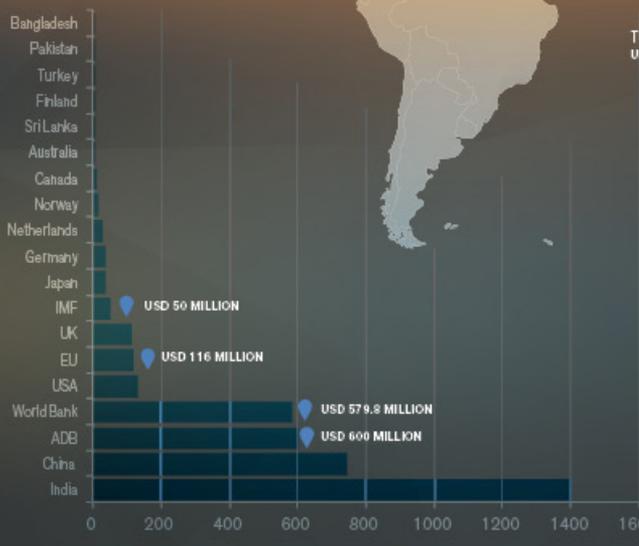




NEPAL  
ECONOMIC  
FORUM



# nefport

## Docking Nepal's Economic Analysis

A SPECIAL ON THE INTERNATIONAL CONFERENCE ON NEPAL'S RECONSTRUCTION  
OCTOBER 2015 | ISSUE 22



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# NEPAL FACTSHEET



## KEY WORLD DEVELOPMENT INDICATORS

|                       |                  |  |     |
|-----------------------|------------------|--|-----|
| GDP                   | USD 19.6 billion | Gross Capital Formation (% of GDP)       | 37% |
| Rank                  | 109              | Inflation, GDP Deflator (annual %)       | 8%  |
| GNI (Atlas)           | USD 730          | Agriculture, Value Added (% of GDP)      | 34% |
| Rank                  | 192              | Import of Goods and Services (% of GDP)  | 40% |
| GNI (PPP)             | USD 2,420        | Exports of Goods and Services (% of GDP) | 12% |
| Rank                  | 184              |  |     |
| GDP growth (annual %) | 5%               |  |     |
| HDI                   | 0.540            |  |     |
| Rank                  | 145              |  |     |

All figures for 2014. Source: The World Bank Update July 1, 2015



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*A special review on the International Conference on Nepal's Reconstruction*

## EDITORIAL

Two major events continue to attract the attention of many in Nepal; post-earthquake issues and the unsatisfactory display of the new constitution. In terms of an earthquake update, the government has appointed a CEO and constituted the long-delayed empowered body to lead the reconstruction efforts. Shesh Ghale has also been appointed as a Special Envoy for Reconstruction and Development by the Government of Nepal.

Reconstruction being the national priority, our special focus for this edition is the analysis of the International Conference on Nepal's Reconstruction (ICNR). Donors announced pledges totaling over NPR 400 billion (USD 3.92 billion) for reconstruction keeping major principles of effective reconstruction in mind. With the conference aiming not only to reconstruct what had been destroyed but also to ensure that rebuilding focused on future disaster preparedness, the country will want to see changes in reality.

The shift from earthquake to politics didn't take long when the draft constitution was shared. The constitution was a result of pressure on political parties to rebuild credibility having been absent from the scene in the first couple of weeks of the earthquake. The draft constitution has completely bypassed the economic agenda, with the overall discourse focussed more on demarcation of provinces based on ethnic lines.

Unfortunately, the economic agenda of the constitution doesn't indicate any major changes in reforms, thereby, creating a major impediment as Nepal seeks to graduate to a middle income country and remove extreme poverty by 2030.

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](mailto:info@nepaleconomicforum.org)

Sujeev Shakya  
Chairperson  
Nepal Economic Forum

# POLITICAL OVERVIEW



The inability to achieve consensus, especially over the federal provinces, appears to be the prime concern for the major political parties.

**Constitution feedback by the public:** The government assigned July 20 and July 21, 2015, for the public opinion collection on the constitution draft so as to allow the general public to express their views and offer feedback on the draft. An open program was conducted along with the presence of Constituent Assembly members in 240 electoral constituencies across the nation. Although this step was taken to encourage and engage public participation in the formulation of the constitution, political parties such as Rastriya Prajatantra Party-Nepal, Communist Party of Nepal-Maoist<sup>1</sup> and various Madhes-based parties<sup>2</sup> disrupted the program proceedings, obstructing the opinion collection.

Following the program and assess public responses, the Committee on Citizens Relation and Constitution Feedback presented a report, that highlighted a number of issues including preference of religious freedom over secularism, claim for citizenship from either parents, adoption of directly elected president or Prime Minister, and re-structuring the provisioned 8-federal states and its demarcations.<sup>3</sup> Most of the listed issues have, more or less, been sorted out since then, except for the demarcation of federal states.

**Disputes over federal states:** Protests headed by local communities and various political parties erupted in Mid-western and Terai regions over the demarcation of federal states. Prior to the protests, the four major political parties comprising of Nepal Congress, Unified Marxist Leninists, United Communist Party Nepal and Madhesh Janaadhikar Forum Nepal, had agreed on 6 federal provinces following the report prepared by the Committee on Citizens Relation and Constitution Feedback. As a result of the new model, arguments flared which further led to strikes and riots, turning fatal in certain instances. Especially centered on the Terai region, the Madhesh-based political parties went against the 6-state model citing that the agreement was a “betrayal of Madhes and Madhesi” and a plot to split Terai Madhesh.<sup>4</sup> In addition to this, Madhesh-based parties accused the major parties of conspiring against the Madhesis through discriminatory provisions on acquiring citizenship.<sup>5</sup>

Various other communities have also voiced their dissatisfaction with the demarcation including in Surkhet, where local residents demanded an integrated mid-western region and the situation

grew increasingly violent leading to the imposition of a curfew.<sup>6</sup> Unfortunately, the mid-western delineation debate continues to appear bleak as lawmakers from different political factions seem to have differing views.<sup>7</sup> Following these events, it is highly likely that the ruling parties will attempt to restructure the federal states and its boundaries; talks about a 7-state model are already underway.

**Madhesis, Tharus and Janajatis forge alliance:**

A coalition named “Federal Alliance” has been formed to pressure the major parties in restructuring the federal, democratic and republic constitution. With Samyukta Loktantrik Madhesi Morcha coming up with the idea, the alliance constitutes of Tharuhat Tarai Party, Sanghiya Limbuwan Party, Samajik Loktantrik Party and Adivasi Janajati Party. The alliance aims to protest against the decisions made by the ruling parties until demarcation suggestions by State Restructuring committee are implemented in the constitution. Through this process, the alliance hopes to incorporate other parties with common struggles furthering their rigid stance on inclusive and autonomous federal states based on identity and capabilities.

In addition, the alliance has also demanded special areas with right to determination and self-governance, and clear allocation of resources.<sup>8</sup>

## “ OUTLOOK

As the earthquake hangover slowly quells, the urgency among the political parties to converge towards the formation of the Constitution appears weary. The need of the hour for the major political parties, faced with multiple oppositions, is to swiftly work out the issues of federal provinces. Post-earthquake, Constitution formulation continues to be of utmost priority with minimal progress towards reconstruction. Although Govinda Raj Pokharel has been appointed as the new CEO for National Reconstruction Authority, the ongoing arguments over federal demarcation has extended the promulgation deadline and plagued the nation with undesirable strikes, which undoubtedly would affect the operation of National Reconstruction Authority and further plunge the nation into a political turmoil.

# INTERNATIONAL ECONOMY

The descent of the Chinese economy, the second largest economy of the world, has sent shockwaves across the global markets. Stock markets have spiraled to record lows, global demand is on the verge of substantial reduction, and economies trading with China, especially the emerging ones, are at peril as China cuts back on imports. Similarly, major trading partners—notably Japan, South Korea and Australia—reported a decline in their currencies, whereas the US expressed discontent over Chinese monetary devaluation as it is likely to cause a drop in US exports.

**China's economic slump:** China's stock market had taken a tumble, plunging 30% in three weeks since mid-June 2015 with a loss of NPR 346.5 trillion (USD 3.4 trillion) in financial assets. In addition exports recently witnessed 8.3% year on year decline. Coupled together, these recent events have sparked doubts over China's 7% growth target. To curb the situation, the Chinese government has undertaken measures such as restricting selling of big shareholder stocks, setting limits on short-selling and cutting interest rates.<sup>9</sup>

However, a more stringent measure was taken on the second week of August 2015 when the central bank of China devalued the Yuan by as much as 3.5%. This drastic measure, the Chinese authority claimed, was a regulatory action to correct the over-valued Yuan (which appeared to be rising in the face of stock market crash, owing

to its link with the dollar which had been rising, subsequently impacting Chinese exporters).<sup>10</sup>

Although this has considerably affected the global economy, some economists are of the view that the devaluation was an attempt by China to catch up with the economic reality of a cheaper Yuan; experts of this school of thought believed devaluation to be a part of a longer term effort to allow world markets to determine the currency value. Nonetheless, others seem to view the measure as a way to support the declining economy in the short run, making Chinese exports cheaper and attracting foreign buyers.<sup>11</sup>

**Decline in world trade and slowdown of emerging economies:** Following China's economic meltdown, the world economy has taken a knock as global trade appears to be on a decline. According to CPB Neth-

erlands Bureau for Economic Policy Analysis the worldwide trade volume shrunk by 1.2% in May 2015 following a 0.2% drop in April 2015. Developed economies such as Japan and the United States noted a fall in both imports and exports along with economies such as South America, the Euro zone, and the central and eastern portions of Europe. The Chinese downturn especially affected the neighboring Japan, as Japan's trade fell by 5% which led to the biggest trade deficit with China for the first six months.<sup>12</sup> Likewise, the emerging Asian economies catering China's booming investment and consumption, have taken a tumble as the Chinese demand weakened.

In addition to the downturn of China, a rise in American interest rates—which is expected to occur as early as September—has begun to create jitters among emerging economies as

the dollar is projected to strengthen. This rise in dollar strength is expected to raise the interest and repayment costs for developing countries who have borrowed huge amounts from the United States.

**Plummeting global oil prices:** Since mid-2014, the crude oil price has sharply declined, falling from NPR 10,000 (USD 98.15) per barrel in August 2014 to NPR 4033.6 (USD 39.58) in August 2015.<sup>13</sup> The reason for such a significant dip has been attributed primarily to weakening demand of emerging economies and European nations, and surge in oil production especially in the United States<sup>14</sup>; whereas, competition has stiffened among oil producers in the Asian markets. Besides these, the slowdown in China, the largest oil importer, is also expected to influence demand.<sup>15</sup>

However, despite the prevalence of these circumstances, the Organization of the Petroleum Exporting Countries appears adamant on maintaining the current level of production, as opposed to curtailing production to raise the price. The implications of the price drop have been mixed. On the one hand, the majority of consumers, especially the lower-income group, benefit from the price drop as fuel costs lower; on the other, emerging economies highly reliant on oil exports, such as Algeria, Nigeria, Russia and the like

are expected to suffer, which is likely to have a significant impact on their budgets and prove to be a barrier to their growth.

**Greece's third bailout:** Following the whole debate surrounding the future of Greece in the euro zone during the early months of 2015, the Euro-group leaders have decided to hand Greece up to NPR 9.7 trillion (USD 95 billion) in rescue funding spanning the duration of three years through the European Stability Mechanism (ESM), a European Union agency which provides financial assistance to euro zone countries or new capital to banks in difficulty.<sup>16</sup> This is the third bailout since May 2010 provided for the purpose of covering debt payments, with ESM covering NPR 2.9 trillion (USD 29 billion), settling arrears to public sector suppliers.<sup>17</sup>

In an election prior to the agreement for the third bailout, the majority of Greeks had voted against harsh austerity measures. Nonetheless, the poor state of the economy forced Greece into accepting the third bailout in order to retain its place in the euro zone. The bailout conditions have outlined economic reforms in the areas of taxations, pensions, labor markets, banks and privatization.<sup>18</sup> However, given Greece's vote against austerity, the fulfillment of the stipulated conditions remains shrouded in doubt.

## OUTLOOK

Given the high petroleum imports of Nepal, the reduction in oil price does seem favorable. However, given the state of political conflict and Terai strikes, the benefits are likely to be delayed. Additionally, the economic slowdown in China will likely prove to have an impact on wood and metal craft workers as wood and metal products are the highest export products to China; in turn, prices of apparels, textiles and electronic equipment may reduce as most of them are imported from China. Meanwhile the operation of the Asian Infrastructure Investment Bank, may be delayed due to the slowdown which could have potentially been an ideal source to finance infrastructural development especially following the earthquake.

# macroECONOMIC

OVERVIEW

With the annual budget presented for the current FY 2015-16, priority has been given to reconstruction work with an allocation of NPR 74 billion (USD 726 million) of the total NPR 819.4 billion (USD 8.04 billion). The pace of infrastructural development is expected to be enhanced with balanced development and notable progress in the social sector which will result in an advanced macroeconomic dynamic. However, due to slow down on economic activities after the earthquake and negative impact on industry and service sector, the economic growth in the current fiscal year is likely to remain at 3.04%.

## AGRICULTURE

Agriculture output during FY 2014-15 failed to see any increase due to unfavorable weather conditions and a shortage of labor. As a result, the projected Agriculture Gross Domestic Product (AGDP) grew only 2% this fiscal year in comparison to 4.7% in FY 2013-14. Despite the lack of growth, financing to the agriculture sector has been steadily improving, with farmers getting easy access to loans, credits, grants, and subsidies.

**Decrease in agro sector labor:** Employment provided by the agriculture sector has dropped from 65.8% of the total economically active workforce in FY 2013-14 to 60.4% in FY 2014-15, due to better opportunities in the service and manufacturing sectors, according to the Ministry of Agricultural Development.<sup>19</sup> In comparison, service and manufacturing sectors only absorb 39.6% of the total number of economically active people of the country. The shift of workforce to the service and manufacturing sectors and to other professions can be attributed to the learning of new skills

by the labor force that can be applied in other sectors.

**Late monsoon affects paddy plantation:** Paddy cultivation in high-hills and mid-hills has been affected by the delayed onset of the monsoon. Of the total paddy cultivation area of 1,486,951 hectares, paddy plantation was carried out in only 27.4% by end-of July this year.

According to the Ministry of Agricultural Development, the country may lose an estimated worth NRP 25 billion (USD 245 million) from paddy crop this year if eight Terai districts—Saptari, Siraha, Dhanusha, Mahottari, Sarlahi, Rautahat, Bara and Parsa—in the eastern and central regions continue to suffer from poor rainfall till end of August.<sup>20</sup>

In terms of development regions, paddy plantation has been torpid due to below average rainfall in the country, except in the far-western development region which received adequate rain.

Paddy plantation was carried out on 64.45% of the total 175,500 hectares of land in the far-western development region whereas, in other regions, paddy plantation was carried out on less than 30% of the total arable land.<sup>21</sup>

**Agro insurance subsidy:** Following farmers' overwhelming response to the crop and livestock insurance, the Ministry of Agricultural Development (MoAD) has released NPR 106.97 million (USD 1.04 million) to non-life insurance companies engaged in the agriculture insurance business as a premium subsidy in its new budget. This is NPR 46.7 million (USD 0.45 million) more than the NPR 60 million (USD 0.58 million) allocated in its previous FY 2014-15 budget.<sup>22</sup>

Non-life insurance companies had sold crop and livestock insurance policies worth NPR 2.06 billion (USD 20 million) during FY 2014-15, for which the MoAD bears 75% of the premium amount. Of the total insured amount, NPR 142.86 million (USD

1.4 million) was collected in premium. 94% was for livestock insurance, while 6% was for crop insurance.

**Agro loan scheme for youth:** Under the “Interest Subsidy for Commercial Agriculture Loans to the Youth’ program”, banks and financial institutions (BFIs) disbursed loans worth NPR 423.92 million (USD 4 million) till the first 11 months of the FY 2014-15 (see Figure 1). The program, introduced by the government in its budget for FY 2014-15, sought to encourage the youth to join the agriculture sector. Following the announcement, Nepal Rastra Bank (NRB) had issued a circular stating that class A, B, and C financial institutions could issue agricultural loan up to NPR 10 million (USD 98,000) to a single borrower at an interest rate not exceeding 6%.

In total, 16 commercial banks and one development bank—NIDC Development Bank—have extended agro

**Table 1: Geographical distribution of paddy production**

| Region     | Total Area (ha) | Plantation (ha) | Percentage |
|------------|-----------------|-----------------|------------|
| High-hills | 61,620          | 31,139          | 51%        |
| Mid-hills  | 409,393         | 146,644         | 36%        |
| Tarai      | 1,015,933       | 229,619         | 23%        |

Source: MOAD

loans under this scheme. The total loan amount sanctioned so far by the BFIs stand at NPR 467.92 million (USD 4.5 million). The average size of loans sanctioned by the BFIs stands at NPR 1.28 million (USD 12,000) per borrower; a total of 366 borrowers have so far benefited from this scheme.

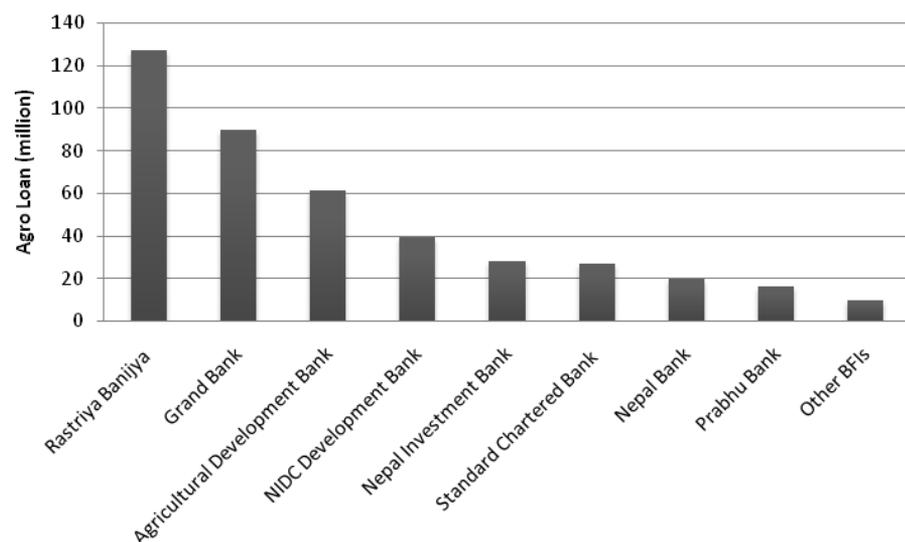
The state-owned Rastriya Banijya Bank (RBB) sanctioned a total of NPR 127.4 million (USD 1.2 million) to 159 projects. The number of borrowers seeking loans from RBB is higher since the loans are given at 5% interest rate

under this scheme. NRB bears 40% of the interest rate charged by the BFIs; however, BFIs claim they have been facing delays in receiving reimbursement.<sup>23</sup>

**20-year agriculture strategy:** Nepal’s Agricultural Development Strategy (ADS) has been finally approved by the cabinet and the Ministry of Agriculture Development is planning to implement the strategy from FY 2016-17. The strategic document, which incorporates a 20-year vision and a 10-year planning horizon for the country’s farm sector, is expected to invest around NPR 502 billion (USD 4.9 billion) yearly, including contributions from the government, private sector and donors, for the next 10 years.

ADS aims to boost the average annual growth rate of the agriculture sector to 5% from the present 3%, and increase land productivity to NPR 5,09,550 (USD 5,000) per hectare from the current NPR 16,300,40 (USD 1,600). It also aims to increase labor productivity to NPR 0.2 million (USD 2,000) from NPR 0.08 million (USD 800) per worker, and increase exports of farm items to NPR 1.6 billion (USD 15 million) from NPR 250 million (USD 2.4 million) through the implementation of the ADS.

**Figure 1: Loan Scheme of BFIs**



Source: Nepal Rastra Bank

## BUDGET HIGHLIGHT: AGRICULTURE BUDGET UP BY 12.5%

The annual budget to the agriculture sector increased by 12.5% from NPR 23.28 billion (USD 228 million) in FY 2014-15 to NPR 26.2 (USD 257 million) in FY 2015-16 in an effort to enhance the productivity of agriculture sector.

The budget envisages increasing the effectiveness of agricultural inputs such as irrigation, agro-credit, transport, electricity, fertilizers, and seeds by implementing and conducting various programs this fiscal. Some of the major agriculture budget highlights include allocation of NPR 2.08 billion (USD 20 million) for agricultural research that will be focused towards enhancing production and productivity; and allocation of NPR 15.25 billion (USD 149 million) for extending the network of agriculture and rural roads to facilitate the movement of agriculture input to farms and agriculture products to market. To encourage investment in agribusiness, continuation

will be given to the provision of providing subsidy on excess of 6% interest rate, and a subsidy of 4% will be provided on loan provided by commercial banks for modern farming, livestock and poultry farming, medicinal plants, vegetable and horticulture, dairy business, agro storage, cold storage, slaughter house, and meat related business.

Furthermore, the government plans to promote private sector engagement during the FY 2015-16 by providing 50% subsidy on the loan interest rate for private investors engaged in commercialization and mechanization of farming. 100% interest grant will be provided to private or cooperative sector in the first 5 years if they wanted to build and operate the cold storage and food storage warehouses with loan from the banking sector within the standard determined by Agriculture Development Ministry.<sup>25</sup>

## EDUCATION

The Ministry of Finance, in its budget plan for FY 2015-16, announced the allotment of NPR 98.64 billion (USD 967 million) for the education sector. The primary focus will be reconstruction of education infrastructures using earthquake resistant technologies in areas affected by the April 2015 earthquake. Similarly, in an effort to increase national productivity and develop entrepreneurship, the government plans to provide technical training programs for the skill development of the youth.

**Drafting of new education policy:** The Ministry of Education is planning to prepare a new education policy by identifying current gaps and limitations in the existing educational policies and ultimately consolidating those policies that will best serve the needs of the sector. Some of the reforms that are being mulled over in the new

policy are whether to make education completely free and compulsory or to give quality education by charging a certain amount of fee. Discussions are also being held on whether to employ English or Nepali as the medium of instruction.<sup>26</sup>

**New education policy focuses on reconstruction:** Although new challenges loom over the education sector, the government's plans for the next fiscal year is to merely give continuity to the plans and programs announced in the previous years. This, no doubt, comes as a major disappointment as the sector has suffered damage worth NPR 28.6 billion (USD 280 million) and income loss of around NPR 3.25 billion (USD 31 million) due to the earthquake.

The new policy and programs announced this FY 2015-16 focuses

on rehabilitation and reconstruction program; the government plans to repair and reconstruct government school buildings using earthquake resistant technology. Free education will be provided to children whose lives have been affected by the recent earthquake, whereas the existing policy of providing special incentives to girls of Dalit, Muslims and endangered castes for technical education will be continued.<sup>27</sup>

In addition to this, initiatives to encourage partnership between the community and institutional schools have been prioritized along with introduction of technical subjects from grade 9 to 12. Furthermore, realizing the need to make education more job-oriented, the government has formed a 17-member High-Level Education Commission to make the necessary reforms.

**Total literacy mission a failure:** The government's mission to declare Nepal fully literate by 2014-15 has failed. Though the Non-Formal Education Centre (NFEC)—the government body responsible for running “National Literacy Campaign”—was launched in 2009, it has yet again failed to achieve its goals for the FY 2014-15. Despite spending NPR 6 billion (USD 58 million) in its adult literacy campaign so far, NFEC has missed its annual target every year in the past five years.

The program had planned to make 1,745,334 illiterate people across the country literate in FY 2014-15; the government had even launched ‘focused programs’ in 17 districts of Tarai with an aim to reach out to 1,497,372 illiterate people there. However, till date, only three districts, i.e. Dang, Rupandehi and Nawalparasi, have been declared fully literate.

Since the campaign ended, the government deducted the budget and allocated only NPR 400 million (USD 0.39 million) for NFEC for the fiscal year 2015-16. Undeterred by its continual failure, the office is preparing to demand an additional NPR 850 million (USD 8 million) to give continuity to the campaign.<sup>28</sup>

**Rise in dropout rates:** Nepal Economic Survey indicates that high schools registered a dropout rate of 12% while for the universities the figure stood at 30% in the fiscal year 2013-14.<sup>29</sup> A total of 516,166 students were enrolled in grade 11 and 12 during the FY 2013-14 but this number went down to 453,597 in FY 2014-15. In FY 2013-14, 678,037 students were studying in various universities across

the nation; this number dropped down to 480,891 in FY 2014-15.

The surge in the number of dropouts in universities can be attributed to the rise in number of youths going abroad for employment and loss of trust in universities among students due to deeply rooted politicization in these institutions.

According to the Economic Survey, the number of students from grade 1 to 10 has dropped by 372,881 from 2011 to 2014.<sup>30</sup> This sharp decline in the enrolment is largely due to the government crackdown on fake institutes and decrease in population growth rate.

## ENERGY

Energy became the most lucrative sector in Nepal for Foreign Direct Investments (FDIs) in FY 2014-15 with FDI commitments in energy being the highest among all the industries permissible for foreign investment. The sector received 83% of all FDI commitments in the current fiscal and pledges in the sector amounted to NPR 53.99 billion (USD 529 million) as of Mid-May, 2015, up from NPR 1.44 billion (USD 14.13 million) the year before.<sup>32</sup>

**NPR 18.5 billion required for hydropower reconstruction:** As per the Post Disaster Needs Assessment (PDNA) conducted by Nepal Planning Commission, the total value of physical damages to the electricity sector stands at NPR 17.8 billion (USD 174.7 million), of which damages to the public sector stood at NPR 5.57 billion (USD 54 million)

## BUDGET HIGHLIGHT: EDUCATION

Annual budget for the education sector increased by 26.15% from NPR 78.19 billion (USD 767.24 million) in FY 2014-15 to NPR 98.64 billion (USD 967 million) in FY 2015-16. This education budget accounts for only 12% of the national budget, a drop from 15% in FY 2014-15.

The budget emphasizes training 75,000 teachers to improve the student-teacher ratio, besides ensuring continuity to the scholarship and free lunch programs for underprivileged students.<sup>31</sup> In addition to this, the government plans to build ‘model school’ in each development region to attract students into community schools and to provide education to the students of marginalized communities at boarding schools. The budget also mentions free cost of basic education in order to increase access to all the citizens. Living in the era that has everything computerized, the government has tried to catch up with it and has introduced internet teaching programs for subjects like English, Science and Mathematics in 100 rural public school as trail.

A total of NPR 8.07 billion (USD 79 million) has been allocated for the University Grants Commission in order to improve the quality of higher education and develop the infrastructure of the universities.

and the private sector at NPR 12.23 billion (USD 120 million).

The earthquakes severely affected operating hydropower facilities with an installed capacity of 115MW and par-

tially affected facilities producing up to 60MW. Hydropower projects under construction with a total generating capacity of 1000MW, owned by both Independent Power Producers as well as by Nepal Electricity Authority was also affected. In terms of transmission units, the earthquake affected 800km of distribution lines and 365 transformers of varying capacities. The PDNA estimates the total cost of recovery incorporating the Build Back Better principles, to be approximately NPR 18.58 billion (USD 182.37 million), of which the public and private sectors will require NPR 5.69 billion (USD 55.87 million) and NPR 12.89 billion (USD 126.51 million) respectively.

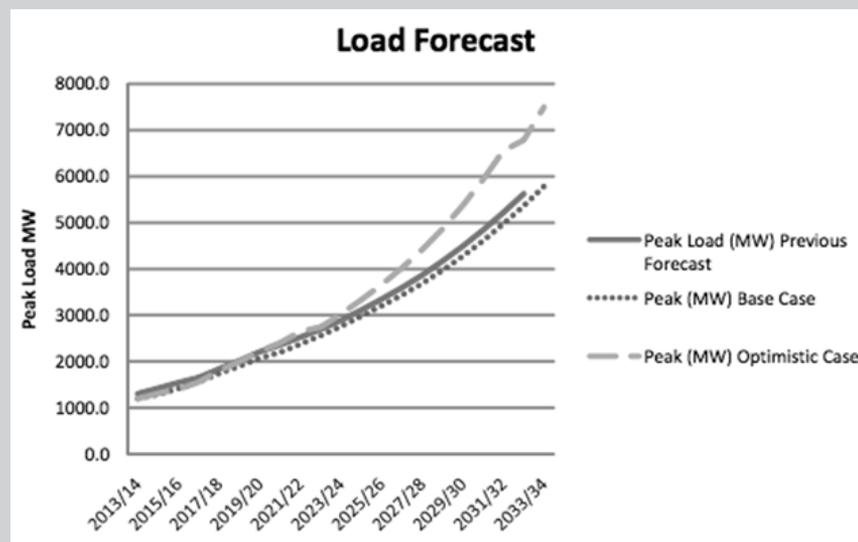
**US Embassy launches hydropower development project:** The US Embassy recently launched the Nepal Hydropower Development Project (NHDP) to assist the Government of Nepal in expanding its on-going efforts to realize the vast potential of hydropower in the country. The NPR 998.72 million (USD 9.8million) project, which will be implemented by Deloitte Consulting, primarily aims to facilitate private investments in the hydropower sector. The project also aims to support the restructuring of the electricity sector to create viable, efficient national power services and promote expanded electricity trade between Nepal and India, in addition to creating jobs, increasing revenue from electricity exports, ensuring Nepal's energy security and integrating the country with regional energy markets in the long run.<sup>33</sup>

**NOC records annual profits after five years:** The Nepal Oil Corporation's (NOC) performance projections for

## TOTAL ENERGY REQUIREMENT OF NEPAL TO GROW AT AN AVERAGE ANNUAL RATE OF 8.1%

The System Planning Department of the Nepal Electricity Authority recently released a Load Forecast Report (LFR). According to the LFR, the total energy requirement in Nepal is projected to grow at an average yearly rate of 8.1% from 5,988.98 GWh in FY 2013-14 to 28,329.85 GWh in FY 2033-34 (including exports to India). The peak demand is projected to grow from 1201 MW in FY 2013-14 to 5785.3 MW in FY 2033-34. The report is based on the parameters assumed in the 1997 Load Forecast Report created by Norconsult, a Norwegian multidisciplinary consulting firm, under Asian Development Bank's technical assistance program.

Figure 2: Projected growth of total energy requirement in Nepal



Source: Load Forecast Report, Nepal Electricity Authority

The report provides projections for three scenarios, which includes base, optimistic and the previous forecast cases. The base case uses the post-earthquake adjusted growth parameters for the FY 2014-15, the previous forecast uses the growth parameters forecast prior to the earthquake, and the optimistic case assumes, unlike in the other cases, non-zero real tariff increment in FY 2016-17 (inflation constant throughout at 7%, tariff increment 15%), 2022-23 (tariff increment 20%), and 2032-33 (tariff increment 20%).<sup>36</sup>

## BUDGET HIGHLIGHT – ENERGY

The total allocation for the fuel and energy sector in the budget for FY 2015-16 amounts to NPR 51.26 billion (USD 502 million) out of which NPR 5.87 billion (USD 57.6 million) is recurrent expenditure and NPR 45.39 billion (USD 445.4 million) is capital and finance expenditure. The allocation to fuel and energy amounts to 6% of the total budget with an almost 113.5% rise from the allocation in the previous fiscal year. Of the total energy budget, NPR 45.72 billion (USD 448.6 million) has been allocated to hydropower production and NPR 5.49 billion (USD 53.8 million) to alternative energy.

The Government of Nepal will be covering 49% of the budget, i.e. NPR 20.28 billion (USD 199 million), whereas foreign loans will cover 51%, i.e. NPR 26.22 billion (USD 257.28 million). The rest, i.e. NPR 4.75 billion (USD 46.6 million), will be covered by foreign grants.<sup>37</sup>

Of the total energy budget, NPR 12.73 billion (USD 124.9 million) has been allocated for transmission lines and to initiate the construction of the East-West transmission lines and speeding up implementation of Dhalkewar-Mujaffarpur, Kushwaha-Kataiya, Bardaghat-Gorakhpur, Birgunj-Parwanipur cross-border transmission line.

In terms of hydropower, the budget also has provisions for the restructuring of the Hydropower Investment and Development Company to increase investments. Facilities and concessions have also been provided for private sector involved in hydropower. NPR 2 billion (USD 19.6 million) has been allocated to the Upper Tamakoshi Hydropower project with the hopes of completing it within two years. Similarly, NPR 3.37 billion (USD 33 million) has been allocated to the Budhigandaki Hydropower Project (1200 MW) for initial phase of construction works, and NPR 470 million (USD 4.6 million) for a detailed design of the Nalsinghagadh Hydropower project. Construction of the West-Seti Hydropower project is also set to be initiated through foreign direct investments.

Provisions are also in place to implement district level projects of micro-hydropower and alternative energy. NPR 450 million (USD 4.4 million) has been allocated to fix street lights in municipalities and solar energy in urban areas, and NPR 4.85 billion (USD 47.6 million) for providing solar lamp light and cell phone charging, and fixing of portable metallic rocket stoves for families with houses fully damaged by the earthquake.<sup>38</sup>

FY 2014-15 indicate annual profit of up to NPR 18 billion (USD 176.62). This could be a major development for the corporation, which last recorded a profit in FY 2008-09. NOC is debt-ridden and has been incurring losses for the past decade, with its debt burden increasing over the years. The upsurge in profits will allow the corporation to pay off a part of the NPR 32.86 billion (USD 322.4 million) owed to various creditors prior to the adoption of the auto-pricing mechanism of petrol and diesel. NOC has already paid off NPR 14.98 billion (USD 147 million), including 10% in interest payments owed to Citizen Investment

Trust - NPR 8.6 billion (USD 84.3 million) and the Employee Provident Fund - NPR 6.36 billion (USD 62.4 million). The sudden upturn in the corporation's profits can be accounted for by the falling oil prices in the international market, decrease in LPG-cylinder subsidies, increase in demand for aviation fuel post-earthquake, adoption of auto-pricing of petrol and diesel (which is immune to political influence), among others.<sup>34</sup>

**Tanahu Hydropower Project set to start:** The Tanahu Hydropower Project is finally set to begin after a two-year delay. Tanahu Hydropower Limited,

the parent company responsible for overseeing the project, finally appointed consultants for the project after a much delayed selection process. Lahmeyer Group from Germany and Manitoba Hydro International from Canada will serve as sub-consultants for the project. The consultants are set to begin the initial phase of the project by reviewing tender design and project documents. The Project, worth NPR 51.46 billion (USD 505 million), has been co-funded by the Government of Nepal, Asian Development Bank, European Development Bank, and Japan International Cooperation Agency. The installed generating capacity is to be

140MW which is almost as big as Kaligandaki-A.<sup>35</sup>

## HEALTH

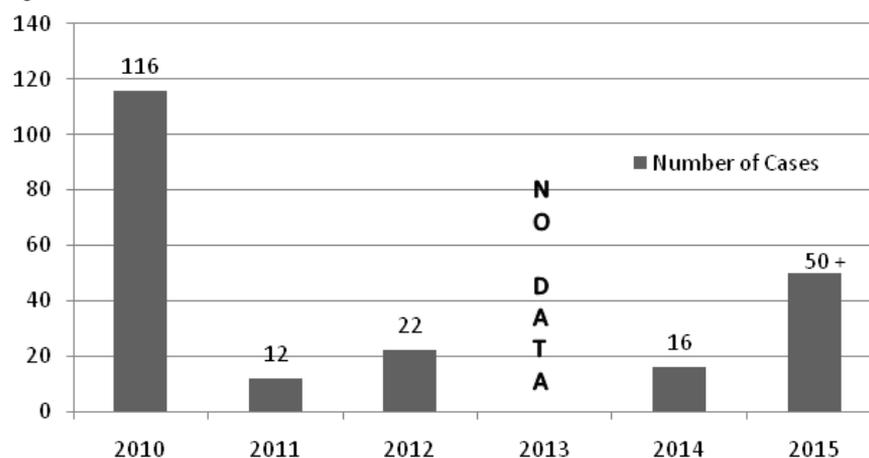
During the recent unveiling of the budget for FY 2015-16, the government highlighted its commitment to provide immediate health services during disasters, natural disasters and epidemics by keeping the health institutions in ready position, and by mobilizing a team from the Ministry of Health with necessary medicine and equipment. Besides an allocation of NPR 750 million (USD 7.3 million) for health facilities for disadvantaged citizens, the government has also earmarked NPR 270 million (USD 2.6 million) to establish a hospital with minimum 15 beds in each newly formed municipality in the coming fiscal year.

### Cholera detected in the capital:

There has been an increasing fear about a possible cholera outbreak in Kathmandu, with an alarming number of cases reported in the first two weeks of August. While Sukraraj Tropical and Infectious Disease Hospital (STIDH) has confirmed that a total of 43 patients have so far been infected with cholera, the Epidemiology and Disease Control Division of the Department of Health Services pegs the figure at 30.<sup>39</sup>

There are reports that suggest that Kathmandu Valley has been witnessing a significant number of cholera cases every year since 2010 (see Figure 3). Cholera is a severe intestinal infection spread mostly by water and food contaminated with bacterium vibrio cholera. Though the number of cases has declined significantly over the last few years, it is expected to rise again

Figure 3: Cholera Count since 2010



Source: The Ministry of Health and Population

## BUDGET HIGHLIGHT: HEALTH

The 2015-16 budget emphasizes on immediate health services during disaster, natural disaster and epidemic. This is, no doubt, the government's reaction to the natural disaster that hit Nepal earlier this year that claimed over 8000 lives and injured thrice that many.

To provide access to basic health services to all, the government also announced a "One Village One Doctor" program that will ensure the presence of at least one doctor in every health facility. In addition, arrangements will be made to ensure that all government hospitals and health posts have necessary medical equipment and health workers. The Finance Minister further announced the allocation of NPR 270 million (USD 2.6 million) to establish a hospital in each newly formed municipalities in the coming fiscal year.

While NPR 750 million (USD 7.3 million) has been earmarked to provide health facility to disadvantaged citizens, it was announced that the government has doubled the budget to make free distribution of medicine more effective. Arrangements have further been made for free health checkup service for the cancer of kidney and ovary once a year in government health institutions. Legal abortion services at the government-run health institution will be free.

Likewise, newborns up to the age of 28 days will get free treatment. In order to declare Nepal a fully immunized country within 2017, the immunization service will be provided to cent percent children.<sup>41</sup> In addition, there has been an initiation for satellite hospital service within the valley to manage pressure in hospitals along with expansions in terms of ICU and NICU in all government hospitals.

this year keeping in mind the worsened sanitation conditions and lack of access to safe and clean drinking water among the disaster-affected communities in Nepal. The Ministry of Health and Population—during its post-quake risk assessment in Kathmandu, Bhaktapur, Lalitpur, Gorkha, Dhading, Sindhu-palchowk and Kavrepalanchowk districts carried out from April 30 to May 24—had found that 74% of water samples collected from the affected districts were unfit for drinking.

**Quake impact on Millennium Development Health goals:** The April 25 earthquake and its aftershocks are likely to upset several Millennium Development Health goals, besides having long term social and economic impacts. Basic health services, including programs for safe motherhood, child and neonatal health, will also bear the brunt in the long term. The Ministry of Health and Population (MoHP) estimates that direct effect of earthquake will be seen in 30,000 deliveries and their new born children. Though Nepal was mandated to attain the MDH target of reducing deaths of pregnant women to 213 among 100,000 by 2015, the country had performed better and reduced it to 190. However, with the collapse of over 135 birthing centers and obstetric care facilities in rural Nepal, the country's achievement in this area may be in jeopardy.<sup>40</sup>

**Programs to cope with PTSD:** Natural disasters, especially of the scale that Nepal witnessed recently, often result in mass cases of Post-Traumatic Stress Disorder (PTSD) for survivors, followed by an increased suicide rate. In order to reduce the impact of the

trauma, various organizations are conducting programs that aim at reducing long term mental health issues. Among the popular programs are radio shows where health professionals respond to live questions from callers and address their concerns. Likewise, group therapy sessions have helped earthquake survivors, who have no home to return to, not only cope with their loss but also help other survivors heal. Though efforts are on to help people with PTSD, the UN Resident Coordinator in Nepal estimates that 2.8 million people are still in need of some form of assistance.

## INFRASTRUCTURE

The development of infrastructure is a key driver of the economy and is highly responsible for propelling Nepal's overall economic growth. The infrastructure sector primarily comprises of electricity, roads, telecommunications, irrigation, airports, sanitation, water supply and dry port. Recognizing the adverse implication of poor infrastructure development the government has significantly increased its infrastructure spending over the last 10 years.

**Road infrastructure:** As per the Economic Survey 2014-15 published by the Ministry of Finance, the country's total road network has reached 80,078 km. This includes 26,935 km roads constructed and maintained by the Department of Roads and 53,143 km roads constructed by government local bodies.

**Rail transport:** Since the establishment of the Department of Railways in 2010-11, programs including Mechi-

Mahakali electric railway and Indian government assisted railway program have been initiated through the Railway and Metro Development Project. Detailed reports of the Simara-Bardibas section (108 km), Tamsariya-Butwal section (65 km), Birgunj-Simara Link (26 km), and Bhutwal-Bhairawa Lumbini link (42 km) have been completed under the Mechi-Mahakali Electric Railways plan.<sup>42</sup>

**Hydropower infrastructure:** The electricity production of the country increased from 746 MW in fiscal year 2013-14 to 782.45 MW, an increase of 4.89% during the first eight months of the fiscal year 2014-15. Similarly, the transmission line has been extended by 1987.36 km during the same period. The Ministry of Finance estimates the demand for electricity at 1291.1 MW. The supply gap currently stands at 508.65 MW.

**Oil pipeline deal:** A Memorandum of Understanding for construction of 41 km Amlekhgunj-Raxaul oil pipeline was signed between Nepal and India. The project is estimated to cost NPR 4.4 billion (USD 43.2 million) and is expected to be completed within 30 months after the construction work begins. Indian Oil Corporation will provide NPR 3.2 billion (USD 31.4 million) as a grant while Nepal Oil Corporation will invest the rest of the amount for upgradation of the oil depot at Amlekhgunj.<sup>43</sup>

**Minimum revenue guarantee for fast track:** The Ministry of Physical Infrastructure and Transport has assured the Indian consortium that is expected to bag the contract of the fast track project an annual minimum revenue

guarantee of USD 155 million (NPR 15.8 billion). The consortium comprises of Infrastructure Leasing and Financial Services (IL&FS), Transportation Networks, IL&FS Engineering and Construction and Suryavir Infrastructure Construction. The ministry also assured providing soft loans of USD 750 million (NPR 76.4 billion) and an additional USD 150 million (NPR 15.3 billion) as equity. However controversy surrounds the minimum revenue guaranteed. The question being raised is why the government is willing to pay such a high amount in addition to soft loan and equity. Further as per the agreement with the Indian Consortium the toll charges a car is to be NPR 1600 (USD 16), bus NPR 3100 (USD 30), heavy trucks NPR 4600 (USD 45) and bikes NPR 800 (USD 8). The toll charges are believed to be the second most expensive toll charges in the world after Japan. The project cost is estimated at USD 1.1 billion (NPR 112.1 billion).<sup>44</sup>

**Solar light project:** The Kathmandu Metropolitan City (KMC) authority has allocated NPR 60 million (USD 588,754) for developing solar powered street lighting system. The KMC is evaluating two models for solar installation: one involves installing individual solar lamps along the streets while the second model aims at establishing an integrated solar power generation center.<sup>45</sup>

**Khimti-Dhalkebar transmission line resumes construction:** The construction of the 220 KV Khimti-Dhalkebar transmission line has resumed after two years. The project's construction work began in 2004

through grant assistance from the Asian Development Bank; the project was halted following a dispute over distribution of compensation.<sup>46</sup>

## BUDGET HIGHLIGHT: INFRASTRUCTURE

**Reconstruction and rebuilding:** The first phase of reconstruction is estimated to cost NPR 667 billion (USD 6.5 billion). For the current fiscal year 2015-16, the government has allocated NPR 74 billion (USD 726.1 million) for reconstruction and rehabilitation which will be managed from the National Reconstruction Fund. This includes NPR 50 billion (USD 491 million) for residential rebuilding, NPR 3 billion (USD 29.4 million) for public building rebuilding, NPR 2 billion (USD 19.6 million) for historical and archeological site rebuilding, and NPR 6 billion (USD 58.9 million) for manufacturing sector rebuilding; NPR 6 billion (USD 58.9 million) has been allocated to social sector and NPR 7 billion (USD 68.6 million) to all other infrastructure rebuilding. An additional NPR 17 billion (USD 166.8 million) has been allotted for rehabilitation and reconstruction in addition to the expenditure made from the National Reconstruction Fund.

**Civil Aviation:** The Tribhuvan international Airport has been allocated NPR 1.75 billion (USD 17.2 million) for upgradation while NPR 5.75 billion (USD 56.4 million) has been allocated for the construction and improvement of other airports. NPR 2.5 billion (USD 24.5 million) has been allocated for upgrading airports in Rajbiraj, Nepalgunj and Dhangadhi; meanwhile NPR 2.5 billion (USD 24.5 million) has been allocated to complete Gautam Buddha Airport.

**Roads and highways:** NPR 3.19 billion (USD 31.3 million) has been allotted for completing the postal road in the Tarai-Madhesh region while NPR 310 million (USD 3.04 million) has been earmarked for improving roads in the Mithila area. For land acquisition and construction of railway track of Bardibas-Simara sector, the government has assigned NPR 1.86 billion (USD 18.3 million). NPR 1 billion (USD 1 million) has been allocated for the Kathmandu-Tarai Madhes Fast track, NPR 1.95 billion (USD 19.1 million) for completion of Mid Hill highway, and NPR 290 million (USD 2.8 million) for the construction for Tanakpur Link Road, Patan-Pancheshor Road and Darchula-Tinkar Road. The newly unveiled budget has further announced NPR 2.05 billion (USD 20.1 million) for the construction of suspension bridges, NPR 1.7 billion (USD 16.7 million) for the expansion of the Suryabinayak-Dhulikhel road, and NPR 1.67 billion (USD 16.4 million) for the construction of Thankot-Naubise tunnel.

**Irrigation:** For irrigation sector, the government has allotted NPR 4.95 billion for the Melamchi Water Supply project, NPR 3.76 billion for Sikta, Rani Jamara Kulariya and Babai irrigation projects, and NPR 750 million for the construction of Mahakali Third Irrigation project.

## MANUFACTURING AND TRADE

Nepal's manufacturing and trade sector is failing to exhibit significant growth. The export value of goods continues to decline, while the

imports figure has gone up by 7%. Though imports slowed as a result of the April 25 earthquake, they are still almost nine times higher than the export value. The government's stagnant export goal for the 12th and 13th three-year plans—which targets exports of NPR 100 billion (USD 981.26 million)—is clear evidence of a lack of anticipated growth in the manufacturing and trade sector.<sup>47</sup>

**Foreign trade scenario:** In the first eleven months of FY 2014-15, goods worth NPR 77.83 billion (USD 763.71 million) were exported. This is a decline of 4.8% as compared to the same period last fiscal year where exports had increased by 16.9% as shown in Table 2. Exports to India, China and other countries all witnessed a decline of 6.3%, 0.8% and 1.8% respectively. Import growth has also slowed down to 7% compared to the growth of 27% during the same review period of FY 2013-14. The country imported goods worth NPR 690.69 million (USD 6.78 million) during this review period. Imports from China have witnessed a sharp rise of 41.4%, while imports from India, grew at a rate of 1.4% but still mark the top spot in monetary value of imports.

**Top exports, imports:** Though iron and steel products, and woolen carpets—along with yarns (polyester, cotton and others)—make up the top three exported items in terms of monetary value, the former two have witnessed a decline of 9.7% and 5.4% respectively. Meanwhile, the export of vegetable fats and oil have registered the highest decline of 69.9%. In terms of import, while petroleum products continue to remain the top imported item, they have registered a 18.4% decline. This decline, however, is only in monetary

**Table 2: Foreign Trade Statistics for the First Three Months of FY 2014-15 (in millions)**

| NPR in millions            | 2012/13   | 2013/14 <sup>R</sup> | 2014/15 <sup>P</sup> | Percent Change |         |
|----------------------------|-----------|----------------------|----------------------|----------------|---------|
|                            |           |                      |                      | 2013/14        | 2014/15 |
| <b>TOTAL EXPORTS</b>       | 69926.7   | 81730.5              | 77831.1              | 16.9           | -4.8    |
| To India                   | 46434.9   | 54540.9              | 51108.0              | 17.5           | -6.3    |
| To China                   | 1905.2    | 2175.3               | 2157.7               | 14.2           | -0.8    |
| To Other Countries         | 21586.6   | 25014.4              | 24565.4              | 15.9           | -1.8    |
| <b>TOTAL IMPORTS</b>       | 508600.1  | 645703.6             | 690696.9             | 27.0           | 7.0     |
| From India                 | 335731.1  | 431621.1             | 437728.6             | 28.6           | 1.4     |
| From China                 | 57608.0   | 65197.1              | 92171.4              | 13.2           | 41.4    |
| From Other Countries       | 115261.0  | 148885.4             | 160796.9             | 29.2           | 8.0     |
| <b>TOTAL TRADE BALANCE</b> | -438673.4 | -563973.1            | -612865.8            | 28.6           | 8.7     |
| With India                 | -289296.2 | -377080.2            | -386620.6            | 30.3           | 2.5     |
| With China                 | -55702.8  | -63021.8             | -90013.7             | 13.1           | 42.8    |
| With Other Countries       | -93674.4  | -123871.0            | -136231.5            | 32.2           | 10.0    |
| <b>TOTAL FOREIGN TRADE</b> | 578526.8  | 727434.1             | 768528.0             | 25.7           | 5.6     |
| With India                 | 382166.0  | 486162.0             | 488836.6             | 27.2           | 0.6     |
| With China                 | 59513.2   | 67372.4              | 94329.1              | 13.2           | 40.0    |
| With Other Countries       | 136847.6  | 173899.7             | 185362.3             | 27.1           | 6.6     |

Based on customs data R=Revised / P=Provisional

*Source: NRB Report –Current Macroeconomic Situation, Based on eleven months data of 2071-72*

terms due to the fall in oil prices in the international market. Iron and steel products are the second most imported product followed by machinery and parts, and transport vehicles and parts.

Import of gold has witnessed a decrease

of 75.1%. Nepal Rastra Bank's Current Macroeconomic Situation data shows gold worth NPR 5.9 billion (USD 57.89 million) being imported in the eleven months of FY 2014-15; the figure stood at NPR 23.97 billion (USD 235.2 million) during the same

period last fiscal.<sup>48</sup> Meanwhile, Trade and Export Promotion Center's data shows a slight discrepancy with the record of NPR 8.06 billion (USD 79.08 million) worth of gold imports during the first eleven months of FY 2014-15. This is a 66.3% decline compared to the same period last fiscal.<sup>49</sup> The stark decline in import of gold has not been substantiated by an equal decline in gold demand. This can imply three scenarios: the consumers are recycling majority of their gold, or people who previously hoarded gold are selling off their stock, or a large volume of gold is coming through informal channels.

**Trade deficit:** The trade balance continues to record an alarming deficit, with the current deficit growing by 8.7% to NPR 612.87 billion (USD 6 billion). During the same period last fiscal, trade deficit had increased by 28.6%. The trade deficit with China has increased sharply by 42.8%, which can be attributed to the sharp increase in imports from China. Deficit with India and other countries has also risen by 2.5% and 10% respectively. Keeping this in mind, the Ministry of Commerce and Supplies has proposed a result-based approach from all stakeholder ministries to tackle this issue.

Ministry of Energy and Agricultural Development can reduce the trade deficit by adopting strategies to reduce import of petroleum and cereals. The country, despite being agriculture based economy, imports substantially high amount of food. Similarly, despite a huge potential for being self-reliant in electricity through hydro-electricity generation, the country still imports large amounts of diesel, petrol and generators due to lack of electricity supply.

The Ministries of Finance, Commerce, Energy, Agriculture, Industry, and Forest, are slated to soon hold a discussion under the coordination of the Ministry of Commerce to formulate a plan to cope with the challenges of large trade deficit.<sup>50</sup>

**BOP surplus:** The country recorded a Balance of Payment (BOP) surplus of NPR 127.20 billion (USD 1.26 billion) during the eleven months of the fiscal year 2014-15 along with a current account surplus of NPR 95.29 billion (USD 939.2 million). This is an increment from the BOP surplus of NPR 109.56 billion (USD 1.10 billion) and current account surplus of NPR 77.84 billion (USD 785.4 million) recorded during the same period last fiscal.<sup>51</sup>

**Lobby for DFQF facility for Nepali garments:** The bill tabled by US Senator Dianne Feinstein to provide preferential treatment to certain articles, including apparels imported directly from Nepal, is stuck in the US senate. Nepali garment industry suffered heavily when the quota system came to an end in 2005. Currently, the United States grants duty free quota free (DFQF) facility to the African states under its African Growth and Opportunity Act. During its peak stage, Nepali garment industry accounted for 0.2% of USA's total garment imports. US law provisions allow duty-free facility to goods with less than 1.5% market share. Given the events of April 2015, the revival of the garment industry will greatly aid in the strengthening and rebuilding of the country's economy. The government now needs to start lobbying with Senators of California, Texas and

Virginia, among others, to push the bill. If Nepal gets the DFQF facility from USA, the export of garments is anticipated to rise to around NPR 15 billion (USD 147.18 million) per year, meanwhile creating employment for 500,000 individuals.<sup>52</sup>

**Nepal-India Treaty of Trade to be revised:** Nepal is in the process of reviewing the Nepal-India Treaty of Trade by October 2016. This revision will be valid for another seven years. Experts have suggested the removal of provision of quantitative and qualitative restrictions on Nepali goods in the Indian market. Capitalizing on the Indian Prime Minister's commitment to reduce trade gap with its South Asian neighbors, Nepal needs to negotiate for preferential market access. Experts have also opined that Nepal needs to tackle its supply side constraints, such as the lack of reliable energy source, labor unrest, etc., in order to create a conducive environment for foreign direct investment.<sup>53</sup>

**Revision of incentive schemes:** A review of the system of cash incentives to exporters is on the cards. The current scheme provides exporters with up to 2% of the value of the goods as an incentive. The government is planning to revise the list of goods for which the facility is being provided. Along with amending the procedure for providing the cash incentives, the government may also hike the incentives for high potential export products. The private sector had recently urged the government to provide incentives on exports to India and also raise the incentive amount as it is very less compared to the neighboring countries' schemes.<sup>54</sup>

### BUDGET HIGHLIGHT: MANUFACTURING AND TRADE

In its budget announcement for 2015-16, the government has stressed on effective supply system management and programs to encourage export and reduce the widening trade deficit. However, it does not provide specific measures to address the issue of declining exports and increasing imports. The newly announced budget provides continuation to the cash incentive system but does not extend the incentives to the agriculture sector nor to goods exported to India. The government intends to mobilize capital in the productivity sector and encourage private sector for promoting merchandise of comparative benefit and service. Lastly, under the budget for reconstruction and rehabilitation, the government has allotted NPR 6 billion (USD 58.87 million) for manufacturing sector rebuilding.<sup>58</sup>

notify the WTO about their preparation regarding TFA implementation. Altogether 65 countries have notified WTO regarding their ability to implement all 36 measures signed in TFA by November 27, 2015.<sup>56</sup>

**IE code to be implemented:** The Import-Export code (IE Code), a software-based system designed to streamline the process of import and export in the country, will be introduced in the near future by the Department of Commerce and Supply Management (DoCSM). This system, aimed at hassle free customs clearance, will be implemented in association with the Department of Customs (DoC). DoCSM will provide a code number to the importers and exporters, which when entered into the system, will show detailed profile of the firm, its permanent account number, value added tax registration number, etc. The DoC will link the code with the Consulate General Office in Kolkata whereby the importer/exporter won't have to take a letter from DoCSM for customs declarations of imports from third countries at Kolkata port.

Currently, the process of customs transit declaration at Kolkata port while importing goods requires four documents: invoice of imported goods, letter from DoCSM, Letter of Credit record from Nepal Rastra Bank, and letter from Consulate General Office in Kolkata. Moreover, the DoC will identify any sensitive importer/exporter and sensitive products in terms of revenue and other aspects. Thereafter, the DoC will shorten time for customs clearance of goods and will also have detailed information of all parties and activities.<sup>57</sup>

**Cabinet approves revised Trade Policy:** The Cabinet has approved the revision to the Trade Policy of 2009. The revised policy—which attempts to align itself with other related policies that have an impact on trade—is focused on reducing supply side constraints to boost production, and high value addition in export of merchandise goods and service export. The policy also focuses on service trade to utilize the preferences extended by the developed countries for Least Developed Countries and other regional arrangements like the SAARC Agreement on Trade in Services.

The Trade Policy, 2015, further focuses on promoting engineering services, hydropower, tourism, education, information technology, business process outsourcing, health services and labor. In terms of goods trade, the revised policy has incorporated 25 products considered to be of comparative and competitive advantage. The list is compatible with Nepal Trade Integration Strategy. The policy also prioritizes aid for trade in trade-related infrastructure and trade facilitation,

and export incentives based on the scale of value addition.<sup>55</sup>

**Update on Nepal's TFA preparation:** Nepal has prepared a gap analysis report regarding its preparation for the implementation of Trade Facilitation Agreement (TFA) of which the World Trade Organization (WTO) will be notified shortly. The country had agreed to implement TFA during the ninth ministerial meeting of the World Trade Organization (WTO) in 2013 wherein member countries had agreed upon 36 technical measures for the enhancement of trade capacity and export competitiveness.

The report identifies the measures the country can implement itself within one year of the agreement coming into force, measures needing additional time of two years for implementation, and measures it cannot implement without additional time and external support.

The member countries of TFA—which came into effect from November 27, 2014, with the acceptance notification from two-third members—need to

## REAL ESTATE

The National Planning Commission estimates the housing sector will need NPR 69.97 billion (USD 686.9 million) to restore homes destroyed by the earthquake. In its Post Disaster Needs Assessment Report, the commission reported that 591,647 private houses were completely destroyed and another 276,395 houses suffered partial damage, resulting in damages worth NPR 303.63 billion (USD 3 billion) and losses worth NPR 46.91 billion (USD 460.3 million).<sup>59</sup>

**Increased investment by cooperatives in realty:** Cooperatives based in Kaski accounted for 30% of their total investment of NPR 13.44 billion (USD 131.9 million) in the real estate sector during the fiscal year 2014-15.<sup>60</sup> Regulations state cooperatives cannot lend more than 25% of their total portfolio to the realty business.

**Construction bans affecting BFIs:** The government's delay in lifting its ban on the construction of new houses has affected banking and financial institutions (BFIs). As a result, BFIs have been unable to provide or extend loans for commercial housing loans and residential home loans, which constitute a significant business portion for BFIs. According to Nepal Rastra Bank, BFIs extended loans amounting to NPR 170 billion (USD 1.7 billion) in home loans and realty sector during the first eight months of fiscal year 2014-15.

## REMITTANCE

During the first 11 months of the fiscal year 2014-15, internal trade reached

## BUDGET HIGHLIGHT: REAL ESTATE

Fiscal year 2015–16 has tried to adopt various measures to ensure planned urbanization. The budget envisions allocating land to develop new residential colonies or settlement by implementing land use policy. The budget states individuals and companies will now require prior approval from local authorities to plot land for residential purpose, which will be permitted by ascertaining easy access of basic infrastructures. The budget mentions implementing land use policy for residential area, incorporating earthquake resistant designs, mandatory approval for land plotting, strictly enforcing building code and building by-laws to regulate organized urbanization. The government's decision to allow foreign nationals to invest in apartments and to smoothen the process for the same is bound to provide relief to apartment developers.

NPR 612.87 billion (USD 6.01 billion). Increased imports and declining exports further widened the country's trade deficit. Despite the increase in trade deficit, favorable balance of payment situation was observed due to a rise in remittance inflow and foreign aid mobilization.<sup>61</sup> The balance of payment surplus of NPR 127.20 billion (USD 1.24 billion) was registered during the review period. Under the transfers, workers' remittances increased by 12.4% to NPR 551.74 billion (USD 5.41 billion) compared to an increase of 26.4% in the same period last fiscal.

### Average daily remittance up by double:

The average per day remittance inflow went up to NPR 2.10 billion (USD 20.6 million) in the one month period between April and May compared to an inflow of NPR 1.58 billion (15.5 million) before the earthquake.<sup>62</sup> Total remittance income of the country increase by 12.4% to NPR 551.74 billion (USD 5.41 billion) in the first 11 months of the current fiscal year compared to an increase of 26.4% during the same period in the previous year. In US dollars terms, workers' remittances increased by 11.2% to

USD 5.55 billion (NPR 565.6 billion) in the review period compared to an increase of 12.2% in the same period last fiscal year.<sup>63</sup>

The 12.4% hike in remittance income helped the country's foreign exchange reserve grow by 21.7% to NPR 809.48 billion (USD 7.94 billion) in mid-June 2015 from NPR 665.41 billion (USD 6.52 billion) in mid-July 2014. In US dollar terms, the gross foreign exchange reserves increased by 14.2% to USD 7.92 billion (NPR 807 billion) in mid-June 2015.

The hike in remittance income also helped the country post a current account surplus of NPR 95.29 billion (USD 935 million) during the review period compared to a surplus of NPR 77.84 (USD 763.81 million) in the same period during the previous fiscal year.

**Remit Hydro:** To channelize remittance into hydropower development, state-owned Hydroelectricity Investment and Development Company Limited (HIDCL) is set to table a proposal at the Department of Electricity Devel-

opment for acquiring a license to develop a hydropower project through the remit-hydro scheme announced by the government. The scheme promotes investment of a portion of remittance sent home by migrant workers for hydropower development. After the project comes into operation, investors will be paid a monthly allowance, besides being offered shares in the project.

The HIDCL will be making 51% investments in each project, of which 24% of the investment will come from migrant workers, 10% from the local people where project site is situated, and the remaining 15% of the funding will be raised through an initial public offering. In order to attract the migrant workers to invest, the HIDCL plans to come up with a scheme under which the migrant workers can buy project shares by paring in Equated Monthly Installment.<sup>64</sup>

**Remittance, pre and post earthquake:** Prior to the April 25 earthquake,

### BUDGET HIGHLIGHT: REMITTANCE

Despite the rise in trade deficit, the inflow of remittance and foreign aid mobilization created a favorable balance of payment situation. The balance of payment surplus of NPR 127.20 billion (USD 1.24 billion) was registered during the review period.

The budget also highlighted the utilization of remittance in productive sector and capital formation, project development work and enhanced it under the concept of 'Remit Hydro'.

official remittance flows resulting from external migration accounted for an estimated 30% of GDP, almost as much as agricultural production's contribution to GDP. Post earthquake, there was a 20% increase in remittance inflows. This trend is far above the 7% increase recorded in the months prior to the earthquake.

For families of migrant workers, remittance is an essential pillar for household income. However, post earthquake, some of the remittance was channeled to civil society and individuals organizing relief, as opposed to covering household expenses. Informal remittance agencies also known as *hundi* were a traditional method of sending money by the migrant workers, especially those in Gulf countries. However, in the first month after the earthquake, because formal remittance companies lowered or suspended service chargers, usage of *hundi* decreased.<sup>65 66</sup>

An estimated 30% of the country's population is heavily dependent on remittance for basic needs. External migrants increased the volume of remittance to Nepal after the quake, with an estimated 35% increase in remittance flows in the months following the earthquakes as compared to last year. Remittance has helped reduce Nepal's poverty rate; poverty would increase from 19% to 35% if remittance stopped.

### TELECOMMUNICATION AND MEDIA

The Telecom sector of Nepal registered a 17% growth in the number of telecom

users between Mid-April 2014 and Mid-April 2014. During the same period, Nepal Satellite Telecom's (NSTPL) Hello Nepal brand registered the highest growth in the sector with a whopping 123% rise in its customer base while Nepal Telecom recorded a growth of 22%. The teledensity of the country currently stands at 103.42% while mobile service penetration rate stood at 97%.

Nepal Telecom (NT) and Ncell together hold market share of over 90% with 12.68 million subscribers and 12.54 million subscribers respectively. The market share of telecom operators are shown in Figure 4.

The growth in Data/Internet users increased from 8.3 million users in April 2014 to 11.5 million users in April 2015, a growth of 37%. The internet penetration rate currently stands at 43.36%.

**NTA's plan for utilizing RTDF:** The government plans to utilize NPR 1.48 billion (USD 14.5 million), i.e. approximately 14% of the total Rural Telecommunication Development Fund (RTDF) of NPR 10.22 billion (USD 100.3 million) for implementing four projects related to development of Information and Communication Technology. The RTDF fund was established under the provisions of the Telecommunication Act 1997. Till date, only 2.6% of the RTDF has been spent.<sup>68</sup> The four projects are depicted in the Table 3.

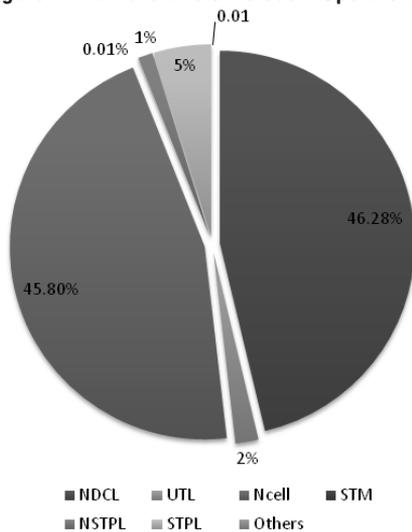
**License Renewal fees:** Nepal Telecommunications Authority collected license renewal fee amounting to NPR 15 billion (USD 147.2 million) from Nepal Telecom (NT) and Ncell. Both telecom operators paid NPR 7.5 billion (USD 73.6 million) each out

of their total renewal fee of NPR 20 billion (USD 196.3 million).<sup>69</sup> Telecom operators are allowed to operate for ten years on obtaining a license for the first time. Thereafter, the licenses must be renewed every five years.

**Guidelines for quake resistant BTS:** Nepal Telecommunications Authority (NTA) is all set to implement a guideline to better manage base transceiver stations (BTS), commonly known as mobile towers. Following the powerful earthquakes of April and May, NTA's main priority now is to ensure all mobile towers are earthquake resilient so that communication lines can be kept active even during disasters.

According to the draft directive on building telecommunication antenna, structures and towers, it will be mandatory for telecom service operators to obtain approval from NTA to set up towers. The guideline will require mandatory third-party insurance and

**Figure 4: Market share of Telecom Operators**



Source: Nepal Telecommunication Authority

**Table 3: RTDF's estimated spending in future projects**

| S.N. | Project Details  | Budget                            |
|------|--|-----------------------------------|
| 1    | District Optical Fiber Network Program                                       | NPR 1 billion (USD 9.8 million)   |
| 2    | Broadband infrastructure development in 14 earthquake-affected districts     | NPR 330 million (USD 3.2 million) |
| 3    | Establishment of one e-village development committee in each of 75 districts | NPR 75 million (USD 735,000)      |
| 4    | Internet service extension to 500 rural community schools and colleges       | NPR 75 million (USD 735,000)      |

installation of rooftop towers only on houses built according to the Nepal Building Code. The telecom operators will be required to avoid installing towers in residential areas, near schools and hospitals as much as possible, and set up emergency response mechanism to provide continuous communication service during disasters. The guideline will also make it mandatory for the companies to obtain permission from Civil Aviation Authority of Nepal to construct towers more than 30 meters tall. Further, large size towers will be required to have the capacity to accommodate a minimum of three service providers for infrastructure sharing.<sup>70</sup>

**Infrastructure sharing in quake-hit areas:** The Nepal Telecommunications Authority (NTA) has sought proposal from Nepal Telecom, Ncell, and Smart Telecom for infrastructure sharing, particularly in remote areas affected by the earthquake. The NTA, on a cost sharing basis, plans to utilize funds from the Rural Telecommunication Development Fund to build telecom infrastructures.<sup>71</sup>

## **TOURISM**

Tourism—one of the most important economic pillars of Nepal—was another

badly affected sector. Businesses in the industry lost an estimated USD 100 million (NPR 10.19 billion) after the earthquake.<sup>72</sup> Though most of the tourism destinations are safe for travel, negative international news coverage and images of wide-spread devastation contributed to a slump in tourism numbers. Nepal now needs to focus on rebranding and re-establishing its tourism products in a sustainable manner. The government needs to be transparent in sharing its safety assessment of key tourism destinations.

**15% destination affected by earthquake:** According to Minister for Culture, Tourism and Civil Aviation Kripasur Sherpa, only 15% of tourist destinations in the country have been affected by the earthquake. This includes a few parts of the Great Himalaya Trail, some cultural monuments in Kathmandu Valley, and a few trekking trails in Langtang, Gosainkunda, Gaurishankar and Manaslu areas. The government has appointed prominent Everest summiteers, including the sons of Sir Edmund Hillary and Tenzing Norgay Sherpa, as goodwill ambassadors to promote Nepal.<sup>73</sup> Furthermore, Nepal Tourism Board has appointed 17 public relation representatives and honorary tourism goodwill ambassadors and five honorary mountain tourism goodwill ambassadors.<sup>74</sup>

**Safety audit of mountains, trekking trails sought:** Trekking and mountaineering agents have sought safety assessment of the trekking trails in Nepal from international geologists and experts. Emphasizing on the need for a sustainable move to restore and redevelop the trails, the mountain tourism operators have asked the government to prioritize on long term gains. Although the repair work for trails and bridges have already started, it will be difficult to market adventure tourism products without a scientific acknowledgement of the safety of the trail,

Government officials also see eye to eye with the private sector's assessment and are looking for funding this project. Although Nepali geologists and local experts are component to carry out such scientific study, the emphasis has been given to international consultants mainly to improve the level of acceptance among the international visitors regarding the safety of the trails.<sup>75</sup>

Ministry of Culture, Tourism and Civil Aviation's (MoCTCA) preliminary assessment shows 150 kilometers of trekking trail is completely damaged. Experts will further assess the probability of landslides and sinkholes to avoid further catastrophe. While MoCTCA was instructed to conduct safety audit of the affected World Heritage Sites and tourist attractions, the Ministry of Finance is to release funds to carry out these assessments.<sup>76</sup>

**Embassies to promote Nepal:** The government has directed all of the 35 Nepali embassies, permanent missions and consulates to launch campaigns

to attract foreign tourists to Nepal. This will include organizing a series of program and events to establish the image of Nepal as a safe destination. Nepali missions in Thailand, China, Hong Kong, Japan and India have already launched various campaigns following the directive.<sup>77</sup>

**Landslips affects tourism:** The landslide along the Beni-Jomsom road section has disrupted the flow of tourists and devotees visiting Mustang district. During mid-April to mid-July, tourists from India and other countries visit the district to worship in the famous Muktinath Temple and take a holy bath in Kagbeni. Direct bus service is disrupted due to landslides in Marpha, Rupse, Tiblyang and Baisari along the highway. Since the weather conditions have not been good, the passengers are compelled to change the vehicles in three different points during the travel.<sup>78</sup>

**NTB to get a CEO:** The Tourism Ministry, after a hiatus of three and half years, is set to appoint a chief at Nepal Tourism Board (NTB). A sub-committee led by the joint-secretary of Tourism Ministry, Sadhu Ram Sapkota, has been assigned with the task of amending NTB's CEO selection procedure. The amended procedure allows the ministry to send its joint-secretary to fill the three-member CEO selection sub-committee quorum.

The current NTB Act and Regulation requires a three-member sub-committee to be formed among five members representing the private sector on the board to appoint the CEO. The dispute among private sector representatives has resulted in several setbacks in

the efforts to appoint a new boss as the ministry had not been able to appoint three members from the private sector due to pertinent legal hurdles. The process of appointing members became complicated after the Commission for the Investigation of Abuse of Authority filed a charge sheet in the Special Court against 23 NTB employees, including sitting board members.<sup>79</sup>

**Private sector urged to invest in rebuilding tourism:** After the devastating earthquake of April 25, the private sector-led tourism industry will require millions of dollar only in the promotional and rebranding front to re-establish the image of the country as a safe and attractive tourist destination. However, people within the industry are disappointed at the lack of effort from the stakeholders to revive the sector. It is believed that the industry can collect enough fund to reconstruct basic infrastructure and promotional activities to get the industry back on track.

However, the current scenario shows the unwillingness of the private sector to initiate activities without financial support from the government. Although this is not true for the entire sector, as some groups such as Hotel Association Nepal have initiated the collection of funds from its members to carry out global promotional activities. Through the recently established Tourism Recovery Committee, the idea of setting up a pool of funds to be raised from tourism business associations has been proposed to conduct promotional activities in the global arena.<sup>80</sup>

**Tourism revival panel formed:** The government has constituted a national

committee for the revival of the country's tourism sector following the April 25 earthquake. The 36-member panel led by Tourism minister, Kripasur Sherpa will be coordinating the overall activities ranging from recovery to reconstruction of tourism infrastructure. The panel includes tourism entrepreneurs, the Director General of Department of Tourism, and joint secretaries from the Ministries of Culture, Tourism and Civil Aviation; Foreign Affairs; Finance; and Local Development.<sup>81</sup>

#### **Plans on to organize Visit Nepal Year:**

Entrepreneurs have welcomed the government's idea of organizing Visit Nepal Year (VNY) campaign in 2017 and 2018 to rebuild and rebrand Nepal's tourism image. At a time when tourism revenue from entry fees at cultural monuments in Kathmandu alone has been estimated to decline by USD 6 million over the next 12 months, a rebranding campaign is expected to help promote Nepali tourism brand in the international arena.

Meanwhile, entrepreneurs are of the view that the government alone cannot re-brand and promote Nepal on its own and should adopt a Public Private Partnership (PPP) model for implementing the campaign. Before declaring VNY, the government needs to work towards establishing a positive image of the country. In this regard, the Post Disaster Needs Assessment carried out by the government has identified four phases for the recovery of tourism: identifying and assessing unaffected and safe tourist destinations, creating a safe trekking system for mountain tourism in Nepal, rebuilding and redeveloping damaged areas, and iden-

tifying and developing new products and services.

In order to make VNY successful, the government needs to focus on strengthening the national flag carrier, and promote new destinations like Dolpa, Rara, Jumla and Ilam by organizing international events like Indra Jatra, Mani Rimdu, and Everest Marathon.<sup>82</sup>

#### **Nepal makes it to two best tourist destination lists:**

Lonely Planet has listed Annapurna as one of the "Best places to travel in October 2015". The travel guide book publisher has recommended October as the peak season for trekking and Annapurna region as a great place to start.<sup>83</sup> Similarly, Kathmandu has been listed by TripAdvisor.com, the world's largest travel site, as one of the best tourist destinations in its 'Travelers' Choice Destinations 2015'. Listed in the 19th position among the 25 countries around the globe, Kathmandu has been portrayed as an important tourist destination with historic temples, monuments, villages, alluring hills and mountains and hiking routes.<sup>84</sup>

#### **Annapurna circuit declared safe for trekking:**

Annapurna circuit has been declared safe for trekking following assessment by Miyamoto International of Japan, a global structural and earthquake engineering firm. The study conducted safety audit of the famous 200km trail, 30 bridges and 250 accommodations. Only 3% of the accommodations have suffered damages while all bridges are safe. The study has advised for a post-monsoon assessment of the proposed new routes of the four sub-sections of the trail

between Kimrong and Chhomrong.<sup>85</sup> UK funded SAMARTH had provided assistance for the damage assessment of the Annapurna region.

#### **Everest trail mostly unaffected:**

In its study, Miyamoto International, which conducted a rapid safety assessment of 15 villages in the Khumbu region, has shown 83% of the area's 710 accommodation facilities are safe and ready to receive guests. The structural and geotechnical assessment was conducted from June 27 to July 2 wherein accommodation facilities, trails and suspension bridges of the region were assessed. Department of Tourism and trekking agencies will be conducting a further post-monsoon detailed safety assessment of the region.<sup>86</sup>

#### **Prices slashed to lure visitors:**

The tourism entrepreneurs of Pokhara are running promotional campaigns with discount offers to entice visitors and to communicate that Pokhara is safe. Hotels, restaurants and trekking packages are being sold at discount. The discounts are being offered by hotels and restaurants that are affiliated to Western Development Region Hotel Association.<sup>87</sup>

Following the initiative of tourism promotion in Pokhara, entrepreneurs in Sauraha have also launched discount schemes to attract visitors. Although Sauraha did not have any major impact resultant of the earthquake, the news of widespread destruction across the country has resulted in a plunge in visitor number. The entrepreneurs are ready to provide their services at a discount to rebuild the tourism sector. Sauraha has been celebrating Zero Poaching Year for the last three years

resulting in the increment of one-horned rhino's population and tiger population.<sup>88</sup>

**Lumbini travel traders' exhibit in Bangkok:** To help revive Lumbini's tourism, an 11-member team of travel traders from Lumbini visited Bangkok to hold a photo exhibition of Lumbini and various other Buddhist pilgrim sites in Nepal. This is a part of their promotional campaign under the slogan 'Visit Lumbini, Help Nepal'. The team led by Chandra Prakash Shrestha, president of Siddhartha Hotel Association of Nepal, interacted with media and tour operators in Thailand to promote Lumbini and Nepal's tourism sites in Bangkok, and also to spread the message that Nepal is safe after the earthquake.<sup>89</sup>

**Unharmed Namche awaits tourists:** Namche, regarded as the gateway to the world's highest mountain Mt. Everest and deemed to be equally attractive for non-mountaineers due to its scenic beauty, remains devoid of tourists even though the village was left relatively unharmed by the earthquake. Although basic tourism infrastructure remains intact and visitors can be accommodated, persistent coverage of Nepal's earthquake has built a negative perception among tourists that all destinations in the country, including Namche, have been devastated.<sup>90</sup>

**Fairfield Hotel receives USD 3 million loan from IFC:** Nepal Hospitality and Hotel Limited, which is building a three star Fairfield Kathmandu Hotel in Kathmandu's tourist centre Thamel, has struck a loan agreement with International Finance Corporation (IFC), a member of the World Bank Group.

The 110 room hotel to be constructed with an investment of USD 12 million will be operated by international chain Marriott under the Fairfield brand. IFC will be mobilizing another USD 3 million (NPR 0.31 billion) from FMO, a Netherlands-based development bank. This investment is expected to improve the country's capacity in the mid-market hotel segment, create jobs and contribute to the development of local supply chains. The hotel is expected to come into commercial operation by early 2016.<sup>91</sup>

**Govt. starts work on Greater Lumbini tourism strategy:** Lumbini, considered to be a potential world-class tourist destination for 500 million Buddhists in Asia, will be developed into the Greater Lumbini Buddhist Circuit. The master plan has set a target of achieving 2.98 million visitors by the end of 2024 with 596,661 visitors from countries other than India, 408,978 Indian visitors and 1.97 million domestic visitors.

Under this project, Nepal aims to link Lumbini with the Buddhist Circuit in India as well as other regional tourism destinations like Chitwan, Pokhara, Bardia and northern-west mountain areas. Facilities such as sanitation, connectivity, rest room, information board will be developed with the motive of increasing the length of stay. Asian Development Bank has assured assistance in certain areas for the circuit development.<sup>92</sup>

**Tourism concessional manual being prepared:** The government is developing the Tourism Concession Manual, which would allow private sector to conduct tourism-related activities within the protected areas

such as national parks, wildlife reserves and conservation areas. The manual is being prepared in accordance with Clause 5 of National Parks and Wildlife Conservation Act. Nepal has 10 national parks, four wildlife reserves and six conservation areas, spread across 23.23% of the country's total land area. The government will be designing the specification regarding the type of tourism activities that can be allowed in a particular area and accordingly proposals from the private sector will be called upon.<sup>93</sup>

**48 hotels inspected after the earthquake:** The Department of Tourism has inspected 81 buildings of 48 hotels and resorts in Kathmandu Valley and its surrounding areas. Out of the 48 hotels, the Everest Hotel, New Baneshwor; Hotel Norbulinka, Thamel; and Budget Hotel, Thamel, have been marked unsafe. While the Budget Hotel needs to be demolished, the Everest Hotel and Hotel Norbulinka have been asked to conduct detailed assessment of their buildings. Hotel buildings that have received yellow placard needs to be promptly repaired.<sup>94</sup>

**Code of Conduct established for Chitwan Hotels:** The Hotel, Lodge and Restaurant Code of Conduct 2072 has been devised by the Hotel Entrepreneurs' Association, Chitwan, together with Community Service Centre, Narayanghat. The new regulation forbids the hotels in the district to sell alcoholic beverage after 10 pm and bars the employment of people below 16 years of age. The new regulation also states that hotels will not be allowed to provide closed cabin facility; if cabin facilities are provided, the hoteliers will have to install a trans-

parent door or curtain. The new code of conduct will replace the one issued in July 2007, which was ineffective.<sup>95</sup>

**Chitwan National Park registers increased visitor numbers:** The annual visitor data of Chitwan National Park has shown an increase in the number of visitors in FY 2014-15 as compared to FY 2013-14. A total of 178,220 tourists visited the national park in the FY 2014-15, an increase from 172,425 in FY 2013-14. However, despite the increase in visitor number and collection of revenue, the park has fallen short of its target. Though the Park had aimed for 190,000 visitors with an estimated revenue collection of NPR 290 million (USD 2.84 million); the current collection stands at NPR 249.4 million (USD 2.45 million).<sup>96</sup>

**Travel advisories being lifted:** United Kingdom, Germany, Netherlands, the United States, Finland, Italy and New Zealand have lifted their travel advisory against Nepal. These countries have issued a geo-specific

advice in line with the United Nations World Tourism Organization's code of conduct for travel advisories. Insurance firms generally do not cover the insurance of people travelling to countries with negative travel advisories. Nepal has been actively lobbying with Western countries to remove travel advisories against the country. However, many countries, including France, Sweden, Denmark, Spain and Poland, still have negative travel advisories against Nepal.<sup>97</sup>

**Hotel profit plunges:** As a result of the April 25 earthquake, hotels have posted low revenue growth. The fourth quarter result of listed five star hotels Soaltee and Oriental hotels (Radisson Hotel) showed a net profit of NPR 207.42 million (USD 2.04 million) and NPR 198.54 million (USD 1.94 million) respectively. Profits fell by 6.49% for Soaltee while Oriental faced profit slump of 5.51%. Five star hotels recorded an average occupancy of 61% last year which is higher than the occupancy rate of 58.85% in the previous year.<sup>98</sup>

### BUDGET HIGHLIGHT: TOURISM

The budget for FY 2015-16 looks promising for the tourism sector. NPR 1.01 billion (USD 9.91 million) was allocated to the sector with a view of revitalizing the tourism sector and transforming the country into a tourism hub. The budget will be spent on tourism infrastructure development and promotion, which includes upgrading airports, trekking routes, the Karnali Highway, construction of hotel and resorts around Rara Lake.<sup>99</sup> The April Earthquake has had substantial impact on tourism structures and infrastructures. The revival of tourism and growth of this pillar of Nepal's economy would require continuous financial and policy support from the government.

## MACROECONOMIC OUTLOOK

With the slump in the production of summer crops due to late monsoon, and with the shift of work force from agriculture to other sectors, there is little prospect of improvement in the agriculture sector for FY 2015-16. However, implementation of the Agricultural Development Strategy, which has identified potentials for the country's agriculture to achieve higher productivity, inclusiveness, and sustainability, is expected to produce positive results in the near future.

The education sector performance in the last fiscal year has been dismal. The rising dropout rates in schools and universities and the failure of the government's total literacy mission are indicators of Nepal's ailing education system. With the government drafting a new education policy, it needs to ensure that proper monitoring and implementing mechanisms are in place so that the sector does not suffer from under achieving its targets.

In the energy sector, the Government of Nepal signed the Project Development Agreement of two major FDI projects—Upper Karnali and Arun III towards the end of 2014, as well as the Power Trade Agreement with India, all of which are groundbreaking and will be instrumental in fulfilling the vast potential of hydropower in Nepal, both in terms of increasing energy security and establishing itself as an energy hub in the region. These developments increased investors' confidence in the sector, which led to a massive increase in FDI. However, there are lingering concerns about the pledges actually materializing into projects due to the geographical impacts of the recent earthquakes.

Though the newly unveiled budget emphasizes on immediate health services during times of disasters and epidemics, it is dismaying that the government has not even sounded an alert on the possibility of a cholera outbreak. This, especially at a time when a large number of people who lost their homes during the earthquake no longer have access to safe and clean drinking water and proper sanitation facilities. Earlier, during its own post-quake risk assessment carried out during April-May, the government had found nearly 74% of water samples from the affected districts unfit for drinking.

The main take away for the infrastructure sector in the current budget is that there is drastic increase in capital budget for reconstruction. The much anticipated budget for the fiscal year 2015/16 has focused

on rehabilitation and reconstruction in terms of numbers and budget allocation. The decision to establish the National Reconstruction Authority to accelerate capital spending is appreciated but the lack of a clear institutional set up, competent human resources and a time bound action plan is not addressed in the current budget.

The FY 2016 is being called the 'Budget Implementation year', as it allows line ministries to spend the allocated budget without prior approval from National Planning Commission and Ministry of Finance. The budget addresses four issues related to weak budget implementation i.e. delays in approval, high staff turnover, delays in awarding contracts, inadequate allocation for performing projects.

Lack of good infrastructure, coupled with unreliable energy supply, has been impeding the growth of Nepal's manufacturing and trade sector. Moreover, poor labor relations has time and again created obstructions for most of the businesses. This has resulted in the increase of overall cost of production, rendering the product less competitive. The facilities and incentives provided to the entrepreneurs by the government have also proven ineffective against the high cost of operation. Despite India being Nepal's largest trading partner, the country's export to its southern neighbor has been constantly declining. Lack of incentive to export to India has only further hampered the situation. The absence of long term strategic thinking from the government has curtailed the potential of the sector. The failure of most of the 19 high export potential products listed in Nepal Trade Integration Strategy, reflects a lack of foresightedness from the government.

In the real estate, the Kathmandu Metropolitan's decision to enforce third party verification for construction of new buildings is a welcome sign. This new criteria will—besides minimizing irregularities in construction projects—make construction work organized, legal and safe. However, its decision to increase building permits fees from NPR 10 (USD 0.1) to NPR 25 (USD 0.25) for houses with built-up area of up to 3000 sq. ft., and NPR 15 (USD 0.15) to NPR 35 (USD 0.35) for larger houses is expected to draw a lot of flak.

Despite the increase in trade deficit, favorable balance of payment situation has been observed due to the increase in the inflow of remittance. Earlier, most of the remittance sent home by the migrant

workers was spent on household and luxury goods; this time it has been used for rebuilding homes. Though capital formation is still not the main concern for Nepalis, we are witnessing an effort which involves channelizing migrant worker's income into hydropower development and converting their investments into monetary benefits and shares, which is a better sign for the country.

The telecommunications sector has witnessed a phenomenal growth. The rapid expansion is attributed to the growth in mobile services. The country's penetration rate was 2% in 1999; it has now increased to 103%. The growth has been boosted with the entry of private sector. However, it is estimated that approximately 75% of the mobile users are active service users. With increased competition growing in the market, telecom operators are now focusing on market expansion and quality service delivery. Infrastructure sharing among telecom companies is a welcome step as this will cancel out the need for telecom companies to make huge infrastructure-related

investments, thereby bringing down the cost for service expansion and operation.

The strategy of heavy discount for tourism products offered by private sector can bring some respite in the short run but will have an adverse impact on the whole industry in the long run. Offering cheap price without maintaining quality of the product being offered will greatly impact the sustainability of the business. The current focus should be on the establishment of a sustainable tourism infrastructure with good road networks, airports and reliable air connectivity.

The government needs to expand bilateral ties to promote tourism especially with India. Tourism entrepreneurs have proposed the promotion of an integrated work plan targeting Lumbini, Pokhara and Chitwan to lure Indian visitors who account for 22% of the total tourist arrival. The next tourist season starting September should be the target to attract the flow of visitors.



REVIEW

FOREIGN AID

# TOWARDS a Resilient Nepal

A special report on Nepal's massive reconstruction challenges post April 25 earthquake and the International Conference for Nepal's Reconstruction

## INTRODUCTION

The twin earthquakes, measuring over Magnitude 7, and their subsequent aftershocks left a large number of people displaced and without livelihood. The disaster not only caused massive social and economic losses but also reversed modest economic gains made by Nepal in recent years. The earthquakes caused major setbacks to Nepal's steady progress towards achieving the Millennium Development Goals and its efforts to graduate from the Least Developed Country status.<sup>100</sup> With these issues in the backdrop, Nepal needs to rebuild by focusing on resilience. As a first step towards rebuilding, the Government of Nepal conducted a Post Disaster Needs Assessment (PDNA) and also hosted the International Conference for Nepal's Reconstruction (ICNR) to garner support for rehabilitation and reconstruction.

## POST DIASTER NEEDS ASSESSMENT

Released two months after the earthquake, the PDNA is a comprehensive document that details the damages and losses sustained by the country because of the earthquake. It also includes estimates of financial requirements for reconstruction in the short, medium and long terms. The document also details the extent of impact on social and economic sectors of the country, and serves as the basis for assistance pledged by different donor organizations and countries during the ICNR.

### Economic Impact

The PDNA presents a dire picture of the state of affairs in the country. The earthquakes and the subsequent aftershocks

affected about 8 million people, with over 8900 casualties and 22,300 injuries. The quakes were felt in 31 districts, of which 14 were declared crisis-hit.

The total value of the 'damages and losses'<sup>i</sup> is estimated at NPR 706 billion (USD 6.9 billion). Of the total amount, damages to physical assets represents approximately 76% at NPR 517 billion (USD 5.07 billion), whereas 24%—NPR 189 billion (USD 1.85 billion)—represents losses and higher costs of production of goods and services due to supply chain disruptions caused by the disaster.<sup>101</sup>

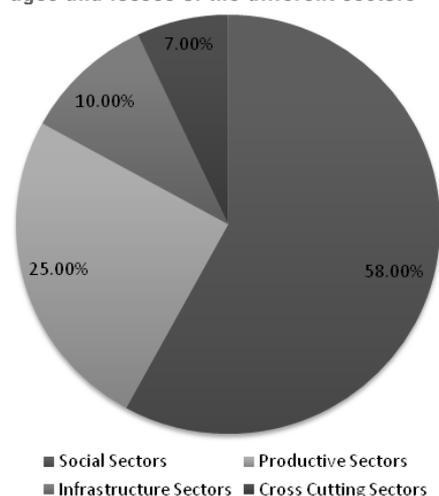
<sup>i</sup> 'Damages and Losses' defined respectively "as the cost to replace durable physical assets (buildings, equipment, facilities and machinery) that were damaged or destroyed, and the changes in financial flows due to the temporary absence of infrastructure, increased or new demands (operational costs) due to the disaster, lost revenues, higher expenditures and the cost of maintaining service provision"

### Impact on the Public and Private Sector

The private sector sustained damages worth approximately 76.5% of the total amount, whereas the damages and losses to the public sector was approximately 23.5%. The disproportionately high impact on the private sector is explained by the massive impact on the housing sector, which accounts for almost half of the total financial impact of the earthquake.

As can be seen in Figure 5, the social sectors sustained economic damages and losses worth 58% of the total

**Figure 5: Pie chart showing share of damages and losses of the different sectors**



Source: Post Disaster Needs Assessment, Volume A: Key Findings, Nepal Planning Commission

**Table 4: Percentage share of damages within the different sectors**

| Social (60.9%)  | Productive (17.3%)   | Infrastructure(11.1%)   | Cross Cutting(10.7%)  |
|---|--|---|---|
| <ul style="list-style-type: none"> <li>Housing</li> <li>Housing and Human Settlements (49.%)</li> <li>Health and Population (2.2%)</li> <li>Nutrition (0.8%)</li> <li>Education (5.9%)</li> <li>Cultural Heritage (3.1%)</li> </ul> | <ul style="list-style-type: none"> <li>Agriculture (2.3%)</li> <li>Irrigation (0.1%)</li> <li>Commerce (3.0%) and Industry (1.1%)</li> <li>Tourism (5.8%)</li> <li>Finance (5.0%)</li> </ul> | <ul style="list-style-type: none"> <li>Electricity (2.8%)</li> <li>Communications(0.7%)</li> <li>Community Infrastructure (0.7%)</li> <li>Transport (4.2%)</li> <li>Water, Sanitation and Hygiene (2.7%)</li> </ul> | <ul style="list-style-type: none"> <li>Government (2.8%)</li> <li>Disaster Risk Reduction (1.2%)</li> <li>Environment and Forestry (3.8%)</li> <li>Employment and Livelihoods(1.9%)</li> <li>Social Protection (1.0%)</li> <li>Gender Equality and Social Inclusion (0.2%)</li> </ul> |

Source: Post Disaster Needs Assessment, Volume A: Key Findings, Nepal Planning Commission

amount, of which 86% (i.e. half of the total) was in the housing sector. Productive, infrastructure and cross cutting sectors accounted for approximately 25%, 10% and 7% respectively of the total damages and losses.

### RECONSTRUCTION REQUIREMENTS

The PDNA estimates the total financial requirement for recovery and reconstruction based on Build Back Better (BBB) principles to be at least NPR 669 billion (USD 6.56 billion). The total financial needs for rebuilding in the social, productive, infrastructure and crosscutting sectors are estimated at NPR 413.06 billion (USD 4.05 billion), NPR 117.7 billion (USD 1.15 billion), NPR 75 billion (USD 735million) and NPR 73.07 billion

(USD 717million) respectively. See Table 4 for a sectorial breakdown.

Judging by these estimates, the government faces a herculean task of pulling the country out of social and economic distress caused by the two earthquakes. Despite setbacks during the initial relief response, the government has taken steps to push an otherwise inefficient response in the right direction. After scrambling a team of experts through the National Planning Commission and coming up with the PDNA within two months of the first earthquake, the government speeded up the formation of the National Reconstruction Authority and gave it powers to override the existing legal framework in order to speed up recovery and reconstruction efforts.

## INTERNATIONAL CONFERENCE ON NEPAL'S RECONSTRUCTION

The Government of Nepal hosted the International Conference on Nepal's Reconstruction (ICNR) on June 25, 2015, with the aim of collaborating with the international community to cope with the overwhelming amount of financial and technical requirements for recovery and reconstruction. A total of 239 delegates representing 54 countries and donor organizations participated in the event.

Themed "Towards a Resilient Nepal", the conference aimed not only to reconstruct what had been destroyed, but also to ensure that rebuilding focused on future disaster preparedness. Progress towards development goals set prior to the earthquakes was also underlined.<sup>102</sup>

The specific objectives of the conference were to:

- i. Familiarize friendly countries and development partners about the socio-economic situation in Nepal in the aftermath of the earthquake, and share international best practices and experiences on institutional arrangements that will lead to effective, transparent and accountable execution of reconstruction programs.
- ii. Disseminate the findings of the Post Disaster Needs Assessment (PDNA).
- iii. Update the government's policies and institutional mechanism for

post-earthquake reconstruction and new construction.

- iv. Seek technical and financial support for reconstruction and rally the support and solidarity of all friends and partners for resilient recovery of Nepal and its people.<sup>103</sup>

During the conference, the Government of Nepal called on all international representatives to work with government agencies in an environment of good faith.<sup>104</sup> The government emphasized the need for a robust partnership to overcome the challenges of reconstruction and rehabilitation. Given the international community's concerns about corruption as well as the efficiency of government-run efforts, the government reasserted its zero-tolerance stance on corruption and mentioned the steps taken by it, particularly the establishment of the National Reconstruction Authority, to speed up the reconstruction process.

Additionally, the Government of Nepal reiterated the commitment of the broader political setup to rebuild the nation effectively, by forging consensus among the leading political parties to promulgate the constitution through the elected constituent assembly, in order to reinforce the existing institutional setup.

### Outcome of the ICNR

Given the objectives of the conference, it is clear that the government was looking to garner financial and

**Table 5: Total amounts pledged following the ICNR (New and Reallocated, in millions)**

| Organization | Government Estimates | NEF Estimates   |
|--------------|----------------------|-----------------|
| World Bank   | 579.8                | 579.8           |
| ADB          | 600                  | 600             |
| IMF          | 50                   | 50              |
|              |                      |                 |
| Country      |                      |                 |
| India        | 1400                 | 1400            |
| China        | 740                  | 740             |
| Japan        | 259.072              | 36.072          |
| USA          | 130                  | 130             |
| EU           | 116.1                | 116.1           |
| UK           | 110                  | 110             |
| Norway       | 12.6                 | 12.6            |
| Australia    | 4.48                 | 4.48            |
| Netherlands  | 26                   | 26              |
| Canada       | 10                   | 10              |
| Sri Lanka    | 2.5                  | 2.5             |
| Turkey       | 2                    | 2               |
| Finland      | 2.2                  | 2.2             |
| Pakistan     | 0.1                  | 0.1             |
| Bangladesh   | 0.05                 | 0.05            |
| Germany      | 34                   | 34              |
|              | <b>4078.902</b>      | <b>3855.902</b> |

**Table 6: Percentage share of damages within the different sectors**

| INDIA   | CHINA  | JAPAN   | US   | UK  | EU   | NORWAY  | AUSTRALIA  |
|---|--|---|--|---|--|---|--|
| <ul style="list-style-type: none"> <li>• Agriculture</li> <li>• Housing</li> <li>• Transport</li> <li>• Electricity</li> <li>• Health</li> <li>• Education</li> <li>• Cultural heritage</li> <li>• Disaster Risk Reduction</li> </ul> | <ul style="list-style-type: none"> <li>• Cultural Heritage</li> <li>• Public Facilities</li> </ul> | <ul style="list-style-type: none"> <li>• Governance</li> <li>• Health</li> <li>• Transport</li> <li>• Education</li> <li>• Water, Sanitation and Hygiene</li> <li>• Housing and Human settlements</li> <li>• Education</li> </ul> | <ul style="list-style-type: none"> <li>• Housing</li> <li>• Housing and Human Settlements</li> <li>• Education</li> <li>• Agriculture</li> <li>• Gender Equality and Social Inclusion</li> <li>• Disaster Risk Reduction</li> <li>• Social Protection</li> </ul> | <ul style="list-style-type: none"> <li>• Infrastructure</li> <li>• Health</li> <li>• Gender Equality and Social Inclusion</li> <li>• Social Protection</li> <li>• Employment and Livelihoods</li> </ul> | <ul style="list-style-type: none"> <li>• Governance</li> <li>• Gender Equality and Social Inclusion</li> <li>• Agriculture</li> <li>• Social Protection</li> </ul> | <ul style="list-style-type: none"> <li>• Nutrition</li> <li>• Health</li> <li>• Education</li> <li>• Social Protection</li> </ul> | <ul style="list-style-type: none"> <li>• Gender equality and Social Inclusion</li> <li>• Education</li> <li>• Social Protection</li> <li>• Employment and Livelihoods</li> </ul> |

Source: Post Disaster Needs Assessment, Volume A: Key Findings, Nepal Planning Commission

technical support for reconstruction based on the PDNA. According to government estimates, donors announced a total of approximately NPR 446.5 billion (USD 4.38 billion) as financial aid for reconstruction. This amount includes new aid pledged at the conference as well as reallocations from existing projects by donor organizations and countries. According to initial reports from various government and other verified independent sources, approximately half of this amount is in the form of grant/humanitarian aid and the other half in loans.<sup>105</sup>

Other credible reports, however, indicate that the total amount was approximately NPR 416.1 billion (USD 4.08 billion).<sup>106</sup> These figures seem to have been influenced by double counting aid co-financed by different countries and organizations.

Table 6 provides a detailed sectorial breakdown of the different pledges,

**Table 7: Percentage share of damages within the different sectors**

| WORLD BANK   | ADB  |
|--|--|
| <ul style="list-style-type: none"> <li>• Housing and Human Settlements</li> <li>• Governance</li> <li>• Finance</li> <li>• Tourism</li> <li>• Agriculture</li> <li>• Health</li> <li>• Education</li> <li>• Energy</li> <li>• Water, sanitation and Hygiene</li> </ul> | <ul style="list-style-type: none"> <li>• Education</li> <li>• Governance</li> <li>• Education</li> <li>• Disaster Risk Reduction</li> <li>• Agriculture</li> </ul> |

Source: Post Disaster Needs Assessment, Volume A: Key Findings, Nepal Planning Commission

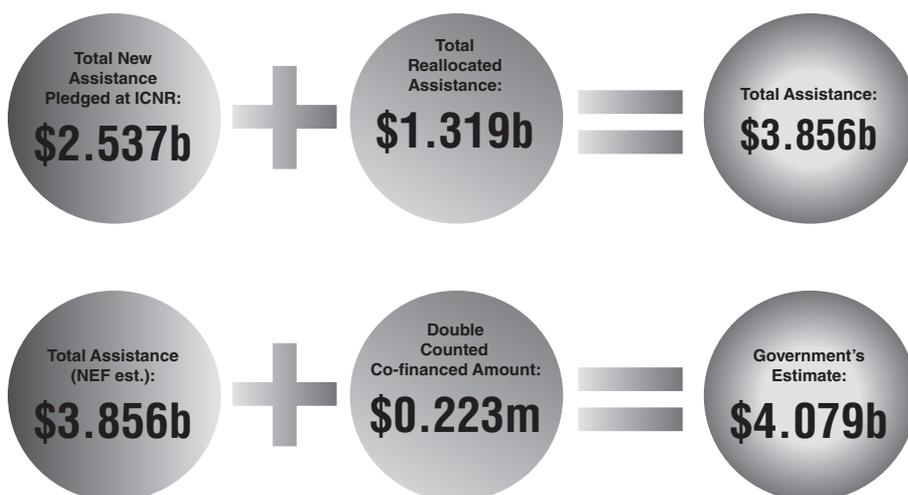
**Table 8: Double Counting of Aid, Japan**

| Co-funders | ADB                                 | WB                               | Total Co-funded                     |
|------------|-------------------------------------|----------------------------------|-------------------------------------|
| Japan      | NPR 11.36 billion (USD 112 million) | NPR 9.7 billion (USD 96 million) | NPR 21.06 billion (USD 223 million) |

the total amount pledged at the ICNR, and the total amount including the aid that will be reallocated from the existing portfolio of donor organizations and countries.

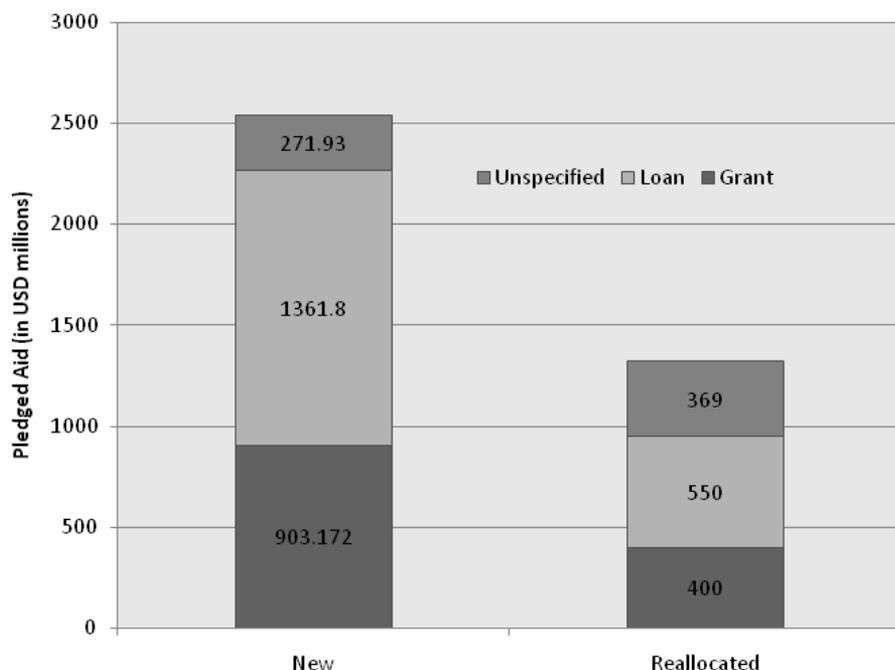
### DOUBLE COUNTING OF AID

According to government estimates, the total amount of aid, including reallocated funds, amounts to approx-

**Figure 6: Total Assistance by the International Community**


imately NPR 413.8 billion (USD 4.078 billion). However, it appears that the government has double-counted NPR 11.36 billion and NPR 9.7 that Japan co-funded with Asian Development Bank and the World Bank respectively, leading to a double-count of NPR 21.06 billion (USD 223 million). As represented graphically in Figure 6, our estimates show that the total amount pledged at ICNR stands at NPR 257.48 billion (USD 2.537 billion) as opposed to NPR 280.01 billion (USD 2.759 billion) and the total amount, including the reallocated funds, sums up to NPR 391.34 billion (USD 3.856 billion).

### GOVERNMENT CONTRIBUTIONS

**Figure 7: Depiction of New and Reallocated pledges in terms of Grants and Loans**


Prior to the ICNR, the National Planning Commission had estimated that the government would have to contribute approximately 57%, i.e. NPR 385.6 billion (USD 3.8 billion), of the total NPR 678.9 billion (USD 6.69 billion) required for reconstruction. Given this estimate, the government needed to garner financial support amounting up to 43%, i.e. NPR 293.3 billion (USD 2.89 billion), of the total financial requirement from the ICNR participants and other sources. Judging by our estimates, if one were to discount the reallocated funds, the government fell short of this objective at the conference; however, if one were to include the funds reallocated from the existing projects/portfolio, the government was successful in reaching the 43% benchmark.

### Channeling of Aid

In order to assess the success of the ICNR and the efficiency of channeling aid, one needs to understand the mechanism by which development aid reaches the recipient countries.

There seems to be a general concern all around regarding the inefficacies of the International Non-Governmental Organizations (INGO) and apprehensions about how much of the pledged money will actually be channeled through to the beneficiaries. In addressing these concerns, it is important to understand the different forms of aid pledged. If a country (bilateral) or a donor organization (multilateral) pledges a grant or a concessional loan of a certain amount and earmarks it to be spent on a certain sector, then the government needs to come up with projects that address the needs of that sector. If the government fails to come up with viable projects, then the pledged amount does not simply get handed over to the recipient country.

When aid is channeled through INGOs and NGOs, regardless of whether or not it is earmarked, the government has little say on how the money is channeled through to the intended beneficiaries. It is regarding this kind of multilateral aid, defined as the aid given by donor countries channeled through international development organizations that generates apprehensions about the efficiency of assistance.

## OUTLOOK

It can be said that the ICNR has been successful in garnering financial support, but concerns still remain about government's ability to spend. The fact that reallocated funds amount to over NPR 101.49 billion (USD 1 billion) indicates that the government has been unable to develop viable development projects in the past. This has left large amounts of aid underutilized. The government will, therefore, need to come up with viable projects to ensure funds are effectively used. Meanwhile, political instability, politicization of the recovery process, corruption, bureaucratic lag and the absence of local administrative units will only add to existing concerns.

While coming up with the PDNA and hosting the ICNR are initial steps towards rebuilding, the government faces a massive task of ensuring all pledges do materialize into projects. One positive move is the appointment of Govinda Raj Pokharel, the incumbent Vice-Chairperson of the National Planning Commission, as the National Reconstruction Authority's CEO, and the appointment of five ministers to the executive board after two months of heated political debates. The team has been allocated an initial sum of NPR 7.13 billion (USD 70 million) from the current budget to be spent on approved projects.<sup>107</sup>

Another positive is the forging of consensus among the leading political parties to promulgate the constitution. This is of particular importance for future reconstruction efforts, because

having a constitution paves the way for local elections. This will be extremely important, as local administrations will be more attuned to recognize needs and devise assistance for the hardest-hit areas.

Going forward, the government needs to be clear about how it plans to curb corruption and increase transparency. It has made insufficient progress on this front and needs to implement specific plans to reduce corruption and take tough, unpopular decisions to address this issue. Organizations like Accountability Lab can act as watchdogs to ensure transparency and accountability if the government is serious about addressing apprehensions surrounding INGOs and other international agencies.

Besides reconstruction, the government needs to consider how affected people can get back their livelihoods. Investments must be made along with grants and loans. We cannot use reconstruction as an excuse for Nepal to relapse into rent-seeking and begging-bowl mentality. Encouraging entrepreneurs will generate more employment, so that people can participate in the rebuilding of their own lives.

Even before the earthquake struck, Nepal needed private investments of NPR 202.98 – 405.96 billion (USD 2-4 billion) each year to become a middle-income country by 2030. We now have the opportunity to expedite this process.<sup>108</sup>

**REVIEW**

# Financial Markets

The deposit mobilization of banks and financial institutions in the reviewed year shows an increase in the average deposit growth rate as compared with the same period of the previous fiscal year while deposits of finance companies have decreased marginally.

The current macroeconomic situation report of FY 2014-15 published by Nepal Rastra Bank (NRB) points out that the deposit mobilization of Banks and Financial Institutions (BFIs) increased by 20.1%, i.e. NPR 282.06 billion (USD 2.7 billion), as compared to a 18.4%, i.e. NPR 218.68 billion (USD 2.14 billion), during the same period last year. During the review period, deposit mobilization of commercial banks and development banks increased by 21.4% and 15.2% respectively while deposit mobilization of finance companies decreased by 0.6%. The deposit mobilization of commercial banks had increased by 17.8%, development banks by 29.1% and finance companies by 5.7% in the same period the previous year.

Likewise, loans and advances of BFIs increased by 17.5%—NPR 229.30 billion (USD 2.2 billion)—compared to a growth of 14.4%—NPR 165.48 billion (USD 1.62 billion)—in the

same period the previous year. In the review period, loans and advances of commercial banks increased by 18.8%, development banks by 13.5% and finance companies by 0.3%.

In order to control the excess liquidity of the BFIs, the NRB mopped up liquidity of NPR. 155 billion (USD 1.52 billion) through deposit auctions, NPR. 315.80 billion (USD 3.09 billion) through reverse repo auction, and NPR 6 billion (USD 58 million) on cumulative basis. Similarly, in the corresponding period of previous year, NPR 602.50 billion (USD 5.9 billion) was mopped up through reverse repo auction and NPR 8.50 billion (USD 83 million) through outright sale auction.

The NRB further injected net liquidity of NPR 396.72 billion (USD 3.8 billion) through the net purchase of USD 4.03 billion from foreign exchange market (commercial banks), while net liquidity of NPR 343.46

billion (USD 3.3 billion) was injected through the net purchase of USD 3.52 billion in the corresponding period of the previous year. The NRB purchased Indian currency equivalent to NPR 348.09 billion (USD 3.41 billion) through the sale of USD 3.5 billion in the review period.

## MONETARY POLICY 2015-16

The new monetary policy has introduced a provision regarding an increase in capital base to strengthen BFIs of Nepal. According to the provision, commercial banks need to increase their capital to NPR 8 billion (USD 78 million), national level development banks to NPR 2.56 billion (USD 25 million), development banks and finance companies operating in 4-10 districts to NPR 1.2 billion (USD 11 million) and NPR 80 million (USD 7.8 million) respectively, and development banks and finance companies operating in 1-3 districts to NPR 40

**Table 9: Upcoming Issues of Government Securities**

| Instrument       | Auction Date  | Maturity Period | Offered Amount | Bid Amount        | Cut off rate |
|------------------|---------------|-----------------|----------------|-------------------|--------------|
| Development Bond | May 28, 2015  | 5 years         | NPR 5 billion  | NPR 37.33 billion | 4            |
| Development Bond | June 4, 2015  | 7 years         | NPR 5 billion  | NPR 42.24 billion | 3.44         |
| Development Bond | June 11, 2015 | 9 years         | NPR 5 billion  | NPR 37.65 billion | 3.08         |
| Development Bond | June 25, 2015 | 10 years        | NPR 10 billion | NPR 49.04 billion | 2.99         |
| Development Bond | July 2, 2015  | 15 years        | NPR 5 billion  | NPR 38.42 billion | 2.65         |

million (USD 3.9 million), within two fiscal years.<sup>109</sup>

The provision has created ripples in the banks and financial institutions; the BFIs have condemned the timeframe of two years saying it is too short for them to raise the paid-up capital by four-fold. BFIs have a few of options to raise their paid-up capital to the required level within two years. BFIs that make high profit can issue bonus shares to raise the capital but they will have to skip their cash dividend until the required paid-up capital is raised. The other option is to issue rights shares where the shareholders will have to invest extra money in the financial institution. The third option is to opt for merger process with other BFIs. The intention of NRB is to strengthen the financial standing of BFIs by forcing, indirectly, for merger and to decrease the number of financial institutions in the financial market.

#### INDIAN HIGH COURT RULES IN FAVOR OF NEPALI BANKS

Nepal Investment Bank and Laxmi

Bank has received payments related to counter bank guarantee from ICICI Bank India after the High Court of Hyderabad vacated an injunction order issued by the City Civil Court of the south Indian city that barred ICICI from making payments. Soon after the order was issued, ICICI bank released NPR 785 million (USD 7.7 million) to the two Nepali banks. Nepal Electricity Authority (NEA) had terminated a contract with India-based contractor Infrastructure and Project Ltd (IVRCL) after IVRCL continued missing construction deadlines of construction of dam and powerhouse at the 32 MW Rahughat hydroelectric project.

Nepal Investment Bank had provided counter guarantee on behalf of ICICI bank in the in the form of advance payment guarantee worth NPR 93.52 million (USD 0.91 million) and NPR 252 million (USD 2.48 million). Similarly, Laxmi Bank had provided counter guarantee on behalf of ICICI bank in the form of bank guarantee worth NPR 115.15 million (USD) and NPR 335 million (USD 3.29 million).<sup>110</sup>

#### DEVELOPMENT BOND OVERSUBSCRIBED

NRB's effort to subdue the excess liquidity situation with BFIs is still underway as the instrument Development Bond has already collected NPR 30 billion (USD 294 million) during the three month period of May 21 to August 21, 2015. Lalitpur Finance declared problematic

One of the main purposes of absorbing the liquidity is to introduce relief packages for borrowers whose revenue sources have dried due to earthquake of April. The central bank has already introduced a relief package, which incorporates debt restructuring facility, deferment in credit payback period, and prolonged grace period for loan repayment.<sup>111</sup>

#### OUTLOOK

In the fourth quarter of the current fiscal year, the banking system witnessed a growth in its profits as the banks' net interest income and profits both exceeded the earnings as compared to the same quarter of the previous year. The aggregated net profit of commercial banks rose to NPR 26.52 billion (USD 260 million) from NPR 19.90 billion (USD 195 million), as compared to the same quarter of previous year.

The weighted average 91 day Treasury bill rate and inter-bank transaction rates increased to 0.1739% from 0.02% a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 0.16% a year ago, reached 1.01% in the review month.

The average cost of funds of commercial banks dropped to 4.40% from 5.17% at the end of the fourth quarter of the current fiscal year.

**TABLE 10 : 4<sup>TH</sup> QUARTER RESULTS OF COMMERCIAL BANKS-UNAUDITED FY 2014-15 (FIGURES IN NPR IN TEN MILLION)**

| Bank                        | Paid-up Capital | Reserve & Surplus | DEPOSIT          |                  | LOANS AND ADVANCES |                 |                  | OPERATING PROFIT |                |                | NET PROFIT   |                |                | NPL (%)      |             | COST OF FUND (LCY) |             | BASE RATE % |              |             |
|-----------------------------|-----------------|-------------------|------------------|------------------|--------------------|-----------------|------------------|------------------|----------------|----------------|--------------|----------------|----------------|--------------|-------------|--------------------|-------------|-------------|--------------|-------------|
|                             |                 |                   | FY 13/14         | FY 14/15         | % Change           | FY 13/14        | FY 14/15         | % Change         | FY 13/14       | FY 14/15       | % Change     | FY 13/14       | FY 14/15       | % Change     | FY 13/14    | FY 14/15           | % Change    |             | FY 13/14     | FY 14/15    |
|                             |                 |                   | 4 QTR            | 4 QTR            |                    | 4 QTR           | 4 QTR            |                  | 4 QTR          | 4 QTR          |              | 4 QTR          | 4 QTR          |              | 4 QTR       | 4 QTR              |             |             | 4 QTR        | 4 QTR       |
| Nabil Bank                  | 365.77          | 608.29            | 7538.87          | 10423.79         | 38.27              | 5620.30         | 6716.16          | 19.50            | 354.93         | 324.10         | -8.69        | 231.96         | 209.86         | -9.53        | 2.23        | 1.82               | 3.34        | 3.18        | -0.16        | 5.78        |
| Nepal Investment Bank       | 477.12          | 512.10            | 7383.14          | 9063.15          | 22.75              | 5345.85         | 6769.02          | 26.62            | 289.16         | 254.78         | -11.89       | 193.96         | 196.42         | 1.27         | 1.25        | 1.77               | 3.91        | 3.63        | -0.28        | 6.54        |
| Standard Chartered Bank     | 224.82          | 413.71            | 4629.85          | 5728.65          | 23.73              | 2632.84         | 2800.78          | 6.38             | 197.89         | 184.48         | -6.78        | 133.66         | 129.48         | -3.13        | 0.48        | 0.28               | 1.90        | 1.74        | -0.16        | 4.92        |
| Himalayan Bank              | 333.27          | 384.63            | 6467.48          | 7352.33          | 13.68              | 4644.93         | 5542.80          | 19.33            | 96.26          | 66.55          | -30.86       | 95.91          | 108.56         | 13.19        | 1.96        | 3.22               | 4.26        | 3.36        | -0.90        | 7.78        |
| Nepal SBI Bank              | 305.80          | 263.13            | 5449.29          | 5162.82          | -5.26              | 3527.96         | 3997.91          | 13.32            | 135.85         | 163.03         | 20.01        | 92.29          | 106.54         | 15.44        | 0.26        | 0.19               | 3.99        | 3.17        | -0.82        | 7.71        |
| Nepal Bangladesh Bank       | 243.14          | 247.16            | 2570.69          | 3383.27          | 31.61              | 1905.13         | 2582.38          | 35.55            | 76.24          | 103.98         | 36.39        | 74.23          | 79.28          | 6.80         | 1.35        | 1.32               | 5.43        | 4.58        | -0.85        | 7.97        |
| Everest Bank                | 213.74          | 488.57            | 6210.81          | 8309.37          | 33.79              | 4845.03         | 5536.35          | 14.27            | 233.81         | 225.26         | -3.66        | 154.97         | 157.44         | 1.59         | 0.97        | 0.66               | 3.56        | 3.26        | -0.30        | 6.14        |
| Bank of Kathmandu           | 212.02          | 176.22            | 3411.57          | 3945.66          | 15.66              | 2886.68         | 3338.60          | 15.66            | 36.35          | 13.16          | -63.80       | 25.44          | 33.39          | 31.25        | 1.06        | 3.47               | 4.91        | 4.26        | -0.65        | 7.20        |
| NCC Bank                    | 202.86          | 98.45             | 2225.69          | 2666.00          | 19.78              | 1787.32         | 2144.25          | 19.97            | 33.86          | 49.08          | 44.95        | 39.21          | 41.27          | 5.25         | 2.75        | 1.93               | 6.33        | 4.95        | -1.38        | 8.18        |
| NIC Asia Bank               | 265.82          | 290.72            | 4498.42          | 5347.72          | 18.88              | 3632.51         | 4216.65          | 16.08            | 121.59         | 89.31          | -26.55       | 83.16          | 69.25          | -16.73       | 2.33        | 1.99               | 5.99        | 5.12        | -0.87        | 7.96        |
| Lumbini Bank                | 200.08          | 89.05             | 1725.24          | 2028.21          | 17.56              | 1424.71         | 1723.99          | 21.01            | 22.07          | 41.32          | 87.22        | 24.33          | 34.61          | 42.25        | 0.88        | 0.71               | 6.19        | 5.33        | -0.86        | 8.09        |
| Machhapuchhre Bank          | 295.11          | 107.29            | 3714.29          | 4420.56          | 19.01              | 2905.32         | 3481.95          | 19.85            | 57.22          | 73.59          | 28.61        | 45.47          | 61.34          | 34.90        | 1.78        | 0.64               | 5.80        | 4.68        | -1.12        | 7.69        |
| Kumari Bank                 | 243.17          | 88.77             | 2757.84          | 3342.19          | 21.19              | 2280.85         | 2707.04          | 18.69            | 46.82          | 34.18          | -27.00       | 34.17          | 35.27          | 3.22         | 3.19        | 2.76               | 6.03        | 5.00        | -1.03        | 8.66        |
| Laxmi Bank                  | 233.79          | 174.80            | 3059.20          | 3999.18          | 30.73              | 2272.38         | 3155.79          | 38.88            | 66.16          | 60.81          | -8.09        | 47.48          | 41.19          | -13.25       | 1.15        | 1.30               | 5.05        | 4.56        | -0.49        | 7.90        |
| Siddhartha Bank             | 203.12          | 173.29            | 3541.40          | 4474.07          | 26.34              | 2718.69         | 3629.66          | 33.51            | 74.12          | 96.48          | 30.17        | 70.05          | 76.38          | 9.04         | 2.75        | 1.80               | 5.40        | 4.62        | -0.78        | 7.87        |
| Global IME Bank             | 501.16          | 235.73            | 5229.21          | 6017.59          | 15.08              | 4301.88         | 5022.67          | 16.76            | 92.22          | 127.63         | 38.40        | 97.40          | 100.89         | 3.58         | 2.55        | 2.19               | 4.84        | 4.19        | -0.65        | 7.59        |
| Citizens Bank International | 255.44          | 121.59            | 2796.35          | 3578.21          | 27.96              | 2317.37         | 2920.04          | 26.01            | 41.49          | 81.33          | 96.02        | 49.81          | 72.39          | 45.33        | 3.40        | 1.53               | 5.24        | 5.00        | -0.24        | 7.30        |
| Prime Commercial Bank       | 314.01          | 127.82            | 3404.53          | 4101.46          | 20.47              | 2710.44         | 3270.13          | 20.65            | 73.38          | 109.92         | 49.80        | 55.34          | 80.13          | 44.80        | 2.43        | 1.75               | 5.89        | 4.68        | -1.21        | 7.62        |
| Sunrise Bank                | 244.37          | 93.57             | 2661.67          | 3348.67          | 25.81              | 1993.83         | 2638.11          | 32.31            | 31.29          | 40.71          | 30.11        | 24.68          | 47.44          | 92.22        | 4.94        | 2.90               | 5.61        | 5.15        | -0.46        | 8.36        |
| Grand Bank                  | 200.00          | -137.61           | 2120.12          | 820.34           | -61.31             | 1514.99         | 956.60           | -36.86           | -179.88        | -91.67         | -49.04       | -122.83        | -33.07         | -73.08       | 20.09       | 36.20              | 7.26        | 6.88        | -0.38        | 9.77        |
| NMB Bank                    | 240.00          | 91.68             | 2708.73          | 3672.29          | 35.57              | 2046.70         | 2728.89          | 33.33            | 55.21          | 72.48          | 31.28        | 40.99          | 50.38          | 22.91        | 0.55        | 0.42               | 5.52        | 4.55        | -0.97        | 7.89        |
| Prabhu Bank                 | 320.89          | 47.69             | 1983.52          | 4214.52          | 112.48             | 1373.26         | 2970.47          | 116.31           | -59.93         | 18.39          | -130.69      | -24.06         | 103.59         | -530.55      | 24.18       | 7.39               | 4.57        | 4.14        | -0.43        | 7.63        |
| Janata Bank Nepal           | 206.00          | 29.84             | 1844.22          | 2292.04          | 24.28              | 1598.51         | 1851.71          | 15.84            | 5.51           | 9.46           | 71.69        | 8.50           | 15.11          | 77.76        | 1.02        | 1.86               | 6.25        | 5.28        | -0.97        | 9.48        |
| Mega Bank                   | 260.96          | 47.83             | 1714.76          | 2113.07          | 23.23              | 1449.63         | 1754.27          | 21.02            | 47.21          | 52.29          | 10.76        | 30.55          | 34.56          | 13.13        | 2.18        | 1.75               | 4.94        | 4.25        | -0.69        | 8.48        |
| Civil Bank                  | 288.78          | 41.80             | 2203.43          | 2665.64          | 20.98              | 1867.01         | 2253.63          | 20.71            | 15.35          | 19.16          | 24.82        | 24.62          | 23.75          | -3.53        | 1.88        | 3.20               | 7.18        | 5.92        | -1.26        | 8.99        |
| Century Commercial Bank     | 212.00          | 29.40             | 1839.37          | 2494.86          | 35.64              | 1504.54         | 2035.18          | 35.27            | 10.45          | 32.75          | 213.40       | 8.69           | 25.79          | 196.78       | 0.51        | 0.27               | 6.29        | 5.59        | -0.70        | 8.81        |
| Sanima Bank                 | 255.02          | 88.73             | 2487.38          | 3404.53          | 36.87              | 2037.14         | 2822.90          | 38.57            | 65.49          | 93.43          | 42.66        | 42.76          | 60.42          | 41.30        | 0.02        | 0.07               | 6.29        | 5.02        | -1.27        | 7.50        |
| <b>Public Sector Banks</b>  |                 |                   |                  |                  |                    |                 |                  |                  |                |                |              |                |                |              |             |                    |             |             |              |             |
| Nepal Bank                  | 646.50          | -259.18           | 6933.76          | 7800.72          | 12.50              | 4121.83         | 5337.45          | 29.49            | -0.59          | 45.56          | -7822.03     | 71.69          | 52.61          | -26.61       | 5.12        | 3.95               | 4.08        | 2.33        | -1.75        | 7.21        |
| Rastriya Baniya Bank        | 858.89          | -169.73           | 10726.99         | 12422.17         | 15.80              | 6085.48         | 7583.65          | 24.62            | 87.82          | 136.82         | 55.80        | 183.67         | 450.16         | 145.09       | 6.38        | 3.38               | 2.95        | 2.19        | -0.76        | 6.70        |
| Agriculture Dev. Bank       | 986.08          | 497.41            | 6589.84          | 7692.13          | 16.73              | 5718.63         | 6660.11          | 16.46            | 55.55          | 171.49         | 208.71       | 152.08         | 187.62         | 23.37        | 5.46        | 4.53               | 6.17        | 5.47        | -0.70        | 11.96       |
| <b>Total</b>                |                 |                   | <b>120427.66</b> | <b>146285.21</b> | <b>21.47</b>       | <b>89071.74</b> | <b>109149.14</b> | <b>22.54</b>     | <b>2182.90</b> | <b>2699.86</b> | <b>23.68</b> | <b>1990.18</b> | <b>2652.05</b> | <b>33.26</b> | <b>3.50</b> | <b>3.18</b>        | <b>5.17</b> | <b>4.40</b> | <b>-0.77</b> | <b>7.86</b> |

\*NCCB The paid up capital of the bank has reached Rs.2.02 billion as at Ashad 32, 2071 after the declaration of Bonus Shares.

## REVIEW

# Capital Markets

## SECONDARY MARKET PERFORMANCE

The Nepal Stock Exchange (NEPSE) index (+32.00%) rallied 291.1 points and bounced back from the last quarter's plunge as the benchmark index closed at an all-time high of 1200.35 points. The rise in indices can be attributed to the Nepal Rastra Bank's new provision of increasing capital requirement for banks and financial institutions (BFIs). Similarly, listed companies recorded good growth in its 4th quarter earnings, sending positive sentiments in the market.

During the reviewed month, all the sub-indices showcased an upward trend and ended on a positive note. The Commercial bank sub-index (+44.36%) had a remarkable gain and regained confidence from investors as the index gained 358.85 points to close the index at 1167.73 points. The Insurance sub-index (+30.39%) managed to bounce back from last quarter's loss as the index gained whooping 1106.97 points

to close the index at 4749.08 points. The Manufacturing and Processing sub-index (+29.99%) continued with its upward spiral for the fourth consecutive quarter with the index gaining 442.03 points. The 'Others' sub-index (+28.59%) ended positively this month as the index increased by 186.77 points. The Hotels sub-index (+12.96%) closed at the green zone, after its plummet last quarter, to gain 241.86 points. The Development bank sub-index (+12.20%) also overcame from last quarter's loss as the index grew by 95.95 points. The Hydropower sub-index (+5.14%) followed suit as the index gained 103.8 points to close the index at 2124.37 points. Finally, the Finance sub-index (+4.53%) bounced back from last quarters' disappointing performance gaining 23.95 points

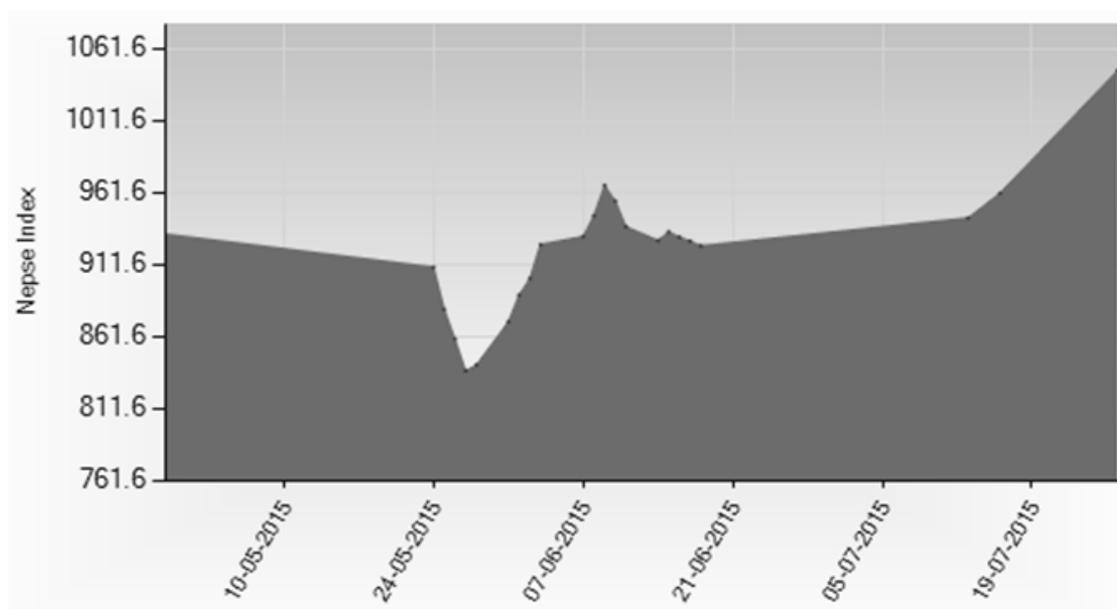
## KEY DEVELOPMENTS

Some of the key developments in the capital market during the review period are as follows:

**Table 11: Sector wise Performance of the Sub-Indices**

| Indicators                 | 24-May-15 | 21-Aug-15 | % Change |
|----------------------------|-----------|-----------|----------|
| NEPSE Index                | 909.82    | 1200.35   | -13.33%  |
| Commercial Bank Index      | 846.45    | 713.86    | -15.66%  |
| Development Bank Index     | 810.44    | 749.98    | -7.46%   |
| Hydropower Index           | 2201.51   | 1829.77   | -16.89%  |
| Finance Index              | 538.13    | 519.82    | -3.40%   |
| Insurance Index            | 4271.89   | 3493.31   | -18.23%  |
| Others Index               | 742.5     | 675.54    | -9.02%   |
| Hotels Index               | 2022.4    | 1943.62   | -3.90%   |
| Manufacturing & Processing | 1441.14   | 1474.11   | 2.29%    |

Source: NEPSE

**Figure 8: NEPSE Index Performance**

**NRB mops up NPR 110 billion liquidity:**

Adopting an aggressive strategy to curb excess liquidity, Nepal Rastra Bank (NRB) has mopped over NPR 110 billion (USD 1 billion) since July 12 using deposit collection instruments such as term deposit. As a result, excess liquidity in the banking sector has dropped to around NPR 59 billion (USD 578 million). Nepali banks and financial institutions were sitting on top of excess liquidity of a record high level of NPR 126 billion (USD 1.2 billion) before the liquidity mopping.

A sharp increase in inflow of money sent by Nepalis working abroad after the earthquake has been the prime reason for excess liquidity. Daily remittance

flow reached as much as NPR 5 billion (USD 49 million) at one point after the quake, whereas in the days prior to the quake the inflow was NPR 1.58 billion (USD 15 million).<sup>112</sup>

**Nepal Investment Bank to issue FPO:**

Nepal Investment Bank is going to issue Further Public Offer (FPO) to the general public once this decision is endorsed during its upcoming Annual General Meeting (AGM). The bank is planning to issue FPO of 68, 16,005 units of share at a premium rate that is yet to be fixed and endorsed in the AGM. The bank is issuing the FPO as per the directive issued by the central bank to maintain promoter public shareholding ratio of 70:30. The bank also aims to

increase its paid-up capital to NPR 5.45 billion (USD 53 million) from NPR 4.77 billion (USD 46 million) as per the new directive issued by central bank to increase commercial bank paid-up capital to NPR 8 billion (USD 78 million) within the next 2 years.<sup>113</sup>

A company can only issue shares on premium if the company has been making profit and distributing bonus for three consecutive years, its net worth is more than its total liability, and the AGM decided to issue shares of premium value at premium price, as per the Company Act.

**Sanima Bank float 7% debenture:**

Sanima bank has floated 7,00,000 units

of debenture yielding 7% interest rate with maturity of seven years at a face value of NPR 1000 (USD 10) per unit. The bank has set aside 5,60,000 units to be sold on private placement basis and remaining 1,40,000 units for general public. The debenture has received ICRA NP Issuer Rating of LBBB+, which indicates at the bank's adequate-credit-quality rating assigned by ICRA Nepal. The rated entity carries moderate credit risk. Other commercial banks that are in the pipeline to issue similar debentures are Nepal Bangladesh Bank, Machhapuchhre Bank, and Himalayan Bank.<sup>114</sup>

**Demat Transaction of commercial banks:** With the target of fully converting physical records of investment into electronic records, Nepal Stock Exchange has made

digital transaction mandatory for commercial banks in the secondary market from August 17, 2015. Similarly, digital transaction of other listed companies will be implemented soon by the CDS and Clearing Limited (CDSCL) although nine companies—Business Universal Development Bank, Kailash Bikas Bank, Summit Development Bank, City Development Bank, Deprox Development Bank, Shine Resunga Development Bank and Excel Development Bank—have already started digital transactions.<sup>115</sup>

The implementation of digital transaction of share aims to end various problems related to the physical trading, including damage of paper, and allow the transaction to be conducted in less time than it would take with physical shares.

## “ OUTLOOK

The NEPSE index saw a series of fluctuations in its indices in the last quarter with the index hovering around the 800–1200 index point mark. The benchmark index crossed its previous all-time high mark of 1175 points and set a new all-time high record of 1200.35 points. Nepal Rastra Bank is paving way to strengthen the banking sector by introducing various provisions in its monetary policy 2015-16. Similarly, Investment Board is planning to issue new provisions to the insurance sector in the coming future.

In the coming weeks, the market may tend to fluctuate based on the dividend announcements of the listed companies. The market might witness a slight correction as currently there is limited supply of dematerialized shares which have subsequently created an unconditional demand for scrips in the market.

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# NEPAL ECONOMIC FORUM

**Nepal Economic Forum (NEF)** is the premier private-sector led economic policy and research organization by re-defining the economic development discourse in Nepal.

Established as a not-for-profit organization under the beed ([www.beed.com.np](http://www.beed.com.np)) eco-system, NEF has benefited from extensive exposure, experience and network of beeds who contribute in the research and dialogue process. With Sujeev Shakya, author of the bestseller *Unleashing Nepal* (Penguin, 2009), as Chair, NEF benefits from the leadership of one of the most respected economic analysts in Nepal. NEF has worked in partnership with many Nepali and International institutions in its quest to mainstream the discourse on the Nepali economy, which has not received the necessary space it deserves.

NEF broadly works under three areas:

First, the **Business Policy Research Center (BPRC)**, which engages in research, dialogue and dissemination relating to pertinent economic policy issues. Through BPRC, NEF has been producing nefport, a quarterly economic publication docking economic analysis and research, **nefsearch** a periodic research publication, conducting **neftalk**, a platform for policy discourse, **nefcast**, an online dissemination platform, and **neftake**, an economic blog that provides analysis and perspective on various events that have a significant impact on private sector growth and investment.

Second, through the **Center for Public, Private and Community Partnerships (PPCP)**, the partnerships discourse is further elaborated through addition of the community dimension to the existing models of public private partnerships. The concept stems from the need to integrate the community dimension to economic development strategies especially as Nepal moves towards a federated structure. Apart from standalone interventions, the PPCP perspective is integrated in many of the work that NEF and beed initiate.

Thirdly, through **Development Consulting** NEF engages with a plethora of multilateral, bilateral and International Non-Governmental Organizations in areas where a fresh pair of lenses are required to view the formulation and implementation of strategies. Hands on experience along with a wide 'cultural bandwidth' put NEF in a unique position to deliver Glocal solutions. With an international network and extensive Nepal experience NEF uses solution-oriented approach to assignments.

Currently, NEF is helping to incubate the US based Accountability Lab's Nepal operations. With transparent financial systems, high standards of conflict of interest disclosures, strong support of beed back-end infrastructure, access to high quality global and local human resources and firms, NEF is poised to set high delivery and ethical standards for firms operating in Nepal.



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