NEPAL ECONOMIC FORUM

nefport

Docking Nepal's Economic Analysis

MARCH 2012 | ISSUE 8

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EDITORIAL

With our eighth issue of the nefport, we are happy to bring to you an overview of Nepal's economy over the past three months. Building upon the general structure established in previous issues, this issue is divided into two sections. The first section provides a general overview of the overall macroeconomic state of Nepal's economy. It goes into some depth within each sector and provides an overview of key stories that have developed over the last quarter. It also provides an outlook for the Nepali economy for the next quarter.

Like with previous issues, the second part of nefport is more analytical. In this issue, we have decided to look into three specific areas – the financial markets, Nepal Investment Year 2012, and urban planning in our metropolitan areas. We provide a detailed analysis and assessment on each of these topics. We hope that this analysis will be beneficial for those who make critical decisions in these sectors, as well as those interested in the general economic well being of the country.

While the US dollar has appreciated in value considerably during the course of the last quarter, we have used a USD conversion rate of NPR 75.29 to a dollar, the one year average.

Nepal Economic Forum is a not for profit organization and a wing of beed management. We would like to thank beed invest and beed management for their support in making this issue possible. We also thank all our readers for their invaluable feedback. Your input helps us develop this publication and better cater to your needs. We appreciate your encouragement.

We are eager to receive your valuable feedback on how to make future issues of nefport more useful and user friendly. Please email us your suggestions at info@nepaleconomicforum.org

Sujeev Shakya
Chairman
Nepal Economic Forum

GENERAL OVERVIEW

POLITICAL OVERVIEW

During the past quarter, hopes for the successful completion of the peace process and the drafting of the new constitution have gradually diminished. Political wrangling and fundamental disagreements between the major political parties have stalled progress. While some progress was made in terms of the integration and rehabilitation of former Maoist rebels, the overall security situation in the country remains precarious with the number of strikes increasing during the last quarter.

HIGHLIGHTS

Jaya Prakash Prasad Gupta jailed for corruption: The Supreme Court on February 22, convicted Minister for Information and Communications Jaya Prakash Prasad Gupta of corruption and was sentenced to one and half years imprisonment and fined NPR 8.4 million (USD 111,568.60). Although the Supreme Court's verdict was widely applauded, Madhesi leaders have highlighted the inconsistency of the judicial system that has failed to convict major leaders from the Nepali Congress (NC), Unified Marxist Leninists (UML)and United Communist Party of Nepal - Maoists (UCPN - Maoists).

Constituent Assembly gets another six month extension: With the Supreme Court allowing for a final six month extension of the Constituent Assembly (CA), the parliament extended its tenure by an additional six months from its November 30, 2011 deadline.

Election Commission demands transparency: In an attempt to clean up corruption in political parties, the Election Commission (EC) has required all political parties to submit details of their income sources, expenditure details and property holdings. Of the 80 political parties registered with the EC, 18 are in danger of losing their registration as they are yet to submit their property details. Most major parties have not submitted details of their financial expenditure and sources of income remain undisclosed. For instance, the UCPN-Maoists has classified NPR 3 billion (USD 3.9 million) of expenses under miscellaneous, while the Nepali Congress and the UML have not disclosed their sources of income. Parties registered with the EC are required to name all those who donate over NPR 25,000 (USD 332.05).

Sadbhawana Party splits again: The Sadbhawana Party led by Rajendra Mahato split again when two members - Gauri Mahato and Ram Naresh Yadav announced that they had established a new party called the Rastriya Sadbhawana Party on January 26, 2012. This leaves the Sadbhawana party with merely three members. The party had previously lost four members on July 18, 2011.

Machine Readable Passports available in districts: The government started distributing Machine Readable Passports (MRPs) from all 75 districts from November 11, 2012. Until then, passports were being distributed from the Foreign Ministry and only a few districts.

Calls for local level elections: The Development Committee of the parliament has recommended the government to conduct elections for local bodies. Elections at the local level have not happened since 2002 and were recently, managed by an all-party mechanism which was accused of promoting corruption.

State Restructuring Committee fails its mandate: Internal divisions within the State Restructuring Committee (SRC) and the unwillingness of the major political parties to take ownership of either of the two plans presented by the committee has meant that the committee has largely failed in presenting a viable federal picture for Nepal.

Supreme Court block government's citizenship drive: The Supreme Court asked the government to furnish a written clarification on the legality of its decision to issue "citizenship by descent" to children whose parents had not received Nepali citizenship when they were born. According to the court, the Citizenship Act does not allow a person to acquire Nepali citizenship if none of his/her parents was a Nepali citizen when s/he was born.

OUTLOOK

The government's primary challenge is to ensure that a new constitution is drafted within the six-month extension it has. While signs of this happening are noticeable, given the track record of Nepal's political parties and the challenges faced by the government, the drafting of a new constitution remains doubtful. Given that the Supreme Court has stated that no further extensions are possible, Nepal will technically see either a new constitution or fresh elections. However, additional extensions of the present CA also cannot be ruled out. Major disagreements in terms of federal structures persist, but the progress in terms of army integration is a positive sign. Importantly, the government faces the challenge of ensuring the rule of law is maintained, acts of impunity are prevented and the rights of its citizens are protected.

INTERNATIONAL ECONOMY

Global economic growth stands upon precarious grounds. The results and consequences of the Euro zone crisis being central to what happens to the global economy. Growth in Nepal's two neighbors, India and China, has also slowed, increasing concerns on the state of the global economy.

HIGHLIGHTS

Euro Zone Crisis: Euro-zone finance ministers agreed to a second bail-out for Greece worth around USD 170 billion (NPR 12.7 trillion). The money will be paid in installments and will depend on whether Greece keeps its promises to make deeper budget cuts and more economic reforms.

Syria still in turmoil: Government forces in Syria continue to launch offensives against the rebel strong holds of Hama and Homs. China and Russia blocked an Arab League-backed United Nations Security Council resolution that condemned the violence in Syria and called for President Bashar al-Assad to cede powers. In response, America closed its embassy and several European countries and Gulf states withdrew their ambassadors from Syria.

Indian growth rate drops to 6.1%: India revised its gross domestic product (GDP) growth rate to 6.1% amid disappointing growth between October to December 2011. Economists point to government policy paralysis, stubborn inflation and high interest rates as major reasons for the slowdown.

U.S. economy shows signs of recovering: Amid hopes of a recovery in the U.S. economy, over 240,000 jobs were added in the month of January alone. This lead to a drop in the unemployment rate to 8.3%, the lowest in three years. In more good news, the American economy grew by a robust 2.8% in the final quarter of 2011, the highest growth rates since 2010.

Facebook files for an Initial Public Offering: Facebook Inc. filed for an initial public offering on February 2, 2012 that could value the social network site up to USD 100 billion (NPR 7.5 trillion), putting the company on track to be one of the biggest U.S. stock-market debuts of all time.

OUTLOOK

Signs of recovery from the American economy has given economists some hope for improved growth from the global economy. However, European economies still stand upon precarious grounds with the sovereign debt crises still remaining unresolved. A drop in the growth rates of both India and China is a worrying sign for the global economy as it reflects a drop in global demand. Drops in their growth rate could have a direct impact upon Nepal through a fall in imports and could also potentially impact tourists numbers traveling to Nepal.

macroECONOMIC OVERVIEW

At the turn of the century, Nepal's GDP for the 2000/01 fiscal year stood at NPR 413 billion (USD 5.62 billion). Since then, Nepal's economy, as estimated for the 2010/11 fiscal year, has painstakingly grown to NPR 637 billion (USD 8.76 billion) at 2000/01 prices. The decade saw momentous change in Nepal's political spectrum through the removal of the monarchy and the end of the civil war. However, economic progress has at best trudged forward with socio-political issues consistently trumping the economy. According to the Central Bureau of Statistics (CBS), Nepal's per capita Gross National Income (GNI) during this time period doubled from NPR 19,144 (USD 260) in 2000/01 to NPR 46,859 (USD 645) in 2010/11. However, this still keeps Nepal close to the bottom of global income tables.

AGRICULTURE

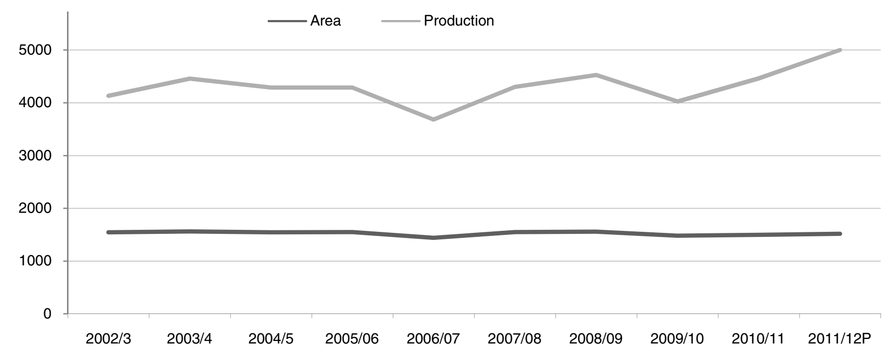
In a heavily agrarian economy like Nepal, where agriculture accounts for approximately 35% of GDP, investing in agriculture can have a significant impact on reducing poverty and endemic hunger. The 2008 food scarcity was an eye opener for the government and donors. The realization of the importance of investing in agriculture has prompted them to increase assistance to the sector. As a result, the agriculture sector is finally starting to receive some of the support it desperately needs through the government and donor agencies.

Subsidy on improved seeds and organic fertilizer: The Government of Nepal has declared small farmers[1] are eligible for subsidies on organic fertilizers and improved seeds. Seeds and fertilizers account for a significant chunk of farm production costs and the subsidy provides some relief to farmers. The government has set aside NPR 100 million (USD 1.3 million) for subsidizing organic fertilizers. A committee led by the agriculture secretary will fix the subsidy amount on seeds. The Ministry of Agriculture and Cooperatives (MOAC), the Department of Agriculture as well as regional and district agriculture offices will monitor the implementation of the subsidy. The ministry is prioritizing cereal crops like paddy, wheat, maize and millet as well as cash crops like lentils, gram, pea and mustard for the subsidy.[2]

Paddy production projected to reach six decade high: Paddy production, which accounts for 21% of the Agriculture Gross Domestic Production (AGDP) is projected to record a 60-year high in the 2011/12 fiscal year. A report by the MOAC states that paddy production will rise by 13.7% to reach over 5 million tons this fiscal year. The increase in production area has been negligible and has not contributed significantly to the rise in production. Instead, a favorable climate, an increase in productivity by 11.1% to 3.3 kg/hectare, and a higher volume of fertilizer usage are the main reasons for this record breaking paddy harvest.[3]

Sardhikhola VDC of Kaski declared a Special Economic Zone for Agriculture: The Pokhara Chamber of Commerce and Industry (PCCI) took an novel step by declaring Sardhikhola VDC of Kaski a Special Economic Zone for Agriculture (SEZ-A). The decision was taken because of surging private sector investments in agriculture in the village. The VDC

Figure 1: Paddy Production in the last 10 years



Source: Economic Survey FY 2010-11, Ministry of Finance

already has nine commercial agriculture farms and has attracted investments worth NPR 70 million (USD 930,000) with another NPR 90 million (USD 1.2 million) in the pipeline.[4]

Agriculture sector to receive foreign aid: In the 2012/13 fiscal year, the agriculture sector is set to receive USD 91.5 million (NPR 6.9 billion) in aid through three donor-funded projects, namely Nepal Food Security Enhancement Project, Food Security Investment Program, and the Accelerated Agricultural Growth and Productivity Program. These projects have been designed to improve household food security and incomes through increased agricultural productivity.[5]

Livestock's contribution in Agricultural GDP drops to 23%: Livestock accounts for 23% of Agricultural Gross Domestic Product (AGDP), down from the 31% share it held 13 years ago due to the slowing down of commercialization in the sector.[6] The MOAC´s data shows that the livestock sector lagged far behind other high-value products like cereals, vegetables, and fruits, which underwent impressive commercialization over the past one decade. A major reasons for limited commercialization is due to decreasing credit facilities for farmers, shrinking pasture land, and fewer farmers involved in dairy and animal farming.

EDUCATION

Growing awareness of the value of education has contributed to an increase in the demand for and access to public educational services. However, a plausible solution to improve the quality of education and high dropout rates in public schools is yet to emerge. Developing the capacity of students is necessary for the Nepali economy to keep up with global competitiveness. With this in mind, the Ministry of Education's (MOE) School Sector Reform Plan 2009-2015 (SSRP) aims to enhance the quality of public education. The SSRP focuses on basic education (grades 1-8) to which approximately 75% of the overall funding is devoted.[7]

Nepal's Human Development Index: The United Nation's Human Development Index (HDI) measures the country's long run progress in three basic categories: a long and healthy life, access to knowledge and a decent standard of living. In 2011, Nepal had an HDI value of 0.458, placing it 157 out of 187 countries.[8] Access to knowledge is measured in terms of the mean years of education received in a life time by people aged 25 years and older and expected years of schooling for children just entering school. Nepal

Table 1: Nepal's trend of Education Indicator from 1980

Year	Mean years of schooling (MYS)	Expected years of schooling (EYS)	Education Indicator (EI)
1980	0.6	5.6	1.83
1985	1.2	5.6	2.59
1990	2	7.3	3.82
1995	2.2	8	4.2
2000	2.4	8.8	4.6
2005	2.7	8.8	4.87
2010	3.2	8.8	5.31
2011	3.2	8.8	5.32

* Education Indicator (EI) = SQRT (MYS*EYS)-0 /0.951

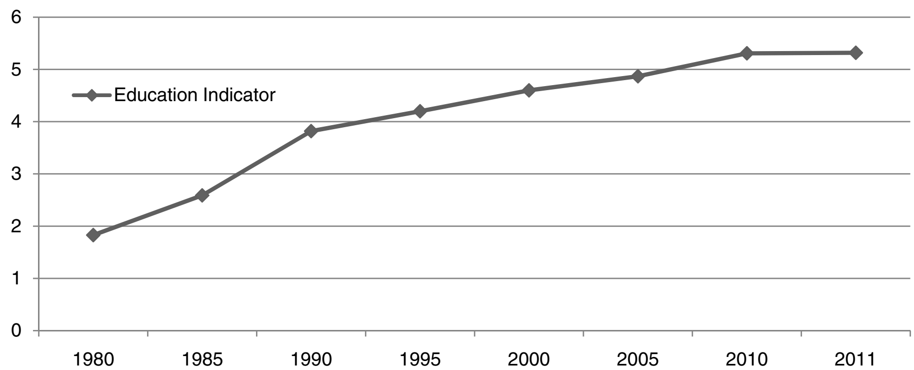
witnessed a 433% increase in the mean years of schooling and a 57% increase in the expected years of schooling since 1980, resulting in the Education Indicator climbing 190% over the past two decades. This suggests that Nepal's education sector has undergone significant improvements.

Asian Development Bank provides a grant for education sector reform: The Asian Development Bank (ADB) has granted USD 65.5 million (NPR 4.9 billion) to the Nepali government for the ongoing education sector reform program.[9] The program supports Nepal government's seven-year (2009-2015) School Sector Reform Program (SSRP) which is a part of the ongoing Education Sector Program.

Dhankuta´s District Education Office padlocked in protest against the Home Center System: Student unions of the Nepali Congress, UCPN (Maoist) and CPN-UML padlocked Dhankuta´s District Education Office protesting against the removal of the Home Center System (HCS) for School Leaving Certificate (SLC) examinations. The HCS allows students to appear for their SLC examination in their own school.[10]

Guardian's Association of Nepal (GAN) seeks improvement: GAN submitted a memorandum to draw the attention of policy makers and bring about positive changes in the education sector. It suggests a policy for the mandatory enrollment of children of political leaders, policy makers, and government employees in their local community schools. It also seeks to incorporate the Higher Secondary Education Board into the school education, implement scientific fee structures, and punish schools violating education rules and regulations, among other things.[11]

Figure 2: Rise in the Education Indicator



Source: Human Development Report 2011

Disaster Risk Reduction (DDR) introduced in education: United Nations Educational, Scientific and Cultural Organization (UNESCO) in collaboration with the Department of Education, introduced DDR in education. It deals with the actions, processes and attitudes necessary for disaster prevention, mitigation and preparedness in the education sector. It helps to ensure school facilities are safe and promotes school safely.[12]

Policy to prioritize technical education: A review of the Technical Education and Vocational Training Policy 2007 has suggested that technical education should be given prioritized in order to keep abreast of global economic developments to ensure the production of a relevantly skilled work force. To produce a skilled work force and to keep up with the global economy, the review recommends that a technical School Leaving Certificate (SLC) should be recognized in general education and anyone wanting to switch between streams should be free to do so. According to national statistics, 69% of Nepal´s migrant workers are non-skilled while 28% are semi-skilled. A technical SLC would be beneficial to these workers and would also improve remittance inflow.[13]

Government to grant students concession on petroleum products: Following students protests, the Government of Nepal decided to grant a 33% concession to students on cooking gas and kerosene.[14] A task force setup under a member of the National Planning Commission had been constituted in order to develop an action plan on the concession approved by the government.

Government scraps the provision of taking sent-up exams for SLC: The government scrapped the provision of taking sent-up exams to simplify the procedure for students to appear in the SLC exams. Prior to the decision, around 12,000 students used to fail the sent up exams.[15] The government has taken this step in the hopes of increasing the pass percentage in the SLC, All schools have been given discretionary rights on whether or not to release students to appear for the SLC. The government is gradually changing the present school structure by taking the grade 12 examination to the national level and making the SLC a regional level examination.

ENERGY

As has been the case in previous quarters, the predicaments of the energy sector still remain. Shortages in fuel supply exist despite a continuous increase in prices. Electric power has also seen a decrease due to seasonal changes. The state owned monopolies, Nepal Oil Corporation and Nepal Electricity Authority, have complete control over the supply of fuel and services, but with mounting losses in both corporations, there is no guarantee when the market will experience uninterrupted supply.

Hike in petroleum products price; partially reversed: Nepal Oil Corporation (NOC) announced the biggest one time hike in petroleum products in January, 2012. It increased the price of LPG by NPR 175 (USD 2.32) per cylinder, diesel and kerosene by NPR 9 (USD 0.12) per liter and petrol by NPR 10 (USD 0.13) per liter.[16] According to the Minister for Commerce and Supplies, the increase will lead to a sharp increase in inflation which could reach 10%. Protests by student unions and youth associations forced NOC to partially reduce the price of petroleum products. Petrol prices were reduced by NPR 3 (USD 0.04) per liter, diesel and kerosene by NPR 4 (USD 0.05) per liter and LPG by NPR 85 (USD 1.13) per liter. As per the revised figures, NOC will suffer a loss of NPR 1.20 billion (USD 16.03 million) for the month of February.[17] According to Lekh Raj Bhatta, chairman of Minister of Commerce and Supplies, ensuring a smooth supply of fuel will be impossible due to mounting losses and an increase in international prices. He stressed upon the need for a comprehensive petroleum policy to control imports and ensure smooth supply.[18]

Domestic airlines to hike airfare: Domestic airlines are reacting to the increase in the price of air turbine fuel (ATF) by increasing airfares by 13% to 49%.[19] The upward revision will increase airfares for mountain flights by more than NPR 1500 (USD 19.92) whereas long haul flights such as the Kathmandu – Dhangadi one will go up by NPR 1476 (USD 19.6). ATF per liter now costs NPR 105 (USD 1.39) from the earlier NPR 100 (USD 1.33) per liter.[20] As per existing regulations, airlines can increase fuel surcharge when ATF price is increased by more than NPR 4 per liter (USD .05 per liter). The new tariff is subject to approval from the ministry Tourism and Civil Aviation. Coupled with the price hike, NOC announced subsidies for the sale of air turbine fuel amounting to NPR 10 per liter (USD .13 per liter) to areas such as Dolpa, Jumla, Humla and Bajura. Nepal Airlines Corporation (NAC) and Tara Air are flying to these districts; however, this will not lead to a reduction of the airfare for these routes.

Table 2: Petroleum Products: Current Cost and Profit/ (Loss) Breakdown

Item	Cost per Liter		Profit/(Loss) per Liter	
Petrol	NPR 112	USD 1.49	NPR 2.59	USD 0.03
Diesel	NPR 81	USD 1.08	NPR (14.05)	USD (0.19)
Kerosene	NPR 81	USD 1.08	NPR (3.11)	USD (0.04)
LP Gas	NPR 1415 (per cylinder)	USD 18.79 (per cylinder)	NPR (454.28) per cylinder	USD (6.04) per cylinder
Aviation Turbine Fuel (Duty Paid)	NPR 105	USD 1.39	NPR 16.39	USD 0.22
Aviation Turbine Fuel (Bonded)	NPR 1215	USD 16.14	NPR 25.26	USD 0.34

Source: Nepal Oil Corporation

Appointment process of NEA MD halted: After the resignation of Dipendra Nath Sharma, the first Nepal Electricity Authority (NEA) Managing Director (MD) appointed through open competition, 15 candidates applied for the post in December.[21] A three member selection committee led by Bishwo Raj Regmi was formed to select the new MD. However, the selection process came to an abrupt end when the Commission for the Investigation of Abuse of Authority (CIAA) directed NEA to stop the process on account of irregularities. The process was halted because it failed to meet the requirements mentioned by the Public Corporation Directive Board (PCDB), 2011, according to which top executives are selected in government-owned entities.[22] The appointment process will continue after the NEA board implements a new appoint system as per the PCDB.

Supreme Court poses ban on electricity tariff hike: After receiving approval from Prime Minister Baburam Bhattarai to increase the electricity tariff, the Electricity Tariff Fixation Commission (ETFC) was set to hike rates by 20% on average, coming into effect from mid-February.[23] However, the Supreme Court issued a pre-emptive interim order prohibiting increase in tariff by more than 5% in a year as it is against the Electricity Tariff Fixation Rules (1994). In response, the ETFC has argued that the 5% provision is only regarded for changes in the cost of fuel used in electricity generation or changes in the consumer price index.[24] ETFC chairman Ganesh Prasad Subba also stated that unless the tariff is revised, an order cannot be issued. The electricity tariff has not been revised since September 17, 2001.

Adverse impact of fuel and electricity shortage: The prevailing scenario with regard to fuel scarcity and electricity shortage is creating a serious dent on large scale industries. For instance, cement industries planning to launch products in February were forced to delay plans, road expansion project have slowed down, and thousands of workers on daily wage have been rendered jobless.[25] Industries that were depending on generators to run their operations have been forced to stop operations due to the fuel shortage. The domestic cement industry was supposed to ease dependence on imported cement by 10%, however, the energy crisis has meant that the industry is not running at full capacity.

LPG cylinders raided; trucks provided with security: In order to ensure uninterrupted distribution of LPG, the government arranged for security guards to escort the supply trucks of various gas companies carrying LPG cylinders to their retail stores.[26] The security escorts were arranged after locals in Sallaghari, Bhaktapur stopped two vehicles carrying LPG cylinders from Himal Gas Company and forced the staff to sell the cylinders there itself. Later, locals tried to stop trucks belonging to Sagar Gas Company and Baba Gas Company, before the police intervened. The aforementioned situation highlights the severity of the deepening shortage and the desperation of customers.

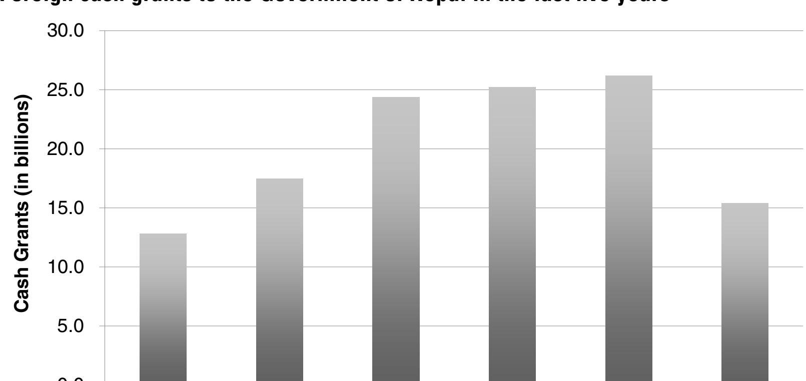
India, Nepal sign two hydro deals: At the Power Exchange Committee (PEC) held in India and Nepal, the two countries signed two bilateral accords, the Implementation of Transmission Services Agreement (ITSA) and the Power Sales Agreement (PSA). Nepal can now import 150 MW power from India for the next 25 years. This figure excludes the 100 MW to be supplied within six months and 145-150 MW to be supplied within a year. Nepal will thereafter be able to import power from the prospective 440KV Dhalkebar-Muzaffarpur cross border transmission line, construction of which has already started. It is expected to finish by July, 2014. The imports will be priced at an average of NPR 5.6 (USD 0.07) to NPR 6.4 (USD 0.08).[27]

FOREIGN AID

The Government of Nepal continues to be largely dependent on foreign aid for major development projects as revealed by the 2011/12 Budget Speech. Given that foreign aid is a significant contributor to government expenditure, the government needs to develop proper institutional and policy arrangements to increase the absorption capacity of foreign aid as well as effectively coordinate, mobilize and ensure its transparency and accountability.[28]

Grants for forestry scheme: The governments of Switzerland, UK and Finland have agreed to extend NPR 4.45 billion (USD 59 million) in grant assistance to the Government of Nepal to implement the country's first multi-

Figure 3: Foreign cash grants to the Government of Nepal in the last five years

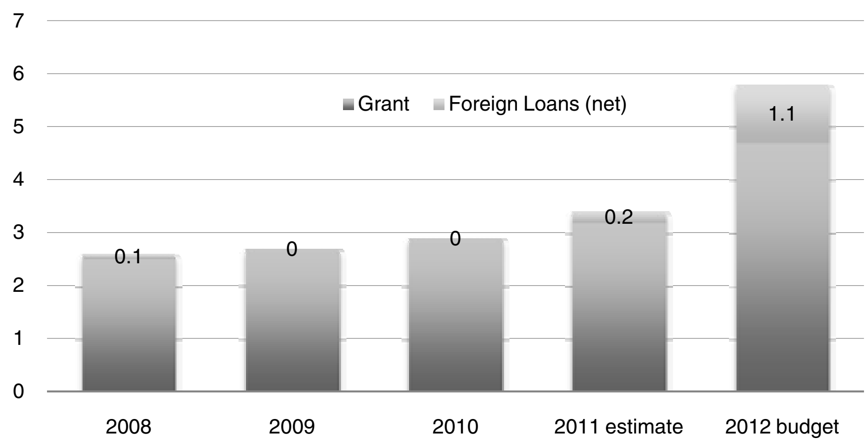


	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12 (first 5 months)
Foreign Cash Grants	12.8	17.5	24.4	25.2	26.2	15.4

Years

Source: Recent Macroeconomic Situation, Nepal Rastra Bank

Figure 4: Foreign Aid as percentage of GDP



Source: Nepal Rastra Bank

stakeholder project in the forestry sector. The ten year program is designed to be implemented in two phases with the grant covering the initial four years. The main objective behind this project is to scale up good practices that have been developed in the forestry sector, to maximize its potential, and improve forest resource management as well as address environmental issues. The main beneficiaries of the project will be rural communities in Nepal, with a focus on poor and disadvantaged households that depend on forests, and are the most vulnerable to the impacts of climate change. The program covers 23 districts across the country and will eventually scale up to 61 districts. The government, non-governmental organizations, civil society and the private sector will all be responsible for the implementation of the program.[29]

China commits billions to Nepal: During his five hour visit to Nepal on January 14, 2012, Chinese Premier Wen Jiabao pledged to provide grants amounting to NPR 12.3 billion (USD 163 million), with NPR 9.75 billion (USD 129.5 million) allocated over a three year period and NPR 2.6 billion (USD 34.5 million) as a one time grant. The NPR 9.75 billion grant (USD 129.5 million) is to be used for the development of mutually agreed upon projects under Economic and Technical Cooperation, whereas the NPR 2.6 billion grant (USD 34.5 million) is provided as special assistance to support the government and the peace process, particularly for the rehabilitation of former Maoist combatants.[30]

South Korea to assist in Lumbini master plan: Korea has pledged NPR 150 million (USD 2 million) in grants assistance to the Government of Nepal for the Lumbini World Peace City Preservation and Development Master Plan. The main objective behind the project is to develop the birthplace of Lord Buddha, as well as conserve the cultural and historic environment to promote Lumbini as a tourist destination. The project aims to create an image of Lumbini as a World Peace City. The project will be jointly implemented by the Ministry of Federal Affairs, the Constituent Assembly's Parliamentary Affairs and Culture, and the Korea International Cooperation Agency (KOICA).[31]

Support for the Decentralized Rural Infrastructure and Livelihood Project: The Asian Development Bank (ADB) and the Swiss government have agreed to provide an assistance of NPR 2.4 billion (USD 32.06 million) for the second phase of the Decentralized Rural Infrastructure and Livelihood Project (DRILP), with NPR 1.35 billion (USD 18m) as loan assistance and NPR 527 million (USD 7m) as grant assistance from the ADB along with a NPR 531.5 million (USD 7.06 m) grant assistance from the Swiss government. The DRILP aims to reduce poverty by enhancing the mobility of isolated rural communities (especially disadvantaged groups) and ensuring easy access to social services and economic opportunities. The project activities include building of rural infrastructure and community development. It will be implemented in 18 rural districts of Nepal and is scheduled to start on January 1, 2012, and will be completed on December 31, 2016.[32]

UK directly tackles serious challenges in Nepal: As Nepal is a priority country for UK aid, it has announced a grant of NPR 2.5 billion (USD 33.2 million) to support the successful conclusion of the peace process. Between now and 2015, it intends to create 230,000 jobs through private sector development, build or upgrade 4,232 km of roads, and improve access to sanitation for 110,000 people. In addition to this, it will help four million Nepalis to strengthen their capabilities in the face of natural disasters and climate change.[33]

DFID and EU to assist Nepal Climate Change Support Program: A memorandum of understanding was signed between the Government of Nepal and the Government of United Kingdom on January 10, 2012, wherein the United Kingdom's Department for International Development (DFID) and the European Union (EU) will provide a grant assistance of NPR 1.7 billion (Euro 16.5 million) to the Government of Nepal for the implementation of the Nepal Climate Change Support Program (NCCSP). DFID will be contributing NPR 816.5 million (USD 10.84 million) and the NPR 888.9 million (USD 11.8 million) with the goal of supporting local level adaptation to the effects of climate change in the most vulnerable and poorest districts of Mid and Far Western Nepal.[34]

DFID announces earthquake preparedness fund: DFID has announced a new fund of NPR 2 billion (USD 26.5 million) over four years for disaster risk management in Nepal. It will repair at least 162 schools damaged due to the Sikkim Earthquake in 2011, improve preparedness for a national and international emergency response, and train 4000 volunteers across Nepal in search, rescue and first aid. The new program will strengthen the Government of Nepal's disaster risk management policy and support improved building code compliance. It will also attempt to scale up community-based activities to build the resilience of four million people to earthquakes and other disasters.[35]

EU funds Agriculture and Nutrition Extension Project: The Agriculture and Nutrition (ANE) Project is to be funded by the EU with an assistance of approximately NPR 400.8 million (USD 5.32 million) over a period of three years. The EU aims at improving the food security and nutrition of 20,000 households identified as the poorest and most vulnerable in four districts of Nepal, namely Nawalparasi, Rupandehi, Rukum and Surkhet including 40,000 additional households in the Barisal district of Bangladesh. The project seeks to develop market linkages between rural and urban areas, promote exchange of expertise and technologies between agricultural and research institutions in Nepal and Bangladesh, disseminate training on new and emerging agricultural technologies to increase productivity, and subsequently improve the annual incomes and nutritional status of farmers.[36]

German support for the peace process in Nepal: The Government of the Federal Republic of Germany, through KfW Entwicklungs Bank, has agreed to provide a grant assistance of NPR 217.7 million (USD 2.9 million) to the Government of Nepal as a second contribution to the Nepal Peace Trust Fund (NPTF) under the Ministry of Peace and Reconstruction. The grant is to be utilized in co-financing projects for NPTF such as cantonment management, integration and rehabilitation of former Maoist combatants, reconstruction of public infrastructure, promotion of security and transitional justice, support elections and peace building initiatives and to carry out activities agreed upon in the Joint Financing Arrangement of 2010.[37]

Republic of Korea supports Establishment of Technical Training Center at Kathmandu University: The Korean Government through Korean International Cooperation Agency (KOICA) has agreed to spend NPR 263 million (USD 3.5 million) to implement the Technical Training Center (TTC), the investment will be primarily used for building the infrastructure, purchasing equipment and machineries, and developing human resources at the university. The objective of the TTC is to produce a skilled workforce that can adapt to the needs of the industrial and labor market, with a special focus on local under privileged youth in the automobile and mechanical sector.[38]

HEALTH

Nepal is making progress towards improving the health of its population and meeting its Millennium Development Goals (MDG) on reducing child mortality and improving maternal health.[39] According to the Ministry of Finance, the infant mortality rate dropped from 43 per thousand births in 1990 to 14 per thousand births in 2012, whereas maternal mortality rate dropped from 539 per 100,000 births in 1990 to 229 per 100,000 births in 2012.[40] However, the country's agricultural base, low education levels, geographical isolation and pervasive poverty have posed significant challenges to reducing mortality rates among women and children. Preventable diseases, complications during childbirth, and nutritional disorders are prevalent, hygiene and sanitation are major issues, and access to safe drinking water is inadequate.

Improvements in health indicators: According to data from the Central Bureau of Statistics (CBS), noticeable improvements have been made on several health indicators. However, the percentage of the population suffering from chronic as well as acute illnesses have increased over the years. Worryingly, this trend has been paralleled

Table 3: Summary Statistics of Health Services in Nepal

Description	Nepal Living Standards Survey (in percentage)		
	1995/96	2003/04	2010/11
Percent of population with chronic Illness	6.5	5.4	11.7
Percent of population with acute Illness*	9.0	13.0	20.0
Consultation to health practitioner by type			
Doctor	34.8	26.0	24.6
Paramedic	25.0	36.1	27.8
Not Consulted	34.4	33.9	30.6
Immunization status of children (below five years of age)			
Percent fully immunized	36.0	59.4	38.7
Percent partially immunized	42.8	33.2	56.9
Percent not immunized	21.1	7.1	4.5
Percent of population (10 years and above)			
Who have heard of HIV/AIDS	–	57.6	59.1
Who do not know the means of HIV/AIDS prevention	–	–	18.4
Percent of respondents (10 years and above) reporting the method of preventing HIV/AIDS	–	–	34.8
Disability	–	–	3.6

Source: Statistical Report, Volume One, Nepal Living Standards Survey 2010/11, CBS
Acute Illness* Diarrhea, Dysentry, Cold/fever/ Respiratory

by a decrease in consultations with health practitioners.

South Korea supports health services improvement: The Government of Korea has agreed to provide a grant of USD 5.5 million (NPR 414 million) through the Korea International Cooperation Agency (KOICA) to improve health services in Nepal in the next 42 months. As per the agreement, the project is to be implemented in Tikapur municipality along with four other Village Development Committees (VDC) in Pathariya, Durgauli, Narayanpur and Dhansingpur in Kailali. The project intends to upgrade and expand infrastructure and equipment facilities in the Tikapur municipality.[41]

Peace Corps to return: Peace Corps, a global US volunteer program which ceased operations in Nepal in 2004 due to security issues, is to resume work in the country. The organization hopes to work in rural communities to improve food security and access to health care as well as build local capacity within the context of President Obama's Global Health and Feed the Future Initiative. The first group of approximately 20 volunteers will be trained as Agriculture-Nutrition Extensionists and are scheduled to arrive later this year.[42]

The Human Resource Information System faces hiccups: The Human Resource Information System (HuRIS), launched by the Ministry of Health and Population (MOHP) in different regions of the country to keep an adequate and timely record of human resources, has not functioned as expected due of the lack of participation by health officials on the online portal. Since its inception, HuRIS has been able to compile data on the total workforce, but has been unable to update the information. The MOHP is attempting to address this issue within five years by training, equipping and networking with other information systems for retrieving, analyzing, disseminating and using information.[43]

Urban health policy on cards: An urban health policy is being designed by the MOHP to provide health care to the urban population, with a special focus on the urban poor. The policy is in line with the 2007 Interim Constitution, which maintains that every citizen shall have access to free basic health care. It will be finalized within a month after consultations with line ministries and stakeholders and is expected to come into effect in the next fiscal year. As per the policy, 40 different types of drugs are to be provided to district hospitals, 35 to primary health care centers and 25 to sub-health posts. The policy is being designed to meet the MDGs as well as to deal with rapid urbanization and the influx of a large number of people into urban areas.[44]

Budget cut blow to free health services: The budget for procuring drugs for free distribution has been reduced from NPR 1.75 billion (USD 23.24 million) in the last fiscal year to NPR 1.15 billion (USD 15.27 million) in the current fiscal year due to criticism regarding the ineffectiveness of the state's free health services. However, Dr Migmar Gyalzen Sherpa, Director of the Logistics Management Division at the Department of Health Services, maintains that the budget cut is simply due to a fall in the demand for drugs.[45]

Poor coverage of health programs in urban areas: Research indicates that the coverage of health programs in municipalities is poorer than in VDCs in remote districts. Data from the District Public Health Office (DPHO) in Kathmandu shows that metropolitan areas are excluded from health programs that are launched by the government. Poor health infrastructure, a floating population, and inadequate manpower in the health sector are considered to be the reasons behind this problem. Further, the Child Health Division (CHD) under MOHP has conceded that the government does not have an accurate record of the number of people living in the Kathmandu metropolis, leading to irregularities in planning and implementation. To deal with this, the government has allocated a budget to recruit additional health workers and build public health clinics, whereas the MOHP is coordinating with municipalities to improve the health status of its inhabitants.[46]

Burns care in Nepal: According to Interburns, a charity foundation of burn care professionals, Nepal tops the list of 10 countries with the highest fire related deaths. In Nepal, a person with 40% burn injury normally dies, whereas in a developed country, patients with 80% burn injuries still have a high chance of survival. According to the World Health Organization (WHO), women from South-East Asia account for 26% of global burn deaths. In Nepal, 1,700 people succumb to burn injuries annually.[47]

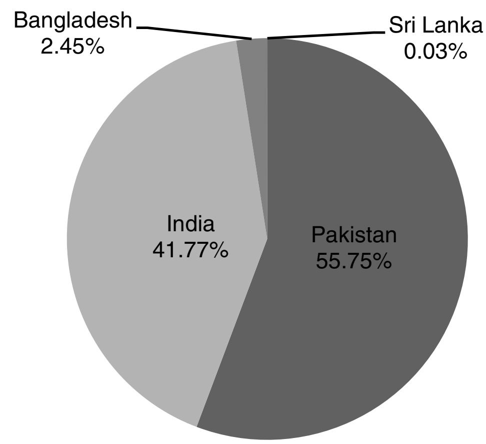
Model medical garbage management program: Medical garbage is risky to public health and the environment. The 2011/12 budget states that the government will initiate a model medical garbage management program in Pokhara. This will be under the Public Private Partnership model and will emphasize the scientific and well-managed treatment of such garbage.[48]

Government to upgrade 20 villages into health models: The Primary Health Revitalization Division (PHRD) under the Department of Health Services (DHS) is attempting to create model health villages where people will get basic health facilities. A provision of NPR 14.56 billion (USD 193 million) as grants has been made to local bodies for carrying out these development activities. An additional grant of NPR 2 million (USD 26,563) will be allocated to these VDCs for infrastructure development. Due to budgetary constraints, only 20 villages will be selected.[49]

MANUFACTURING AND TRADE

While the Balance of Payment (BOP) has shown signs of improvement over the past quarter, the surplus is entirely dependent upon remittance inflows. Without this inflow, Nepal would be facing a huge trade deficit. The decline in manufacturing in Nepal due to the energy crisis, labor problems and limited investments has meant Nepal has been unable to diversify its exports which in turn has limited export based earning. To address these problems, the Government of Nepal has been taking steps to enable a favorable business climate and encourage investments in Nepal.

Figure 5: Consumer Welfare Gains to Nepal from Key South Asian Economies as a Result of Economic Cooperation



Source: Cost of Economic Non-cooperation to Consumers in South Asia, CUTS International and The Asia Foundation

11 more items added to list for maximum retail price declaration: In order to control under-invoicing at the customs office, the Department of Commerce (DOC) now requires importers to declare the maximum retail price (MRP) of an additional 11 items.[50] Earlier, only automobiles were required to disclose their MRP, but since January 2012, importers of TV, air conditioner, refrigerator, washing machine, microwave oven, energy drinks, marble, granite and tiles, cooking range, kitchen chimney, digital cameras and video cameras are also required to state their MRPs. These items have been selected because of the huge gaps recorded between the price declared at customs and the selling price in the market.

Balance of Payment records highest ever surplus: Nepal's BOP showed a surplus of NPR 61.19 billion (USD 813 million) during the first five months of the 2011/12 fiscal year compared to a deficit of NPR 3.76 billion (USD 50 million) during the same period last year.[51] This surplus can be attributed to continued growth in remittance and an increase in the service account.

NEPAL MOVES UP 3 PLACES

IN DOING BUSINESS RANKING 2012 BUT STILL RANKS LOW FOR EASE OF TRADING:

Nepal moved up three places to 107 (out of 183 countries) in The World Bank's Doing Business Ranking for 2012. This increase in ranking can be attributed to significant improvements in dealing with construction permit which moved up 21 places, from 161 in 2011 to 140 in 2012. Other improvements in ranking have been in getting electricity, paying taxes and resolving insolvency.

Ranked 162 in Trading Across Borders, Nepal is well below the South Asian average of 124. This reflects the fact that Nepal is marred by the protracted time and extensive costs needed to export and import goods. Exporting a standard container from Nepal requires 41 days and USD 1,960 (NPR 148,000) while importing take 35 days and USD 2095 (NPR 158,000). Compared to Sri Lanka, ranked 53 in the same category, the time and cost required for both import and export is almost half. Exporting from Sri Lanka takes 21 days and USD 456 (NPR 34,000) while importing takes 19 days and USD 439 (NPR 33,000).[55] The composition of the time and cost for export is as follows.[56]

	Time	Cost
Document preparation	14 days	USD 270 (NPR 20,000)
Inland transportation handling	12 days	USD 1250 (NPR 94,000)
Custom clearance (Nepal, Indian Border and Kolkata Customs)	5 days	USD 300 (NPR 23,000)
Port handling	4 days	USD 275 (NPR 21,000)
Total	**35 days**	**USD 2095 (NPR 158,000)**

Figure 6: Doing Business in Nepal 2012

Topic Rankings	DB 2012 Rank	DB 2011 Rank	Change in ranking
Starting a Business	100	95	-5
Dealing with Construction Permits	140	161	21
Getting Electricity	99	102	3
Registering Property	24	23	-1
Getting Credit	67	64	-3
Protecting Investors	79	74	-5
Paying Taxes	86	90	4
Trading Across Borders	162	161	-1
Enforcing Contracts	137	137	No change
Resolving Insolvency	112	113	1

Source: The World Bank, "Doing Business 2012-Nepal."

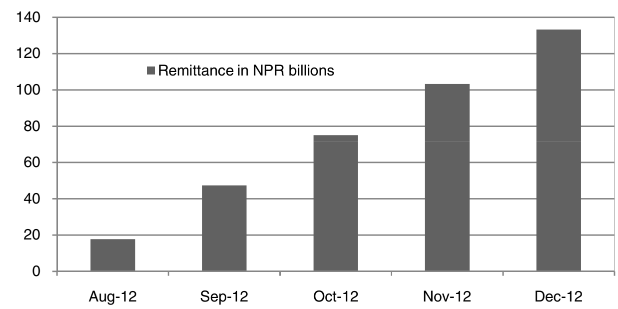
The existing environment for trade in Nepal is characterized by excessive red tape, unnecessarily complex document requirements, multiple visits to different agencies, and delays in processing. There are at least 11 government agencies and four private sector agencies that have a stake in Nepal's foreign trade. They are the Department of Customs, Inland Revenue Department, Department of Commerce, Nepal Rastra Bank, Plant Quarantine of the Department of Agriculture, Department of Archaeology, Department of Forest, Trade and Export Promotion Centre, Federation of Nepalese Chambers of Commerce—District Chambers, Federation of Nepal Handicraft Associations, Confederation of Nepalese Industries among others. In addition to these organizations, there are intermediaries such as customs brokers, freight forwarders, commercial banks, airlines, transporters and port authorities. It is estimated that cargo imported to Nepal passes through at least 38 contact points from the landing of a container in the Kolkata port till its repositioning in the same port.

A single window for customs is possibly the only solution. The third phase of the Department of Custom's Customs Reform and Modernization Action Plan 2009-2012 envisions establishing a single window for customs and a web-based clearance system within five years. Successful implementation of the single window system will require coordinated efforts by different government agencies, intermediaries and private organizations. However, it could dramatically improve the volume of trade to and from Nepal.

The high cost of economic non-cooperation in South Asia: According to a latest study of Consumer Unity & Trust Society (CUTS) International and The Asia Foundation, the lack of cooperation between South Asian countries is costing Nepali consumers USD 457.5 million (NPR 34.45 billion) every year.[52] The study shows Nepali consumers stand to benefit the most from Pakistan, saving approximately USD 255 million (NPR 17 billion) per year, if items like cement clinkers, portland cement and aviation spirit are removed from the sensitive list. If India were to remove items like aviation spirit and antibiotics from their sensitivity list, Nepalis consumers will benefit by at least USD 191 million (NPR 14 billion) per year. Removal of other items like textile and readymade garments from sensitivity lists in Bangladesh and Sri Lanka will benefit Nepalis by more than USD 11 million (NPR 828 million) per year. Consumers in the five major South Asian economies - Bangladesh, India, Nepal, Pakistan and Sri Lanka - stand to save approximately USD 2 billion (NPR 143 billion) per year if trade barriers in the form of sensitive lists are removed. Currently, the sensitive lists of five major South Asian economies contain around 20 percent of products produced by these countries. Of these, a total of 355 product categories have high intra-regional trade potential and high prospects of improving consumer welfare.

Exports account for 9.8% of GDP: In 2011, exports accounted for 9.8% of Nepal's national GDP, a significant drop from the 26% it contributed in 1997.[53] One reason for such poor export performance is the fact that Nepal's trade composition and destinations have not seen much change in the last 15 years. Unable to diversify its trade composition, Nepal is still heavily dependent on the Indian market for both exports and imports - approximately 67% of total exports go to India and 66% of total imports come from India. In 2011, the revenue generated from the total export of goods stood at NPR 10 billion (USD 133 million), just short of total petroleum imports. Nepal's ever increasing imports are financed by remittances, which were estimated around USD 3.9 billion (NPR 294 billion) in 2011, standing at over USD 2 billion (NPR 151 billion) more than the total export of goods and services.

Figure 7: Cumulative Remittance for the First Five Months of Fiscal Year 2011/12



Source: Nepal Rashtra Bank

REMITTANCE

Remittance inflows during the current fiscal have seen a steady rise. Inflow figures have increased from NPR 17.7 billion (USD 235 million) in the first month to NPR 133.19 billion (USD 1.77 billion) in the fifth month of the current fiscal year, averaging NPR 26.6 billion (USD 353.8 million) per month. The increased inflow has had a positive impact upon the liquidity position of banks, increasing deposits to NPR 56 billion (USD 743.79 million) in the first five months of the fiscal year. Nonetheless, lending only stood at NPR 21 billion (USD 278.92 million), for the same time period due to lack of fruitful areas to invest in.[57] Despite the increase in remittance, the inability of banks to utilize its new found liquidity position for productive purposes, diminishes its significance.

Dispute between Medical Test Centers affects migrant worker outflow: Following an attack in one of their offices in Teku, the Gulf Cooperation Council (GCC) approved Medical Centers Association (GAMCA) closed down all 12 medical centers from January 2, 2012.[58] Migrant workers are required to produce health certificates provided by such centers to acquire visas. Top hiring countries such as Qatar, Saudi Arabia, UAE, Bahrain, Kuwait and Oman accept certificates issued by GCC approved centers only. The shut down has adversely impacted the number of migrant workers leaving for gulf countries. Such exclusivity has also left other medical centers in Nepal with far less work, giving rise to a dispute between GAMCA and the Nepal Health Professional Federation (NHPF) which has 179 medical centers registered with them. Protests against the GAMCA hit new heights two months ago when Qatar started accepting GCC approved certificates only. The NHPF have been leading the protests, taking matters to the Supreme Court to question the legal status of the GCC approved centers.[59] To add to the troubled situation, the Nepal Association of Foreign Employment Agencies (NAFEA) has

THE BITTER TRUTH OF REMITTANCE

There is no doubt that remittance fuels our economy, contributing a significant chunk to the nation's GDP. In the year 2009, despite the global financial meltdown, the contribution of remittance towards GDP stood at 23%.[67] However, the perils that migrant workers face are mostly ignored and insufficiently addressed. Some of the major issues are highlighted below:

Table 4: Month wise Breakdown of Migrant Workers for FY 2011/12

Month	Male	Female	Total	% of Male	% of Female
July	37,562	1,131	38,693	97%	3%
August	25,758	531	26,289	98%	2%
September	21,723	602	22,325	97%	3%
October	32,659	463	33,122	99%	1%
November	31,834	957	32,791	97%	3%
December	30,779	804	31,583	97%	3%

Source: Department of Foreign Employment

Evils of recruitment agencies: When interviewed by Amnesty International, most migrant workers stated that they have been deceived by recruitment agencies in regard to the promised salary amount, the type of job offered, work hours, overtime pay and rest. They do not know they've been deceived as the contracts are in a foreign language. Sometimes, even if they get to know the terms of the contract, they are in too much debt due to the exorbitant fees charged by the recruitment agencies for which they take loans from private individuals at rates as high as 15% to 60%.[68] Loan from banks are not an option as they are not approved without collateral. Once in debt, they enter a vicious trap that they cannot escape.

Inability of the government: The government is largely to blame for the dire situation of migrant workers. As is the case in most sectors, acts and policies are in place, but implementation remains weak. For the regulation of migrant workers, the Foreign Employment Act was drafted in 2007 and clearly states that recruitment agencies must provide migrant workers with a written copy of their contract in Nepali in advance of traveling and must not charge migrants more than the government-imposed upper limit on service charges and promotional costs. Additionally, it states that recruitment agencies will be penalized if they conceal any facts in the contract or perform otherwise. Despite such rules, the government has not been able to implement it and bring about a certain level of decorum in the recruitment process. Additionally, when migrant workers face problems abroad, neither recruitment agencies nor the government is of much help to them.

Women Migrant Workers: Data suggests that only approximately 3% of migrant workers are women, however, the real number is much more. This is mainly due to bans on women seeking foreign employment and stringent laws against them. For instance, for women to gain permission for foreign employment, written permission from a family member is required. The government justifies this as protection against foul recruitment agencies, but this does more harm than good. The government does not communicate details even if bans are no longer functional. This forces women to go through illegal channels where they cannot secure their rights, leaving them more prone to be exploited.

Such is the dilemma faced by migrant workers. Various organizations like Amnesty International, UNIFEM etc, are advocating for their rights and the government must fulfill its duty and address the dreadful condition of workers abroad and act to remedy the situation.

advised recruitment agencies not to send Nepali workers to Saudi Arabia to protest against the medical test fee hike from NPR 3,200 (USD 42.5) to NPR 4,000 (USD 53.13).[60] NAFEA had requested GAMCA to take back the hike to no avail. According to Hansa Raj Wagle, Vice President of NAFEA, if the government fails to correct such a hike, NAFEA will be forced to stop sending migrant workers to Saudi Arabia thereby forcing GAMCA out of their job.

Nepali Workers stuck in company shut down: On two separate occasions, Nepali migrant workers were stranded in Saudi Arabia after losing their jobs and have sought government assistance. In the first instance, Nepali workers among others were forced out of their jobs when the owner of a steel fabrication firm fled after the firm went bankrupt.[61] The workers have been living in tiny workshops owned by the company since their salaries have not been paid and they cannot afford anything better. In the second case, 17 Nepali workers were fired from Al-Farsha Hospital and have been stranded for over two months.[62] The hospital has deprived them of the last five months of their salary and has failed to assist them with regards to the documents needed and plane tickets required to return to Nepal. The concerned recruitment agencies are being informed about such circumstances and are working to bring the migrant workers back to Nepal.

Demand supply mismatch for workers in Qatar: The demand for unskilled Nepali workers from Qatar has seen a steep rise as construction continues for the Football World Cup 2022. However, manpower agencies in Nepal are finding it difficult to meet their demands for unskilled labor due to reasons attributed to difficulties in obtaining machine readable passports and the complicated processes of sending workers abroad. Since most Nepali workers prefer working indoors, rather than doing construction work, they do not find the offer attractive. Therefore, to overcome the scarcity of unskilled labor, companies in Qatar are willing to pay airfare and visa fees to attract workers to Qatar.[63] However, if Nepal fails to supply the required number of workers, Qatar will look to obtain labor from Bangladesh.

400 Gurkhas laid off: In an attempt to restructure the British Army, 400 Gurkha soldiers are to be laid off from the brigade of Gurkhas.[64] The army will assist those laid off with a comprehensive program to settle into civilian life and also help them find jobs. The soldiers will be given one year's notice prior to the lay off. Downsizing the Gurkhas troops may have a negative impact on the remittance inflow to Nepal. However, if the ex-army men find jobs within the UK, remittance numbers should not be affected.

Government's efforts to open new countries for migrant workers: Taking into consideration the condition of housemaids in Gulf countries, the government is seeking to approach countries with better working conditions to send Nepali women to work. However, the government has not initiated any talks with Hong Kong to start taking in Nepali women, after it had imposed a ban five years ago. If the ban in Hong Kong is lifted, thousands of Nepali women can seek jobs in a safer work environment. In 2005, the number of Nepali housemaids in Hong Kong stood at 2300, there are only 488 left.[65]

Migrant workers deported for calling strike: More than 100 migrant workers in Qatar faced deportation after they went on strike to express their dissatisfaction with their current salary, which was lower than what was promised. The workers were kept at deportation centers guarded by Qatari policemen until the Immigration Department of Qatar arranged for air tickets to send them back to Nepal. According to Surya Nath Mishra, Nepal's ambassador to Qatar, since going on strike is a serious offence in Qatar, the embassy could not intervene and defend the migrant workers.

TELECOMMUNICATION AND MEDIA

Nepal has witnessed rapid growth in the telecommunication sector due to the contribution of both the public and private sector. The participation of private entities in the telecom sector is increasing rapidly and has given rise to enormous growth opportunities. Nepal also witnessed dramatic changes in the media sector after the restoration of democracy in 1990 as a result private participation in the sector. Liberal provisions and the guarantee of press freedom inculcated in the constitution opened up avenues for the private private sector's involvement in the media sector. The enactment of the Right to Information Act, Working Journalist Act the constitutional gurantee of the freedom of expression and a free press in the Interim Constitution have been remarkable achievements for ensuring Nepali press freedom.

A new media policy: A New Media Policy 2012 has been drafted by the Ministry of Information and Communication (MOIC). The policy has been prepared by a committee headed by the MOIC joint secretary under a project funded by Japan International Co-operation Agency (JICA). The new policy has been drafted with the aim of structuring Radio Nepal as a public service broadcasting station and the revision of tmedia policies, acts, regulations and guidelines. However, stakeholders such as the Federation of Nepali Journalists (FNJ), Nepal Press Union, Press Chautari, Revolutionary Journalists Association, TV Editor's Association, and Community Radio Broadcasting Association have lashed out at the new policy saying the procedure used for drafting the policy was faulty.

Highlights of the Media Policy 2012

- Involve the private sector in the management of Gorkhapatra Corporation to increase investment in the corporation and to transform it into a modern media house with government support to utilize new technology and restructure the corporation.
- Improve Nepali languages and modern technology in the media

NEPAL TELECOM'S MONOPOLISTIC PRACTICES

Monopolistic practices still exist in the telecommunication sector. The state owned enterprise, Nepal Telecom, holds a majority share in the market and is taking full advantage of its dominant position. This is indicated in the sharing of the 'Public Switched Telephone Network' (PSTN i.e. fixed landline) for providing ADSL internet. As per the direction of Nepal Telecommunication Authority (NTA) on February 20th 2008, NTC was to extend ADSL internet services to private service providers at mutually agreed rates within 30 days of issuing this notice. However, even after 3 years, NTC has not adhered to the directives of the NTA. The private sector tried to enforce this directives but instead, NTA imposed a fine of NPR 25,000 (USD 332) on NTC. Currently, NTC provide ADSL internet services at expensive rates and has virtually barred anyone else from entering the market.

Another instance of monopolistic practice by NTC that needs consideration is the portability of mobile numbers i.e. freedom to freely switch between operators without changing the number. Rules and regulations of NTA regarding 'Voice Over Internet Protocol', popularly known as VOIP, is ironic. While calls incoming from foreign countries are allowed to be routed through VOIP, the same is not allowed for outgoing calls without specific approval from the government. People are forced to use expensive modes of communication benefitting the telecom companies when there are cheaper alternatives available. Unfair competition in this sector has forced new investors and enthusiasts to take a back seat. As a result, the sector is lagging behind the rest of the world.

Table 5: Market Share of telecom service providers

Telecom Service Provider	Subscribers	Market Share %
Nepal Telecom	7,269,105	48.35
UTL	591,511	3.93
Ncell	6,851,561	45.57
STM	5,263	0.04
Nepal Satellite Telecom	111,905	0.74
Smart	203,040	1.35
Others	1,742	0.01
Total Subscribers	**15,034,127**	

Source: Nepal Telecommunication Authority MIS report mid November – mid December 2011

sector of Nepal.

- Ensure the people's right to information and communication and promote media education across the nation.
- Independent Training Council, High Level Independent Media Commission, and respectful salary for working journalists to promote the media sector.[69]

Telecom subscriber base hits 15.03 million: Nepal Telecommunication Authority reported that 279,610 new subscribers were added by telecom service providers between mid-November to mid-December, 2011. Currently the tele-density of the country stands at 56.46% which means a telecom subscriber base of 15.03 million subscribers. There was also a marginal growth of internet subscribers from 3.75 million to 3.87 million between mid-November to mid-December 2011. The internet penetration rate of the country stands at 14.55%.[70]

Telecom revenue: Ncell the largest mobile service provider, in terms of subscriber base, surpassed the 7 million mark in January 2012. It is projected that in a couple of years, Ncell is likely to overtake Nepal telecom, the state owned telecom, as the largest revenue earner as well. NTA statistics

Table 6: Telecom operators income in the last three years in NPR

Operators	2010-11	2009-10	2008-09
Nepal Telecom	26.40 billion	25.05 billion	20.48 billion
Ncell	17.53 billion	7.89 billion	5.66 billion
UTL	1.16 billion	1.22 billion	765.14 million
STM Telecom	122.6 million	164.9 million	295.71 million
Nepal Satellite	75 million	32.52 million	–
Smart telecom	59.09 million	0.56 million	–

show that total income in the telecom sector grew by 31.98%. It is believed that six telecom operators added 4.23 million new subscribers during the last fiscal year. In all, the six operators paid NPR 1.81 billion (USD 24.04 million) in royalties to the government over the last fiscal year. Further, as per the telecom law, operators have contributed NPR 907.30 million (USD 12.05 million) to the Rural Telecommunication Development Fund.[71]

Delay in convergent billing system: Nepal Telecom's (NT) plans to start convergent billing system from 2012 have hit the rocks after Asia Info, a Singaporean IT company failed to supply software and equipment for the system. As per the agreement, the system was to be delivered within six months from signing the agreement. After eight months, Asia Info has failed to honor the contract and NT has decided to send a letter to Asia Info with a final deadline of 15 days to clarify their inability to honor the contract. Further NT has threatened to forfeit the lock-up money of NPR 750,000 (USD 9,961) as well as black list the company. The total cost of the project was estimated to be NPR 2 billion (USD 26.6 million). Convergent billing enables customers to make payment for their internet, mobile and land lines through a single bill from any counter, freeing the customer from the hassle of visiting different offices and counters to pay bills.[72]

Indecisiveness delay optical fiber plan: Nepal Electricity Authority's (NEA) indecision has prevented Nepal Telecom from expanding the optical fiber network. NEA had assured NT that it would make a 3,000 km route for stringing optical fiber cables on its transmission lines. However, it has only made a 500 km route available so far. NT is working on extending its lines on the 500 km long route. The use of NEA's transmission lines for expanding NT's fibre cable network will be economic and easier than laying underground cables. NT is plans to connect the district headquarters of Surkhet, Kusma, Baglung, Gaighat, Dhankuta and Myanglung this year.[73] It has already completed installing 240 km of optical fiber cable connecting 25 districts and aims to lay another 400 km of fiber cable in the current fiscal year in different parts of the country.

Nepal Telecommunication Authority puts pressure on United Telecom Limited: On January 3, 2012 it was reported that United Telecom Limited (UTL) had royalty dues worth NPR 952.16 million (USD 12.6 million) including NPR 56.16 million[74] (USD 745,915) for limited mobility and data services to Nepal Telecommunication Authority (NTA). NTA had decided to close UTL's basic telecom services including international, STD and local calls and lease line services. UTL in its defense had approached the Appellate Committee of Ministry of Information and Communication to cancel NTA's decision of scrapping its license. However the Appellate Committee decided in favor of NTA and directed it to clear dues owed to NTA. UTL's outstanding royalty currently stands at NPR 1.22 billion (USD 16.2 million).[75]

Government lose billions in revenue: The Public Accounts Committee (PAC) Frequency Allocation Investigation Sub-committee's report has revealed that the government decision to provide 3G frequencies to leading GSM mobile operators without going through an auction process caused a revenue loss of NPR 7 to 10 billion (USD 92.9 to 132.8 million). NT and Ncell were allotted 3G frequency, while 2G frequencies were allotted to non-GSM mobile service operators in a random manner without consulting the Radio Frequency Policy Determination Committee.

TOURISM

Nepal Tourism Year (NTY) 2011 brought new hope to the tourism industry. The country welcomed 544,985 visitors (Jan-Dec) by air in 2011, a 21.4% increase from the previous year. With 190,980 visitors arriving by land, a total of 735,965 tourists visited Nepal in 2011. The country was thus able to meet almost 74% of the target of one million tourists set by Nepal Tourism Year (NTY) 2011.

Tourists from India and China account for the biggest share: Tourists from South Asian Association for Regional Cooperation (SAARC) nations accounted for the highest proportion of tourists in 2011. Among the SAARC nations, Indian tourists saw the largest increase by 39.1% to 145,338 arrivals. Tourist arrivals from China grew at an even faster rate with the number of arrivals from China growing by almost 107.7% in December alone to reach 5,156 arrivals. However, the number of tourists from Bangladesh dropped 11% from 20,223 to 17,992 in 2011.

Number of tourist arrivals by land increases: A total of 190,980 tourists visited the country by land in 2011. According to the Ministry of Tourism

IMMEDIATE ACTION PLAN FOR THE TOURISM SECTOR

As the Nepal tourism year 2011 did not achieve its targets, the Government of Nepal is set to implement the Immediate Action Plan (IAP). The action plan intends:

- To buy two aircrafts for the Nepal Airlines Corporation.
- To convert unsold housing apartments into hotel rooms and add up to 10,000 new hotel rooms.
- To establish 17 tourism zones in Nepal, out of which six will be established as integrated tourism service centers.
- To inject 25% of income generated from tourism into local infrastructure development.
- To create 50,000 jobs in the tourism sector.
- To open the bidding process for the construction of the second international airport under a Build, Operate, Own and Transfer (BOOT) concept.
- To establish direct air routes with five major cities in the Middle Asia, South East Asia, China and South Asia.
- To provide income tax discounts to five star and three star hotel makers (three, five star hotels in Bhaktapur, Janakpur and Lumbini and three, three star hotel at Khaptad, Rara and Dhorpatan).
- To provide tax discounts to the company establishing a cable car service for Pathibhara temple in Taplejung and for Swargadwari in Pyuthan.
- To enhance home stay facilities in village areas to attract tourists.
- To re-introduce Lumbini, Pashupatinath and Janakpurdham as traditional tourism sites to meet the target of welcoming two hundred thousand tourists.

and Aviation, 129,427 tourists entered Nepal through the Bhairahawa border while only 44 tourists came in from the Dhanghadi Border. Sri Lankan tourists accounted for the largest number of tourists arriving by land, accounting for around 30.28% of total land tourist arrivals. Although the government's target of welcoming 300,000 tourists by land for the 2011 tourism year could not be achieved, tourist arrival by land increased by 24% compared to the previous year.[76]

Two tourism crisis management units formed: The Nepal Tourism Board (NTB) has decided to set up two tourism crisis management units in Chitwan and Bhairahawa to assist and coordinate tourists outside Kathmandu Valley during times of crisis.[77] According to NTB, the crisis management units will be coordinated by the Regional Hotel Association in Chitwan and Siddhartha Association of Travel Agents in Bhairahawa.

The U.S. Department of State cancels travel warning for Nepal: The U.S government canceled the travel warning on

Table 7: Total number of tourist arrivals by air

Country of Nationality	December		% Change	% Share '11 December	Total (Jan–December)		% Change	% Share '11 Jan-December
	2010	2011			2010	2011		
ASIA (SAARC)	13,166	14,914	13.3%	34.1%	130,795	170,145	30.1%	31.2%
ASIA (OTHER)	9,271	12,192	31.5%	27.9%	83,396	110,280	32.2%	20.2%
EUROPE	6,745	8,206	21.7%	18.8%	138,724	154,287	11.2%	28.3%
OCEANIA	1,656	1,840	11.1%	4.2%	16,660	18,754	12.6%	3.4%
AMERICAS	2,749	3,396	23.5%	7.8%	42,167	47,892	13.6%	8.8%
OTHERS	2,736	3,173	16.0%	7.3%	37,027	43,627	17.8%	8.0%
Total	36,323	43,721	20.4%	100.0%	448,769	544,985	21.4%	100.0%

Source: Immigration Office, TIA compiled by Nepal Tourism Board

Nepal in recognition of the improved security condition in Nepal.[78] The travel warning had been in place since it was issued by the U.S government during the time of the Maoist insurgency.

Significant growth in the beginning of 2012: Tourist arrivals by air grew by 27.7% to 42,031 in January as compared to the same month the previous year. Visitor arrivals from China also significantly increased by 107% to 6,631, making up nearly 16% of the total arrivals for the month.[79] Total arrivals from India stood at 10,216, recording a growth of 24.3% compared to the same month last year.

Table 8: Land arrivals from various border areas of Nepal in the Year 2011

S.N	Nepal Border Areas	Total number of arrivals in 2011
1	Bhairahawa	129,427
2	Kodari	53,536
3	Kakadbhitta	5,049
4	Kanchanpur	1,628
5	Birgunj	1,024
6	Nepalgunj	271
7	Dhangadhi	44

Visit Lumbini Year 2012: With the completion of NTY 2011, the Government of Nepal announced 2012 as Visit Lumbini Year. Around 628,000 people visited Lumbini in 2011. As a pilgrimage spot for Buddhist from around the world, the number of tourists visiting Lumbini is growing at a fast rate. A target of 500,000 tourists visiting Lumbini in 2012 has been set by the government for the campaign. Along with Visit Lumbini Year, the NTB announced its Tourism Vision 2020, where it has set itself the goal of increasing annual international tourists to two million by 2020 and to increase employment in the tourism sector to one million.[80] With a vision to promote peace through the birthplace of Lord Buddha, the government is planning to develop and expand infrastructure in the Lumbini area. It is preparing to develop a trekking trail linking Lumbini to the Himalayan district of Manang, covering 6 districts over 17 days.

“ macroeconomic OUTLOOK

The political uncertainty in Nepal brought about by an instable political system, a drawn out constitution writing process and a staggering peace process has had a significant impact upon economic growth. The cost of investing in Nepal is high due to the risks posed by weak government, insecurity, a lack of faith in the judicial system and persist labor problems. The best way to revitalize the economy will be to conclude the peace process and the constitution writing within the stipulated time frame.

The Government of Nepal continues to be heavily dependent upon the foreign aid it receives through bilateral and multilateral channels. This aid remains critical for the implementation of various programs, most of which have the stated objective of either reducing poverty and unemployment. Foreign aid also continues to support a variety of programs related to climate change, earthquake preparedness, agriculture, nutrition, health, tourism, and bears the cost of the peace process. This aid is unlikely to stop, however, Nepal could lose out on securing potential aid if it is blacklisted by FATF for being unable to pass its anti-money laundering bills.

Over the last year, the agriculture sector has gradually begun to feature as a major investment area for both foreign aid and the private sector. This is a good sign in an economy where the majority of its work force is engaged in agriculture. Sound investments in agriculture could have a dramatic impact upon economic growth and could directly benefit some of the poorest people in the country. Appropriate investments in the agriculture sector that focus on ensuring benefits are appropriately shared with farmers could revolutionize the entire sector and be an engine for future growth.

This year, paddy output is expected to reach an all time high thanks to the favorable monsoons in FY 2011/12. This shows that Nepal is still dependent on favorable weather conditions for agricultural output, this can might be mitigated if adequate irrigation infrastructures were put in place. The agriculture sector is back in the priority list of donors after having faded from their radar for a number of years and it would be interesting to see how investments in the agriculture sector is encouraged through these projects.

Economic growth is being hampered by the inefficiency of the energy sector. The two state owned monopolies of Nepal NEA and NOC are both loss making units with losses running into billions of rupees. This is the primary reason for the scarcity of fuel and electricity in Nepal. However, the scarcity can also be attributed to the inefficiency of the government to handle shortages. For instance, even at times of crisis, the Thankot Depot will be shut during public holidays. Additionally, there is no formal regulation in place to check the distribution of LPG cylinders. Bottling plants and dealers continue to hoard for personal interests and add to the piling shortage. A temporary solution is to provide loans and write off the losses of NEA and NOC, but the problem will heighten when these loans cannot be repaid. Unless the government comes up with a long term plan to reduce scarcity and address the mounting losses, the current situation cannot be reversed.

Despite various challenges including budget cuts and the poor coverage of health programs, the overall health situation in the country seems to be improving. The World Bank’s health assessment indicates that even though Gross National Income (GNI) in Nepal is three times lower than India, Nepal’s health indicators are better than that of India in contrast to the situation a few decades ago when Nepal lagged behind on all development indicator. Despite Bangladesh outpacing Nepal in most categories, Nepal appears to have improved the most in South Asia. The only area where Nepal lags behind is in regard to the maternal mortality ratio, which remains the highest in the region.

Along with improved awareness on health and nutritional issues, awareness among parents of the need to provide quality education to their children has risen in a faster pace. As a result, they are willing to invest a significant amount of money on the education of their children. Even policy makers have recognized the need to improve school infrastructure and have taken initiatives towards improving it. However, despite a huge budget for public schools in Nepal, they have not been able to deliver quality education. This has resulted in students from government schools performing below average whereas, private school students tend to improve at a faster pace. The overall improvement in the quality of education is of major concern to the entire nation.

The government should focus on developing the necessary tools and mechanisms for improving the quality and attractiveness of educational institutions, revamping the curriculum and introducing progressive teaching methodologies. It needs to develop the concept of lifelong learning rather than basic literacy and should develop a policy to retain its best students so as to compete in the global environment.

Producing skilled labor will also have a direct impact upon the volume of remittance Nepali workers are able to send back. For now, the amount of remittance inflow is directly proportional to the strength of the dollar. The past few months saw the dollar strengthen against the Nepali rupee. Since then, despite a fall in the exchange rate between the two currencies, remittance is not likely to decrease as it is picking up pace as the year progresses. However illegal migration is on the rise and mostly results in situations where remittance money does not come through proper channels. Therefore, in order for remittance numbers to reflect the true picture, illegal migration must be checked.

Currently, Nepal's mobile penetration rate stands at 50.16% which means that there is one mobile phone connection for every two Nepalis. Mobile subscriber numbers having increased five-folds in just four years.. However, fixed line growth in Nepal is slow and there is little sign that this segment of the market is picking up. The challenge for the fixed market is not just to increase the lowly 3.17% fixed-line penetration, but to continue the expansion program into the underserved rural areas. The installation of WLL services has certainly provided a boost to the fixed market, by 2012 this technology platform supported around 50% of all fixed-line services.

After being sluggish for years, the internet segment of the market finally started to move in 2010, user penetration jumped quickly in that year to surge to around 9% and in mid-December 2011 the internet penetration rate was 14.55%. As for broadband internet connection, subscriptions remains low, consistent with the low penetration of the internet market. However, broadband connections represented around 75% of all internet connections by 2011. The telecommunication sector in Nepal holds the potential for considerable future growth. It is important that the government acts as a proper regulator and ensures that these services are available throughout the nation and is accessible for everyone.

The Nepal Tourism Year 2011 campaign was able to send a positive message to the international market and sell Nepal as a safe place to visit. It was also able to show the potential and opportunities in the tourism sector. As Nepal is celebrating 2012 as Visit Lumbini Year, Nepal´s effort to attract tourists will continue. The credit for the increase in tourist arrivals in 2011 cannot be credited to NTY alone as they were unable to significantly carry out promotional activities in the international market before starting of the campaign. This was largely due to the delay in the releasing the promotional budget. International publicity began late but its impact is expected to be fruitful for the country in the current year 2012.

Growth in the tourism will benefit many businesses including hotels, tour operators, and airlines. Hoteliers have started investing in new properties in anticipation of continued growth. The tourism sector has the potential to be a major industry in Nepal and has the potential to propel infrastructure development, create jobs and earn foreign currency. However, potential bottlenecks have to be immediately addressed. There are not enough airlines and aircrafts flying into the nation, rural areas have not been effectively marketed and promotional activities have not had their desired impact. It is imperative for the Nepal government address these issues to ensure that the tourism sector continues to grow.

REVIEW

Financial & Capital Market REVIEW

As expected, the second quarter results of Bank and Financial Institutions (BFI) did not look too promising. The higher cost of funds, higher default rates in real estate, and limited avenues for productive investment are the primary reasons for declining BFI profitability. Despite the ease in liquidity, credit flows have remained sluggish and although BFIs have started to slash deposit rates, they have been unwilling to reduce lending rates on corporate loans.

DEPOSIT & CREDIT MOBILIZATION

Based on the first six months data of the current fiscal year published by Nepal Rastra Bank (NRB), broad money (M2) increased by 10.2% as compared to a growth of 3% during the same period last year. Similarly, deposit mobilization of BFIs increased by 10.4% amounting to NPR 73.77 billion (USD 979.82million) compared to a 3.7%, NPR 26.64 billion (USD 353.83 million), increase during the same period last year. The deposit mobilization of commercial banks, development banks, and finance companies increased by 11.4%, 11.6%, and 1.7% respectively.

BFI loans and advances increased by 6.5% amounting to NPR 55.25 billion (USD 733.82 million) compared to an increase of 8.6%, NPR 63.75 billion (USD 846.72 million), during the same period last year. The loans and advances of commercial banks and development banks increased by 7.8% and 7% respectively while finance companies saw its loans and advances decline by 0.4% as they struggled to maintain the mandatory Credit to Deposit (CD) ratio below 80%. Meanwhile, credit to the private sector from BFIs increased by 4.6 %, NPR 33.11 billion (USD 439.76 million), as compared to a growth of 9.9%, NPR 60.33 billion (USD 801.30 million), during the same period last year, indicating a decline in credit demand from the private sector.

BLACKLISTING RISK

The Financial Action Task Force (FATF), a global anti-money laundering body, has warned Nepal that it is under risk of being blacklisted. Nepal has failed to develop anti-money laundering laws within its stipulated timeframe. During the meeting, the Nepali delegation cited the delay was due to the government's focus on the ongoing peace process and the drafting of a new constitution.

The parliament has already ratified two UN Conventions, the International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime. However, due to political wrangling, the Mutual Legal Assistance Bill and the Extradition Bill are awaiting parliamentary approval while the draft for the Anti-Organized Crime Act is under discussion in the cabinet.

Due to international lobbying, Nepal sought a two-month extension to pass the pending bills during the FATF plenary meeting held in Paris from February 13, 2012. However, meeting the commitments within two months seems unlikely due to political disagreements. If blacklisted, Nepal's financial credibility in the global arena will further deteriorate. Nepal risks facing serious financial implications as FATF has warned its member nations to take strict measures against blacklisted nations.

LENDING IN AGRICULTURAL AND ENERGY SECTOR

In a bid to enhance investments in productive sectors and to diversify the loan portfolios of banks, the NRB's latest directive has made it mandatory for A-class commercial banks to make 10% of their total lending to the agriculture and energy sector. If commercial banks have less than 10% loan exposure in these sectors, the central bank has directed them to increase lending to the stipulated level by the end of the 2013/14 fiscal year by increasing loans to these sectors by 2% annually. According to the unified directive issued by the central bank, the agriculture sector includes, agriculture and forests, crop and crop services, tea and coffee, tobacco, jute, animal husbandry, livestock, livestock services, irrigation, other agriculture and agro-services. Whereas, the energy sector includes, energy, hydropower, renewal energy, other electricity services, gas and pipeline services, and water.

STRESS TESTING

In a positive development, the central bank has directed A-class commercial banks to conduct stress tests on a regular basis and has issued the necessary guidelines to conduct them. Stress testing is a forward-looking quantitative risk management tool which overcomes the limitations of historical data analysis. It can alert the bank's management to the development of adverse situations related to several risks. It also provides an indication of how much capital is needed to absorb losses and minimum liquidity requirements during such situations.

COMMERCIAL BANKS PERFORMANCE ANALYSIS

The second quarter results of commercial banks showcases the impact of the realty sector. Of the 32 commercial banks, including the recently upgraded Sanima Bank, compared to the same quarter the previous fiscal year, 29 banks saw their operating profits decline and 24 banks saw their net profits decline. The operating profit margin of commercial banks has declined by 34.65% whereas the net profit margin has declined by 25.37% compared to same quarter of the previous fiscal year.

With the ease in liquidity, yield on short term money market instruments have also seen a nose dive. The yield on 28 days treasury bill has plummeted to as low as 0.1549% whereas 91 days treasury bill and one year treasury bills are yielding 0.55% and 2.20% respectively.

The decline in short term money market rates is expected to further decrease the earnings of BFI's as they will have to park their excess liquidity in lower yielding instruments. Likewise, the weighted average inter-bank rate during the period has dropped to around 0.63%. The average Non-Performing Assets (NPA) of commercial banks saw an increase to 3.09% as compared to 2.94% at the end of first quarter of the current fiscal year. The average costs of funds of commercial banks decreased to 8.50% from 8.71%.

Table 9: Short term money market rates

S.no.	Short Term Interest Rates	Rate	Effective Date
1	**Weighted Average Treasury Bills**		
	28-Days	0.1549	07 Feb, 2012
	91-Days	0.5502	07 Feb, 2012
	182-Days	2.2073	10 Jan, 2012
	364-Days	3.1235	10 Jan, 2011
2	**Weighted Average Interbank**	0.6345	12 Feb, 2012

Source: NRB

PERFORMANCE ANALYSIS OF CAPITAL MARKETS

The secondary market continued its downward spiral and showed no signs of a reversal even amid positive developments at the end of the seventh month of the current fiscal year. The Nepal Stock Exchange (NEPSE) index (-14.0%) has already lost 50.76 points since the beginning of the fiscal year as the benchmark index closed on 311.76 points on mid-February 2012.

During the first seven months of the current fiscal year, besides the Others sector, all the remaining sub-sectors shed value. The 'Others' sector went up by 19.97 points (+4.05%) to close at 512.28 points. The hydropower sector was the biggest loser as it lost 149.20 points (-22.59%) to close at 511.18 points. The commercial banking sector followed suit as it shed 71.99 points (-21.90%) to close at 256.72 points. Likewise, the development banking sector went down by 47.55 points (-16.16%) to close at 246.60 points,

Figure 8: NEPSE index performance (first seven months of the FY 2011/12)

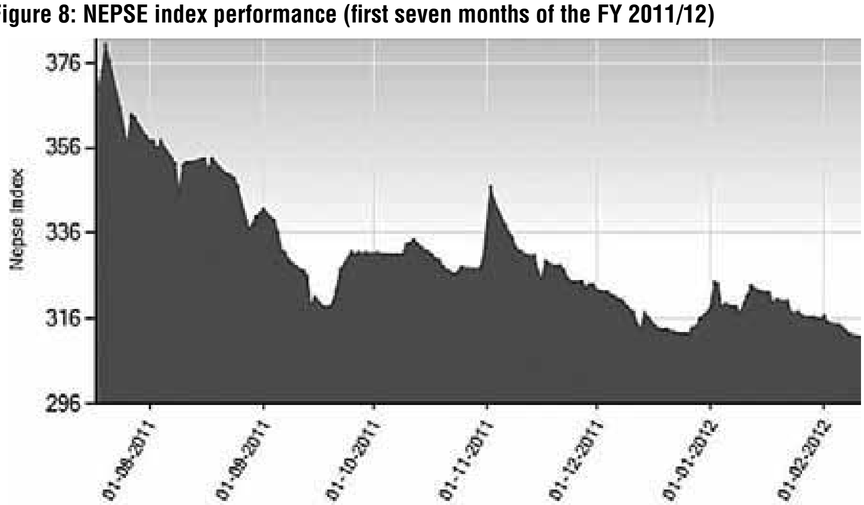


Table 10: Financial Highlights of Commercial Banks-unaudited as of 1st qtr for the FY 2011/12 (In NPR 10 millions)

FINANCIAL HIGHLIGHTS OF COMMERCIAL BANKS (UNAUDITED), AS ON 2ND QUARTER (MID-JANUARY), FY 2011/12 (FIGURES IN NPR 100 MILLIONS)																			
			DEPOSIT			LOANS AND ADVANCES			OPERATING PROFIT			NET PROFIT			NPL (%)		COST OF FUND (LCY)		
	Bank	Paid up Capital	FY 11/12	FY 11/12	% Change	FY 11/12	FY 11/12	% Change	FY 10/11	FY 11/12	% Change	FY 10/11	FY 11/12	% Change	FY 11/12	FY 11/12	FY 11/12	FY 11/12	Change
			1 QTR	2 QTR		1 QTR	2 QTR		2 QTR	2 QTR		2 QTR	2 QTR		1 QTR	2 QTR	1 QTR	2 QTR	
1	Nabil Bank	203.0	5,414.2	5,561.9	2.66	4,035.1	4,161.6	3.14	101.5	99.6	-1.89	65.9	66.5	0.91	2.83	3.33	7.06	6.78	-0.28
2	Nepal Investment	301.1	5,159.9	5,235.5	1.44	4,254.6	4,125 4	-3.04	99.8	48.6	-51.29	65.2	47.9	-26.53	1.03	2.11	8.60	8.10	-0.50
3	Standard Chartered	161.0	4,070.5	3,770.9	-7.95	1,863.8	1,912.3	2.61	79.1	80.6	1.95	52.8	55.5	5.17	0.75	1.06	3.51	3.58	0.07
4	Himalayan Bank	240.0	4,451.6	4,579.3	2.79	3,444.2	3,505.5	1.78	67.6	53.0	-21.61	43.5	34.0	-21.88	4.74	4.50	7.82	7.51	-0.31
5	Nepal SBI Bank	210.3	4,611.2	5,075.4	9.15	2,111.8	2,283.1	8.11	28.7	28.9	0.63	20.2	20.5	1.24	1.59	1.18	5.42	5.36	-0.06
6	Nepal Bangladesh	200.1	1,218.9	1,293.3	5.75	1,060.1	1,074.5	1.36	23.4	-2.2	-109.26	28.5	10.3	-63.94	18.62	18.58	7.88	7.92	0.04
7	Everest Bank	139.2	4,395.6	4,506.6	2.46	3,269.0	3,626.9	10.95	67.4	76.3	13.28	43.0	48.7	13.31	0.37	0.37	7.36	7.10	-0.26
8	Bank of Kathmandu	160.4	2,216.2	2,322.0	4.56	1,840.4	1,915.3	4.07	46.5	40.6	-12.71	31.2	27.0	-13.31	1.94	1.83	7.80	7.41	-0.39
9	NCC Bank	140.0	1,154.5	1,301.7	11.31	911.4	982.1	7.76	11.7	8.1	-30.68	9.2	7.4	-19.39	4.11	4.39	9.28	8.66	-0.62
10	NIC Bank	131.2	1,909.5	1,941.5	1.65	1,439.2	1,500.4	4.25	37.7	24.3	-35.44	24.8	15.5	-37.49	1.40	1.51	9.57	9.38	-0.19
11	Lumbini Bank	143.0	703.2	700.7	-0.36	679.1	663.6	-2.27	17.1	6.2	-63.97	21.2	5.6	-73.45	1.87	1.60	9.97	9.72	-0.25
12	Machhapuchchhre	162.7	1,659.7	1,734.7	4.33	1,383.0	1,377.4	-0.41	0.4	-5.3	-1,412.50	0.3	0.6	67.65	4.14	4.19	9.32	9.38	0.06
13	Kumari Bank	160.4	1,800.7	2,009.1	10.37	1,556.9	1,621.1	4.12	15.2	3.9	-74.14	11.2	2.5	-77.61	2.20	4.04	8.83	8.78	-0.05
14	Laxmi Bank	169.4	1,880.7	1,973.7	4.71	1,579.6	1,632.5	3.35	29.6	27.0	-8.81	19.2	17.7	-7.77	1.01	1.26	9.00	8.92	-0.08
15	Siddhartha Bank	161.8	2,142.9	2,321.1	7.67	1,809.7	1,911.8	5.64	22.0	14.6	-33.33	14.0	9.3	-33.36	1.80	1.79	9.99	9.48	-0.51
16	Global Bank	160.0	1,632.4	1,749.8	6.71	,344.2	1,485.8	10.53	20.8	16.2	-22.37	13.2	10.5	-20.77	3.23	2.89	9.17	9.14	-0.03
17	Citizens Bank	210.2	1,517.4	1,558.8	2.66	1,210.3	1,261.6	4.24	16.7	3.4	-79.57	11.0	7.2	-34.54	3.06	2.89	9.56	9.40	-0.16
18	Prime Commercial	224.6	2,018.7	2,115.5	4.58	1,734.4	1,850.1	6.68	27.5	10.3	-62.55	17.5	7.0	-59.74	0.77	1.12	10.56	10.10	-0.46
19	Bank of Asia Nepal	200.0	1,432.4	1,429.7	-0.19	1,202.5	1,194.5	-0.67	19.3	18.1	-6.46	12.3	11.6	-5.77	1.24	1.77	10.60	10.53	-0.07
20	Sunrise Bank	201.5	1,552.4	1,644.6	5.60	1,244.6	1,312.7	5.47	9.6	-3.1	-132.37	6.1	3.9	-37.30	3.80	3.81	9.99	9.54	-0.45
21	DCBL Bank	200.0	991.9	1,174.0	15.51	934.8	968.5	3.61	13.4	10.4	-22.09	8.5	10.0	17.84	1.69	1.63	9.52	9.05	-0.47
22	NMB Bank	200.0	1,346.1	1,413.1	4.74	1,143.0	1,199.9	4.98	17.0	6.5	-61.83	12.0	5.5	-54.45	0.71	2.70	10.79	9.37	-1.42
23	KIST Bank	200.0	1,766.8	1,822.1	3.03	1,325.6	1,365.7	3.03	12.7	0.4	-97.16	8.3	0.2	-97.22	1.62	3.54	9.55	9.39	-0.16
24	Janata Bank	140.0	443.7	604.6	26.61	442.6	582.2	31.54	2.2	-0.7	-131.48	1.4	-0.7	-149.26	0.00	0.00	10.11	9.84	-0.27
25	Mega Bank	163.1	692.5	828.8	16.44	656.2	765.6	16.68	0.7	-3.9	-696.92	0.4	-3.8	-1,034.15	0.88	1.45	9.69	9.79	0.10
26	Commerz & Trust	140.0	354.4	410.5	13.66	340.9	403.8	18.46	1.1	0.2	-84.68	0.7	0.1	-85.71	0.00	0.00	10.33	9.54	-0.79
27	Civil Bank	120.0	423.8	606.2	30.10	408.2	528.9	29.56	-1.4	-0.3	-78.26	0.9	-0.3	-132.97	0.00	0.00	10.85	11.47	0.62
28	Century Bank	108.0	85.9	237.2	21.64	176.7	190.5	7.79	NA	-1.5	NA	NA	-1.5	NA	0.00	0.00	11.13	10.95	-0.18
29	Sanima Bank	201.6	684.4	732.4	6.56	621.0	676.6	8.95	6.8	9.3	36.36	4.3	5.9	36.18	0.97	0.63	10.08	9.61	-0.47
Public Sector Banks																			
30	Nepal Bank	38.0	4,669.0	4,870.9	4.14	2,635.5	2,745.7	4.18	42.6	-2.7	-106.29	37.9	1.1	-97.07	5.29	5.17	4.43	5.24	0.81
31	Rastriya Banijya	117.2	7,203.5	7,531.4	4.35	3,538.8	3,646.4	3.04	64.9	1.10	-98.30	86.5	55.3	-36.04	11.46	10.85	5.03	4.90	-0.13
32	Agriculture Dev.	947.4	3,481.1	3,794.8	8.27	3,640.9	3,476.7	-4.51	-36.6	-2.8	-92.43	65.5	68.8	5.08	11.05	8.83	5.86	6.12	0.26
		6,255.1	**73,185.5**	**76,851.7**	**5.01**	**53,837.9**	**55,948.8**	**3.92**	**865.0**	**565.3**	**-34.65**	**736.7**	**549.8**	**-25.37**	**2.94**	**3.09**	**8.71**	**8.50**	**-0.21**

and the finance sector decreased by 42.20 points (-13.96%) to close at 260.09 points, the insurance sector declined marginally, losing 1.9 points (-0.46%) to close at 408.91 points.

NEW DEVELOPMENTS

The Securities Board of Nepal (SEBON) has opened the registration process to take on the role of a Depositary Participant (DP) for the Central Depositary System and Clearing Limited (CDSC). Some merchant bankers have already submitted applications, however, stock brokers are in the process of negotiating with the regulator for their eligibility to operate as a DP.

In a bid to revamp the capital market, the High Level Financial Sector Coordination Committee (HLFCC) meeting headed by Finance Minister decided to increase the threshold for mandatory income disclosure on a single day share investment for a particular investor from the existing NPR 1 million to NPR 10 million (USD 13,282 to USD 132,820). Likewise, the meeting also decided to enforce the Central Depositary System (CDS) by January 15, introduce full automation at NEPSE by April 13, and complete the necessary study required for it by mid-February. Similarly, the meeting also decided to implement measures to bring down the cost of share transactions and decentralize the role of NEPSE to the regional level by Mid-April, while conducting public awareness campaigns on investing in capital markets. NEPSE and Korea Exchange (KRX), a South Korean stock exchange, also signed an agreement to develop the Nepali capital market. With the agreement, NEPSE is expected to benefit from the KRX expertise on securities market management.

OUTLOOK

Despite positive macroeconomic indicators such as a positive Balance of Payments, a declining trend in inflation and economic growth in the current fiscal year, BFIs earnings have continued to deteriorate. Banks are sitting on a higher cost of fund with limited avenues for productive lending amidst a diminishing real estate and capital market. The lending rates on consumer loans have not seen any decline and BFIs profitability is expected to further decline in the coming quarter.

To stabilize the banking environment, the NRB is following its stringent regulatory role. It has decided to initiate the process of liquidating the troubled United Development Bank, if liquidated, it will be the third financial institution in the country after Nepal Development Bank and Samjhana Finance to be closed. It has declared Nepal Share Market & Finance a troubled company and is seeking a detailed plan from the troubled Gorkha Development Bank which has failed to implement corrective measures. The NRB is also seeking clarification from four finance companies who have failed to maintain the Capital Adequacy Ratio. It is taking Prompt Corrective Action (PCA) against one of these companies, Arun Finance, as its clarification was not satisfactory.

In order to revitalize the realty sector, as per the recommendation of High Level Financial Sector Coordination Committee (HLFSCC), NRB has expanded the limit of personal home loans to NPR 10 million (USD 132,820). It has also extended the deadline for reducing real estate and housing loans to 25% of the total loan portfolio to the end of the 2012/13 fiscal year. The HLFSCC has directed NRB to make the necessary policy arrangements for converting unsold apartments into service apartments and is planning to purchase housing units and apartment for civil servants. The above measures can be termed as a deferment strategy and would only provide a short term solution. If deemed necessary, regulators are ready to even undertake measures such as easing the current provisioning structure for non-performing loans and undertaking special purpose vehicles like an Asset Management Company (AMC) to undertake toxic assets.

The secondary market has lost over 50 points since the beginning of the current fiscal year. Technical analysis indictors signal the market will hover around the long-term support level as no imminent signs can be traced for a sustainable bull run. The average daily market turnover has substantially decreased due to low investor confidence. The NEPSE index is dominated by BFIs securities and the quarterly results of BFIs in the current fiscal year seems alarming. The secondary market are directly impacted by the Earning Per Share (EPS) decline. The recommendation made by the HLFCC is encouraging although its timely implementation remains a challenge.

Nepal Investment Year 2012/13 REVIEW

After the strategic success of Nepal Tourism Year 2011, Nepal is gearing up to organize Nepal Investment year (NIY) 2012/13 to attract foreign investments to Nepal and position itself in the global investment map. On January 3, 2012 the government formally announced the fiscal year 2012/13 as the Investment year. It expects to double Foreign Direct Investments (FDIs) in the country.[81] The NIY campaign is an initiative of the private sector led by the Federation of Nepalese Chambers of Commerce and Industry (FNCCI). So far, to ensure the success of the proposed strategic campaign, a high level National Directory Committee (NDC) chaired by the Prime Minister, an investment board-secretariat, a separate secretariat at FNCCI for private sector co-ordination, and four subcommittees have been formed.

RETROSPECT

Since the restoration of multi-party democracy in 1990, the Government of Nepal has adopted an open and liberal market led economic policy. Between 1992 to 1996, national GDP saw an encouraging growth of 5.2% on average, while private sector investment saw a whopping annual average growth of 13.2% from 4.7% between 1985 and 1991.[82] However, Nepal failed to continue this growth due to political instability culminating in the people's war from 1996 to 2006. Since 2006, the investment climate in Nepal has become slightly more favorable and has seen a marginal surge in FDI.

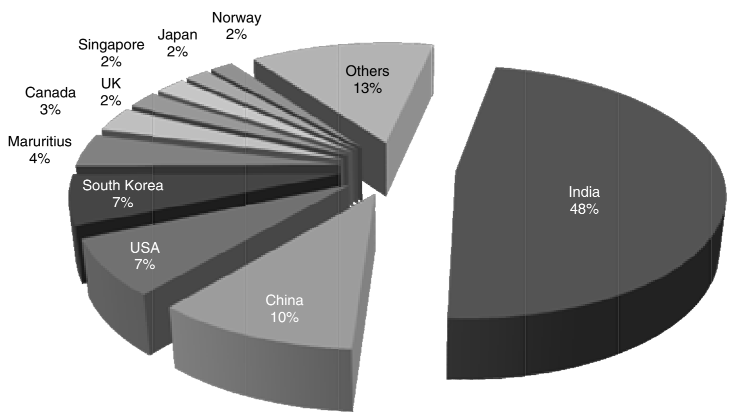
In 1992, the government had organized the Nepal Investment Forum, in which participants from 26 different countries signed 128 letters of intent envisioning an investment of NPR 55.71 billion (USD 740 million) and 82 project studies were also conducted.[83] The government is planning to host a similar investor's forum during NIY between December 2012 and March 2013.[84] The government will work to identify around 50 potential projects for foreign investments and invite prospective investors from various countries.

CURRENT STATUS

Till date, Nepal has been able to attract investors from 70 different countries. FDI in Nepal as of July 16, 2011, amounted to NPR 68.04 billion (USD 903.70 million) creating over 155,432 jobs through 2100 projects. Of these projects, 712 are in manufacturing, 650 in service, 561 in tourism, 42 in construction, 60 in agriculture, and 36 in the mineral sectors.

India is the single largest contributor (47.60%) to Nepal's FDI with approved investments of NPR 32.39 billion (USD 430.20 million) in 501 projects providing employment to over 56,000 individuals. China is Nepal's second largest source of FDI (10.33%) with total approved investment of NPR 7.03 billion (USD 93.37 million) in 401 projects providing employment to over 23,000 individuals. The United States (7.28%) is Nepal's third largest investor with total approved investments of NPR 4.95 billion (USD 65.74 million) in 174 projects providing employment to over 12,000 individuals.

Figure 9: Country Wise Foreign Investments (in %) in Nepal (as of Mid-July 2011)



Source: DOI

In 1992, the year in which the government organized the Investment Forum, it was able to attract foreign investment worth NPR 3.08 billion (USD 40.95 million) with authorized capital of NPR 17.88 billion (USD 237.56 million), providing employment to over 13,873 people, one of the highest till date. However, this amounted to only 5.5% of the total envisioned investment amount.

KEY INVESTMENT INDICATORS

Nepal recently climbed to 125 from 130 in the Global Competitiveness Index (GCI) 2011/12 published by the World Economic Forum. Likewise, Nepal has climbed to 107 in the 2012 Ease of Doing Business Index from 110 last year. However, it slipped to 154 in the Global Corruption Index from 146, published by the Transparency International. As per the report, Nepal is the second most corrupt country in South Asia after Afghanistan (180) whereas neighbor India stood at 95, while Pakistan ranked 134.

Table 11: Key indicators of Nepal

	Current Ranking	Out of
Global Competitiveness Index	125	142
Logistic Performance Index	147	155
Ease of Doing Business Index	107	183
Global Corruption Index	154	183

As per the Global Competitiveness Report, government instability, inefficient government bureaucracy and policy instability were voted as the most problematic factors for doing business in Nepal.

Table 12: The most problematic factors for doing business in Nepal

Factors	(In %)
Government instability/coups	21.8
Inefficient government bureaucracy	11.8
Policy instability	10.4
Corruption	10
Inadequate supply of infrastructure	8.6
Restrictive labor regulations	8.1
Access to financing	7.7
Poor work ethic in national labor force	7.2
Inadequately educated workforce	3.4
Inflation	3.4
Tax regulations	2.5
Crime and theft	2.3
Foreign currency regulations	1.1
Tax rates	1.1
Poor public health	0.6

Source: Global Competitiveness Report 2011-2012

Figure 10: Foreign Investment Status (in NPR millions)

Fiscal Year	No. of Projects	Authorized Capital	Fixed Capital	Foreign Investment	Employment
Key years					
Up to July, 1989	60.00	5,440.00	4,595.51	466.84	10,604.00
1992/1993	64.00	17,886.22	16,210.81	3,083.67	13,873.00
1999/2000	71.00	2,669.09	1,910.24	1,417.61	4,703.00
2004/2005	17.00	770.39	476.52	311.08	3,432.00
2007/2008	139.00	16,057.59	13,664.93	7,968.10	6,604.00
2008/2009	150.00	7,905.19	6,463.79	5,355.54	8,305.00
2009/2010	171.00	15,853.78	14,987.98	9,100.00	7,848.00
2010/2011	209.00	11,250.77	9,375.46	10,050.71	10,887.00
Grand Total	2,108.00	152,181.75	129,116.39	68,049.97	155,432.00

Source: Department of Industry (DOI)

STRATEGIC PLAN-NIY 2012-13

The strategic plan for Nepal Investment Year includes:

- Market Nepal as a potential investment destination to target groups.
- Study and identify viable projects (at least 50) for FDI. Priority Sectors - Hydropower, Infrastructure, Agriculture and Agri processing, Tourism, Services, Mine and Mineral based industries, and Export-Oriented Industries.
- Identify and build networks with prospective foreign inventors -connect Nepali investors with foreign investors.
- Development of an information portal for FDI.
- Build political consensus to create a favorable investment environment.
- Identify and sort problems - policy reforms, infrastructure development, regular power supply.
- Carry out various promotional campaigns in targeted countries
  - organizing an International Inventors Forum-a conference for both local and foreign investors,
  - organize road shows, trade fairs, seminars, meetings, mobilizing Nepali missions abroad.
- Targets:
  - Double total investments
  - Memorandum of Understanding (MOUs) on at least 7-9 mega projects worth above NPR 10 billion (USD 132.81 million)
  - a new Foreign Investment and Technology Act (FITTA) & Industrial Enterprise Act, reform the Company Act
  - Resolve land acquisition problem
  - Provide one stop service to investors
  - Increase domestic investments
  - Increase bilateral and multilateral aid in infrastructure projects in energy, road, irrigation and social services.

OUTLOOK

Nepal has seen an average economic growth rate of around 3.5 to 4% in the past five fiscal years. The government has forecasted growth at around 5% for the current fiscal year. The high unemployment level in Nepal is primarily due to a lack of labor intensive infrastructure development and sluggish industrialization. The contribution of the industrial sector to national GDP is declining, it currently contributes only 15% to national GDP. Although an increase in remittances has led to a positive Balance of Payment (BOP) position, attracting more FDI and increasing exports will be a more sustainable model for economic growth.

The recently revealed Immediate Action Plan (IAP) for economic development and prosperity by the government has indicated that the sluggish growth of the economy is largely due to the failure of attracting FDI to the country. The IAP aims to make Bilateral Investment Promotion and Protection Agreement (BIPPA) with various countries, enhance the peace and security situation, settle labor issues, ensure a regular supply of power and cut off administrative hindrances to create a favorable investment environment.

Nepal has recently signed a BIPPA with India and has already signed BIPPAs with France, Germany, Britain, Mauritius, Qatar and Finland, even though these countries do not have significant investments in Nepal. Moreover, the IAP plans to sign BIPPA and Double Taxation Avoidance Agreement (DTAA) with China, South Asian nations, and five other countries to attract FDI worth NPR 75.29 billion (USD 1 billion) within the current fiscal year.

Drawing investments from India and China should be a key priority during NIY 2012/13. China and India have emerged as power houses in the global economy. Indian investments contribute to almost 50% of Nepal's total FDI. Since the peace accord was reached in 2006, Indian FDI in Nepal has seen an encouraging Cumulative Average Growth Rate (CAGR) of 36.18%. Moreover, with the signing of BIPPA and DTAA with India, Nepal should be able to attract considerable investments from India during the NIY 2012/13.

The political and legal environment plays a vital role in investment decisions. Despite several disputes and lack of understandings amongst political parties, Nepal has slowly moved ahead with the process of peace building as several contentious issues have been resolved and things have moved closer to a resolution. This has exhibited a favorable environment for investments with improved security and peace. However, the risk of being blacklisted by Financial Action Task Force (FATF), a global anti-money laundering body poses a big challenge to the investment year. If blacklisted, the Nepali financial system might lose its credibility, directly affecting Nepal's ability to secure foreign aid and investment. The government should initiate timely measures to avoid such a catastrophe ahead of the investment year.

Declaring the 2012/13 fiscal year as an investment year is an encouraging step towards attracting FDI in Nepal, but a lot depends on how the government prepares for it. Labor issues are one of the primary reasons investors balk at investing in Nepal. The recent closure of Surya Nepal Garments and labor problems seen at Nepal Unilever does not send a positive message to investors outside the country.

REVIEW

Urban Planning

Historically, the Kathmandu Valley exhibited an extraordinary use of urban space. The old urban settlements in the valley display a unique sense of uniformity and meticulous planning, a product of a definite city plan built for functionality and aesthetics. Enforced through religious doctrine, royal patronage and a strong community base, the cities were planned around residential houses, temples, community centers, water ways and courtyards interconnected by well planned streets and alleys. Unfortunately, these historic spaces are dwindling and are being encroached upon by rampant and unmediated urbanization. A weak government and poor planning has meant that Kathmandu Valley is now home to a haphazard urban sprawl.

POPULATION & URBANIZATION TREND

Nepal's population reached 26,620,809 in 2011 and has a growth rate of 1.4% per year. The urban population stands at 17% of the total population, up from 14% in 2001. Concurrently, the rural population of Nepal decreased from 86% in 2001 to 83% in 2011.[85] The urbanization trend in Kathmandu district is characterized by tremendous population growth and unprecedented rural to urban migration. According to the 2001 census, the district of Kathmandu had a total population of 1,081,845, however the 2011 census reveals a 60.93% growth in the population to 1,740,977. Within the district, Kathmandu Metropolitan City alone constitutes a population of 1,006,656.[86]

The urbanization trend and population growth has increased demand for housing, water, electricity, drainage, road and other utilities. Land prices have sky rocketed forcing people to buy agricultural land without the provision for basic infrastructural services. The local government faces increasing demand for the provision of infrastructure after the construction of houses. However, they do not have the capacity and funds to provide for even basic infrastructure as the cost of developing infrastructure is more expensive on agricultural land in the long run than on developed land.

SOLID WASTE MANAGEMENT

Rapid urbanization and changing consumption patterns has made the management of solid waste a major challenge in Kathmandu Valley. It is estimated that 58 municipalities across the country generate over 1369 tons of solid waste every day, approximately 0.34 kg per person per day. Kathmandu metropolitan city alone produces 337 tons of municipal waste per day, but collection stands at only 306 tons per day. In an attempt to manage this volume of waste, Kathmandu Municipality has already spent about NPR 17 million (USD 225,793.6) for solid waste management services, representing 30-35% of total municipal expenditure.[87] On average, municipalities in Nepal allocate about 13% of their total budget on waste management issues. As per the Central Bureau of Statistics, only 17% of urban households have their waste collected by waste collectors, this drops to a mere 2% in low-income households.

Table 13: Waste generation and collection of Municipalities

Municipality	Total Waste generation (ton/day)	Total Waste Collection (ton/day)	Waste Generation (Kg/ person/ day)
Kathmandu	337	306	0.40
Lalitpur	82	65	0.47
Bhaktapur	28	25	0.20
Kirtipur	19	12	0.46
Dhulikhel	3	NA	0.23

Source: Final Report "Base line study on solid waste management in Municipalities of Nepal" 2008

Over the years, the Government of Nepal has created a framework for solid waste management. A general overview of the framework is given below:

- **Solid Waste Management and Resource Mobilization Act and Regulation, 1987 (amended 1992)**: authorizes the establishment of the Solid Waste Management Resource Mobilization Center (SWMRMC) to manage solid waste storage, collection, transportation, disposal and resource recovery activities within the three districts of the Kathmandu Valley.

- **Solid Waste Management National Policy (1996):** along with the Solid Waste Management and Resource Mobilization Act and Regulation stipulates that solid waste collection and disposal should be organized and managed at the local level. However, the policy also advocates centralizing institutional responsibility for the management of solid waste on the basis of its quantity and nature, if it cannot be managed by the town or village.

- **Local Self Governance Act, 1999:** was issued within the context of decentralization. It stipulates that all responsibilities for solid waste management (SWM) including collection, transportation and final disposal should be transferred to municipalities with the authority to protect the local environment.

WATER SUPPLY & SANITATION

The water demand in the Kathmandu Valley stands at 320 million liters per day,[88] whereas supply stands at around 150 million liters per day. During the dry season, supply is further reduced to 90 million liters per day. It is estimated that during this dry season, consumers of Kathmandu Upatyaka Khanepani Limited are going to receive merely 23 liters[89] of water per day per person due to rising power cuts and no increase in the limited water resources over the past few years. The World Health Organization recommends at least 100 liters per person per day for the maintenance of decent hygiene and sanitary conditions.

National Management Information Program (NMIP) estimates that the existing coverage of water and sanitation services in Nepal stands at approximately 80% and 43% respectively. Of the total population, 5.5 million people in Nepal do not have access to water services and 16 million people lack adequate sanitation facilities. The Government of Nepal has set a national target for universal access to water and sanitation by 2017. The main targets of the Third Year Interim Plan 2011/13 include:

- Access to basic water supply service: 85%
- Sanitation : 60%
- Medium and high quality of water services: 15%

The Water Supply and Sanitation Sectoral Strategic Plan 2004 notes that 20% of the water supply budget should be allocated for repair and rehabilitation of water service but recent allocations amount to less than 16%. The Government of Nepal investments in urban water supply and sanitation are primarily guided by its Twenty-Year Vision (1997-2017) and the National Water Plan (2002-2017) which seeks universal coverage by 2017. In

Table 14: Drinking Water Urban/Rural Targets and status Year

Details	1990	2000	2005	2010	2015*
Drinking Water					
Urban	90%	86%	93%	94%	95%
Rural	43%	71%	79%	78%	72%
Sanitation					
Urban	34%	80%	81%	78%	67%
Rural	3%	25%	30%	37%	52%

*estimated. *Source*: Nepal Wash Sector Report 2011 addition, other key legislation, much of it new and of cross-sectoral relevance, need to be considered if the new Urban Water and Sanitation Policy is to meet its objectives. In this context, the following areas are seen as pertinent:

- **Rural Water Supply and Sanitation National Policy and Strategy (2004):** provides guidance on water and sanitation service provision in rural areas using a community led participatory approach. While partially relevant to the urban context, particularly around the integration of input and local capacity building, it generally fails to address the complex operational challenges faced by Municipal authorities in implementing and managing urban services. The Ministry of Physical Planning and Works (MOPPW) formulated long term and midterm plans by applying sectoral strategies from 2007 to 2020. The target is to provide 100% coverage of both water supply and sanitation to all households by the year 2017. The policy has provisions to allocate at least 10% of funds for drinking water supply into sanitation and hygiene.

- **National Drinking Water Quality Standards (2006):** provides details on the water quality standards applicable to all new urban systems and complements the Environment Protection Act (1997) which requires Environmental Impact Assessments of all new projects and pollution control for all water resources.

- **The Nepal Water Supply Corporation Act, Second Amendment (2007), Water Supply Management Board Act (2006), and Water Supply Tariff Fixation Commission Act (2006):** facilitate the improved management of Kathmandu Valley's water and sanitation services. They establish the legal basis for private sector management, independent fee setting, regulation, and are applicable to all urban schemes.

- **Urban Water Supply and Sanitation Policy (2009):** aims at improving the quality of urban life by providing safe, reliable, adequate and enhanced services at affordable prices to the consumers. MOPPW is responsible for monitoring the sector performance and harmonizing the major sector indicators.

- **The Millennium Development Goals (MDGs) (2000-2015):** provide specific targets to be reached by 2015. Nepal's commitments to the MDGs currently stands at 73% coverage in water supply and 53% sanitation coverage.

- **Three year plan approach paper (2010-13):** translates the strategies mentioned in the Three Year Interim Plan (2007-10) into action. The perceived outcomes were 85% coverage of access to basic water supply, 60% sanitation coverage, and 15% of water services having medium and high quality.

FINANCING WATER AND SANITATION PROJECTS

Over the last four decade, the Government of Nepal allocated about NPR 73 billion (USD 969.6 million) amounting to NPR 2500 (USD 33.2) per capita on water and sanitation. However, if one were to discount the expenditure for the Melamchi project and the cost of reforming government institutions, total budgetary allocation drops to NPR 43 billion (USD 571.1 million). Currently, the annual investment in water and sanitation amounts to NPR 4 billion (USD 53.1 million), but based on the anticipated population growth, to meet the universal coverage targets by 2017, investments of approximately NPR 7.5 billion (USD 99.6 million) per year are required.[90]

In order to solve the valley's water problem, Melamchi Water Supply Project was initiated in December 2000 with an estimated cost of USD 464 million (NPR 34.9 billion).[91] The project plans to divert water from the Melamchi River in Sindhupalchok district. The ultimate development of the scheme is planned in three phases, the first phase has the capacity of supplying 170 million liters per day and two subsequent phases each supplying 170 million liters per day from the Yangri and Larke Rivers through an extended tunnel. The Melamchi project's total supply capacity of 510 million liters per day is estimated to meet the projected water demand up to the year 2030 and benefit approximately 3 million residents within the Kathmandu Valley.[92]

The Asian Development Bank's (ADB) is providing a loan worth USD 80 million (NPR 6.02 billion) to Nepal under the Kathmandu Valley Water Supply Improvement Project. The project is expected to be completed by December 2016. It plans to construct additional bulk transmission systems and reservoirs, rehabilitate water distribution networks and increase household connections. The MOPPW is the executing agency for the project. The loan, from ADB's concessional Asian Development Fund, has a 32-year term with an 8-year grace period. Interest will be charged at 1% per annum for the grace term, and 1.5% for the balance. The Government of Nepal will provide USD 50 million (NPR 3.8 billion) of the total investment cost of USD 130 million (NPR 9.8 billion).[93]

URBAN HOUSING

Nepal's national development plans have largely neglected the housing sector. Until the Seventh Five Year Plan (1985-90), the housing and urban development sector was considered a social service and was included within the "other social service" headings. The budgetary allocation for this sector hardly exceeded 1% of the total budget. The Basic Need Strategy, 1987 recognized housing as a basic need, leading to the establishment of the Nepal Housing Development Finance Company (NHDFC) in 1990 to provide cheap and easy housing finance. It had a starting capital of NPR 3 million (USD 39,846) to mobilize private resources for the development of housing projects.

The Town Development Act (1988) provided the legal basis for implementing town development plans but it had no provision empowering local governments to undertake land pooling. However, the Local Self Governance Act (1999) gives municipalities and Village Development Committees the authority to raise funds by taking loans and levying taxes for town development plans and housing programs.

The National Shelter Policy (1996) estimated the total housing need between 1996-2000 at 2.5 million units of which 400,000 units (17%) were in urban areas. Of the total housing units, 730,000 units were identified as needing upgrading, 60,000 of these units were in urban areas.

In the Ninth Five Year Plan (1997-2002) integrated action plans were prepared for several municipalities with the aim of investing in municipal infrastructure through the Town Development Fund (TDF). By means of land pooling, the plan mobilized funds through the NHDFC and expected to develop 6,000 housing plots while the Town Development Fund was limited to developing infrastructure not directly linked to housing. Under this plan, Kathmandu Urban Development Project was implemented and was the first project to borrow from an external financial source, the ADB, for urban infrastructures.

Under the Tenth Five Year Plan (2002-2007), NPR 1.5 million (USD 19,923) was allocated for improving housing for slums and squatters and providing safe and cost effective houses by promoting systematic settlements. The Urban and Environment Improvement Project was implemented during the Tenth Plan along with a number of infrastructure and land development projects. The City Development Strategy of Kathmandu Metropolitan City was completed in January 2001 wherein local governments recognized squatters as part of the urban development agenda which could not be ignored.

Table 15: Projected number of houses that will be available

Year	No. of houses
2001	436,533
2006	527,991
2011	657,414
2016	814,609
2021	1,007,804

Source: UN-Habitat 'Nepal Housing sector profile'

The Centre for Integrated Urban Development's (CIUD) 2010 household survey estimates that average housing production stood at 21,346 houses per year. In the Kathmandu Valley, only 22% of houses were single storey while close to half of them had three or more floors, 41% of houses were completely residential while 50% of the houses were used both for residential and commercial purposes. Owner built houses in urban Nepal stood at 70%, of which 22% managed the whole process themselves. The survey also reveals that only 74% of the houses acquired building permits from municipalities.

URBAN TRANSPORTATION

The urban transportation sector is completely dominated by the private sector. Currently, all public transportation in municipalities is owned and delivered by the private sector which includes three wheelers and buses. In Kathmandu Valley alone, there are more 13,000 public transport vehicles which include buses, mini-buses, micro buses and tempos.

Table 16: Road Quality in urban areas as on 2005

Municipality	Total length*	Black Topped	Gravelled	Earth
Kathmandu	728	481	203	44
Nepalgunj	83	19	26	38
Pokhara	285	125	35	125
Bharatpur	459	110	223	126
Siraha	44	5	15	24

*Km *Source*: Municipality profile of Nepal, 2008

In order to streamline the transport management problem at locations characterized by heavy traffic pressure in the Kathmandu valley, strengthening and widening of the existing road network has become a necessity. In this regard, the Metropolitan Traffic Police Division (MTPD) in collaboration with the Department of Roads (DOR) and Kathmandu Valley Town Development Implementation Committee (KVTDIC) has been widening major city roads to manage traffic by demolishing illegal structures. The dismantling of illegal structures constructed on the road's Right of Way (ROW) began in early November 2011. A total length of 400 km in the valley is being widened which shall extend to all five municipalities and 37 town-oriented Village Development Committees.

The decision to demolish illegal structures for road expansion was initiated back in 1976 and was revised in 1988. The demolition drive is now in full swing. According to the Department of Roads, the breadth of highways must be 50 meters, ring roads 62 meters, main roads 22 meters, and sub roads 14 meters. Municipal facts reveals that about 15% of houses in the city have encroached upon public space and at least 30% of houses in the city have been constructed flouting building codes.[94] The major issue for road expansion in the Kathmandu Valley has been that of compensation. Compensation had been granted to many in 1976/77, but a fire incident destroyed all such records. The compensation offered is as per the government evaluation of the property.[95] Houses built before 1976 (the year when the government first introduced the standards about the valley roads) will be entitled to compensation. Houses built after 1976 will not be compensated even if they have KMC approved designs. Instead, those government officials who approved the design of those houses, which have been built against the valley road standards, will be punished.

The Ministry of Physical Planning and Works (MOPPW) estimates NPR 450 million (USD 5.97 million) will be required to black top roads widened till date. Out of this, NPR 270 million (USD 3.6 million) will be required for black topping Maitighar-Tinkune section, NPR 80 million (USD 1.1 million) for Sital Niwas to Dillibazar section, NPR 60 million (USD 796,918) for Kupondole-Sanepa section and NPR 40 million (USD 531,279) for other roads in Kathmandu and Lalitpur. The current road widening campaign has targeted nine areas in Kathmandu and three roads in Lalitpur. Currently the government has allocated NPR 8 million (USD 106,256) to demolish and remove debris from widened roads.[96]

Endnotes

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