasehold Forests User Groups	4194
area of Handed Over Leasehold Forests	23,423 Ha.
Beneficiary Households of Leasehold Forests	36,478
Partnership Forestry	
Demonstration Program Operating Districts	Bara, Parsa, Rautahat, Mahottari
No. of Partnership Forests	4
Areas of Partnership Forests (Ha)	Bara 2,058; Parsa 3,138; Rautahat 1,473; Mahottari 2,006.

Source: Ministry of Forests and Soil Conservation

- 10.27. So far 1.230 million hectares of forest area has been handed over to 14559 Forest User Groups (FUGs) formed under the Community Forestry Program directly benefiting 1.66 million households. By mid-March of FY2008/09, the Project has achieved 82 percent progress against the target set for the current fiscal year.
- 10.28. So far 23423 hectare forest has been handed over to 4194 FUGs formed under the Leasehold Forestry and Livestock Development Program directly benefiting 36478 households. By mid-March of FY2008/09, the Project has achieved 85 percent progress against the target set for the current fiscal year.

- 10.29. Five-year work plans for four Partnership Forestry Program covering 8675 hectares forest area have been approved so far. It has directly benefited 87,815 persons. The ongoing biodiversity program in Terai and Shiwalik area has achieved 88 percent progress by mid-March 2009 against the target set for current fiscal year.
- 10.30. A total of 247 Buffer Zone forests have been handed over under the Buffer Zone Management Program, and 380 such forests are proposed for management so far. The project has benefited a total population 714098 of 112,125 households residing around protected areas.
- 10.31. Ward-level group-based organizations formed in 8 Wards under the District Soil Conservation, and Community Development and Forest Watershed Conservation Program have directly benefited 695 households so far. Soil and Watershed Conservation Program has achieved 82 percent progress by mid-March 2009 against the target set for current fiscal year.
- 10.32. Emphasis is given on plant research and development for herbs production, processing, and marketing management in cooperation with the private sector for creating employment opportunities, export promotion, as a major source of income generation in Himalayan and mountain regions. For this, attention will be paid in conducting appropriate technology-based research, and collection of data for conservation and sustainable management of important herbs from extinction.
- 10.33. Policy is pursued for establishment and expansion of protected areas as necessary for biodiversity conservation that best represents nation's ecological system. In addition, the policy will also focus on: (a) preparation and implementation of management plan for sustainable conservation of biodiversity in protected areas; (b) Preparation of policy for conservation of rare species and make necessary arrangement for protection, enhancement and improvement of their habitats; (c) Operation, protection and management of genetic corridors and connectivity; (d) Manage ecological processes in natural way, and make ecological services more mankind friendly; and (e) mobilize public participation for conservation by encouraging sustainable utilization of biodiversity and natural resources through research. In the current fiscal year, 1500 hectare or 15 square kilometer area of Nagarjun under the Shivapuri National Park, and 700 hectare or 7 square kilometer area of Rabaiyapur, Bardiya are declared as protected areas.

Two landscape conservation programs, namely Terai Arc Landscape program comprising middle and western Terai, and Sacred Himalayan Landscape Conservation Strategy by including eastern hilly region, have been prepared for conservation of biodiversity, and conservation of genetic

resources through sustainable management of ecology. By mid-March 2009, Terai Arc Landscape and Western Terai Complex Landscape Program have achieved 85 and 86 percent of their respective targets for current fiscal year.

- 10.34. Nepal, as a party to International Agreements/Conventions on biodiversity and environmental protection, has been carrying out wildlife husbandry, breeding, and research works right from policy level for effective implementation of those Agreements/Conventions by engaging NGOs, organizations/institutions and persons for increasing employment opportunities through sustainable protection, growth and utilization of wildlife. So far nine important Wetlands have been listed in Ramsar Index including *Kosi Tappu, Bees Hajari Tal, ghoda Ghodi Tal, Jadishpur Tal, Gokyo Tal, Gosain Kunda, Se-Phoksundo Tal, Rara Tal* and *Mai Pokhari* for Wetland Conservation. Conservation and Sustainable Use of Wetlands Project is ongoing for management, development, and conservation of Wetlands.
- 10.35. Out of 11.5 million saplings targeted to be produced in FY2008/09 based on locally demanded species, and seeds collection, work on producing 13.2 million saplings of various species including herbs has been going on by mid-March 2009.
- 10.36. According to National Parks and Wildlife Conservation Act 2029 (1973), 27 mammal, 9 bird, and 3 reptile species have been included in protected wildlife. With the objective of diversification of wildlife habitat, so far relocation of 87 rhinoceros from Chitwan to Bardiya and Shuklaphanta; 19 barking deer from Godavari to Shivapuri; and 81 spotted deer from Godavari to Parsa is completed.
- 10.37. Management Plan for all National Parks and Reserves has been prepared and being implemented for sustainable managements of biodiversity, genetic resource conservation, and ecological system. Protective Work plan for conservation of rare wildlife like Rhinoceros, Tiger, and Snow Leopard prepared and put in implementation. Buffer zone management program is ongoing in 11 protected areas.
- 10.38. Study is conducted on the contribution of the Forestry Sector to GDP. The study report concluded that the direct and indirect contribution to Forestry Sector account to 9.4 percent and 18.1 percent respectively totaling 27.5 percent (Forest Resources and Survey Department, 2007).
- 10.39. Bamboo and rattan (cane) occupy important place in micro forest products. National policy on cane and bamboo has been prepared with the objective of raising people's income level by creating employment opportunities through cane and bamboo farming, and its sustainable management.

- 10.40. A new report has identified Genus species of flowering plants for the first time in Nepal in process of conducting detailed research on herbarium plant samples preserved in national herbarium within the last two years. In addition, among non-flowering plants, out of 21 species of *Yarchagumba* mushroom, its two sub-species were found namely, *Isaria nippanica* and *Isaria tenuipes*
- 10.41. As a party to biodiversity and environmental protection related International Agreements /Conventions like CBD, CITES, Ramsar, wildlife husbandry, breeding, and research works are allowed for effective implementation of those Agreements/Conventions by engaging NGOs, organizations/institutions and persons for increasing employment opportunities through sustainable protection, growth and utilization of wildlife. Policy is adopted for working towards appropriate management and growth of elephant, specie in peril, by maintaining elephant shelter (barn); and effectively operating elephant, and crocodile sub-species breeding centers located within National Parks and Reserves. Likewise, policy is adopted to permit NGOs or other organizations in managing conservation areas without compromising upkeep of environment and biodiversity. Another policy adopted is to carry out reconstruction of physical infrastructures destroyed during the conflict for effectively managing Parks and Reserves; and carry out conservation and community development programs through the management of buffer zones.

Table 10 (b):National Parks at a Glance

S.N.	National Parks	Declared Year	Area (Sq. Km)
1	<i>Chitwan National Park</i>	1973	932
2	<i>Langtang National Park</i>	1976	1,710
3	<i>Sagarmatha National Park</i>	1976	1,148
4	<i>Rara National Park</i>	1976	106
5	<i>She-Foksundo National Park</i>	1984	3,555
6	<i>Khaptad National Park</i>	1984	225
7	<i>Bardiya National Park</i>	1988	968
8	<i>Makalu Barun National Park</i>	1991	1,500
9	<i>Shivapur National Park</i>	2002	144
Total			10,288

Table 10 (c): Wildlife Reserves at a Glance

Reserves	Declared Year	Area (Sq. Km)
<i>Shuklaphanta Wildlife Reserve</i>	1976	305
<i>Koshi Tappu Wildlife Reserve</i>	1976	175
<i>Parsa Wildlife Reserve</i>	1984	499
<i>Dhorpatan Game Reserve</i>	1987	1,325
Total		23,04

Table 10 (d): Conservation Areas at a Glance

Conservation Area	Declared Year	Area (Sq. Lm)
<i>Ananpurna Conservation Area</i>	1992	7,629
<i>Kanchanjangha Conservation Area</i>	1997	2,035
<i>Manaslu Conservation Area</i>	1998	1,663
Total		11,327

Table 10 (e): Buffer Zones at a Glance

Buffer Zone	Declared Year	Area (Sq. Km)
<i>Chitwan National Park</i>	1996	750
<i>Bardiya National Park</i>	1996	328
<i>Langtang National Park</i>	1998	420
<i>She-Foksundo National Park</i>	1998	1,349
<i>Makalu-Varun National Park</i>	1999	830
<i>Sagarmatha National Park</i>	2002	275
<i>Shuklaphanta Wildlife Reserve</i>	2004	243.5
<i>Koshi Tappu Wildlife Reserve</i>	2004	173
<i>Parsa Wildlife Reserve</i>	2005	298.17
<i>Rara National Park</i>	2006	198
<i>Khaptad National Park</i>	2006	216
Total		5,079.67

11. Transport and Communication

Road Transport

11.1 In fiscal year 2008/09, road construction works are underway with the target of linking three district head quarters (Bajura, Manang and Solukhumbu) to the road network. Total road length at the end of FY2007/08 totaled 19,147 Km, of which black topped road was 5,845 km, graveled was 4,711 km, and earthen (fair weather) road was 8,591 km. Till mid March of the FY2008/09, 14 Km of road has been upgraded to black top level, 18 km to graveled, and 62 Km is newly constructed with the road length to a total of 19,209 Km.

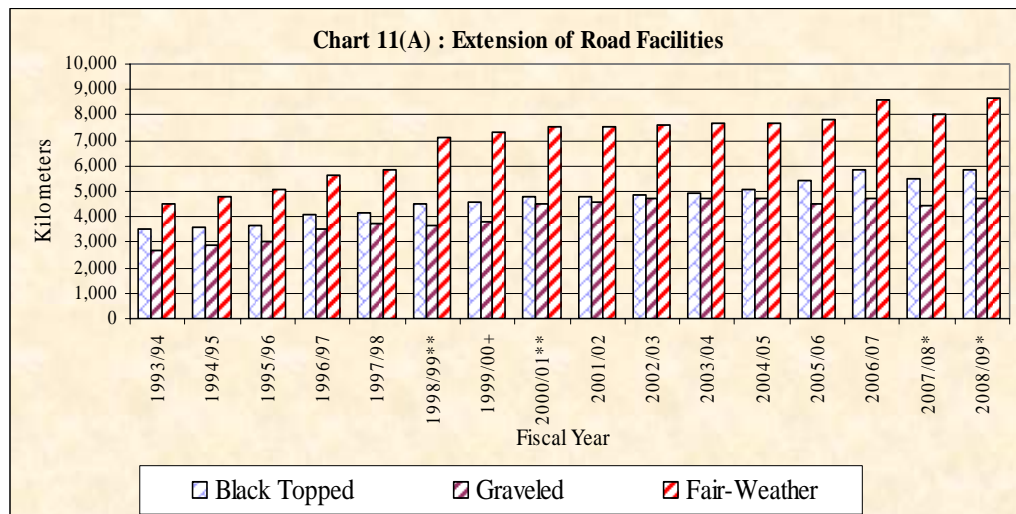
Table 11 (a): Road Networks in Nepal

S.N	Types	Fiscal Year			
		2007/08	2008/09*	Until FY 2008/09**	
				Total	Share/Percent
1.	Black Topped	5,845	14	5,859	30.5
2.	Graveled	4,711	18	4,715	24.5
3.	Fair-weather	8,591	62	8,365	45.0
Total		19,147		19,209	100.00

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

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

Source: Department of Roads, Kathmandu



Transport Vehicles

- 11.2 The number of vehicles (registered) across the country between fiscal years 1989/90 and 2007/08 stood at 703,044. This number, during first eight months of FY2008/09, increased by 8.9 percent (62,431) reaching the total to 765,475. With this, by mid-March of FY2008/09, the average ratio of vehicles per Kilometer of road across the country is estimated to reach 40 from the previous year's 35.

Table 11(b) : Number of Vehicles

Type of Vehicle	Fiscal Year		Total**	Growth percent First (8 months)
	FY 1990/91 - FY 2007/08	FY 2008/09*		
Bus	17,842	1030	18,872	5.8
Minibus	6,904	311	7,215	4.5
Car/Jeep Van	93,266	3,275	96,541	3.5
Tractor	40,104	2,060	42,164	5.1
Motorcycle	4,89,686	52,548	5,42,234	10.7
Tempo (3 Wheeler)	7,353	5	7,358	0.1
Microbus	1,935	33	1,968	1.7
Truck/Dozer/Crane	36,794	1239	38,033	3.4
Pick Up	3,419	662	4,081	19.4
Others	5,741	1268	7,009	22.1
Total	7,03,044	62,431	7,65,475	8.9

*Added Till mid-March of FY 2007/08

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

Source: Department of Transport Management, Tinkune, Kathmandu.

Policy and Institutional progress

- 11.3 The process of necessary amendments in the existing Transportation Management Acts and Regulations is initiated for total reforms in the transportation management. In addition, the reform process of Transport Management Offices (TMOs) in terms of existing resources, means and working procedures is underway. Similarly, Vehicle Fitness Center has been established at Teku, Kathmandu to make the pollution testing process scientific and systematic, with adoption of Fitness Center related plans to be implemented through the district-level Transportation Management Offices. Likewise, with regard to reforming the existing structure of TMOs, the existing organizational structure in TMO of Bagmati (Zonal Office), has been extended to three sections (Motorcycle Section, Large/Small Vehicle Section and Driving License Section) from one section, and a Zonal level TMO has been established permanently in Dhaulagiri Zone. In addition to this, processes are underway to make the office buildings available for TMOs.

- 11.4 The process is initiated towards modernizing the transport management work through various measures including, regular departmental monitoring of TMOs, and making the record keeping system more scientific and systematic. Likewise, to make transportation management works time-relevant, scientific and modern, processes are underway to change the existing driving license format to Electronic Smart Card.
- 11.5 A Road Maintenance Fund has been established with a view to maintain and repair roads on regular basis in pursuance of the National Transportation Policy and Periodic plans. Road Board is active in maintaining and repairing roads by mobilizing such fund, minimizing the road maintenance cost, and making the repair and maintenance works transparent and effective.
- 11.6 The Road Board Nepal, established under the Road Board Act, 2058 (2002) is carrying out regular, periodic, and emergency maintenance works through the utilization of the amount collected as fuel tax, vehicle registration fee and tolls from road users and deposited in the Road Board Fund.
- 11.7 An Executive Committee, comprising 13 members with the representation of Road Users from various fields has been formed in the spirit of Public-Private Partnership as perceived in the Road Board Act. The Secretariat (of the Board) is actively engaged in the implementation of the Act, Regulations, and Executive Committee decisions.
- 11.8 The Department of Roads and local bodies (DDCs and Municipalities) receive necessary fund from the Road Board Fund for repair and maintenance of Strategic Roads Network and Local Roads Network respectively. Arrangements have been made for DDCs and Municipalities to contribute (or share) 20 percent and 30 percent matching funds respectively for maintenance of roads in their jurisdiction. The entire amount required by the Department of Roads for regular and one-time maintenance of Strategic Roads Network is being ensured. In case of maintenance of Local Roads Network, necessary fund is made available on the basis of the length, and type of the surface of the road and density of transport vehicles.
- 11.9 Beginning from FY2008/09, a process of conditional grant is initiated for repair and maintenance of Local Roads Network based on the Principle of Devolution (of authority).

Table 11 (c): Activities Under the Transportation Sector

S.N	Major works completed	Achievements in First Eight Months
1	Driving Training Centers (No.)	
	Numbers Registered	31
	Numbers Renewed	5
	Number of Vehicles Registered	61,427
2	Driving License (No.)	
	Numbers of new licenses Issued (New)	49,308
	Numbers Renewed	42,702
	Duplicate copies issued/ Vehicle category added	7,170
	Conversion into Nepali registration numbers / Zone changed	529

Source: Department of Transport Management, Tinkune, Kathmandu

Air Service

- 11.10 The Civil Aviation Authority of Nepal (CAAN), established with the objective of developing and extending Civil Aviation within and outside Nepal, and making the air flights, air communication, air navigation and air transportation services safe, regular, standard, and effective, has been undertaking safety and regular activities related to civil aviation together with other development and improvement works at airports. Attempt has been made to receive Expert Service through International Civil Aviation Organization (ICAO) introduce time-relevant reform measures in the organizational structure of the CAAN through review and restructuring of its present organizational structure as necessary. A three-year (2007-2009) interim plan of CAAN is formulated, which is now in effect.
- 11.11 There are altogether 53 airports in the country including, 1 international airport, 5 regional hub airports (Nepalgunj, Biratnagar, Bhairahawa, Pokhara and Dhangadi), 41 other domestic airports with 6 airports under construction (Kalikot, Kamal Bazar, Masinechaur, Shitleshola, Simichaur and Khanidanda. Of these, air services are operated at 32 airports.
- 11.12 In the context of improvement and extension of the Tribhuvan International Airport (TIA), Airport Development Master Plan 2015, is prepared with the assistance of ADB and reviewed with simultaneous preparation of a Civil Aviation Sector Development Strategy Plan. Infrastructure study is ongoing based on the aforementioned Plan.
- 11.13 For developing and extending the physical infrastructure through CAAN's own resources as per the Master Plan for Tribhuvan International Airport, selection of local consultants is completed. In addition, detailed study of

the physical infrastructure has been initiated by international level consultants with the technical assistance of ADB. As in the past, construction of roads, sewerage management and drinking water facilities are being carried out in the vicinity of TIA in Gothataar, Koteshwor, Sinamangal etc. this year as well as a part of the Corporate Social Responsibility of CAAN.

- 11.14 Contract is signed, and construction of TIA's runway, taxiway overlay work and expansion of stopover facility for international flights and installation of apron joint sealer has been started. Similarly, as per the TIA's Master Plan, distribution of compensation has been started for acquisition of homes, sheds and land in Koteshwor and Sinamangal areas for the development, extension and security. Approved programs of TIA are being implemented in FY2008/09 as per the work schedule with works expedited with the aim to accomplish them as targeted by the end of the current fiscal year.
- 11.15 Due attention is being paid towards making service provision at the airport more effective and efficient. Moreover, efforts are made for bringing extensive improvement in services for passenger arriving at or departing from TIA in terms of sanitation, terminal management, trolleys and taxi services.
- 11.16 The bids evaluation process is underway for introducing Common User Terminal Equipment (CUTE) system at the TIA, as is compulsory in international practice providing single software facility to airlines for passengers check-in and in e-ticketing in an integrated way.
- 11.17 For the organized aircraft parking to accommodate increasing international flights at the airport, the international apron has been reevaluated, and works are being carried out for adding one more wide-body parking space to the current two, and making the total number of BAYs eight from the current seven. Arrangements of Executive Lounge and Restaurant have been made with a view to provide services of executive standard to tourists, travelers and service seekers. Likewise, 100 new trolleys have been arranged for travelers' comfort, while the process for adding other 250 trolleys is underway with invitation of bids for procurement.
- 11.18 Since operations of types of aircrafts and air services are on the rise, upgrading the quality and extension of services of internal airports is continued to make air service safe, reliable and regular. Development and construction works of additional physical infrastructures are being carried out at the airports. Airports where such constructions are carried out for improving the status of hanger, taxiway, and car park area have been accomplished in FY2008/09. In the process of developing Gautam Buddha

Airport as a regional international airport, acquisition of land and resource identification works are on progress while improvements of existing runway, taxiway and apron are being done. Task of improving the runway, taxiway and apron of Pokhara airport has been accomplished while the task for improving runway, taxiway and apron is underway at the Chandragadhi Airport. Likewise, works like constructions of 1800 meters runway, taxiway, and black topping of Dhangadhi airport have been accomplished making the airport capable of operating up to FOKKER-100 type aircrafts. Construction of parking apron is completed at the Surkhet Airport where 5 airplanes of DHC-6 or others of same size can be parked. In the current fiscal year, construction of rigid parking apron, in which 3 MI-17 helicopters can be parked, has been completed as targeted. Upgrading of runway, taxiway and apron has been accomplished while necessary design and cost estimation for the tower construction is underway at the Janakpur Airport. Similarly, acquisition of land required for the runway extension in Simkot (Humla) Airport has been done and black topping of runway, taxiway and apron is underway.

- 11.19 Construction of various airports for the extension of air services in remote areas is underway. Among some major airports under construction are, Mugu Airport (runway extension and improvement, and partial construction and improvement of apron is going on), Kalikot airport (works related to earth work for the construction of runway has been started), Kangelanda airport (most of the construction work of the runway has been completed and air service is in operation), Kamalabazar Airport (construction work completed but, trial flight could not take place due to various reasons), Thamkharka Airport (runway construction is completed and air service has started), Masine Chaur Airport (Construction work is continued subsequent to Agreement with the local consumers group), Dolpa Airport (the construction work is continued for the runway extension) and Manamaya Rai/Khanidanda Airport (construction work of runway is almost completed).
- 11.20 As per the policy of encouraging private sector airlines for the operation of domestic and international air services, CAAN has issued Airline Operation Certificate (AOC) to 47 airline companies. So far, only 20 such companies have valid AOCs. Out of this, 14 Airlines having AOC are operating their air service. In spite of having valid AOC, 6 airlines companies have not been able to operate their air service.
- 11.21 Out of the valid 20 airlines, 5 airlines are related to recreation and adventure (Aviation sports). Among the 5 airlines related to Aviation sports, one Ultra Light Power Glider and four Para Glider Companies are in operation. In this way, the numbers of Aviation sports-related airlines

and the remarkable extension in the service have given expected service to the tourists, resulting in significant contribution to the tourism industry.

- 11.22 Out of the 20 valid airlines, except the airlines related to Aviation sports, 5 helicopter operators are providing their services. Helicopter operators have made significant contribution in the supply of food, clothes, medicine and other construction materials to hilly and Himalayan regions. Likewise, they are involved significantly in providing close view of the beautiful scenery, mountains and hills to the tourists. In this way, helicopter service is contributing heavily to get rid of harsh life of the people residing in hilly and Himalayan regions and assisting in nation building endeavor.
- 11.23 Among the 20 airlines companies with valid AOC, 10 such companies have Fixed Wing aircrafts. Out of these 10 airlines companies, one serves international sectors only, while three are serving both domestic and international sectors, and the rest six are engaged in promoting domestic air service.
- 11.24 Twenty international airlines companies have been operating regular air services by making Nepal one of their destinations. Five international airlines namely, Yeti Airlines International, Hong Kong Express, Orient Thai, Silk Air, and Dragon Air started their services to Nepal in the last fiscal year, while Bahrain Air has started its services beginning from this fiscal year. With the development and expansion of international airlines services, the tourism industry and trade of Nepal have received additional support.
- 11.25 Skilled technicians are necessary for operating the airlines services. Absence of sufficient number of skilled technical hands has landed many airlines in difficult situation. Taking this reality into consideration, license is issued to Flying School to produce skilled technicians domestically thereby gradually replacing the expatriate workforce engaged in the area. Similarly, license is issued to an institute for conducting recreational and aviation sports related training to individuals in Pokhara and Kathmandu. Both institutes have come into operation recently. It is expected that this would ultimately contribute to the airlines industry through the production of skilled human resource in the country.
- 11.26 Nepal has signed Bilateral Air Service Agreements (ASA) with 35 countries. Those countries are India, Sri Lanka, South Korea, Bhutan, Japan, Myanmar, Bangladesh, Brunei, China, Malaysia, Singapore, Thailand, Maldives, Philippines, Oman, Egypt, Saudi Arabia, Jordan, Qatar, Bahrain, Pakistan, Kuwait, United Arab Emirates, Israel, Austria, France, Luxemburg, Russian Federation, Germany, Italy, Netherlands, UK, United States of America, and Croatia. MoU signed with Bahrain to this effect was

reviewed and amended MoU was signed with revised provisions including operation of additional number of flights with Initials on ASA signed. Likewise, the earlier MoU with Sri Lanka was reviewed and the revised MoU signed with provisions for additional number of flights, and incorporation of 5th Traffic Rights. The revised ASA has also been initialed.

- 11.27 To extend the VHF coverage of Kathmandu Area Control Centre, RCAG Station has been established, which is being test operated after linking it to V-SAT Network. Likewise, the report has been collected from Consultants for the purpose of establishing Alternate Repeater Station upon identification and recommendation of Bhatte Danda of Lalitpur as the proper hill-top in the Kathmandu Valley. Accordingly, drawing/design works are underway for preparing staircases to access the site and conduct Live Test of equipment for installation.
- 11.28 Terms of Reference (ToR) committee is formed and tasks are being carried out to conduct Integrated Services Digital Network (ISDN) data link communication between Kathmandu, Biratnagar, Nepalgunj, Bhairahawa, Pokhara and Simara Civil Aviation Offices.
- 11.29 ToR is prepared to conduct feasibility study for establishing ATS Message Handling System (AMHS) at the TIA and Tendering process is underway to carry out the task.
- 11.30 As per the policy of promoting air route in the leadership of ICAO for making the maximum use of Nepal's air space on Trans Himalayan, and East-West International flights, necessary coordination effort with ICAO and other concerned countries is underway for the setting up Trans-Himalayan Route and East-West (Kunming-Kathmandu-Delhi) Himalayan route with maximum coverage of Nepal's air space on long-distance international flights.
- 11.31 The Kathmandu-Lucknow Route B345 has been extended from Kathmandu to Lhasa on coordination between the two Civil Aviation Authorities of China and Nepal in an attempt to establish direct air connection between Nepal and China by linking Kathmandu-Beijing/ Shanghai air routes. In this regard, Letter of Agreement (LOA) has been signed between Kathmandu Area Control and Lhasa Area Control and brought in operation.
- 11.32 Necessary initiations have been made towards concluding LOA in near future on Air Routes between Nepal and India, and ATS Coordination Procedures. Initiation has also been made during Air Route Negotiations between Nepal and India for establishing route L626 between Kathmandu-Mahendranagar-Delhi, to be decided through technical consultations.

- 11.33 Necessary works, including Instrument Flight Procedures and Revision of Air Space, are underway for overall improvement on domestic air routes and air space of different airports. Likewise, the Aeronautical Chart of Nepal has been digitized and the database of the whole procedure, route, approach and departure chart has been prepared. Necessary steps are being taken for the publication of new Aeronautical Chart.
- 11.34 In the course of improving Nepal's air space, the preparation of new edition of AIP Nepal is going on together with reforms on different routes and working procedures. Likewise, the work on time relevant amendment of Air Traffic Control Manual is also underway. With the aim of implementing GPS-based navigation system in current fiscal year, GNSS database has been prepared. Necessary infrastructures are being created to implement GPS approach and departure at two airports (Biratnagar and Chandragadhi) in the beginning.
- 11.35 As per the decision to fully execute all the criteria of Annex-17, the collection of air security measures propounded by ICAO, in all ICAO-member countries as a strategy to be adopted to thwart changing features of threat against air transport security, necessary auditing of Air Traffic Safety was initiated in 2003 and completed in December 2007 under the ICAO Universal Aviation Security Audit Program (USAP). In the process, Nepal's ICAO Aviation Security Audit has been completed in 2006. Implementation of the Corrective Action Plan is ongoing subsequent to preparation, submission, and receipt of the Report based on the Follow-Up-Audit by ICAO. ICAO AVSEC Audit Central Monitoring team is formed to review the progress on activities included in the Corrective Action Plan. Likewise, necessary step is being taken to review the activities CAAN has been carrying out in respect to the audit recommendations.
- 11.36 It is a great challenge to keep flight safety at its highest level due to Nepal's geographical features and difficulties to set up the necessary communication and navigation equipment. Nepal has been actively participating in worldwide security inspection programs conducted by ICAO. Safety culture is fully emphasized with every operator/maintenance organization made aware to mandatorily adopt Safety Management System as guided by ICAO. The existing NCAR, FOR have been revised and issued in January 2009 which are now brought into effect for the implementation of the Standard and Recommended Practices of ICAO. Likewise, Personnel Licensing Requirements (PLR) and Dangerous Goods Handling Requirements (DGHR), 2009 have been prepared and implemented. For upgrading Nepal Civil Aviation to international standard and bring uniformity, NCAR parts 145, 147, and 66 have been

prepared in line with ESA parts 145, 147, and 66 which are now in the process of implementation.

- 11.37 Number of aircrafts in Nepal total 70 comprising 48 fixed-wing aircrafts, 18 Rooter Wing (Helicopter), and 4 Aviation Sports. CAAN has issued commercial pilot licenses to 390 persons, Airlines Transport Pilot (ATPL) to 269 persons, Flights Operation Officer to 57 persons, Ultra Light Aircraft License to 1 person, and Authorization to 163 persons, Flight Engineer to 6 persons, and Aircraft Maintenance Technician (AMT) to 252 persons.
- 11.38 TIA has been conducting 8-Category Services in pursuance of expanding, developing, and strengthening Airport Rescue and Fire Fighting Services as set by ICAO. Fire-fighting vehicles have been provided to Pokhara, Simara, Gautam Buddha (Bhairahawa), Biratnagar and Nepalgunj airports, with capacities of availing 5- Category services. Preparation of Tender Documents is in its final phase for upgrading 8-Category Rescue and Fire-fighting services at TIA to 9-Category. Similarly, a Three-year Interim Plan is prepared for upgrading such facilities at other airports in line with ICAO Standards.
- 11.39 Additional skilled manpower has been arranged for the rescue and fire-fighting services and fire fighting vehicles are being repaired and skilled manpower mobilized for the smooth operation of these services.
- 11.40 As per the policy to provide continuity to produce skilled manpower within the country, various training programs including Computer, ATS Refresher, AIP (Pilots), AIP, FD, Fire Fighting, Equipment Operation, AVSEC Field Base, TIA Security Orientation, AFIS refresher, Basic VOR/DME, ATSEP License, Radio Line Technician, Electrical Line Technician Orientation, AVSEC (Officer Level) have been provided through Civil Aviation Training Academy. The Academy, during the first eight months of the current fiscal year 2008/09, imparted trainings to 250 persons in 20 batches.

Information and Communication

Postal Service

- 11.41 Besides delivery of letters and parcels, various other services like the publication of postage stamps, conducting Postal Saving Bank, Money Order Services, E-DV Form service, Express Mail Service and e-post service are being rendered through the Department of Postal Services and the offices under it.

Table 11 (d): Description of Postal Offices by Geographical Distribution

Postal Service	Mountain	Hill	Tarai	Total
Regional Postal Directorate				5
District Postal Office				70
Ilaka Postal Office	170	372	300	842
Additional Post Offices	492	1,541	1041	3,074
Grand Total				3,991

11.42 Four Postal Directorates under the Department of Postal Services, and Kathmandu General Post Office, have been providing services that of District Post Offices as well. Central Money Order Office, Central Postage-Stamps Store, Postal Training Center, and Philatelic Bureau of Kathmandu are the agencies of this Department. Aside from these postal services, the Department, in the first eight months of the current fiscal year, has established 58 Tele-centers including 12 in the mountain districts and 46 in Hilly districts, through which services are being delivered. Postal Saving Bank Services are being provided through 117 various Postal Offices.

Telecommunication Services

11.43 There has been remarkable progress in telecommunication services since last few years. Nepal Telecommunication Authority, the Telecommunications Regulatory body, has issued 15 licenses in the first eight months of the current fiscal year.

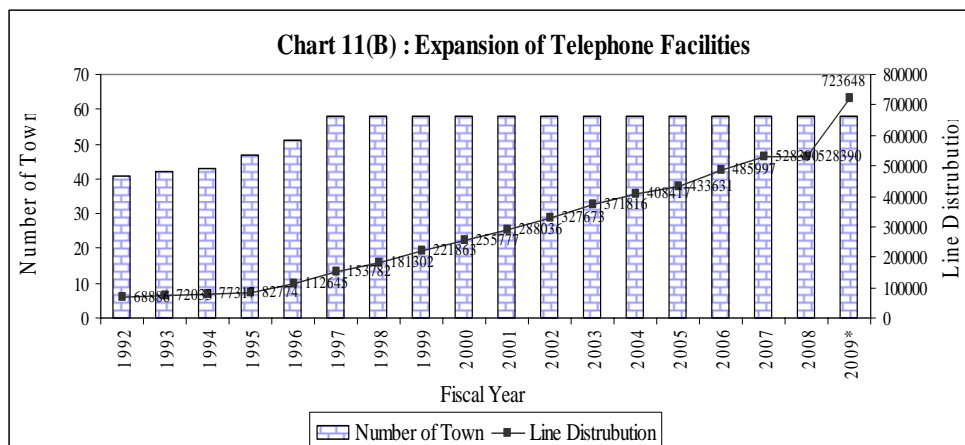
Table 11 (e) : Telephone Service (Exchange) Extension

Items	Fiscal Year			
	2006/07	2007/08	2008/09*	Total Mid-March 2009
Grand Total				
a) Number of Urban areas covered	58	58	58	58
b) No of telephone line distributed	485,997	528,390	194,258	723,648
c) Telephone lines per thousand Population**	21.0	23.0	-	31.0

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

Note: All exchanges are digital automation

Source: Nepal Telicom , Bhadrakali Plaza, Kathmandu.



11.44 The number of VDCs with access to telephone service has reached 3,479 with additional 120 VDCs, and all municipalities are telephone service accessible by mid-March of the current fiscal year. During this period, the number of internet subscribers including the user of ADSL service provided by Nepal Telecom has reached to 115,818. The total number of Nepal Telecom customers reached 5,856,526, including 723,648 PSTN telephone users, 4,163,495 GSM mobile users 722,841 CDMA mobile users, 245,025 CDMA fixed users and 1,517 GMPCS users. Automated Monitoring System is established subsequent to the receipt of Frequency Monitoring Instruments through Telecommunications Sector Improvement Project under the credit support of the World Bank.

Information Dissemination

11.45 Department of Information, Gorakhatra Corporation, Rastriya Samachar Samiti, and Press Council, agencies under the Ministry of Information and Communications, have been disseminating information through print media. By mid-March of 2009, Gorkhatra Corporation has been publishing news and articles in 28 different national languages.

11.46 Press Council Nepal, besides providing interest subsidy on bank loans for the development of journalism, has been giving away Gopal Das Journalism and Women Empowerment Awards. Studio is being prepared for broadcasting audio news from Rastriya Samachar Samiti. The upgrading of regional and Zonal offices of Rastriya Samachar Samiti has been completed. The department of Information has published the Professional Journalism Act, and and 'Nepal' magazine. Training on Basic Journalism and Radio Broadcasting have been imparted to 63 persons.

- 11.47 The total number of registered newspapers in various districts until mid-March 2009 has reached 5,258 of which 398 are daily, 16 half-weekly, 1,957 weekly, 376 fortnightly, 1562 monthly, 301 bi-monthly, 472 trimester basis, 26 quarterly, 69 half-yearly and 81 annually.

Table 11(f): Number of Newspapers by Languages

Languages	Numbers
Nepali	3,643
English	401
Nepali-English	898
Newari	29
Hindi	15
Maithili	15
Tharu	6
Tamang	3
Vojpuri	4
Sanskrit	2
Urdu	2
Tibetan	1
Limbu	2
Doteli	2
Rai	1
Others	234
Total	5,258

Source: Ministry of Information and Communication

Television Services

- 11.48 There are 24 television channels at present including two Government-owned and 20 private sector-owned channels issued with licenses for operation, of which 10 are in operation. In the process of providing transmission signal to every doorstep at free of cost, the GON-owned Nepal Television has extended its program and installed instruments including Transmitter Antenna System at Chamere and Terahtum centers. Likewise, preparation for test transmission is underway at Palpa Telecasting Center. Terrestrial transmission of NTV-2 has been extended at Fulchoki and Daunne Telecasting Centers. NTV-2 has been telecasting programs of inclusive nature. Nepal Television has been extending its transmission signals domestically and internationally through the satellite medium. About 70 percent people has access to its terrestrial transmission signal and with the beginning of operation upon completion of ongoing construction transmission stations will provide access to 71 percent people, which would be 47 percent in terms of its area coverage. Transmission of NTV-2 covers 40 percent of the total population of the country with the total 25 percent of geographical area coverage.

Radio Broadcasting Service

11.49 The government owned Radio Nepal has been broadcasting through Short Wave, Medium Wave and Frequency Modulation. By mid-March 2009, 321 FM licenses were issued to the private sector operators to air programs, of which 162 such stations are now in operation. Radio Nepal's coverage of MW broadcast is 85 percent, FM 40 percent and that of SW is 100 percent. For the expansion of MW and FM, the process to establish relay centers in Darchula, Bajhang, Gorkha and Gulmi is in the final stage. Radio Nepal has been broadcasting news in various national languages and other programs under the inclusiveness program.

Cable Television Telecasting Service

11.50 By the end of first eight months of the current fiscal year, the number of licensed Cable Television Operators has reached 556 with the addition of 39 such operators during this period. The number of cable television operating in mountain region is 58, hilly region is 214 and that in Terai region is 284.

Printing Service

11.51 The Department of Printing has been proposing programs in line with the concept of Security Press with the realization that it is necessary to deliver professional printing services by developing press as an autonomous and competent body. Department of Printing has been carrying out printing tasks like Nepali Citizenship Certificates, Visa Stickers, Economic Surveys, Budget Speeches, Question Papers, Reports of Constitutional Bodies, Foreign Employment Permit Stickers and so on.

Motion Pictures

11.52 Motion Picture Development Board is active for the development, expansion and promotion of motion pictures within and outside Nepal to preserve Nepalese Arts and Cultures. Currently, the process for amendments in Motion Picture Development Act, 2026 (1969) and Motion Picture Development Regulation 2057 (2000) is going on while some Indices in the regulation have been revised. Installation of Equipment in the Theater located in the Board Office Building is ongoing. Motion Picture Monitoring Committee has been established and monitoring of movie theaters is being carried out. As of now, the number of license issued to produce movie totals 110, movies produced are 40, movies screened 57, and the number of foreign movies screened is 10. Likewise, the number of movies censored is 94, the number of advertisements censored is 89, while 36 licenses have been issued for the production of foreign movies.

12. Social Services

Education

Community Schools

12.1 In the context of handing over school management communities in pursuance to the policy to operate primary education services through the communities, a total of 8,002 schools, comprising 5471 primary level, 1695 lower secondary level, and 836 secondary level, have been handed over to the communities so far. Relatively, improvement is noticed in the rate of taking over the responsibility of managing community schools throughout the entire nation due to restoration of peace and capacity enhancement of communities. There has been significant improvement in the quality of education in those community- managed schools due to the direct involvement of the stakeholders, transparency, and effectiveness in program implementation. In FY2007/08, a total of 6590 schools including primary, lower secondary and secondary schools were handed over to communities, while 1412 such schools have been handed over to communities during the first eight months of the FY2008/09.

Progresses made as against the target set in various fiscal years of Community School Support Program (CCSP) and Education for All (EFA) Program are as follows:

Table 12 (a): Schools Transferred to Communities

S.N	Fiscal Years	TARGET		PROGRESS	
		Community School Support Program	Education for All	Community School Support Program	Education for All
1	2002/03		100	93	907
2	2003/04		1,000		592
3	2004/05	500	1,000	500	95
4	2005/06	500	1,000	146	610
5	2006/07	752	848	339	1412
6	2007/08		2,500	3,308	-
7	2008/09*				1,412
Total					8,002

*First eight months of FY2008/09

Source: Ministry of Education

Child Development Program

12.2 Community and school-based preliminary child development program especially for the children from very backward communities is being conducted as per the primary objective of EFA Program for ensuring the child development and extension. In this context, of the total number of 16,523 Child Development Centers targeted for establishment comprising 7023 in FY2004/05, 6000 in FY2005/06, and 3500 in FY2006/07, 15704 such Centers were established by the end of FY2006/07. Of the target set in the Tenth Plan to establish 13000 Child Development Centers, the Interim Plan envisages to set aside 4000 such Centers for children from backward, and in danger of extinction communities. A total of 20023 child development centers have already been established by mid-March of the current FY2008/09.

Scholarship Program

12.3 Of the target set to provide scholarship to 50 percent of underprivileged and financially weak primary school-going girl students totaling 612,867 in FY2007/08, a total of 607,401 girl students received scholarships. As against the target set to provide scholarship under EFA program to all 772,923 *Dalit* students, 740,710 such students received scholarships. Likewise, target was set to provide scholarship to 60,000 lower secondary and secondary level students through Secondary Education Support Program under the Secondary School Scholarship, 59,517 students received such scholarships. All 119,686 *Dalit* students studying at lower secondary and secondary levels received scholarships as targeted for the fiscal year. Of the target set to provide stipend through Secondary Education Support Program to 3,324 primary, lower secondary and secondary level students belonging to marginalized communities like *Chepang, Raute, Mushar, Dom, Dushad, and Badi*, 2,742 such students were provided with scholarships. One hundred percent progress was achieved on the program set to distribute Himalayan (*Himali*) Boarding Scholarships to 337 students. By mid-March of current FY2008/09, 486,539 girl students received scholarship out of 50 percent of the total scholarship set aside for them, and 476,084 *Dalit* students also received scholarships. As per the program to grant scholarship to the children of martyrs, 41 children received such scholarships. Likewise, 47,949 students received scholarship under the program set aside for students of marginalized groups.

Remote Area Students Support Program

- 12.4 All school level girl and *Dalit* students of all districts of Karnali Zone received scholarships. Likewise, day meals are provided to primary level students of all districts of that Zone.

Support Program for Students with Disability

- 12.5 Of the target set to provide 10-month scholarships to 9,916 students with disability in FY2007/08 by dividing them into A, B, C and D levels according to their level of disability, 9,883 students received such scholarships. The target set to provide scholarships to 1,590 lower secondary and secondary level students under Secondary Education Support Program was fully met. As of the program targeted to provide grants to 311 schools for providing support to deaf, blind, and physically challenged students, 301 schools received such grants. In the first eight months of the current fiscal year, 10 resource classes and 15 assessment centers were added to 340 resource classes and 47 assessment centers in operation for inclusive education. Likewise, as of the target set to provide scholarships to 13,432 disabled students in FY2008/09, a total of 8,101 students have been granted scholarships.

Educational Human Resource Development Center

- 12.6 During FY2007/08, out of the 2.5-month long primary education training quota of 10,500 for the first and third phases combined and 5,500 set for the second phase, 8,714 and 5,657 trainees received such training respectively. Of the revised quota for providing in-service training to 4,500 lower secondary and secondary school level teachers, and the quota to provide 1.5 month first and third school module-based training to 4,750 trainees, and second school module-based training to 2,200 trainees, number of trainees participating in those three trainings totaled 4,406, 4,467 and 1,858 respectively. In the same fiscal year, among 410 participants of the pre-service primary teachers' training conducted through scholarships, the second semester examination for 407 participants was conducted. Similarly, with the target to provide management training to 400 primary level school headmasters and short-term training to 1,080 primary level teachers, 392 primary level school headmasters and 1026 primary level teachers received respective trainings. A cent percent progress was achieved from the program to provide training on Roster Trainers' Capacity Building to 204 persons and a weeklong training to 25 Gazetted Class I Officers. Similarly, of the targets set to conduct 7 regional workshops on training effectiveness, and a thirty-day management training to 25 Gazetted Class III Officers, both targets were fully met.

- 12.7 Of the target set in FY2008/09 target was set for imparting training to a total number of 45,391 teachers including 33,141 primary level and 12,250 that of secondary level with a view to make available efficient and skilled teachers. So far, 8,963 teachers including 2,862 of primary level in the first lot, 937 in the third lot and 5,164 of lower and secondary levels have received such training. A total of 619 headmasters of lower secondary and secondary level schools have received thirty-day management training while teachers have been participating in training programs of various modules.

Curriculum Development Center

- 12.8 In the fiscal year 2007/08, 30 textbooks on 15 subjects of class 9 and 10 were updated, 5 textbooks of class 3 were given final shape and 5 textbooks of class 5 were improvised. Likewise, 4 textbooks in mother tongue (Yakhya-Class 1, Rajbamshi and Sunuwar-Class 2, Rai Chamling-Class 5), 9 reference materials, 2 childrens' knowledge books have been developed and published. In addition, 10 textbooks on 5 subjects of class 9 and 10 have been translated into English. National Curriculum Framework was disseminated at the central level, while framework of national curriculum, and the curriculum for grade 3 and textbooks were disseminated at the district level. In connection with printing and distribution of materials including curriculums through the private sector in FY2008/09, printing presses were selected, Camera Ready Copy (CRC) of those materials provided, and distribution of textbooks have already begun after getting them printed. A Madarsha Board is constituted for the development of Madarsha curriculum. Development of learning materials for Gumba (Monastery), Gurukul and Madarsha are in process. CRC of textbooks of class 6-8 has been developed and five sets of curricula for classes 9 and 10 are being updated.

Education Campaign on Building New Nepal

- 12.9 Following programs are being implemented in FY 2008/09 under the New Nepal campaign in education sector:

a) Boarding Schools for the Martyr's Children (Through Martyr Memorial Academy)

Permission is granted to Martyr Memorial Academy, Nepal for operating boarding schools in all five Development Regions for proper management of education of children of Martyrs who lost their lives during the armed conflict in the country. Rs. 25.75 million has already been disbursed for the program upon approval of National Planning Commission. Likewise, Rs. 604,500 is disbursed by the Academy for school construction in Dolakha.

(b) National Literacy Campaign

Under this Campaign, District Trainers' Training to post-literacy teachers, development of subject-wise training package on 5 subjects, development of training package for local-level Inspectors, and first phase literacy campaign, have been accomplished and 126 classes in 43 districts have already been monitored. Since the Prime Minister of Nepal inaugurated the program on 14 January 2009, 1 million, 117 thousand, and 530 persons have participated in 38,016 class centers under the first phase of the program. Similarly, the program has generated employment opportunity for 38,016 literacy volunteers and 4,013 local inspectors.

(c) Establishment of University

Tribhuvan University has initiated a program under the policy of bringing one constituent community campus each of eight districts into the fold of its Constituent campuses. Similarly, as per the government policy to establish universities in all parts of Nepal, processes are underway to establish Mid-Western University, Far-Western University, Open University, and Agriculture, Forestry and Animal Sciences.

(d) Secondary Education

Grant has been released under School Improvement Project to provide free education to secondary and higher secondary level students of Karnali Zone, belonging to *Dalits*, extremely marginalized, and communities in danger of extinction. Likewise, budget has been released to District Education Offices for the procurement of textbooks, school improvement plan and subsidy on textbooks.

Food for Education Program

- 12.10 There is a policy of implementing long-term project for increasing access to basic education and improving the health condition and nourishment of students of districts and communities with food scarcity and very low access to education. Similarly, there is also the policy to increase the number of student's enrollment, attendance rate, study efficiency, and decrease class dropout rates. In addition to this, there is a program to increase the number of girl students' enrollment and to provide support to the health condition of the pregnant and lactating mothers and children. With the joint initiative of school family and the community, a project has been implemented with the short-term objective of increasing the mothers' (women) participation in the program without gender discrimination.

- 12.11 In the fiscal year 2008/09, a total of 145,013 students were provided with day meals against the target of providing day meals to 209,000 primary level students in 13 districts under the Food for Education program with the aim to increase enrolment rate by 5 percent. Likewise, under the girl student motivation program, 60,350 girl students of 9 districts (with class attendance of above 80percent) were targeted to be provided with 2 liters of edible oil a month in order to increase their enrolment rate by 5 percent. However, only 41,066 students received such benefit. Under the Maternal and Child Healthcare program, 42,000 persons comprising pregnant, lactating mothers, and children under three years of age were to be provided with nutritious cereal powder at the rate of 7 Kg per month per person so as to reduce the number of underweight children by 10 percent and anemia by 7 percent annually. Only 33,557 persons benefited from the program. Similarly, the target set to provide de-worming medicine (Albendazole Tablets) twice a year (on half-yearly basis) to 209,000 persons with a view to decrease the number of roundworm infected patients by one third has been fully achieved. With the target to provide 9,300 MT of flour and ghee clarified butter (ghee) under the nourishment program, only 6,830 MT of such products could be dispensed.
- 12.12 In the fiscal year 2008/09, target is set to distribute 3,740 MT of Unilito and 375 MT of ghee for distribution to 170,000 quota/assistance seekers of class 1 - 5 of 11 districts (Dailekh, Rukum, Salyan, Doti, Dadeldhura, Achham, Baitadi, Darchula, Bajura, Bajhang, and Jajarkot) at the rate of 110 grams under the day meal program. Likewise, 968 MT of edible oil is targeted for distribution to 50,000 students of class 2-5 at the rate of 2 liters a month, whose monthly class attendance is 80 percent and above under the girls motivation program. The program covers 16 districts of Salyan, Dadeldhura, Doti, Accham, Baitadi, Dailekh, Bajhang, Bajura, jararkot, Darchula, Rukum in the hills and Parsa, Rautahat, Dhanusha, Sarlahi and Mahottari in Tarai. Similarly, 31,000 quotas will be provided to 9 districts including Salyan, Dailekh, Dadeldhura, Doti, Accham, Baitadi, Bajhang, Bajura and Darchula under the Maternal and Child Healthcare Program. Under the same program, pregnant, lactating mothers and children of 6-36 months will be provided nutritious cereal powder at the rate of 7 Kg per month per person on recommendation of the concerned District Health Posts. The program thus targets to provide 2,604 MT of nutritious cereal powder annually. The target set for providing Albendazole to 170,000 students under for the fiscal year of FY2008/09 under the Roundworm Eradication Program is already met by the end of first six months of the fiscal year.

12.13 In the first eight months of the current fiscal year, day-meal (*haluwa*) was prepared by using 1718.452 MT of flour and 171.845 MT of ghee and fed to 553,508 students in the first eight months of the fiscal year 2008/09 under the day-meal program. On an average, 92,251 students received day-meals, which come out to 55 percent progress achievement against the target. Similarly, 141,617 girl students received 323.5 MT of edible oil under the Girls Student Motivational Program averaging 26,942 student per month with 68 percent progress achieved. Under the Mother and Child Health Program, 1,268.3 MT of Nutrimix was distributed to 184,335 assistance seekers averaging 23,042 recipients recording a 74 percent progress.

Council for Technical Education and Vocational Training (CTEVT)

12.14 CTEVT, with the change of time, has changed its organizational structure while conducting a brief analytical review on policy, legal and institutional frameworks, structural improvement, and their achievements and impacts adopted in the fiscal years 2007/08 and 2008/09. To make the Council Central Office more efficient and to work in line with decentralization principle, the institution has initiated a process for establishment of regional office and revision of by-laws in the changed context. There is also the need for bringing training programs under the CTEVT umbrella that are being conducted by various entities, and skill testing certificate of persons going for overseas employment. In addition, there is also a need to establish a Polytechnic University to provide higher education to the people trained by CTEVT affiliate private institutions.

Table 12(b): Targets and Achievements of CTEVT Conducted Trainings

SN	Headings	Fiscal Year 2007/08		FY 2008/09
		Target	Achievement	Achievement
1	Enrollment: Long-Term	11,044	10979	1622
2	Production: Long-Term	10076	6879	2173
3	Short-term Training	10691 Person/week	11755 Person/week	6136 (ongoing)
4	Skill Test	2630	3923	6094
5	Special Scholarship (DAG)	150	150	225
6	Monitoring/Inspection of concerned institutions	Estimated 225 institutes	Estimated 225 institutes	Estimated 250 institutes

Source: Ministry of Education

Non-formal Education Center

12.15 Plans and programs are formulated and implemented on the foundation of Non-formal Education Policy 2006 and National Literacy Campaign Program 2008. Likewise, Community Study Centre Operation and

Management Guidelines 2005 and Non-formal Education Program Implementation Guidelines 2007 are also being implemented. Works are underway for the capacity enhancement of Community Study Centers and establishment of such a Center in each VDC, and each and every Ward of Municipality to conduct non-formal education program. As per the work plan for strengthening institutional capacity of non-formal education, works are being carried out for involving employees in domestic and overseas trainings and establishing internal computer network within the informal education centers. Likewise, intra-networks among other central level educational institutes are being developed. Arrangement of resource persons is made in all District Education Offices to oversee formal education program at the district level. Similarly, list of Roster Monitor involving retired teacher and personnel from Education Cadre is being prepared and mobilized to ensure efficient monitoring. With regard to the non-formal education, literacy classes in the first phase are being conducted in 59 districts and 129 literacy classes are being run by Roster Monitors in 43 districts in the current fiscal year.

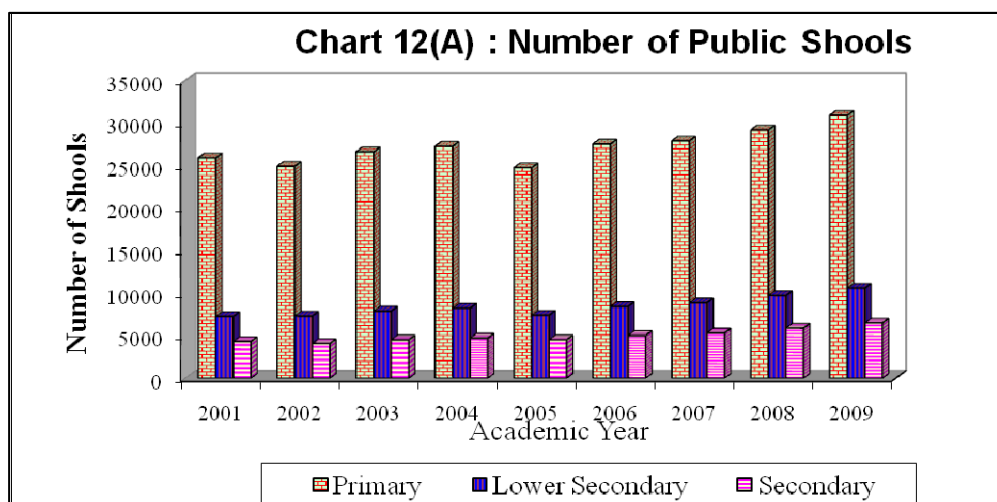
School, Student and Teacher Ratio Table

12.16 Based on data available for academic year 2008, the school, student, and teacher ratio in government and private schools of primary, lower secondary and secondary levels are presented in the following Table. In Academic year 2008, students are being taught through 30,924 primary schools, 10,636 lower secondary schools and 6,516 secondary schools under the Ministry of Education.

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

Ratio (in numbers)	Primary	Lower Secondary	Secondary
Student/School	154.6	137.9	109.7
Teacher/School	4.6	3.5	4.1
Student/Teacher	33.3	39.6	26.6
Student/ Trained Teachers	49.7	73.1	37.2

Source: Ministry of Education/ Education Department



Student/Teacher Ratio Table in Community Schools

12.17 Community schools, and government schools receiving grants from the Government of Nepal are grouped under the community schools, while institutional schools are operated as Trusts or as per the Company Act. According to the estimated data for Academic Year 2008, the teacher/student ratio in Government, private and community run schools in all 5 Development Regions are as follows:

Table 12 (d): Teacher Student Ratio in Academic Year 2008

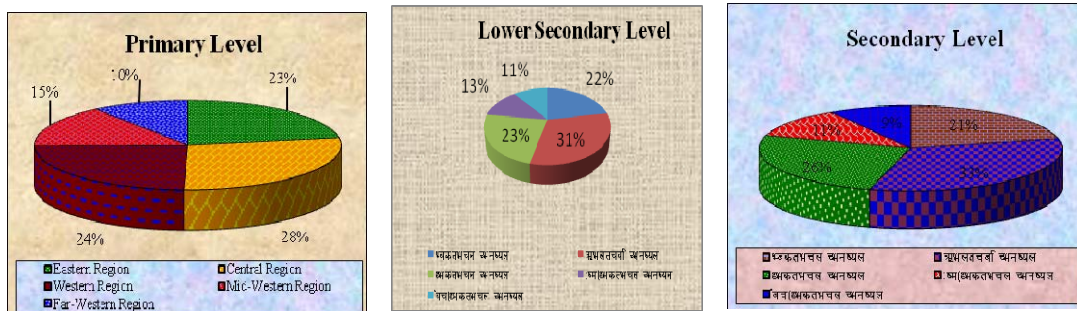
Region	Per teacher student Ratio (in numbers)					
	Private and Government			Community		
	Primary	Lower Secondary	Secondary	Primary	Lower Secondary	Secondary
Nepal	33.3	39.6	26.6	43.8	57.9	38.6
Eastern	35.8	47.9	35.9	41.7	57.1	41.4
Mountain	31.2	40.9	25.9	35.3	48.1	29.0
Hill	31.1	47.0	39.6	36.1	54.9	42.3
Terai	40.9	50.3	35.6	49.1	61.5	43.7
Central	32.7	30.2	19.0	46.5	55.9	35.0
Mountain	26.9	44.5	31.4	35.7	53.4	34.4
Hill	30.1	39.2	23.1	42.4	62.8	42.2
Terai	56.2	54.3	34.7	62.0	65.9	39.2
Valley	16.7	16.3	11.3	22.8	33.8	22.6
Western	27.1	39.2	25.8	34.6	52.6	33.9
Mountain	5.3	8.1	5.1	5.5	7.6	5.3
Hill	23.4	36.2	24.9	28.6	49.0	32.0
Terai	38.7	50.8	29.7	56.8	69.6	43.7

Region	Per teacher student Ratio (in numbers)					
	Private and Government			Community		
	Primary	Lower Secondary	Secondary	Primary	Lower Secondary	Secondary
Mid Western	41.2	53.5	40.1	51.4	70.6	49.6
Mountain	35.0	33.9	30.5	39.9	37.8	31.0
Hill	42.5	53.0	41.8	51.7	66.2	46.5
Terai	41.7	60.2	40.9	56.9	94.7	63.1
Far Western	34.5	51.5	38.1	51.2	62.5	43.1
Mountain	35.1	33.9	24.9	43.0	45.6	29.82
Hill	35.3	45.2	31.1	48.7	52.9	35.0
Terai	33.4	70.6	56.0	62.7	85.8	64.4

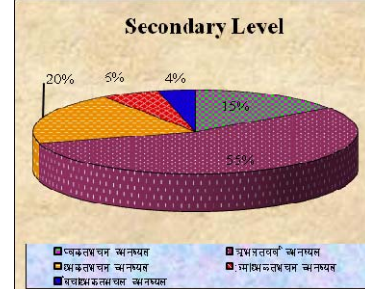
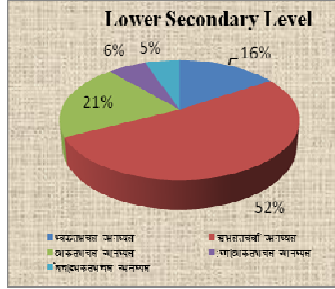
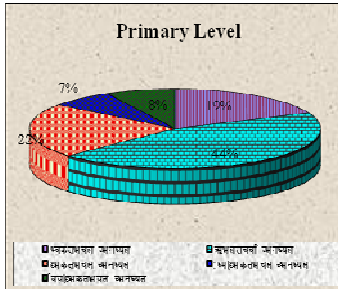
12.18 Regional distribution of schools on the Government, Community and Private ownership by academic year 2008/09 is, 6,622 Primaries, 2,131 Lower Secondaries, and Secondaries 1,275 in the Eastern Region; 9,184 Primaries, 3,655, Lower Secondaries, and Secondaries 2,432 in the Central Region; and 7,102 Primaries, 2,335 Lower Secondaries, and 1,497 Secondaries in the Western Region. Likewise, there are 4,605 Primaries, 1,336 Lower Secondaries, and 706 Secondaries in the Mid-Western Region; and 3,411 Primaries, 1,179 Secondaries, and 606 Secondaries in the Far-Western Region.

Chart 12 (b) : Region-wise details of Schools (Government/Community/Private)

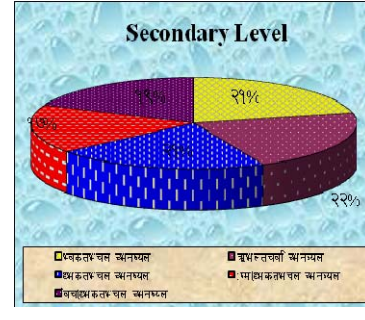
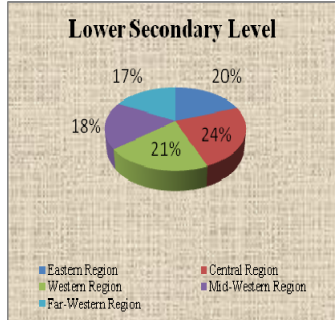
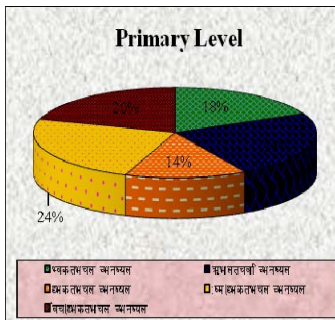
Government Run:



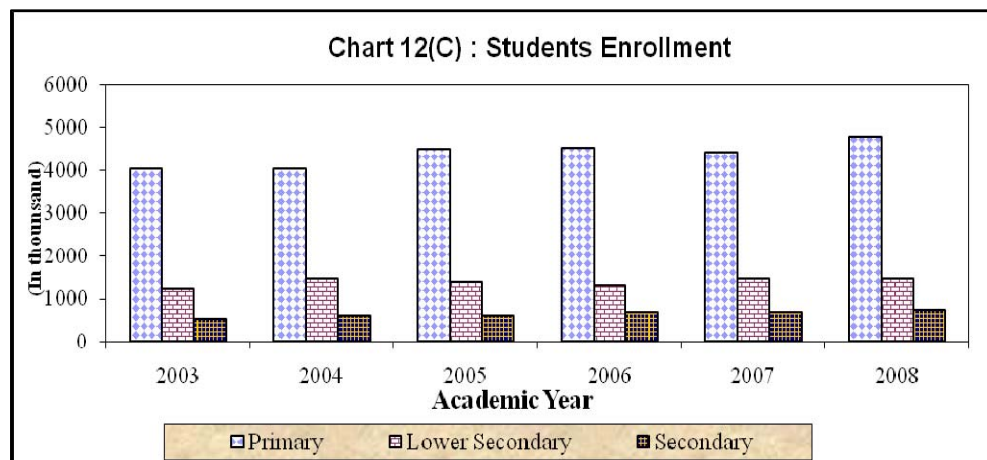
Community Run:



Private Sector Run:



12.19 The number of students studying in Primary, Lower Secondary, and Secondary schools in academic year 2008/09 stood at 4 million 782 thousand 313; 1 million 466 thousand 862; and 715 thousand 378 respectively.



Higher Secondary Education Board (HSEB)

12.20 Higher Secondary Education Board has twin objectives, i.e., to prepare middle-level human resource needed for national development in various fields, and produce quality students for higher education. By the academic year 2008/09, the number of Higher Secondary Schools (HSS) affiliated to the Council stood at 1,976. These Higher Secondary Schools being run by Communities, Private sector, as Ten plus two, and as Campuses stood at 1313, 373, 160, and 130 respectively. In the Academic Year 2008/09, students taking regular examinations of class 11 stood at 106,253 while 98,888 students took such examination through Institutional HSS. Students appearing in class 12 examination in the same period stood at 60,296 and 132,775 as regular and through institutional HSS respectively. Likewise, the number of regular students studying in class 11 and 12 in the same academic year in Community and Institutional schools stood at 266,305 and 205,141 respectively.

12.21 Some major ongoing programs of HSEB in the current academic year, as in the previous years, include computer programming, and building the question bank. In addition, the Board is carrying out various activities to ensure access of poor and ultra poor, backward *Madhesi* students to education studying in Community HSS. In addition, the Board arranges for cost-free education to students of Community Schools obtaining top marks; provides scholarships to girl students belonging to remote areas, backward, *Dalit*, and vulnerable class of people; helps build HSS infrastructures, and establish Educational Enhancement Fund; and provides additional teachers' salary grant to schools with women Head Master/Principle or with 50 percent or more female teachers. The Board also provides educational materials assistance; conducts special educational support program to help the blind, deaf, and mentally retarded students' access to higher secondary education; helps establish Teacher's Welfare Fund; selects textbooks and does writing; conducts integrated teaching skills training; and supports Science Education Support Program. The Board also does schools mapping, GIS training, and laboratory management and its uses.

Number of Affiliated Schools

12.22 The number of affiliated community, private, 10+2 schools, and campuses with their regional distribution is given in the following Table.

Table 12 (e) : Regional Distribution of Affiliated HSS as of Academic Year 2008/09

(In numbers)

Development Region	Community	Private	10+2	Campus	Total
Eastern	247	53	31	23	354
Central	384	192	106	62	744
Western	348	84	12	33	477
Mid-Western	156	25	5	5	191
Far-Western	178	19	6	7	210
Total	1313	373	160	130	1976

Source: Ministry of Education/Education Department

Status of Students in Higher Secondary Schools

12.23 The number of students attended and passed the examination of class 11 and 12 under higher secondary level schools from the academic year 1998 to 2008 is as follows:

Table 12 (f): Number of Students Appeared and Passed in Annual Examinations

Year	Class 11						Class 12					
	Appeared			Passed			Appeared			Passed		
	Male	Female	total	Male	Female	total	Male	Female	total	Male	Female	Total
1998/99	8,084	4,626	12,710	2,675	1,526	4,201	4,460	2,615	7,075	1,708	1,070	2,778
1999/00	11,883	6,950	18,833	4,217	2,503	6,720	6,289	3,898	10,187	2,771	1,624	4,395
2000/01	17,975	10,958	28,933	6,600	3,713	10,313	9,861	6,120	15,981	3,926	2,309	6,235
2001/02	30,344	19,607	49,951	9,119	5,363	14,482	14,803	8,560	23,363	5,304	3,042	8,346
2002/03	26,401	17,989	44,390	9,383	5,583	14,966	24,420	16,872	41,292	7,730	4,520	12,250
2003/04	38,341	27,463	65,804	14,317	9,323	23,640	21,526	15,573	37,099	7,488	4,470	11,958
2004/05	37,077	24,378	61,455	15,984	9,910	25,894	32,915	24,698	57,613	13,434	9,212	22,646
2005/06	86,351	69,976	156,327	40,842	30,502	71,344	57,082	43,858	100,940	30,893	22,170	53,063
2006/07	62,052	48,359	110,411	30,171	20,711	50,882	49,377	40,543	89,920	28,472	21,526	49,998
2007/08	79,809	66,978	146,787	35,011	27,261	62,272	55,448	45,312	100,760	31,457	24,630	56,087
2008/09	106,145	98,996	205,141	46,644	37,042	83,682	74,215	58,560	132,775	36,875	30,547	67,422

Source: Ministry of Education/Higher Secondary Education Council

12.24 According to the development regions and classification, the details of higher secondary schools until academic session 2008 are as follows:

Table 12 (g) : Details of the Higher Secondary Schools by Development Regions
In Numbers

S.N	Regions	Community	Private	10+2	Campus	Total
1	Eastern Development Region					
	Himalayan Region	35	1	0	4	40
	Mid-Mountains	131	5	3	4	143
	Terai	81	47	28	15	171
	Total	247	53	31	23	354
2	Central Development Region					
	Himalayan Region	57	0	0	2	59
	Mid-Mountains (Out of Kathmandu)	141	22	2	8	173
	Mid-Hills (Kathmandu Valley)	74	143	79	36	332
	Terai	112	27	25	16	180
	Total	384	192	106	62	744
3	Western Development Region					
	Himalayan Region	4	0	0	0	4
	Mid-Mountains	269	49	7	22	347
	Terai	75	35	5	11	126
	Total	348	84	12	33	477
4	Mid-Western Development Region					
	Himalayan Region	18	0	0	0	18
	Mid-Mountains	89	3	0	2	94
	Terai	49	22	5	3	79
	Total	156	25	5	5	191
5	Far-Western Development Region					
	Himalayan Region	45	0	0	1	46
	Mid-Mountains	71	2	1	2	76
	Terai	62	17	5	4	88
	Total	178	19	6	7	210
	Grand Total	1313	373	160	130	1976

Source: Ministry of Education/Higher Secondary Education Council

Universities

12.25 In the fiscal year 2007/08, five universities including Tribhuvan University, Kathmandu University, Purbanchal University, Nepal Sanskrit University, and Pokhara University have been providing higher education opportunities. Though the Lumbini University has received approval for its operation, it is not yet in position to produce human resource. Likewise,

processes are being carried forward for the establishment of Mid-Western University, Far Western University, Open University and Agriculture, Forestry and Animal Science University. Activities of various universities that are established with the sole objective of producing higher level human resource to be able to compete internationally and to meet the national demand are given in the following paragraphs.

Tribhuvan University

12.26 The Tribhuvan University has been playing important role since its establishment in producing high and quality human resource for the allround development of the nation. By the Academic Year 2007/08, various educational programs are being conducted through 5 academic institutions, 4 faculties, 5 research centers, 60 sister campuses, 37 central departments and 561 private sector TU Constituent Campuses. In addition to these, various education campuses including TU Teaching Hospital, BP Koirala Eye Research Center, Ayurved Teaching Hospital, TU Health Center, Kirtipur, and Veterinary Teaching Hospital. Besides, TU has been operating various institutes and consulting services like Energy Research Center, Calamity Research Center, Pollution Study Centre, Central Soil Laboratory, Engineering Consultancy Service, Wild Life Museum, and Natural Science Museum. Various specialized departments and institutions are also being run by TU, such as Geological Science Central Department on Science and Technology; Chemistry in the context of Development and Trade; Central Department of Hydrology and Meteorology, Usefulness of Bio-diversity of Nepal/Bio-technology; and Central Department of Microbiology. The University has also been conducting programs by extending various services and programs in the areas of practical science and technology. Followings are the details on the achievements made through the major academic program implemented under TU:

Table 12 (h): Achievement Details of Major Academic Programs (TU)

Indicator of Study/ Research/ Exploration Programs	Fiscal Years					
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
A. Campus						
1. TU Constiuent Campuses	60	60	60	60	60	60
2. Number of Campus/College established in the Private Sector and granted permission to run under temporary affiliation	223	278	287	348	420	561
Increase in percent (%)	(32) Base	(55) +24.7	(9) +3.2	(61) +21.3	(72) +20.7	(141) +33.6
B. Number of Students	2,13,412	1,88,213	2,03,449	2,44,268	2,72,746	2,90,833

Indicator of Study/ Research/ Exploration Programs	Fiscal Years					
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
attending college/campus						
1. Number of students studying in constituent campuses of TU	1,40,412	1,23,566	1,32,777	1,52,668	1,67,114	1,71,592
Increase in percent (%)	Base	-11.99	+7.45	+14.98	+9.46	+2.07
(a) Total number of campuses	283	338	347	408	480	621
Increase in percent (Constituent and private sector campuses) (%)	Base	19.4	2.7	17.6	17.6	29.4
2. Number of students studying in private sector campuses/colleges	73,000	64,647	70,672	91,600	1,05,632	1,19,241*
Increase in percent (%)	Base	-11.4	+9.3	+29.6	+15.3	+12.9
3. Structure of students based on constituent and private sector campuses (%)						
(a) Students studying in constituent campuses(%)	66	65.7	65.2	62.5	61.3	59
(b) Students studying in private sector campuses(%)	34	34.3	34.8	37.5	38.7	41
Total:	100	100	100	100	100	100
(c) Teacher Student ratio	1:24	1:20.5	1:22	1:24.8	1:27.3	1:21.6
(d) Teachers Students						
i. Teachers - Teaching	5,967	6,038	5,970	6,161	6,160	7,950
ii. Administration, Technical, and Utility Services						
(a) Administrative Staff	2,106	2,106	2,106	2,240	2,241	2,241
(b) Technical Staff	2,153	2,153	2,126	1,911	1,914	1,920
(c) Utility and Services Staff	2,800	2,800	2,745	2,797	2,797	2,912
Total Number of Staff	7,059	7,059	6,977	6,948	6,952	7,073
(e) Medicine /treatment Services	4,04,853	3,96,574	3,97,074	4,34,547	4,59,830	#
Increase in percent	Base	-2.1	-1.9	+7.3	+16.6	-

In Service

Source: Trubhuvan University

12.27 Programs are being conducted through 5 academic institutes including Engineering, Agriculture, Animal Science, Medical Science, Forestry and Science and Technology, and four faculties that are offering Corporate and Law, Management, Education, Humanity and social Science courses at Certificate, Bachelor, Masters, M. Phil and Ph.D levels. TU has 13 sister campuses in Eastern region, 28 campuses in Central region, 11 campuses in Western region, 5 campuses in Mid-Western and 3 in Far-Western region. There are 561 TU affiliated campuses under various academic institutes/faculties among which 75 campuses are in eastern region, 296 in Central region, 114 in Western region, 38 in Mid-Western and 38 in Far-Western region. In FY 2007/08, there were 171,592 students studying in the constituent campuses of the TU under technical and nontechnical

categories whereas there were 119,200 students in the TU affiliated campuses. Among these campuses under TU, students studying technical courses total 23,404 comprising 8,827 students at the Certificate level, 12267 at the Bachelor level, 2,180 at the Post Graduate level and 130 at the Ph. D level. In general courses, The number of pursuing general courses of studies totals to 148,188 comprising 36,723 at the Certificate level, 78,400 at the Bachelor level, 27,964 at the Post Graduate level, 105 at the M. Phil, and 180 students at the Ph. D level. Similarly, the number of foreign students carrying out research at the TU is 41.

Table 12 (i) : Description of Institutions/Faculties Under the TU

S.N.	Faculty	Other levels	Certificate level	Graduate	Post Graduate	M. Fin	Ph. D
1.	Engineering	x	✓	✓	✓	x	✓
2.	Agriculture & Animal Science	x	x	✓	✓	x	✓
3.	Medicine	x	✓	✓	✓	x	x
4.	Forestry	x	✓	✓	✓	x	✓
5.	Science & Technology	x	✓	✓	✓	x	✓
7.	Law	x	x	✓	✓	x	✓
8.	Management	x	✓	✓	✓	✓	✓
9.	Education	x	✓	✓	✓	✓	✓
9.	Humanities	✓	✓	✓	✓	✓	✓

Source: Tribhuvan University

- 12.28 Concerning curriculum development and curriculum resource materials, the curricula of various subjects in different institutes, and faculties under TU have been modified. Apart from this, the publication and distribution work of curriculum and textbooks is continued. The testimony and authentication work of academic certificates is being done regularly as well. On common subjects like English and Nepali, curricula are being regularly developed and implemented. The Central Library of TU, which is a large and well-organized library with a huge collection of books, has been providing good services to readers. The library has a collection of nearly 15 thousand copies of theses and CDs collected so far from Ph D. and Post Graduate level students, which have been helpful to scholars and researchers. Nearly 25,000 titles, articles, brief summaries, and full texts of various journals have been made freely available up to the year 2007 under the NASP/PERI programs to Nepali scholars for teaching, learning and research works. The library has assisted Nepali scholars and experts in

their research and findings by collecting resources needed for researches and explorations.

- 12.29 TU. has a program of providing free scholarships to a certain number of students, studying in all the constituent campuses since the fiscal year 2006/07. A number of physically disabled and mentally retarded students received this free scholarship on the bases of the certified documents they submitted. The TU Co-ordination Department, which conducts fellowship programs, has provided scholarships established at different intervals of time by various donors. Except these pre-determined processes, TU does not have any other separate programs for providing scholarships. In absence of the TU Central Board Authorities since the fiscal year 2006/07, no such program could be continued even in the fiscal year 2007/08. So far the disabled are concerned, one at the Certificate level, one at the Bachelor and Post Graduate level each, (altogether 3) blind students are receiving financial support of Rs1500 each per month on recommendation of Blinds' Association of Nepal.

General Human Resource Production

- 12.30 Among the four Non-technical faculties of TU, 372 from Law faculty and 14,592 in Management faculty at different levels passed in the academic year 2007/08. Similarly, 9,036 from Education faculty and 13,756 from Humanity and Social Science faculty were produced. The Table below shows the details:

Table 12 (j) : General Category Human Resource Production by TU

<i>Faculty and Program</i>	<i>Fiscal Years</i>						
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
1. Law Faculty							
(a) Certificate	68	28	15	33	21	12	
(b) Bachelor	1,150	734	469	692	342	199	329
(c) Post Graduate	27	33	16	75	25	32	41
(d) Ph. D.	—	1	0	1	0	0	2
Total	1,245	796	500	801	388	243	372
2. Management Faculty							
(a) Certificate	8,093	8,435	7,043	12,095	7,010	6,152	3415
(b) Bachelor	3,607	3,996	3,877	8,549	5,954	6,799	6187
(c) Post Graduate	1,223	950	653	1,856	989	1,636	1110
(d) Ph. D.	3	4	3	6	3	5	-
Total	12,926	13,385	11,576	22,506	13,956	14,592	
3. Education Faculty							
(a) Certificate	1,706	1,559	1,783	3,525	3,227	3,651	3155
(b) Bachelor	2,460	3,195	3,632	5,841	3,912	4,453	5455

(c) Post Graduate	296	233	224	633	43	21	422
(d) Ph. D.	–	–	–	1	0	2	4
Total	4,462	4,987	5,639	10,000	7,182	8,127	9036
1. Humanities Faculty							
(a) Certificate	10,530	8,424	7,876	16,005	10,296	9,542	5919
(b) Bachelor	2,838	3,689	3,425	7,666	5,696	5,483	5891
(c) Post Graduate	1,675	1,385	1,243	3,385	1,626	2,261	1909
(d) Ph. D.	13	13	20	26	24	27	37
(e) Others	–	–	32	471	1,837	1,761	ck fKt
Grand Total	15,056	13,511	12,596	27,553	19,479	17,313	13756

Source: Tribhuvan University

Production of Technical Workforce

12.31 Among 5 Technical Institutes under T U, 8,024 from the Engineering Institutes, 181 from Institute of Agriculture and Animal Science, 302 from Medical Faculties, 145 from Institute of Forestry and 3,447 from Science and Technology Institutes were produced in the academic year of 2007/08 which is presented in the following table:

Table 12 (k) : Description of Technical Manpower Production of TU

Faculty and Program	Fiscal Years						
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
1. Institute of Engineering							
(a) Certificate	441	554	559	626	282	542	2638
(b) Bachelor	181	257	357	368	1140	960	5208
(c) Post Graduate	43	59	69	77	106	76	179
(d) Ph. D.	1	–	–	–	–	–	–
Total	666	870	985	1071	1528	1578	8025
2. Institute of Agriculture and Animal Sciences							
(a) Certificate	42	53	15	–	–	–	–
(b) Bachelor	108	144	107	112	102	115	124
(c) Post Graduate	25	44	43	26	33	60	57
(a) Certificate	–	–	–	–	1	1	–
Total	175	241	165	138	136	176	181
3. Institute of Medicine							
(a) Certificate	–	–	9	–	–	–	N/A
(b) Bachelor	314	302	330	330	314	294	N/A
(c) Post Graduate	124	148	169	159	304	373	221
(d) Ph. D.	66	66	98	88	92	83	81
Total	504	516	606	577	710	750	302
4. Institute of Forestry							
(a) Certificate	113	66	–	72	81	81	74
(b) Bachelor	51	–	–	57	83	57	59
(c) Post Graduate	–	–	14	–	–	23	12

Faculty and Program	Fiscal Years						
	Total	164	66	14	129	164	161
5. Institute of Science and Technology							
(a) Lower Level	2780	2249	1946	4402	1355	2086	1759
(b) Certificate	963	1175	961	2071	1297	1396	1305
(c) Graduate	447	303	407	854	350	436	377
(d) Post Graduate	—	3	5	8	2	6	6
Total	4190	3730	3319	7335	3012	3924	3447
Grand Total	5699	5423	5089	9250	5550	6589	12100

Source: Tribhuvan University

Registration Details for M.Phil/Ph. D under TU

12.32 Among the students enrolled in Research Studies the Tribhuvan University in the academic year 2007/08, 105 are for M. Phil and 310 for Ph. D. Detail is presented in the Table below:

Table 12 (I) : Description of M. Phil & Ph. D. Registration

S.No.	Institute/Faculty	No. of M. Phil Students			Number of Ph. D. Students		
		Male	Female	Total	Male	Female	Total
1.	Institute of Engineering	-	-	-	15	1	16
2.	Institute of Agriculture and and Animal Husbandry	-	-	-	5	0	5
3.	Institute of Medicine	-	-	-	-	-	-
4.	Institute of Forestry	-	-	-	-	-	819
5.	Institute of Science & Technology	-	-	-	77	23	100
	Total of Scient and Technology	-	-	-	105	25	130
6.	Law Faculty	-	-	-	14	1	15
7.	Management Faculty	50	8	58	54	8	62
8.	Education Faculty	37	10	47	15	-	15
9.	Humanities and Social Sciences Faculty	-	-	-	77	11	88
	Total of General Education	87	18	105	160	20	180
	Grand Total	87	18	105	265	45	310

Source: Tribhuvan University

Medical Services of TU

12.33 The progress and achievement of the medical services from TU Teaching Hospital, B.P. Koirala Lions Optical Study Centre and TU Health Centre, Kirtipur are presented in the following Table:

Table 12 (m) : Services Availed by TU Teaching Hospital

S.No.	Service Description	Number of Patients			
		2004/05	2005/06	2006/07	2007/08
1.	(a) Outpatient Department (OPD)	27,026	2,62,099	271011	N/A
	(b) Emergency Services	30,482	39,600	40000	N/A
	(c) Expanded Service	---	44,307	45000	N/A
2.	Number of Indoor Patients				N/A
	(a) Admission	17,101	17,785	18000	N/A
	(b) Discharge	16,770	16,671	17823	N/A
3.	Total Death (Percent)	3.12	3.45	3.07	N/A
4.	Bed Occupancy (percent)	82.83	96.96	89.48	N/A
5.	Average days of Bed Occupancy	7.34	8.6	7.95	N/A
6.	Surgery	7,645	8,084	8700	N/A
(b) B. P. Koirala Lions Center for Ophthalmological Studies, Maharajganj					
1.	Number of OPD Patients	71,937	66,014	68,266	63029
2.	Patients in Private Clinics	4,651	5,408	6,155	6519
3.	No. of Satellite (Community) Patients	4,226	2,808	2,824	2324
4.	No. of Screening and Eye Camp Patients	7,616	6,944	19,168	15440
	Total	88,430	81,174	96,413	87292
Surgery					
1.	At the Ophthalmological Studies Center	1,086	1,043	565	1555
2.	At the TU Teaching Hospital	305	233	240	215
	Total	1,391	1,276	562	1770
Community Surgery					
1.	At the Ophthalmological Studies Center	191	234	764	465
2.	At TU Teaching Hospital	305	144	106	352
	Total	496	378	870	817
(c) TU Health Center, Kirtipur					
1.	Number of total patient checkup	5,925	5,872	6,267	7422
2.	Minor Operation Dressing (free)	1,511	1,495	1,139	1541
3.	Medicine distribution (free until stock is exhausted)				

S.No.	Service Description	Number of Patients			
		2004/05	2005/06	2006/07	2007/08
	Total	7,436	7,367	7,406	8963
1.	Total Students who received services from the Health Center	3,97,570	4,34,547	459830	ck fKt
2.	Increase in number of patients (in percent)	14=19	9=44	15	ck fKt
3.	Number of post operative patients	9532	9738	10375	ck fKt

Source: Tribhuvan University

Animal Health Services Development (TU)

12.34 In addition to regular teaching, research and studies being carried out in the Veterinary Teaching Hospital in Rampur of Chitwan under Institute of Agriculture and Animal Science of TU. The Institute has continued to provide general medical and surgical treatment of animals and birds for the development of agriculture sector this fiscal year too.

Programs of Kathmandu University (KU)

12.35 Kathmandu University, established in 1971 with objectives to provide quality education at the higher level, has carried out multidimensional educational activities. The University has been introducing new programs to meet the demand of quality work force for the nation. It has produced standard human resources, especially, in the fields of Medical Science, Engineering, Pharmacy, Environmental Science, Humanities, and Management. It has been gradually expanding its field of activities to keep up with native and foreign universities, educational institutes and organizations. The University has been running educational programs on 80 subjects through its various institutes. It has produced 7,302 high level technical manpower so far. To mention about middle level human resource for the health sector, 2,862 students have completed Certificate level examinations on General Medicine, Laboratory technician, Ophthalmic Assistant, and 395 in Physiotherapy. Besides, 2467 students have completed their I. Sc. The number of KU products in both technical and non-technical fields totals to 7,302.

12.36 Kathmandu University has continued to providing certain scholarships to students, who are talented but economically poor. During the fiscal year 2007/08 195 from KU and 430 from its affiliated colleges received scholarships, which is 9.75 percent of its total number of students.

The Purbanchal University (PU)

12.37 Purbanchal University was established in 1993 as a fourth University of the nation. By providing quality education of international standard, it is trying to produce higher-level human resource needed for the nation's development. This University has been running classes on 70 different subjects, like, Science and Technology, Management, Education, Humanities, Law, and Medical Science. It has produced 430 at the Post Graduate level and 190 graduates, as technical and professional manpower. Currently in FY 2007/08, 14800 pupils are studying various subjects in the PU and its affiliated campuses. Seeing the increasing number of admissions, the number of students studying at the University is expected to reach 20,000 in this academic year 2008/09. Following the University's Board /Council decision, process is underway since FY2007/08 to run MBBS classes at Gothgaon, Morang by utilizing a number of buildings constructed there. In the process, PU has a target of running the MBBS program through its own 300-bed hospital open for 24 hours in the coming 3 years. For this purpose, the University has plan to open admissions and conduct classes from July/August 2009 (of the coming fiscal year). Arrangements have been made to provide Full Subsidy Tuition Fee and Partial Subsidy Tuition Fee to poor, talented, *Dalits*, women and marginalized students under the program. The details of enrolled and produced human resource in the different academic years are as follows:

Table 12 (n): Student Enrollment/Production Status of PU

S. N .	Faculty	2003/04		2004/05		2005/06		2006/07		2007/08	
		Enroll	Pass	Enroll	Pass	Enroll	Pass	Enroll	Pass	Enroll	Pass
1.	Science & Technology	2280	274	2588	328	3012	500	3958	367	4575	303
	Graduate	2245	274	2544	328	2875	477	3767	359	4399	254
	Post-Grad (PG)	35	-	44	-	137	23	191	8	176	49
2.	Management	1390	98	1978	198	2412	195	3684	22	4026	341
	Graduate	1229	89	1710	177	1989	135	2971	-	3264	320
	PG	161	9	268	21	423	55	713	22	762	21
3.	Education	988	157	1218	344	1436	254	2293	36	3013	286
	Graduate	889	157	1067	344	1328	242	2092	-	2825	270
	PG	99	-	151	-	108	12	201	36	188	16
4	Humanities	672	42	720	113	957	162	1319	187	1228	130
	Graduate	564	30	600	88	708	139	971	147	929	99
	PG	108	12	120	25	249	23	348	40	299	31
5.	Law	98	-	200	2	282	29	399	-	377	35
	Graduate	77	-	128	-	178	18	237	-	252	21
	PG	29	-	72	2	104	11	162	-	125	14
6.	Medical	-	-	-	71	656	136	1158	134	1659	157
	Graduate	-	-	-	71	656	136	1158	134	1657	157
	PG	-	-	-	-	-	-	-	-	-	-

S. N .	Faculty	2003/04		2004/05		2005/06		2006/07		2007/08	
		Enroll	Pass	Enroll	Pass	Enroll	Pass	Enroll	Pass	Enroll	Pass
	Graduate	5,004	550	6,049	1,008	7734	1,147	11,196	640	13328	1121
	Post Graduate	432	21	655	48	1,021	124	1,615	106	1550	131
	Grand Total	5,436	571	6,704	1,056	8,755	1,271	12,811	746	14878	1252

Source: Purbanchal University

Nepal Sanskrit University

12.38 Nepal Sanskrit University was established in 2043 (1985) as the 2nd university of the nation with the goal of modernizing Sanskrit language and education as well as to preserve the essence, norms and values of Sanskrit language. The Head Office of this university is located at Beljhundi of Dang district in the Mid-western Development Region of Nepal. There are 13 constituent and 18 affiliated campuses under this University. The target set for FY2007/08 was 4176 new admissions, out of which, 3,339 were admitted including, *Ayurveda*, Science, *Uttarmadhyama*, *Sanskrit Madhyama*, Education faculty and Ph. D. The total product of the university by 2008 is 1,252. The University has continued various policies and programs, strictly following the objectives and provisions as outlined by the laws. The University has formulated and adopted various rules and regulations concerned with educational, organizational, exam-related matters, financial administration, terms and conditions for teachers and staff, rules for Service-commission etc. According to the government's policy to shift *Uttar-Madhyama* level to Higher Secondary Education Board, works on curriculum-reforms, and writing of textbooks, and preparations of teaching materials are going on. It is also involved in activities to upgrade the campuses to *Shastri* level and opening new faculties to the overall development of Yoga and *Ayurveda*. Works like repair/maintenance, construction, and other improvement measures are continued. The University also holds Workshops and meetings on matters like teaching/learning and examinations. The University has continued programs of granting facilities to socially marginalized, *Dalits*, women, disabled as well as those affected during People's Movement 2006. During the first 8 months of FY2008/09, expected progress is seen in the areas of *Uttar-madhyama*, *Shastri*, *Acharya*, Honorary Ph. D, Post science *Madhyama*, *Ayurveda-Madhyama*, *Shastri* in Education, Sanskrit language teaching, Yoga training, writing of teaching materials, with frequent meetings and workshops. Targets set for construction of houses, walls, hostels, guest rooms, however, could not be achieved as planned. The total enrolment and production of human resource by the university is as follows:

**Table 12 (o) : Student Enrollment
(Nepal Sanskrit University FY 2007/08)**

S.N.	School Name	Uttar- Madhyama Year I & II	Uttar- Madhyama Science+Ayur veda Years I/ II/III	Shastri Year I/ II / III	Shastri Education	Acharya Years I/II/III	Others	Total
1.	Balmiki College	358	-	164	53	122	-	697
2.	Janata College	71	101	33	116	-	-	321
3.	Pindeshwore College	175	-	44	-	5	-	224
4.	University College	-	-	-	-	30	-	30
5.	Vindhyabasi ni Sanskrit College	52	-	63	-	-	-	115
6.	B. P. Sanskrit College	40	-	-	-	-	-	40
7.	Bhanu Sanskrit College	16	-	-	-	-	-	16
8.	YBLNS College	102	-	37	-	-	-	139
9.	Ruru Sanskrit College	85	-	44	-	-	-	129
10.	Sharada College	29	-	15	174	-	-	118
11.	Hajarijanak Sanskrit College	82	-	35	-	-	-	117
12.	Harihar Sanskrit College	24	-	-	-	-	-	24
13.	Mahesh S.G College	15	-	16	-	3	-	34
14.	Radha damodar Sanskrit College	18	-	-	-	-	-	18
15.	Kalika Sanskrit College	37	-	-	-	-	-	37
16.	Sanskrit College Dharan	4	-	-	-	-	-	4
17.	Saraswati Sanskrit College, Manigram	26	-	-	-	-	-	26
1-Year affiliated Bachelor of Education								
1.	Lumbini Brihaspati College, Bhairahawa	-	-	-	---	-	-	
2.	Active Academy College,	-	-	-	2	-	-	2

S.N.	School Name	Uttar-Madhyama Year I & II	Uttar-Madhyama Science+Ayurveda Years I/II/III	Shastri Year I/ II / III	Shastri Education	Acharya Years I/II/III	Others	Total
	Kathmandu							
3.	Panchthar Campus	-	-	-	48	-	-	48
4.	Banepa Campus	-	-	-	37	-	-	37
5.	Kapilvastu Campus	-	52	-	26	-	-	78
6.	Multiple College, Attariya	-	-	-		-	-	
Affiliated Ayurveda Uttarmadhyama								
1.	Janak Ayurveda College, Janakpur	-	95	-	-	-	-	95
2.	Uttar Dhanwantari Ayurveda College, Gaur	-	69	-	-	-	-	69
3.	Jagadamba Ayurveda Campus, Caur	-	40	-	-	-	-	40
4.	IHR Development, Janakpur	-	15	-	-	-	-	15
5.	Nikhil ayurveda College, Pokhara	-	51	-	-	-	-	51
Others								
1.	Karmakanda (Religious rites) Training	-	-	-	-	-	-	-
2.	Yoga Training	-	-	-	-	-	62	62
3.	Sanskrit Language Training	-	-	-	-	-	629	629
4.	Research	-	-	-	-	-	111	111
	Total	1334	423	564	356	160	802	3339

Source: Nepal Sanskrit University

Table 12 (p) : Output details of Nepal Sanskrit University - FY 2007/08

S.N.	Institute/Faculty	Program	Male Student	Female Student	Total
1.	Education	Shiksha Shastri	248	40	288
2.	Science, Ayurveda	Science Uttar Madhyama, Ayurveda Uttar Madhyama	166	34	200

S.N.	Institute/Faculty	Program	Male Student	Female Student	Total
3.	Culture	<i>Uttar Madhyama</i>	275	102	377
		<i>Shastri</i>	321	50	371
		<i>Acharya</i>	78	7	85
		Ph. D			17
4.	Teaching	Yoga Teaching	15	4	19
		Language Teaching	238	121	359
Total			1341	358	1716

Source: University Grants Commission

The Pokhara University

12.39 Pokhara University was established in 1993 under the statutory provisions of Pokhara University Act and aims at extending people's participation. Earlier, the university had focused on the expansion of affiliated campuses. As a result, very few programs were conducted in its constituent campuses with most of the activities conducted in affiliated campuses. Now it has adopted a policy of expanding its activities between both the constituent and affiliated campuses. All of its educational activities are conducted in its newly constructed Academy Hall at Khudidhungepatan. At present, the University runs 3 constituent school/campuses and 23 affiliated college/ campuses. All its constituent campuses are located at Lekhnath Kaski, and among the 23 affiliated campuses, there are 12 colleges in The Central Region; 10 in the Western Region; and 1 in the Far Western Region. It conducts Bachelor level, M. Phil and Post Graduate level classes through its 3 faculties, i.e., Science and Technology, Management and Humanities, and Social Sciences. There are 426 students enrolled in its constituent campuses and 7,212 in the affiliated campuses in the academic year 2008/09 while the University has rolled out 622 products in the same period. The University conducted 47 educational programs during the academic year 2007/08. It also conducted inter disciplinary Water Resource Management program in Post Graduate in collaboration with Nepal Engineering College in the same period. Similarly, School for Humanities and Sociology has been set up from where Master's programs in Population, Gender and Development Studies are conducted. The Table below shows the number of students studying in different constituent and affiliated campuses of Pokhara University.

Table 12 (q) : Students Studying in Constituent and Affiliated Colleges (Pokhara University)

Subject	Graduate		Post Graduate		M. Phil		Total	
	Constituent	Affiliated	Constituent	Affiliated	Constituent	Affiliated	Constituent	Affiliated
Science &	216	3,135	0	65	0	0	216	3,200

Technology								
Management	180	3,367	0	580	0	0	180	3,947
Humanities & Social Sociology	0	0	30	31	0	34	30	65
Total	396	6,502	30	676	0	34	426	7,212

Source: Pokhara University

Scholarships

12.40 Concerning scholarships programs offered by constituent colleges/schools, and affiliated colleges, the University has formulated regulations and procedures, and accordingly adopted since FY2006/07. Currently, constituent colleges of the University extend 5 percent and affiliated colleges 20 percent scholarships of the approved student numbers through set standard-based national competition. Out of the available number of scholarships, 60 percent is open and 40 percent is reserved for making inclusive to groups like *Dalit*, Ethnic, Backward area, Disabled, and those affected by Conflict and People's Movement. In all these scholarships, 50 percent is reserved for women. In FY2007/08, 92 Bachelor level students and 17 Post Graduate students received such scholarships. Details of scholarships provided by the University are shown in the following table:

Table 12 (r) : Scholarships Extended under Pokhara University

Program	Bachelor				Post-Graduate			
	2006/07		2007/08		2006/07		2007/08	
	Constituent	Affiliated	Constituent	Affiliated	Constituent	Affiliated	Constituent	Affiliated
Science & Technology	5	32	15	49	0	10	0	10
Management	4	12	12	16	0	0	1	0
Humanities and Sociology	0	0	0	0	5	0	6	0
Total	9	44	27	65	5	10	7	10

Source: Pokhara University

12.41 With the concept of Greater Pokhara, and to contribute in developing it as a centre for higher education, the University's Headoffice and schools are concentrated at Lekhnath Municipality. In pursuance of the 3-Year Interim Plan of the Government of Nepal of developing Pokhara as a centre for Educational Tourism as well as a Center for Medical Tourism, the University has formulated its plans as envisaged in the Plan document. Pokhara University has signed an agreement in March 2008 with University Grant Commission for a sub-project under Nepal Government's policy for higher education. The new policy aims at Public-Private

Partnership for cost sharing and phase-wise grant to universities. According to the agreement, the University Grant Commission will provide administrative support and Nepal Government will continue providing financial grant for the development of necessary infrastructure depending upon the number of students. At the same time, 20 percent students in the constituent campuses who have no access to higher education will be provided with scholarships.

- 12.42 Pokhara University has taken a policy of focussing on technical subjects. At present, its affiliated campuses are located in Kathmandu and Pokhara. The University has planned to go on expanding its programs in other parts of the country including Western Region, Mid-Western and Far Western Regions. Similarly, the University has set a target to set up a faculty for Health Science where various programs related to health science will be conducted. In addition to this, it has a target of conducting Engineering College, Mountain Environment and Natural Resource

Table 12 (s) : Number of Campuses and Students under various Universities

University	Campuses	Description of Students						
		FY 2006/07				FY 2007/08		
	Constituent	Affiliated	Constituent	Affiliated	Total	Constituent	Affiliated	Total
Tribhuvan University	10	561	169599	86607	256206	171592	119241	290833
Kathmandu University	6	12	1298	1193	2491	3330	4266	7596
Purwanchal University	3	81	474	12195	12669	641	14237	14878
Nepal Sanskrit University	13	18	2081	633	2714	2081	567	2648
Pokhara University	3	23	463	4897	5360	463	4897	5360
Lumbini Boudha University								
Total	35	695	173915	105525	279440	178107	143208	321315

Source: University Grants Commission

Health Sector

"Health, the Basic Right of the People"

12.44 Considering the universal acceptance of health as the people's basic need, Interim Constitution of 2063 (2007) of Nepal has internalized and established public health as the State responsibility for the first time in its history. As mentioned in the Millennium Development Goals (MDG) and the Interim Plan, based on the concept of social inclusiveness, quality health service to the people will be guaranteed regardless of geographical region, class, gender, ethnicity, religion, political ideology, economic and social status. In this context, various health and population programs are formulated towards making easy access of the people to quality health service for improving their quality of life, reducing poverty and contributing to economic development.

TB Program

12.45 Like in previous years, tuberculosis (TB) programs are continued in the current fiscal year as well. Programs to control TB were conducted at the centre and district level in FY2007/08. During this fiscal year 503,810 TB patients received treatment services and 449 new patients were treated under Dots Plus program. Among the sputum samples of 76,297 persons tested, 14,650 slides were found positive and 9,307 slides negative. At the same time 36,063 slides were re-examined. Likewise, in addition to testing sputum samples of 154,642-suspected patients, follow-up tests of 24,355 slides were carried out. Support program for 450 TB patients was carried out; additional nutritious food provided to 150 poor MDR patients; and 300 persons were provided with travel expenses and 56 TB patients received Extra Pulmonary Services.

Family Planning, Safer Motherhood and Women Volunteer Health Worker Program

12.46 Woman Volunteer Health Fund was established in all VDCs in 2007/08 with an initial grant of 50,000 to each VDC. The Fund has so far provided Rs 137,340 as delivery incentive allowances to 31,086 pregnant women; 311,350 women received free delivery services from skilled hands and experts and 635,878 received pre-natal services. In the same fiscal year 328,426 pregnant women received pre-natal services, while 350,415 women received post-natal services. In the current FY2008/09 200 Assistant Nurse Midwives, 13 Staff Nurses, and 2 Doctors have been appointed for providing 24-hour delivery services. During the same period, 30,543 persons underwent through permanent sterilization process while 457,765 women received the first pregnancy test and 260,400 the fourth test. In addition, 2,371 women received Comprehensive Abortion Care service. The

problem of uterine pro-lapse was attended through 50 campuses by screening and applying pressure rings to the patients. Similarly, 1740 Women Health Volunteers were honored in recognition of their long-services.

National Public health Laboratory Programme

12.47 Bacteriology Services in 4 places and Biochemistry Services in 8 places were established during 2007/08 under this program. Besides, Bacteriology and Biochemistry Services were strengthened at 9 and 8 places respectively, while 100 laboratories were supervised inspected during the same period. During the first 8 months of FY2008/09, Bacteriology Services have been set up and strengthened in 13 hospitals. Besides, new laboratories have been set up in 8 Primary Health Centers, and laboratory is expanded at one place.

Extended Vaccination and National Polio Vaccine Programme

12.48 In FY2007/08, Integrated Child Disease Management Program was extended to 64 districts from 16 districts while 648, 000 children were treated against diarrhoea and epidemics. In the same period, 3.7 million children received Vitamin "A", and 3.1 million received antehelminthic medicine under the program. In addition, 21,000 ARI Sound Timers were purchased and distributed. Likewise, out of the total children under one year of age, 621,830 children were vaccinated against BCG, 575,936 children with DPT and Hepatitis B (3 doses), and 559,774 against Measles. Similarly, 942,038 women were vaccinated against Tetanus, and vaccination program against Incephalitis carried out in 7 different districts of the country. During the first 8 months of the current fiscal year, School Health and Nutrition Project Piloting were carried out as targeted. Similarly, 10.4 million capsules of Alwenzol, 10.0 million capsules of vitamin A, and 60.0 million iron tablets were purchased as targeted. One hundred percent progress is achieved in the vaccination campaign against Polio and Measles. In FY2008/09, A total of 347,766 children received vaccination against BCG (single dose); 315,900 against DPT and hepatitis B (3 doses), and 316,090 against Measles (single dose). The number of pregnant women who received TT vaccine during this period totaled 323,689. Similarly, vaccination campaign is launched against Japanese Incephalitis in 6 districts, making 350,000 children below 1 year and more than 300,000 pregnant women safe against the disease.

Epidemiology, Eradication of Malaria, Black Fever and National Calamity Outbreak Management Programme

12.49 Continuity was provided in FY2007/08 to programs for control of contagious diseases, and parasitic diseases like Malaria and Black fever, as

well as management of diseases resulting from natural disasters. Besides carrying out surveillance of transmissible diseases, pesticides were sprayed and bed nets distributed for the control of Phylaria, Malaria, and Black fever. Essential vaccination service was provided to control Rabies and victims of snakebites. Insecticides were sprayed in 744 wards of 114 VDCs of 11 Black Fever affected districts in two phases, and 10 Rapid Response Teams were mobilized as per the target. Overall, the program achieved nearly 95 percent physical progress against the target set for that fiscal year. Six surveillance teams on Avian Influenza, and 8 Rapid response Teams have been mobilized during the first 8 months of FY2008/09. Medicines were distributed in 31 districts for the control of Phylaria while data has been collected from those districts through door-to-door visits. Out of 150,000 persons suspected of Malaria, 105,000 patients were diagnosed, treated and their blood samples collected. During this period, survey on Traucooma disease has been conducted in two districts of Udayapur and Dhanding, and studies conducted in 5 towns on bacterias causing Dengue and Chicken Guinea.

Building New Nepal Program

12.50 Health Posts and sub Health Posts provided free treatments to 88,272 persons during FY2007/08 under the Building New Nepal Program. In the same spirit, free medical services were provided to the people from all health institutions up to district level hospitals, and free maternity (delivery) services were availed from all public institutions under the Building Nepal Program in FY2008/09 as well. The target, set to provide free open-heart surgery to children below 15, and free treatment of heart and kidney to senior citizens (of the indigenous people in danger of extinction) above 75, was met by carrying out 422 open heart surgery on children and providing free medical treatment to 62 such senior citizens. Likewise, 17 Senior Citizens received kidney dialysis service. Processes of constructions are initiated upon preparation of cost estimates on the target set for providing treatment to Cancer patients through Suresh Wagle Memorial Center at the TU Teaching Hospital, and operating an ICU at the Zonal Hospital Janakpur as Ram Brikchhya Yadav Memorial Intensive Care Unit.

National Population Program

12.51 In FY 2007/08, workshops on population management were held at local levels, and three workshops conducted in three districts to orient students on Demographic Consulting Service. In districts with population management program ongoing, evaluation of Youth Information Centre was initiated while study was conducted about Missing Girls. In the first 8

months of FY2008/09, Population Management Program has been implemented in 10 districts, and Population Perspective Plan is under preparation. Survey work on Youth and Adults is being made and Demographic Report has already been prepared.

National Health Education, Information, and Communication (EIC) Programme

12.52 In an attempt to control Leprosy, Home-visit programs were conducted in 490 VDCs as well as awareness-raising programs conducted in 54 schools in FY2007/08. Health education program is being carried out in 840 schools, and Special Public Awareness Program launched at 44 classes locations in FY2008/09. Similarly, 1,740 Women Health Volunteers were honored for their Long-time Service. Awareness programs on Community Insurance conducted through 40 classes; awareness against leprosy conducted through 56,357 home visit programs; and dermatology camps conducted at 10 locations.

Social Security Programme

12.53 Against the target set for conducting 35 free camps on different types of service delivery in FY2007/08, however, a total of 27 health camps were conducted comprising 21 on uterian prolapse, 4 specialized 2 others, and 30 eye donation camps were organized. Similarly, 580 children under 15 and 55 senior citizens above 75 years of age received free open heart surgery and medical treatment. Senior citizens who could not receive free health service locally despite expansion of health services, each person within the district received Rs. 500, and between Rs. 1000 and 2000 for person from outside the district. A total of 88,272 seniors received such monetary benefit. All hospitals up to 25-bed capacity, and Primary Health Centers provided free emergency and in-patient services benefiting 1,673 million people. During the first 8 months of FY2008/09, Rs. 1000 was provided as transport expenses to 1250 Black Fever patients for visiting hospital. Fund for free health service program has been released to 37 districts while 39 districts have purchased medicines for the health service program. A network of 16 Mothers Group is been formed.

National AIDS and Sexually Transmitted Disease Control Program

12.54 ART services at 21 locations, and VCT services at 36 locations covering 15 districts, were established in FY2007/08. Likewise, 25,000 out of 50,000 AIDS and STD patients received treatments. School education programs on AIDS were conducted in 3,750 classes, comprehensive HIV Care Side were conducted in 15 out of 20 places, and PMTCT services were provided to 6664 AIDS infected pregnant out of 9500 found to be infected with AIDS.

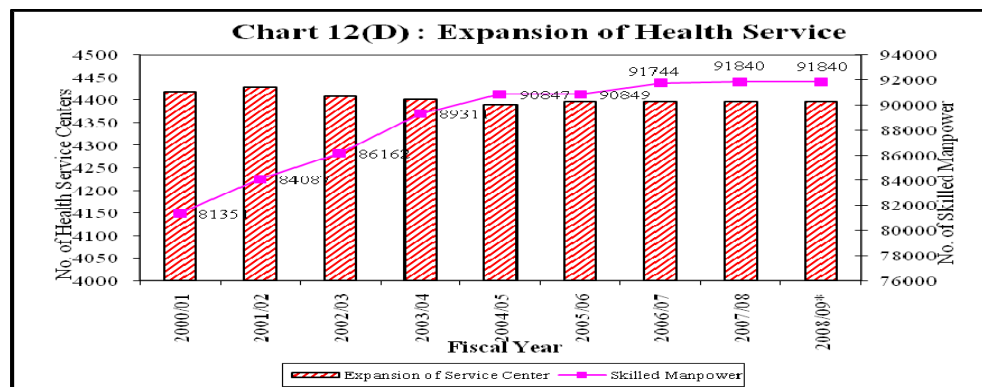
Ayurvedic Health Service

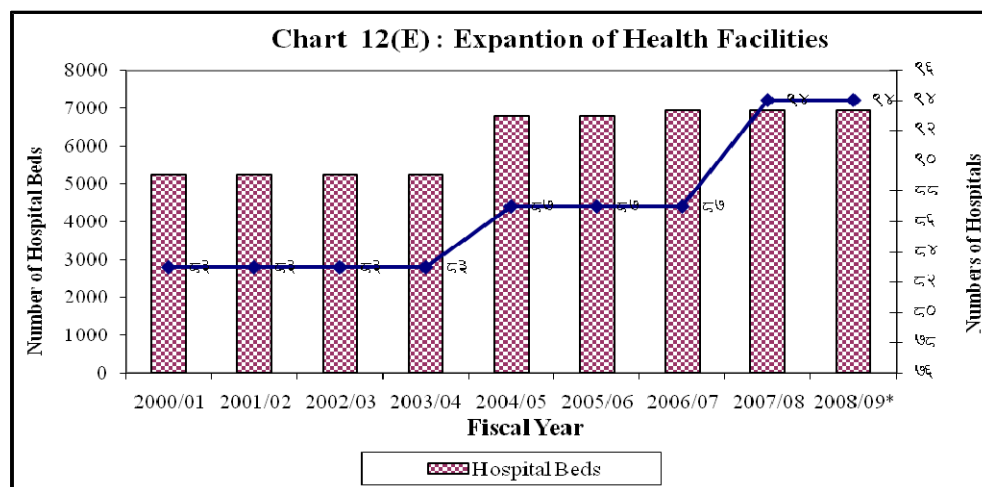
12.55 Programs of consultation and treatment through Ayurvedic, Yunani and Homeopathic methods were given continuity also in FY 2007/08. As before, collection of medicinal herbs by Naradevi *Ayurveda* Hospital and *Singha Durbar Vaidyakhana* continued the work of collecting herbs and manufacturing of varieties of (*Kasthadi, Rasadi, and Tailadi*) medicines in FY 2007/08 as well. The Department of *Ayurveda* has been ensuring regular supplies of necessary equipment and medicines for the development of *Ayurvedic* Institutions. In this FY2008/09 also, Activities like collection of herbs, production, processing and manufacturing of medicines are being made through *Singha Durbar Vaidyakhana*, and *Ayurvedic* Hospital at Naradevi, and medical services are being provided through 293 *Ayurvedic* organizations including *Vaidyakhana Naradevi Hospital*. Besides providing regular health services and drugs, health services are carried out by Homeopathic and Yunani methods at the central level.

Human Resource Development, Studies and Researches

12.56 During FY 2007/08, 150,000 Health workers were imparted with 50 different types of health related trainings. In FY2008/09, 1297 health workers have received various types of trainings at the Central level. The Research work on projects like, Free Health, Tropical Diseases, Medicine, Disease Burden and NCD has started and the census taking of 29,505 new mothers and newly born babies have been completed.

12.57 In health service sector, under the Ministry of Health and Population, there are 4,396 health agencies including 94 hospitals, 5 health centers, 699 health posts, 293 *Ayurvedic* dispensaries, 3,104 sub-health posts and 201 primary health centers by the end of first eight months of FY 2008/09. Altogether, there are 91,840 skilled personnel involved in this sector. Health facility has been expanded through 6,944 beds in the 94 hospitals.





Nepal Medical Council: Performance, Rights and Responsibilities

12.58 Nepal Medical Council is an independent organization formed under Nepal Medical Council Act, 2020 (1964). The Council registers doctors completing medical degree/diploma courses within and outside Nepal and issues approval for opening and operation of medical/dental colleges based on their levels of services in accordance with prevailing laws of the country. In addition, the Council approves admissions and running of institutions established for providing medical education. The Council also determines minimum qualifications required for studying Degree/Diploma in Medical Science and takes actions against those physicians or Medical/Dental college in case they violate the Council's regulations. It checks and discourages illegal operation of medical services. The Council regularly conducts Licensing Examinations, conducts investigations on various complaints and applications related to general medical practices, and issues temporary license to foreign nationals upon examination of their qualification.

Box 12 (a) :Types and Processes of Registration at Nepal Medical Council				
Registration on Probation	Temporaty Registration	Permanent Registration	Consultant Registration	Registration of Foreign National
One-year Probation Registration is issued upon passing of Diploma in Medical Scince (MBBS/CDS).	Upon completion of Internship (now competition of 9-month internship) The Council conducts written examination for Registration, and only those	Permanent license is issued upon receipt of application with recommendati on to have served in any	Consultant Registration Certificate is issued to those who have gained expertise upon acquisition	Foreign national Doctors, who studied abroad are interviewed (based on their testimonials, experience, visa, passport, institution

Completion of one-year Internship is necessary within the licensed period.	successful in examination are eligible for temporary registration. The license is issued for two years.	hospital or health institution, which becomes permanent license.	of higher degree in Medical Science.	involved etc.) and issued a temporary license. Such license remains valid for a year only.
Numbers Registered by first 8 months of FY2008/09 (July-March)				
917	695	404	161	277
Number Registered by Mid March 2009				
8562	8479 including permanent	-	1447	4087

Source: Medical Council

12.59 Types and numbers of Health Experts is given in the following Table:

Table 12 (t) : Description of Medical Experts Registered with Nepal Medical Council

S.N.	Subject	Male	Female	Total
1.	General Practice	61	13	74
2.	E.N.T	39	8	47
3.	Psychiatry	29	2	31
4.	Anesthesiology	58	21	79
5.	Radiology And Imaging	59	8	67
6.	Pediatrics	104	35	139
7.	Nephrology	3	1	4
8.	Master in Dental Surgery (MDS)	34	15	49
9.	T.B. and Respiratory	6	1	7
10.	Community Medicine Public Health	22	7	29
11.	Pharmacology	8	0	8
12.	Obs + Gynae	61	121	182
13.	M.S (General Surgery)	160	10	170
14.	Orthopedics	119	1	120
15.	Cardiology	54	1	55
16.	Ophthalmology	48	24	72
17.	Internal Medicine	112	11	123
18.	Clinical Pathology	22	24	46
19.	Dermatology + Venereology	24	12	36
20.	Neurology	10	2	12
21.	Gastroenterology	11	1	12
22.	Urology	10	0	10
23.	Surgical Oncology	13	0	13
24.	Forensic Medicine	4	0	4
25.	Microbiology	2	1	3
26.	Nuclear Medicine	3	0	3
	Total	1076	319	1395

Source: Nepal Medical Council

12.60 Following is the list of Medical Colleges recognized by Nepal Medical Council for preparing human resource for the Health Sector of the country.

Table 12 (u) : List of Recognised Medical Colleges by Mid-March 2009

S.N	Medical College	Year Estd.	Degree
1.	T. U. Institute of Medicine, Maharajgunj	1978	MBBS
2.	BPKIH, Dharan	1994	MBBS/BDS
3.	Manipal College of Medical Sciences, Pokhara	1994	MBBS
4.	College of Medical Sciences, Bharatpur, Chitwan	1995	MBBS
5.	Nepal Medical College, Jorpati	1996	MBBS
6.	Kathmandu Medical College, Sinamangal	1996	MBBS
7.	Nepalgunj Medical College, Nepalgunj	1996	MBBS
8.	Universal College of Medical Sciences, Bhairahawa	1998	MBBS/BDS
9.	People's Dental College, Nayabazar, Kathmandu	1999	BDS
10.	Kathmandu University, School of Medical Sciences, Kavre	2001	MBBS
11.	National Medical College, Birgunj	2001	MBBS
12.	Janaki Medical College, Janakpur	2003	MBBS
13.	National Academy of Medical Sciences, (NAMS), Bir Hospital	2004	Post Graduate
14.	M.B. Kedia Dental College, Birgunj	2007	BDS
15.	Nobel Medical College, Biratnagar	2007	MBBS
16.	Kantipur Dental College, Basundhara, Kathmandu	2007	BDS
17.	Kist Medical College, Gwarko, Lalitpur	2008	MBBS
18.	Lumbini Medical College & Research Center Pvt. Ltd., Palpa	2009	MBBS

Source: Nepal Medical Council

Local Development

12.61 Ministry of Local Development has been fulfilling its key role and responsibilities of local development and decentralization; formulation and implementation of devolution policy; maintaining coordination between local bodies; formulation of policy and programs on remote areas and rural development; monitoring and evaluation; registration of vital statistics; social security, inclusive development and so on. To perform those policies and programs, a number of agencies including 75 District Development Committees; 58 municipalities; 3,915 Village Development Committees; Department of Local Infrastructure Development and Agricultural Roads; and various Commissions, Committees, Academies, projects/programs actively engaged in their own areas.

Box 12 (b): Policy Arrangements, Guidelines, and Procedures adopted by the Ministry for Local Development in the current fiscal year

- Village Development Committee Grants Operation Procedures, 2065 (2008)
- Social Security Operations Procedures, 2065 (2008)

- Manual on the Operation of People's Participation-based Development Programs, 2065 (2008)
- Guidelines on Program Operation of District Coordination Committee for Uplifting *Dalits*, 2065 (2008)
- Guidelines for Operation of District Development Program Grants, 2065 (2008)
- Guidelines on Regulating Municipal Development Grant Expenditures Procedures, 2065 (2008)
- Local Governance and Community Development Program (Operations Procedures), 2065 (2008)
- Constituency Development Program (Third Amendment), 2065 (2008)
- Technical Manual on Solid Waste Management prepared.
- Long and short term Strategic Plan for National *Dalits* Commission prepared.
- Policy adopted for implementation of Chure and Terai area by the Government of Nepal with the objective of capacity development of women and backward communities of the area through overall development of Chure area by using social mobilization as an entry point of development.
- The Local Development Training Academy, by preparing a five-year Strategic Plan in line with the changed national context, has decided to implement its programs in order to move ahead on the track of its vision and objectives.
- The Minimum Conditions and Performance Measurement (MCMP) Procedures of DDC, 2065 (2008) has been improvised. Accordingly, Consultants selected to evaluate MCPM, and teams dispatched to all 75 DDCs to assess their performances in FY2007/08.
- Performance Measurement Draft Procedure for Municipalities revised to give the final touch based on the feedback of MCPM exercised in 16 municipalities on Pilot-testing basis.
- The final Draft on Minimum Conditions (MC) of VDC's performance measurement procedures prepared.
- Draft on working policy on ILO 169 prepared.
- Arrangements made to select construction of new roads only after conducting feasibility studies and selection priority given to projects beneficial to socially and economically backward class of people.

Box 12 (c) : Institutional Arrangements made by Ministry of Local Development in Current Fiscal Year

- Gender Equity and Social Inclusion Section established and functioning in the Ministry of Local Development.
- *Dalits* Upliftment District Coordination Committee and Ethnic Upliftment Committee formed and arrangements made to implement inclusive programs.
- Arrangements made to provide allowance to target groups through VDCs and municipalities under the Social Security Program. Necessary arrangement made by Local Development Ministry to transfer the allocated Fund to the concerned DDC office, which will be further transferred to VDCs

and municipalities depending on the number of the target groups and allowances/support to be provided. Structural arrangement is made for the concerned VDC/Municipality to maintain records of such allowance/support distribution submit it to the DDC.

- Software developed for distribution of Dalit Caste Certificates\
- In order to make Information Management, Retrieving and Reporting System effective, suitable IT/ICT/GIS technique set up and Needs and Scoping Assessment made to utilize them.
- Institutional Development and Management as well as Human Resource Development Plan prepared for local infrastructure development and management.
- Develop infrastructure of Solid Waste Resource Mobilization Centre for Solid Waste Management mechanism of Kathmandu Valley, expand the system to all Municipalities of the country with the provision of technical assistance to municipalities.
- Concentrate the scope of the Solid Waste Management and Resource Mobilization Center to technical assistance. Develop infrastructure for managing solid waste of Kathmandu Valley, and promote activities for reducing solid waste generation in participation of communities. Work started for management and operation of an international standard landfill site in Biratnagar.

(A) Infrastructure Development Program:

12.62 All plans, projects, and programs to build infrastructure; operate and repair at the local level are defined as Local Infrastructure Development Programs. It includes local transportation, irrigation and river training, micro hydropower, and alternative energy, drinking water, sewerage and sanitation, housing and urban development, solid waste management, and programs/projects of social infrastructures. Progress and performances of projects/programs implemented at the local level through physical and social infrastructure with the objective of increasing access of the people to social services, economic opportunities and resources, through people's active participation are as follows:

Rural Access Improvement and Decentralization Project

12.63 This World Bank assisted project is implemented in 30 districts with objectives of building all-weather roads at the local level, carry out repair and maintenance of rural roads, build, repair, and maintain community infrastructure and transport service. Construction of 160 Km all- weather road, 25 km new road, and 55 suspension bridges were completed under the project in FY2007/08. Out of the target to upgrade 310 km. road in 20 districts into all- weather road, 40 Km road is completed with the remaining 270 km road construction work ongoing. During the same period, 7 km. seasonal road has also been constructed. Upgrading of roads

has begun with expansion of the project to 10 more districts. Out of 71 suspension bridge construction targeted for the current fiscal year in 28 districts, 8 are completed with 52 under construction.

Rural Reconstruction and Rehabilitation Program

- 12.64 This program was launched in FY 2007/08 with the objective of raising rural people's standard of living by developing local infrastructure and enhancing their access to market. The Agreement was signed between the Government of Nepal, Asian Development Bank (ADB), and OPEC Fund for International Development (OFID) with understanding of Agreement to be concluded between Department for International Development Department (DFID) and Swiss Agency for Development Cooperation (SDC). Activities were furthered to appoint 4 individual consultants at the centre, set up project offices in districts as well as at the centre, provide orientation about the Project to DDCs. District Technical Offices were launched to operate the Project Opening Workshop and purchase of technical consultancy services. In FY2008/09, procurement of vehicles, furniture and office equipment needed at the central level was completed. Procurements of Central Implementation Support Consultant's services at the central level and District Implementation Support Consultant's services in 14 districts were completed. During this period, work is proceeding in Kavre, Sindhupalchok, Sindhuli and Dolakha districts with technical services from SDC. Individual consultants have been appointed in 18 districts. The Coordination Unit of the Project has conducted orientation training programs for its concerned staff on subjects like, financial administration, public purchase, resettlement/rehabilitation plan and environmental conservation.

District Road Assistance Program:

- 12.65 This program is ongoing in 6 districts since 2059 (2002) as a joint venture between Nepal Government and Swiss Government. This program aims at building rural roads infrastructures through repair and maintenance of local infrastructures. In FY2007/08, construction of 15 Km new road, reconstruction of 109 km of existing road, periodic maintenance of 108 km. road, rehabilitation of 25 Km. road were completed and activities for social enhancement activities completed. Similarly, construction of 30 Km new road, regular maintenance of 214 Km, rehabilitation of 50 km, and periodic maintenance of 250 Km as targeted for FY2008/09, are underway. The required cost estimation, processing of tender, purchase of gabion wire, and other necessary equipment have been completed by the end of the current Fiscal Year.

Rural Community Infrastructure Development Program

12.66 This program is implemented in 21 districts with assistance of World Bank (WB), World Food program (WFP) and Government of Nepal. The main objective of this program is to enhance self-help capacity of rural communities by bringing improvement in the situation of food security for the rural poor, and by building and maintaining community infrastructure. Rural roads are being constructed in VDCs under this program. About 114Km rural road was constructed and 9,000 MT food was distributed in program districts during FY2007/08. Target set for FY2008/09 is to construct 125Km rural roads, out of which 15 KM road has been completed and the laborers have been provided with 1,193 MT of rice.

Decentralized Rural Infrastructure and Livelihood Support Project

12.67 This project ongoing in 18 districts since FY2005/06, is supported through the credit assistance of Asian Development Bank (ADB). Objective of this project is to develop socio-economic infrastructure in the rural sector, expand network of road transportation, launch activities for rural employment, and build institutional capacity at the local level. During FY2007/08, extensive survey and design of 109.5Km, rehabilitation of 48Km, and construction of 25.7Km roads were carried out and 48 suspension bridges were built. The target of the Project in FY2008/09 is to conduct an extensive survey design of 160 km road, construction of 100 Km new roads, rehabilitation, and upgrading of 105Km road, and construct 50 suspension bridges. Of these targets, construction of 6.95 Km new rural road construction and 9 suspension bridges is completed. construction work in the districts is underway upon completion of bidding and contract processes in line with the target. Transfer of landownership as per the Resettlement Plan is underway.

Rural Access Program (RAP) - Phase II

12.68 Following the Agreement between the Government of Nepal and Government of the United Kingdom (UK), current phase of this (RAP) Program came into operation from July 2008 in 6 districts of Bhojpur, Sankhuwasabha, Khotang Achham, Doti and Dailekh. The program started with the objective of improving lifestyle of the poor through development of rural roads and infrastructure. The program mainly aims at construction of rural roads, build capacity of local bodies, and carry out awareness raising activities. Preparatory works of this project was completed in FY2007/08. Out of the target of opening 365 Km track in the first phase in FY2008/09, survey design and cost estimation of total 365.5 Km road is completed for 12 roads in 7 districts. Besides starting of works upon

completion of appointment of local NGOs and individual consultants, goods and equipment are procured.

Suspension Bridges and Local Level Bridges

12.69 This program is in operation in 62 districts in participation of the Swiss Government, Helvetas, and Non-Project Grant (NPG) of Japan with the objective of improving rural access through construction of new bridges and by carrying out major maintenance of suspension bridges on major main local roads. Construction of 160 bridges were completed in FY2007/08 while activities related to detailed studies for 100 bridges were completed. Construction of 3 new, 6 ongoing, and detailed studies were completed under the Rural Community Bridge Program. Survey design of 11, fabrication of iron parts 32, foundation and concreting of 17, wire stretching and assembly 30, and construction of 30 bridges completed under the Community Bridge Program in FY2008/09, meanwhile 167 suspension bridges are under construction including new and carried over from the previous year.

Agriculture and Local-level Road Project

12.70 In line with Agriculture Perspective Plan, roads construction at local levels are being carried out for linking rural roads to major road heads, which would facilitate enhancing economic activities of the private sector with major production pockets linked to the market. Other objectives of the Local Development and Construction Program are construction, repair and maintenance of rural roads, and mule tracks. The program also covers construction, repair, and maintenance of local roads handed over by the Department of Roads. Of activities carried out during FY2007/08, survey of 83 Km road; construction of 1,121 Km new roads; regular maintenance of 667 Km roads; gravelling of 418 Km; and black- topping of 313 Km, together with construction of 352 causeways and culverts were completed. Similarly in FY2008/09, local bodies carried out the survey of 200 Km, construction of 100 Km earthen roads, and repair and maintenance of 150 Km for lump sum grants they received with the responsibility of project selection, project-wise budget allocation, and program approval and implementation.

Rural Drinking Water and Sanitation Project

12.71 Major objectives of this fully Government of Nepal Project in implementation in all 75 districts of the country is to provide sustainable, reliable, and sufficient drinking water to the whole and sanitation facilities to 40 percent of the population. Activities, the program covers are: gravity-flow drinking water, tube well installations, rainwater harvesting, construction of toilets, and environmental awareness raising activities.

Altogether, 188 Drinking Water Schemes were completed in FY2007/08. In FY2008/09, Information Management System Software and Systems Procedures have been prepared for the program. In the meantime, construction works of 150 drinking water schemes targeted for completion are ongoing.

Rural Water Resource Management Project

12.72 This project, supported by Government of Finland, is in operation in 9 districts of Mid-Western and Far Western Regions since 2006/07. Its activities include preparation of Water Resource Master Plan, arsenic reduction, gravity-flow drinking water, irrigation, micro-hydropower, and solid waste management. In FY2007/08, the project manufactured and distributed 31 Bio-sand filters; completed five irrigation schemes under the Multiple Use Systems; one scheme completed under the enhancement of Rural Energy Service; completed Water Use Plans in 27 VDCs; constructed 789 home latrines; and completed 9 drinking water projects. In FY2008/09 the program set targets for construction of 714 new gravity-flow drinking water schemes; conduct sanitation training program in all 75 districts; and harvesting of rainwater. Achievements made during the period are: manufacturing and distribution of 41 bio-sand filters in 6 VDCs of Kailali district, In addition, the project completed one irrigation scheme under Multiple Use Systems, one under the rural energy service standard improvement scheme, construction of 1,702 home toilets, and 25 drinking water schemes.

Rural Roads Maintenance Fund

12.73 District Roads Maintenance Fund is in implementation as a program since FY2001/02 to carry out maintenance of rural roads being constructed in large numbers through creation of a fund in each district with the provision of an in-built repair and maintenance fund supplemented by matching fund while preparing road maintenance plans for the concerned district. The project, as targeted, carried out regular repair and maintenance, periodic repairs, and rehabilitation works of roads in 68 districts of Mountain, Hilly and Terai Regions. In FY2008/09 activities are ongoing as per the target to carry out repair and maintenance of about 250 Km from budgetary allocation of Rs. 20 million made for the year.

Western Nepal Rural Drinking Water and Sanitation Program

12.74 This program launched in 8 districts of Western Development Region (Tanahu, Shyangja, Parbat Baglung, Magdi, Kapilvastu, Rupandehi, Nawolparasi, and Pyuthan,) in FY2008/09 in support of the Government of Finland is in its inception phase.

Local Infrastructure Development Program for Livelihood Improvement.

12.75 This Swiss Government assisted program is ongoing since FY2005/06 with the aim of uplifting women, children and backward communities of 6 districts of Achham, Dailekh, Doti, Ramechhap, Dolkha and Jajarkot. In FY2007/08 construction of 23 systematic small and mid-sized irrigation system, 16 school buildings and 1 health post building was completed in order to improve the living standard, enhance income generation opportunities, and increase cash crop production in food scarcity areas of program districts. The program in FY2008/09 has completed construction of eight community managed irrigation systems, 3 sub-health posts, and two primary school buildings.

Public Participation-based Development Program

12.76 This program is ongoing with the objective of enhancing direct participation of stakeholders (beneficiaries) in the development process initiated at the local level with their participation at every stage from project selection to management and ownership. The program is carrying out activities based on local demand like, construction of roads, bridges, irrigation, water supply, river training, school buildings, health posts, forestry development, and rural electricity. A Participatory-based Development Programs Operations Procedures, 2008 is approved in FY2008/09. Thirtysix central regional level, and 118 local level projects are selected for implementation, and authorization are forwarded to DDCs and Municipalities.

Table 12 (v) : A chivevements in Infrastructure Development

S.N.	Activities	FY 2007/08	FY2008/09
1.	Rural Roads Construction	1375 Km.	-
2.	All-weather Road Construction	191 Km	-
3.	Suspension Bridge Construction	160	40
4.	Causeways and Culverts Construction	352	-
5.	Completed Drinking Water Projects	197	-
7.	Food grains distributed	9000 MT	1193 MT
7.	Earthen Road	-	39 Km
8.	Roads Gravelled	-	12 Km
9.	Bata seal and Sand Seal	-	41 Km
10.	Completed Suspension Bridge Fabrication	-	36
11.	Completed Concreting of Suspension Bridge	-	37
12.	Wire-rope Stretching for Suspension Bridges	-	54

(B) Social Development (Services)

12.77 Various ongoing social development programs aim to ensure social security of senior citizens, single women, *Dalits*, communities in danger of extinction, and physically challenged people so that they live normal lives. Programs on social mobilization and social security are being carried out in an attempt to achieve physical development along with social empowerment. The system of registration and recording vital statistics of all citizens of nation like birth, death, marriage, migration, divorce is continued.

Registration program

12.78 Registration and distribution of certificates of birth, death, marriage, migration, divorce etc of all Nepalese citizens is done through local bodies under the Population and Registration Management Division of Local Development Ministry. According to which 19,416 new births, 35,773 deaths, 61,801 marriages, 41,564 migration, and 11 events of divorce were registered during FY2007/08. About 150 local registration officials were imparted training on vital registration. Vital records registered during FY2008/09 is given in the following Table:

Table 12 (w) : Description of Vital Registration Recorded during FY 2008/09

Events Description	Number
Birth Registration	130,164
Death Registration	25,988
Marriage Registration	34,340
Migration Registration	30,050
Divorce Registration	28

Security Arrangements for Senior Citizens, Incapacitate, Disabled, and Widows

12.79 Arrangement of providing Rs 200 to senior citizens aged above 75, Rs 150 to single women aged above 60, and Rs 200 to physically incapacitated have been institutionalised since FY2007/08. Senior citizens are provided with 9 month's monthly allowance, single helpless women 10 months and weak/disabled with 12 months. Allowances of 9 months to senior citizens, 10 months to single women, and 12 months to disabled and physically challenged persons were distributed out of the budgetary allocation made for FY2007/08. Beginning from FY2008/09, arrangement for monthly social security allowance/stipend is introduced and being distributed through local bodies @Rs. 500 each to people of communities in danger of extinction of all ages (*Kusunda, Bankariya, Raute, Surel, Hayu, Raji, Kishan, Lepcha, Meche, Kushwadiya*) *Dalit*, single women, and residents of Karnali Zone

aged above 60; and all senior citizens aged above 70. Likewise, each completely handicapped and partially disabled and handicapped person receive Rs.1,000 and Rs. 300 respectively.

Table 12 (x) : Different Target Groups and Their Numbers

Target Group	Number (person)
Senior Citizens (above 70)	545,556
Senior Citizens Karnali (above 70)	16,065
Senior Citizens <i>Dalit</i> (above 60)	81,820
Single Women (above 60)	296,221
Indigenous nearing danger of extinction	16,122
Total	956,784

(C) Inclusive Development

12.80 As Nepal is a multilingual, multiethnic Nation State with geographical and cultural diversity, it is the nation's responsibility to make inclusive development of all people belonging to any Caste, Ethnicity, Religion, Gender and Creed. Realising this fact, various programs have been designed to uplift and develop the section of groups of society, especially the tribal ethnic groups, oppressed and marginalised groups, *Dalit*, *Madeshi*, and Muslim groups that are lagging behind. In addition, decentralized programs are being carried out under the Remote and Special Areas Monastery Management Development Program, and Program for Women and Children. A country cannot achieve the overall development without developing women who comprise half of the nation's population. Hence, every plan and program is designed by making it women-friendly based on the gender equity concept. Attempts are made to establish the DDC as a contact point for inclusive development. At the local level, and work out of policy and institutional changes. The program and progress of this are as follows:

Upliftment of Endangered Indigenous People/Tribes and Chepang Development Program

12.81 This program is designed to support for equal participation, especially of the indigenous, ethnic and Chepang communities in the mainstream of national development through their social, economic and cultural development. This program is in implementation since 1996/97 with the objective of promotion and development of their lifestyle, language, and culture. During FY2007/08, Documentation and dictionary of nine

endangered languages (*Rajii Bakariya, Kishan, Thakali, Santhaal, Danuwar, Dumi, Koyu, and Dura*) were prepared, together with training of teachers on nine mother tongues, and literacy classes were conducted in FY2007/08. A National film festival was also held. Program was conducted for institutional strengthening of 16 extremely marginal, marginalized, and women's organizations. On the scholarship front, campus level scholarship was awarded to 250, endangered tribal caste Ph. D. scholarships to 4, Research Paper Scholarships were awarded to 20 students. Similarly, 1829 students from 10 endangered tribal groups and 20 studying in technical schools were offered school-level scholarships. Public Service Commission preparation classes, and basic computer and income generation training were imparted to 110 unemployed youths. Study and research was carried out in 4 districts with objective of assisting the Chepang for their economic, social and educational upliftment.

- 12.82 Grammars of Magar, Pang and Mugali languages edited and published in the first eight months of the current fiscal year. Teacher's training on Gurung language was conducted in Kathmandu, Taplejung, and Dailekh. Various organizations provided leadership capacity enhancement training to 100 youths from indigenous and ethnic communities. Books have been published in *Tamang* language, music cassette and shooting of documentary in *Tharu, Magar* and *Balung* languages completed. Trainings on vocational skills, auto-mechanics, as well as basic examination training for Public Service Commission have been conducted for 270 ethnic youths from different districts. A Guest house constructed for *Bankariya* at Handikhola, Nawalparasi has been handed over to the community. Half a *ropani* (about 274 square meter) of land has been purchased at Vyas Municipality of Damauli (Tanahun district) for the settlement of the endangered *Kusunda* tribe. Scholarships is provided to 323 indigenous students studying at different levels of higher studies.

Committee for Uplifting Excluded, Oppressed, and Dalits

- 12.83 This program is launched with the noble objective of bringing economically and socially backward *Dalit* communities into the mainstream of development through their overall advancement. Committee for Uplifting Excluded, Oppressed, and *Dalits* formed in 1998 is very much active for institutional effort to achieve the above-mentioned objective. In FY2007/08, 240 *Dalit* students were awarded with campus-level scholarships, while 12 *Dalit* students received Intelligent Student Reward, who secured best results in the SLC examination of 2006. Radio program on raising public awareness was aired for 52 times. Eight *Dalit* school dropout students (boys/girls) due to various reasons received educational materials. Free medical services were provided to 6,500 people by focusing on seven

remote, backward, and densely *Dalits* concentrated areas of all five-development regions. Zone-level literacy awareness program and interaction workshops were organized in all 14 Zones. Families of 20 Martyrs were honoured and awarded. A total of 150 *Dalit* youths received skill development training while income generation and skill oriented training were conducted in all 75 districts of the country.

- 12.84 During the first eight months of the current fiscal year, 12 *Dalit* boys/girls students scoring highest marks in SLC examination of 2007 were rewarded with Intelligent Student Prizes. A two-day orientation was organized for Vice-Presidents of District *Dalit* Upliftment Committees, Seminar on "Place of *Dalits* in a Federal State System" was organized. Likewise, 34 episodes of awareness program were aired on radio. *Dalit* people were benefited by Free medical camps were held at *Dalit* settlements of Tanahu, Morang, and Kathmandu benefiting 3,500 people. The process of selecting 170 poor, but intelligent *Dalit* students for scholarships is complete.

***Madheshi*-backward Community and Muslims Upliftment Program**

- 12.85 The Government of Nepal launched this program in 22 districts of Terai and Hills with its own resource from FY2007/08 with the objective of improving economic, social and cultural situation of *Madhesis*, Muslims and other communities left behind, and minorities through introducing policy that serves best their interests. The Program Operation Guidelines was approved in FY2007/08. Accordingly, 50 Madarasa school buildings were constructed/renovated, 10 tube wells were installed for drinking water, 4 hume pipes installed, 100 sets of furniture were procured. During the same period, 418 persons received vocational training, while 78 persons received capacity enhancement training. Scholarships amounting to about Rs. 200,000 and 97 sets of *Dhiki* Pumps were distributed. Training program in *Magahi* language for 20 individuals from 10 districts is launched in FY2008/09. Various programs on income generation and awareness raising, reproductive health, health education, sanitation, literacy and educational incentive programs as well as institutional development programs are in implementation through DDCs.

Chure and Terai Region Development Programme

- 12.86 This program launched in FY2007/08 with the objective of overall long-term development of the whole Terai and Chure region. It got started upon approval of Program Implementation Procedures in FY2007/08. Grant was released for five districts of Siraha, Dhanusha, Mahottari, Sarlahi, and Rupandehi for implementation of the program through concerned VDCs with DDCs to coordinate with District Soil Conservation Offices at the local level.

National Commission on Dalits

- 12.87 The Commission, formed for the development and protection of rights and welfare of the *Dalits*, is mainly engaged in *Dalit*-focused activities. Such activities include: Policy-formulation; conduct studies on their traditional skills; data collection and analyses of landless; conduct programs on social awareness and social justice; coordination and integration among *Dalit* targeted programs; and develop resource centres for *Dalit* related data and information. Some of the major activities conducted by the Commission in FY2007/08 were: supervision and follow-up of *Dalit* targeted programs together with evaluation and publication of annual report; on-the-spot observation, coordination and inspection of legal processes about unexpected events of caste-based discrimination, such as untouchability; conduct awareness programs and trainings for *Dalits* on their constitutional, legal, human rights and humanitarian issues.
- 12.88 During the first 8 months of FY 2008/09, National *Dalit* Commission has prepared its short as well as long-term strategic plans. *Dalit's* issues for incorporation in the new Constitution got its final shape based on various suggestions received so far. Two new Bills for the establishment of National *Dalit* Commission, and Abuse control bill on Crime against Untouchability have principally received the final approval from the Ministry for Law, Justice and Constitutional Assembly. Software is developed for distribution of *Dalit* Caste Certificates.

Remote and Special Area Development Programme

- 12.89 Remote Area Development Program is being carried out as a targeted program in Nepal's 22 Northern bordered, and geographically remotest and economically backward districts with the objective of supporting poverty reduction in those areas. Initially, this program was launched in 4 Himalayan districts of Humla, Mustang, Solukhumbu (Namche-bazar), and Taplejung, later expanded to another 14 more districts in 1976 reaching a total number of program districts to 18. After program review conducted in 1991, it is implemented in 22 districts. At the institutional level, Remote Area Development Committee is active for proper management and coordination. During FY2007/08 activities carried out by the Programme include, completion of construction of 9 suspension bridges; 5 rural electrification programmes; 2 small irrigation, 4 motorable road/trails (30km) and 5 other various programme (income generating, herbal, river training, modern water mills, bulletin publication etc.). Likewise, survey, supervision and follow-up of 30 projects were conducted as well as 13 various vocational trainings were provided. Targeted programs of Remote

and Special Region Development Programme are in the process of implementation in FY2008/09.

Monastery Management and Development Program

12.90 This program is launched for protection, development and extension of archeological properties, and Monasteries scattered throughout the country possess. During FY2007/08 the program carried out renovation and maintenances of 141 Monasteries, technical survey of archeologically and historically important and ancient Monasteries, two rounds of *Dharmadeshana* and *Lama Desh Darshan* programs, assistance to four students for thesis preparation on Buddhist Philosophy, documentation of Monasteries with archeological and historical importance together with conducting trainings on *Thangka* and *Amcha* making. In the first 8 months of FY2008/09, beside one round each of *Lama Deshdsarsan* program, and delivery of philosophical lectures on Buddhist philosophy, update surveys of 254 various Monasteries of 6 districts, detailed technical survey of 113 ancient monasteries were also carried out. In addition, 2500 copies of *Himali Shisu Uphar* part 1 and part 2 are republished during the same period.

Decentralized Action Plan for Women and Children

12.91 This program is under implementation in 22 districts (Panchthar, Sunsari, Udayapur, Saptari, Kavre, Chitwan, Parsa, Nawalparasi, Tanahu, Kaski, Kapilbastu, Dang, Rukum, Jajarkot, Kalikot, Jumla, Humla, Mugu, Dadeldhura, Bajhang, Bajura and Achham) of the country with UNICEF assistance. Main objectives of this program are: (a) to assist children from backward communities for their access to basic education and help reduce child and maternal mortality rates; (b) bring improvement in nutritional situation of women and children; and (c) raise awareness about HIV/AIDS and ensure psychological and social development of children. The allocated fund will be transferred in lump sum to the District Development Fund (DDF) through one window system and the concerned DDC to release such fund based on decision of the District Council. A number of programs including quality basic education, establishment of preliminary childrens' fund, preliminary children care and child development, child health, maternal health, sanitation, control of HIV/AIDS, protection of rights of women and children, Community Action Procedures (CAP) were implemented in FY2007/08. These programs received continuity in FY2008/09 on sectoral basis with physical progress reports yet to be received.

Population Education and Maternity Health Program

12.92 This program is in implementation in Saptari, Mahottari, Rautahat, Kapilvastu, Dang, and Dadeldhura districts since 2008 A.D. with the

assistance of United Nations Fund for Population Activities (UNFPA). Main objective this program is to establish gender justice through improved reproductive health of women. During FY2008/09, this program was implemented in 6 districts through direct transfer of the fund to the concerned District Development Fund to be channeled to other local line agencies, such as District Health Office, District Education Office, and District Women Development Committee for program implementation in their respective sectors. Activities carried out by the program in FY2007/08 included treatment of uterine prolapse among women, training to VDC Secretaries and community members on gender and social inclusion, scholarships to *Dalits*, women, ethnics, and extremely poor girl children in the society. Activities carried out in FY2008/09 include District level orientation in 45 VDCs, establishment of Women Health Fund in 32 VDCs, and EOC Funds in Public Health Posts of 15 VDCs.

(D) Poverty Alleviation and Employment Programme

12.93 Various plans are in implementation with priorities to employment creation opportunities through various income generating and skills-oriented programs to bring down the proportion of population living below the poverty line; creating human resource capable of contributing to national economy; and prioritizing programs based on local resource, means, and capacity. Although all programs implemented under the Local Development Ministry are targeted to poverty alleviation and employment generation, major ongoing programs are, Karnali Employment Programme, Western-Nepal Upland Poverty alleviation Project, and Nepal Program for Addressing Food Insecurity. The progress and achievement of these major programs are described in the following paragraphs.

Karnali Employment Programme

12.94 Because of the geographical remoteness, poverty, and economic backwardness of Karnali Zone, sustaining life is very difficult merely depending upon traditional occupation, trade and employment for most of the families. With the realization of this fact, "Karnali Zone - One Family One Employment" program is implemented since FY2006/07 with the objective of creating employment opportunities to such families. During this period, employment oriented 969 small-scale projects were completed providing 14 days' employment to 67,999 households on an average. As Mid-October-to-Mid-October is considered as one fiscal year for 2008/09, with Mid-November to Mid-February calculated as the first trimester, records of unemployed youths in the districts (of Karnali Zone) has been updated during this period. Subsequently, selection of projects is completed and construction works are initiated at some locations.

Western Upland Poverty Alleviation Project

- 12.95 Initially launched since FY 2002/03 in 4 upland districts (Jumla, Humla, Bajhang and Bajura), this project has been expanded to upland districts of Jumla, Humla, Mugu, Rukum, Rolpa, Dailekh, Kalikot, Jajarkot, Dolpa, Bajhang, and Bajura of Western and Mid-Western Regions to support in alleviating poverty of the ultra poor of those districts. This program is implemented with the assistance of International Fund for Agriculture Development (IFAD), in joint investment of the private sector, DDCs, VDCs, Government of Nepal, and program beneficiaries. Under this program in FY2007/08, 29 infrastructure activities like construction of drinking water and irrigation schemes, schools, trails, health post building etc. were completed; 16 overseers and sub-overseers were imparted capacity building training, 64 Leasehold Forestry User Groups formed, and 544 hectares of Leasehold Forests were handed over to User Groups. Medicinal herb farming is being carried out in 17 hectares of Leasehold Forest. Distribution of plants, seed kits, construction of green house and goat keeping activities are ongoing under the project. In addition, formation of groups under the micro-finance and marketing programs, mobilization of internal saving and credit, and trade fairs were other activities carried out under the program.
- 12.96 Various activities carried out during FY2008/09 include completion of 28 small scale infrastructure schemes; formation of 29 leasehold forest user group; plantation of herbs in 10.5 hectare of land; distribution of 130 (she) goats to groups; vegetable farming demonstration in 92 (plastic covered) green houses, and formation of 123 community organizations vegetable farming exhibition in 92 plastic houses; and formation of 123 community organizations. Likewise, training imparted to 383 farmers from various districts on management of fruits and vegetable farming, account keeping/management leadership development, and gender awareness programs.

Program on Linking Local Initiatives to Knowledge and Skills

- 12.97 This program assisted by the Swiss Government (Helvetas) was launched in 1997 AD with the objective of facilitating intermediary institutions, (national and local NGOs, and Community-Based Organizations - CBOs) by providing technical assistance and advisory services for supporting implementation of local demand and need-based partnership programs in the districts of Dailekh, Achham, Doti, Jajarkot, Banke, Bardiya, and Surkhet. This program, though launched in 1997, started getting reflected in the Government budget (Red Book) since FY2005/06. During FY2007/08, income generating activities such as vegetable farming, seeds production,

herbal farming, marketing management of produced goods, transfer of technology, small scale physical infrastructure, institutional capacity enhancement of participating organizations, appropriate management and coordination of resources were carried out in FY2007/08 in Dailekh, Jajarkot, Doti, and Achham districts in coordination of the concerned DDCs. In the first of eight months of FY 2008/09, 120,000 households (small farmer) are engaged in various income generating (vegetable seeds, cereals, ginger and herbs) activities, like production and marketing. The construction of 32 small and minor irrigation schemes has been completed with 80 percent work completed on rest ten schemes.

Program to Address Nepal's Food Crises

12.98 Two separate Agreements were signed simultaneously on 2 November 2008 between the World Bank and Ministry of Finance, as well as between the Ministry for Local Development and World food Program. Objective of these Agreements is to ensure food security by launching campaigns in places with food scarcity; provide immediate relief to the people hit by food shortage; and prepare a special program to support farmers for immediate preparation and implementation of a project in the form of Nepal Food Crisis Management Program. The Annual program for FY2008/09 is approved and initiated for resource transfer. A separate imprest account is opened with Nepal Rastra Bank for receiving the assistance.

(E) Environmental Management

12.99 In the context of complementary relationship between environment and development, it is necessary to proceed with development activities by maintaining harmony with the environmental balance. For this, programs like Public-Private-Partnership for Urban and Environment; Solid Waste Management Program; and Program for Strengthening Environmental Management at the Local Level, are being carried out. Subject pertaining to environmental protection are clearly stated in Laws and Regulations so as to make programs implemented through local bodies environment-friendly.

Public Private Partnership Program for Urban and Environment

12.100 Private- Public- Partnership for Urban and Environment is being implemented in 10 municipalities on the cooperation (and collaboration) between Ministry of Local Development of the Government of Nepal and United Nations Development Program (UNDP). The Program is actively involved in creating necessary environment towards meeting the growing demands for services with rapid urbanization in process; bring private sector and civil society in one place; and create environment further the

Public-Private Partnership. Programs like urban sanitation, solid waste management, transport management, supply and distribution of drinking water, renewable energy etc. were carried out in FY2007/08. Similarly, PPP resource centre were set up at Municipality Association of Nepal (MuAN), Federation of Nepal Chamber of Commerce and Industry (FNCCI), and Narayangadh Chamber of Commerce and Industry. Besides, conducting training programs on PPP Project Proposal Writing and Business Plan, orientation program was conducted by targeting the Nepal's Financial Sector. In FY2008/09, visits and interactions were conducted with six Ministries of the Government for the establishment of a separate PPP unit as a part of PPP/UE support. A 21-day basic plumbing training to 21 persons related to drinking water and public toilets from Mechi Nagar, Hetunda , Pokhara; a 10-day GIS training to 18 staff of nine municipalities; equipment related training to 25 each from Ghorahi and Tulsipur Municipalities were provided.

Solid Waste Management Program

12.101 This program was initiated in 1999/00 for reducing environmental pollution through raising awareness for sustainable management of solid waste, mobilizing garbage as a resource, and involving NGO and private sector in managing solid waste. Drafting of Solid Waste Management Bill, 2008, completion of 42 projects in the landfill site affected area; and Environmental Impact Assess (EIA) for a permanent landfill site at Banchara Danda are some of the activities completed in FY2007/08. A contract was signed for the construction of landfill site at Aletar. Solid Waste Management capacity enhancement training was conducted in one Municipality for each five development regions and seven municipalities received technical assistance on Initial Environmental Examination (IEE). Repair and maintenance and removal of landslide at Tinpile-Aletar road; support to 3 Municipalities outside the Kathmandu valley for conducting IEE and EIA; capacity enhancement of 21 municipalities; and infrastructure development at Aletar landfill site are some achievement made during FY2008/09. The Draft Bill on Solid Waste Management has been forwarded to the concerned ministry for improvisation and concurrence in principle.

Strengthening Environment Administrative Management at the Local Level (SEAM-N)

12.102 This program implemented since 2001/02 with the assistance of the Government of Finland is ongoing in Panchthar, Ilam, Jhapa, Dhankuta, Udayapur, Siraha, Saptari districts of the Eastern Region beside Dharan-Biratnagar Industrial Corridor with the objective of strengthening environmental administration in the program area. In FY2007/08, the

program completed appointment of international and national Consultants, construction of 10 drinking water projects, 3 compost chambers, and 1 railing. During the same period, training programs were conducted on environment, gender, poverty, and inclusiveness, environmental plan, and management. In addition, 22 Biogas Plants, 89 toilets, 31 improved cooking stoves were also installed during the same period. Programs on Increasing Productivity and security at the working place were conducted in industries at Dharan Industrial Estate and 7 industries outside it. During this period of the current fiscal year, 10 Compost Chambers for the promotion of School Environment; and construction of construction of 4 open toilet-free plan is completed. In addition, technical assistance was provided for the selection of land for regional Sanitary landfill site; testing of air pollution at 12 places of industrial corridor, and 22 various trainings, workshops and interaction programs have been completed in the same period.

(F) Capacity Development

12.103 A country can achieve expected development targets only when institutional capacity of its local bodies is enriched with capacity enhancement of its human resources. With realization of this fact, following programs are carried out in order to proceed by giving high priority to human resource management and development.

Local Development Training Academy

12.104 Local Development Training Academy is implementing programs pertaining to training, research, and consulting services since FY1981/82 with the objectives of strengthening institutional capacity of local bodies. The Academy conducted the following training programs during FY2007/08: VDC Secretary Training (6 groups); 35-day Training for officer and non-officer level internal auditors of local bodies (2 groups); Conflict Management; Office Management; Plan Formulation; Project-cycle management; Public-Private Partnership training for Poverty Alleviation; Social inclusiveness and HIV/AIDS Awareness; and Gender Mainstreaming for plan formulation. Other programs conducted by the Academy include, programs for educating voters, training for election officials, Gender auditing of DDCs, Measurement Study of DDC's minimal conditions and performances (60 districts), Managing for Development Result training, and Log frame Proposal Writing training. The following targets were set for FY2008/09: three-day orientation training for Chairpersons and Vice Chairpersons of DDCs and Local Development Officers - LDOs (225 persons), five-day training on planning process to the staff of local development (900 persons), five-day accounts training for local

bodies, four-days Public-Private Partnership for the poor, and preparation of corporate software. So far, all targets set for the period have been met.

Human Resource, Communication, Environment Management, and Project Monitoring:

12.105 This program started in FY2001/02. Major objectives of the program have been, enhancing capacity of representatives of local bodies, personnel, and staff working under the Ministry of Local Development; supporting local bodies in environmental management; making communication system of the Ministry and local bodies well-organized and effective; and enhancing effectiveness of projects and programs in implementation by the Ministry and organizations under it. There has been no change in these objectives with the program is ongoing on annual basis since then. Two regional, and two plan formulation workshops were conducted in FY 2007/08 under the program. Likewise, apart from conducting a three-day orientation training for 108 DDC and Municipality staff on monitoring and reporting, Ministry officials monitored 20 DDCs and 4 Municipalities as well. Besides, Meeting of the Policy Coordination Committee, Review of annual, first, and second quarterly progress of programs/projects under the Ministry, and two consecutive issues of "Self-governance" were published. In FY2008/09, the Ministry conducted practical training on evaluation (25 persons); three regional evaluation seminars, and annual and 1st quarterly progress review meetings during this period. The Ministry also carried out on-the-spot visits to 42 DDCs and 10 Municipalities while development of planning, monitoring and reporting software is near its completion with piloting (of the software) already started.

Local Bodies Finance Commission

12.106 The Local Bodies Finance Commission is formed with objectives to assist in the financial strengthening of local bodies, implement recommendations of Local Bodies Finance Commission, 2000 in accordance with Decentralized Implementation Work Plan; and make necessary recommendations to the Government of Nepal for preparing Local Bodies Grants Policy and basis for its distribution. In FY2007/08 Minimum Conditions and Performances Measurement (MCPM) was conducted under the Program. Other activities carried out under the program during the same period include, training on financial decentralization, collection of information on financial situation of Municipalities, and publication of a booklet with financial situation analyses of DDCs and Municipalities. During the period of FY2008/09, Report Review conducted subsequent to the assessment of MCPM of 16 Municipalities. Teams are dispatched to all 75 DDCs upon selection of Consultants for MCMP Evaluation of performances of DDCs during

FY2007/08 following the first Amendment and improvisation in MCMP Procedures, 2008 for DDCs. The Report on Financial Situation Analysis of Local Bodies is in its final stage of publication. The Commission is coordinating with necessary facilitation provided to ADB TA supported Study Team on Financial Federation.

(G) Local Bodies Grant

12.107 The Government has been providing both conditional and unconditional grants in lump sum to make local bodies capable, powerful, responsible, and accountable to the people for better service delivery while maintaining close contact with the people for maximization of opportunities for them in getting involved in governance by means of decentralization. Such grants have been helpful for local bodies (VDCs/ Municipalities/DDCs) with limited income sources to carry on local need-based development and construction activities, and office operations.

District Development Committees (DDC)

12.108 The Government has been providing both conditional and unconditional grants in lump sum to DDCs to top up resources for institutional enhancement of local development efforts by making best use of local labor, resource, and skills, and bringing together the people's participation. According to the present arrangement made for calculating the poverty index based grant allocation to each DDC is the objective formula comprising population, area, Human Development Index, and price factors. Poverty Index formed the basis for allocation of lump sum capital and operational grants to DDCs in FY2007/08. In FY2008/09, Ministry of Finance directly disbursed the (grant) fund to DDCs based on the formula with an arrangement for topping up with incentive grant upon review of MCMP of the district. The process annual budget/program approval through District Council Meetings has speeded up. Plans approved by the Councils are in implementation phases. During this period, 301 road projects, 67 roads and culverts, 244 schools and community buildings, 8 road maintenance works, 157 drinking water schemes, 77 irrigation schemes, 26 rural electrification, 420 Km road maintenance, 7 Km black topping, 96 KM graveling and 583 other schemes are in implementation through DDC Grants and internal sources while 207 small projects/schemes are completed.

Village Development Committee Grant

12.109 This program is brought into operation with the objective of ensuring efficient service delivery of VDCs through public participation by enhancing access of the local people to services and facilities; making local bodies sensitive and accountable towards the people's aspirations; and

making VDCs capable and self-reliant. With this fact in mind, that sustainable development in a country like Nepal full of rural setting is almost impossible without development of villages, the government intended to initiate development activities at the VDC level. The Government in FY2007/08 released Rs. one million lump sum capital and operational grant to each VDC under this program with the slogan "Let's Make Our Village Beautiful". The Government has made a decision of making VDCs eligible of seeking grant between Rs. 1.5 million to Rs. 3.0million based on population, cost estimates, and geographical area. The Government has issued authorization to this effect accordingly. Reports are received that VDC Council Meetings in majority of districts have been conducted. Accordingly, DDC Council approved projects are in different phases of implementation.

Municipality Grant

12.110 Nepal government in the past used to provide grants to Municipalities for construction and improvement, and carrying out social activities. Beginning FY2005/06, basis for release of such grant is tied to the formula on the bases of population, area, income from Municipality's own source, and limits to administrative expenses. Out of total grant disbursed to (each) Municipality in the current fiscal year, Rs 20 million is for fulfilling formula-tied commitment, and the remaining as matching grant and for meeting the gap the particular Municipality was provided in the past as development grant. Preparation is underway for disbursement of grants based on population, poverty, and the area from now onward.

Local Development Fee Fund

12.111 In FY2007/08 Municipalities received Rs 1.33 billion as unconditional lump sum grant disbursed on trimester basis. Out of the accumulated total Local Development Fee, Rs. 1.44billion was disbursed as per the decision to do so as conditional grants. Accordingly, first and second trimester installments were released for spending as outlined in the Guidelines. The remaining amount is being released based on demands received from Municipalities by following the Reserve Fund Procedures.

Local Self- Governance and Community Development Program

12.112 This program aims at mobilizing donor communities by facilitating them work at local levels in the areas of good governance and economic growth while providing continuity to ongoing local-self governance, capacity enhancement, and community development programs with their cooperation until FY2007/08. The DDC Additional Grant (Local Governance and Community Development Program) Operation Procedure, 2008, is approved. Similarly, service providers are selected for preparing

capacity development strategy for local bodies, and for GIS data layer preparation of 9 districts. Several Grant Agreements, including US\$ 106.0 million with Asian Development Bank, 4.0 million Swiss Franc with SDC, US\$0.7million with Danida/HUGOU, have been signed for the program. Rs.635.25 million additional grant is released to 47 DDCs successful to get through minimum conditions and MCPM. Fund is released for social mobilization in 46 districts.

Labour and Skill Development

Child Labour Elimination Programme

12.113 Of various ongoing Child Labour Elimination Programmes under the Ministry of Labour and Transport Management, Child Development and Rehabilitation Programme, release of grant to Child Labour Elimination Fund, information on HIV/AIDS at workplace, preparation and publicity work on Education, Information and Communication (EIC) were some programmes carried out in FY2007/08. In addition to progress made on the establishment of two Centres for Rescue and Rehabilitation of Children, Capacity expansion and addition of a centre to the Child labour Rehabilitation Centre operated by Kathmandu Metropolitan Corporation were other activities carried out during that period. For instance, the centre provided informal education to 325, registered description of 468 child labours, distributed 226 identity cards, admitted 883 domestic child labours in schools, and imparted vocational skill development training to 50 child labours. Moreover, three labour education programmes and one strategic communication workshop was organized, while awareness raising programme against child labour was broadcast through electronic media including 16 television programmes and 33 metro FM stations. Similarly, six campaigns against child labour, and 1092 short notices were aired from Radio Nepal. In addition, 90 child labourers received training from three labour education programmes. One strategic communication workshop, one study on social security, 31 meetings related to child labour and the labour market survey of Spain concerned with IOM Market Research were conducted.

12.114 Four hundred inspections in formal and informal sectors; 100 awareness raising programme carried out against child labours through audio visual media; four special programmes for conflict affected vulnerable child labours; , five programmes on skill development awareness raising focused on guardians of child labour for self employment; five programmes on information education at workplace about HIV/AIDS; strategic communication seminar, 50 programmes on industrial relation improvement; three special programmes on women labour; and

preparation of the guide book for factory supervision are some achievements made during this period of FY2008/09. International Migration Day on December 10, International Labour Day on May 1, World Day against Child Labour June 12 were observed as always. Two separate funds i.e., Children Development and Rehabilitation Fund as well as Child labour Elimination Fund have been formed.

Status of Foreign Employment

12.115 Foreign employment market has emerged as an important alternative for Nepalese workers. Department of Labour statistics shows that the number of people visiting abroad for employment during FY2007/08 was 242,301 including 4,555 women. During the first eight months of FY2008/09, 157,327 persons including 6,038 women have gone on foreign employment. Although Nepal Government has opened 107 countries for foreign employment, Nepalese are found to go for work in Malaysia, Saudi Arab, UAE, Israel, Kuwait, Bahrain, Macau, Afghanistan, Libya, USA, Japan, Brazil, Bangladesh, South Korea, Australia, Singapore, Denmark, Canada and so on. The Number of Nepalese gone abroad for foreign employment in various fiscal years is given below:

Table 12 (y) : Status of Foreign Employment

Fiscal year	Number of Nepalese gone on Foreign Employment
1999/00	35,543
2000/01	55,025
2001/02	104,739
2002/03	105,055
2003/04	106,660
2004/05	135,992
2005/06	177,506
2006/07	204,533
2007/08	242,302
2008/09*	157,327

* Up to Mid March 2009

Source: Ministry of Labour and Transport Management

12.116 Ministry for Labour and Transport Management, imparted vocational, as well as skill development training to 16,148 individuals in FY2007/08 through its Skill Development Directorate, and its 14 Vocational and Skill Development Training Centres to produce skilled work force. Similarly, of the target to produce 20,000 skilled work force from the Directorate and its 12 Vocational and Skill Development Training Centres in FY2008/09,

16,914 skilled manpower has been produced during the first eight months of FY 2008/09 details of which are given in the following Table:

Table 12 (z) : Vocational and Skill Oriented Training Programme

S. N;	Training Programmes	Progress in FY 2007/08		FY 2008/09	
		Target	Achievement	Target	Achievement*
1.	General Mechanics	190	182	190	177
2.	Electrical fitting	705	772	720	844
3.	Electrical fitting upgrading	95	84	80	23
4.	Plumbing	435	431	441	491
5.	Hairi dressing	516	679	640	823
6.	Hair dressing upgrading	40	38	240	163
7.	Cutting & Stitching	780	1,123	1,020	1,326
8.	Electronics repair	390	362	379	420
9.	Motorcycle Repair	300	294	345	370
10.	Auto Mechanics	85	98	85	95
11.	Computer	440	513	645	734
12.	Welding	160	170	160	182
13.	Bamboo and Rattan	75	96	90	65
14.	Pumpset Mechanics	30	31	20	34
15.	Dhaka cloth weaving			45	30
16.	Residential Women Skill Development Training Programme	70	70	90	90
17.	Short-term				
	(a) Skill oriented training 1 - 3 weeks	8,630	9,362	11,200	8,695
	(b) Foreign Employment Oriented Training - 4 to 6 weeks	625	662	1,425	1,111
18.	Foreign and Youth Employment related (special skills development training programme-(4 & 6 weeks)	1,000	1,028	1,500	920
19.	One Week Entrepreneurial Development \ training	150	153	685	321
Grand Total		14,716	16,148	20,000	16,914

* First eight Months

Note: Three months and 6 months training are imparted in the above-mentioned programmes (except for training period mentioned, and S.N. 19, 21, and 23)

Source: Ministry of Labour and Transport Management

Women, Children, and Social welfare

Programmes on Women, Children, Senior Citizens and Disabled

- 12.117 For the successful execution of commitments made at international levels concerning women, children, senior citizens and disabled, and to bring improvement in the present condition of women, efforts have been ongoing since 1998 through implementation of various programmes by making policy, institutional, and legislative level arrangements as necessary. A number of periodic-plans based programmes with necessary amendments and revisions in the policy, laws, and rules with immediate effect throughout the country are ongoing for achieving multiple objectives like: (a) Enhancing women participation in every sphere of national development by embracing the concept of women empowerment, gender mainstreaming, and gender equity; (b) Protect and promote women's rights; (c) Protect children's basic rights; and (d) Ensure rights and welfare of senior citizens, and disabled. There is a clear need to bring women forward from their present state of backwardness in the perspective of New Nepal by empowering them socially and economically. As such, a number of programmes and projects are being carried out by designing policies and programmes to achieve the target of gender equity. Women Groups, Committees, and Institutions promoted through Women Development Programmes are the real conductors of the programme. With this realization, Starting from FY2007/08 Women Committees and Institutions are assigned with the responsibility of conducting village level activities to promote their roles from that of active participant to active partners. Emphasis is given to conduct programmes on advocacy, training, and networking from DDC to VDC levels for gender mainstreaming in the decentralized development process.
- 12.118 The fourth and fifth periodic reports on Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) is under preparation. The Draft Bill on Control of Sexual Harassment at Workplace is approved by the Council of Ministers. At the same time, Draft Amendment in existing laws is prepared upon conducting study on discriminatory provisions in existing laws. The Human Trafficking Control Regulation, 2065 (2008) has already been passed and Zero Tolerance Policy Draft is ready. Likewise, The Council of Ministers has approved the Manual on minimizing the *Chhaupadi* system, 2065 (2008). Besides, The Constituent Assembly has passed the Domestic Violence (Crime, and Punishment) Act, 2065 (2008) for the protection of the victims of domestic violence.

12.119 Concerning Child Rights, Government of Nepal has approved Conditions and Procedures, 2065 for the adoption of Nepalese children by foreigners. Accordingly, the process for adoption of orphans and children voluntarily given to foreigners has restarted since January 1, 2009. Government of Nepal signed the Convention of the Protection of Children, 1995 in order to make the adoption procedures of international Standard and transparent. Hence, children related Acts and Regulations are amended, and the concept of social security of children is ready.

Senior Citizens Related Programmes

12.120 Various programmes based on Senior Citizens Action Plan are under implementation through the Ministry and other agencies since FY2007/08. Women Development Offices are carrying out senior citizen treatment upon programme expansion to all 75 districts of the country. Seventeenth International Senior Citizens day was observed on October 1 with various activities like in previous years with the objective of boosting their self-respect. Directive on Senior Citizen Health Programmes, 2061 (2005) is circulated to all 75 district Women Development Offices in order to make Senior Citizens health programme more effective. The Stock-Taking Assessment is initiated based on surveys and studies carried out on senior citizens so far. Financial grant assistance is provided to NGOs to run Senior Citizen Day Service Centres and Clubs. The Government of Nepal has recommended 12 Female Senior Citizens for admission (and shelter) at the Social Welfare Centre, Pashupati, which is presently providing shelter to 237 senior citizens. Budget is allocated from the fund for the protection and management of senior citizens.

12.121 Senior Citizen Day Service Centres and Homes for elderly people are being operated for enhancing their self-respect and pride. Sixteen such NGO operated centres throughout the country receive operating grants from the Government. Action Plan on Senior Citizens is prepared, based on which various programmes are implemented through Ministry and other agencies. Senior Citizens Rules, 2065 (2008) is approved and being implemented. In the field of Social Security, the State is gradually scaling up facilities for senior citizens it can afford to the extent possible. It is believed that such support has enhanced their confidence and social dignity.

Programme for Disabled

12.122 Various trainings are imparted to 65 persons upon agreement reached between CTEVT and the Fund for Assistance to Disables. Community-based programmes are ongoing in 25 districts. The International Disables Day (3 December) was observed for encouraging and dignify the disables.

Advocacy programme was conducted for Women Development Offices, and VDC Secretaries of 10 districts for sensitizing them on disability. In addition to skill oriented training to staff and help-aids they need, Federation of National Disableds, Nepal Disableds' Association Jorpati, Orphan Disableds Rescue Society Nepal and Nepal Leprosy Eradication Association receive the Government grant for disseminating practical knowledge. Nepal signed the Convention on Rights of Persons with Disability.

- 12.123 Skill oriented trainings to the needs of physically challenged persons, educational help, scholarships, and community-based rehabilitation programmes are ongoing. Grants assistance recipient institutions engaged in the field of serving disableds are distributing Assisting Devices in various districts of Nepal depending upon individual's state of disability and requirement. Women Development Offices in all 75 Districts are distributing identity cards to disableds. National Policy on Disability and Action Plan, 2007, and Definition and Classification of Disability, 2007 have been put in practice. Community-based Rehabilitation of Disableds programme is initiated in 50 districts for identification and training of physically challenged persons, which has helped in enhancing their skill, capacity, and confidence.

Programmes on Child Rights

- 12.124 Concerning Child Welfare, procedures for conducting search of missing children finalized, and Missing Children Search Centre (toll free 104) and Child Helpline (toll free 1098) are put in operation. The work on seeking out Street Children and their management is initiated for providing relief to children at risk. Besides, continuity is given in this fiscal year also to ongoing programmes like, Child Protection and Development Programme (25 districts), Juvenile Justice System Strengthening programme (13 districts) and Institutional Strengthening Programme (8 districts). Conflict affected children in Kalikot are receiving maintenance and care, and support to education for mainstreaming them in the State provided education system. Broad Standard on Child Homes Operation and Management, 2065 (2008) and Child Protection and Development Programme Operation Guideline, 2065 (2008) are in the final phases of preparation. In addition, Child Welfare Committee Staff and Office Operation Arrangement, 2064 (2007) are finalized. Data collection on national and international agencies working for children, child homes in operation, and number of children is ongoing for effective operation of Child Resource Centres. Effectiveness of child homes is being continuously monitored.

- 12.125 The initial Report on Child Rights Protocol Voluntary Charter, 2000 against trafficking of children, child prostitution, and child pornography prepared and submitted to the UN Committee on Child Rights. Preparation of initial Report is underway as a party to Voluntary Charter against the use of children in armed conflict. The drafting of Child Rights Act, 2065 (2009) is in final stage with the objective of making the Child Rights Act, 2048 (1991) a timely, improvised, and organized legislation oriented to Rights of the Children.
- 12.126 Various activities are ongoing to fulfill obligations of International Convention, 1989 for the protection of children's right and providing their basic needs. Activities ongoing for fulfilling such obligations include, provision of grant assistance through the ministry and agencies under it to institutions engaged in conducting various programmes for children; construction of juvenile correction homes; celebration of Children's Day, rehabilitation of imprisoned and children dependent on prisoners; and conduct awareness raising activities against child labour. In addition to conducting activities in the areas of health, school admissions, scholarships, and protection of conflict-affected children, resource and documentation centres have been established. Juvenile Benches are set up in 26 districts. Children Search Coordination Centre is established with a toll free telephone number 104. Government agencies, NGOs, development partners, and civil society are jointly carrying out rescue, documentation, management of lost, disappeared, kidnapped, found in unidentified condition, victims of criminal activities on a regular basis. During the period of last two years, the number of missing children totaled 4,871 of which, 3,093 were found with 1,778 still missing. Out of 953 unidentified children found in the same period, 7 children were found to be dead.
- 12.127 Data and information on 454 Child Homes was collected through surveys conducted in 37 districts in FY2007/08. Based on information so collected, Child Home High-level Task Force at the central level and Child Home Monitoring Task Forces were formed in 37 districts under the provision of Minimum Criteria for the Operation and Management of Children's Home , 2060 (2003) for monitoring Child Homes. In this period, 240 Children's home were monitored.

Women Empowerment Programme

- 12.128 Preparation classes for main examination of Public Service Commission are being run in 5 districts to increase women participation in civil service with participation of 275 for non-gazette Class II, and 108 for Section Officers. As in the previous year, programme operation grant assistance provided to Working Committees formed in 26 districts for combating the girl

trafficking. In addition, skill-oriented training was imparted to 50 conflict-affected single women through single women groups. Scholarships awarded to 10 girl students from poor and backward group in the remote districts undergoing education on Women Studies and Mass Communication. Preparation of dissected data on Gender Index is completed as well. National Women's Commission conducted an orientation session for its officials on gender related tools, policies, and programmes. Likewise, 6 journalists were rewarded for their contributions in the field of women empowerment and gender equity. Orientation programme was conducted for officials belonging to legal, semi-legal entities, and leaders of political parties for the elimination of gender violence. A programme is in operation for women to access justice and rehabilitation for women affected by Gender-based Violence during the conflict period. Besides, 118 women prisoners at the Central Jail received orientation on Reproductive health and Human Rights of Women.

- 12.129 Indices on empowerment of women in their work-fields, proportion of backward women representation in women's organizations, Amount of group savings and mobilization capacity, and their capacity to lead are found quite positive. Attempts are being made to give continuity to the Programme through institutional development by organizing dispersed women in groups, committees, and institutions. So far, 385,758 members are directly participating in 59,592 groups formed under the Women Development Programme. These groups are affiliated to 5,295 committees, and 1,288 organizations.
- 12.130 Priority is given to professionalization of the targeted women's economic activities in FY2008/09, according to which, initially 8,565 ultra-poor women will be assisted to start businesses based on their individual interest, experience, and economic condition. In order to facilitate rural women's access to market for goods they produce, arrangements have been made to open sales departments in Morang, Rupandehi, Dang and Kailali. One of the lead women's organizations will open and operate such stores under the arrangement as directed by the Committee represented by goods producing women.

Table 12 (aa) : Major Achievements of Women Development Programme

S.N.	Activities	Unit	Total	Remarks
Coverage				
1.	Programme Districts	Number	75	
2.	Programme VDCs	Number	1843	
3.	Programme Municipalities	Number	32	
4.	Programme Wards) (Municipalities	Number	15176	

S.N.	Activities	Unit	Total	Remarks
	and VDCs)			
Institutional Development				
5.	Groups Formation	Number	59592	
6.	Number of women in groups	Person	385,578	
6.1	<i>Dalits</i>	Person	57,987	
6.2	Ethnics	Person	133,192	
6.3	Others	Person	194,579	
7.	Women's Committees Formed	Number	5,295	
8.	Registered Women's Organizations	Number	961	
9.	Ad hoc Women Organizations	Number	327	
Resource Mobilization				
10.	Group of Women's Groups	Rs.	587,652,077	
11.	Investment out of savings	Rs.	523,025,296	
12.	Operating Fund	Rs.	90,852,532	
12.1	Principal	Rs.	87,043,384	
12.2	Interest	Rs.	3,809,148	
13.	Amount Invested	Rs.	72,587,675	

Social Welfare

12.131 Necessary step is taken to towards making necessary amendment in the present Social Welfare Act, 2049 (1992), to address the problems observed in the NGO sector and make it time-relevant. Until FY2007/08, About 186 International NGOs have signed General Agreements with the Social Welfare Council (SWC). As per those Agreements, these organizations have made commitments to spend at least Rs. 1.713 billion annually. Out of the commitment of 386 NGOs through Agreements signed with SWC to mobilize Rs.4.179 billion in 809 social development activities comprising domestic resource of Rs. 269.08 million and Rs. 3.91 billion is expected to flow-in as grants. By mid-March of FY2008/09, SWC and I/NGOs have signed 47 Agreements, out of which 28 such organizations have committed to spend Rs. 667.114 million through General Agreements signed with the Council. Similarly, 19 Programme Agreements were signed between the Council and International NGOs with commitment to invest Rs. 1.176 billion in those agreed programmes and projects.

Urban Development and Housing Construction

12.132 The major objectives of this programme are: to develop physical infrastructure in urban areas of the country; offer land plots with facilities developed through the execution of land pooling system in participation of the Government, local bodies, and the private sector; and minimize

encroachment on cultivable land and carry out related studies. In the process, land development programmes were implemented in Ilam Municipality of Ilam, Dulegaunda of Tanahun, Nepalganj Municipality of Banke, and adjacent VDCs in participation of local landowners in FY2007/08 through the mobilization of Land Development Revolving Fund. Land-use based road and sewer network plans were prepared to ease transportation in urban oriented 13 VDCs with the participation of local bodies. Physical Development Plans for 7 small towns and 10 market centres were also formulated. Similarly, studies were carried out on issues like, housing loan needs of the poor and people with lean income source, slum improvement, and criteria for high-rise buildings were prepared. The Detailed Project Report of the proposed land development plan on three locations was completed. Study of five model-village development plans and process for collecting Benefit Tax from project beneficiaries was worked out. Detailed Master Plan for Sabhapokhari of Sankhuwasabha was formulated, monitoring, supervision and control of joint housing development programme as well as infrastructure and land development programmes were carried out.

- 12.133 In FY2008/09, various construction and maintenances works are ongoing at 103 locations of the country covering evaluation of financial and technical proposals for the preparation of Master Plan for expanded towns (Attariya-Dhangadi corridor; Kavrepalanchok-Dhulikhel-Banepa-Panauti; Inaruwa-Duhabi-Itahari-Dharan; Birendranagar-Chhinchu-Dasharathpur; and Pokhara-Lekhanath- Dulegauda corridors). Preparation is underway for the construction of low-cost houses for low-income group of people through Rural Housing Company by using local construction materials at the maximum. Under the same programme, there is a plan to conduct feasibility study in one district on concentrated settlements. The Master Plan of four places - Tatopani of Sindhupalchok, Dhanpalgadi of Morang, Ghamir Chetrakot of Gulmi and Bara Bigha region of Rautahat, has been carried out. Preparation of proposed Master Plan of Eco-city at Prithivinyan Campus, Kaski is ongoing.

Rural Development through Small-town Market Development

- 12.134 This programme is implemented with the multiple objectives of increasing interrelationship among villages and towns by developing urban infrastructure in small towns so that necessary infrastructures for the future municipality could be created; minimize the migratory trend to urban area with increased rural infrastructures; and alleviate poverty through market development for local products. Under this programme in FY2007/08, physical infrastructure development works were carried out in various 65 rural towns in order to promote the rural-urban interrelationship. Activities

for protection of public land were also carried out at Ward number 2 Khuwa and Ward number 3 Mangdin of Melle VDC. During the current fiscal year, Infrastructure development programmes are ongoing at 100 places intended for enhancement of the urban-rural interrelationship. Under the programme, Implementation of Master plan in eight places, physical development project in six places, preparing DPR of land Development programme in Pakali VDC of Sunsari district, and Balewa of Baglung district are ongoing. Land development programme is being implemented in Ilam Municipality as well, and Tender Evaluation for designing of Republic Memorial is in process.

Integrated Action-oriented Plan

- 12.135 Major objectives of this plan are: to formulate urban development plans for organized development of Municipalities; prepare digital base-maps of Municipalities with their direct involvement and local participation; and prepare physical development plans of non-Municipal district headquarters. During fiscal year 2007/08, infrastructure development for improving unorganized and unhealthy settlements; preparation of digital base-maps of four Municipalities in participation of local bodies; formulation of periodic plans of three Municipalities with the assistance of UDLE/GTZ and local bodies were completed in the process of achieving the stated objectives. Likewise, periodic plans for four Municipalities were formulated, a programme on healthy town was carried out in cooperation with WHO, and a National Workshop on the concept of Urban Development was organized in participation with Municipal Chiefs and Officials.
- 12.136 Necessary infrastructure development works have been continued in FY2008/09 for managing three unorganized and two unhygienic settlements. Digital base-maps of two Municipalities is prepared with the participation of local bodies, whereas formulation of periodic plans for three municipalities is started in participation of UDLE/GTZ and local bodies. Targets set for this fiscal year are to complete formulation of periodic plans of four Municipalities. Health programmes are being conducted in five Municipalities with the support of WHO. Consultants have been appointed for preparing physical development plans for four non-Municipal district headquarters, and Rampur Bazaar of Palpa district. A National Workshop on the concept of Urban Development was organized in participation with Municipal Chiefs and Officials.

Special Physical and Infrastructure Sector Development Project

- 12.137 Physical and infrastructure development activities were carried out at 11 places in FY2007/08 in pursuance of the programme objectives of construction, improvement, maintenance, and preparation of Master Plans for various important, religious and cultural places of national and local importance based on the concept of sustainable development. Construction, repair, and maintenance of six physical structures of national importance were carried out. Similarly, development and construction, repair and maintenance works on 45 structures of special importance were carried out by mobilizing local people's participation. Master Plans based on the concept of sustainable development were prepared for four places upon preparation of base-maps. Necessary environment is being prepared for handing over Changuarayan and Suryabinayak areas to concerned local bodies.
- 12.138 Physical and infrastructure works are ongoing at 14 places in FY2008/09 under this project following the concept of sustainable development under the Master Plan. Similarly, construction and maintenance of physical structures at seven places are being carried out. Development, construction and maintenance of physical structure of 62 places of special importance are also underway by mobilizing people's participation. About 70 percent progress is achieved on the above activities during the first eight months of current fiscal year. Similarly, contracts are signed and works started at six places out of targeted base-maps preparation and subsequent completion of Master Plans for eight places with religious and archeological importance. The RFP for two places is ready, and in process of signing contract. Since the preparation of infrastructure necessary before handing over Changuarayan and Suryabinayak to local bodies for environmental conservation, and maintenance is still going on, this project is taking care of environmental conservation and repair maintenance of the said area.

Urban Development Project

- 12.139 The main objective of this project has been to execute planned urbanization and environmental improvement activities by carrying out physical infrastructure development in major cities. Based on this, its target is to carry out feasibility studies for three compact settlements; preparation of roads and sewer network plans for six Municipalities by working with local bodies; construction and improvement of road, sewerage, and pavement in five municipalities; and implementation of compact urban development programme for building a New Nepal. During FY2007/08, works on urban infrastructure and environmental improvement in urban areas of in a number of places were completed; and extensive physical development

plans for three model cities and eleven model villages were formulated. Feasibility studies were conducted for three integrated compact settlements. Based on the previous year's feasibility study report on compact settlement, projects were implemented in Humla and Kalikot. Under the same project, number of activities and schemes have been completed. Examples are: (i) Study on Millennium Development Goals. (ii) Formulation of roads and sewerage network plans for five municipalities in participation with local bodies. (iii) Implementation of physical infrastructure development, and environmental improvement plans following the planned urbanization in Itahari Municipality of Eastern Development Region, and Attariya of Far-Western Development Region. (iv) Formulation of Master Plan for Swargadwari. (v) Design preparation of four Customs entrance gates. (vi) Execution of Ganeshman Singh memorial Nature Conservation Park at Kharhuriya, Malekpur Ward No. 5 of Saptari; and (vii) Ganeshman Singh Foundation and Martyrs' Philosophy Memory Project. In addition, the project carried out urban infrastructure improvement programme. During the same period, various training programmes were conducted for enhancing skill and ability of the personnel working in the Department and entities under it.

- 12.140 In the current fiscal year, Urban Infrastructure and Environment Project is under implementation in various 32 urban areas of the nation. Infrastructure development programmes in five big urban corridors are in the process of implementation under the 'Building New Nepal' concept. Construction of roads, sewerages, and pavements, initiated last year in joint participation of local bodies, have started. Physical infrastructures development, and environmental improvement plans in Itahari Municipality of Eastern Development Region, and Attariya of Far-Western Development Region are ongoing subsequent to planned urbanization in those two Municipalities. Four integrated Check Posts are under construction with the assistance of the Government of India, among which the Government of Nepal has already acquired the land required for Birganj and Bhairahawa. Rain Water Harvesting Programmes are being carried out in Dharan and Ilam with the assistance of UN Habitat. *Taal Talaiya* area development is ongoing under the Infrastructure Development Programmeme for Itahari. About 70% of the progress has been achieved on Integrated Infrastructure Development Programmes ongoing in three municipalities in participation of local bodies. Target is set for this fiscal year to formulate infrastructure development plans for 13 VDCs. The Eco-City programme is under implementation in two Municipalities in cooperation and coordination of KOICA and local bodies. Construction of Guest House and temple is initiated at the residence of Former Prime Minister Krishna Prasad Bhattarai.

Urban and Environment Improvement Project

- 12.141 Implementation of this six-year project is ongoing in nine Municipalities of Dhulikhel, Bharatpur, Hetauda, Banepa, Ratnanagar, Panauti, Bidur, Kamalamai, and Kathmandu Metropolis since FY2003/04 in joint participation of Users and loan assistance of Asian Development Bank. Major objectives of this project are: (a) environmental and physical infrastructure development in Municipalities through institutional capacity enhancement, and mobilization of local resources; (b) encourage decentralization processes; (c) support poverty alleviation; and, (d) achieve sustainable urban development by removing inequalities between Kathmandu Metropolis and Municipalities within and outside the Kathmandu valley.
- 12.142 The Central Project Coordination Office received 54.65 man/days of consultancy service from the Consultant in FY2007/08. During the period, Consultants completed about 95% of detailed design works for sub-projects in Dhulikhel, Bharatpur and Hetauda Municipalities where the projects were launched under the group one. Widening of roads and construction of public toilet in Dhulikhel Municipality is completed. Works on urban mapping, construction of drainage system, and community development were completed by 80 percent, 10 percent and 10 percent respectively. On progress achieved in Bharatpur municipality, completion rates of projects were: urban mapping by 90 percent, drinking water project by 30 percent, land consolidation project by 65 percent, river training by 95 percent, bus-park by 78 percent, and community development by 55 percent. Similarly, rates of progress achieved in case of Hetauda municipality were: construction of bus park, urban mapping, public toilet construction, and river training works were completed while rates of progress on other activities like construction of sewerage, and sewer processing centre, drinking water project, and community programmes remained at 75 percent, 55 percent, 17 percent, and 55 percent respectively. The detailed design for projects in Banepa, Ratna nagar, Panauti, Bidur, Kamalmai and Kathmandu Metropolis groups as two and three are complete with bidding in process for starting construction works. The project imparted training to 500 staff and people's representatives to support capacity development and local resource mobilization of Municipalities.
- 12.143 Construction of Bus Park in Bharatpur Municipality, land consolidation project, drinking water project, sewerage system improvement and construction of sewer treatment plant, vegetable market, improvement of intersection, and community development programs are ongoing in FY 2008/09. Similar works are being carried out in eight other municipalities. While assessing the progress achieved up to the second trimester of the

current fiscal year on the whole, 65 percent work in Bharatpur, 72 percent in Hetauda, 65 percent in Dhulikhel, 41percent in Banepa, 42 percent in Panauti, 43 percent in Ratnanagar, 50 percent in Bidur and the Bishnumati Link-road construction works of Kathmandu Metropolis have been completed.

Outer Ring Road Project

- 12.144 Review of the progress of this project launched in FY2005/06 shows that Detailed Project Report of land development programme for the following sections of the planned outer ring road were approved at the end of FY2007/08. Sandol - Thali Danchhi 5 Km, Satungal - Chobhar 8Km, Bhate Dhikuro of Bhaktapur area - Thali Danchhi 10.5 Km making 23.5 Km in all. Report on the 3.5 Km stretch of land development between Srijana Nagar to Dadhikot under the outer ring road was included in the final report submitted for review. The final report on the proposed 6.5 Km Link Road between Thimi - Gothatar - Jorpati - Jagdol was received from consultants for decision on the road alignment and preparation of detailed design.
- 12.145 Concerning preparation of detailed report of land development project of outer ring road, the interim report for Chovar (khokana) to Harisidhi section was received in the first eight months of FY2008/09. Attempts are underway for coming to consensus on land consolidation between Chovar and Satungal as per the Land Consolidation Act by forming Users Groups. Public Hearings for three districts of Kathmandu valley were held upon receipt of the draft Environmental social Impact Assessment Report. Since land consolidation activity needs to be carried out in extensively large area, necessity was felt for the development of software to facilitate the work and the process for signing contract for the job is in its final stage upon selection of software development consultant. The field survey team from this project conducted Chovar - Satungal Region of outer ring road to assess the compensation against demolition of formerly constructed homes, sheds, and other structures within 50 meter of the proposed outer ring road alignment. Besides, field survey is in progress for the construction of 14.5-meter service track on both sides of outer ring road. Study is initiated in this fiscal year on the possible effect of outer ring road on the social, economic, and physical infrastructures of the Kathmandu valley. For this, process for consultant selection is underway. Preparation of audio visuals on outer ring road area is also initiated.

Building Construction Code, Construction of Government Buildings

- 12.146 This programme targets at preparation and subsequent implementation of building codes; Construct Government buildings; collect documents on government buildings while maintaining status of existing building in a

transparent manner; and identify alternative construction materials, and build low-cost, safe and earthquake resistant housing buildings. Construction projects that were started in FY2007/08 include, library, museum and exhibition hall at Mahendra Naryan Nidhi Mithila Cultural Centre; City Hall in Putali Bazar of Syanja working jointly with the local body; and covered hall in Myagdi. Likewise, community halls at 12 places; *Dalit* hostel buildings at four locations (Ainselukharka of Sindhupalchok, Khotang, Byas of Tanahu, and Surkhet); ethnic building at hangpang of Taplegung; Government buildings at four places; literary building at Ramhiti, Kathmandu; theatre hall in Dhanusha; covered hall in Baglung; and Senior Citizens home at Tairete, Dang other construction works under construction. Likewise retrofitting of community buildings was also ongoing. Continuity was given to works like recording and documentation of government buildings. Other activity carried out by the project during the period was, training of 2,250 masons on safe and low cost building construction in participation of local bodies and Luthran World Service. Other trainings were imparted to technical and small construction entrepreneurs. Safety from earthquake day was observed, building code was published and distributed, review of catalogues, documents and records on construction materials carried out. Similarly, identification of construction work based on new materials and techniques and preparing its specification, norms and training on rainwater harvesting was also carried out.

12.147 During FY2008/09, continuity is given to the construction of library and museum at Mahendra Naryan Nidhi Mithila Cultural Centre, office building for Department of Urban Development Building Construction, Covered Hall of Myagdi, *Dalit* Hostel building in Surkhet, City Hall of Sayangja, Lekhnath Literature Building of Kathmandu, *Dalit* Hostel of Aishelukharka of Sindhupalchok, and Ethnic Girls Hostel Building at Hangpang of Taplejung. Continuity is also given to construction of guesthouse, library, and security guard house at the residence of former Prime Minister Krishna Prasad Bhattarai. Likewise, other ongoing construction works are, 42 community homes, People's House at Dingden of Panchthar, Lekh Nath Library building in Jhapa, Sangha Ram Behar at Bishnumati link road of Kathmandu, two cultural buildings in Kathmandu, *Dalit* Hostel Building in Pokharabari Arje of Gulmi, together with four office buildings are under construction with achievement of 40 percent progress on an average. Work is on progress as targeted to complete construction of building of literary building at Ramhiti of Kathmandu. Program is ongoing at Chhetrapati clinic under the program of retrofitting two community buildings. The preliminary design is underway for arranging organized settlements for squatters, slum dwellers and landless

under the 'New Nepal' campaign. Training to 1,050 masons on safe and low-cost building construction was provided out of the target for imparting such training to 1,350 persons in addition to provision for training Engineers, sub-Engineers of the Department and small construction entrepreneurs. Programme targets set for the current fiscal year are, to publish building catalogue, construction guide, conduct study of ancient historical buildings constructed in five districts by using local skill and materials, and revise the building code, observe the earthquake safety day, and to prepare various norms and specifications. Consultants have been appointed to assess the earthquake resistance capacity of buildings under the Department of Urban Development and Building Construction.

Biratnagar Ring Road Project

12.148 Surge in population has caused rapid expansion in settlements in Biratnagar Sub-metropolitan and neighbouring VDCs, causing great pressure of vehicles and commuters. The 30-Km Biratnagar Ring Road with about 182 meters area is planned to be as developed as a model of systematically designed and well-managed urban development. For this, required land will be acquisitioned through consolidating land for the Right of Way to the Ring Road. Construction of earthen road has been completed in FY2007/08 subsequent to the Detailed Plan Report (DPR) and road alignment. The Project DPR for a section of 30 Km-long road is prepared in FY2008/09 through land development system. The project that was initiated in the previous fiscal year has achieved 93.33 percent progress in terms of road alignment and earthen road construction, and new alignment and construction works.

Model Integrated Settlement Development Programme (Terai-Madhesh-Himalaya)

12.149 Major objective of this programme initiated under the Building New Nepal Campaign is to execute integrated infrastructure development programme by integrating the scattered settlements in appropriate locations through various measures including: integrated infrastructure development of non-municipal district headquarters, model VDC Plan-based infrastructure development, development of model Thawang integrated settlement, and through the medium of compact settlement programme. Integrated infrastructure development programmes have been initiated in FY2008/09 along with compact settlement program in those five districts with studies completed earlier. Of the target of implementation of Reports on model village development in four VDCs, and develop infrastructure in 12 VDCs based on model VDC plans, 80 percent progress is achieved by the end of the second trimester of the current fiscal year. Likewise, 80.6 percent achievement is recorded on the targeted implementation of Thawang Model Integrated Settlement Programme in Rolpa and Integrated

Infrastructure Development Programme in 10 non-Municipal district headquarters.

The Monument of Republic

12.150 Under the "Building New Nepal Campaign", the budget speech for FY2008/09 stated, "A Monument of Republic with distinct design will be erected within the vicinity of Narayanhiti premises to mark and long memorize the day that ended feudal monarchy through people's extraordinary courage and sacrifice-led struggle". Necessary resource is allocated for meeting the objective of erecting a symbol of national importance, Nepal's national unity and integrity, and a landmark of the achievement of historical people's movement. The target for this fiscal is set to prepare the conceptual design and initiate construction based on such design. By the end of the second trimester of this fiscal year, preparation for invitation of bids for design competition is in process following the formation of a committee for evaluation of bids.

Department of Drinking Water and Sewerage

Drinking Water and Sanitation

12.151 Healthy human resource development is indispensable for overall national development and its advancement. Continuity is thus given in FY2008/09 for construction of new drinking water and sanitation facilities towards making drinking water and sanitation services easily available to the people, raising the present standard of services, and increasing awareness on drinking water, sanitation and health. Emphasis is given to expeditious completion of quick result-yielding projects based on simple technology for sustainable operation and maintenances of completed projects, and for enhancing the quality of such services as well. The lead role and participation of user groups' is made compulsory for this purpose. During FY2007/08, the Department of Drinking Water and Sewerage targeted to provide drinking water services for 480,000 people through the completion of 126 out of the ongoing 527 district level projects. However, 100 projects were completed during the period benefiting 291,000 people with basic drinking water service. Similarly, of the target of quality improvement of five projects, three projects were completed adding 39,600 new beneficiaries of high/medium quality drinking water service. In FY2008/09, eleven central level projects are ongoing under the Department of Drinking Water and Sewerage. At the district level, out of carried over and additional 644 new projects, the target was to provide 360,000 people with basic drinking water service by completing 100 projects, of which 12 projects are completed and handed over to User Groups.

12.152 The target of community- based drinking water and sanitation project was to complete 106 out of the 690 projects under implementation to provide basic drinking water and sanitation services to 126,000 people, of which seven projects have been completed and handed over to User Groups. The overall progress of projects implementation has been encouraging. It seems that the target is achievable by the end of the current fiscal year. Out of the ongoing construction of 10 water treatment plants under the Drinking Water Quality Improvement Project, six are completed and another one is expected to be complete by the end of this fiscal year. Ten ongoing projects remaining to be completed under the Small Town Drinking Water and Sanitation Project are in their final stages of completion. Completion of these projects will add 191,993 more people to the list of beneficiaries of high/medium quality drinking water service. Activities like full cleanliness, and expansion of eco-san are carried out in participation of stakeholders like schools and communities for promoting sanitation. Of the target set to make at least 75 communities open toilets-free areas as a campaign initiated in this fiscal year, 18 VDCs, 200 school areas, and 150 communities are already open toilets-free zones. Two projects namely, the Small Town Drinking Water and Sanitation Project, and Community Drinking Water and Sanitation Project are ongoing with joint cooperation of the Government of Nepal and Asian Development Bank. Other assistance providers to the sector are, UNICEF, World Health Organization, UN-Habitat and Swiss Government.

Drinking Water Projects

12.153 Actually, mere Government attempts are not sufficient for the expansion and sustainable operation of drinking water and sanitation services making it imperative the adoption of the policy to encourage involvement of user groups, local bodies, NGOs and the private sector, which is being followed in the sector. Arrangement is made for User Groups to bear at least 20 percent of the total cost of the scheme and to hand over the completed schemes to such Groups for operation and management of the facility to ensure effective and sustainable community management of completed schemes. In case of ultra poor communities, policy is adopted for 10 percent beneficiary contribution to schemes. Some fixed amount is being allotted to make health and sanitation education as an integral part of drinking water facility to ensure the expected benefit from such facilities. Community-based Drinking Water and Sanitation Programme is implemented for the development and expansion of basic drinking water and sanitation facilities in those districts lagging behind in Human Development Index (HDI). In case of cities and urban-oriented areas, projects for improving the quality and services of drinking water are

implemented on cost-recovery principle. In view of the experience of failure in expansion of sanitation facilities due not to have linked drinking water with sanitation in the projects and schemes completed in the past, beginning from this fiscal year, sanitation program is being implemented separately. Complete sanitation programs are launched in the leadership and management of communities and schools based on the concept of making communities, school areas, VDCs, and DDCs, the open defecation free areas. Since User Committees are involved from the very beginning to all phases of the project, they actively participate in construction works making the handover easier for smooth operation and management of completed schemes. Some User Committees have been successfully operating larger projects of urban and urban-oriented areas with gradual enhancement in their professionalism, knowledge, and skills.

Small Town Drinking Water and Sanitation Project

12.154 Target of this program was set to complete 15 out of the 21 projects in operation in FY2007/08 providing high/medium quality drinking water facility to additional 320,000 people, of which 11 projects were completed adding other 260,000 people in the list of beneficiaries of high/medium drinking water. During the same period, out of the targeted Arsenic tests of 350,000 shallow tube wells in Jhapa, Morang, Mahottari, Banke, Bardiya and Dang, tests of 430,000 tube wells were completed. On sanitation, in addition to construction of about 30,000 family toilets, areas covered by 5 VDCs and 50 school premises were declared as open defecate free zone. Data collection on drinking water and sanitation of all VDCs completed for updating the existing data base.

12.155 This Asian Development Bank assisted project will be fully completed by the end of FY 2008/09 after completion of the remaining 10 ongoing projects. On the whole, this project has provided high/medium quality drinking water to 510,133 people through completion of 29 small town projects. These projects have distributed 40,574 private water tap connections, constructed 17 Kms. of storm drain, constructed 17,940 permanent family toilets including 56 public toilets. Besides, atechical centres are established in each development region for calibration of water meters and testing of water quality. About 30 years of 15 water pumps and electrical equipment in use for pumping water from Bhulke water source for Tansen Drinking Water Project in Palpa are replaced with Japan Government's Non-Project Grant (NPG) 2004. It is expected to make drinking water service in Tansen Municipality regular and reliable.

Kathmandu Valley Drinking Water and Sanitation Programme

12.156 Of the target of sinking five tube wells during FY2007/08 under the Drinking Water Supply Enhancement Programme, six tube wells were installed six million litres of water into the water supply system by exceeding the target. Demand for drinking water of local people was met by 100 percent under the Gwalindaha Drinking Water Project. Similarly, cent per cent target was achieved in laying 16 km. pipeline of various sizes and 1.7 km. of sewerage pipeline under Drinking Water and Sewerage Management Programme. The project, being carried out under the ADB loan assistance, aims at improving production, distribution, quality sewerage system, and bring managerial improvement. However, only 30% of the target set for FY2008/09 could be achieved by mid-March 2009. The targeted water distribution during the dry season funded through the Government's own source has been fully achieved. Twenty percent of the target for Gwalindaha Drinking water Programme for FY2008/09 has been achieved. Around 50 percent target has been achieved on rehabilitation of tube wells at various locations. Out of the target set for rehabilitation of four tube wells, bidding process is ongoing for five such tube wells subsequent to completion of estimates. Fifty percent progress has been achieved under the repair and maintenance programme of worn out pipes. Similarly, 30 percent progress has been made on works under production and distribution capacity improvement and drinking water and sewerage programme.

Urban Drinking Water System

12.157 Major objectives of this programme are controlling leakage in urban water supply, and strengthening drinking water system to make the whole of urban drinking water system more effective and efficient. So far as the drinking water of Kathmandu Valley is concerned, Kathmandu Valley Drinking Water Management Board has forwarded the *Kathmandu Upatyaka Khanepani Limited* (KUKL) prepared proposal to produce 30.0 million litres from surface sources, and 32.0 million litre from underground sources for four months to meet the growing demand for water during summer months. The proposal is forwarded to the Ministry of Physical Planning and Works for budgetary arrangement. The proposed short-term measure is aimed to cope with the demand for drinking water supply until completion of Melamchi Project. The gap between supply and demand is growing with demand for 280 million litres of drinking water per day and supply of 150 million litres in summer, with the supply shrinking to 97 million litres in winter months. With optimistically envisaged completion of Melamchi Project in next five years, it has become indispensably essential to implement the Pre-Melamchi Project proposed jointly by *Kathmandu Upatyaka Khanepani Limited* and Kathmandu Valley Water Supply Management Board (KUKL/KVWSMS) and submitted to the Ministry for consideration. The proposed Rainwater Harvesting Project with 320 million litres of water storage capacity tank proposed for construction Dhobidhara

Lalitpur on 584 Ropani (approximately 29.2 Ha) of land is proposed for implementation on the ground of its appropriateness. Out of the target of laying 12.2 Km of GI pipes of 20-inch diameter, (between Mardi *Muhan* (water source) to Bindhya Basini, Pokhara), under the water production enhancement programme for 2008/09, 30 percent progress is achieved by mid March 2009 . Similarly, During FY2008/09, 50 percent of the four Km pipeline extension has been completed in Banepa, Butwal, Bhairawa, Bhadrapur, Rajbiraj, Lahan, Bharatpur, MahendraNagar, Dhangadi, Kalaiya, krishmanagar, Taulihawa and gaur under the Drinking Water and Sewerage programme targeted for the year. Forty percent progress is achieved on the target set for sinking two deep tube wells in Jankpur and Dhangadi. Similarly, 40 percent progress is achieved on the planned reconstruction of 18 surface water sources, and 50 percent progress on 16 deep tube wells. Out of the target set for purchase of 46 pump sets for Banepa, Dharan, Biratnagar, Janakpur, Jaleshwore, Malangwa, Birgung, Hetunda, Pokhara, Butwal, Bhairahawa, Nepalgunj, Bhadrapur, Rajbiraj, Lahan, Bharatpur, Mahendranagar, Dhangadhi, Kalaiya, Krishnanagar, Taulihawa and Gaur, progress made so far has been 60 percent.

HighPowered Bagmati Civilization Integrated Development Project

12.158 With the main objective of making Bagmati River and its tributaries pollution free under the "Building New Nepal Campaign", Nepal Government has approved the Memorandum of Association for the formation of a "High Powered Bagmati Civilization Development Integrated Development Board". A Campaign "Bagmati Civilization Development Campaign" is ongoing as a part of the Board activities. The Government has made necessary budgetary allocation to the Board in this fiscal year to carry out the Campaign. In the first eight months of FY2008/09, Action Plan is prepared with the understanding reached between the Board and National Nature Conservation Trust for preparation and coordinated execution of the Plan on effective and planned conservation of Bagmati and its tributaries. Demarcation of the old Bagmati-flow meander route has been completed based on the cadastral survey-map of 2021 (1964) as demanded by the local people of Sundharijal-Gokarna section for training of Bagmati River in that area. The survey, designing and cost estimate for 1.5 Km section river-training is prepared. The Process is on to engage Nepal Army in this job. The process of contract award for laying sewer pipes and road construction on both sides of Bagmati river from Tilganga to Minbhawan is in its final stage.