

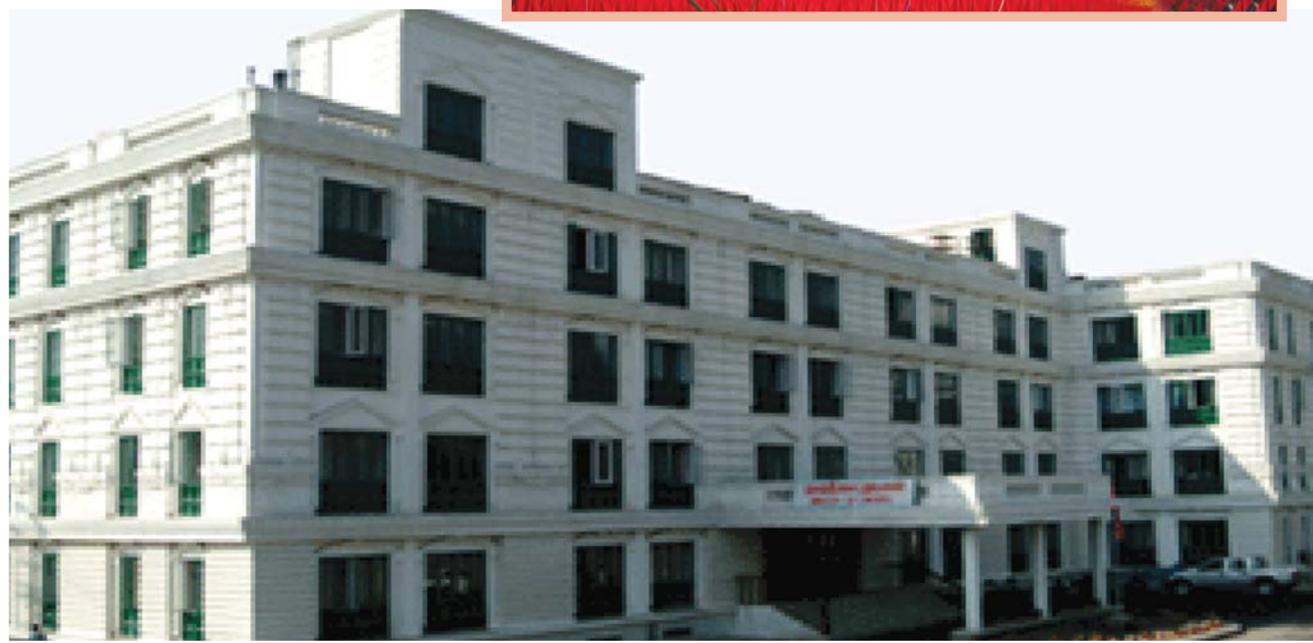
# FINANCE

## NEWS AND VIEWS

Nepal Donors Consultation Meeting- 2008, Special Issue

MAGH 2064

JAN-FEB 2008



Government of Nepal  
**Ministry of Finance**  
Singhdurbar, Kathmandu, Nepal



**In the presence of Hon'ble Finance Minister Dr. Ram Sharan Mahat and Vice President of the World Bank Mr. Praful Patel, Finance Secretary Mr. Vidyadhar Mallik and Country Director of the World Bank in Nepal Ms. Susan Goldmark, signing agreement on 31 January 2008 in Kathmandu.**



**Government of Nepal**  
**Ministry of Finance**

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नेपाल सरकार  
अर्थ मन्त्रालय

## केन्द्रीय अनुगमन इकाईको सूचना

नेपाल सरकारले विगत वर्षहरू देखिनै राजस्वको मूल आधारको रूपमा मूल्य अभिवृद्धि करको कार्यान्वयन गर्दै आएको ब्यहोरा उद्यमी ब्यवसायीहरूलाई विदितै छ । विलिङ्ग प्रणाली प्रभावकारी भएमा मात्र मूल्य अभिवृद्धि करको सफल कार्यान्वयन हुन सक्ने र खरीद गरेको सामानको **वारेण्टी, ग्यारेण्टी तथा देश विकासको** लागि पनि विल लिने दिने गर्नु हुन सम्बन्धित सबैमा अनुरोध गरिन्छ ।

आफूले बिक्री गरेको मालबस्तुको विल दिनु बिक्रेताको कर्तव्य हो भने आफूले खरीद गरेको मालबस्तुको बिल प्राप्त गर्नु खरीदकर्ताको अधिकार र दायित्व पनि हो । तसर्थ, खरीद तथा बिक्री कर्ताले बिल लिने दिने कार्यमा आफ्नो कर्तव्य तथा दायित्वको पालना गरी सरकारको राजस्व संकलन गर्ने कार्यमा समेत सहयोग पुऱ्याउन अर्थ मन्त्रालय सम्बन्धित सबैमा आग्रह गर्दछ, साथै विलिङ्ग प्रणालीको अनुगमन गर्न नेपाल सरकारबाट खटिई आउने कर्मचारीहरूलाई आवश्यक सहयोग गरि दिनु हुन समेत सम्बन्धित सबैमा अपिल गर्दछ ।

**“कर तिर्नु कानूनी कर्तव्य मात्र होइन,  
सम्मान पाउने अवसर पनि हो”**



नेपाल सरकार  
अर्थ मन्त्रालय

## केन्द्रीय अनुगमन इकाईको सूचना

राजस्वसँग सम्बन्धित ब्यापारी, उद्योगपति, कर्मचारी वा अन्य कसैबाट कुनै तरिकाले राजस्व चुहावटको कुनै घटना हुने वा भए गरेको तथ्य जाकारी भएमा निम्न ठेगानामा खबर गर्नुहुन अनुरोध छ । प्राप्त विवरणमा यथाशीघ्र कारवाही हुने ब्यहोरा समेत अनुरोध गरिन्छ ।

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सार्वभौम जनताद्वारा देशको मूल कानून निर्माण गर्न  
चुनिएका प्रतिनिधिहरूको सभा नै संविधान सभा हो ।



सूचना विभाग

# ***FINANCE***

## **NEWS AND VIEWS**

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*Note: The opinions expressed by the authors are not necessarily those of Ministry of Finance or editor*



**Dr. Ram Sharan Mahat**  
Finance Minister

Government of Nepal  
**MINISTRY OF FINANCE**



**MESSAGE**

Development partners have been a major source of economic support to Nepal. They have been providing assistance in various developmental activities including physical infrastructure; health, education, and social services; rehabilitation and reintegration of displaced people and former combatants; and the forthcoming Constituent Assembly elections. In these contexts, the Ministry of Finance is organizing Nepal Donors Consultation Meeting (NDCM) 2008 to be held in Kathmandu during February 21-22, 2008. For this purpose, preparatory meetings were held from February 1 to 8, 2008. The deliberations were very productive. They were particularly useful in assessing the development policies and implementations.

The proposed NDCM is of great importance to Nepal in building peace and development environment in the country. In this regard, the Government of Nepal acknowledges the assistance provided by the development partners in the past, and expects their continued support in meeting the ever increasing aspirations of the people and development challenges of the country.

I hope the News and Views will be of great importance in bringing out the country's concerns on contemporary economic issues and development.

I wish all the success.

Dr. Ram Sharan Mahat



**Government of Nepal**

Tel. No.: { 4259837  
4259804



**MINISTRY OF FINANCE**  
Singhdurbar  
KATHMANDU, NEPAL



## MESSAGE

After decade long conflict, Nepal is passing through historic transition and crossroad to change. Managing the transition and change is the main challenges of our time. To meet these challenges the international development partners have been instrumental in mobilizing resource needed for reconstruction and rehabilitation of physical and social infrastructure as well as for economic and social development. Now, the country needs inclusive development with human face and sustainable peace to address the rising aspiration of the people in a short span of time. Our development partners are aware of this special situation and socio-economic development challenges as well.

The Government of Nepal is going to organize Nepal Donors Consultation Meeting (NDCM) on February 21-22, 2008 to share status of peace process and evolving scenario, confidence building through refreshing communication and open the door for dialogue between GON and global development partners and our citizenry in setting the development agenda and priorities. The role of development partners' in Nepal's quest for development and change is highly appreciated and will be even more instrumental in managing the transition.

I hope, the "Finance - News and Views" in this current issue has tried to highlight some of these economic issues which are of relevance to both our development partners and the general Nepali readership on the eve of NDCM, 2008.

I wish all success.

(Vidyaadhar Mallik)



**Government of Nepal**

Tel. No.: { 4259837  
4259804



**MINISTRY OF FINANCE**  
Singhdurbar  
**KATHMANDU, NEPAL**

## MESSAGE



This bi-monthly publication of Ministry of Finance presents analytical write-ups and news on state of the economy. As Nepal government is holding Nepal Donors Consultation Meeting in the third week of February, the present issue deals with the deliberations that took place during the pre-consultation meetings.

I hope this issue will be of interest to all readers.

A handwritten signature in black ink, appearing to read 'Rameshore P. Khanal'.

(Rameshore P. Khanal)  
Secretary (Revenue)

# Editorial

Government of Nepal is organizing Nepal Donors Consultation Meeting (NDCM) 2008 in Kathmandu on February 21-22, 2008. A sizeable number of international delegates and representatives as well as local development partners are participating in the meeting in the context of emerging political and economic situation of Nepal. The meeting will assess immediate and short-term financial assistance to Nepal specially in managing political transition and holding Constituent Assembly election, and maintaining economic stability of the country. The meeting would be fruitful to provide first hand information on state of economy and peace process practiced in Nepal to the global development partners. It would also be helpful to present the resource gap of the economy at this difficult moment of transition and rapid change.

The present state of Nepal's economy is not in a position to bear the cost involved in such rapid change process. In this context, Nepal needs ever increasing support and assistance for inclusive development and socio-economic transformation. To organize this NDCM, preparatory meetings were held from February 1 to 4, 2008. In the pre-consultative meeting held in February 1-4, 2008 at Kathmandu several policy papers were presented in the areas of: peace process and emerging scenario, economic update, challenges and road ahead, infrastructure development (water resources, road and drinking water sector), foreign aid policy, inclusion, education and health sector were presented by the sectoral ministries and large number of expert on the field as well as local donors partners represented and participated. The discussions proved fruitful in revisiting the sectoral progress and outlining future course of action. Participation by large number of experts, local donors, academia, civil society and media in the meeting helped improve better communication and further enhance the relationship in the implementation of agreed agenda. The pre-consultation meetings help arriving at consensus on issues that Nepal is facing today.

Usually held in every 18-24 month period, the last fourteenth meeting of Nepal Development Forum (NDF) was held in May 2004. The 14th NDF was the second to be convened in Nepal and the first led solely by Nepal. The next such meeting was scheduled for September 2006. However, evolving political situations, among others, did not allow it to take place in the scheduled time. For this reason, NDCM is going to be organized with a view to encouraging dialogues & refreshing communication with the development partners.

The objective of NDCM are to: share the evolving political situation and status of Peace Process in the country; highlight the development agenda and priorities through dissemination of the Three-Year Interim Plan (TYIP); deliver peace dividend to Nepali people; seek unfettered support of the development partners for the peace process and development programmes of Nepal; reiterate commitment on Paris Principles of Aid Effectiveness and seek the programmatic and action-bound support of development partners; and build confidence through enhancing communication among the GON, development partners and Nepali citizens.

In the main event of the forthcoming NDCM, the outcomes of the pre-consultation meeting and agenda for future assistance will be presented and discussed along with the presentation of Three-Year Interim Plan (TYIP), and donors' support to peace and development in Nepal, National Action Plan for Aid Effectiveness, and results since Peace Agreement signed. Thematic/sectoral group discussions will also be made in the areas such as Inclusion, Health, Education, Reconstruction and Rehabilitation, Infrastructure, etc. A time bound action plan would culminate as a follow up of the consultation meeting. Implementation of agreed agenda will be taken up by the concerned stakeholders so that the responsibility of action would not shrink. The Kathmandu NDCM would further open the doors for dialogue between global partners and Government of Nepal with even more urgency to provide ever increasing foreign assistance for the TYIP, peace dividend -including relief and rehabilitation, infrastructure development, implementation of 23-point Comprehensive Peace Accord (CPA), holding of Constituent Assembly elections and strengthening security management for the peaceful transition and socio-economic transformation.

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# AN OVERVIEW OF NEPAL DONOR CONSULTATION MEETING 2008



1. Government of Nepal, Ministry of Finance is going to organize Nepal Donors Consultation Meeting 2008 in Kathmandu on Feb. 21-22, 2008. Prior to main event, preparatory meetings were being held from Feb. 1-4, 2008.
2. Usually held in every 18-24 months, the last (the 14th) meeting of Nepal Development Forum (NDF) was held in May 2004. The 14th NDF was the second to have been convened in Nepal and the first to have been led solely by Nepal. The next such meeting was scheduled for September 2006. However, evolving political situations, among others, did not allow it to take place in the scheduled time.
3. With a mission of bringing development agenda on to the center stage to help stabilize the peace process and deliver a Peace Dividend during transition the Consultation Meeting will revolve around “Supporting Nepal’s Efforts toward Peace and Development through Three-Year Interim Development Plan (2007-2010)”. The Consultation Meeting aims at sharing experiences and progresses of the peace process as well as development orientation of New Nepal during transition with the development partners and own citizenry. The relevance of holding such an event is justified in a broader context of :
  - Evolving political situation and stabilization of peace process.
  - Government's approval of Three-Year Interim Plan (TYIP) through holding elections of Constituent Assembly as soon as possible; and urgency on its implementation to deliver peace dividend to the Nepali people; and
  - Need to communicate to the development partners as well the larger citizenry about the progress and achievements made and constraints being faced in managing transition.
4. The objectives of the Consultation Meeting would, among others, be:
  - To share the status of Peace Process and evolving political situation in the country;

- To highlight the development agenda and priorities through dissemination of the TYIP and GON/development partner collaboration for implementation and delivery;
  - To seek unfettered support of all development partners for the peace process and development priorities of Nepal;
  - To reiterate commitment on Paris Principles of Aid Effectiveness and seek the programmatic and action-bound support of development partners on the same; and;
  - Confidence building through communication among the GON, development partners and Nepali citizens;
5. In line with the above objectives, the following agenda for the Consultation Meeting will be set:
- Dissemination of the Three-Year Interim Plan (TYIP) and seeking support for implementation of the agreed key deliverables;
  - Securing donors' support to Peace and Development in Nepal: A Donors' Charter that encompasses a joint framework/guideline to follow way of doing business and modalities of funding;
  - Outlining a National Action Plan for Aid Effectiveness based on Paris Principles;
- Revisit of Foreign Aid Policy, 2002;
  - Stock-taking and sharing of progress in the peace process, including the results since Peace Agreement signed; and;
  - Holding Thematic/Sectoral group discussions in areas such as Inclusion, Health, Education, Reconstruction and Rehabilitation, Infrastructure, etc.
6. Following discussion papers will be prepared, presented and discussed:
- An Economic Update of the Post-Janaandolan-II and Report on Development Results and Reform Initiatives;
  - An outline of National Action Plan for **'Managing for Development Results (MfDR)'**;
  - An outline of National Action Plan for Aid Effectiveness;
  - A Paper on **'Foreign Aid Policy, 2004: Revisited'** ;
  - A summary paper on **'TYIP with highlights on Deliverables'**; and;
  - Report on **'Peace Process and Emerging Scenario'**.
7. To translate the above concept into practice, a detailed Action Plan will be developed and followed up.

# A Report on Nepal Donors Pre-Consultation Meeting, Kathmandu

(February 1-4, 2008)

In a run-up to the Nepal Donor Consultation Meeting (NDCM) scheduled for February 21-22, 2008, Ministry of Finance conducted six sessions of Pre-Consultation Meetings on February 1, 3 and 4, 2008 in Kathmandu.

The NDCM is being organized with a view to encouraging dialogues and refreshing communications with the development partners and our own citizenry at large about the country's development needs, agenda, priorities and deliverables and their linkage with the peace process. The NDCM also aims at disseminating the progress made in the aftermath of *Janandolan-II*, focusing on evolving peace process, on-going reform initiatives, smooth accomplishment of the forthcoming election of the Constituent Assembly and the developmental imperatives.

Pre-Consultation Meetings have largely been successful in facilitating dialogue among wider stakeholders around eight various themes. The diversity of the participation that comprised Nepal-based development partners, government officials, representatives of the political parties, civil society, academia, youths and private sectors, *per se*, was encouraging. At the beginning of each session, Finance Secretary Mr. Vidyadhar Mallik set the agenda with short welcome speech. Mr. Mallik recapitulated the objectives and mission of the NDCM as well as Pre-Consultation Meetings. He also clarified that the NDCM was not meant for any specific pledging unlike in the regular meetings of Nepal Development Forums. Highlights of each thematic presentation and the deliberations therein are as follows:

## **Rural Infrastructures: Roads, Water Supply, Housing and Urban Development** *(February 1, 2008, Hotel Yak and Yeti)*

The session was chaired by Hon'ble Member of the National Planning Commission (NPC) Mr. Rama Kant Gauro. A thematic paper on "Infrastructure (Roads, Water Supply, Housing and Urban Development)" was presented by Mr. Purna Kadariya, Secretary of the Ministry of Physical Planning and Works. The discussants were Ms. Shanti Malla, Mr. Varun Prasad Shrestha, Mr. Ki Hee Ryu, Mr. Mukti Prasad Kafle and Mr. Narayan Govinda Halwai.

The presenter highlighted on the status of the infrastructure sectors, i.e. the Roads (Strategic and Rural Network), Water Supply (Urban and Rural), and Housing and Urban Development in light of the Three Year Interim Plan. He presented plenty of data showing only 65 out of 75 Districts Headquarters are now connected to the motorable roads. Currently, an estimated 76 percent of the population is covered by improved water supply and 46 percent by basic sanitation. Likewise, 81 percent of the urban and 41 percent of the rural areas are covered by these services. He further informed that almost 92 percent of Nepalese households live in their own dwelling units and 5.4 percent live in the rented ones.

Mr. Kadariya revealed that most of the damages caused by the decade-long conflict were related to the critical deliveries of services such as police posts, communication towers, forest posts, health posts and so on. He, therefore, emphasized on fast-track mode of reconstruction through specialized agencies so that existing challenges in land acquisition, staff mobilization in remote areas, timely mitigation of local issues, weak institutional capacity of local institutions and so

forth can be tackled more efficiently. The presenter also expressed the hope that the initiatives taken by the government under program-based and result-oriented framework such as Sectoral Plan, MTEF, MfDR, Priority Investment Plan, etc. would be instrumental in establishing successful milestones for infrastructure development. The comments from the five discussants/panelists followed the presentation.

Ms. Shanti Malla, the first among the discussants/panelists in this session, mainly raised the issue of implementation and highlighted the urgency of putting all words into deeds with all sincerity and dedication. Mr. Varun P. Shrestha, a former GoN Secretary with experience in physical planning and works, said that the bad condition of roads in countries like Nepal makes them prone to earthquakes and therefore, it should always incorporate the disaster management elements in planning. Mr. Ki Hee Ryu from the Asian Development Bank stressed on the need to optimize the government's efforts in policy, legal and institutional reforms. Mr. Mukti P Kaffle pointed out that there is confusion on the role of central and local agencies in the implementation of infrastructure projects. Finally, Mr. Narayan Govinda Halwai raised the issue of duplication as many organizations are involved in water supply schemes.

The floor contributed enthusiastically with a range of constructive comments and suggestions. Some participants pointed out the need to look at informal sector development along with



roads. Comments were also raised as to paper's inadequate coverage of the issue of resettlement of squatters. Others focused on decentralized notion of local roads. Participants also expressed the view that the long list of infrastructure projects needs prioritization.

After the presenter responded to the questions and comments, the Chair of the session, in his concluding remarks, appreciated the productive interactions and hoped that the comments and suggestions made by the participants will be well taken during finalization of the paper.

### **Water Resources Development** (February 1, 2008, Hotel Yak and Yeti)

Mr. Prithivi Raj Ligal, former Vice Chairman of NPC chaired the session. Mr. Shankar Koirala, Secretary of Ministry of Water Resources presented a paper on the themes- hydropower, irrigation and water-induced disaster management.

The paper focused on the issues of policy and legal regime and revealed the status of progress followed by the road ahead and challenges. Mr. Surya Nath Upadhyaya, the discussant, commented that political climate is not conducive and security is vulnerable for the investors. He stressed the need to establish problem shooting committee and treat water resources as strategic issue. Another discussant, Dr. Rameshananda Vaidya pointed out that there is a threat from GLOF due to global warming which should be taken into consideration. Similarly, he emphasized on domestic capital mobilization and need to build transmission lines. Mr. David Grey, the discussant from the World Bank, remarked that the debate should not be about whether we should go for small or large hydropower but good or bad hydropower. He made it a point that the issue of hydropower development must help nation-building rather than nation-dividing. He pointed to the need for building basin development project and said that water management is a regional public good. He also suggested refining the skills of negotiation

while dealing with the neighbors. Mr. Ajaya Dixit, the discussant, commented that the paper did not reflect the reality of the sector. He said that the paper did not touch upon the issue of federalism and lacked vision as such. Mr. Bhim Neupane, the discussant and Hon'ble Member of NPC, stressed on the need to integrate drinking water in this sector and asked why new power projects were not built despite the issuance of licenses.

The participants from the floor commented on a number of issues such as proper resource allocation for Far-Western and Mid-Western Regions, importance of irrigation and agriculture, and adoption of a comprehensive policy for water resources development. It was also pointed out that there was a need for local level participation in the hydro projects to ensure sustainability and cost-effectiveness. Building new transmission lines, giving emphasis on rural electrification and developing instruments for domestic resources mobilization were also raised.



## **Economic Update and Reforms**

(February 3, 2008, Hotel Everest)

During the first session, Mr. Rameshore Prasad Khanal, Revenue Secretary of Ministry of Finance presented his paper on “Economic update and Reforms”. He started with a brief overview of the past reforms initiatives and moved to current economic scenario, issues and challenges of the economy. Visualizing the road ahead, he focused, among others, on improved governance, investment climate, reform in

job market, employment opportunities and improvement in infrastructure.

Hon'ble Vice Chairman of NPC Dr. Jagadish Chandra Pokharel chaired the session. Vice President of the World Bank Mr. Praful Patel, Hon'ble Members of the Legislature-Parliament Dr. Dilli Raj Khanal and Dr. Prakash Sharan Mahat, Hon'ble Member of NPC Dr. Puspa Raj Rajkarnikar, former GoN Secretary and economic analyst Dr. Bhola Nath Chalise and noted economic thinker Dr. Raghav Dhoj Pant were among the Panelists.

Mr Praful Patel said that Nepal was really at a historic crossroads, and if it would want to come out of this transition, the country would have to find its rightful place in the growth trajectory like its neighbors in the region have done. He stressed on the need for inclusive growth, and hoped that just concerns of the Terai and Madhesi people will be addressed.

He believed that the NDF after the election will result in much more support from the international community than in the past. On the contents of the paper, he said communication is a strong and effective tool and can help to avoid the perception of statelessness that was mentioned by the presenter. “Communication is perhaps the most critical priority in a transition”, he viewed. Pointing to the need for addressing the disconnect between the announced policies and action on the ground, he stated that employment prospects can be improved through labor sector reforms; the key being not losing better-trained workers to foreign markets, while being inclusive.

Dr. Prakash Sharan Mahat stressed on creating political stability through CA election as the political situation would ultimately determine the pace of other reforms. He said that democracy raised expectations that were not matched, hence conflict and its new dimensions which the state has to manage. He hoped for a political, and more importantly, an economic consensus, saying “we cannot have a future without economic freedom – for creativity and competition and to make choices”. He raised the need for inclusive growth, and also for investing

in big infrastructure projects while caring for the small ones which are feasible and sustainable.

Dr Raghav Dhoj Pant said that the presentation provided a nice picture of prospect and retrospect, but the people needed to see the signs of development taking place, and along with the results, they wanted to see the efforts as well. He also said that the country is experiencing stagflation – stagnant income and rising price level, with BOP problem and declining reserves—and also suffering from what is called the Dutch disease in that the authorities are maintaining an overvalued exchange rate that favors imports. He concluded, however, with a positive note that it is never too late to move in the right direction, the world is changing, and so must we.

Dr Puspa Raj Rajkarnikar agreed with the paper saying, “it rightly mentioned that Nepal had a growth momentum in the 1990s but could not sustain it owing to the armed conflict”. He enlisted the main problems of today as low growth rate, declining exports and widening income gaps. He opined that the measures to address them are well narrated in TYIP which he said was intended to come out as a consensus document, though it emerged as a compromise. He agreed with earlier speakers on the need for inclusive development.

Dr Dilli Raj Khanal commented that some realization on the policy lapses is critical. He pointed to the challenges of inclusive development, unbalanced development, and income inequality. He saw the urgent necessity for re-stimulating and re-vitalizing the economy. Stressing the need for proper enabling environment in the private sector, and also for reorientation towards productive investments, he said that rehabilitation and reintegration, and reducing the vulnerability of the people are critical for ending distributional and structural conflict. Stressing on the need to redefine the role of state, private sector, and also the community, he highlighted on establishing policy coherence and consistency in order to make them compatible with inclusive growth and development.

Dr. Bhola Chalise stressed upon the need for rightly focusing on the private sector perspectives. He touched upon the current issues of importance such as privatization, establishing SEZ, enhancing technical capability and transparency needed in regulatory authorities including the NRB, courts, higher education system, etc. On privatization, he aptly remarked, “let us privatize the process of privatization, so that the process is quick, less costly and more efficient”.

Revenue secretary Mr. Khanal responded to the queries and comments made on his presentation. He assured that the issues identified in the paper were generic and most of the comments were productive, which will be incorporated in the paper. He clarified that the buying of Indian currency was the need of the day, remittance alone was not to cause Dutch diseases, and privatization was not out of the scene. Having said this, he also admitted that there were structural problems in the Government that often hindered effective implementation of good policies.

Finally, the Chairperson of the session stressed on the need for striking a right balance between positive outcome and lapses in areas of development. He further emphasized on the need for regional trade integration, inclusion, rural infrastructure development and similar type of interventions that can bring about changes in governance and help win public confidence. He conclude by saying that three concepts guiding Nepal are prosperity, modernity and justice to build a prosperous, modern, and Just New Nepal, and that is the road map for the country’s development in the years to come.



## Foreign Aid Policy

(February 3, 2008, Hotel Everest)

During the second session on the same day, Mr. Krishna Gyawali, Joint Secretary of the Ministry of Finance presented a paper on “Foreign Aid Policy.” Mr. Gyawali proposed a draft “Foreign Aid Policy 2008” and invited the floor for their deliberations to enrich the revised version of the draft. He highlighted on the major departures from Foreign Aid Policy 2002, guiding principles and objectives of the current draft, issues and challenges experienced during the implementation of the existing Policy, and the agenda ahead. His presentation shed more lights on the principle of Donor Harmonization for Aid Effectiveness articulated in various international fora including Paris Declaration, 2005. He viewed that unless foreign aid is managed efficiently and effectively on a selective manner so as to achieve the relative self-reliance (i.e., the gradual phase out of foreign aid), it will not be possible to achieve sustainable development outcome. He also presented the measures for effective implementation of the Foreign Aid Policy and emphasized on need for concrete National Action Plan for Aid Effectiveness, among others.

The session was chaired by Dr. Bimal Prasad Koirala, former Chief Secretary of the Government of Nepal. The Panelists were Ms. Bella Bird from DFID, Mr. Matthew Kahane from the UN, Prof. Dr. Madan Kumar Dahal from the Tribhuvan University and Mr. Ram Binod Bhattarai, former Finance Secretary.

Major comments and suggestions given by the Panelists revolved around the issues of aid effectiveness, surge of grants against loan, capacity of the Government, debt trap, conditionality and tied aid. One of the Panelists alerted that the government should not be happy with the surge in grants against loan financing because excessive reliance on grants may make economy costly and inefficient. It was said that the policy draft is silent on counter part funds management and also on how and when to

translate the policy articulations into actions. One of the Panelists asked the Government to look into aid effectiveness issues in the context of international politics. It was viewed that the way foreign aid is delivered, it can align with the Government system only when the Government is committed to reform its public financial management system. It was said that the policy presented follows globally accepted principles of aid effectiveness, many of which are reflected in sectors like education and health. The need for a timeline to translate policy into actions was highlighted, so was on a systematic exit policy. One of the Panelists suggested that the on-going OECD survey on Monitoring the Paris Declaration would contribute to refining the draft policy. The floor stood quite firm with the deliberations from various aspects. Some argued that the policy contained more explanation than the commitment to transformation; some opined that it may not be the right time to formulate such a policy while the political scenario is still not clear; others urged to look back to the circumstances that hindered effective implementation of the earlier version of the policy.

The presenter Mr. Gyawali responded to almost all the queries and comments meticulously. He took all the comments as a good helping tool for the revised draft version of the policy. Finally, the Chair followed his opening remarks and shared the experiences and feelings about why the Government is not able to take driver’s seat while managing aid. He opined that one and only thing that can make aid effective is strong government leadership.



## **Social Sector: MDGs and Social Inclusion, Education, Health**

(February 4, 2008, Hotel Annapurna)

Pre-Consultation Meetings on social sector (MDGs and Social Inclusion, Education and Health Sector Development) were conducted in three sessions. All the sessions were chaired by Dr. Ram Prakash Yadav.

### **MDGs and Social Inclusion**

Hon'ble Chaitanya Subba, Member, NPC presented a paper on "MDGs and Social Inclusion." Dr. Novel Kishore Rai and Ms. Lynn Benette were the Panelists. While presenting the paper, Dr. Subba highlighted on the issues and status of social sector and Millennium Development Goals in Nepal. The presenter also revealed the strategic measures planned for the different communities in Three Year Interim Plan. Commenting on the paper, the panelist Dr. Novel Kishore Rai questioned on the reliability of statistics used in the paper. He further opined that public and private schools are creating a gulf in the education system. He added that social inclusion policy should be contextual taking history, geography, politics, religion and culture of the country into consideration. Another Panelist Ms. Lynn Benett expressed her impression that the paper introduced new type of social capital which is different from conventional definition of social capital. She also revealed overwhelmingly disintegrated data showing exclusion of certain castes or community in public affairs and stressed on the need for such data for monitoring TYIP.



Several participants from the floor questioned on the possibility of achieving MDGs by Nepal within the stipulated timeframe due to the lack of effective implementation of the policies articulated in the TYIP. The floor suggested for equal allocation of Government resources and quality education among the marginalized group.

### **Social Capital: Education**

The paper on "Social Capital: Education" was presented by Mr. Balananda Paudel, Secretary, Ministry of Education. The paper covered areas such as EFA and School Sector SWAP, Secondary Education, Technical and Vocational Education, Higher Education Reform and issues of inclusion and quality education. Mr. Ishwor Prasad Upadhyaya, Panelist, highlighted on the importance of decentralization, capacity building and ICT. Another Panelist, Mr. Larsen, Minister, Embassy of Denmark, stressed on the need to address the need of 10-15% children who are still out of the school system and suggested that education could be one of the peace dividends. He emphasized the role of civil society and NGOs in education sector. The participants from the floor commented on issues such as proper utilization of resources, inclusion of diversity in curriculum, quality education and politicization of education.



### **Social Capital: Health**

Dr. Babu Ram Marasini, Joint Secretary, Ministry of Health and Population presented a paper on "Social Capital: Health." The paper

touched upon issues such as the implementation of Sector Wide Approaches (SWAp) in health sector, pro-poor guidelines for health sector, free essential health care services, improvement in drug quality, outreach program, health indicators, infrastructure development and human resources management. Dr. Dirgha Singh Bam, Panelist, commented that there is a greater need for donor support in health sector. Another Panelist, Ms. Bella Bird, DFID, stressed on the need to define essential services and improvement in financial management system in health sector. The participants from the floor commented on the role of private sector in catering to health needs of the people and need to give emphasis on mental health and non communicable diseases.



## **Evolving Peace Process and Emerging Scenario**

(February 4, 2008, Hotel Annapurna)

The session was chaired by Mr. Daman Nath Dhungana, former Speaker of the House of Representatives. Mr. Madhav Prasad Ghimire, Secretary, Ministry of Peace and Reconstruction presented a thematic paper on “Evolving Peace Process and Emerging Scenario” that took stock of the progresses, challenges, agenda and strategies for peace building initiatives that the Government of Nepal is undertaking at present. Mr. Ghimire highlighted on policy and institutional arrangements and on actions taken so far for the conflict resolution and rehabilitation of the conflict-affected people. He further threw lights on the emerging need of Reconstruction, Rehabilitation, Relief and social reintegration.

Hon’ble Mr. Malla K. Sundar, Member of the Legislature-Parliament, Supreme Court former Justice Mr. Laxman Aryal, renowned columnist Mr. C. K. Lal, social activist Ms. Rita Thapa, Chief of UNMIN Mr. Ian Martin and Hon’ble Mr. Dipendra Bahadur Chhetri, Member, National Planning Commission were among the Panelists, who contributed with their valuable comments and suggestions on the theme. The Panelists emphasized on the need for holding free and fair election of Constituent Assembly within the stipulated timeframe by holding necessary negotiations and discussions with different political and non-political groups, including Madhesi and Janajati.

The diversity of the participation ranging from Development Partners through Political Parties to the Youths and Students was encouraging and the deliberations made by them were critical. They were of the view that the peace building initiatives should include economic, political, social, and administrative measures to make this endeavor sustainable, where international community can play crucial positive role.

The Pre-Consultation Meetings organized in preparation for the NDCM have proved fruitful in ensuring participation of the wider community, who have real stake in the peace process and development of Nepal. Contributions made by the participants are now in hand to feed into the revised versions of the paper. Besides, the inputs collated from these deliberations are also expected to be used as policy feedback in the respective sectors. The whole preparatory process helped build confidence among the Government, Development Partners and the Citizenry at large.



# वैदेशिक सहायता परिचालन र अन्य गतिविधि

## १. वैदेशिक सहायता परिचालन

### (क) सहायताको स्वीकृति

- आर्थिक वर्ष २०६४/६५ को माघ मसान्तसम्म विभिन्न आयोजना तथा कार्यक्रमहरू कार्यान्वयन गर्न विभिन्न दातृ राष्ट्र/संस्थाहरूबाट रु. ३५ अर्ब २९ करोड बराबरको वैदेशिक सहायता प्राप्त हुने गरी संभौताहरू सम्पन्न भएका छन् ।
- प्राप्त वैदेशिक सहायता मध्ये अनुदान सहायताको अंश ७७ प्रतिशत (रु. २१ अर्ब १७ करोड) र ऋण सहायताको अंश २३ (रु. ८ अर्ब १२ करोड) रहेको छ ।
- प्राप्त वैदेशिक सहायता मध्ये द्विपक्षीय सहायताको अंश ३३.८१ प्रतिशत (रु. ११ अर्ब ९३ करोड) र बहुपक्षीय सहायताको अंश ६६.१९ प्रतिशत (रु. २३ अर्ब ३६ करोड) रहेको छ ।

### (ख) प्रतिवद्धता

- निम्न दातृ संस्था/मुलुकहरूबाट निम्न बमोजिमको वैदेशिक सहायता उपलब्ध गराउने प्रतिवद्धता व्यक्त भैसकेको छ ।
- एसियाली विकास बैंक : सूचना, सञ्चार तथा प्रविधि क्षेत्र विकास आयोजनाको लागि अमेरिकी डलर २ करोड ५० लाख, र शिक्षा क्षेत्र कार्यक्रमको लागि अमेरिकी डलर ८० लाख ।
  - अन्तर्राष्ट्रिय कृषि विकास कोष : गरिवी निवारण कार्यक्रमको लागि अमेरिकी डलर ४० लाख ।

## २. अन्य गतिविधि

नेपाल सरकार (मन्त्रपरिषद्) को २०६४ पौष १५ गतेको निर्णयानुसार २०६४ फागुन ९ र १० (फेब्रुअरी २१-२२, २००८) गते काठमाडौंमा दातृ संस्था/मुलुकहरू समेतको सहभागितामा एक दाताहरूसंगको परामर्श बैठक (Donor Consultation Meeting) को आयोजना गरिने भएको छ । यस्तो बैठक आयोजना गर्नका उद्देश्यहरू संक्षेपमा निम्नानुसार छन् :

- (क) त्रिवर्षीय अन्तरिम योजनामा अन्तर्निहित विकासका उद्देश्य, रणनीति, प्राथमिकता, अवसर र

चुनौतीहरूलाई सम्बोधन गर्ने गरी वैदेशिक सहायताको उपलब्धता तथा उपयोग सुनिश्चित एवं प्रभावकारी बनाउने तर्फ दातृ समुदाय र सरकारबीच समझदारी निर्माण गर्ने,

- (ख) सन् २००५ मा पेरिसमा सम्पन्न भएको दाताहरूको सम्मेलन (Paris Declaration, 2005) द्वारा प्रतिपादित दातृ सामञ्जस्य (Donor Harmonization) एवं सहयोग प्रभावकारिता (Aid Effectiveness) को मूल मान्यतामा केन्द्रित रही वैदेशिक सहायता नीति, २०५९ को समीक्षा गर्ने,

- (ग) नेपाल सरकारको उच्च प्राथमिकतामा रहेका आर्थिक सुधार कार्यक्रमहरूको कार्यान्वयनको प्रगति तथा चुनौतीको समीक्षा गर्ने,

- (घ) विकासमा सहभागिता सम्बन्धी दातृ संस्थाहरूको अनुभव, दातृ संस्थाहरूको सहायता प्रक्रिया, सामञ्जस्य (Donor Harmonization) तथा सहकार्यका सम्बन्धमा छलफल गरी संयुक्त समझदारी निर्माण गर्ने, र

- (ङ) शान्तिलाई संस्थागत गर्न र संविधान सभाको निर्वाचन गर्न आवश्यक सहयोग जुटाउने ।

नेपालको सामाजिक आर्थिक विकासमा सहयोग पुऱ्याउदै आएका ३० भन्दा बढी मुलुक तथा संस्थाका उच्च पदाधिकारीहरूलाई बैठकमा भाग लिन आमन्त्रण गरिएको छ । बैठकमा नेपालस्थित दातृ संस्था/राष्ट्रका पदाधिकारीहरूले पनि भाग लिने छन् ।

२०६४ फागुन ९ र १० मा हुने यस बैठकको पूर्व तयारीको क्रममा २०६४ माघ १८-२५ (फेब्रुअरी १-४, २००८) सम्म पूर्व परामर्श/छलफल (Pre consultation) कार्यक्रम सम्पन्न भयो । यी छलफलहरूमा नेपालस्थित दातृ संस्था/राष्ट्रका पदाधिकारीहरूका अतिरिक्त नेपाल सरकारका उच्च पदाधिकारीहरू, राजनैतिक दल, गैर सरकारी संघ/संगठन, नागरिक समाज र निजी क्षेत्रका प्रतिनिधिहरू समेतले भाग लिएका थिए ।

**FOREIGN AID COMMITMENT**  
**FY 2007/08 (2064/65)**  
**Donorwise**

Rs. In million

SN	Bilateral (A)	Grant	Loan	Total
1	Australia			0.00
2	Canada			0.00
3	China	857.00		857.00
4	Denmark			0.00
5	Finland			0.00
6	France			0.00
7	Germany	2725.00		2725.00
8	India		6500.00	6500.00
9	Japan	261.62		261.62
10	Netherlands	177.60		177.60
11	Norway			0.00
12	Saudi Fund for Development		985.50	985.50
13	South Korea	227.50		227.50
14	Switzerland	200.00		200.00
15	United Kingdom			0.00
16	USA			0.00
<b>Sub Total</b>		<b>4448.72</b>	<b>7485.50</b>	<b>11934.22</b>

SN	Multilateral (B)	Grant	Loan	Total
1	ADB	6290.00		6290.00
2	FAO			0.00
3	IFAD			0.00
4	ILO	194.70		194.70
5	OPEC Fund		636.50	636.50
6	UNDP			0.00
7	World Bank	16238.00		16238.00
<b>Sub Total</b>		<b>22722.70</b>	<b>636.50</b>	<b>23359.20</b>
<b>Grand Total (A+B)</b>		<b>27171.42</b>	<b>8122.00</b>	<b>35293.42</b>

**Foreign Aid Commitment  
Projectwise  
FY 2007/08 (2064/65)**

Amount in million									
S.N.	Date of Agreement	Donor	Name of the Project	Type of assistance	Amount	Sector	Terms of Loan		
					In Foreign Currency	In NRs.			
1	July 24, 2007	China	Economic and Technical Cooperation	Grant	RMB 50.00	428.50	Others		
2	July 27, 2007	Netherlands	Assistance to the Nepalese Private Sector through Program for Co-operation with Emerging Markets	Grant	Euro 2.00	177.60	Others		
3	August 9, 2007	ILO	Employment Promotion and Peace Building Based on Local Economic Development Project	Grant	US\$ 3.00	194.70	Local Development		
4	September 3, 2007	Saudi Fund for Development	Bagmati Irrigation Project	Loan	Saudi Riyal 56.25	985.50	Irrigation	Interest Rate: 2%, Grace Period: 5 Yrs., Maturity: 20 Yrs., Commitment Fee: 0, No. of Payments needed Per Year: 2	
5	September 5, 2007	Japan	Kathmandu - Bhaktapur Roads	Grant	JY 48.00	27.22	Transport		
6	September 5, 2007	Germany	Middle Marsyangdi Hydroelectric Project	Grant	Euro 13.10	1175.00	Power		
7	September 14, 2007	India	Line of Credit	Loan	US\$ 100.00	6500.00	Others	Interest Rate: 1.75%, Grace Period: 5 Yrs., Maturity: 20 Yrs., Commitment Fee: 0.50, No. of Payments needed Per Year: 2	

8	September 19, 2007	Korea	Government Integrated Data and Training Center (GIDTC)	Grant	US\$ 3.5	227.50	Science & Technology	
9	September 26, 2007	WFP	Umbrella Agreement on Humanitarian Assistance to Victims of Natural Disasters and Similar Emergency Situation					
10	October 4, 2007	World Bank	Nepal Biogas Support Programme	Grant	US \$ 5.00	318.00	Science & Technology	
11	November 26, 2007	OPEC Fund	Road Connectivity Sector I Project	Loan	US \$ 10	636.50	Transport	
12	December 12, 2007	Germany	Middle Marsyangdi Hydroelectric Project	Grant	Euro 16.6	1550.00	Power	
13	December 20, 2007	China	Economic and Technical Cooperation	Grant	RMB 50.00	428.50	Others	
14	January 9, 2008	Switzerland	Sustainable Management of Agricultural Soils in the Mid-Hills of Nepal Phase III	Grant	SFr. 3.579	200.00	Agriculture	
15	January 14, 2008	ADB	Rural Reconstruction and Rehabilitation Sector Development Program (RRRSDP)	Grant	US\$ 100.00	6290.00	Local Development	
16	January 28, 2008	Japan	Food Aid (KR)	Grant	JY 400.00	234.40	Supplies	
17	January 31, 2008	World Bank	Poverty Alleviation Fund	Grant	US\$ 100.00	6300.00	Others	
18	January 31, 2008	World Bank	Road Sector Development Project	Grant	US \$ 42.60	2690.00	Transport	
19	January 31, 2008	World Bank	Irrigation and Water Resources Management Project	Grant	US \$ 50.00	3150.00	Irrigation	
20	January 31, 2008	World Bank	Education for All	Grant	US \$ 60.00	3780.00	Education	
<b>Total</b>						<b>35293.42</b>		

**FOREIGN AID COMMITMENT**  
**Sectorwise**  
**FY 2007/08 (2064/65)**

Rs. In million

S.N.	Sector	Grant	Loan	Total
1	Agruculture	200.00		200.00
2	Communication			0.00
3	Education	3780.00		3780.00
4	Finance			0.00
5	Forestry			0.00
6	Governance			0.00
7	Health			0.00
8	Human Rights			0.00
9	Industry			0.00
10	Irrigation	3150.00	985.50	4135.50
11	Labour			0.00
12	Law and Justice			0.00
13	Local Development	6484.70		6484.70
14	Peace Fund			0.00
15	Planning			0.00
16	Power	2725.00		2725.00
17	Science & Technology	545.50		545.50
18	Supply	234.40		234.40
19	Transport	2717.22	636.50	3353.72
20	Water Supply			0.00
21	Women, Children & S W			0.00
22	Others	7334.60	6500.00	13834.60
	<b>Total</b>	<b>27171.42</b>	<b>8122.00</b>	<b>35293.42</b>

# Economic Update, Challenges and Road Ahead



**Rameshore Prasad Khanal\***

## I. Overview of the past reforms

Nepalese economy experienced surge in growth rate in the early nineties, which was mainly due to economic liberalization and implementation of a number of structural reforms. The effect of a higher growth rate and its broad-based distribution was perhaps the reason behind Nepal's success in poverty reduction. At a time when the country was gearing up for further acceleration in economic growth with targeted poverty reduction, economic reform and distributive programs, the armed conflict intensified in almost the whole of rural area. There was suppression in investment and development activities. In order to inject some life into the rural economy, government had to adopt community-based approach which, in a couple of years, proved to be insular to the effects of conflict and far better alternative to direct government implementation. Taking off from a very low base, the growth during the nineties and the subsequent community approach were barely sufficient to change the socio-economic structure of the country. Much of the rural area, inhabited by almost 85 percent of the population, still remains in primitive conditions.

As investment climate deteriorated, government spending on development projects slowed down, the immediate priority before the government was protecting the achievements made until 2001 and maintaining macro-economic stability. It was for this reason that the prudential measures were adopted in public expenditure management, medium-term expenditure framework was introduced and conscious efforts were made

to contain fiscal deficit to a manageable limit even in the face of rising security expenditures. During the tenth plan period, the government implemented a number of reform measures to improve revenue efficiency and, consequently, annual revenue growth rate remained reasonably high in comparison to the growth in GDP. Reforms in financial sector were intensified with a focus on its stability and sustainability. The government examined weaknesses in service delivery system in different sectors and action plans to correct them were implemented as a priority.

It was during these low-growth years that the government was able to introduce sector approach in foreign aid mobilization moving along the path of aid harmonization and alignment. Total results-based management may be a far cry, but in core sectors the attention now is on monitoring and reporting critical results indicators. Governance reform also remained at the heart of overall reform program, which focused mainly on improving financial accountability, procurement reforms and civil service reforms.

Financial sector reform focused on achieving stability and robustness in the sector, which was accompanied by critical intervention in government-owned commercial and development banks. Two large government-owned banks are now reporting improvement in financial performance, decline in non-performing assets and enhancement in the quality of front-office services. Agricultural Development Bank carried out a massive capital restructuring exercise, cleaned its bad portfolio and has recently attracted huge support from potential shareholders. Two

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\* *Secretary (Revenue), Ministry of Finance*

new laws passed recently by Parliament (Anti-Money laundering Act and Banking Fraud Control Act) are expected to foster healthy growth of banking sector. A new bill with a view to replacing the Banks and Financial Institutions Act has been presented before the Parliament, which once enacted is expected to help the process of acquisition, merger and consolidation in the banking sector.

New legal and institutional framework in capital market seems to be working properly, although a close watch from regulatory agency is always necessary. The evolving capital market is attracting many new small investors, which is a good sign for its further consolidation. Nepal's capital market today is capable of providing adequate financing for mid-sized infrastructure projects, particularly the hydro-power and toll-road projects.

## **II. The current economic scenario**

After the success of popular uprising in early 2006 and formation of coalition of major political parties for peace and socio-economic transformation, hope of a new Nepal that is prosperous, modern and just appeared to be a reality in the minds of many citizens. In these past two years, there have been times of high hopes while, on occasions, public psyche touched the lowest ebb amidst delayed delivery on certain promises. As every sovereign and empowered individual is openly ventilating anger and discontent—who expects quick transformation in his/her livelihood and general aspirations of people met by government—there have been chaos at times. If properly led and directed, today's empowered Nepali individual can provide sufficient energy for quick socio-economic transformation.

Although initially fast-moving political and peace process subsequently showed signs of losing track and momentum, political leaders have shown grit and courage in finding acceptable solutions. In the meantime, the economy remained virtually in stagnation. No new major investments started in the fiscal year ending mid-July 2007. There was some contraction in export sector. Overall

growth remained very low, in spite of accelerated government capital investment in rural areas. Private sector in general remained in wait and watch mood, trying to gauge what direction the political process will take. Industrial and business safety became the major concern of business community as a whole in the wake of deteriorating security situation, which was further exacerbated by trade union demands for job security, pay hike, etc.

In these past seven months of this fiscal year, however, along with emerging clarity in political process, the economy seems to be picking up. Tourism and service sector is showing signs of improvement. Agriculture that suffered most in the last two years has also been giving good performance partly due to good rains and also due to relatively peaceful environment in the rural side.

It is at this time that Nepal is implementing three-year interim plan with modest targets of restoring economic confidence, promoting social equity and creating a base for socio-economic transformation. Investor confidence in the economy seems to be picking up, with foreign investors showing interest in mega-projects. Overall macro-economic stability becomes even more important at this stage. A review of the current economic situation, therefore, is in order before explaining current challenges and future agenda.

### **Government Finance**

Fiscal year ending mid-July 2006 remained weakest in terms of revenue mobilization and also in terms of public expenditure quality, although overall fiscal balance was maintained. Beginning FY 2007, revenue efforts were enhanced. Consequently, the monthly collection on an average increased by over 20 percent compared to the corresponding period of the immediately preceding year. The year closed with revenue increase of 21.3 percent, which was some 3 percentage point in excess of the targeted revenue collection. The revenue/GDP ratio in FY07 rose sharply to 12.2 percent from 11.2 percent in FY06.

For the first time in almost a decade, the capital expenditures of the government exceeded 88 percent of the budget (Rs. 39.72 billion as against the budget of Rs. 44.97 billion). The average capital budget performance in the last ten years had never exceeded 75 percent of the budgeted amount. This was made possible by aggressively targeting areas where spending could be accelerated and making quick in-year adjustments. Substantial progress was made in a number of rural roads projects opening up access to markets and opportunities. There was huge pressure on current expenditure mainly for strengthening public safety and security, providing compensation for families of the victims of conflict and rehabilitation of internally displaced people. The actual current spending, however, was contained at 92 percent of the budgeted amount (Rs. 77.12 billion as against the budgeted amount of Rs. 83.77 billion). This was possibly largely due to prudential expenditure management and also due to savings in interest repayments (made possible because of currency appreciation and generally low level of interest in new debt instruments issued during the year). The actual interest payment on government borrowings was less by about Rs 1.7 billion compared to the budgeted amount.

FY07 ended with a treasury surplus of Rs. 3.12 billion. Because of the responsible budgetary operations even in a difficult situation, the government was able to confine the fiscal deficit/GDP ratio to 4.1 percent, though slightly higher than the ratio of 3.8 percent in FY06.

Government's outstanding debt liability, which had amounted to Rs. 323.9 billion (domestic Rs. 89.9 billion and foreign Rs. 234 billion) in mid-July 2006 declined by 2.5 percent to Rs. 315.9 billion (domestic Rs. 99.3 billion and foreign Rs. 216.6 billion) in mid-July 2007. The outstanding debt/GDP ratio fell from 50.1 percent (foreign 36.2 percent and domestic 13.9 percent) in mid-July 2006 to 43.9 percent (foreign 30.1 percent and domestic 13.8 percent) in mid-July 2007.

The revenue growth for FY08 has been targeted at 18.2 percent over the previous year aiming at raising the revenue/GDP ratio to 13 percent.

The overall weekly growth rate in the last six months has averaged well over 20 percent with the latest growth rate recorded at 26.9 percent. Government revenue performance not only indicates increasing administrative efficiency and tax compliance, but also the rebound in economic activities.

Capital spending for the current year has been planned at Rs 55.26 billion, a rise of around 39 percent over the actual spending of the preceding fiscal year. Cash-based capital expenditures reported until the third week of January 2008 has been 57.5 percent higher than the corresponding period last year. Work on major roads project connecting district headquarters is at full speed. Nepal Electricity Authority has started work on 30-MW Chameliya Project and construction work of 14-MW Kulekhani III is expected to begin soon. The preparatory work for 309-MW Upper Tamakoshi Project (expected to be optimized to 456-MW or higher) and 27-MW Rahughat Project is going on in full swing. Accelerated capital spending this year by the government and public sector undertakings in the area of electricity generation/transmission and telecom services is expected to set the stage for a higher growth rate in the next year.

The current expenditures of the government showed an upward trajectory at the end of first quarter mainly due to election preparatory expenses, which has now been contained at a manageable level. Current expenditure this year was targeted 27 percent higher than the actual spending of last fiscal year, which is now growing at 24.8 percent until the third week of January 2008.

Government's treasury position is showing a healthy surplus, although domestic borrowing increased sharply in the first six months in order to meet rising current expenditures then. Fiscal position has smoothed during the latest four weeks due to acceleration in foreign assistance disbursements and rising revenue.

In spite of prudence in budget management, recent developments have led government to think about a supplementary budget sometime

before the close of this fiscal year. Three events, which were not foreseen at the time of budget preparation, basically required government to make provision for additional expenditure. The first is the implementation of 23-point political agreement that allied political forces struck about a month ago. The agreement makes it mandatory for the government to provide for, among others, payment of pending amount owed to the verified combatants and their eventual reintegration and rehabilitation, repatriation and readjustment of discharged combatants with the payment of their due amount, rehabilitation of internally displaced persons (IDPs), managing the cantonments and camps, relief and resettlement of the victims of the conflict and rebuilding of infrastructure. The second is the expenditures towards holding free and fair Constituent Assembly Elections. Compromise in election expenditures is inconceivable. The third expenditure requirement emerged due to massive dues of the Nepal Oil Corporation to its supplier, which became the reason for disruption in petroleum supplies. The petroleum prices were revised twice in a gap of about two months in the second quarter of this fiscal year. People accepted the price rise in anticipation of unhindered supplies. The third price rise recently met with massive public protest, even as the supply situation was not improving. It has now become necessary for the government to rescue Nepal Oil Corporation by giving it enough cash to discharge its payables so that petroleum availability in the market could be ensured.

As mentioned above, the government has declared its intention of presenting supplementary budget in the Parliament at an opportune moment in the near future. As expenditure requirements become clear, the size of the supplementary budget will be known. It may be possible to meet a sizeable portion of the additional expenditure through budget savings in different sectors. Given the growth in revenue and also donor interest in financing some of the expenditures related to peace process, pressure on domestic borrowing will not be that significant. In view of liquidity crunch that some sub-sector within the financial sector is reporting lately, a further rise

in domestic borrowing by government may not be the prudent option.

In this context, the approach to fiscal management during the rest of the year would comprise the following seven strategies: (a) being vigilant on budget operation and containing wasteful expenditures; (b) meeting all expenditure requirements that are necessary for the success of peace process; (c) meeting all expenses necessary for free and fair conduct of the Constituent Assembly Elections; (d) accelerating public infrastructure-related capital spending both by the government agencies and public sector undertakings; (e) strengthening revenue administration and controlling leakages so as to achieve maximum possible revenue growth; (f) mobilizing foreign assistance for expenditures related to peace process implementation, and (g) containing fiscal deficit and domestic borrowing.

### **Sluggish Economic Growth**

In the context of political transition and the related disturbances, Nepal's economic growth rate in the recent years has remained low, compared over time and also across the countries. The deceleration in the growth rate has been the other feature of this period. As a positive development, it is now projected that the growth rate in the current fiscal year will reach 4.5 percent, approximating the budget estimate of 5 percent, mainly due to the 5.2 percent growth expected in the agriculture. The agricultural growth is attributed to the favorable monsoon, with the paddy occupying 20.8 percent share in the agricultural GDP, estimated to grow by 16.8 percent. The non-agricultural sector is estimated to rise by 4.3 percent during the year.

Regarding the low-growth situation in Nepal, FY02 witnessed the lowest positive growth (0.1 percent) during the entire period since FY 1974/75 when the systematic compilation and publication of the national accounts had started. During the following period, the growth rate became negative on two occasions, in FY 1979/80 (2.3 percent) and FY 1982/83 (3 percent).

In FY03, the first year of the tenth five-year plan, the growth rate was 3.9 percent followed by 4.7 percent in FY04, 3.1 percent in FY05, 2.8 percent in FY06, and 2.5 percent in FY07. The growth rate during the five years thus averaged 3.4 percent; lower than the low-case growth projection of the tenth plan (4.3 percent). During the five years prior to FY02 (namely, FY 1996/97 through FY01), the growth rate averaged 4.9 percent. The growth rate during the earlier five-year period (FY 1991/92 through FY 1995/96) had averaged 5 percent. It may be observed that some sectors posted impressive growth even in FY07. These sectors were housing, rent and business services (8.7 percent), financial intermediation (8.6 percent), transport, communications and storage (8.1 percent), education (5.6 percent), health (5.2 percent), and other services (5 percent).

The recent growth performance looks bleak also in comparison to the global and the South Asian averages. According to the World Economic Outlook (October 2007, IMF), world's output growth during the four-year (2004-2007) period averaged 5.2 percent. The emerging market and developing economies (per capita income up to US\$ 11,115) attained an average growth of 7.8 percent during the period. In Asia, China's average growth rate was 10.8 percent. In South Asia also, the average growth during the period looked comfortable: 8.9 percent in India, 7.1 percent in Pakistan, 6.3 percent in Sri Lanka, 6.1 percent in Bangladesh, and 3.3 percent, the lowest, in Nepal. With the population growth estimated at 2.2 percent in Nepal, the average annual per capita output during this period grew by 1.1 percent only. In contrast, the output per capita in all the emerging market and developing economies grew at an average of 6.6 percent.

The IMF projection of Nepal's economic growth for 2008 is not optimistic either. The emerging market and developing economies are projected to grow by 7.4 percent. The South Asian economies are also expected to register respectable growth rates in 2008: India 8.4 percent, Pakistan and Sri Lanka 6.5 percent each, and Bangladesh 6 percent. The growth rate of China is projected at 10 percent. The projection for Nepal is still modest at 4 percent. In a situation where the

neighboring economies are rising almost at double digits, it is dissatisfying to note that Nepal continues to suffer from such low-growth syndrome. In a least developed country like Nepal, such constraints on growth would further complicate the delivery of the socio-economic development outcomes for the large mass of the poverty-ridden populace including attaining progress in the attainment of the millennium development goals.

### **Monetary Sector**

Though the net foreign assets (NFA) of the banking system rose by a slower rate of 4.2 percent in FY07 over the growth of 23.8 percent in FY06, the growth of the net domestic assets (NDA) by 20.5 percent in FY07 over the 11.1 percent growth in FY06 resulted in a broad money (M2) growth of 14 percent in FY07 compared to its growth of 15.6 percent in FY06. The narrow money (M1) grew by 12.1 percent in FY07 compared to the growth of 14.2 percent in FY06.

FY07 also marked some rise in the share of the private sector credit as percent of the outstanding domestic credit, which reached 75.8 percent in mid-July 2007 from 75.5 percent in mid-July 2006. At the same time, the net claims on the government as a share of the outstanding domestic credit remained at 21.7 percent in mid-July 2007 from 22 percent in mid-July 2006. However, the higher domestic credit growth (16.7 percent in FY07 compared to the 11.7 percent growth in FY 2005/06) along with the higher private sector credit growth (18.9 percent in FY07 compared to the 14.4 percent growth in FY06) could not be transmitted into the output expansion as desired as the GDP growth estimate for FY07 significantly squeezed to 2.5 percent (agriculture 0.7 percent and non-agriculture 3.6 percent) from 2.8 percent (agriculture 1.1 percent and non-agriculture 4.6 percent) in FY06. So, the credit expansion in relation to that of the previous year did not support output expansion. This signals the continued need for improving the transmission of the financial resources into the real output.

During the first five months of the current fiscal year (mid-December 2007), narrow money and broad money grew by 4.8 percent and 9.5 percent respectively. Their corresponding growth rates during the same period last year were 2.7 percent and 4 percent. During this period, time deposits grew by 11.7 percent this year compared to the growth of 4.6 percent last year. During the period, the growth rate of domestic credit this year is 10.4 percent (last year 2.8 percent), private sector credit 10.9 percent (last year 6.5 percent), and net claims on the government 4.8 percent (last year *minus* 11.1 percent). The net claims on the government as a share of the outstanding domestic credit rose to 20.6 percent in mid-December 2007 from 19.0 percent in mid-December 2006. For the FY08, the growth rates of narrow money and broad money are currently projected at 14 percent and 16.5 percent respectively. The banking system's domestic credit growth and the private sector credit growth are projected at 18.3 percent and 19.1 percent respectively. The BOP position, which went negative in the first few months of FY08, has recently improved and projected to remain in surplus for the entire year on the assumption of the availability of the foreign assistance as estimated in the budget. These projections are in conformity with the requirements for a framework that supports economic growth without compromising macroeconomic stability.

### **Price Situation**

During FY07, the price situation continued to exert pressure, though reduced from the previous year's level. Supply factors and constraints in supply management at times threatened the goal of price stability. As measured by the consumer price index, the average price rise during FY07 reached 6.4 percent. The rate of core inflation at 6 percent in FY07 as compared to the 4.5 percent in FY06 indicated that the items other than the rice and rice products, vegetables, fruits, energy and transport also played a prominent role in maintaining the inflation at 6.4 percent. The growth of wholesale price index in FY07 averaged 9 percent, similar to the 8.9 percent rise in FY06.

At the same time, there has been a higher increment in the remuneration index. Salary index rose by 6.3 percent and wage index rose by 10.9 percent (combined index by 9.8 percent) in FY07 as compared to the rise of salary index by 0.3 percent and the wage index by 5.3 percent (combined index by 3.9 percent) in FY06. The growth rate of GDP price deflator was 6.3 percent in FY05, 6.4 percent in FY06, and 8.3 percent in FY07.

During the first five months of FY08 (mid-December 2007), consumer prices on an annual average basis increased by 6.1 percent compared to a rise of 7.6 percent in the corresponding 12 months ending in mid-December 2006. National wholesale prices rose by 9.2 percent in mid-December 2007 compared to the rise of 8.4 percent in mid-December 2006. Point-wise, consumer price index during the first five months rose by 5.7 percent compared to the rise of 7.3 percent during the same period last year. The point-wise wholesale price index during this year rose by 6.1 percent compared to the rise of 8.9 percent in the corresponding period last year. Point-wise, the salary and wage rates in mid-December 2007 showed a rise of 8.0 percent (salary index 10.9 percent and wage rate index 6.9 percent) over the combined growth of 10.2 percent in mid-December 2006. The price rise in the POL products in the fourth and the fifth month of this fiscal year is expected to raise the inflation projection by one percentage point. The projection for this year's rate of inflation is thus adjusted to 6.5 percent. However, the price expectation may not be realistic in the context of need for further petroleum price rise and rising food prices globally.

### **External Sector**

During the first nine months of FY06, trade deficit had risen by 29.1 percent. During the same period in FY07, the trade deficit rose by 13.3 percent. Tourism earnings during the nine months of FY06 had decreased by 16.9 percent. The tourism earnings rose by 3.2 percent during the same period in FY07. Foreign exchange reserve rose from US\$ 2.1 billion in mid-July 2006 to US\$ 2.5 billion in mid-July 2007.

During FY 2006/07, export in the Rupee terms rose by 0.9 percent as compared to the growth of 2.6 percent in FY 2005/06. However, due to the Rupee appreciation vis-à-vis the US dollar, the aggregate exports in US dollar terms rose by 3.9 percent. Major export commodities to countries other than India, such as, ready-made garments, woolen carpets, and Pashmina, declined by 16.1 percent, 4.1 percent and 41 percent respectively during FY 2006/07. As a result, the export/import ratio fell to 31.7 percent in FY 2006/07 from 39.3 percent in FY 2004/05. The share of export in total trade fell from 28.2 percent in FY 2004/05 to 24.1 percent in FY 2006/07. The export/GDP ratio came down to 8.4 percent in FY 2006/07 from 10 percent in FY 2004/05. Accordingly, the trade deficit/GDP ratio rose from 15.4 percent in FY 2004/05 to 18.2 percent in FY 2006/07.

Tourism receipts in FY 2006/07 rose by 6 percent over an 8.7 percent decline in FY 2005/06, signaling some recovery in this sector. The tourism payments increased by 32 percent in FY07 compared to a rise of 23.4 percent in FY06. One new development with respect to tourism since FY06 has been the negative figure of the net tourism earnings, reflecting the excess of the tourism payments over the tourism receipts. The negative earning amounted to Rs 5.7 billion in FY07 (receipts Rs. 10.1 billion and payments Rs. 15.8 billion) from a negative Rs 2.4 billion (receipts Rs. 9.6 billion and payments Rs. 12 billion) in FY06, implying excess of outflows over inflows in this sector.

The BOP surplus narrowed down in FY07. The BOP surplus in FY06 was Rs 25.6 billion, which fell to a surplus of Rs 5.9 billion in FY07. The contraction in the BOP surplus resulted from the reduction in the current account surplus which was mainly attributed to the reduced growth in the current transfers. The workers' remittances rose by 2.5 percent to Rs 100.1 billion in FY07. Despite the BOP surplus, the official foreign exchange reserve in the domestic currency terms in mid-July 2007 saw zero rise, compared to the growth of 27 percent in mid-July 2006, due to the appreciation of the domestic currency. The reserve remained at Rs. 165.1 billion in mid-July

2007 and the merchandise import capacity of the reserve fell from 11.4 months in mid-July 2006 to 10.3 months in mid-July 2007. In US\$ terms, however, the forex reserve rose by 14.3 percent to US\$ 2.5 billion in mid-July 2007 compared to the growth of 20.6 percent to US\$ 2.2 billion in mid-July 2006. However, the comfortable level of foreign exchange reserve despite the reduced BOP surplus implies that there are no immediate risks and vulnerabilities affecting the external sector stability of the economy.

During the first five months, trade deficit rose by 5.7 percent in FY08, 15.7 percent in FY07, and 28 percent in FY06. During this period, the current account balance came down from a surplus of Rs.1.0 billion in FY06 to a deficit of Rs. 43 million in FY07, and a deficit of Rs. 542.3 million in FY08. The net transfers (grants, workers' remittances, pensions, and Indian excise refund minus the debit payments in such items) during the period rose from Rs. 45.3 billion in FY06 to Rs. 51.4 billion in FY07 and Rs. 58.7 billion in FY08. The tourism earnings during this period rose by 67.2 percent in FY08 compared to the declines of 3.5 percent in FY07 and 23.4 percent in FY06. Net tourism earnings during this period amounted to Rs 0.9 billion (minus) in FY06, Rs. 2.7 billion (minus) in FY07, and Rs.1.6 billion (minus) in FY08. The number of tourists in 2007 exceeded half a million and nine new international airlines started operation during the year. Workers' remittances during this period increased by 17.6 percent in FY08 to Rs. 47.4 billion compared to a growth of 9.5 percent in FY07. BOP surplus during the five months in FY08 was Rs. 24.1 million compared to the corresponding periods' surpluses of Rs. 5.8 billion in FY07 and Rs. 5.7 billion in FY06. Foreign exchange reserve rose from US\$ 1.89 billion in mid-December 2005 to US\$ 2.39 billion in mid-December 2006 and US\$ 2.61 billion in mid-December 2007. These reserves in mid-December of 2005, 2006 and 2007 were sufficient to finance the respective year's merchandise and service imports for 8.2 months, 9.0 months, and 8.0 months.

### **III. Challenges**

Nepal today is undergoing political and social transformation of far-reaching implications. It is not quite certain what direction will this transformation take, but one thing is clear: people want more economic and political power at the local level. The eleven-year long conflict had many human casualties, caused damage to economic growth and private-sector investment. However, it exposed many of the social anomalies, increased mass awareness and empowered people. People want change and they want it quickly. Much of what they want is about change in their livelihood and they expect government to be partner in their quest for economic progress. It is in this search for better government that the issue of federal structure is under debate. It is about how economic resources are used and how it better serves people. It is not only about political space but also about economic space. The challenges that Nepal is facing today, therefore, need to be analyzed in this perspective and future course defined.

#### **Rising aspirations and perceived weakness of government**

People want quick solutions to everyday problems they are facing and they think government hears them only when extreme measures, such as road blockade or civic disruptions, are adopted. Oftentimes, a demand by one group of people contradicts with the interest of other group/s. And when demand of a group is met, the other group emerges with even stronger protest program to do otherwise (a case in point was the demand of temporary teachers to be granted special package for their permanent appointment without passing through the rigors of recruitment that was conceded when Education Bill was passed by the Parliament but was subsequently vehemently opposed by the University students who thought their opportunity for employment was robbed by dead-woods). Phenomenon like this has become everyday affair, and helpless public feels that the government is virtually non-existent.

Such activities have threatened public safety, distracted peace process, contributed to

deterioration in investment climate, brought disruptions in the revival of tourism industry and, most importantly, eroded public confidence in government. Without properly tackling this challenge, any economic reform program or accelerated government investments will not be producing desired results.

#### **Unemployment/Underemployment**

Unemployment has been a serious challenge to economic and social life. On the one hand, economy has not been able to generate adequate employment opportunities for people entering employment market every year (estimations show that some 300,000 people enter employment market every year). On the other, whatever employment opportunities are available is accessible to only already privileged category of people. There are primarily two reasons for this: firstly, lack of transparency in the recruitments done by private sector and in some cases even by the public sector (people enter public corporation through contractual appointments initially and later get permanent appointment through closed competition); secondly, due to differential levels of education and upbringing, youths from a large segment of society cannot stand up to the competition.

Underemployment is rampant in rural areas where people mostly draw their livelihood from agriculture. Agriculture employs about 78 percent of the workforce (of which, 67 percent are the farmers with some land and 11 percent are landless farm laborers), while it generates about 33.1 percent of GDP. Clearly, agriculture productivity is very low.

The unemployment problem is further aggravated by extremely protective labor law that discourages relatively riskier investments by entrepreneurs. Established business houses and industries do not think of short-term expansion and then contraction when market is down, because if they hire laborers for short-term expansion it becomes extremely difficult for them to fire when the business is down. Investors are, therefore, very cautious in both new investments and expansions, which they do

so only when they are sure that business will not face serious problem in the foreseeable future.

### **Widening income gap**

Nepal living standards survey 2003/04 had one good thing to report—that the poverty level went down from 42 percent to about 31 percent. But the unpleasant part is that the Gini coefficient went up from 0.34 to 0.41 indicating widening gap between rich and the poor and, at the same time, rural-urban disparity increased. Income inequality, if not addressed in time, could fuel another social discontent.

### **Access to finance and market**

Economic liberalization of the last decade had tremendous impact on the growth of banking and financial sector more than any other sector. The number of banking institutions has increased so has the quality of front-office services. This expansion has, however, catered to the needs of urban and formal sector. Banking network in the rural areas has narrowed in the last ten years and at the same time micro-finance institutions operating in the rural areas under Grameen-replicators, co-operative or other self-help format are constrained due to the absence of reliable wholesale financing. Agricultural Development Bank remains the only bank that directly addresses the needs of small farmers/entrepreneurs in the rural areas. As a result, a large section of rural population still depends upon informal sector for their financing needs. Limited access to finance has been one of the reasons for the low growth of small and medium enterprises in the rural areas.

While there is limited access to finance, rural farmers in many areas also have limited access to market due to transportation difficulties. Along with the difficulty of physical movement, there is a tremendous degree of information asymmetry. Right information is the key to getting good prices for the produces that rural farmers and entrepreneurs have. Right information at appropriate time also helps producers in choosing the right product for production.

### **Poor infrastructures**

Eleven district headquarters are not yet connected by motorable roads. Many district headquarters in the hills have motorable road connection which, however, is operable only during fair weather. Poor road connectivity has been the biggest bottleneck to the equitable development of rural areas and this has contributed to the feeling of exclusion from the national mainstream.

In remote areas, airline services have also not been reliable due to the poor condition of airport facilities.

Electricity supply is available to only about 48.5 percent of the total population (with some 2100 VDCs having some form of electricity supply on a limited scale). The country has been experiencing power shortage since the fall of 2006, which is expected to continue until year 2013 if projects in pipeline or under construction complete as planned without any hindrance. This kind of energy crisis is going to hit Nepal's growth expectation and additional industrial investment. Already, manufacturing industries are worst hit due to power outages.

After the liberalization in telecom sector, Nepal has made good progress in improving tele-density. The latest report says that tele-density has improved to over 10 percent from as low as 4 percent in the beginning of tenth plan period. Some 3000 VDCs have some form of telephone connection in a limited scale. There are instances that villages with better telephone service have been able to achieve higher productivity of their inhabitants, because telephone provides quick and real-time connection with the markets.

### **Rehabilitation and Reintegration**

Due to armed conflict, many people were displaced from their place of habitat and their means of livelihood uprooted. After the Comprehensive Peace Accord last year, displaced people are returning to their homeland. Not all have returned, but the situation is improving. These people need financial and moral support in order for them to reestablish in their occupations.

The magnitude of assistance and support to be provided is not yet known fully, but the task of reestablishing them all is certainly not easy.

Eleven-year long conflict also left thousands of families with human tragedies. The exact picture is not available, but many of the families lost the main person earning livelihood for the family. Many children have become orphans. Rehabilitation of such people is a challenging task as finance alone will not help. They have gone through horrific times and mental recovery from such shock needs special human care.

There are about 19,000 Maoist combatants in the cantonments waiting to be integrated into some form of mainstream services. The recently signed 23-point political agreement requires government to arrange for their integration in a manner outlined in the said agreement. These people may need proper training and orientation before any integration is done. At the same time, some 4,000 out of 6,000 or so disqualified combatants are to be discharged from the cantonments. Letting them go off with just few thousand Rupees of allowances is not going to solve the problem. These people need to be provided with opportunity for education or training of their choice. Perhaps, in some cases, they may need support to start a new vocation.

### **Maintaining stability and growth of the financial market**

Healthy financial sector is important for overall economic growth, especially the growth of manufacturing, tourism, hydropower and service sector. Some progress has been made in financial sector reform that is being implemented for some years now. The task is not yet complete. In the first place, much of the banking sector suffers from poor loan portfolio. Big and influential borrowers who, in spite of their asset base, have willfully defied banks' call for repayment or restructuring the loan. In the recent past, some action was taken on a few of them. It seems that desirable results are not yet coming.

A number of new banks and financial institutions are being set up every year. There was difficulty

in containing the numerical growth (which Nepal Rastra bank tried once with a sort of moratorium on new licensing). When qualified applicants seek licenses, it may be against open market and liberalization policy to stop new entrants into the market. This situation, therefore, demands stronger regulatory environment and, at the same time, encouragement for banks and financial institution to go for merger and acquisition.

Reforms in government-owned commercial and development banks have not yet completed. We cannot foresee any relaxation in the process and pace of reforms taking place in these institutions.

Nepal's capital market is in a nascent stage, but it is developing as a place for raising capital for large enterprises. Recently, market rose drastically. It has been noticed that the market does not have adequate financial instruments for price stability to take place and earn investors confidence. It was in this perspective that government decided to offload some of its holding in Nepal Telecom in the secondary market. This, along with the proposed new bond issue by Nepal Electricity Authority (NEA), will provide sufficient investment opportunity in the capital market. The recent move by the government and NEA will have two good things: (a) Public corporations will from now on need to be accountable to the ordinary shareholders/debt-holders, which will press them to be financially better managed and produce better financial results. (b) Capital market will gain depth, width and maturity creating ground for major investments being financed from public issues. Capital market has proper regulatory and legal environment. However, the regulatory environment needs to be functional and effective. This is where the challenge lies. Sound capital market is necessary for accelerating investments in hydropower and manufacturing sector.

### **Macro-economic stability**

Investment climate in general deteriorated and economic growth suffered, but Nepal did not face any serious problem during the first five years of this millennium when the armed conflict had

intensified. This was possible in many ways due to government's ability in maintaining macro-economic stability. Targeting public expenditure and prioritization, adopting multi-year approach to budgeting, maintaining discipline towards fiscal deficit, containing inflation and maintaining a comfortable level of foreign exchange reserve were key components in achieving macro-economic stability.

As sustainable peace is within sight and many Nepalese have high hopes of a new Nepal, macro-economic stability is even more important to ensure sustained, high economic growth. Macroeconomic stability will increase investor confidence in the economy, which is the necessary condition if we aim to attract additional new investments so essential for achieving a higher economic growth.

#### **IV. Road Ahead**

The road ahead, in the current context, needs to address the above challenges. First and foremost, of course, as outlined in precise terms in the three-year interim plan, is restoring public confidence in the government. Voices are often heard that there is a situation of "statelessness" in many cases or there is the absence of state. There may not be clarity in what these voices mean, but one thing is clear that public confidence in government's capacity to govern has seriously eroded. This is not a good situation and needs to be corrected. We must be mindful that during times of massive transformation, as the one that Nepal is currently traversing, uncertainties are bound to prevail in some cases. But this should not happen in everyday life. In this context, the first and foremost task ahead which needs to be done without losing time is improving and strengthening governance. Other challenges also need to be addressed systematically through policy reforms and actions. This paper will now deal with what needs to be done in the immediate future.

#### **Improving governance**

**Improving law enforcement capacity:** Nepal Police and Armed Police Force have recently

made some structural changes, including hiring additional hands. Three issues are important to make police force effective in its role as law enforcement agency: (i) Proper orientation to all police officials in their expected role towards people, i.e., changing the mentality from "serving the rulers" to "serving the people"; (ii) Equipping police force with means of quick communication and mobility including expanded use of information and communication technology; (iii) All new recruitments into police force to be made inclusive (this is necessary as people should feel that police force is not from a different ruling class, which is not their own)

The other aspect of law enforcement is the capacity of government in defending the cases in court of law. This aspect was virtually ignored in the past. Legal defense capacity of government needs a serious overhauling. This requires a close coordination between police and government attorneys and their capacity to collect and present evidence in favor of the cases that the government files.

Improvement in law enforcement capacity of the government can help build public confidence in government.

#### **Reengineering government front-line offices:**

Much of the public, or for that matter investor or business community, is frustrated with government, because its front-line offices are not client-friendly. Howsoever good the policy-making institutions or ministries may be, unless there's delivery at the local level, the governance will always be considered poor. It is, therefore, necessary to continue and intensify the process of reengineering front-line offices which has started in a small scale in some sectors. The core component of this should be the following:

- Examining all procedures and eliminating those that are not necessary,
- Examining all paperwork and reducing as much as possible,
- Introducing information technology and web-based services in government offices where mass public contact takes place every day,

- Making public hearing and citizens' charter a necessary component of governance,
- Introducing public satisfaction reporting as a component of performance appraisal of concerned employees.

#### **Devolution of activities to local governments:**

This is without doubt a better alternative to direct delivery by central government agencies. Local governments will exist no matter what form of state restructuring that the new constitution will prescribe. Therefore, it is necessary that the pace of devolution is not slowed.

#### **Improving investment climate**

Accelerated public and private sector investment is necessary to increase employment opportunities and, at the same time, address the underemployment problem of rural areas. While public investment needs to be channeled to developing and maintaining economic and social infrastructures, private sector investment will go to places where there is good return. Private-sector's expectation of good return on their investments must be respected in the first place. This is a pre-condition. At the same time, there should be a proper investment climate where private sector (both domestic and foreign) feels comfortable risking its investments. In order to improve investment climate, government will need to pursue the following agenda:

- **Labor reform:** Excessively protective labor law works to the advantage of **only** the existing labor force in the formal sector and constrains the growth of formal sector. When due to poor investment climate new enterprises are not set up, new job creation is minimal. More importantly, due to the lackluster growth of formal sector, hundreds of thousands of workers would have to seek jobs in riskier and lowly-paid informal/household sector. Labor law that is flexible in relation to hiring and firing and one that makes exit from business easy would attract more investments in the economy. Labor law reform, therefore, needs to be pursued vigorously. However, it must be understood that this reform should not

ignore the following two issues: (a) ensuring labor welfare, and (b) arriving at a consensus among workers and employers.

- **Trade facilitation:** The customs reform is an ongoing agenda which is moving with the objective of trade facilitation. A new Customs Act that incorporates many of the good practices in customs administration as recommended by the World Customs Organization and WTO will be in enforcement very soon. In addition, the following components of trade facilitation are at varying stages of implementation and will be pursued without any compromise: (a) improving customs infrastructure that is good for fast clearing of the consignments; (b) reducing steps and the related paperwork; (c) minimizing human interface with the introduction of new ICT infrastructure; (d) extending office hours for customs clearance with the provision of attractive incentive scheme for employees.

Customs reform will help minimize time and cost in international trade, but there is a high cost for trade due to internal barriers, such as, (a) frequent blockage of highways as people use them to exert pressure on the government, (b) road barriers by local government for the collection of local taxes. Both of these have been made illegal, but enforcement has not been effective. This is an agenda that enforcement agencies need to pursue in the immediate future.

- **Tax policy and administration:** Nepal has made tremendous progress in instituting a better legal environment for internal tax administration. With view to improving investment climate, loss carry forward provision under the Income Tax Act was extended to seven years for all businesses and twelve years for businesses in infrastructure projects with effect from the current fiscal year. The self-assessment regime in Income Tax is working well and efforts are underway to make audits more transparent to taxpayers, wherein tax officers will be answerable why revisions were found necessary in the self-assessment declarations.

Large Tax-payer Office has recently prepared comprehensive audit manual in collaboration with advisors from the IMF. This will further improve the quality of tax audits.

Many businessmen complain that tax clearance certificate is made mandatory even in places where its requirement is not apparently necessary, thereby increasing cost and hassles to the businesses. Provision of tax clearance certificate is definitely good for ensuring tax compliance; however, its issuance procedure and production requirements need a review. This will be done in the immediate future.

Improvement in local government taxation and its administration is an ongoing agenda. This will be done with a view to harnessing more revenues for the local governments and, at the same time, ensuring that businesses do not face unnecessary hardship.

- **One-stop services for potential investors:** Government has promised to create an autonomous and high-powered Investment Board, which will provide one-stop services to potential investors. Efforts will be made to reduce the average number of days required for setting up a new business. Closely allied to this is the requirement of different types of permits and licenses by different agencies. Problems created by such provisions will be reviewed and unnecessary requirements eliminated. Wherever permits are necessary for environmental or public safety concerns, the procedures will be simplified.
- **Easing the barriers to exit:** Secured Transaction Act was promulgated with a view to enabling lenders exit quickly from their bad loans, among others. The Act to be in operation requires a Registry Office, which has not been created yet. It would be done soon. Perhaps most important for quick exit from a loss-making business is proper insolvency procedure. It was for this reason that the Insolvency Act was promulgated. The Company Registrar's Office has been designated as Insolvency Administration Office and has become operational. Other

barriers to exit will be systematically examined and reforms introduced.

- **Skills improvement:** Businesses require skilled human resource for their efficient operation. As long as the workers' productivity in Nepal does not improve, Nepal could hardly become attractive destination for foreign investors. The government is paying due attention to skills improvement program. The skills for employment program will target both domestic and foreign market needs. Three new polytechnic institutions will start offering technical training in the near future. The government needs to scale up skills training activities addressing both the quality and quantity dimensions.
- **Easing the restrictions on investments abroad:** This may not truly sound as promoting domestic investments. However, that is not the case. As investors feel less restriction on investing outside whenever there are good opportunities available, they will feel comfortable investing in Nepal. In view of this, government has recently drafted a new law intending to repeal the current law that places severe restriction on investments abroad.

### Reforms in job market

**Mandatory public information for new recruitments:** Barring central government and public corporations, the entire organized private sector including public limited companies are least transparent in their recruitments. Job market must at least ensure "equal opportunity for equally competent people". This has not been the norm in a sizeable portion of job market. Therefore, it is necessary that all recruiters in formal sector be required to make information on job vacancies available publicly and recruitments based on competitive process that is transparent. If it adds to the cost for recruiting businesses, then the government can provide free-of-charge forum for job advertisements.

**Ensuring compliance to social inclusion in recruitments:** Uneven access to economic

opportunities is not the problem of government alone. It is a larger social problem which affects every sector. That is why, there is a widespread frustration among different communities which is sometimes reflected violently. This needs to be addressed by all collectively. Government has recently come up with inclusion program in its recruitments for civil, police and teaching services. It is also being expanded to the public corporations. This is not going to be enough. Private sector and non-government sector also need to be inclusive in their recruitments. It is, therefore, necessary to forge a new consensus on social inclusion in job market while, at the same time, ensuring entry of quality human resource that the private sector may ask for.

### **Addressing rural under-employment and creation of employment opportunities**

**Commercialization of agriculture:** This is the quickest way to addressing rural underemployment. Structural change in rural employment through workers' transfers to other sectors takes a little longer time and requires different skills level. Currently, a few projects under the government are addressing this, along with one-village-one-product (OVOP) scheme in major road corridors. Such programs need to be scaled up.

**Improving market access and imparting marketing skills to farmers:** Market access firstly requires road infrastructure that connects producing pockets with consumption centers. But more important than this is the institutional framework and storage facility that helps pooling produces of small producers. Co-operative framework has been showing good results in dairy and coffee producing areas. It has also been experimented with success in *Junar* (sweet orange) producing areas through OVOP program. Programs run by Poverty Alleviation Fund (PAF) and non-government organizations need to focus on these activities along with imparting pricing and marketing skills to farmers.

**Supporting agro-based SMEs:** A little primary processing using locally-manageable technology

adds substantial value to rural economy and can also generate additional employment. There are different schemes that the government runs through Cottage and Small Industries Department and other agencies. Agencies such as PAF could also be involved in promoting market-oriented SMEs in the rural areas.

**Focus on non-timber forestry product potentials:** High hills and the Himalayan region possess potential for the commercialization of non-timber forestry products. Extraction of plants like *Yarchagumba* has been rampant and ill-organized in the recent years. There are other high value plants that could be harvested. The future orientation of Ministry of Forest and Soil Conservation should be on how these riches could be harnessed for the benefit of local communities.

**Interim measures for short-term employment creation:** In order to create short-term employment opportunities in the rural areas, public works program using community implementation modality will be scaled up with additional resources transferred directly to communities.

### **Reform in rural finance and other infrastructures**

The Agriculture Development Bank will continue and expand its rural portfolio. The ownership and management of major Rural Development Banks have been made more responsive to the local needs. Comprehensive Micro-Finance Policy, which will define the regulatory framework for micro-finance institutions, has been worked out and will be announced soon.

As micro-finance institutions do not have reliable wholesale lending institution, a National Micro-Finance Fund will be established.

Rural access improvement has been the priority of the government and will continue to be so. Community approach to implementation will be the modality for rural roads construction

and maintenance. Critical airports in the remote districts will be upgraded.

One of the objectives of telecom sector reform program has been expanding the rural telecom coverage. Telecom service providers are encouraged and supported to expand their network in all rural areas.

### **Infrastructure improvement**

Roads connecting district headquarters have been accorded highest priority in budgetary allocation and implementation. The government has set the objective that all the district headquarters will be connected by motorable roads within the next three years.

Electricity generation capacity needs to be expanded. For this reason, the government is encouraging private sector to initiate projects. For proper regulation in this sector, a new Electricity Act has been drafted and new law on Electricity Tariff Board has been proposed. New in-country and cross-border transmission lines are being planned and implemented.

### **Rehabilitation and reintegration**

This is an important agenda before the government and adequate funds are being provided for this purpose.

### **Maintaining growth and stability in the financial market**

The financial sector reform is a continuing agenda. However, some of the core components of this reform, such as action against willful defaulters, preparing government-owned banks as fit and proper candidates for privatization have not yet been completed or not bearing desired results. This will continue to remain as a priority of the government.

The performance of Debt Recovery Tribunal will be reviewed and necessary measures will be undertaken to strengthen it.

The government has already declared the intention of corporatization and privatization of Nepal Stock Exchange. This will be implemented and the regulatory capacity of Securities Board will be strengthened so that the capital market operates efficiently.

### **Macro-economic stability**

As macro-economic stability is the core *mantra* of the government for accelerating overall economic growth and development in the country, reforms in budget preparation, implementation, and monitoring will continue as the priority focus of the fiscal policy. MTEF process will be further strengthened and spending agencies will be made accountable for the development results. Borrowings and fiscal deficit will be contained to a desirable level with the continued thrust on the mobilization of increased amount of revenue. The focus of monetary operation will be on containing the inflation at the desired level.

### **Improving public financial management and financial accountability system**

First phase of public procurement reforms have successfully been implemented. It has now become necessary to enhance procurement skills in whole of government through training programs and publication of manuals. Public Procurement Management Office is working in this direction. Reform in public financial management system is a continuing process for which areas of weaknesses have been identified and future reform will focus on correcting them.



# Some Observations on the Recent Fiscal Performance and the Reform Process in Nepal



Tula Raj Basyal\*

## Introduction

As evident to all, Nepal's socio-economic development structure has remained under-developed and the development outcomes modest. At the same time, Nepal is moving through a period of political transition which needs to be brought into normalcy soon for ushering in an environment that would open up the opportunities for faster economic growth trajectory like the one that Nepal's neighbors have been experiencing over the years. There is the need to appropriately and timely address the problems and challenges facing Nepal's economic development efforts for attaining success in ensuring reasonable standards of living for the people in general on a sustained basis. Priority accorded to the economic development agenda will enable us to overcome the challenges and attain the development goals. Despite the immense difficulties associated with the transition, it is satisfying to note that the fiscal performance and stance of Nepal's macroeconomy has not only been encouraging but also moving in the right direction.

## The Record

The people's movement of March-April 2006 followed the reinstatement of the House of Representatives on April 24, the swearing-in of the Prime Minister on April 30, 2006, and the formation of the Council of Ministers on May 2, 2006. An unpredictable environment

with structural deficiency in transparency, accountability, commitment and dedication for the people characterized the period just before the second popular uprising when the democratic process was stalled. The revenue mobilization and resource utilization aspects were not moving smoothly. The weekly central treasury position as on April 28, 2006 compared to the same period in the previous year showed a 3.1 percent negative revenue growth.

Besides the weakness in the revenue mobilization, the expenditure side was not well-directed and coordinated although the pressure on the recurrent expenditure then was low compared to the period that followed. Despite the increment in the foreign cash grants by 70.7 percent to Rs. 7.1 billion, foreign cash loans by 81.5 percent to Rs. 2.8 billion, domestic loans by 84 percent to Rs. 7.1 billion coupled with the 4.1 percent decline in the principal repayment to Rs. 7.7 billion, the capital expenditure as on April 28, 2006 compared to the same period in the previous year could only rise by 31.5 percent to Rs.10.1 billion.

Since May 2006, revenue mobilization efforts were strengthened, resulting in the mobilization of 34.6 percent of the annual revenue during the remaining two and a half months of the fiscal year compared to the corresponding figure of 30.5 percent in the previous year. Accordingly, the annual revenue mobilization for the FY 2005/06 posted a 3.1 percent rise.

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For the FY 2005/06, the revenue mobilized had amounted to Rs 72.3 billion. The target for FY 2006/07 was Rs 85.4 billion, an increment of 18.1 percent over the previous year's realization. The revised estimate of the revenue for the year was Rs. 86.1 billion. The actual revenue mobilized during FY 2006/07 not only surpassed the original target but also exceeded the revised estimate, and aggregated Rs 87.7 billion, an increment of 21.3 percent compared to the 3.1 percent growth in FY 2005/06. So, the FY 2006/07 remained the record year in that the actual revenue mobilized exceeded the revised estimate for the year. Likewise, the revenue/GDP ratio in FY 2006/07 rose sharply to 12.2 percent from 11.2 percent in FY 2005/06. As per the revised estimates of the budget, foreign grants witnessed a growth of 15.3 percent to Rs 16 billion in FY 2006/07 compared to a decline of 3.9 percent in FY 2005/06.

In FY 2006/07, speedier expansion of the recurrent expenditure and the capital outlays resulted in the growth of the total expenditure at a rate (18.9 percent) higher than the previous year's (8.1 percent). However, the rise in the non-debt resources (revenue and foreign grants) by 18.6 percent in comparison to their lower growth at 1.9 percent in FY 2005/06 resulted in the fiscal deficit growth of 20.1 percent in FY 2006/07 compared to the rise of 37.3 percent in FY 2005/06. To meet the expenditure needs as well as the issue calendar targets so as to help improve the resource management and financial market conditions, the domestic borrowing amounted to Rs 17.9 billion. There was a treasury surplus of Rs 3.1 billion in mid-July 2007 in comparison to the overdraft of Rs 1.1 billion in mid-July 2006.

Because of the responsible budgetary operations even in a difficult situation, the government was able to confine the fiscal deficit/GDP ratio to 4.1 percent in FY 2006/07, though slightly higher than the ratio of 3.8 percent in FY 2005/06. Government's outstanding debt liability, which had amounted to Rs. 323.9 billion (domestic Rs.

89.9 billion and foreign Rs. 234 billion) in mid-July 2006 declined by 2.5 percent to Rs. 315.9 billion (domestic Rs. 99.3 billion and foreign Rs. 216.6 billion) in mid-July 2007. The outstanding debt/GDP ratio fell from 50.1 percent (foreign 36.2 percent and domestic 13.9 percent) in mid-July 2006 to 43.9 percent (foreign 30.1 percent and domestic 13.8 percent) in mid-July 2007. The progress made in the mobilization of resources through revenue and foreign grants and the control in the growth of the fiscal expansion could be regarded as a very welcome step on the public finance front.

Regarding the situation for the current FY 2007/08, the capital expenditure compared with the revised estimates for FY 2006/07 has been targeted to grow by 51.9 percent. The target for the revenue growth is 18.2 percent and the revenue/GDP ratio is 13 percent. The fiscal deficit/GDP ratio is expected to remain below 5 percent. The budget for FY 2007/08 has given special focus on the targeted programs and activities aimed at reducing the poverty level in the country. A total of Rs.51 billion has been earmarked for programs like the rural infrastructure, capacity and income enhancement, assistance for the local bodies, people's participation-based programs, social security, etc. that have the potential to directly contribute to the objective of poverty reduction. Compared to the allocation for FY 2006/07, the allocation for education has been increased by Rs. 5.4 billion to aggregate Rs. 28.4 billion. Health sector has been allocated Rs. 12.2 billion, Rs. 2.9 billion more than that allocated in FY 2006/07.

The revenue growth rate till December 28, 2007 has remained 22.3 percent compared to the 14.3 percent growth in the corresponding period of the previous year. On the basis of cash transactions, total budget expenditure till December 28, 2007 increased by 42 percent compared to the 9.4 percent growth during the same period last year. During this period, the growth of the recurrent expenditure has been 24 percent and the capital expenditure 105.9 percent. The growth rates

during this period last year were recurrent expenditure 8.3 percent and capital expenditure 17.5 percent. Principal repayment increased by 109.4 percent compared to its slower rise at 9.2 percent last year. Foreign cash grants decreased by 39.6 percent compared to a growth of 118.4 percent last year. Borrowings increased by 58.3 percent (domestic 79.8 percent and foreign 23.5 percent) compared to the last year's growth of 34.8 percent (domestic 68.4 percent and foreign minus 4.8 percent).

During the past 17 months since mid-August 2006, overdrafts in the central treasury position have occurred in two instances only —mid-October 2006 and mid-October 2007. For the rest 15 months, there were cash surpluses, which had reached the highest level of Rs. 14.9 billion in mid-March 2007. Even the overdraft figure of Rs. 3.6 billion in mid-October 2007 was within the ceiling as fixed by the Nepal Rastra Bank Act 2002, i.e., five percent (viz., Rs. 4.3 billion) of the previous year's adjusted revenue of the government (Rs. 86.5 billion). The treasury position as on December 28, 2007 shows a cash surplus of Rs. 0.2 billion.

The government has intensified its efforts on revenue mobilization. The continued emphasis on improving the different tax areas will help improve the tax realization while the divestment of 15 percent share capital of the government in the Nepal Telecom will raise the non-tax revenue. The budget's target for revenue mobilization is, therefore, expected to be met. The government feels that the budget projections of the foreign grants (Rs 27.5 billion) and foreign loans (Rs 17.4 billion) will be met with the goodwill and the growing commitments of the donor community. The government also believes that the capital outlay should not be disturbed, especially in the environment of the low-growth syndrome that the economy has been experiencing in the recent years.

During the current period of the political transition, there has been a sharp pressure on the recurrent expenditure due to the security,

relief and rehabilitation needs, constituent assembly elections, cantonment management for the Maoist combatants, and increment in the remuneration of the employees. Despite the rising expenditure requirements, the government is committed to maintain the fiscal deficit at around five percent of the GDP. The overall indicators on the government finance have remained at a manageable proportion, a testimony to the government's serious commitment and responsible stance in resource mobilization and fiscal prudence.

### **Reform Process**

Despite the difficult environment, fiscal reforms are being carried out with an urgent priority while the past reform initiatives are being strengthened. As regards fiscal transparency, the government is committed to implementing the IMF recommendations made recently as part of the technical assistance to improve public financial management and in the fiscal transparency module of the Report on the Observance of Standards and Codes (ROSC). These include broadening the coverage of fiscal reporting, progressive reduction in the off-budget funds, and improvements in cash management through the introduction of a treasury single account. Public Procurement Regulation and Travel Expenditure Regulation have already been implemented. Steps have moved forward for establishing commercial benches in the six courts.

The Large Taxpayer Office (LTO) has conducted comprehensive audit of the large tax-payers. The LTO will further improve its operations by adopting a risk-based methodology for audit. The parliament has approved a new, overhauled Customs Act to facilitate trade, consistent with the WTO and other international commitments. With the installation of the wide area network (WAN) for headquarters and five large customs offices, the focus of the Customs Department would be on the installation of the ASYCUDA system and improvements in management

practices and procedures. New Customs Act and regulations will soon be implemented.

The fiscal sector has become more efficient and strong in the context of the domestic development requirements and in response to the international economic imperatives and commitments. The international tariffs are reduced and the domestic tariffs are rationalized. The fiscal responsibility and sustainability has increased, as reflected in the greater mobilization of revenue, controlled level of the fiscal deficit, improved expenditure management despite pressures mounting on the recurrent expenditure, and reduced ratio of the outstanding debt of the government as percent of the GDP.

The government has given immense priority for strengthening the health and improving the operations of the financial institutions that are under its ownership. In addition, the government is committed to support the growth and soundness of the entire financial system as the catalyst for expediting the economic growth and ensuring macroeconomic stability in the country. The central bank has been empowered and made directly accountable for the monetary policy prudence, financial sector development, regulatory and supervisory responsibility, and management of the foreign exchange system as the critical components of the macroeconomic management, with the focus on reducing the risks and vulnerabilities in the financial system and attaining the goals of price stability and balance of payments consolidation. Accordingly, various legislative measures have been introduced or refined and arrangements for managerial improvements effected.

Financial sector liberalization focused on institutional growth and prudential regulation and supervision has helped make the financial system larger, broader and competitive. Along with the number of the institutions, their quantitative as well as the qualitative dimensions have expanded. The ongoing financial sector reform (FSR), the priority strategy of the government,

implemented under the assistance of the World Bank, IMF and DfID including the regulatory reform process has helped in reducing the ratio of non-performing assets (NPA), curtailing the financial intermediation cost, improving the range and delivery of the financial products and services, broadening the reach and access of the financial system, increasing the capacity of the central bank, and attracting more and more investments into the financial system. Action has been taken against willful defaulters of the bank loans exceeding Rs. 50 million. Their passports were cancelled and they have been denied appointment in the public positions. Their investments in the government securities have to be auctioned and the proceeds used for the repayment of the loans. They have been denied payment of their deposits (both in domestic and foreign currencies) and the property kept in the bank lockers will be freezed. Actions against the willful defaulters are continuing.

As the major component of the FSR, management teams were appointed to improve the management capacity of the two state-owned banks. The management team in the Rastriya Banijya Bank (RBB) has been working since January 16, 2003. The management team in the Nepal Bank Limited (NBL) was placed on June 17, 2002 through July 21, 2007. The NRB management team has been working in the NBL since July 27, 2007. The profitability as well as the managerial and operating systems in the banks has since improved though the higher levels of NPA and negative networth have still remained the problematic areas. So, recovering the past overdues of these banks, meeting the capital adequacy norms in view of their large negative networth, and divesting them into the hands of competent strategic investors have remained the biggest challenge. The government, by its available means, is also not in a position to meet its share of the resources required for meeting the capital adequacy requirement in these banks. Another government-owned financial institution, the Agriculture Development Bank (ADB/N), was transformed into the commercial bank on

March 16, 2006 as per the recommendation of the consultants appointed under the Rural Finance Sector Development Cluster Program of the ADB. The divestment program of some shares in the ADB/N has come into the final stage and the second and final installment (US\$ 16 million) as part of the capital restructuring in the ADB/N has already been disbursed by the ADB.

Nepal has been successful in maintaining macroeconomic stability even in the current stage of transition the prudent management of which is so critical for determining the course of political transformation and socio-economic development. The track record in furthering reforms, strengthening the macroeconomic structure and restoring macroeconomic stability even in the extremely difficult situations has been appreciated by the donor community as well. The fourth review report of the Poverty Reduction and Growth Facility (PRGF) prepared by the IMF and dated May 30, 2007 observed that the government's efforts and achievements—continued macroeconomic stability and further progress in structural reforms under trying circumstances—merited international support. While completing on November 9, 2009 the fifth and final review of Nepal's economic performance under the PRGF, the Executive Board of the IMF commended Nepal for implementing prudent macroeconomic policies and structural reforms under difficult political circumstances. According to the Board, as the peace process moved forward, achievement of sustained higher economic growth and poverty reduction rested on the resolution of political uncertainties and continued implementation of key structural reforms in the fiscal, financial and public enterprise sectors. The Board observed that continued macroeconomic stability was contingent on prudent fiscal policies that took into account the changing needs of the country. The Board believed that the 2007/08 budget was appropriately focused on boosting social sector and infrastructure spending, raising the revenue/GDP ratio, and limiting domestic financing.

The Board welcomed the government's commitment to enhancing fiscal transparency. The Board also suggested improving efficiency-enhancing structural reforms and infrastructure investments.

Under the three-year period of the PRGF, SDR 49.9 million (70 percent of the quota) was approved on November 19, 2003. However, before November 2006, only a total of SDR 14.26 million was released through two installments dated November 19, 2003 and October 20, 2004. No amount was released during 2005 due to lack of progress in pursuing reforms and demonstrating credible commitment to macroeconomic stability. The subsequent progress since attained in these directions made further releases possible, amounting to SDR 14.26 million on November 17, 2006, SDR 10.69 million on June 13, 2007 and SDR 10.69 million on November 9, 2007.

The Three-Year Interim Plan (FY 2007/08-FY 2009/10) of the government has specified its main mission as laying the foundation for socio-economic transformation so as to build prosperous, modern and equitable Nepal. The objective of the Plan is to make direct positive impacts on the lives of the people through reduced levels of unemployment, poverty, and disparity and through contributing to the establishment of the sustained peace. The Plan has specified a number of strategies for attaining the objective. Reconstruction, rehabilitation, relief and readjustment; inclusiveness; and physical as well as social infrastructure development have remained the priorities of the Plan. Accordingly, the Plan has envisaged various targets in the economic and social sectors.

The donor community's deep desire to help Nepal's progress is evident in their generous support commitments, especially through the grants. The World Bank approved on December 7, 2007 its largest-ever support package worth US\$ 253 million (Rs. 15.9 billion) in grants, which Nepal and the World Bank signed on January 31,

2008, for projects like the Poverty Alleviation Fund, Education for All, Irrigation and Water Resources, and Road Sector Development. In January 2008, the Asian Development Bank (ADB) approved US\$ 10 million (Rs. 6.3 billion) grants, the highest-ever single component so far provided by the ADB. The four-year project, which begins in 2008, is centered on remote 20 districts focusing on poverty reduction, inclusive development, governance and decentralization, rural infrastructure, growth in economic and employment opportunities, rural transport, and other supplementary infrastructure.

## **Conclusion**

The economy has been affected by a period of political transition. So, the economy is predominated by the non-economic factors. The social and ethnic tensions, frequent blockades and disturbances, and the weak security situation negatively affected the economic environment in general and the investment climate in particular. Accordingly, the sectoral as well as the macroeconomic performance produced mixed results. Even in such circumstances, the fiscal situation remained strong as reflected in the comfortable level of the resource mobilization, surpluses in the treasury position, and prudent levels of the government borrowings and the outstanding debt stocks.

The responsible stance and encouraging performance in the fiscal front mainly

contributed for the maintenance of the macroeconomic stability in the country. While the macroeconomic situation remained broadly stable, the stability could not be transformed into higher output level and development outcomes due to the weakness in the spending side of the government and the problems faced by the private sector in increasing investment and other economic activities. Resources could not be deployed for the investment activities as desired, also due to the pressure on the recurrent expenditure in the prevailing environment of the political transition.

Peace is crucial for the socio-economic development of Nepal. Effectively addressing the current problems and disturbances and meaningfully concluding the political transition have become the pre-requisites to the sustained peace and development. The holding of the constituent assembly elections as scheduled on April 10, 2008 would hold the key in this direction. Such an environment will contribute immensely in the mission of further strengthening the fiscal position, enhancing its efficiency and effectiveness, and consolidating the macroeconomic stability in the country. This will pave for attaining a sustained, high and broad-based economic growth, so essential for meeting the poverty reduction and other development goals of the country. All the stakeholders should extend their responsible and cooperative hands in these pursuits.

# Nepal's Need for Increased External Assistance



Shree Ram Pant\*

## Introduction

After the decade-long insurgency, Nepal is in the process of political stabilization. With the signing of the 23-point Comprehensive Peace Accord (CPA), Nepal ushered into an arena of peace. The stabilization and institutionalization of peace is the commitment and priority of foremost national importance. Institutionalization of peace is a very complex and cumbersome task ahead elsewhere in the conflict-ridden countries, globally. Nepal is by no means an exception. Despite some policy initiatives toward economic liberalization, time and again interrupted privatization process and higher and wide ranging growth in the first few years of the last decade, the development outcomes have remained modest because of the size of the economy, level of development, state of poverty, regional disparities, large under-employment, low per capita income and agriculturally dependent economy. Moreover, the sizable number of people secluded from the development process over the decades, and poverty and unemployment remained unabated. Therefore, Nepal's socio-economic development initiatives need to be made meaningful for a vast segment of the population. To meet all these challenges, the viable solution would be the inclusive economic development for which sustainable peace is a prerequisite. People of all walks of life expect the access to peace dividend at a very faster rate and are, infact, impatient too. This peace dividend constitutes an important outcome for the people at large.

## Agenda

Nepal is moving towards the crossroads of the rapid change. For this to happen, the economy needs much more resources to reconstruct the ruined

infrastructures as well as reinvigorate the sluggish economy. At this juncture, utilizing more foreign aid has been considered as a compulsion rather than a choice. The forthcoming Nepal Donors' Consultation Meeting (NDCM) 2008, scheduled during February 21 - 22 in Kathmandu, would definitely further open up the doors for dialogue between the global partners and the Government of Nepal (GON) for chalking out a bright future in Nepal's development endeavor. The broader theme of the meeting would thus be interlinking the 'Peace and Development' with the specific objectives such as sharing current status of the peace process in the evolving political scenario in Nepal, disseminating the country's development needs and priorities and stock-taking of required resources centered around the Three -Year Interim Development Plan (TYIP), seeking pragmatic commitment from development partners about the long-term support to Nepal's development, and so on. The Plan aims at improving the lives of Nepali people through reduced level of unemployment, poverty, and disparity and through contributing to the establishment of the sustained peace. Reconstruction, rehabilitation, relief and readjustment, inclusiveness and physical as well as social infrastructure development have remained the priorities of the TYIP.

The mission of the TYIP is laying the foundation for socio-economic transformation so as to build prosperous, modern and equitable Nepal. The global partners are well aware of the Nepalese development priorities. The government is also fully committed toward the implementation of the projects and in achieving the results in stipulated time, cost and quality. This is by no means easier said than done as Nepal is embarking upon holding the Constituent Assembly election on April 10, 2008 as well as meeting various demands including those agreed on the 23-point Comprehensive Peace Accord.

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\* Joint Secretary, Ministry of Finance.

## **GDP Growth**

Growth Domestic Product (GDP) is estimated to grow by 4.5 percent for the current year, agriculture output growth is 5.2 percent and non-agriculture output at 4.1 percent due to favorable monsoon and growth in service sector respectively. The GDP growth rate was very low at 2.5 percent in FY 2006/07 due to unfavorable monsoon coupled with sluggish growth in the industrial and service sector.

## **Government Revenue**

Maintaining the macro-economic stability and strengthening the balance of payment situation, which has been strained by the declining export sector and fledgling manufacturing sector also constitute the major challenges for the economic management prudence. Despite manufacturing and export sectors' dismal performance, revenue growth is encouraging, which registered 25.4 percent growth during the current six-month period. Government revenue mobilization amounted to Rs. 47.39 billion in the first six month of current FY 2007/08 compared to an increase of 19.7 percent in the same period last year. The revenue growth further expanded at a 31 percent to Rs. 55.34 billion in the month of 2064 Magh (Feb. 12, 2008) compared to 17.9 percent in the corresponding period last year. The target for revenue growth is 18.2 percent to Rs. 103.66 billion and revenue GDP ratio is 13 percent in the current fiscal year. The government target for the current fiscal year 2007/08 is thus expected to be met. However, the government received foreign cash grants of Rs. 5.22 billion as compared to Rs. 7.93 billion during this period last year, which declined by 34.17 percent, more concerted efforts are needed to meet the budgetary target of mobilizing foreign assistance projected at Rs. 44.83 billion. Various agreements signed in the current period will pave the way to receive more grants assistance in the next half of the current fiscal year.

## **Revenue Reform**

The favorable growth in the government revenue has become possible through the introduction of the various reform initiatives in the field of taxation, covering legislation, procedural improvement, administrative simplification and rationalization of the

tariffs. The continued focus on making the tax regime friendly for investment, business and other tax payers also contributed to the favorable growth in the revenue. Introduction of the incentive – based tax audit and collection system also helped in raising the revenue compliance and its efficiency.

## **Inflation**

Year over year (Y-O-Y) consumer price inflation rate is about 5.7 percent as compared to 7.3 percent in the corresponding period of the last year. The rise in the average price level in the first five months of the current year is 6.3 percent as compared to 7.1 percent in the same period last year. The average price in the current period rose by 9.1 percent in food and beverage group and in the non-edible and services group by 3.3 percent while the rise in the price level was 6.8 percent and 7.5 percent respectively in the same period last year. The rising price level of food and beverage group was accounted for mainly the hike in the petroleum products among other political and social reason as well as rise in the commodity prices in the international market. The slowdown in the price level of housing goods and services; fuel, light and water, and transport and communication group contributed to the fall in the inflation rate in the review period.

## **Government Expenditure**

The government expenditure on a cash basis increased by 30.2 percent to Rs. 58.28 billion in the first six months of FY 2007/08 compared to an increment of 11.9 percent in the same period last year. The increasing government expenditure was on account of rise in recurrent capital and principal repayment. As of February 12, 2008 total expenditure rose by 31.1 percent to Rs. 68.12 billion, the recurrent rose by 20.6 percent, capital by 79.1 percent and the principal repayment by 40.6 percent.

The recurrent expenditure rose by 21.8 percent to Rs. 38.24 billion in the current FY 2007/08 compared to an increase of 10 percent in the same period last year. The higher growth in recurrent expenditure was due to increase in the preparation of Constituent Assembly election, peace related expenditure, relief and rehabilitation, salary hike of government employees and other administrative expenditures and

so on. The capital expenditure increased by 66.3 percent to Rs. 10.28 billion compared to the 25.9 percent rise in same period last year.

The loan investment of Rs 500 million to the Nepal Oil Corporation (NOC), share investment of Rs. 1.75 billion in Agriculture Development Bank and Rs. 520 million in the Nepal Electricity Authority, the release of Rs. 1.2 billion for the Poverty Alleviation Fund and the disbursement of funds to local authorities contributed to the significant rise in capital expenditure. To meet the deficit financing, the government mobilized Rs. 8.20 billion through the fresh issuance of securities and the cash balance of the Government with the Nepal Rastra Bank (NRB) amounted to Rs. 7.7 billion. Including the previous years' cash balance of Rs. 3.12 billion, the outstanding cash balance of the Government with Nepal Rastra Bank (NRB) stood at Rs. 10.19 billion in mid-January 2008. The amount so far raised through the issuance of securities is 40 percent of the budgeted ceiling of Rs. 20.5 billion for 2007/08. The net domestic borrowing of the government remained at Rs. 4.39 billion, adjusting Rs. 3.81 billion of principal repayment in the Rs. 8.2 billion domestic loan. Of the total budget deficit amounting to Rs. 3.26 billion, Rs.2.36 billion was financed through external borrowing. Because of the cash surplus of Rs. 7.07 billion, the amount borrowed exceeded the budget deficit by Rs.3.81 billion.

## Expenditure Reforms

The government has accorded high priority for the expenditure management, with focus on prioritization, efficiency, effectiveness, accountability and transparency. Utmost attention has been paid to avoid resource crunch for the high-priority projects. The Medium-Term Expenditure Framework (MTEF) has remained the basic foundation for allocating resources under the government budgets. A number of other reforms in the public sector financial management have been implemented in order to ensure accountability and efficiency in the resource use. Prominent among these are the introduction of the legislations on public procurement and governance reform as well as the implementation of the budget formulation guidelines.

The demand for resources is all-time high and meeting the resource requirements is a challenging task as well. Living up to the budgetary limit in an environment

of rising recurrent and capital expenditures is not only daunting but that GON has also been put in a compulsion to meet all these requirements in a very short span of time. The rising expectation of the people, management of cantonments and payment to combatants, rehabilitation of internally displaced persons (IDPs), relief and rehabilitation of the conflict affected and victims, rebuilding of infrastructure, formation of a number of commissions and committees, payment of the dues of the Nepal Oil Corporation, holding of the Constituent Assembly elections and the increased need for security management aggravated the situation over the already resource-crunch economy with continuing need to pursue previously launched programs on poverty alleviation, unemployment reduction, infrastructure development, expansion of economic opportunities to the poor, marginalized, *Terai-Madhesi, dalits, janjati, adibasi* and women, besides attaining progress in the regular and already committed investments aimed at achieving higher and broad-based economic growth.

## The Financial Sector Reform

The challenges ahead are to continue and sustain the reform process which has already been committed and have come to a stage where only more reforms constitute the deserving alternative. In this context, the financial sector reform is showing encouraging results. Rastriya Banijya Bank's Non Performing Assets (NPA), which stood at 60.15 percent to Rs. 16 billion at 2060 Ashad end (July 2003) is now 29.16 percent to Rs. 7.40 billion at 2064 Ashad end (July 2007). Similarly, Nepal Bank Limited's NPA which stood at 60.47 percent in 2060 Ashad end (2003 July) is now stood at 14.45 percent (July 2007). The Agriculture Development Bank (ADB/N) reform process is taking its root and recent move by the GON to divest 5 percent share is also encouraging, with the issuance of 12.5 crore share call a hovering Rs. 4 billion is estimated to have been applied for by the share holders. The deposit amount in these banks under reform has been increasing every year with the beginning of the reform process. Re-engineering of Nepal Rastra Bank is also showing a fruitful results since various organizational and legal provisions have been put in place. A number of legislative improvements have occurred in the financial

system reform. Prominent among them are the legislations on anti-money laundering, banking frauds and control, secured transactions, insolvency, debt recovery, banks and financial institutions and companies.

## **The Capital Market**

The reform in share market is evident with the increase of Nepse index to 958.91 points on Jan , 14, 2008 ( the first six month of the current year) from 683.95 points in 2064 Asahad end (July 2007), The share market capitalization reached Rs.301.86 billion which accounted for 38 percent of GDP compared to 25.9 percent in mid-July 2007. The Banking and financial sector is the single largest contributor to such healthy growth.

Reform process has already begun in the field of margin lending too. A number of reform action have been undertaken including increasing the number of share brokers, computerization & online transaction, various legal and organizational reforms in the current period , besides, Nepal Security Exchange Board Rules,, Security Market Operation Rules, & Security Professional Rules (brokers, investor & market maker) have been inacted and came into force. As a result, a healthy growth is expected in the capital market so as to meet the resources gap for the corporate and infrastructure development.

The capital market has remained vibrant given the increasing participation and interest shown by the people in general and the ever- increasing investment in Nepal Telecom and the Agriculture Development Bank and other Financial Institutions. Also, the interest shown by the local investors and the foreign joint venture and direct investors in the field of hydro power, fast track road, airports, telecom and other infrastructure projects besides, in the industrial, service and financial sector areas demonstrate the investors trust and confidence in the management of the economy.

## **Future Assistance**

The role of global partners, bilateral and multilateral, have had a key role to arrive at such a stage and would continue to play even more important role in the days to come especially when the country is

placed at a very critical and trying moment as at the present. The changing profile of assistance structure from loans to grants assistance is a welcome move by the global partners keeping in view our national priorities and the debt sustainability requirements in consideration of the rising resource needs. The World Bank and the Asian Development Bank have provided first ever largest grants assistance to Nepal. The World Bank has provided (US\$ 253 million) RS. 15.9 billion for the poverty alleviation fund , education for all, irrigation and water resources and road sector development. The Asian Development Bank has provided Rs. 6.3 billion (US\$ 10 million) for the poverty reduction, inclusive development, governance and decentralization, rural infrastructure, growth in economic and employment opportunity and rural transport etc. In the first six months of the current FY 2007/08 various agreements concluded between the GON and the bilateral and multilateral donors amounting to Rs. 35.29 billion. Out of the total foreign aid assistance amounted to 77 percent to Rs. 21.17 billion and loan assistance 23 percent to Rs. 8.12 billion. Further, the bilateral assistance constitutes 33.81 percent to Rs. 11.93 billion and multilateral assistance 66.19 percent to Rs. 23.36 billion. Besides, other bilateral and multilateral donors pledged further assistance which are in the pipeline reaching to an agreement would also increase but not in sufficient amount. Previously, Nepal used to receive grant assistance in the form of technical assistance from these institutions. This increased and changing portfolio of grant assistance manifests in the growing concern of the lending institutions to improve the socio-economic development further at a fast rate and sustainable basis and achieve the Millennium Development Goals (MDG) as well as transforming Nepal into a sustainable new Nepal, given their long partnership with Nepal's development process and the challenges that Nepal is currently encountering. The total development need (capital outlays) alone would amount to Rs. 179 billion (at 2006/07 constant prices) during FY 2007/08 through FY 2009/10 as envisaged in the Three Year Interim Plan (TYIP) besides other peace related expenditure of very urgent nature. Of this capital outlay Rs. 140.7 billion (grant Rs. 84.2 billion and loan Rs. 56.5 billion would have to be financed through foreign assistance. The resources gap would be even more than stipulated in TYIP while adding an immediate peace related expenditure of about US dollar 500 million (Rs 32

billion) which is not entirely included in capital outlays but should have to be borne by the GON.

## **Nepal Peace Trust Fund**

The establishment of Nepal Peace Trust Fund (NPTF) is another milestone to mobilize international resources for facilitating the peace process. So the NPTF needs much more generous support from our global partners. The UN Trust Fund is also supporting the peace process by allocating resources at its disposal into national priority. Both the funds will be utilized for providing an immediate and short term relief and rehabilitation, reconstruction and management of transition economy into a sustainable and vibrant economy. These funds would be channeled to distribute Peace Dividend to the conflict affected and victims.

## **Conclusion**

Nepal has made utmost efforts toward mobilizing increased amount of revenue in the past couple of

years. Nepal needs to demonstrate accountability and transparency in the management of public finance while seeking increased foreign assistance. Accordingly, prioritization and rationalization in public expenditure management and reform in governance have been undertaken to manage public finance efficiently and effectively. Despite our serious and sincere endeavor, the resource available domestically would remain far short of the requirements. Nepal, perhaps never felt the greater need for external financial assistance than what is being felt at the present. The increased foreign assistance is essential not only for sustainable peace and stability but also for ensuring inclusive social justice and hope for the brighter future. The global development partners are aware of this special Nepali situation and are eager to strengthen the hands of the GON to come out from these abnormal and difficult times and also to continue and sustain with more urgency and intensity for the inclusive development and reform process in the days to come.



**NDCM 2008 Pre-consultation Meeting Participants.**

# Reviewing Foreign Aid Policy 2002<sup>1</sup>



Krishna Gyawali<sup>2</sup>

## Conceptual Departure

Foreign aid in the form of Official Development Assistance (ODA) includes developmental, humanitarian, commercial and cultural aid, and should possess at least 25 percent grant element and high degree of concessionality in lending, but excludes military aid and private capital inflow. However, this notion of foreign aid is conventional as it confines aid – the transfer of resources from more developed to less developed countries – to ODA alone, not capturing trade and investment both at bilateral and multilateral level even when the governments will be at the receiving end. Therefore, there is a need for redefining aid in terms of Development Partnership and donors as Development Partners, along with widening its scope to include trade, FDI and private capital inflow, to make a clear conceptual departure in favor of more politically correct facet of the aid regime.

Foreign aid, despite the criticisms such as it generates aid-dependency, erodes national self-reliance, breeds corruption, leads to inequality, and intoxicates people with its short-lived, myopic and unsustainable deliveries, has remained largely unavoidable and unstoppable even to its critics. This is because of its mixed success stories as well as growing interdependence among nation-states with the surge of globalization and its irresistible ramifications. However, there is a growing consensus about its role in that it should supplement rather than substitute the countries' own development efforts and initiatives. In a sense, it has become more of a necessity than a choice for developing countries as it replenishes resources gap, helps develop national capacity and enables and facilitates development process.

## Nepal's Case

Nepal embarked on receiving foreign aid with the launching of the First Five-Year Development Plan, 1956-61. A substantial portion of development expenditure, averaging about 55% per year, has since been financed through foreign aid. In 2006-2007, foreign assistance, including all bilateral and multilateral loans, grants and Technical Assistance (TA), averaged around 5% to 6% of Gross Domestic Product (GDP) and aid financed about 25% to 30% of total government expenditure.

Foreign aid continues to play a pivotal role in Nepal's socio-economic development. Apart from its contribution to building physical infrastructure, developing social capital, erecting institutions and setting the reform climate, it has remained crucial to meeting the overarching objective of poverty reduction, as articulated in the government's past periodic plans including the current Three Year Interim Plan (TYIP), 2007-10.

In the past recent years, a new dimension of foreign aid contribution has been noticed in Nepal as it has been helping us restore and stabilize peace and democratic governance through peace-funding and other supporting activities in the aftermath of the decade-long (1996-2006) conflict. During the heydays of political stalemate, donors chose to remain selective in their engagement with the government, and alert and sensitive to the outbreaks and upshots of conflict. Development partnership was managed even amidst the deadlock, and instruments such as Basic Operating Guidelines (BOGs), "Do No Harm" Policy and Conflict-Sensitivity Analyses (CSAs) were applied to this end.

1. This article draws on the Draft Foreign Aid Policy 2008 presented recently in one of the pre-consultation sessions of the Nepal Donors Consultation Meeting 2008. The author is grateful to Finance Secretary Vidyadhar Mallik for providing a broader outline for the review. For reading the Draft Policy, visit [www.ndcm2008.gov.np](http://www.ndcm2008.gov.np)
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However, during the inglorious royal stint (February 2005 to April 2006), donors at large withdrew their support and foreign aid dwindled. The success of People's Movement II in April 2006 led to a new political consensus with the signing of the Comprehensive Peace Accord (CPA) on 21 November 2006. This created a momentum in favor of peace and democracy (*Loktantra*), giving further impetus to donor support for peace and development. It is thus evident that in Nepal, peace, democracy and development need to be treated in a simultaneous sequence rather than in isolation. Foreign aid is expected to reinforce this inter-linkage and donors need to heed this approach.

Nepal's aid receiving trend has seen significant changes both in terms of source and composition. The share of bilateral assistance has declined to around one-fourth of the total aid receipt. The ratio of grant assistance had shown a declining trend until fiscal year 2001/02. Beginning 2002/03, however, the average annual grant disbursement ratio has increased to about 60 percent of the total aid receipt, reaching the amount of Rs 13 billion against the annual loan disbursement of Rs. 7 billion. Strikingly, even the multilateral agencies such as the World Bank and Asian Development Bank have moved to providing grant, owing to their respective policy shift. However, about 40 percent of aid is still occupied by Technical Assistance, which needs to gradually reduce. The external debt which accounts for about 55 percent of GDP, has also posed a challenge to debt sustainability.

### **Aid Efficiency and Effectiveness**

Nepal has been supportive of all international initiatives to aid effectiveness and donor harmonization. We have been party to the Millennium Summit (2000) that set out the Millennium Development Goals. We have endorsed Monterrey Conference on Financing Development (2002), Rome high-Level Forum on Harmonization (2003), and Marrakesh Roundtable on Managing for Results (2004), all of which culminated into the Paris Declaration on Aid Effectiveness (2005). The Paris Declaration rests on such principles as Country Partners' **Ownership** of the development agenda, **Alignment** of assistance to the Country Partners' systems, priorities and procedures, **Harmonization**

of donors' activities so as to avoid duplication, **Focus on Results** or 'outcomes' rather than mere 'outputs', and **Mutual Accountability and Transparency** of donors and the government in fulfilling this commitment. Nepal has been a signatory to this Declaration and is committed to its implementation with full sincerity.

### **Need for Policy Review**

The Foreign Aid Policy that currently exists was formulated in 2002, which was the country's first-ever policy document on 'disciplining' foreign aid mobilization. The Policy was launched in the aftermath of the Nepal Development Forum, 2002 which in turn was held on the eve of the Rome Meeting on Harmonization 2003. Therefore, the Policy is much in line with the basic principles of donor harmonization advocated by the Rome Declaration and subsequently reinforced by the Paris Declaration on Aid Effectiveness, 2005. However, since a number of initiatives have been launched with renewed emphasis on aid effectiveness measures between 2002 and now which need to be addressed in the Policy, it needs review. Coincidentally, there could have been no better time to undertake this task as the country has passed through a critical phases of its political history and is now ready for long-term transformation.

**National Imperatives:** Any national policy document needs to undergo timely updating in regular intervals with required frequency. Moreover, important intervening events trigger further revision even more pressingly. The April 2006 People's Movement and the momentum that it created in favor of peace, democracy and development has become one such stimulant to revising the Foreign Aid Policy. As these elements have been well recognized as emerging national agenda of the country, new foreign aid policy should best address them by streamlining donor support to that direction. The new policy should realize the fact that there has emerged a new Compact of Peace and Development highlighting the necessity of linking them together in harmony, rather than waiting for development to happen until peace is fully and finally restored. This compact should also incorporate democracy without which both of them would not achieve popular credibility and legitimacy required for its acceptability in the eyes of domestic

as well as international stakeholders. Similarly, there is also felt a need for another 'compact' in the form of alignment and partnership between the government, citizens and international development partners to work together towards the same goal.

Likewise, the recently launched Three Year Interim Plan/TYIP (2007-10) which has envisioned a New Nepal with the dream of building a 'modern, just and prosperous' nation-state has defined new objectives, priorities and deliverables for the next three years period, characterized as an interim timeline of 'transition'. Foreign Aid Policy should attach deserving importance to these objectives and set its priorities for the short, medium and long terms. All these imperatives have made a fresh ground for initiating timely revision of the said Policy without any unjustified delay.

**International Initiatives and Innovations:** A number of international initiatives have been undertaken in the last decade in the area of foreign aid management. To name a few, Millennium Summit 2000 set the MDGs and urged donors to ensure the availability of required resources, Monterrey Conference 2002 focused its objective on Financing for Development at the global scale, Rome Declaration on Harmonization 2003 defined what harmonization would mean both to development partners and partner countries and urged them to abide by the agreed initiatives, and Paris Principles on Aid Effectiveness 2005 charted a course of action with identifying prominent areas of aid effectiveness and defining indicators for measuring the success of their application. The elements such as country ownership, alignment, harmonization, results framework or Management for Development Results (MfDR), predictability of aid and 'longer term partnership, and mutual accountability are the tenets of Paris Declaration.

Foreign aid has also been impacted at the global level by the shifting global priorities, and this time in favor of poverty with the perceived fear that poverty breeds terrorism. As a result, fighting poverty to help stop terrorism has largely become a consensual global agenda. Economic globalization through expanding trade, private capital inflow and investment crossing the sacrosanct boundaries is another influencing phenomenon when it comes to resource transfer from

developed to developing countries, which though has not yet been covered by ODA. Foreign Aid Policy of any aid recipient country should take a prime and unfailing notice of such developments and respond to them accordingly in line with the national priorities and possibilities.

## **Major Departures from FAP 2002**

**Addressing New Context:** Foreign Aid Policy of today's Nepal, like any other national policy with a broader appeal and outreach, should primarily take into account what might be called a 'post-conflict transition perspective' in its goal and direction. Although Nepal has no doubt passed through a bloody political conflict that took heavy toll on the country's socio-political and economic fabric, it has not yet reached the 'post-conflict' phase. The country for some time has been grappling with the management of transition which is often mired by the mismatch between people's competing claims and demands and the state's available capacity and resources to meet them. Besides, people's aspirations for peace, democracy and development have risen to an unprecedented level. Donors need clear policy approach to apprise them of the current circumstances, and foreign aid policy would have to shoulder this burden. Markedly, they have begun to argue for taking the journey of peace and development together, and rightly so.

The current interim plan – TYIP – has come out in special circumstances as elucidated above. It focuses on economic revitalization through relief, reconstruction and rehabilitation (RRR) to address the post-conflict transition. Peace dividend needs to be delivered, peace process needs to be well funded, and resource gaps for achieving RRR need to be met. Domestic resources are far too short of meeting the cost of these needs, hence foreign resources mobilization. Besides, private sector potential needs to be optimally mobilized for developing infrastructure projects through encouraging FDI and private capital inflow. Foreign aid should be geared to achieving these objectives in the changed context.

**Addressing New Issues:** With the advent of *Loktantra* in the country, issues such as inclusion, equity, state restructuring, and alternate service delivery through communities have received new

height. The government's attention has been drawn to implementation and delivery challenges, management of fiduciary risks and launching of quick impact and visible projects. Rights-based approach to development has entered active national agenda after the Interim Constitution recognized people's fundamental rights to their socio-economic upliftment. Voices have arisen in favor of demand-driven development. Support to communities and strengthening community ownership and management has been put into focus by non-government development partners. Similarly, rebuilding home-grown good practices such as Sector Wide Approach (SWAp) and expanding it to other sectors such as rural infrastructure are other imperatives calling for reorientation of our foreign aid policy.

**Guiding Principles and Objectives:** New foreign aid policy should clearly cherish a New Nepal Vision which is based on the conceptual foundation of economic prosperity, social justice and modernity. TYIP has elaborately articulated the goals and objectives to realize the vision, through reducing poverty, meeting MDGs, and achieving broad-based and sustainable economic growth. Furthermore, strong linkage between peace, democracy and development (PDD Compact), inclusion and equity as enshrined in the Interim Constitution, compliance with Paris Principles, compatibility and convergence between foreign-aided and nationally executed projects, and self-reliance or sustainability in the longer term are other elements that can be the guiding principles and objectives of new foreign aid policy.

**Policies and Strategies:** Concessional loans in selected high-return infrastructure development projects are welcome, but no conditionalities will be accepted unless they come within a common policy platform applicable to Development Partners and Country Partners with equal degree of compliance. Optimization of grants, plea for budgetary and programmatic support, streamlining TAs through choosing free-standing rather than tied-up TAs and using them for knowledge and technology transfer and innovation, revenue mobilization, optimal use of capital stock, streamlining INGOs operation, development of private sector, and strengthening of partnership with civil society organizations (CSOs) or NGOs are some of the major policies and

strategies to be adopted by the Foreign Aid Policy 2008.

**Priorities:** In the **short term**, agenda such as managing transition, implementing TYIP as PRSP-II, continued reinforcement of MTEF, delivery of Peace Dividend, launching Quick Impact Projects (QIPs) with visible or tangible impacts, and focusing community management and improving Public Financial Management (PFM) should be the priorities where foreign aid should be channelized. Speaking of the **long-term** priorities, adherence to Paris Principles with a jointly adopted National Plan on Aid Effectiveness comes first as it would ensure harmonization of donor support with enhanced country ownership. Similarly, achieving New Nepal Vision, meeting MDGs, leading transition towards transformation that would lead to socio-economic and political restructuring of the state and society, maintaining fiscal sustainability, ensuring environment-friendly development, expanding and re-strengthening SWAp, harmonizing TAs with creating a pool whereby the government's priorities and choices would receive preference over the donors', optimizing grants over loans except for revenue-generating and growth-boosting infrastructure development projects, promoting public-private partnership, and encouraging FDI and private capital inflow could be the long-term priorities of the Policy. Moreover, mobilizing the whole system of aid management to achieve self-reliance and sustainability through building institutions, internalizing and institutionalizing the reforms gains and developing national capacity should be the longer-term perspective of our foreign aid policy.

## Issues and Challenges

**Aid Environment:** Without a conducive, development-friendly environment and clearly stated vision and goals, aid cannot be mobilized to the optimal extent. The question is how this can happen. Most often, blames for all wrongdoings are shifted to politicians and political situation. But bureaucrats and technocrats involved in managing and coordinating aid have a role to play which is even more crucial. Developing positive attitude towards work, building optimism on positive impacts of the works done, focusing more on results without compromising procedural discipline, enhancing

professionalism in work and personal behavior, enriching knowledge and competence through continuous learning and adaptation and becoming sensitive and respectful to the diversity of claims and demands coming from the ordinary citizens are some of the essential attributes public bureaucrats or the managers need to develop and adhere to.

**Aid Predictability:** Making aid predictable would help the planners and implementers ensure the availability of required resources. This, in turn, will help implement the MTEF smoothly, and contain the leakage or unjustified diffusion of resources. Moreover, we need from donors a longer-term partnership commitment to implement the TYIP objectives.

**Aid Fragmentation and Duplication:** This is another area we need to refocus. More concerted efforts for harmonization, ownership and leadership are needed to stop this phenomenon, and the sincere compliance to the proposed National Action Plan on Aid Effectiveness would hopefully cure these ills.

**Aid channeled outside Government:** A number of bilateral donors are intent on channeling aid outside the government mechanism, especially through NGOs/INGOs. Some donors prefer the modality of direct implementation. Donors are welcome to choose the modality they find efficient, but only upon agreeing with the country partner. In whatever they do, they are expected to go along with the government's stated development objectives and priorities (in this case, TYIP), use the country systems and procedures for implementation and report to the government every activity that takes place under the programs and projects with their assistance.

**Aid Tracking:** The Foreign Aid Coordination Division in the Ministry of Finance is in dire need of installing the aid tracking system to ensure that all pledges or commitments and disbursement or delivery of aid are recorded, timely updated and applied as and when required. There is in offing a plan to establish and operationalize what is called Aid Information Management System (AIMS) in the FACD/MoF to address this concern.

**Strengthening Public Financial Management (PFM):** Implementing Public Expenditure and

Financial Accountability (PEFA) which has just been finalized is a prime challenge before the government and especially the Ministry of Finance. Meeting this challenge will help reduce the donors' concern about fiduciary risks, enhance cost efficiency and effectiveness, ensure good value for money, and result in better development outcomes. The PEFA framework addresses the issues such as accounting and auditing, and streamlines external audit. Empowering Office of the Auditor General (OAG), establishing its legitimacy and acceptability before the donors, complying with the system of Parliamentary oversight and abiding to the government budgeting procedures are other pertinent areas PEFA will take into account. Foreign Aid Policy needs to clearly stress on observing its requirements and provisions for enhancing aid effectiveness.

**Capacity Constraints:** The government suffers from a two-prong deficiency in capacity development and utilization in the sense that it is either under-developed, meaning there is a dearth of trained and competent people, or under-utilized, referring to a situation where even the trained resources are not tapped to the benefit of the institution. In some cases, 'disempowerment' of trained personnel is noticed, suggesting that they are stripped of needed authority and resources to fulfill the prescribed responsibilities. Recognition and Reward including through non-fiscal compensation is also very much needed.

**Use of TAs:** There is a pressing need for creating a TA Pool Fund which will help TA Harmonization. The government should clearly and fully have a voice and choice in selecting, recruiting and mobilizing the TA resources, mainly the consultants. In addition, internationalization and institutionalization of outcomes after the TA is complete is invariably lacking and should therefore be put into priority.

**Results Framework:** Focusing on outcomes rather than on procedures has long been propagated both by development partners and country partner. MfDR has recently been put into the agenda in this context. However, low visibility of its success is a problem needing immediate attention. Besides, mutual accountability and transparency, especially to increase allocative efficiency of development partners and implementation efficiency of country partners, needs even more urgent consideration.

**Harmonization at local level:** This would call harmonization of activities between donors vis-à-vis national government, and also across the national government institutions. There are cases where donors at the local level have been less enthusiastic in sharing the information about their activities with the government. For instance, they are reported to have formed and operated what they call Donors Advisory Group, but hardly anything comes to the notice of the government unless pursued at a more informal and individual level. Similarly, the government agencies themselves, particularly the ones involved in foreign aid management at the policy level such as the National Planning Commission and respective divisions and sections in the development line ministries, need much smoother coordination on a regular basis.

### **Agenda Ahead**

Implementing policy is always a prime policy agenda. This is also a challenge. What requires meeting this challenge in the first place is to make a policy that is implementable. Similarly, sincerity of intent, adequacy of authority and resources, and a conducive work climate are needed at equal magnitude. Foreign Aid

Policy would also require these, and more so because it reflects the country's image of performance and finds place in donors' assessments. To be specific, a well-suited and functional institutional mechanism at the policy level to guide and advise on foreign aid management, strong monitoring of aid performance including through AIMS, continuous and reinforced harmonization with stakeholders both domestic and international, and joint adoption and observance of National Action Plan on Aid Effectiveness (which will be based on Paris Principles) should be the agenda ahead for those involved in aid management and coordination. Together, implementation of TYIP with deserved focus on economic revitalization, RRR and other sectoral priorities in relation to foreign aid is equally necessary.

Last but not the least, the compact between peace, democracy and development needs to continue for long time to come and at least until the Post-Conflict Transformation stage. This is because transition needs to complete smoothly, peace needs to sustain and be institutionalized, and democracy needs to take roots. Needless to say, development will have its fitting presence ensured all along the process.



# Small and Medium-sized Enterprises in Developing Countries: Some Experiences of China



Hari Prasad Shrestha\*

## Introduction

Small and Medium-sized Enterprises (SMEs) in developing countries absorb mounting employment in urban and rural areas and plays important role in national economy and social development. In developing countries, the national economy requires high production for internal consumption and export growth. Moreover, the widening economic gap between the urban and the rural population are creating troubles. The lower accessibility of the minority ethnic people, disabled and women in national mainstream has been also a big challenge.

The greatest challenges for the developing countries to develop their economy are: a conflict between rapid economic growth and voluminous consumption of recourses and ecological deterioration, social development lagging behind economic development, widening disparity between different regions in social and economic development, constrained posed by a large population and scarce resources and inconsistencies between some existing laws, regulations and policies and actual needs for sustainable development. In addition, the social security system is inadequate, the pressure on employment is heavy, the economic structure is less than rational, the operation system of the market economy is not improved, infrastructure is underdeveloped, a serious waste exists in the exploitation of natural resources, and environment pollution is serious.

Deepening economic globalization and accelerating transfers of industries and services around the globe has brought new opportunities and challenges. It is

necessary to improve industrial structure, facilitate open market and promote fair competition for the development. In addition, innovation of financial products and services needs to be promoted, investment mechanism for starting business to be improved and diverse financing services needs to be provided. To bring economic system in right track and to accelerate it, SMEs development is considered to be backbone for developing countries.

## Status of the Chinese Economy in 2006

China's GDP was 20.94 trillion Yuan, an increase of 10.7% over the previous year. National revenue reached 3.93 trillion Yuan, a year-on-year increase of 769.4 billion Yuan. Profits of large industrial enterprises rose 31%, an increase of 444.2 billion Yuan.

China's import and export volume totaled US\$ 1.76 trillion, a year-on-year increase of 23.8%. Paid-in foreign direct investment reached \$69.5 billion. People's living standards improved substantially. A total of 11.84 million residents entered the workforce.

The main works accomplished in 2006 were prolific in China. The central government adopted a series of timely macroeconomic regulatory measures to address major problems affecting economic performance, such as overheated investment, excessive money and credit supply and serious trade imbalance. Work related to agriculture, rural areas and farmers was intensified. Steady progress was made in building a new socialist countryside. Adjustment of the economic structure was accelerated. China made comprehensive plans for overall reform in administration, investment,

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environment, energy and communication. The central government spent 77.4 billion Yuan on science and technology, 53.6 billion Yuan on education, 13.8 billion Yuan on health and 12.3 billion Yuan on culture.

Four commercial banks of China have been listed among top 10 enterprises of the world. The 30 years of Chinese reform has accelerated GDP to 9.8% and 29 fold increases in urban per capita income and 27 fold increases in rural per capita income are considered to be remarkable achievement. One can easily visualize changing scenario in Chinese society. For example, previously, bicycle, radio and watch were important stuffs to marry a girl and now car and house have been essential things for the marriage.

### SMEs Profile

The National Development and Reform Commission plans to develop and reform the economy in China. The Department of Small and Medium-sized Enterprises was established to study the relationship between SMEs and development of a non-state-

owned economy. The Ministry of Information and Industry is in charge of national strategies, and overall plans for development of the information Industry. The Ministry of Science and Technology was established to build a long-term strategy to develop science technology, policies to facilitate technology-led economic and social development.

Currently, among the 3.026 million Chinese enterprises as legal persons, (excluding 23.77 million individual industrial and commercial operators) more than 99% are SMEs. Statistics show that 50 percent of China's GDP, 60% of export and 43% of taxation are contributed by SMEs. SMEs are major player in social employment, absorbing over 75 percent of urban employed labors. It is major driving force for Chinese economy.

The classification of SMEs in China is in accordance with the standards of developed countries or international standards. The following is the definition of SMEs and micro enterprises in the People's Republic of China with regard to statistical regulations:

### Sector-specific SMEs definitions

<b>Industrial Sector:</b>			
Small Enterprises	300 - 2000 employees	30 - 300 M Yuan in sales	40 - 400 M Yuan Asset size
Medium Enterprises	>2000 employees	>300 M Yuan in sales	>400 M Yuan Asset size
<b>Construction:</b>			
Small Enterprises	600 - 3000 employees	30 - 300 M Yuan in sales	40 - 400 M Yuan Asset size
Medium Enterprises	>3000 employees	>300 M Yuan in sales	>400 M Yuan Asset size
<b>Wholesale:</b>			
Small Enterprises	100 - 200 employees	30 - 300 M Yuan in sales	
Medium Enterprises	>200 employees	>300 M Yuan in sales	
<b>Retail:</b>			
Small Enterprises	100 - 500 employees	10 - 150 M Yuan in sales	
Medium Enterprises	>500 employees	>150 M Yuan in sales	
<b>Transportation:</b>			
Small and Medium Enterprises	>500 employees	>30 M Yuan in sales	
<b>Posts:</b>			
Small and Medium Enterprises	>400 employees	>30 M Yuan in sales	
<b>Hotels and restaurants:</b>			
Small and Medium Enterprises	>400 employees	>30 M Yuan in sales	

## Problems and Measures

Currently, the SMEs in China are confronted with the following problems:

- uneconomical-scale of operation and widely dispersed
- outdated equipment and low level of technology
- lack of skilled workforce
- low level of operation and management expertise
- lack of access to international market
- imperfect legislations

- ineffective incentive policies
- lack of financing

The Government has introduced measures to promote the growth of individual and private-owned enterprises to:

- a. Operate almost all types of industries and commerce, except for a new kinds of industrial products and raw material
- b. Undertake business abroad.
- c. Cooperate with foreign partners.

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**NDCM 2008 Pre-consultation Meeting Participants.**

# Current Macroeconomic Situation

## World Output

According to the IMF's World Economic Outlook, January 2008, world output growth is estimated at 4.9 percent in 2007 and projected at 4.1 percent in 2008. The advanced economies are estimated to have grown by 2.6 percent in 2007 and projected to grow by 1.8 percent in 2008. The financial market strains originating in the U.S. sub-prime sector and associated losses on bank balance sheets were mainly attributed to the deceleration in the growth in the most advanced economies. The world output growth was earlier projected at 5.2 percent in 2007 and 4.8 percent in 2008 (World Economic Outlook, October 2007). The emerging market and developing economies grew by 7.8 percent in 2007 and are projected to grow by 6.9 percent in 2008. Developing Asia grew by 9.6 percent in 2007 and is projected to attain a growth of 8.6 percent in 2008. China and India have immensely contributed in this growth expansion.

## GDP Growth Estimate in Nepal

In Nepal, the economic growth rate in FY 2006/07 remained at a modest level of 2.5 percent (agriculture 0.7 percent and non-agriculture 3.6 percent). With the expansion in the agriculture output at 5.2 percent following the favorable monsoon and the non-agriculture output at 4.1 percent, the overall growth rate in FY 2007/08 is projected to reach 4.5 percent.

## Fiscal Situation

### Government Revenue and Foreign Cash Grants

During the first six months of 2007/08, the government revenue grew by 25.4 percent to Rs 47.39 billion compared to an increase of 19.7 percent in the corresponding period last year. The increase in customs and excise on account of administrative reforms, a rise in VAT revenue and income tax revenue, as well as the growth rate in non-tax revenue accounted for such a healthy growth of the government revenue.

In the review period, the government received foreign cash grants of Rs 5.22 billion. The GON had received foreign cash grants of Rs 7.93 billion in the corresponding period of the previous year.

### Government Expenditure

In the first six months of 2007/08, the government expenditure on a cash basis, increased by 30.2 percent to Rs 58.28 billion compared to an increment of 11.9 percent in the same period last year. The increase in government expenditure was attributed to the substantial rise in all categories of the government expenditure, i.e. recurrent, capital and principal repayments.

In the review period, the recurrent expenditure rose by 21.8 percent to Rs 38.24 billion compared to an increase of 10.0 percent during the corresponding period in the previous year. The higher growth of recurrent expenditure was on account of increased expenditure on relief-related activities, the salary hike of government employees, the rise in peace-related expenditure, additional expenditure relating to the preparation for the constituent assembly elections, and other administrative expenditures.

In the review period, the capital expenditure jumped by 66.3 percent to Rs 10.28 billion compared to an increase of 25.9 percent in the same period last year.

The loan investment of Rs 500 million to the NOC, share investments of Rs 1.75 billion in the Agriculture Development Bank and Rs 520 million in the Nepal Electricity Authority, the release of Rs 1.2 billion for the Poverty Alleviation Fund (PAF) and the disbursement of funds for the local authorities contributed to the significant rise in the capital expenditure

### Sources of Deficit Financing

During the first six months of 2007/08, the government budget witnessed a deficit of Rs 3.26 billion. During the same period last year, the budget had reflected a surplus of Rs 3.95 billion. The budget deficit in the

current year resulted from higher growth of government expenditure.

Of the sources of deficit financing, the government mobilized Rs 8.20 billion through the fresh issuance of securities. The cash balance of the GON with the NRB amounted to Rs 7.07 billion. Including the previous years' cash balance of Rs 3.12 billion, the total cash balance of the GON with the NRB stood at Rs 10.19 billion as in mid-January 2008. The amount raised through the issuance of securities represented 40 percent of Rs 20.5 billion, the ceiling for the total domestic loan in 2007/08.

Till mid-January 2008, domestic loan amounting to Rs 3.81 billion was repaid, resulting in a net domestic borrowing Rs 4.39 billion.

Of the total budget deficit, Rs 2.36 billion was financed through the external borrowing.

## **Other Current Macroeconomic Situation**

*(Based on the First Five Months' Data of 2007/08 of Nepal Rastra Bank)*

### **Monetary Situation**

#### **Money Supply**

1. Broad money (M2) registered a growth of 9.5 percent in the first five months of 2007/08 compared to a growth of 4.0 percent in the same period last year. Likewise narrow money (M1) increased by 4.8 percent in the review period compared to a growth of 2.7 percent in the previous year. An increase in domestic credit on account of an increase in credit to the Government of Nepal (GON) and the private sector contributed to the acceleration in monetary aggregates in the review period.
2. Time deposits increased by 11.7 percent (Rs 31.55 billion) to Rs 300.18 billion in the review period compared to a growth of 4.6 percent in the previous year. Besides the elevated level of remittances, commencement of banking transactions by three new commercial banks and branch expansion by the existing commercial banks contributed to the significant rise in time deposits in the review period.

3. Net foreign assets (NFA), after adjusting foreign exchange valuation gain/loss, increased by Rs 24.1 million in the review period compared to a rise of Rs 5.78 billion (4.1 percent) in the previous year. Despite the elevated level of remittances and a boom in tourism, NFA remained almost stagnant on account of a deceleration in foreign assistance, a higher level of payment to Indian Oil Corporation (IOC) by Nepal Oil Corporation (NOC) and an unsatisfactory performance of export in the review period.

### **Domestic Credit**

4. Compared to a growth of 2.8 percent in the previous year, domestic credit increased by 10.4 percent in the review period. An acceleration in private sector credit including an increase in claims on government accounted for the rise the domestic credit.
5. Net claims on government increased by 4.8 percent in the review period as against a decline of 11.1 percent in the previous year. A higher growth of expenditure relative to resource mobilization accounted for the rise in claims on government in the review period.
6. Claims on financial institutions increased significantly by 100 percent in the review period. Such claims had grown by 29.5 percent in the previous year. Commercial banks' short-term placement at finance companies, development banks and other financial institutions resulted in the rise in the claims on financial institutions in the review period.
7. Compared to a growth of 5.6 percent last year, private sector credit showed a rise of 10.9 percent in the review period. A pick up in the growth of the private sector credit was on account of the commencement of three new commercial banks and credit expansion in production, construction, transport and communication and service sector by commercial banks in the review period. In the review period, the areas such as production of iron rod, textiles, cement, transport equipments, real estate and residential construction absorbed an increased amount of bank credit.

## **Reserve Money**

8. Reserve money grew by 2.1 percent in the review period, which had declined by 1.2 percent in the previous year. Notwithstanding a decline in NFA of the Nepal Rastra Bank (NRB), a rise in net claims on government contributed to the increase in reserve money in the review period.

## **Purchase and Sale of Foreign Exchange**

9. The net purchase of US dollar 464.8 million from the commercial banks resulted in the injection of liquidity of Rs 29.76 billion in the review period. Last year, such net purchase was US dollar 394.5 million leading to the liquidity injection of Rs 28.9 billion.
10. The purchase of Indian currency by way of selling US dollar 550 million amounted to Rs 35.08 billion in the first five months of 2007/08. During the same period in the previous year, the purchase of Indian currency had amounted to US dollar 320 million, an equivalent of Rs 23.39 billion. A higher level of payment by NOC to IOC in the review period compared to the previous year and a widening current account deficit with India resulted in the rise of the purchase of IC in the review period.

## **Open Market Operations**

11. For managing short-term liquidity, net liquidity amounting to Rs 6.81 billion was absorbed through reverse repo auction of Rs 5.57 billion and outright sale auction of Rs 1.24 billion in the first five months of 2007/08. During the same period in the previous year, net liquidity of Rs 18.38 billion was absorbed through outright sale auction of Rs 5.89 billion and reverse repo auction of Rs 12.49 billion. Compared to the previous year, a higher private sector credit off-take and the increased purchase of IC through the sell of US dollar lowered the absorption of liquidity in the review period.

## **Inter Bank Transactions**

12. Inter bank transactions of commercial banks cumulated to Rs 143.76 billion in the review period compared to Rs 77.14 billion in the previous year. In addition, the use of standing liquidity facility (SLF) availed by the commercial banks from the NRB cumulated to Rs 36.19

billion in the review period compared to Rs 5.12 billion last year. Significant acceleration in the private sector credit off-take resulted in the rise of both inter-bank transaction and the use of SLF in the review period.

## **Short-term Interest Rates**

13. The short-term interest rates increased in the review period. The weighted average monthly 91-day Treasury bill rate stood at 3.59 percent as in mid-December 2007 compared to 1.98 percent a year ago. Similarly, the weighted average monthly inter bank rate remained at 4.73 percent as in mid-December 2007 compared to 1.34 percent a year ago. Interest rates on the deposits of commercial banks remained constant in the review period. A decline in excess liquidity as a result of an increase in private sector credit drove up the short-term interest rates in the review period.

## **Securities Market**

14. The year on year (y-o-y) NEPSE index increased by 101.7 percent to 1025.91 points in mid-December 2007. This index was 508.58 a year ago.
15. The y-o-y market capitalization increased by 151 percent to Rs. 322.62 billion in mid-December 2007. Market capitalization to GDP ratio increased to 40.6 percent from 17.9 percent a year ago. Of the total market capitalization, bank and financial institutions held the largest share.
16. Total paid up capital of the listed companies stood at Rs. 23.85 billion in mid December 2007, an increase of 16.3 percent over the period of one year. This increase was due to the additional listing of securities.
17. Total number of companies listed at the NEPSE reached 142 in mid-December 2007 compared to 141 a year ago. Of the listed companies, 107 were bank and financial institutions, 21 production and processing industries, 4 hotels, 5 business entities, 3 hydro power and 2 companies in other groups.
18. Monthly turnover to market capitalization ratio stood at 0.85 percent in mid- December 2007 compared to 0.73 percent a year ago.

19. The twelve-month rolling standard deviation stood at 185.4 in mid-December 2007 compared to 56.2 a year ago.
20. Nepal Securities Board (SEBON) granted permission to issue ordinary shares of Rs. 274.4 million to seven companies, and right shares of Rs. 2.21 billion to other ten companies in the first five months of 2007/08.
21. Government bonds of Rs. 3.1 billion were additionally listed at the NEPSE in the first five months of this year. As of mid-July 2007 such bonds amounting to Rs. 7.05 billion were listed at the NEPSE.

## **Inflation**

### **Consumer Price Inflation**

22. The y-o-y inflation moderated to 5.7 percent in mid-December 2007 from 7.3 percent a year ago. The moderation was on account of the base-effect of hike in prices of petroleum products in March 2006 and the nominal appreciation of the Nepalese currency against the US dollar.
23. Group-wise, the index of food and beverages group rose by 7.1 percent compared to a rise of 7.3 percent a year ago. Within this sub-group, the prices of pulses rose by 14.4 percent, oil and ghee 12.5 percent, grains and cereal products 10.3 percent and milk and milk products 6.4 percent. However, the prices of sugar and sugar-related products declined by 17.0 percent during this period. The index of non-food and services group rose by 4.1 percent compared to a rise of 7.3 percent last year. The deceleration was on accounts of the lower level of rise in the prices of housing goods and services; fuel, light and water; and transport and communication subgroups.
24. Region-wise, the price level in Kathmandu Valley, Terai and the Hills rose by 4.9 percent, 6.2 percent and 5.3 percent respectively in the review period. Last year, the respective rates were 6.8 percent, 7.4 percent and 7.6 percent. The frequent general strikes in the Terai region was the driving factor for a higher rate of the inflation in Terai, relative to other regions.
25. In mid-December, 2007, the y-o-y core inflation moderated to 4.7 percent from 6.7 percent a year ago.

### **Wholesale Price Inflation**

26. The y-o-y wholesale price inflation slowed to 6.1 percent in mid-December 2007 from the level of 8.9 percent a year ago. The moderation in the wholesale price inflation was on account of the slow growth in the prices of agricultural commodities group and domestic manufactured commodities group compared to last year. The price of agriculture commodities declined to 5.3 percent from 10.2 percent last year. In this group, the price of spices declined by 10.6 percent in the review period compared to a rise of 34.4 percent in the corresponding period last year. Likewise, the prices of food grains, pulses and livestock production group rose by 5.0 percent, 9.6 percent and 2.1 percent respectively compared to the respective rise of 16.5 percent, 23.7 percent and 9.6 percent last year. The prices of cash crop as well as fruits and vegetable rose marginally in the review period compared to last year. The wholesale prices of domestic manufactured commodities group rose by 6.3 percent during the review period compared to a growth of 9.1 percent in the previous year. Within this group, the prices of construction material and food-related products rose by 11.1 percent and 5.2 percent respectively in the review period compared to last year's rise of 17.6 percent and 8.8 percent respectively. Likewise, the wholesale price index of imported commodities rose marginally to 7.1 percent in the review period from 7.0 percent a year ago.

### **National Salary and Wage Rate**

27. The Year over year (Y-O-Y) salary and wage rate index rose by 8.0 percent in mid-December 2007 compared to a rise of 10.2 percent a year ago. Such moderation was mainly on account of low pressure on wage rate index notwithstanding a 17 percent net increment in the salaries of civil servants, including security personnel, teachers and employees of public enterprises announced effective from mid-July 2007. The wage rate index rose by 6.9 percent in the review period compared to a rise of 11.7 percent last year. Within the wage rate index, the index of agriculture laborer rose by 3 percent compared to a high rate of 12.8 percent last year. In the review period, the index of industrial laborers and construction laborers increased by 12.4 percent and 9.8 percent respectively.

## **External Sector Situation**

### **Foreign Trade and Balance of Payments**

28. In the first five months of 2007/08, total exports fell by 6.9 percent as against a rise of 0.2 percent in the corresponding period of the previous year. Of the total exports, export to India plummeted by 9.3 percent in 2007//08 compared to a marginal growth of 0.9 percent in the same period of 2006/07. Exports to other countries also posted a decline of 1.4 percent in comparison to a decline of 1.2 percent in the comparable period of the previous year.
29. The decline in the exports to India was primarily attributed to the decrease in the exports of vegetable ghee, toothpaste, chemicals, textiles and wire. Similarly, exports to other countries also dropped arising from the lower exports of woolen carpet, pashmina, readymade garments, Nepalese paper & paper products and tanned skin.
30. In the first five months of 2007/08, total imports grew merely by 1.5 percent compared to a growth of 10.0 percent in the corresponding period of the previous year. While imports from India rose by 2.4 percent in the review period compared to its growth of 10.5 percent in the corresponding period of 2006/07, imports from other countries were at the same level of 9.2 percent as the comparable period in the previous year.
31. An upsurge in the import of vehicles and spare parts, M.S. billet, hot rolled sheet in coil, other machinery & parts and pipe & pipe fittings, among others, from India and an increase in the import of gold followed by telecommunication equipment & parts, electrical goods, transport equipment & parts and other machinery & parts, among others, from other countries led to the slight rise in total imports in the first five months of 2007/08.

32. Based on the monetary statistics, the overall balance of payments (BOP), which was at deficit for last couple of months, returned to a surplus of Rs. 24.1 million in the first five months of 2007/08. The BOP had registered a surplus of Rs. 5.78 billion in the corresponding period of the previous year.

### **Foreign Exchange Reserves**

33. The gross foreign exchange reserves stood at Rs. 165.37 billion in mid-December 2007, rising by merely 0.2 percent from the level of Rs 165.11 billion in mid-July 2007. Such reserves had increased by 3.8 percent in the corresponding period of the preceding year. In terms of US dollar, gross foreign exchange reserves rose by 2.7 percent to US\$ 2.61 billion in mid-December 2007. In the same period of the previous year, such reserves had risen by 7.6 percent. On the basis of the import figures for the first five months of 2007/08, the current level of reserves is sufficient for financing merchandise imports of 10.3 months and merchandise and service imports of 8.0 months.

### **Price of Oil and Gold in the International Market**

34. The price of oil (Crude Oil Brent) in the international market surged by 48.9 percent to US\$ 93.19 per barrel in mid-December 2007 from US\$ 62.58 per barrel in mid-December 2006. Likewise, the price of gold rose by 26.6 percent to US\$ 789.50 per ounce in mid-December 2007 from US\$ 623.75 in the previous year.

### **Exchange Rate Movement**

35. In comparison to mid-July 2007, the Nepalese currency appreciated by 2.53 percent vis-à-vis the US dollar in mid-December 2007. It had appreciated by 3.71 percent in the corresponding period of the previous year. The exchange rate of one US dollar remained at Rs. 63.25 in mid-December 2007 compared to Rs. 71.45 in mid- December 2006.



# अर्थ मन्त्रीद्वारा बजेट कार्यान्वयनका सम्बन्धमा सचिवहरूलाई निर्देशन

माननीय अर्थ मन्त्री डा. रामशरण महतले सरकारका परियोजनाहरू बढी परिणाममुखी हिसाबले संचालन हुनुपर्नेतर्फ नेपाल सरकारका सचिवहरूलाई विशेष आग्रह गर्नुभएको छ । उहाँले जिल्ला सदरमुकाम जोड्ने सडकहरू तथा पुलहरू समयमै सम्पन्न गर्नु पर्ने, टेन्डरहरू स्वच्छ, पारदर्शी र प्रतिस्पर्धी ढंगले (विद्युतीय माध्यमबाट समेत) दाखिला गर्ने पाउने व्यवस्था मिलाउने, काठमाडौं उपत्यका भित्र सडक विस्तार छिटो गराउने, त्रिभुवन विमानस्थलमा भौतिक सुविधा विस्तार गरी सेवाको गुणस्तरमा सुधार गर्नुपर्ने, समुदायलाई विद्यालय हस्तान्तरण कार्य, कक्षा कोठा निर्माण, पाठ्यपुस्तकको छपाई, दिवा खाजा र कर्णाली अञ्चल विशेष कार्यक्रमलाई समयमै कार्यान्वयन गर्न निर्देशन दिनुभयो । साथै उहाँले ग्रामीण सडक संजाल र बजार पहुच कार्यक्रम लक्ष्य अनुसार कार्यान्वयन गर्ने, फोहरमैलाको दीर्घकालीन समाधान गर्न Recycling को व्यवस्था मिलाउने, ICD को स्थापना गर्न अध्ययन गर्ने, लोड सेडिडको समस्या समाधान गर्न विद्युतमा निजी क्षेत्रको लगानी आकर्षित गर्ने, निशुल्क औषधी विरामीले पाउने व्यवस्था मिलाउने लगायत बजेटमा परेका कार्यहरूलाई प्रभावकारी रूपमा कार्यान्वयन गर्न समेत निर्देशन दिनुभयो । पौष ५ गते अर्थ मन्त्रालयमा आयोजित नेपाल सरकारका सचिवहरूको सहभागितामा आ.व. २०६४/६५ को बजेट वक्तव्यमा उल्लेख भएअनुसार त्रैमासिक कार्यान्वयन प्रगति समीक्षाको बैठकको क्रममा वहाँले सो निर्देशन दिनुभएको हो ।

सो बैठकमा राष्ट्रिय योजना आयोगका माननीय उपाध्यक्ष डा. जगदीशचन्द्र पोखरेलले प्रकृत्यामा धेरै अलिभन्नुभन्दा वास्तविक रूपमा शिघ्र विकास कार्य शुरु गरी अत्यावश्यक काममा विशेष ध्यान पुऱ्याउन आग्रह गर्नुभयो । साथै उहाँले निर्माण सम्पन्न पुलहरू हस्तान्तरण हुनुपर्ने, नयाँ पुल निर्माण समयमै सम्पन्न हुनु पर्ने र परियोजना स्थलमा काम भएको देखिनुपर्ने कुरामा जोड दिनुभयो ।

उक्त बैठकमा नेपाल राष्ट्र बैंकका का.मु गर्भनर कृष्णबहादुर मानन्धरको पनि उपस्थिती थियो। नेपाल सरकारका विभिन्न मन्त्रालयका सचिवहरूबाट आ-आफ्नो मन्त्रालयको चालू आ.व.को बजेटमा विनियोजित रकमहरूको आयोजनाहरूमा गरिएका खर्चहरूको लक्ष्य अनुसार कार्तिक महिनासम्म भए गरेका प्रगति विवरणहरू प्रस्तुत भएको थियो ।

सोही कार्यक्रममा अर्थमन्त्रालय बजेट तथा कार्यक्रम महाशाखाका सहसचिव कृष्णहरि बाँस्कोटाले विभिन्न मन्त्रालयहरूमा विनियोजित चालु वर्षको बजेटको कार्यान्वयनमा हालसम्म प्राप्त भएका प्रगतिको समीक्षात्मक टिप्पणी गर्नुहुँदै आगामी दिनमा मन्त्रालयहरूले समयमै प्रगति विवरण उपलब्ध गराउन आग्रह गर्नुभयो ।

# अर्थमन्त्रीद्वारा सार्वजनिक संस्थानहरूका कार्यकारी प्रमुखहरूलाई निर्देशन

अर्थ मन्त्रालयमा ६ माघ, २०६४ मा आयोजित सार्वजनिक संस्थानहरूका कार्यकारी प्रमुखहरूको सहभागिता रहेको छलफल कार्यक्रममा सार्वजनिक संस्थानहरूको भौतिक तथा वित्तीयकार्य प्रगति मूल्यांकन एवं समीक्षा गर्ने कार्य सम्पन्न भयो। सो अवसरमा सबै सार्वजनिक संस्थानहरूको वर्तमान अवस्थामा सुधार गरी आगामी दिनमा व्यवसायिक रूपमा संचालन गर्न र सेवा प्रवाहमा सरलता तथा प्रभावकारिता ल्याउने विषयमा सहभागितामूलक छलफल गरी सो सम्बन्धमा बढी सजग रही प्रभावकारी कार्यान्वयनको प्रतिवद्धता समेत सबै कार्यकारी प्रमुखहरूबाट प्रकट भयो। सो अवसरमा संस्थानहरूको खुद सम्पत्तिको (networth) अवस्था, नाफा नोक्सानको स्थिति संस्थाको भाका नाघेको ऋण र सावो, व्याज, अवकाशकोषको व्यवस्था, कोषको व्यवस्था नगरिएका दायित्व, लेखा परिक्षणको स्थिती फन्ड गर्न बाँकी बेरजु, सुधार सहितको व्यावसायिक योजना नोक्सानी कमी गर्ने कार्य योजना, सार्वजनिक खरिद ऐनअनुरूप संस्थान ऐन नियम परिमार्जित गरी वित्तीयअनुशासन, सुशासन, मितव्ययिता र पारदर्शिता ल्याउने लगायतका विषयमा गंभिरता पूर्वक अन्तक्रिया भयो। यस प्रकारको वृहत छलफल अन्तरक्रिया कार्यक्रम अर्थ मन्त्रालयमै आयोजना भएको यो पहिलो अवसर भएको र सहभागी कार्यकारी प्रमुखहरूबाट यस्तो कार्यक्रमले निरन्तरता पाउनुपर्ने र अर्थ मन्त्रालयको निर्देशनलाई गम्भीरतापूर्वक कार्यान्वयन गर्ने प्रतिवद्धता व्यक्त गर्नुभयो।

सार्वजनिक संस्थानहरूलाई व्यावसायिक रूपमा संचालन गरी समयवद्ध कार्ययोजना बनाई प्रभावकारी रूपमा संचालन गरी सेवा तथा सुविधा प्रवाहमा प्रभावकारीता मितव्ययिता र सुशासनको अनुभूति हुने गरी संचालन गर्न सार्वजनिक संस्थानका प्रमुखहरूबाट गाभिरतापूर्वक कार्य गर्ने प्रतिवद्धता व्यक्त भयो। सार्वजनिक संस्थान प्रमुखहरूसंग अर्थ मन्त्रालयबाट यस्तो कार्यक्रममा आयोजना भएकोमा प्रमुखहरूबाट सन्तोष व्यक्त भयो र आगामी दिनहरूहरूमा पनि यस्तो अन्तरक्रिया कार्यक्रम निरन्तर गरिनु पर्ने आवश्यकता महसुस भयो। कम्तीमा वर्षको एकपटक यस्तो कार्यक्रम गर्ने र संस्थानका समस्याहरू के हुन र सरकारको अपेक्षा के हुन भन्ने सम्बन्धमा छलफल भयो।

सो कार्यक्रममा माननीय अर्थमन्त्री डा. रामशरण महतबाट कार्य सम्पादन गर्दा निर्भिकतापूर्वक गरी व्यवसायिक दृष्टिकोण राखी सेवाप्रवाह गर्न र आफ्नो संस्थाको प्रगतिमा ध्यान दिन निर्देशन दिनु भयो। संस्थानहरूमा कोषको व्यवस्था नगरी दायित्व सिर्जना गर्न नहुने, मितव्ययी ढङ्गबाट संचालन गर्ने संस्थानले कार्य संचालन गर्दा स्वतन्त्रतापूर्वक व्यावसायिक योजना र कार्ययोजनाअनुसार संचालन गर्न र अर्थ मन्त्रालयले सदैव सहयोग गर्ने बताउनुभयो। साथै सबै कार्यकारी प्रमुखले वित्तीय अनुसाशन कायम गरी वित्तीय सक्षमता बढाउँदै संस्थानहरू पूर्णतया व्यवसायिक रूपमा संचालन गरी वस्तु तथा सेवाको आपूर्तिलाई नियमित, सहज, प्रतिस्पर्धात्मक र प्रभावकारी रूपमा उपलब्ध गराई सार्वजनिक संस्थानहरू सरकारी कोषमाथि निर्भर रहनुको सट्टा सक्षम भई जनतालाई सेवा पुऱ्याउन कटिबद्ध भई लाग्न निर्देशन दिनुभयो।

उक्त अवसरमा अर्थ सचिव श्री विद्याधर मल्लिकले यो छलफल कार्यक्रमबाट सार्वजनिक संस्थानहरूको कार्यकुशलता अभिवृद्धि गर्न सघाउ पुग्ने विश्वास व्यक्त गर्नुभएको थियो। यस्तो छलफल कार्यक्रम निरन्तर जारी रहने र संस्थानहरूका समस्याहरू गहनरूपमा विश्लेषण गरी समाधान गर्न अर्थ मन्त्रालय सदैव सहयोगी रहेको विचार व्यक्त गर्नुभयो। राजस्व सचिव श्री रामेश्वर खनालले सबै सार्वजनिक संस्थानहरूको कार्य क्षेत्रमा परिआएका कठिनाइहरूको समाधान गर्न स्पष्ट कार्य योजनासहित अर्थ मन्त्रालयमा प्रस्तुत गरिएमा सदैव सकारात्मक दृष्टिकोणले सहयोग गर्ने विश्वास दिलाउँदै सहभागिताको लागि सबैलाई धन्यवाद दिनु भयो। वाणिज्य तथा आपूर्ति सचिव श्री पुरुषोत्तम ओझाले संस्थानहरूले उत्पादकत्व बढाउने अनावश्यक खर्च घटाउने र समयनुसार नयाँ प्रविधि प्राप्त गर्न प्रयत्नशील हुनुपर्ने बताउनुभयो। संस्थान समन्वय महाशाखा प्रमुख श्री शिवबहादुर रायमाझीले उक्त कार्यक्रम संचालन गर्नुभएको थियो। सो अवसरमा का.मु. महालेखा नियन्त्रक र अर्थ मन्त्रालयका उच्चपदस्थ अधिकृतहरूको सहभागिता रहेको थियो।

## नेपाल सरकार, अर्थ मन्त्रालय

# आर्थिक वर्ष २०६४/६५ को पौष महिनासम्मको राजस्व असूली विवरण

चालू आर्थिक वर्ष २०६४/६५ को पौष मसान्तसम्ममा रु. ४७ अर्ब ३८ करोड ९५ लाख राजस्व संकलन भई गत आर्थिक वर्ष २०६३/६४ को सोही अवधिको तुलनामा २५.३७ प्रतिशतले बृद्धि भएको छ। कूल राजस्वमध्ये कर राजस्वतर्फ रु. ४० अर्ब १६ करोड ५ लाख १३ हजार असूली भएको छ। यसै गरी गैरकरतर्फ रु. ७ अरब २२ करोड ८९ लाख ८७ हजार राजस्व असूली भएको छ। यस अवधिमा कूल राजस्व असूलीमा कर राजस्वको अंश ८४.७५ प्रतिशत र गैरकर राजस्वको अंश १५.२५ प्रतिशत रहेको छ।

राजस्व असूलीको शीर्षकगत तुलनात्मक विवरण निम्नानुसार छ :

१. भन्सार महसूलतर्फ :- आर्थिक वर्ष २०६४/६५ को पौष महिनासम्ममा जम्मा रु. ९ अर्ब ६७ करोड ६७ लाख ६४ हजार राजस्व संकलन भएको छ। यसले कूल राजस्व असूलीमा २०.४२ प्रतिशतले योगदान दिएको छ।
२. मूल्य अभिवृद्धि कर तर्फ :- आर्थिक वर्ष २०६४/६५ को पौष महिनासम्ममा रु. १४ अर्ब ९२ करोड ७९ लाख ३० हजार राजस्व संकलन भएको छ। यसले कूल राजस्व असूलीमा ३१.५० प्रतिशतले योगदान दिएको छ।

३. अन्तःशुल्कतर्फ:- आर्थिक वर्ष २०६४/६५ को पौष महिनासम्ममा यस शीर्षक अन्तर्गत रु. ४ अर्ब ९५ करोड ५४ लाख २ हजार राजस्व संकलन भएको छ। यसले कूल राजस्व असूलीमा १०.४६ प्रतिशतले योगदान दिएको छ।
४. कर तर्फ :- आर्थिक वर्ष २०६४/६५ को पौष महिनासम्ममा यस शीर्षक अन्तर्गत रु. ८ अर्ब ३९ करोड ९० लाख ३३ हजार राजस्व संकलन भएको छ। यसले कूल राजस्व असूलीमा १७.७२ प्रतिशतले योगदान दिएको छ।
५. रजिष्ट्रेशन दस्तुर तर्फ :- आर्थिक वर्ष २०६४/६५ को पौष महिनासम्ममा रजिष्ट्रेशन दस्तुर रु. १ अर्ब ३५ करोड ८५ लाख १६ हजार राजस्व संकलन भएको छ। यसले कूल राजस्व असूलीमा २.८७ प्रतिशतले योगदान दिएको छ।
६. सवारी साधन कर तर्फ :- आर्थिक वर्ष २०६४/६५ को पौष महिनासम्म रु. ८४ करोड २८ लाख ६८ हजार असूली भएको छ। यसले कूल राजस्व असूलीमा १.७८ प्रतिशतले योगदान दिएको छ।
७. गैरकर राजस्व तर्फ :- आर्थिक वर्ष २०६४/६५ को पौष महिनासम्ममा रु. ७ अर्ब २२ करोड ८९ लाख ८७ हजार गैरकर राजस्व असूली भएको छ। यसले कूल राजस्व असूलीमा १५.२५ प्रतिशतले योगदान दिएको छ।



नेपाल सरकार  
अर्थमन्त्रालय

## राजस्व अनुसन्धान विभागको अनुरोध

आयकर, मूल्य अभिवृद्धिकर, भन्सार महसुल, अन्तःशुल्क जस्ता राजस्वको चुहावट भएको वा हुन सक्ने जानकारी दिनुहोस्।

### किन

- कानूनले तपाईंलाई पुरस्कार दिने व्यवस्था गरेको छ।
- तपाईंको नाम, ठेगाना गोप्य रहनेछ।
- तपाईंलाई कारवाहीको जानकारी दिइनेछ।

### कहाँ

- टेलिफोन : १६६०-०१-५५०००  
(पैसा नलाग्ने फोन)
- फ्याक्स : ०१-५५४२०२३
- इमेल : info@dri.gov.np
- वेबसाइट : www.dri.gov.np

# आर्थिक वर्ष २०६४/०६५ को पौष महिनासम्मको राजस्व असुली विवरण

(रु. ०००)

कर शीर्षक	वार्षिक अनुमान (२०६४/०६५)	२०६३/६४ को असुली		२०६४/६५ पौषको		वार्षिक लक्ष्यका तुलनामा %	२०६४/६५ पौष महिनाको लक्ष्यको तुलनामा %	२०६४/६५ पौषसम्मको लक्ष्यको तुलनामा %	गत बर्षको यस अवधिको तुलनामा %
		पौषको मात्र	पौषसम्मको	लक्ष्य	असुली				
२	३	४	५	६	७	१०	११	१२	१३
भसार तर्फ	१९४८९३००	१०८८८१२	७८१९८०१	१५९६२००	१७८५५१९	४९.६५	१११.८६	१०६.६४	१२३.७५
पैठारी	१५५९३३००	१०१२५२३	६४४५७८९	१२७२२००	१५१०२१६	४९.३०	११८.७१	१०६.८०	११७.४४
भारतीय अन्तःशुल्क	२७०००००		६७०१८३	२२५०००	२१०१३६	५५.९५	९३.३९	१११.९०	२२५.४१
निकासी	७२६०००	४८९९९	३७२५९९	६२२००	३७८७४	२४.९२	६०.८९	६०.१३	४८.५६
अन्य	४७००००	२७२९०	३३१२३०	३६८००	२७२९३	६३.३४	७४.१७	१३२.४३	१२८.७५
मू.अ.क. तर्फ	२९६५१९००	२१८४८१८	१२५६०३८१	२४७७९५६	२८२१०६१	५०.३४	११३.८५	११४.०८	११८.८५
उत्पादन, बिक्री, सेवा	११२३९९००	७३५८४९	४४४२१३७	१०१३३५१	१०९३३५१	४८.७१	८७.६४	१०५.७२	१२३.२४
पैठारी	१८४१२०००	१४४८९९९	८११८२४४	१४६४६०५	१९३२९६७	५१.३४	१३१.९८	११९.५५	११६.४५
अन्तःशुल्क	१०५२३२०१	६९८१४८	३७७८८६३	८९१४६९	९०२०६२	४७.०९	१०१.१९	१०८.१२	१३१.१३
आन्तरिक उत्पादन	८२०५७०१	५५५१११	२९६३२५३	७१३८२४	६६९१५२	३५.८०	९३.७४	९९.३५	१२०.८४
पैठारी	२३१७५००	१४३०३७	८१५६१०	१७७६४५	२३२९१०	५९.३२	१३१.११	१४०.४२	१६८.५५
कर तर्फ	१६८६९१९९	२८६५९५७	६००८५६९	३३३१७०४	४७०४०११	४९.७९	१४१.१९	१३०.४२	१३९.७८
आयकर	१४६२५५००	२७३८५१८	५३२२३१३	३१६८३१०	४५१९५८७	५१.५५	१४२.६५	१३५.३४	१४१.६४
घर जग्गा वहाल कर	८५४१००	७३९२६	२७११६३	९८५६८	९९७७९	४०.०५	१०१.२३	८६.४५	१२६.१६
व्याजकर	१३८९५९९	५३५१३	४१५०९३	६४८२६	८४६४५	३७.२९	१३०.५७	१०९.३२	१२४.८४
रजिष्ट्रेशन दस्तुर	३३४६१००	२३०३४५	११९११७२	२८४४४७	३५००००	४०.६०	१२३.०५	८५.३७	११४.०५
सवारी साधन कर	१०८२५००	१७३४३	२४७५७२	२७५२८	१३७७६५	७७.८६	५००.४५	२१४.४९	३४०.४५
जम्मा कर राजस्व	८०९६२२००	७०८५४२३	३१६०६३५८	८६०९३०४	१०७००४१८	४९.६०	१२४.२९	११४.२०	१२७.०६
जम्मा गैर कर राजस्व	२२७०५०५६	३९८१६७७	६१९४४४२	३०४४१७०	४३२८७८२	३१.८४	१४२.२०	१०९.८०	११६.७०
कूल राजस्व	१०३६६७२५६	११०६७१००	३७८००८००	११६५३४७४	१५०२९२००	४५.७१	१२८.९७	११३.५१	१२५.३७

# अर्थ मन्त्रालयको २०६४ साल पौष महिनासम्मको मासिक प्रगति विवरण

मन्त्रालय/निकायको नाम: अर्थ मन्त्रालय

२०६४ साल पौष महिना

अ	मासिक रूपमा सम्पन्न भएका मुख्य मुख्य कामको विवरण			
क	परिमाण खुलाउन सकिने कामको विवरण			
	सम्पादित प्रमुख कार्यहरु	यो महिनाको उपलब्धि	चालु आ.व.को यो महिनासम्मको उपलब्धि	गत वर्षको सोही महिनाको तुलनामा यस महिनाको प्रगति (प्रतिशतमा)
<b>आन्तरिक राजस्व विभाग</b>				
१	PAN दर्ता (संख्या)	२९६९	१०४००	१२७.८३
२	VAT दर्ता (संख्या)	५५३	३१८९	१२४.५७
३	मू.अ.कर फिर्ता (रु. हजारमा)	२८४७४६	१४९९२८९	६३.६९
४	मैत्रीपूण भ्रमण (संख्या)	५०८	२६८३	३८५.४९
५	अनुसन्धान (संख्या)	१३	४७	१८८.००
६	Full audit सम्पन्न (संख्या)	२६४	१३१६	१५२.१४
७	आकस्मिक निरीक्षण (संख्या)	१६८	८१३	९१.०४
८	आयकर बक्यौता असुली (हजारमा)	१६१४०	८९१८८०	६५२.५८
९	बेरुजू सम्परीक्षण (रु. हजारमा)	....	१९८८६८	११४.९८
१०	कूल राजस्व असुली (रु. हजारमा)	८६३३२०७	२९५४५४०	१२९.७४
<b>भन्सार विभाग</b>				
१	भारतीय अन्तशुल्क फिर्ता प्राप्त	२१०१३६०२६	१५१०६७१०६८	
२	अन्तर्राष्ट्रिय मूल्यसूची वितरण	२	११	
३	Generalized system of preferences सम्बन्धि पत्राचार	९	३८	
४	निरीक्षण भ्रमण	०	१०	
५	अख्तियार दुरुपयोग अनुसन्धान सम्बन्धि पत्राचारहरु	०	३	
६	बैंक ग्यारेन्टी सम्बन्धि	५	३४	
७	बस्तु परीक्षण/ बस्तु बर्गिकरण संख्या	१५०	७८६	
८	भन्सार एजेन्टको प्रमाणपत्र नविकरण	१	२२५	
९	महसूल सुविधा प्रदान गरिएको संख्या	१०४	७४८	
१०	कुटनैतिक सुविधा प्रदान गरिएको संख्या	३०	३८८	
११	वण्डेड वेयर हाउसको इजाजतपत्र नविकरण	३	११९	

१२	मूल्य पुनरावलोकन समितिको बैठक	१	३	
१३	मूल्य पुनरावलोकन समितिको निर्णय संख्या	२१	४८	
१४	जाँचपास पछिको लेखा परिक्षण (PCA)	२	५	
१५	क्षेत्रीय मूल्यांकन गोष्ठी	०	३	
१६	वण्डेड वेयर हाउसको इजाजतपत्र जारी	१	१६	
<b>राजस्व अनुसन्धान विभाग</b>		<b>रु. हजारमा</b>		
१	भन्सार चोरी पैठारी नियन्त्रणको सिलसिलामा विभिन्न मितिमा कब्जामा लिएका मुद्दाहरूका सामानहरू जफत गरी धरौटी समेत लिई आवश्यक कारवाही भैरहेको ।	५६८४	२१७८८	२७४७२
२	मु.अ.कर छलेको आशंकामा विभिन्न मितिमा विभिन्न करदाताहरूको कारोबारको सम्बन्धमा गरिएको छानवीनबाट कर निर्धारण गरिएको ।	१०६८०६	१९८११	१२६६१७
३	अन्तः शुल्क	१०१	०	१०१
४	आयकर	३३८२२	१८९७८	५२८००
	राजस्व चुहावट	३६	०	३६
५	विदेशी विनिमयको अबैध कारोबार तथा अपचलन सम्बन्धमा भएको छानवीनबाट सम्बन्धित अदालतमा मुद्दा दायर गरिएको	०	२३०२०	२३०२०
६	अन्य	०	२	२
<b>बजेट तथा कार्यक्रम महाशाखा</b>				
१	निकास प्रगति (रु. करोडमा) चालु (साँवा समेत) पूजिगत	७९४.८० २६६.२२	५२३४.५० १२९३.०६	
२	खर्च प्रगति (रु. करोडमा) चालु खर्च (साँवा समेत) पूजिगत खर्च	८१६.५५ २८५।२२	४५६२.१४ १०२८।३४	
<b>कानून महाशाखा</b>				
१	रिट निवेदन	X		
२	लिखित जवाफ	६	२६	
३	सूचना सम्पादन	७	३५	
४	सूचना प्रकाशन	९	२९	
५	राय	४१	३०४	
६	नियम	X	३	
७	अध्यादेश	X	X	
८	विधेयक	४	७	

ख. परिमाण खुलाउन नसकिने कामको विवरण	
आन्तरिक राजस्व विभाग	
१	आ.रा.का. नेपालगञ्ज र धरानको अनुगमन गरिएको ।
२	ठूलो करदाता कार्यालय, आ.रा.का. नेपालगञ्ज र आ.रा.का. धरानमा लागु भएको कार्यसम्पादनमा आधारित प्रोत्साहन प्रणालीको सूचक र भारप्रणाली परिमार्जन गरिएको ।
३.	बक्यौता र बेरुजु फछ्यौट समिति गठन भई कार्य प्रारम्भ भएको ।
४.	शैक्षिक सेवा प्रदान गर्ने कन्सल्टेन्सी सेवाहरूको अनुगमन अनुसन्धान गरी मू.अ.कर तर्फ दर्ता गराउने कार्य को आवश्यक अनुसन्धान भईरहेको ।
भन्सार विभाग	
१	कूटनैतिक तथा महसूल छुटमा जाँचपास भएका सवारी साधनको पुनः महसूल असूल गर्न ४ थान सवारी साधनको महसूल असूल गर्न लेखि पठाएको ।
२	मुख्य पुनरावलोकनका लागि प्राप्त निवेदनहरू प्रतिक्रियाको लागि सम्बन्धित भन्सार कार्यालयमा पठाइएको ।
३	विराटनगर भन्सार कार्यालयमा ASYCUDA + + 1.18d मा Upgrade गरिएको ।
४	भारतीय सरकारबाट प्राप्त विलहरूको Reconcile कार्य गरिएको ।
५	तातोपानी तथा मेचि भन्सार कार्यालयमा Closed Circuit Television जडान गरिएको ।
६	स्वतः बढुवा सम्बन्धि का.स.मु. सम्बन्धि तथा परिचर स्तर बृद्धि लागयत दैनिक प्रशासनिक कार्यहरू भएको ।
७	कार्य सम्पादन मूल्याङ्कन परिसूचक संकलन र नतिजा तयार गरि सम्पूर्ण मूल भन्सार कार्यालयहरूलाई जानकारी गराइएको ।
कर्मचारी प्रशासन महाशाखा	
१	कर्मचारीहरूको सुरुवा, पदस्थापना तथा काज सम्बन्धी कार्य गरेको साथै स्वतः बढुवा सम्बन्धि, कार्यसम्पादन मूल्यांकन फाराम सम्बन्धी कार्य भइरहेको ।
आर्थिक कार्य विषयक तथा नीति विश्लेषण महाशाखा	
१.	सुरेन्द्र मणि त्रिपाठीलाई नेपाल सरकारको निर्णय अनुसार राष्ट्रिय विमा संस्थानको संचालक समितिको अध्यक्षमा नियुक्ती गरिएको ।
२.	राजेशराज कर्णिकारलाई राष्ट्रिय विमा संस्थानको प्रशासक पदमा नियुक्ती गरिएको ।
३.	विदेशमा अलपत्र परेका नेपालीलाई विदेशबाट फिर्ता भ्रिकाउन विदेशी मुद्रा सटही सुविधा दिएको (ने.र. २६,३००)
४.	मुकुन्द प्रसाद अर्ज्याललाई २ वर्षको लागि कृषि विकास बैंकको संचालक समितिको सदस्यमा मनोनयन गरिएको (निर्णय ०६४।९।१७ मन्त्रस्तिर)
५.	रु १०००।- (एकहजार) को नोट निष्काशन गर्न का.मू. गर्भनरले हस्ताक्षर गर्न स्वकृती ।
६.	धितोपत्र बोर्डको संचालक समितिको सदस्यमा यस मन्त्रालयका सह सचिव श्री शारदा प्रसाद त्रिताललाई मनोनयन गरिएको ।
७.	नागरिक लगानीकोषको अध्यक्षमा श्री माधव प्रसाद पौडेललाई नेपाल सरकार (मं.प) को मिति ०६४।९।३० को निर्णयानुसार नियुक्ती गरिएको ।
८.	कर्मचारी संचयकोषको अध्यक्षमा श्री दीप बस्न्यातलाई नेपाल सरकार (मं.प) को मिति ०६४।९।३० को निर्णयानुसार नियुक्ती गरिएको ।
९.	पूर्वाञ्चल ग्रामिण विकास बैंकको संचालक समितिको सदस्यमा सुधिर कुमार अर्याललाई नियुक्ती गरिएको ।

संस्थान समन्वय महाशाखा	
१	सरकारी संस्थान र समितिहरूबाट माग भई आए अनुसार बढुवा तथा खुलाबाट पदपूर्ति गर्न विभिन्न संस्थान/समितिहरूलाई औचित्य हेरी सहमति दिने गरिएको ।
२	सार्वजनिक संस्थानहरूबाट सुविधा बृद्धि गर्न सहमति माग भै आएअनुरूप औचित्य हेरी सहमती दिने गरिएको ।
३	उच्चस्तरीय सार्वजनिक संस्थान सुधार सुभाष समिति, २०६३ ले पेश गरेको प्रतिवेदन कार्यान्वयनकालागि नीतिगत निर्णय गर्ने प्रकृत्यामा रहेको ।
४	नेपाल दुर संचार कम्पनीको ५ प्रतिशत शेयर कर्मचारीहरूलाई विक्री गर्न उक्त कम्पनीलाई स्वीकृती दिइसकेको र १० प्रतिशत शेयर सर्वसाधारणलाई विक्री गर्नका लागि नागरिक लगानी कोषलाई विक्री प्रबन्धक नियुक्ती गरी विक्रीको लागि दरखास्त माग भएको ।
५	कृषि औजार कारखाना लि.को खरीदकर्तासँग भएको विवाद समाधानको लागि मध्यस्थता ट्राइबुनलबाट भएको निर्णय निजीकरण समितिमा पेश भई उक्त समितिको सिफारिस अनुसार कृषि औजार कारखाना खारेज गर्ने निर्णय भएको ।
६	नेपाल चिया विकास निगमको ६५ प्रतिशत शेयर खरीदकर्तासँगको विद्यमान समस्या समाधान हेतु निजीकरण समितिबाट मिति २०६३।०।२९ मा राष्ट्रिय योजना आयोगका मा. सदस्य डा. पोषराज पाण्डेज्यूको संयोजकत्वमा गठित कार्यदलबाट प्रतिवेदन प्रस्तुत भएको र निजीकरण समितिको निर्णयानुसार मं.प.मा पेश भई म.प.को निर्णयानुसार खरिद कर्तासंग पुरक सम्झौतागर्ने तयारीमा रहेको ।
७	कृषि चुन उद्योग लि.को सम्पती व्यवस्थापन दायित्व फरफारक र खारेजीकोलागि म.पं.बाट भएको निर्णय कार्यान्वयन अघि बढाइएको ।
८	सरकारी संस्थानहरूको प्रोफाइल तयार गर्ने कार्य प्रगतिमा रहेको र अन्य दैनिक कार्यहरू सम्पादन गरिदै आएको ।
वैदेशिक सहायता तथा समन्वय महाशाखा	
१.	मिति २०६४/९/५ मा जनवादी गणतन्त्र चिन सरकारले नेपाललाई रु. ४५ करोड ८५ लाख अनुदान सहायता उपलब्ध गराउने सम्बन्धी आर्थिक तथा प्राविधिक सहायता सम्बन्धी सम्झौता पत्रमा नेपाल सरकार र जनवादी गणतन्त्र चिन सरकारबीच सम्झौता सम्पन्न भयो ।
२.	मिति २०६४/९/२५ मा स्वीजरल्याण्डले Sustainable Management Of Agriculture Soil in the Mid -Hills of Nepal Project Phase III कार्यान्वयनको लागि नेपाल सरकारलाई रु. २० करोड बराबरको अनुदान सहायता उपलब्ध गराउने सम्बन्धमा नेपाल सरकार र स्वीजरल्याण्ड सरकारबीच सम्झौता सम्पन्न भयो ।
३.	मिति २०६४।९।३० मा एसियाली विकास बैंकले नेपाललाई Rural Reconstruction and Rehabilitation Sector Development Program कार्यान्वयन गर्न रु ६ अर्ब २९ करोड अनुदान सहायता उपलब्ध गराउने सम्बन्धी सम्झौता पत्रमा ए.डि.बी. र नेपाल सरकारबीच सम्झौता सम्पन्न भयो ।
राजस्व महाशाखा	
१	आर्थिक बर्ष २०६४/०६५ को छैठौँ महिना पौष मसान्तसम्ममा रु ६५ अर्ब २७ करोड ५६ लाख निकासा भएको मध्ये यस अवधिमा चालु खर्च तर्फ रु ४४ अर्ब ५८ करोड ४९ लाख र पूँजीगत तर्फ रु १२ अर्ब ९३ करोड ०६ लाख तथा सावौँ भुक्तानी तर्फ रु ७ अर्ब ७६ करोड ०१ लाख निकासा भएको छ । जुन गत वर्षको सोही अवधिको तुलनामा २८.२ प्रतिशतले बढी छ । निकासामध्ये यस अवधिसम्ममा चालु खर्चतर्फ रु. ३८ अर्ब २४ करोड ०६ लाख खर्च भएको छ भने पूँजीगत तर्फ रु १० अर्ब २८ करोड ३४ लाख तथा सावौँ भुक्तानी तर्फ रु ७ अर्ब ३८ करोड ०८ लाख गरी उक्त अवधिमा कूल खर्च रु. ५५ अर्ब ९० करोड ४८ लाख भएको छ । जुन गत वर्षको सोही अवधिको तुलनामा ३१.१ प्रतिशतले बढि छ । नेपाल राष्ट्र बैंकका अनुसार आर्थिक बर्ष २०६४/६५ को पौष मसान्तसम्ममा रु ४७ अर्ब ३८ करोड ९५ लाख राजस्व संकलन भई गत आर्थिक बर्ष २०६३/६४ को सोही अवधिको तुलनामा २५.४ प्रतिशतले बृद्धि भएको छ ।

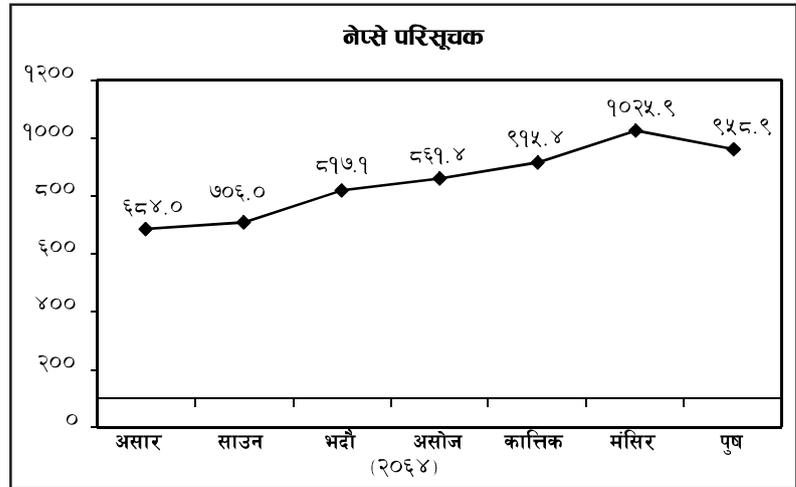
बजेट तथा कार्यक्रम महाशाखा	
१	चालु आ.ब. २०६४ पुस मसान्तसम्ममा नगदतर्फ चालु खर्चमा ४४ अर्ब ५८ करोड ४९ लाख, पूँजीगत खर्चमा १२ अर्ब ९३ करोड ०६ लाख र साँवा भक्तानीमा ७ अर्ब ७६ करोड ०१ लाख गरी जम्मा ६५ अर्ब २७ करोड ५६ लाख निकासी भएको छ । त्यसैगरी सोही अवधिमा नगदतर्फ चालु खर्च रु. ३८ अर्ब २४ करोड ०६ लाख, पूँजीगत खर्च रु. १० अर्ब २८ करोड ३४ लाख र साँवा भक्तानीमा ७ अर्ब ३८ करोड ०८ लाख गरी जम्मा रु. ५५ अर्ब ९० करोड ४८ लाख खर्च भएको छ । जुन गत वर्षको सोही अवधिको कुल निकासी तथा कुल खर्चको क्रमश २८.२ प्रतिशत तथा ३१.१ प्रतिशतले बढि रहेकोछ ।
२	२०६४ पुस मसान्तसम्ममा नगद प्रवाहको स्थिति ७ अर्ब ०७ करोड ३४ लाख ऋणात्मक रहेको छ। यो रकम गत आ.ब. को तुलनामा २५.७ प्रतिशतले घटी रहेको छ ।
३	राजस्व असूली ४७ अर्ब ३८ करोड ९५ लाख पुगेको छ । जुन गत वर्षको तुलनामा २५.४ प्रतिशतले बढी छ ।
४	चालु आ.ब. २०६४ पुस मसान्तसम्ममा ८ अर्ब २० करोड आन्तरिक ऋण उठाइएको छ ।
अनुगमन तथा मूल्यांकन महाशाखा	
१	देशको आर्थिक गतिविधी सर्वसाधारणलाई जानकारी गराउनका लागि “आर्थिक नेपाल” नामक कार्यक्रम साप्ताहिक रुपमा संचालन भइरहेको ।
२	राजस्व चुहावट नियन्त्रणका सम्बन्धमा पर्न आएका उजुरीहरु सम्बन्धित निकायमा आवश्यक कारवाहीको लागि पठाइएको ।
३	आ.ब. २०६४।०६५ को बजेट वक्तव्यको बुँदा नं. १७३ अनुसारको मन्त्रालय स्तरीय प्रगति समीक्षा बैठक मिति २०६४।१।४ गते र त्रैमासिक सचिवस्तरीय प्रगति समीक्षा बैठक २०६४।१।५ गते माननीय अर्थमन्त्रीको अध्यक्षतामा सम्पन्न भएको । साथै अर्थमन्त्रालय र अर्न्तगतका अति प्राथमिकता प्राप्त (P1) आयोजनाहरुको चालु आ.ब. २०६४।०६५ को प्रथम चौमासिक प्रगति समीक्षा बैठक एवं मन्त्रालय स्तरीय समस्या समाधान समितिको बैठक समेत मिति २०६४।१।२७ गते सम्पन्न भएको ।
राजस्व परामर्श समिति	
१	चालु आ.ब. २०६४।०६५ को पूरक बजेटको सम्बन्धमा छलफल गर्न राजस्व परामर्श समितिको बैठक २ पटक बसेको ।
२.	मूल्य अभिवृद्धिकरको बहुदर अध्ययन गर्नको लागि उक्त समितिको बैठक ४ पटक भई प्रारम्भिक प्रतिवेदन लेखन कार्य सुरु गरिएको ।
३	नेपाल उद्योग वाणिज्य महासंघद्वारा विराटनगरमा आयोजित उल्लेखित मूल्य अभिवृद्धि करको बहुदर गोष्ठीमा राजस्व परामर्श समितिको तर्फबाट सहभागिता भएको ।
कार्यसम्पादनका सिलसिलामा अनुभूत गरिएका मुख्य-मुख्य समस्या/मुद्दाहरु	
समस्या समाधान गर्न गरिएका उल्लेखनीय प्रयासहरु:	
भन्सार विभाग	
१	भन्सार मूल्यांकनकालागि Internet बाट सूचना संकलन गरिने गरिएको ।
२	व्यापार तथा निकासी प्रवर्द्धन केन्द्रबाट प्राप्त सूचना एकीकृत गरिएको ।

# आर्थिक वर्ष २०६४।६५ को धितोपत्र बजार र वित्तीय क्षेत्र सुधार कार्यक्रम र प्रगति विवरण

(प्रथम पाँच महिनाको तथ्याङ्कमा आधारित)

## १ धितोपत्र बजार

- १.१ २०६४ असार मसान्तमा ६८३.९५ विन्दु रहेको नेप्से परिसूचक २०६४ पुष मसान्तमा ९५८.९१ विन्दुमा पुगेको छ ।
- १.२ २०६४ पुस मसान्तमा बजार पूँजीकरण रु. ३०१ अर्ब ८६ करोड पुगेको छ । परिणामस्वरूप २०६४ पुस मसान्तमा बजार पूँजीकरणको कुल गार्हस्थ्य उत्पादनसंगको अनुपात ३८ प्रतिशत पुगेको छ । २०६४ असार मसान्तमा यस्तो अनुपात २५.९ प्रतिशत रहेको थियो । सूचीकृत कम्पनीहरूको वजार पूँजीकरणमा विगतमाभैं बैंक तथा वित्तीय संस्थाहरूले सबैभन्दा ठूलो हिस्सा ओगटेका छन् ।
- १.३ २०६४ पुस मसान्तमा नेपाल धितोपत्र विनिमय वजार लिमिटेडमा सूचीकृत भएका कम्पनीहरूको संख्या १४५ पुगेको छ । २०६४ असार मसान्तमा यो संख्या १३५ रहेको थियो । हाल सूचीकृत कम्पनीहरूमध्ये ११० वटा वित्तीय संस्था, २१ वटा उत्पादन र प्रशोधन गर्ने उद्योग, ४ वटा होटल, ५ वटा व्यापारिक संस्था, ३ वटा जल विद्युत कम्पनी र २ वटा अन्य समूहका रहेका छन् ।
- १.४ प्राथमिक निष्काशनतर्फ, आर्थिक वर्ष २०६४।६५ को पहिलो ६ महिनामा नेपाल धितोपत्र बोर्डले ७ वटा कम्पनीहरूलाई रु २७ करोड ४४ लाख बराबरको साधारण शेयर र अन्य १२ वटा कम्पनीहरूलाई रु २ अर्ब ४३ करोड ७५ लाख बराबरको हकप्रद शेयर निष्काशनको लागि स्वीकृति प्रदान गरेको छ ।
- १.५ नेपाल धितोपत्र विनिमय वजार लिमिटेडमा २०६४ असार मसान्तसम्ममा रु ७ अर्ब ०५ करोड बराबरको सरकारी ऋणपत्रहरू सूचीकृत भएकोमा चालुआर्थिक वर्षको पहिलो ६ महिनामा थप रु ३ अर्ब १० करोड बराबरका सरकारी ऋणपत्रहरू सूचीकृत भएका छन् । यस अवधिमा नेपाल



धितोपत्र विनिमय वजार लिमिटेडमा मा सरकारी ऋणपत्रको दोस्रो वजार कारोबार भएन ।

## शेयर बजार विस्तार

२०६३ बैशाखमा सम्पन्न राजनीतिक परिवर्तन पछि उकालो लाग्न थालेको नेपालको शेयर बजार बिगत एक वर्ष भन्दा बढी समय देखिनै Bullish Trend बाट अगाडि बढेको छ । मुलुकमा सम्पन्न राजनीतिक परिवर्तन पश्चात् दीगो शान्ति कायम हुने अपेक्षामा लगानीकर्ताहरू उत्साही हुनु, बैंक तथा वित्तीय संस्थाहरूले बोनस तथा हकप्रद शेयर जारी गर्नु, नेपाल राष्ट्र बैंकले पूँजी बृद्धि सम्बन्धी निर्देशन जारी गर्नु, बैकल्पिक लगानीका अवसरहरू कम हुनु, ब्याजदर न्यून हुनु र अन्तर्राष्ट्रिय शेयर बजारमा पनि उँभोलाग्ने प्रवृत्ति कायम हुनु आदि कारणले आर्थिक वर्ष २०६३/६४ नेपालको शेयर बजारका लागि बिस्तारकारी रह्यो । तर चालु आर्थिक वर्षको प्रथम ५ महिनामा भने नेपालको शेयर बजार अनपेक्षितढंगले बिस्तार हुन पुग्यो । नेप्से परिसूचक २०६४ असार मसान्तको तुलनामा ५० प्रतिशतले बढेर २०६४ मंसिर मसान्तमा १०२५.९ बिन्दुमा पुग्यो । यस अवधिमा बैंक तथा वित्तीय संस्थाहरूबाट मार्जिन लेण्डिङ्गमा प्रबाहित कर्जाका कारण समेतले नेप्सेमा अस्वाभाविक बिस्तार हुन पुगेकोले उक्त कर्जालाई व्यवस्थित गर्ने उद्देश्यले २०६४ असोज २० गते नेपाल

राष्ट्र बैंकले शेयरको बजार ९० दिनको अन्तिम बजार मूल्यको औसत मोलको ५० प्रतिशतसम्म मार्जिन लेण्डिङ गर्न पाउने निर्देशन जारी गरेपछि केही समयका लागि नेप्से बृद्धि स्थिर हुन पुगेको थियो ।

तर दशैं-तिहारको लामो विदापछि शेयर बजार भन्नु तीव्रताका साथ उँभो लाग्ने क्रम जारी रह्यो । नाटकीय ढंगले भइरहेको शेयर बजारको विस्तारलाई मुलुकमा विद्यमान आर्थिक एवं राजनीतिक आधारहरूले पुष्टि गर्न नसकेको र कतिपय कम्पनीहरूको नकारात्मक नेट वर्थ हुँदाहुँदै पनि तिनको बजार मूल्य अंकित मूल्यभन्दा निक्कै माथि रहेको समेत पाइयो । साथै, सुचीकृत कम्पनीहरूको समग्र आधारभूत एवं प्राविधिक विश्लेषण समेत नभई शेयर बजारमा लगानी भइरहेको र बैंक तथा वित्तीय संस्थाहरूबाट प्रवाह भएको मार्जिन लेण्डिङका कारण ती संस्थाहरू स्वयं र अन्ततः निक्षेपकर्ता नै जोखिममा पर्न सक्ने सम्भावनालाई दृष्टिगत गर्दै मार्जिन लेण्डिङलाई थप ब्यबस्थित गर्न आवश्यक गृहकार्य गर्नुपर्ने महशुस गरी नेपाल राष्ट्र बैंकले २०६४ पौष १३ गते १ महिनाका लागि मार्जिन लेण्डिङ रोक्का गर्ने निर्देशन जारी गर्‍यो । २०६४ पौष २० गतेसम्म नेपाल राष्ट्र बैंकबाट ईजाजतप्राप्त बैंक तथा वित्तीय संस्थाहरूले शेयरको धितोमा रु १० अर्ब ५४ करोड लगानी गरेको पाइयो । नेपाल राष्ट्र बैंकले निर्देशन जारी गरे पश्चात् केही समय (२०६४ पौष १५ देखि २० सम्म) नेपाल धितोपत्र विनिमय बजार लिमिटेडमा कुनै कारोबार भएन र त्यसपछि खुलेको बजारले बिस्तारै सच्चिने गति लिएको छ । मार्जिन लेण्डिङलाई व्यवस्थित गर्ने उद्देश्यले २०६४ माघ ८ गते नेपाल राष्ट्र बैंकबाट पछिल्लो १८० कार्य दिनको अन्तिम मूल्यको औषत मूल्यको आधारमा बढीमा ५० प्रतिशत वा शेयरको प्रचलित बजार मूल्यको ५० प्रतिशतमध्ये जुन कम हुन्छ सो रकमसम्म मात्र कर्जा दिन सकिने, एकपटक प्रवाह गरिसकेको यस्तो कर्जालाई सुरक्षणमा रहेको शेयरको पूनर्मूल्याङ्कन गरी सोको आधारमा थप कर्जा सीमा कायम गर्न वा थप कर्जा प्रदान गर्न नपाइने, विगतमा ५० प्रतिशतको सीमाभन्दा बढी हुने गरी कर्जा प्रदान गरिएको भएमा २०६५ असार मसान्त वा भुक्तानी अवधि मध्ये जुन अगाडि हुन्छ सोही समयावधिभित्र नियमित गर्नुपर्ने लगायतका प्राबधान राखी निर्देशन जारीगरेपश्चात् मार्जिन लेण्डिङ ब्यबस्थित भई शेयर बजारको दीगो बिकासमा समेत अनुकूल प्रभाव पर्ने अनुमान गरिएको छ ।

१.६ खुला बोलकबोल प्रथा (Open outcry System) अन्तर्गत २०५० साल पुस २९ गतेदेखि नेपाल धितोपत्र विनिमय बजार लिमिटेडमा धितोपत्रको दोश्रो बजार कारोबार हुँदै

आएकोमा २०६४ श्रावण ३० गतेदेखि धितोपत्रको कम्प्युटरीकृत कारोबार पद्धति संचालनमा आएको छ । यसलाई संरचनागत बिकास तर्फको महत्वपूर्ण खुडकिलो मान्न सकिन्छ ।

१.७ नेपाल धितोपत्र बोर्डले नेपाल धितोपत्र बोर्ड सम्बन्धी नियमावली २०६४, धितोपत्र ब्यबसायी (धितोपत्र दलाल, धितोपत्र ब्यापारी तथा बजार निर्माता) नियमावली २०६४ र धितोपत्र बजार संचालन नियमावली २०६४ सार्वजनिक गरेको छ । यी नियमावलीले बजारलाई अझ बढी गतिशील र पारदर्शी बनाई पूँजी बजारको बिकासमा थप योगदान पुऱ्याउने अपेक्षा गरिएको छ ।

१.८ नेपाल धितोपत्र विनिमय बजार लिमिटेडमा हाल २३ वटा दलालहरू रहेकोमा दोश्रो बजार कारोवारलाई सहज तुल्याउन २७ वटा दलालहरूको संख्या थप गरी ५० पुऱ्याउने लक्ष्य अनुरुप ३३४ वटा आवदेनहरू प्राप्त भएका छन् । प्राप्त आवदेनहरू मध्येबाट धितोपत्र विनिमय बजार लिमिटेडले आवश्यक छनौटको प्रक्रिया अगाडि बढाएको छ ।

## २ वित्तीय क्षेत्र सुधार कार्यक्रम

वित्तीय क्षेत्र सुधार कार्यक्रम विश्व बैंक, डि.एफ.आइ.डी. र नेपाल सरकारको ऋण तथा अनुदान सहयोगमा संचालन भइरहेको छ । वित्तीय क्षेत्र सुधार कार्यक्रम अन्तर्गत नेपाल बैंक लिमिटेड र राष्ट्रिय वाणिज्य बैंकको पुनरसंरचना, नेपाल राष्ट्र बैंकको Reengineering र वित्तीय क्षेत्रको सक्षमता अभिवृद्धि कार्यक्रमहरू संचालन गरिएका छन् ।

### नेपाल राष्ट्र बैंकको सुदृढीकरण कार्य

बैंकिङ क्षेत्रमा प्रवेश गरेका नयाँ नयाँ प्राविधिको बिकाससँगै स्वच्छ र प्रतिस्पर्धात्मक किसिमले यस क्षेत्रको बिकासमा टेवा पुऱ्याउन नेपाल राष्ट्र बैंकको नियमन एवं सुपरिवेक्षण क्षमतामा अभिवृद्धि गर्ने सन्दर्भमा विदेशी परामर्शदाताको विगत २ वर्षसम्म सहयोग समेत लिई अन्तर्राष्ट्रियस्तरको नियमन ब्यवस्था तर्जुमा गर्ने कार्य गरिसकिएको छ । यसका अतिरिक्त बैंकको निरीक्षण तथा सुपरीवेक्षण क्षमतामा अभिवृद्धि गर्न अन्तर्राष्ट्रियस्तरको स्थलगत निरीक्षण तथा सुपरीवेक्षण निर्देशिका समेत तयार गरी लागू गरिएको छ । वित्तीय क्षेत्र सुधार कार्यक्रमको प्रथम र दोस्रो चरण अन्तर्गत नेपाल राष्ट्र बैंकको Re-engineering सम्बन्धी कार्यहरू संचालनमा रहेका छन् । हालसम्म नेपाल राष्ट्र बैंक Re-Engineering सम्बन्धमा निम्न बमोजिमका प्रगति भएका छन् ।

- नेपाल राष्ट्र बैंकको संगठनात्मक संरचनामा कामको प्रकृति अनुसार समायोजन गरी नयाँ संगठनात्मक संरचना लागू गरिएको छ ।
- बैंकले कर्मचारी कटौती गर्ने उद्देश्यले तीन चरणमा स्वेच्छक अवकास योजना लागू गरेकोमा सो योजना अन्तर्गत ५७१ र अनिवार्य अवकाश योजना अन्तर्गत ११ जना कर्मचारीले अवकास लिई सकेका छन् ।
- निरीक्षण तथा सुपरीवेक्षण कार्यमा दक्षता तथा कुशलता अभिवृद्धिका लागि ३० जना कर्मचारीहरूलाई परामर्शदाताहरूबाट On-the-Job Training तथा कार्य सम्पादन सक्षमताका साथ सम्पन्न गर्न मद्दत पुगोस् भन्ने अभिप्रायले करीव ४६ जना बाह्य लेखापरीक्षकलाई लेखापरीक्षण तालिम प्रदान गरिएको छ ।
- गैरस्थलगत निरीक्षण कार्य निर्देशिका तयार गरी लागू गरिएको छ ।
- वित्तीय क्षेत्र सुधार कार्यक्रमको प्रथमचरण अन्तर्गत NRB Re-engineering कार्यको लागि नियुक्त परामर्शदातृ संस्थाको सम्झौता अवधि समाप्त भइसकेको र वित्तीय क्षेत्र सुधार कार्यक्रमको दोस्रो चरण अन्तर्गत NRB Re-engineering कार्यको लागि नयाँ परामर्शदाताहरू नियुक्त गरी कार्य शुरु भइसकेको छ ।
- वित्तीय क्षेत्र सुधार वारे संचालित गतिविधिहरूको जनमानसमा सही सूचना प्रवाह गर्ने उद्देश्यले नेपाल राष्ट्र बैंकमा कार्यरत रहने गरी एकजना जनसम्पर्क अधिकृत (Public Relation Officer) को नियुक्ति गरिएको छ । हाल निजको पदावधि जून ३०, २००८ सम्मका लागि थप गरिएको छ ।
- नेपाल राष्ट्र बैंकको सूचनालाई आधुनिकीकरण गर्नको लागि NRB IT Platform स्थापना गरी सो कार्य सम्पन्न गर्न एकजना विदेशी IT Consultant को नियुक्ति गरिएको छ । बैंकको सूचना प्रविधिको विकास गर्न IT Consultant को सुझाव अनुसार २ जना Prototype Developer तथा १ जना IT Trainer नियुक्त गरी कार्य सम्पन्न भइसकेको छ । हाल IT Consultant को सम्झौता Slot Basis मा कार्य गर्न थप गरिएको र सम्झौता बमोजिम Consultant ले पहिलो चरणमा Bid Specification तयार गरी नेपाल राष्ट्र बैंकमा पेश भई सकेकोमा उक्त Bid Specification विश्व बैंकको Standard Format मा तयार नगरिएको हुँदा सो कार्य विश्व बैंकको Standard Format मा तयार गरी पेश

गर्न परामर्शदातालाई भनिएकोमा सो हुन सकेको छैन ।

- नेपाल राष्ट्र बैंकमा रहेको पुस्तकालयलाई आधुनिक पुस्तकालयको रूपमा विकसित गराउन एकजना विदेशी Librarian Expert नियुक्त गर्ने कार्यक्रम रहेको छ ।
- वित्तीय क्षेत्र सुधार (Phase II) अन्तर्गत NRB Engineering का लागि Bank Examination Expert ४ जना, Non Bank Examination Expert २ जना तथा Off site Supervisor १ जना नियुक्त गर्ने सिलसिलामा छनौट भएको संस्था M/S INC in association with KPMG, Sri Lanka संग नेपाल राष्ट्र बैंक तथा विश्व बैंकको स्वीकृति पश्चात फेब्रुअरी ६, २००६ मा २ वर्षका लागि यस बैंक र Consulting Firm M/s IEF Inc. in Association with KPMG, Srilanka बीच सम्झौता सम्पन्न भई निज परामर्शदाताहरूबाट मिति २०६२/१२/१३ गते तदनुसार मार्च २६, २००६ देखि कार्य शुरु गरिएकोमा उक्त M/S INC in association with KPMG, Sri Lanka ले सम्झौता अनुसारको कार्य गर्न नसकेकोले विश्व बैंकको सहमति लिई नेपाल राष्ट्र बैंक र Consulting Firm M/s IEF Inc. in Association with KPMG, Srilanka बीचको सम्झौता रद्द गरिएको छ ।

### वित्तीय क्षेत्रको क्षमता अभिवृद्धि

समग्र वित्तीय क्षेत्रको क्षमता अभिवृद्धि गर्ने उद्देश्यले कर्जा सूचना केन्द्रलाई सुदृढीकरण गर्ने, सम्पत्ति व्यवस्थापन निगमको स्थापना गर्ने, बैंक तथा वित्तीय संस्थाहरूको जनशक्तिलाई तालिम प्रदान गरी निजहरूको क्षमता अभिवृद्धि गर्नको लागि एउटा तालिम केन्द्रको स्थापना गर्ने जस्ता महत्वपूर्ण कार्यहरूको समेत शुरुवात गरिएको छ ।

त्यसैगरी बैंकिङ्ग क्षेत्रमा प्रवेश गरेका नयाँ प्रविधिको विकाससँगै स्वच्छ र प्रतिस्पर्धात्मक किसिमले यस क्षेत्रको विकासमा टेवा पुऱ्याउन नेपाल राष्ट्र बैंकको नियमन क्षमतामा अभिवृद्धि गर्ने सन्दर्भमा विदेशी परामर्शदाताको विगत ३ वर्षसम्म सहयोग समेत लिई अन्तर्राष्ट्रिय स्तरको नियमन जारी गरिएको छ । जस अन्तर्गत बैंक तथा वित्तीय संस्थाहरूले कायम राख्नु पर्ने न्यूनतम पूँजी कोष, कर्जा बर्गिकरण तथा कर्जा नोक्सानी ब्यबस्था, प्रति ग्राहक कर्जा सीमा सम्बन्धी ब्यबस्था, बैंक तथा वित्तीय संस्थाहरूले पालना गर्नुपर्ने लेखा नीति तथा वित्तीय बिबरणको ढाँचा सम्बन्धी ब्यबस्था, जोखिम न्युनीकरण सम्बन्धी ब्यबस्था, संस्थागत सुशासन सम्बन्धी ब्यबस्था, शाखाहरू संबन्धी ब्यबस्था, सहवित्तीयकरण कर्जा, वित्तीय श्रोतको संकलन, अनिवार्य नगद मौज्जात लगायतका विषयहरूलाई समावेश गरिएका

छन् । यसका अतिरिक्त बैंकको निरीक्षण तथा सुपरीवेक्षण क्षमतामा अभिवृद्धि गर्न अन्तर्राष्ट्रिय स्तरको स्थलगत तथा गैहृ-स्थलगत निरीक्षण एवं सुपरिवेक्षण निर्देशिका समेत तयार गरी लागू गरिएको छ । सबै वाणिज्य बैंकहरूको Corporate Level मा वर्षको १ पटक निरीक्षण गर्न थालिएको छ । त्यस्तै वित्तीय संस्थाहरूको निरीक्षण गरिने संख्यामा वृद्धि गरी निरीक्षण गर्ने कार्यलाई सुदृढ गरिदै लगिएको छ ।

STI (Second Tire Institution) ऐन, सम्पत्ती व्यवस्थापन निगम ऐन, मुद्रा शुद्धिकरण नियन्त्रण जस्ता ऐनका मस्यौदा तयार भई नेपाल सरकार समक्ष पेश भइसकेको छ । गाभिने वा प्राप्त गर्ने ऐन (Merger & Acquisition Act) निर्माण नभएसम्म यस सम्बन्धी कार्य सन्चालन हुन सकोस् भन्ने उद्देश्यले बैंक तथा वित्तीय संस्था अध्यादेशमा पनि केही प्रावधानहरू राखिएका छन् । तर यस सम्बन्धी छुट्टै ऐन तर्जुमा गर्ने लक्ष्य पनि वित्तीय क्षेत्र सुधार कार्यक्रमले लिएको छ । नेपालमा घरजग्गा वाहेक अन्य चल सम्पत्तीहरू पनि रजिष्टर्ड हुने र धितो राख्न सकिने व्यवस्थालाई व्यवस्थित गर्न सुरक्षित कारोवार

अध्यादेश कार्यान्वयनमा आईसकेको छ । त्यसका साथै दामासाही ऐन पनि कार्यान्वयनमा आईसकेको छ । बैंकिङ क्षेत्रको वढ्दो खराब कर्जाको समस्यालाई समाधान गर्न सघाउ पु-याउने उद्देश्यले ऋण असुली ऐन तर्जुमा भई ऋण असुली न्यायधिकरणको स्थापना समेत भई सकेको छ । नेपाल राष्ट्र बैंक ऐन २०५८ मा व्यवस्था भए वमोजिम कर्जा सूचना केन्द्रको विनियमावली तयार भई कार्यान्वयन समेत भइसकेको छ । यसप्रकार केही ऐनहरू आईसकेका छन भने केही ऐनका मस्यौदा तयार भइसकेका तथा केही तयार हुने क्रममा रहेका छन् ।

बैंक तथा वित्तीय संस्था सम्बन्धी विभिन्न ऐनहरूलाई खारेज गरी एउटै बैंक तथा वित्तीय संस्था सम्बन्धी अध्यादेश, २०६० लागू गरिएकोमा उक्त अध्यादेशमा भएका कमी कमजोरी र देखा परेका समस्याहरूलाई समयानुकूल खारेज, परिमार्जन/संशोधन र थप गरी बैंक तथा वित्तीय संस्था सम्बन्धी ऐन, २०६३ संसदबाट पारित भई राजपत्रमा प्रकाशित भइसकेको छ । बैंक तथा वित्तीय संस्था गाभ्ने तथा गाभिने (Merger & Acquisition) सम्बन्धी मार्ग निर्देशन जारी गर्ने क्रममा रहेको छ ।

# World Bank र Asian Development Bank संग भाएको सम्झौता सम्बन्धी Press Release

## Press Release

The International Development Association (IDA), a soft lending window of the World Bank, has agreed to provide a grant assistance of US\$ 252.60 million (equivalent to Rs. 15.926 billion) to the Government of Nepal for the implementation of four different Programs / Projects. The agreements to this effect were signed at the Ministry of Finance in Kathmandu, today. This is by far the largest single package of grant assistance commitment by the World Bank Group to Nepal since its operations began in Nepal.

Of the total grant assistance, US\$ 100 million (equivalent to Rs. 6.30 billion) has been provided to the Poverty Alleviation Fund, US\$ 42.60 million (equivalent to Rs.2.69 billion) to Road Sector Development Project, US\$ 50 million (equivalent to Rs. 3.15 billion) to Irrigation and Water Resources Management Project and US\$60 million (equivalent to Rs.3.78 billion) to Education for All (EFA) projects.

The additional contribution to the Poverty Alleviation Fund (PAF) provided by the IDA will be used for financing the implementation of community level income generation, capacity development and small infrastructure scheme under (PAF). It may be recalled that the International Development Association has been contributing to the PAF by extending grant assistance since 2004.

Similarly, under the Road Sector Development Project, the grant assistance will be used for residents of the beneficiary districts to have all-season road access, thereby reducing travel time and improving access to economic centers and social services. This project comprises of two components: (a) Road Development Component (RDC) and (b) Institutional Strengthening and Policy Reform Component. Under the RDC, up-gradation of about 297 km of existing dry-season roads and tracks to all-season standard with sealed gravel pavements will be carried out. These roads will improve the connectivity to six districts, namely, Darchula, Baitadi, Kalikot, Dailekh, Surkhet and Bajhang. Similarly, periodic maintenance of about 297 km of Strategic Road Network (SRN) will also be carried out. Besides, road safety audits

will be carried out to identify black spots in the SRN. Under the Institutional Strengthening and Policy Reform Component, the project will provide support to the Department of Roads, the Roads Board of Nepal, and the Ministry of Physical Planning and Works.

Under the Irrigation and Water Resources Management Project, the assistance will be utilized for developing and improving irrigation infrastructure and streamlining and managing irrigation management transfers to the user groups and beneficiaries. The project will also provide institutional and policy support for improved water management, and integrated crop and water management of all districts of Far-Western, Mid-Western, and Western Development Regions along with Parsa, Bara, Rautahat, Saptari, Sunsari, Morang, and Jhapa districts covering of Hill, Mountain, and Terai Regions.

The assistance provided to the Education for All (EFA) program will be used for the implementation of various programs envisaged under this project. The IDA has been extending grant assistance for the implementation of EFA since 2004.

The agreements were signed by Mr. Vidyadhar Mallik, Secretary in the Ministry of Finance, and Ms. Susan Goldmark, Country Director of the World Bank in Nepal on behalf of the Government of Nepal and the International Development Association respectively. The signing ceremony was also attended by Honorable Finance Minister Dr. Ram Sharan Mahat, and Mr. Praful Patel, Vice President, of the World Bank .

The Government of Nepal has expressed its sincere appreciation to the International Development Association for this grant assistance and also for its continued support in the socio-economic development of Nepal.

17 Magh 2064  
31 January 2008  
Ministry of Finance  
Kathmandu.

## Press Release

The Asian Development Bank (ADB) has agreed to provide grant assistance of US\$ 100 Million (equivalent to Rs.6290 Million) to the Government of Nepal (GoN) for the implementation of the Rural Reconstruction and Rehabilitation Sector Development Program (RRRSDP).

Two separate agreements to this effect were signed between the Government of Nepal and the ADB at the Ministry of Finance today. The first agreement is for program part under which the ADB will provide a grant assistance of US\$ 50 million. The second agreement is for the project part under which ADB will provide a grant assistance of the same amount, i. e. US\$ 50 million. RRRSDP will be implemented for a period of four years starting from 2008.

The principal objective of the Program is to support reconstruction and rehabilitation of the rural sector in Nepal through enhanced poverty reduction and inclusive development, improved and inclusive governance and decentralization, and strengthened support for rural infrastructure development.

The program part will support the Government of Nepal (GoN)'s initiative for poverty reduction and sustained economic growth in rural areas through implementing the policies and programs focused on immediate post-conflict recovery, promoting inclusiveness, and enhancing effective implementation of projects in the rural infrastructure sector. This grant will be released as a single-tranche disbursement to GoN immediately upon the effectiveness of the Agreement.

The project part will improve connectivity of rural communities, enhance their economic and employment opportunities, and increase access to market and social services. The major component of the project investment cost is Rural Transport followed by Supplementary Infrastructure.

The Project grant of RRRSDP will focus Nepal's 20 districts not yet covered by major donor-funded rural road infrastructure projects such as the World Bank-funded Rural Access Improvement and Decentralization Project (RAIDP). The Project will additionally provide complementary support to the existing 18 districts under ADB-funded Decentralized Rural Infrastructure and Livelihood Project (DRILP) for rural Water Supply and Sanitation. In 20 non-DRILP districts, RRRSDP will improve or upgrade about 560 km of rural roads.

The OPEC Fund for International Development (OFID) has also committed to providing a soft loan of US\$ 10 million for the RRRSDP as a co-financer with ADB, for which an agreement is expected to be concluded soon. Upon the request of GoN, the UK's Department for International Development (DFID) has also shown its interest to co-finance the RRRSDP. Likewise, Swiss Agency for Development and Cooperation (SDC) has also principally agreed to provide Technical Assistance for district roads and trail bridge in the implementation of the RRRSDP.

Mr. Vidyadhar Mallik, Secretary, Ministry of Finance and Mr. Paul J. Heytens, Country Director, Asian Development Bank, Nepal Resident Mission signed the agreements on behalf of GON and ADB, respectively.

The Government of Nepal has expressed its sincere appreciation to the ADB for its assistance and continued support in Nepal's socio-economic development endeavors.

Ministry of Finance  
Singhdurbar, Kathmandu  
January 14, 2008  
(Poush 30, 2064)



# आर्थिक वर्ष २०६३/६४ को बजेट कार्यान्वयन प्रगति-विवरण

[प्रतिवेदनका मुख्य बुँदाहरू (Major Findings)]

## आर्थिक वर्ष २०६३/६४ को बजेट तथा कार्यक्रमको उपलब्धी

### १. समष्टिगत आर्थिक स्थिति :

- राजश्व परिचालनमा हासिल भएको उल्लेख्य सफलताका कारण आ.व. २०६३/६४ को अन्त्यमा रु.३ अर्बभन्दा बढीको नगद बचत कायम हुन सकेको छ ।
- कृषि क्षेत्रको वृद्धिदर ०.७ प्रतिशत र गैर-कृषि क्षेत्रको वृद्धिदर ३.६ प्रतिशत रही कुल गार्हस्थ्य उत्पादनको वृद्धिदर २.५ प्रतिशत रहेको अनुमान छ ।
- सरकारी क्षेत्रतर्फ प्रवाहित बैंक कर्जाको वृद्धिदर गत आ.व.कै हाराहारीमा रहनु, निजी क्षेत्रतर्फ प्रवाहित कर्जाको वृद्धिदर बढ्नु, विदेशी विनिमय संचिति गत आ.व.कै हाराहारीमा रही १०.३ महिना बराबरको वस्तु आयात धान्न सक्ने स्तरमा रहनु तथा मूल्य वृद्धिदर गत आ.व.को तुलनामा घट्न जानु आदि पृष्ठभूमिमा समष्टिगत आर्थिक स्थायित्व कायम गर्न सकिएको छ ।
- आ.व. २०६३/६४ मा कुल गार्हस्थ्य उत्पादनको अनुपातमा उपभोग ९०.६ प्रतिशत रहेको छ ।
- कुल गार्हस्थ्य वचत अनुपात २०६२/६३ को ७.९ प्रतिशतबाट आ.व. २०६३/६४ मा ९.४ प्रतिशत पुगेको छ ।
- बजेटले रु.८५.४ अर्ब राजश्व परिचालन गर्ने लक्ष्य राखेकोमा लक्ष्य भन्दा बढी राजश्व परिचालन भई रु.८७.७ अर्ब पुगेको छ ।
- कुल गार्हस्थ्य उत्पादनको अनुपातमा राजश्व अनुपात १२.२ प्रतिशत पुगेको छ ।
- चालु खर्च १९.९ प्रतिशतले बढेकोमा पूँजीगत खर्चमा २२.९ प्रतिशतको उच्च वृद्धि हासिल भएको छ ।
- आ.व. २०६३/६४ मा न्यून वित्त (Fiscal Deficit) को विस्तार आ.व. २०६२/६३ को तुलनामा घट्न गएको छ ।
- आ.व. २०६२/६३ को तुलनामा आ.व. २०६३/६४ मा नेपाल सरकारको समग्र ऋण दायित्व घट्न गएको छ ।
- संकुचित तथा विस्तृत मुद्रा प्रदायको वृद्धिदर नियन्त्रित अवस्थामा रहेको छ ।
- व्यापार घाटाको वृद्धिदर गत आ.व.को तुलनामा घट्न गई १५.३ प्रतिशत रहेको छ ।

- पर्यटनबाट प्राप्त रकम गत आ.व.को तुलनामा ६ प्रतिशतले बढेर रु.१०.१ अर्ब पुगेको छ ।
- विप्रेषणबाट प्राप्त रकम रु.१०० अर्ब नाघ्न गएको छ ।
- २०६४ आषाढ मसान्तमा विदेशी विनिमय संचिति रु. १६५ अर्ब रहेको छ ।
- कठिन परिस्थितिमा पनि समष्टिगत आर्थिक स्थायित्व तथा संरचनात्मक सुधारका कार्यहरूलाई प्रतिबद्धताका साथ अगाडि बढाउन नेपाल सरकारले गरेको पहललाई अन्तर्राष्ट्रिय समुदायले सहाहना गरेको छ ।

## २ बजेट वक्तव्य ०६३/६४ मा उल्लेखित बुँदाहरू तर्फको प्रमुख उपलब्धी

आर्थिक वर्ष २०६३/६४ को बजेट वक्तव्यमा उल्लेख गरिएका नीति तथा कार्यक्रमहरूको मन्त्रालय/ आयोग/ सचिवस्तर/ कार्यालयगत उपलब्धीहरू तपसिलमा उल्लेख गरे अनुसार भएको छ :

- कमजोर एवं दलित वर्गका प्राथमिक तहका दलित छात्राछात्रहरूले रु.३५०।- छात्रवृत्ति प्राप्त गरेका छन् ।
- दलित, द्वन्दपिडित एवं शहीदका छोरा छोरीहरूलाई छात्रवृत्ति उपलब्ध गराउन निर्देशिका तयार भै कार्यान्वयन तहमा पुगेको छ ।
- सुनसरी, वारा र सिराहामा ईलम प्रशिक्षण केन्द्रहरू संरचनाको तयारीमा रहेका छन् ।
- कर्णाली अंचलका कक्षा १० सम्मका छात्राहरूलाई छात्रवृत्ति र निम्न माध्यमिक तहका छात्रालाई दिवा खाजा(चीनी मिश्रित पिठो र बनस्पति घ्यू) उपलब्ध गराइएको छ ।
- ४१ वटा जिल्लाहरूको सार्वजनिक विद्यालयहरूको शिक्षक बिद्यार्थी अनुपातको विवरण तयार भएको छ ।
- बिद्यालय पाठ्य पुस्तक छपाई तथा वितरण निर्देशिका, २०६३ स्वीकृत भई कार्यान्वयनमा आएको छ ।
- शिक्षकहरूको क्षमता वृद्धि गर्न प्रा.वि.का १४५००, नि.मा.वि.र मा.वि.का १६००० शिक्षकले तालिम प्राप्त गरेका छन् ।
- दलित तथा पिछडीएका समूहबाट २१० जना एस.एल.सी.उत्तिर्ण व्यक्तिहरूले पूर्व सेवाकालिन प्राथमिक शिक्षक तालिमको लागि छात्रवृत्ति प्राप्त गरी तालिम लिएका छन् ।

- विद्यालयको भौतिक सुधार अन्तर्गत १९० वटा स्कूलको ४२०० कोठा निर्माण भएको छ ।
- १५ औं एशियाली खेलकुदमा सहभागीता रहेको छ ।
- जुम्ला र कालीकोट सदरमुकामसम्म मोटर वाटो पुगेको छ ।
- द्वन्दवाट क्षतिग्रस्त कर्णालीका ९ वटा आयोजनाको निर्माण कार्य भएको छ ।
- हुलाकी राजमार्ग लगायत तराईका सहायक राजमार्गहरूको स्तरोन्नतिको लागि नेपाल र भारत सरकार बीच DPR तयार भएको छ ।
- २२५.१६ किलो मिटर सडकको स्तरोन्नति भएको छ ।
- प्रमुख राजमार्ग र सहायक मार्गहरूमा निर्माणाधिन २७ पुल मध्ये ५ वटा सम्पन्न भै बाँकी चालु रहेको छ ।
- १५९ वटा खानेपानी आयोजना सम्पन्न भएका छन् ।
- ३७ जिल्लामा १३७ वटा सरकारी भवनको निर्माण भएका छन् ।
- महिलाको आडखस्ने रोगको उपचारको लागि १२७ शिविर संचालन गरी १०,२७० जनालाई सेवा उपलब्ध गराईएको छ ।
- प्रसूती प्रोत्साहन कार्यक्रम अन्तर्गत २३१५१६ जनालाई रु.८ करोड १९ लाख ७० हजार वितरण गरिएको छ ।
- १५ वर्ष मुनिका ३६७ बाल हृदयरोगीको निशुल्क शल्यक्रिया सम्पन्न भएको छ ।
- ७५ वटै जिल्लामा BCG २०३२९९, DPT १८२१४१, पोलियो १८८१४१, हेपाटाइटिस बि १८०४९३, Measles १६९५८४ जनालाई खोप सेवा प्रदान गरिएको छ ।
- औषधि खरीद निर्देशिका तयार भै ७५ वटै जिल्लामा लागू गरिएको छ ।
- लोपोन्मुख दलितको पहिचानको लागि विभिन्न १० जातीको परिचय पुस्तिका तयार भएको छ ।
- कर्णाली अंचलको समग्र विकास कार्यक्रममा समन्वय गर्ने जिम्मेवारी सहित उच्च तहको अधिकृतलाई Focal person तोकिएको छ ।
- कर्णाली अंचलका रोजगारी भत्ता उपलब्ध गराउन ५ वटै जिल्लामा लागत संकलन गरिएको छ ।
- कर्णाली अंचल र त्यससँग जोडिएका जिल्लामा ६० हजार शौर्य टुकी वितरण गर्ने कार्य संचालनमा ल्याइएको छ ।
- सामुदायिक भूमिगत सिंचाई अन्तर्गत १६०० वटा स्यालो ट्यूबवेल जडान भै ५६०० हेक्टरमा सिंचाई सुविधा पुगेको छ ।
- सामुदायिक ग्रामीण विद्युतीकरण अन्तर्गत १३७ वटा संस्था लाई वितरण प्रणाली हस्तान्तरण भएको छ ।
- उद्योगहरूलाई दिईने सुविधा एउटै थलोबाट उपलब्ध गराउने कार्यलाई प्रभावकारी तुल्याइएको छ ।
- दलित एवं सिमान्तकृत कृषि मजदुरहरूको विशेष सुविधा कार्यक्रम अन्तर्गत ६३१ जनालाई तालिम र २५०६ जनालाई उन्नत विउ वितरण गरिएको छ ।
- दलित र मुक्त कर्मैयालाई प्रत्यक्ष फाईदा पुग्ने गरी ३०५ वटा समूह निर्माण भै ४०८ वटा वोका, ६४८७ वाखा वितरण गरिनुका साथै ५७ वटा विमा कोष स्थापना भएको छ ।
- देशभरका ५६० नागरिकता टोली गठन भै २६१८६०३ नागरिकता वितरण भएको छ ।
- ९८५९ वटा घरेलु सौर्य विद्युत प्रणाली जडान गरिएको छ ।
- विभिन्न लघुजलविद्युत आयोजनाहरूबाट ४१२.१५ कि.वा.विद्युत उत्पादन भएको छ ।
- २२६२ वटा गोबरग्यास प्लान्ट जडान गरिएको छ ।
- २७९ वटा सोलार डायर/कुकर वितरण गरिएको छ ।
- ३२६ वटा सुधारिएको पानी घट्ट जडान भएको छ ।
- १३६७० वटा सुधारिएको चुल्हो जडान भएको छ ।
- सौर्य टुकी वितरणको लागि ९ जिल्लामा १११ जना ईन्जिनियर छनौट गरी तालिम समेत दिई जिल्लामा कार्यरत रहेका छन् ।
- IT पार्कमा नेदरल्याण्डको जाम्ना कम्पनीले उद्योग स्थापना गरी संचालन गरेको छ ।
- एकीकृत निजामती सेवा अन्तर्गत तहगत प्रणाली लागू गर्न आयोजनाले कार्य गरिरहेको छ ।
- कबुलियति वनको ६४ वटा Cluster क्षेत्र पहिचान गरिएको छ ।
- ३१२ वटा समूह गठन भएको छ ।
- वन कार्य योजना तयार गरी ३६ वटा वन हस्तान्तरण भएको छ ।
- ८८२ वटा तालिम गोष्ठी भएको छ ।
- जैविक सुरक्षा नीति स्वीकृतिको लागि मन्त्रिपरिषद्मा पठाइएको छ ।
- घरेलु कामदारको रूपमा वैदेशिक रोजगारीमा जान चाहने महिलाको लागि लगाइएको बन्डेज हटाइएको छ ।
- १२०२ जनालाई विभिन्न सीपमूलक तथा व्यवसायिक तालिम प्रदान गरिएको छ ।
- नयाँ श्रम नीति २०६३ आई सकेको छ ।
- ८८ वटा टर्मिनलबाट विभिन्न गा.वि.स. र निजि संस्थामा १९६ लाईन भिस्याट टेलीफोन जडान गरिएको छ ।
- CDMA प्रविधिबाट विभिन्न गा.वि.स. र न.पा.मा १११०८० लाईन टेलीफोन वितरण भएको छ ।

- २१ जिल्लाका विभिन्न स्थानका ६७११३ ल्याण्ड लाईन टेलिफोन जडान भएको छ ।
- लैङ्गिक समानता र आर्थिक शक्तिकरणका थप कार्यक्रम संचालन गर्न ए.डि.वि.संग भएको ऋण सम्झौता नोभेम्बर २८, २००६ देखि प्रभावकारी भएकाले काम सुरु भएको छ ।
- १० वटा जिल्लामा बाल न्याय प्रणाली प्रारम्भ भएको छ ।
- द्वन्दबाट प्रभावित बालबालिकाहरूका समस्या समाधान गर्न ३० जिल्लामा बाल संरक्षण कार्यक्रम संचालन भएको छ ।
- द्वन्द पिडित १२२ बालबालिकालाई मासिक रु.१२००१-का दरले रकम निकास दिइएको छ ।
- पाँचै विकास क्षेत्रमा CTEVT संग संयोजन गरी सीपमूलक तालिम संचालन गरिएको छ ।
- दृष्टिविहिन अपाङ्गहरूको आयमा आय कर नलाग्ने सीमा ५०% वढाइएको छ ।
- स्थानीय निकायलाई जाने अनुदानबाट हरेक गा.वि.स.ले कम्तिमा २५०००१-अपाङ्गहरूको हितमा खर्च गर्ने व्यवस्था मिलाईएको छ ।
- ४७ जिल्लामा जेष्ठ नागरिक उपचार कार्यक्रम लागु गरिएको छ ।
- सम्पत्तिमा महिलाको स्वामित्व अभिवृद्धि गर्न रजिष्ट्रेशन दस्तुरमा २०% छुट दिने नीति लाई निरन्तरता दिइएको छ ।
- दाङ, बाँके, बर्दिया, कैलाली र कंचनपुर जिल्लामा जिल्ला विकास समितिको सभापतिको अध्यक्षतामा (हाल स्था. वि.अ.) मुक्त कर्मैया पुनस्थापन जिल्ला समिति गठन भै कार्य शुरु भएको छ ।
- जमिन माथिको दोहोरो स्वामित्व अन्त्य गर्ने सिलसिलामा मोही र जग्गा धनीको हिस्सा छुटाउने विस्तृत कार्ययोजना तयार गरी मन्त्रीस्तरीय निर्णयद्वारा स्वीकृत गराई लागु गरिएको छ ।
- न्यायको लागि सहज पहुँच कार्यक्रम अन्तर्गत वारामा ७३ र सप्तरीमा ९२ थान द्वैध स्वामित्व सम्बन्धी मुद्दाको किनारा गरिएको छ ।
- गरिबी निवारण कोषबाट संचालित कार्यक्रमतर्फ निम्नानुसार प्रगति भएको छ :
  - आयमुलक कार्यक्रम तर्फ लक्ष्यको तुलनामा ७०.९१% प्रगति भएको छ ।
  - पूर्वाधार विकास तर्फ २०.८४% प्रगति भएको छ ।
  - नविनतम आयोजना तर्फ १४२.४२% प्रगति भएको छ ।
  - लाभान्वित गा.वि.स.तर्फ ४९.३३% प्रगति भएको छ ।
  - आयोजनाबाट लाभान्वित घरधुरी तर्फ १०२४५७ रहेको छ ।
  - आयमुलक आयोजना २१ रहेको छ ।
- पूर्वाधार आयोजना ७ रहेको छ ।
- आयोजनाबाट लाभान्वित गा.वि.स.११० संचालनमा रहेको छ ।
- भूमि सम्बन्धी एकीकृत ऐन तर्जुमा गर्नको लागि नीति अध्ययन शुरु गरिएको छ ।
- महिलाका पक्षमा भएका उच्चस्तरीय प्रतिवद्धता कार्यान्वयन अनुगमन समिति गठन भएको छ ।
- ४८१६ सिमान्त किसानलाई सिचाई, विउ विजन र कृषि कर्जामा रु ४ करोड ७६ लाख लगानी भएको छ ।
- चिया खेती, पुष्प व्यवसाय, दुग्ध चिस्यान केन्द्र र कफी तथा अलैची खेतीका लागि प्रदान गरिएको ऋणको व्याज वापत रु.३० लाख अनुदान वितरण गरिएको छ ।
- राष्ट्रिय बाणिज्य बैंकबाट ९७७ जना ऋणीहरूलाई रु.८ करोड ५० लाख बराबरको व्याज मिनाहा तथा कृषि बिकास बैंकबाट रु.७ करोड १८ लाख बराबरको व्याज मिनाहा दिइएको छ ।
- गलैचा निकासीमा कायम रहेको न्युनतम मूल्य व्यवस्था हटाइएको छ ।
- बैंक तथा वित्तिय संस्थाबाट कर्जा लिई नतिर्ने समस्याग्रस्त ८० जनाको राहदानी जफत गर्न र चल अचल सम्पत्ति रोक्का राख्न कारवाही भएको छ ।
- लघुवित्त सम्बन्धी छाता ऐन तर्जुमा गर्न कार्यदल गठन भई कार्यदलले प्रतिवेदन पेश गरेको छ ।
- लिक्विडेशन प्रक्रियालाई अगाडि बढाउने क्रममा हेटौँडा कपडा उद्योग, भक्तपुर ईटा कारखाना, कृषि चुन उद्योग र नेशनल ड्रिलिङ कम्पनीलाई खारेजीमा लैजान लिक्विडेटर नियुक्त भई कार्य भै रहेको छ ।
- लुम्बिनी चिनी कारखानाको चल सम्पत्ति बिक्री, अचल सम्पत्ति लिजमा दिने गरी निजीकरण भई निजी क्षेत्रबाट संचालन भएको छ ।
- वित्तिय पारदर्शिता कानूनको मस्यौदा तयार भएको छ ।
- सार्वजनिक खरिद सम्बन्धी कानून लागु भएको छ ।
- राजश्व परामर्श समितिको संरचनालाई पुर्नगठन गरी प्रभावकारी बनाउन राजश्व बोर्डको गठन कार्य अगाडि बढाइएको छ ।
- राजश्व चुहावट नियन्त्रणलाई प्रभावकारी बनाउन Flying Squad खटाउने कार्य भएको छ ।
- राजश्व प्रशासनमा कार्यरत जनशक्तिको कार्य उत्प्रेरणा अभिवृद्धि गर्न ठूला करदाता कार्यालय र सुख्खा बन्दरगाहा भन्सार कार्यालयमा कार्य सम्पादनमा आधारित प्रोत्साहन पद्धति लागु गरिएको छ ।



## नेपाल सरकार अर्थ मन्त्रालय अनुगमन महाशाखाको सूचना

देशको आर्थिक क्रियाकलाप गतिविधिहरू सुसूचित गराउने उद्देश्यले नेपाल सरकार अर्थ मन्त्रालय र रेडियो प्रसार सेवा विकास समिति रेडियो नेपालका बीच मिति २०६४।६।१७ गतेदेखि रेडियो नेपालको केन्द्रीय प्रसारणबाट “आर्थिक नेपाल” नामक रेडियो कार्यक्रम पाक्षिक रूपमा संचालन भइआएकोमा उक्त कार्यक्रम मिति २०६४/९/२८ गतेदेखि साप्ताहिक रूपमा **शनिवार बिहान ७:३० बजे** (समाचार प्रसारणपछि) सञ्चालन भइरहेको व्यहोरा समस्त श्रोतावर्गमा जानकारी गराइन्छ । सो कार्यक्रमबारे कुनै जिज्ञासा, सुझाव र प्रतिक्रियाहरू भए निम्न ठेगानामा उपलब्ध गराइदिनहुन समेत अनुरोध गरिन्छ ।

फोन न. : ४२११३८३/४२११३८०

फ्याक्स : ४२११७७०

इमेल : [moev@mof.gov.np](mailto:moev@mof.gov.np)

## Success Story

# Free From the Gridlock of Poverty

Bhum Bahadur Nepali, now 62, used to lead a life of 'an annual contract labor' (practiced under Balighare system).

For four decades, he used his skills of cutting, stitching and tailoring to serve Bistas, so called higher caste community and elites of Bijuvar VDC-1 of the remote Pyuthan district.

His hard work and service round the year used to be returned with a meager amount of foods, which were simply not enough to meet the food requirement of his family. As he was forced to sell his labor cheaply, there was no signs and hope he would manage to earn a decent income and living. But all that has become a past story for Bhum Bahadur.

Two years ago, his long cherished dream to open and own a tailor of his own materialized with a support of Poverty Alleviation Fund (PAF). First Tikuri community organization extended him an interest free loan of Rs 5,000, then PAF-funded Munal community organization provided him with an additional fund of Rs 9,000 in loans. With it he bought an interlock machine.

With the skills, today he has many customers and earns a decent income. PAF's support and his own commitment and labor embarked him in a journey to freedom. Today he lives a free and self-sustained life.

".....I had no skills other than tailoring. With PAF's support, my skill is fetching me a good income these days," Bhum Bahadur told Jeevika at his shop, which he has opened in Ward no 4 of Bijura VDC.

Bhum Bahadur's shop takes order for stitching dresses for all age groups of both the sexes. He has also kept the cost of his service at a slightly cheaper rate compared to other tailors. That has helped him to attract more clients and secure more business. "It comes to around Rs 6,000 a month," said Bhum Bahadur, recalling how he used to reel under crisis in the absence of sufficient income and independent earning opportunities.



Freedom from Balighare system has enabled Bhum Bahadur to think big and plan for his future and other family members. He is happy and excited when he says he has already worked out a plan to expand his business, and a local NGO, Jana Jyoti Community Development Center has come to his help to materialize it.

Bhum Bahadur is just one of hundreds of Dalits, who have managed to come out of their depravity and win free life through PAF-run poverty reduction initiatives. His example has also encouraged many others to organize and work for win decent living. There are more than 52,000 dalits in Pyuthan district, according to Census 2001.

Source:<http://www.pafnepal.org.np>

# Nepal :

## Access to Financial Services

### (Executive Summary)

March 19, 2007 - Access to financial services remains limited for most people in Nepal and has declined in recent years. Family and friends are by far the largest informal providers of loans to households—and, contrary to common belief, family and friends often charge interest

#### Facts

- Only 26% of Nepalese households have a bank account.
- Access to financial services remains limited for most people in Nepal and has declined in recent years.
- Family and friends are by far the largest informal providers of loans to households.
- 69% of foreign remittances come through informal channels.
- Banks' procedures are perceived as being the most cumbersome among financial institutions.

Over the past 20 years Nepal's financial sector has become deeper and the number of financial intermediaries have grown rapidly. In addition, recent reforms have made banks more stable. Still, access to financial services remains limited for many people in many parts of Nepal and in recent years has been declining. This report examines the country's supply of and demand for financial services and the constraints to increasing access to them, and offers recommendations for making the financial sector work for all of Nepal's people, especially the poor.

#### The Supply of Financial Services

For much of the past 50 years Nepal's government has tried to increase access to formal financial services for small businesses and low-income households. (This report defines low-income households as those in the three bottom spending quintiles.) The government has introduced directed lending programs for small businesses and low-income households, required banks to open branches outside the Kathmandu valley, created specialized wholesale and



retail institutions, and lowered market entry requirements to foster the development of different types of financial institutions.

Despite government efforts, access to formal financial services is declining.

Financial intermediation is stagnating, the number of bank deposit and loan accounts per inhabitant is falling, and lending targets for low-income households have generated excess liquidity among microfinance institutions without significantly increasing their outreach. And despite 40 years of government mandates to lend to small businesses, banks have been withdrawing from this segment as these requirements have been lowered. Access to bank infrastructure has also decreased. Moreover, as a result of the government's efforts to increase access, the central bank (Nepal Rastra Bank) now has to supervise 180 institutions.

Even the large foreign remittances received by Nepalese households—mostly from migrant workers—seem to be a missed opportunity for increasing access to formal financial services. Despite the entrance of money transfer operators and the growth in formal remittance flows they have generated, the bulk of remittances enter the country informally.

#### The Demand for Financial Services

The findings of the 2006 Access to Financial Services Survey—conducted by the World Bank and Total Management Services in cooperation with Solutions

Consultant as background for this report—confirm that use of banks is limited, financial NGOs and cooperatives play a large role in providing both deposit accounts and loans, and informal borrowing far exceeds formal borrowing.

Only 26 percent of Nepalese households have a bank account, and banks' procedures are perceived as

being the most cumbersome among financial institutions. Accordingly, clients prefer not to save in them. Banks dominated in urban areas and among the wealthiest.

Financial NGOs and cooperatives run a close second as largest provider of deposit accounts, serving 18 percent of households. These institutions are the preferred provider for low-income households, but are close to banks even for wealthier households. Microfinance and regional rural development banks are a distant third provider of deposit accounts, serving only 4 percent of households—mainly poor, rural ones.

About 38 percent of Nepalese households have an outstanding loan exclusively from the informal sector, 16 percent from both the informal and formal sector, and 15 percent from only the formal sector (that is, a bank, finance company, financial NGO or cooperative, or microfinance or rural regional development bank). Family and friends are by far the largest informal providers of loans to households—and, contrary to common belief, family and friends often charge interest. Most households who borrow from informal providers do not bother trying to borrow from financial institutions, mainly because formal institutions cannot meet their financial needs on time. Informal providers also require less physical collateral. Even among the wealthiest households, half of those with a bank account prefer informal lenders because of their rapid delivery. Similarly, informal lenders are the preferred providers of working capital for small businesses, again because they are faster at sanctioning loans than are formal financial institutions.

Of households that borrow from the formal sector, financial NGOs and cooperatives are the largest provider of loans (except for the wealthiest households). They dominate the market for loans under NRs 50,000, even for households with a bank account. Banks are the second largest provider—mainly in urban areas and for loans larger than NRs 50,000. Microfinance and regional rural development banks are the third largest providers, serving mainly in rural areas and in the Terai. Finance companies are the least preferred formal lenders, and operate mainly in the Kathmandu valley.

Nepal's payment system is virtually unused for retail domestic transactions and little used for international ones. An estimated 69 percent of foreign remittances

come through informal channels—usually family and friends—even among households with a bank account. Just 6 percent of remittances are saved in financial institutions. The bulk of foreign remittances are used for consumption and to repay loans—loans most likely incurred by workers to migrate to other countries. In sum, both supply and demand indicators show that, despite government efforts, formal financial institutions do not serve the needs of most of the Nepalese population. And while access to and use of formal financial services are limited in general, the problem is more acute for small businesses and low-income households. Indeed, both access and use are closely correlated with business loan size and household income.

### **Why Have Government Efforts to Increase Access Failed?**

Government efforts to increase access to formal financial services have not achieved their goals because they have focused on the symptoms of limited access—not the root causes. For example, the priority sector lending program, requiring banks to make loans to small businesses, has not addressed the sustainability of such lending. Similarly, the deprived sector lending program for low-income households has not addressed the microfinance sector's capacity to extend large volumes of loans. Increasing financial access for small businesses and low-income households requires that financial institutions be able to serve these segments in a financially sustainable manner. Lending profitably to small businesses requires a high level of efficiency, while operating microfinance institutions with large outreach requires high levels of professionalism and technical skills. Nepal's financial institutions have struggled to meet these requirements.

### **Why Don't Banks Scale up Lending to Small Businesses?**

Small businesses have very different features from large corporations—the traditional clients of Nepalese banks. To serve small businesses profitably, banks need to minimize transaction costs and generate large numbers of high-quality loans. But for many reasons, Nepal's banks find it difficult to serve small businesses profitably:

- Bank procedures for small business loans are too complex, making such lending unnecessarily long and expensive for both the businesses and the banks.

- The most popular bank product, overdrafts (lines of credit), is inappropriate for many small businesses, which do not deposit their revenues in banks.
- The interest rates that banks charge on loans to small businesses do not adequately reflect the costs of serving them.
- Banks require high levels of immovable collateral, while small businesses tend to have only movable assets.
- Although Nepalese banks have sophisticated management information systems, they generally do not use them to measure staff and loan performance—which is crucial for profitable small business lending.

Although the legal and regulatory framework is not a binding constraint on bank lending to small businesses, it could be improved to facilitate such loans. Obstacles include:

- The absence of a registry to record liens on movable assets, which makes such assets almost unusable as collateral.
- The credit bureau only covers loans larger than NRs 1 million, and does not provide accurate and timely information.
- Loan loss provisioning rules—especially for short-term loans—are too lax and do not provide the right incentives for stringent monitoring of small business loans. At the same time, provisioning requirements for loans secured only with unregistered movable collateral and personal guarantees are too stringent, discriminating against small businesses that cannot offer immovable assets as collateral.
- The method used to calculate fines for not meeting priority and deprived lending targets discourages banks from charging appropriate interest rates for small business loans. (Fines are calculated by multiplying the shortfall amount against the highest interest rate that the bank charges its clients.)

## **Why Haven't Microfinance Institutions Provided More**

### **Services to Low-income Households?**

Nepal's formal microfinance institutions could play a key role in delivering financial services to low-income

households. Yet many potential clients of microfinance institutions prefer to save with and borrow from informal sources. The microfinance sector's limited ability to serve low-income households is reflected in its narrow outreach, sluggish growth, high liquidity, and low profitability.

Several factors explain the disappointing state of Nepal's microfinance sector, including:

- A complicated geo-political environment.
- Weak technical capacity in key areas, such as accounting and auditing, strategic planning, financial analysis, and human resource management.
- Lack of commercial orientation and slow professionalization—mainly because microfinance is often considered a charitable activity.
- Distortions arising from the government's deprived sector lending program that generate high liquidity among many microfinance institutions, as these institutions are encouraged to borrow beyond their needs and invest these low-cost funds in other financial institutions.

Although often cited as an obstacle, Nepal's legal and regulatory framework is not a binding constraint on the growth of the microfinance sector. Still, the framework for microfinance is convoluted and confusing. Although this framework is not hampering microfinance growth per se, supervision of the sector is problematic.

Small institutions that pose no systemic risk are supervised, while larger ones are not—and supervisory capacity is weak. As a result microfinance consumers can be misled, and supervisors cannot ensure the sector's stability.

## **Why Do Informal Channels**

### **Dominate the Remittance Market?**

Since 2001, when money transfer operators were allowed to enter Nepal's remittance market, formal remittance payments have increased and improved considerably— with formal remittances being delivered in a day or two at relatively low cost, even in remote areas. Thus it seems that the widespread use of informal channels is due to limited familiarity with the formal financial sector and a perception that family and friends are a safer delivery mechanism,

rather than to a lack of alternatives. Moreover, India is the largest source of migrant remittances and, given its proximity and ease of entry, migrants tend to move quite often between it and Nepal. Finally, there appear to be legal and regulatory constraints in the India-Nepal corridor for money transfer operators.

### **How Can the Government Increase Access for Small Businesses and Low-income Households?**

Although there is little theoretical knowledge of what expands access, several approaches have worked in practice, based on two principles. First, government should not require financial institutions to lend to specific sectors or open branches in specific areas. Rather, it should support financial institutions with potential to increase access sustainably, by helping providers profitably reach their desired market segments. Second, government must develop an enabling environment—for example, by promoting institutions that reduce information asymmetries between borrowers and lenders.

To help banks increase small business lending, the government could undertake two initiatives:

#### **Initiative 1:**

**Create a technical assistance fund to help banks with potential develop appropriate products and procedures for profitable lending to small businesses.**

#### **Initiative 2:**

**Develop an enabling environment that makes small business lending safer, cheaper, and faster. Efforts should include:**

- Creating a registry for secured transactions.
- Increasing loan loss provisioning requirements overall while reducing them for small loans without registered movable collateral.
- Strengthening Nepal's credit bureau.

To help microfinance institutions serve a large number of low-income households, the government could undertake two initiatives:

#### **Initiative 3:**

**Promote the microfinance industry by upgrading technical skills, reenergizing the sector, and reforming state-owned providers. Efforts should include:**

- Articulating a vision for the sector.
- Encouraging professionalization of the sector by supporting a technical assistance fund to upgrade capacity in key technical areas.
- Attracting a demonstration institution—that is, a commercially oriented microfinance player—to expedite change.
- Restructuring state-owned microfinance providers and apex institutions.

#### **Initiative 4:**

**Create a legal and regulatory environment that protects microfinance consumers and promotes stability. Efforts should include:**

- Reviewing the legal and regulatory framework for microfinance, with a view to simplifying it.
- Determining which institutions should be supervised, to target only those that could threaten the microfinance sector's stability.
- Developing a business plan for a stronger microfinance supervisor.
- Drafting new legislation or amending existing legislation.

To make remittances more effective, the government could undertake two initiatives:

#### **Initiative 5:**

**Enhance the financial literacy of migrants and tackle legal and regulatory obstacles in the India-Nepal corridor to increase formal remittances.**

#### **Initiative 6:**

**Promote a viable loan scheme for migrants—one that reduces the share of remittances used to repay loans.**

([www.worldbank.org](http://www.worldbank.org))

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## *Local Donors' Meeting*

# **Statement by Hon'ble Finance Minister Dr. Ram Sharan Mahat MOF, 16 January 2008.**

Excellencies,  
Heads and Representatives of Development Partners,  
Colleagues from the Political Parties,  
Vice-Chairman of the National Planning Commission,  
Chief Secretary,  
Secretaries,  
Officials of the Ministry of Finance,  
Ladies and Gentlemen!

1. Let me first extend a warm welcome to you all in this meeting. I am delighted and thankful for your kind presence and participation notwithstanding our short-notice request.
2. Despite some delay in reaching consensus on some contentious issues related to the peace process, the stalemate was broken following the signing of the 23-point agreement by the seven political parties. The accord has now cleared the confusion and uncertainty about holding of elections to constituent assembly, which remains a core component of peace process. The date for the elections has been set for April 10 this year.
3. We have reached this agreement after a series of ceaseless dialogues and negotiations to move the peace process forward and for creating conducive climate for the CA elections. It now becomes our duty to put all our efforts and energy to implement this accord effectively. We are mindful that the run up to the CA elections is not all smooth. There are problems and we need to address them.
4. New political forces have emerged in Terai-Madhes with new demands. Security situation in that region, although improving lately, still remains fragile. This is further aggravated by the activities of armed groups espousing political cause in Terai. While we need to further strengthen security situation, it is necessary that
5. we need to quickly find amicable solution to the genuine problems that Terai people are raising through dialogue and negotiation. I am hopeful that we will succeed in this endeavor. However, there are some issues of fundamental nature that require much deliberation and debate. The Constituent Assembly is appropriate body to deliberate and decide on them.
5. Today, I would basically like to explain to you the fiscal implications arising from the 23-point Agreement. I must mention in the beginning that government cannot compromise in any way on the emerging expenditure needs that lead up to the CA elections and smooth handling of the peace process. We shall exercise every care in avoiding wasteful expenditures and apply all the prudence in our conduct, but hard-earned political consensus is of paramount importance to us.
6. As you may be aware, the recently concluded Agreement commits to addressing the promises made during the signing of the Comprehensive Peace Accord over two years ago. The issues that currently warrant immediate attention, among others, are the payment to the verified combatants and their reintegration and readjustment, repatriation of discharged combatants, rehabilitation of internally displaced persons (IDPs), managing the cantonments, relief and rehabilitation of the victims of the conflict, and rebuilding of infrastructure. Added to that, formation of the commissions and committees as committed in the Agreement will also create further financial burden. The Election Commission has come up with an expenditure estimate that is far above what was budgeted earlier this fiscal year. It appears that there is hardly any room for applying austerity measure in proposed election expenditures if we intend

to be holding free and fair elections, which we, of course, certainly do. Allied to the election is reinforcing of the security measures. We cannot contemplate any compromises on election security as this only can ensure free and fair election and this is the only one opportunity that Nepali people will ever be getting to participate in CA election.

7. As you know, we have created Nepal Peace Trust Fund (NPTF) to mobilize international resources for facilitating the peace process. This operates under the implementation mechanism jointly agreed with the donors and is being further improved and strengthened in consultation with the concerned donors. However, the Fund, at present, has far too limited resources to meet our current and imminent requirements, which as per the current estimates stand at about 5.04 billion Nepalese Rupees (equivalent to USD 81.3 million). NPTF currently has external commitments available to the tune of USD 17.4 million. The shortfall, therefore, after government's own commitment is about 47.8 USD million.
8. In the meantime, as we are trying to grapple with the fiscal mismatch arising from reasons explained above, the obligation to settle Nepal Oil Corporation dues to Indian supplier has fallen on government. It has become imperative so as to ensure unhindered supply of petroleum products in the country, while adjusting the oil prices in accordance with market development.
9. In view of the above, we have already announced our intention to presenting a supplementary budget to the Parliament. However, our options are limited. Revenue growth has been satisfactory thus far, in keeping with our expectations, but hardly sufficient to meet mounting expenditures, specially the new additional needs. It would not be fair to think of any additional taxes at this juncture when fledgling manufacturing, export and tourism sectors are struggling hard to find a recovery. There is one more phenomenon that is worrying us—which, of course, may be temporary and we wish it be so—is the emerging liquidity crunch that banking sector is lately reporting. It will push the interest rates upward and we hope there will be a new equilibrium. But this clearly signals to us that this is not the right time for government to think about additional borrowing from the market for government spending. To be precise, there is very limited scope for government to raise the domestic borrowing limit this year without further aggravating macroeconomic stability.
10. Nepal perhaps never felt the greater need for external financial assistance than what is being felt, at present. And, I think, this is perhaps the most important time that our development partners can come forward with generous support.
11. On our part, we will remain vigilant and put all our effort in achieving even higher revenue growth. We will apply austerity measures in all sectors so that no wasteful expenditures are incurred. In the process we will surely ensure that resources committed to priority development programs and projects are fully protected. Capital expenditures that benefit public at large and accelerate growth will not be compromised.
12. Let me also highlight some other aspects of recent macroeconomic situation. The overall economic growth rate is expected to improve this year as the agricultural GDP has been projected to attain higher growth, after years of dismal performance due to unfavorable weather condition. The shortfall in export and the consequent rise in the trade deficit has remained one of the major problem areas. The balance of payments position for the past few months has turned negative, indicating weak investment environment in the country. The inflationary expectation remains somewhat high, mainly due to the effects of the petroleum price adjustments and the price rise in the food items. Despite our efforts to make the fiscal situation sound and sustainable, the treasury position portrays mixed signals on account of sudden jumps in the recurrent expenditures arising from the additional liability in the management of country's political transition, among others.
13. I would also like to remind you that the government is organizing a **Nepal Donor Consultation Meeting** in Kathmandu on

February 21 and 22, 2008. As we have shared with you from time to time, the main objective of this meeting is to strengthen the process of Communication, Dialogue and Confidence-building among the Government, Development Partners and the domestic stakeholders including civil society and the political parties. The broader theme of the meeting would thus be to interlink 'Peace and Development' with the specific objectives such as sharing current status of the peace process and evolving political scenario in Nepal, disseminating the country's development needs and priorities and stock-taking of required resources centered around the Three-Year Interim Development Plan, seeking programmatic commitment from development partners about long-term support to Nepal's development, and so on.

14. Leading to the main event, we are also holding Pre-Consultation Meetings between February 1 and 8, 2008 in Kathmandu to secure maximum engagement and support of the domestic stakeholders in the Meeting's theme and agenda. Invitation letters to this effect are being extended to all of you both at headquarters and the country level for both the events. I trust that with your support and good offices, high level participation from the headquarters and also that from the country level will be ensured for the meetings.
15. I encourage you to share your feelings and suggestions.
16. I thank you for your attention.

Thank you.



# Speech by Hon. Dr. Ram Sharan Mahat Minister of Finance, Nepal And Governor of the World Bank for Nepal

At the 2007 Annual Meetings of the Boards of Governors of the  
Bank and the International Monetary Fund (Oct. 20-22, 2007, Washington, DC, USA)

**Mr. Chairman**  
**President Mr. Zoellick**  
**Managing Director Mr. de Rato**  
**Fellow Governors**  
**Delegates and Participants**  
**Ladies and Gentlemen!**

1. I congratulate President Mr. Zoellick and offer best wishes for your success. Your observation at the National Press Club in Washington, DC on October 10, 2007 that poverty breeds instability is quite appropriate. I would like to express my heart-felt thanks to the Managing Director Mr. de Rato for leading the Fund with great competence. I appreciate your program of reform to ensure that the IMF remained attuned to the needs of its members in a globalized economy. I also congratulate and welcome Mr. Dominique Strauss-Kahn who is taking over as the Managing Director on November 1, 2007. I take this opportunity to offer Mr. Strauss-Kahn best wishes for his success.
2. My sincere appreciation goes to the government and the people of the United States for the warm hospitality extended to us.
3. Despite the recent volatilities, uncertainties and defaults that marked the functioning of the financial markets, it is heartening to note that the immediate impact of the market turbulence would be modest and the world economic growth would remain solid, buoyed by strong growth in emerging market and developing countries. However, we need to be constantly vigilant about the occasional dangers and risks inherent in the financial markets and make utmost efforts toward strengthening the international financial infrastructure and addressing the weaknesses in the global financial and economic system.
4. We noted with appreciation the theme of the **World Development Report 2008 - Agriculture for Development**. The report covers the major features underlying the economic structure and performance as well as the development prospects and priorities  
  
In the developing economies. Agriculture and the agriculture-linked industry account for a significant share of GDP in majority of these economies. It is disheartening to note that such an important sector of the economy in these countries is still suffering from a very low level of productivity. In my country Nepal, the dominant role of this sector is reflected in its contribution to GDP, employment, livelihoods and interlinkages with the other sectors. However, its productivity is very low and the country has turned to a net food-importing country from its past position of a food-exporting country. We strongly support the Report's conclusion that the agriculture has a special role in reducing poverty and that GDP growth originating from agriculture would have a far greater income impact than the growth generated outside the agriculture.
5. We have also taken note of the World Bank Group's Report entitled **Doing Business 2008**. The Report mentions that, in South Asia, the cost of employing and laying off workers, registering property, getting credit, trading across borders, and closing a business is high. These problems need to be addressed for making the individual country systems less burdensome, less time-consuming and less costly. We would, therefore, like to urge the Bank, especially the IFC, to substantially enhance its efforts to help countries like Nepal in creating a favorable investment climate and reducing the cost of doing business.

6. Achieving Millennium Development Goals remains a continued challenge for many of us. Nepal is making sincere efforts toward meeting these goals, especially halving the number of people below the poverty line by 2015. However, goals on primary education and HIV/AIDS would be hard to achieve primarily because of the resource constraint. I would, therefore, like to urge the development partners to enhance their support level as per the agreed commitments.
  7. Focus on clean energy by the Bank is a welcome step. Nepal has huge potential of hydropower which is a prime source of clean, renewable energy. This resource could be harnessed for the benefit not only of Nepal but also of the neighboring countries. I encourage and welcome both, the official development assistance and the private investments, and domestic and foreign, for tapping this potential.
  8. As mentioned in the communiqués of both the DC and the IMFC in their 2006 Annual Meetings, Nepal would like to see a successful conclusion of the Doha Round after its unfortunate suspension last year. We continue to encourage the Bank to engage in Aid for Trade with the focus on trade-related infrastructure development so as to help developing countries in a meaningful way in the expanding global trade.
  9. I support the Bank's initiative in the field of Global Public Goods through policy support, advocacy, financing, and technical assistance. Countries are facing a severe risk of climate change, flooding, pandemics, conflicts, civil strife, etc. These risks need urgent and collective global action with particular focus on risk mitigating strategies at the regional and national level.
  10. I also support the country-based scaling up of efforts by the Bank and acknowledge the progress made so far. Certainly, scaling up should be based on the country performance. However, special consideration needs to be given to the specific country contexts where, despite persistent efforts, the performance level has not been met for reasons of natural calamities, conflicts, and so on.
  11. We have observed that much of the rise in aid has been for debt relief. We are supportive of debt relief measures as a financing instrument, but we firmly believe that this should be treated as a supplement rather than a substitute to the ODA.
- Mr. Chairman,**
12. Now, allow me to briefly mention Nepal's current situation. The country is in the midst of political transition after more-than-a-decade-long insurgency. Our imminent task is to hold free and fair elections for the Constituent Assembly that would pave the way for building a truly democratic and inclusive Nepal. Though the election slated for November 22 this year has been postponed because of some new political developments, we are holding consultations with the concerned parties for a new date. The march toward sustained peace, democracy and development is not without hiccups and challenges, but we are clear about the direction to take and the goal to achieve. Our commitment to the evolving peace process remains unequivocal and unfaltering, and we are particularly grateful to the international community for their support at our difficult times.
  13. Nepal's development efforts in recent years have been severely constrained due to violent insurgency. This is reflected particularly in the slower rate of economic growth which averaged 2.8 percent a year during the last three years. Nepal's merchandise exports/GDP ratio also fell from 10 percent in FY 2004/05 to 8.4 percent in FY 2006/07. Nepal's macroeconomic management has remained under control. The government revenue increased by 20.8 percent in FY 2006/07, which pushed the revenue/GDP ratio to 12.1 percent from 11.2 percent in the preceding year. The government has also been able to maintain the fiscal deficit/GDP ratio below 4 percent. The monetary expansion has been contained at the targeted levels and the treasury operations resulted in the surplus situation. The rate of inflation has come down to 6 percent.
  14. The fourth PRGF Review Report on Nepal mentions that economic outcomes have been in line with the program, macroeconomic policies have remained sound, the PRGF-supported

program is broadly on track, and Nepal's economic prospects have improved despite some risks. According to the Report, the authorities' efforts and achievements as reflected in the continued macroeconomic stability and further progress in structural reforms under trying circumstances merit international support. I assure that the government would not at any cost let the reform measures be weakened. I request the international community to adequately support Nepal in these endeavors in this period of difficult transition.

15. Nepal needs immediate resources for reconstruction, rehabilitation and reform. People displaced due to the conflict need immediate support to return home and lead a normal life. Problems of hunger, deprivation, disease and unemployment, which provided fertile ground for violent insurgency, need to be addressed with

utmost urgency. International community has been supportive, but additional and timely support is crucial.

16. Before I close, I would like to reaffirm our commitment to consolidating gains achieved to date in stabilizing political and economic situation in the country. Our journey to peace, democracy and development will continue until we reach the goal of building a just, prosperous and democratic Nepal.

17. Finally, I would like to thank the Bank and the Fund for their continued support for Nepal's overall development in the past and hope for the enhanced support in the future.

I wish the Annual Meetings a grand success!

Thank you!

