NEPAL ECONOMIC FORUM

nefport

Docking Nepal's Economic Analysis

AGRICULTURE SPECIAL

APRIL 2015 | ISSUE 20

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NEPAL FACTSHEET (FY 2014/15)

Map Source: http://en.m.wikipedia.org/wiki/File:Un-nepal.png

DEMOGRAPHICS		Balance of Payments	NPR 68.9 billion
Area	147,181 sq km	Foreign Exchange Reserves	NPR 433.3 billion
Population	26,494,504 **(Census-2011)**	Export/GDP	4.5%
Labor Force	16 million **(FY 2011-12)**	Import/GDP	32.9%
ECONOMY (FY 2012-13)		**GDP Structure (FY 2012-13)**	
GDP (At Producers Current Price)	NPR 1692.6 billion	Primary Sector	33.7%
GDP (Per Capita)	NPR 62,196	Secondary Sector	14%
GNI (In Current Price)	NPR 1705.7 billion	Tertiary Sector	52.2%
CPI based Inflation Rate	9.9%	Remittance	NPR 434.6 billion **(NPR 560.6 billion for the first eight months of FY 2013-14)**

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EDITORIAL

Private sector engagement in any sector is necessary to bring efficiency and sustainability to that sector. Private sector will not enter a sector unless they see adequate benefits or read profits for themselves. Building infrastructure and ensuring supportive policies are in place, is the government's responsibility; however, as the review section of this nefport will illustrate, the government is still struggling to attract private investments in the agriculture sector. Although the government has been tried to attract investments, both foreign and domestic, with the implementation of the Agriculture Perspective Plan for example, the agriculture sector has not seen adequate engagement from private investors. If the government is able to facilitate the commercialization of the agriculture sector, through contract farming, incentives to promote innovation, risk reduction instruments such as agro insurance and services, and infrastructure to support value chain development, the agriculture sector will be able to attract adequate investments in niche areas that Nepal has a comparative advantage in.

In addition to ensuring an attractive policy environment, ease of doing business is also affected by corruption. It is unfortunate to see that the Corruption Perception Index 2014 has shown that Nepal fell 10 places in the last year because of corruption's negative impact on Nepal's business environment. From 116th in the 2013 index, in 2014, Nepal ranked 126th out of 176 countries that were assessed. The change in 2 points (from 29 in 2013 to 31 in 2014) has been attributed to the fact that the private sector felt corruption has a significant and negative impact on their businesses.

With the release of the twentieth issue of nefport, we are pleased that we have been able to consistently provide data and analysis on the Nepali economy every quarter for the last five years and we hope to continue our efforts in making information on the Nepali economy readily available. We would also like to take this opportunity to thank our esteemed readers and others who have provided inputs and comments to help the product evolve over the years. To update our reader about Nepal Economic Forum, we have recently put together an advisory board and are very fortunate to be guided by a diverse group of individuals who are experts in their respective fields. As usual, we would like to thank beed invest and beed management for their support in making this issue possible.

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

Sujeev Shakya
Chair
Nepal Economic Forum

POLITICAL OVERVIEW

> The promulgation of the new constitution is still in dilemma. Due to the failure among political parties to seek a way out of the current political deadlock, the Constituent Assembly was not able to forge a consensus on the stipulated deadline. Further there has been no announcement on the new deadline for the drafting of the constitution.

Constitution havoc: The Constituent Assembly (CA) was unable to draft the constitution after it missed yet another deadline on January 22, 2015. Despite the negotiations, the parties were unable to reach consensus regarding the fundamental issues of federalism, identity, and distribution of executive powers.[1] The prime conflict centered on the division of the nation into federal states along ethnic lines. The ruling party Nepal Congress, along with Communist Party of Nepal and United Marxist-Leninist, stood firmly against this proposition fearing likelihood of disintegration of the country with such divisions; whereas, the opposition, United Communist Party of Nepal and Maoist, stood firmly by it–thus, creating an impasse between both the parties.

Other issues revolved around forms of governance (whether to give power to the president or the prime minister), and the type of electoral and judicial systems to adopt.[2] The inability to reach a consensus and constant disruptions in the CA meetings compelled the speaker to halt, until further notice, any proceedings in drafting of the constitution, further plunging the nation into a stalemate.[3]

Breakdown amidst merger for RPP-N: The two biggest rightist parties of Nepal, Rastriya Prajatantra Party-Nepal (RRP-N) and Rastriya Prajatantra Party (RPP), have agreed on unification. The unified groups' political agenda remains largely similar with the only difference being on the issue of reinstating monarchy, which the members believe could be dealt with through joint meetings.[4] However, following the unification, Lawoti-led faction officially announced its break from the core RPP-N party citing the chairman had lost track of the party's true cause (reinstating monarchy) and misused party agenda to fit personal interests.[5] Although the unification presents a hopeful future for the party, the impact of the breakdown for both RPP-N and the unified party remains to be seen.

OUTLOOK

Although there have been disagreements on the drafting of the constitution, the parties are coming closer to forge a consensus, which is expected closer to May 2015. On the other hand, the budget released in India recently has expedited Integrated Custom Points, which is expected to not only facilitate connectivity but also build trust between the citizens across the borders. Further such a step is expected to facilitate political stability in both the countries.

INTERNATIONAL ECONOMY

> Two of the key constraints on the global economies, albeit at various degrees, is demand constraints and underinvestment, especially investments from the public sector.

Indian Budget 2015-16: Modi-led government presented its second general budget on February 2015 with a total of NPR 28.432 trillion (USD 283.55 million) in expenditure. The budget emphasized on growth measures with attempts of fully utilizing domestic and foreign capital. The budget forecasts GDP growth of 8-8.5% along with introduction of multiple new propositions in the field of parallel economy, job creation, ease of conducting business, and improved quality of life and public health.

Likewise, skill development avenues have been thoroughly looked into, as considerable investments have gone into establishment of various research, vocational and academic institutes. Although there are pressing concerns on fiscal deficit, which stands at 3.9% of GDP, the budget projects an inviting image for global companies and Indian investors to invest in India's markets, as well as provide sufficient support to individuals and groups.[6]

China Trade surplus at its highest: China recorded its highest trade surplus at USD 60.6 billion in February of 2015. During this period, its exports increased by 48.3% year on year which amounted to USD 169.2 billion; whereas its imports decreased by 20.5% year on year to USD 108.6 billion. Officials believe the increase in exports occurred due to the Chinese New Year, which fell in mid-February, as companies hurried to get their transactions processed before the event. However, China has been fairly consistent in generating trade surplus for the past couple of years with occasional deficit. But most importantly, the imports have been declining at a higher rate compared to the rise in exports primarily as a result of fall in commodity prices.

Amidst the rise in trade surplus, the economy's growth has been sluggish by China's standards. It grew at 7.4% from 7.7% in 2013, the weakest in 24 years. The growth rate is further expected to decline accompanied by decline in trade growth target, with one of the possible reasons being falling inflation rate which currently stands at 0.8%, a 5-year low.[7]

Doubts over support to Greece: Since the debt crisis post-financial meltdown of 2009, Greece showed its first signs of growth in the second quarter of 2014. By the fourth quarter, Greece recorded a positive GDP growth of 1.3% which was a major improvement given the negative GDP growth of 7.1% in 2011. However, this growth came at the cost of compromises made by Eurozone, and most notably Germany, who have time and again provided financial aid which essentially kept the Greek economy solvent.[8] Despite German parliament's recent approval of a four-month bailout extension, the

current political events (rise of left-wing government and its fight against austerity measures, one of the bailout clauses) have cast major doubts over the support to Greek crisis.[9] Of late, Eurozone officials, and Germany in particular, have begun to take a rather stringent stand refusing to ease bailout terms.

HSBC involved in tax evasion: The recent HSBC scandal revealed the bank aiding clients to evade taxes through one of its subsidiaries in Switzerland. The leaked documents exposed evidence of HSBC, one of the biggest banks in UK, providing active encouragement and help to its clients in dodging taxes through undeclared Swiss bank accounts.[10] The executives of HSBC, however, stated that they were unaware of the tax evasion activities.[11] The chairman further carried on to point fingers at the management of the Swiss unit and state that the secrecy surrounding banking in the country attributed to conceal the series of events from his sight.[12]

Unlike the UK tax authorities who appeared to be rather content with what HSBC had to say, Public Accounts Committee and Labor MP probed further into detail seeking explanations for HSBC's actions. Despite already having been involved in similar scandals in the past, HSBC continues to perform such actions which, unless met with hefty punishment, could further keep occurring.

OUTLOOK

The Indian Budget has eased visa policies for more than 150 countries. Since Nepal is an add on destination to many tourists who come to India, potential growth in tourists in India also alludes to increase in tourists in Nepal.

macroECONOMIC OVERVIEW

The failures of the Constituent Assembly to disseminate the new constitution and resulting deeper political uncertainty have made investors cautious of the future direction of Nepal's politics and economy. Consequently, a large gap between investment commitment and actual investment continues to be persistent. Inflation averaged 7.3% in the first half of FY 2014-15, down from 9.1% in the corresponding period in FY 2013-14. The decline in prices is mainly driven by the sharp slowdown in non-food and service prices.

AGRICULTURE

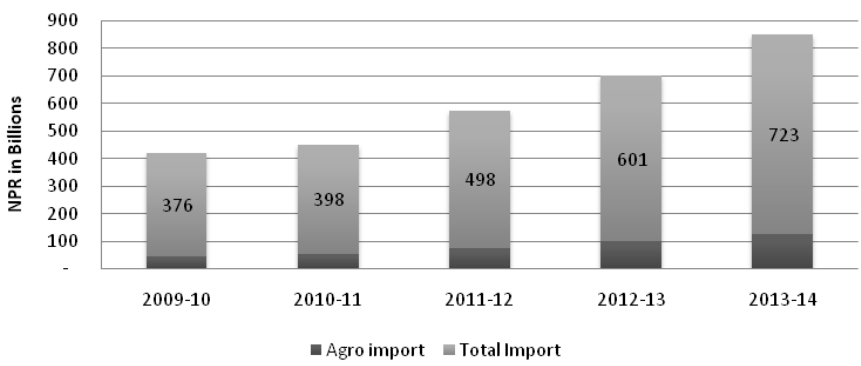
The government has realized that the out-migration of workforce is directly correlated to agriculture productivity. Therefore, to transform this sector, the government is now directing its support towards developing mechanisms that promote commercial farming, awareness creation, capacity building, demand stimulation, and channeling of financial resources.

Agro Imports: Agriculture imports have almost tripled in the last five years. According to Trade and Export Promotion Centre, Nepal imported agro products worth NPR 127.51 billion (USD 1.27 billion) in the FY 2013-14, up by 187% from NPR 44.43 billion (USD 0.44 billion) in FY 2009-10. Import of rice, crude soybean, and betel nut have topped the import list with import worth of NPR 17 billion (USD 0.17 billion), NPR 14.82 billion (USD 0.14 billion), and NPR 7.67 billion (USD 0.07 billion) respectively.[13] This growth in import has been attributed to growing urbanization whereby people give up farming and move from rural to urban cities.

On the contrary, export of agriculture products has been disappointing. In the FY 2013-14, Nepal's total agriculture export amounted to NPR 26.41 billion (USD 0.26 billion). **See Figure 1**.

Milk Deficit: Due to low domestic production of milk, Nepal's dairy market is now facing a daily milk deficit of 400,000 liters. According to Nepal Dairy Association, while daily demand stood at 5.2 million liters, the daily domestic production of milk is only around 4.8 million liters. Similarly, milk output growth stands at 4% while the demand is rising by 8%. The association has identified different barriers that exist in the milk industry and advised the government to work on augmenting those barriers to boost milk production. Some of the suggestions made by the association are import of improved breeds of quadrupeds, subsidies on animal feeds and logistics,

Figure 1: Agro Import to Total Import



Source: Trade and Export Promotion Center

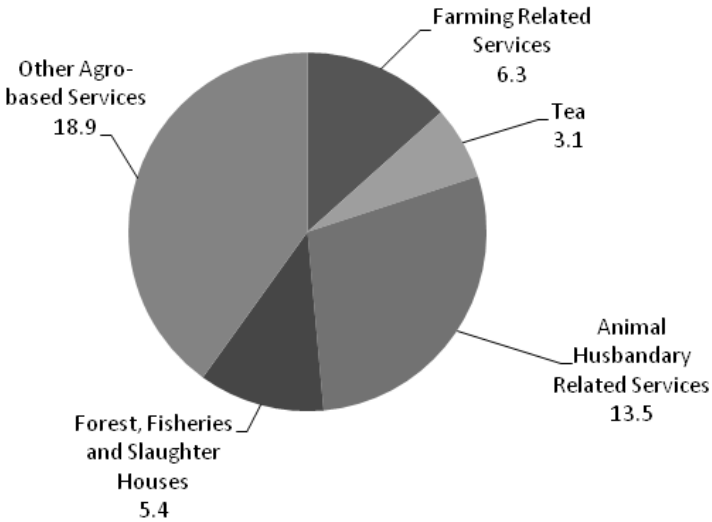
expansion of animal insurance, provision of grazing lands, and capacity building of farmers.[14]

Agriculture loan policy revised: To promote agro-entrepreneurship among the youth, the government has once again amended agriculture loan procedures. The amended scheme has removed the age limit requirement for youth to procure subsidized loans from banks and financial institutions, thus enabling farmers of all ages to avail of the facility. Previously, only those falling within the age bracket of 21-45 were eligible to get the loan at the subsidized interest rate. The government also plans on making the loan terms and collateral terms more flexible by increasing the maximum loan limit to NPR 30 million (USD 0.3 million).[15]

Credit to agriculture sector: According to the central bank's Annual Economic Activity Report 2013-14, agriculture processing and services sector received the highest amount of farm loans in FY 2013-14. This sector is seen as the most profitable of the agro sectors by Banks and Financial Institutions (BFIs). Of the total agricultural credit of NPR 47 billion (USD 0.47 billion), the agro processing and services sector received NPR 15.5 billion (USD 0.15 billion). Subsequently, livestock and slaughter house, poultry and ostrich farming, and commercial vegetable farming received NPR 9.66 billion (USD 0.09 billion), NPR 8 billion (USD 0.08 billion), and NPR 3.22 billion (USD 0.03) respectively.[16] On the other hand, irrigation was the least preferred sector for investment by BFIs due to huge investments by the government in this sector.

Grant to agriculture sector: The government and various development partners have increased their grants to the agriculture sector with the aim of bringing a significant transformation to the sector. Ministry of Agriculture Development has unveiled various programs related to agriculture, irrigation, and livestock that are being implemented with grant assistance worth NPR 12 billion (USD 0.12 billion) for this fiscal year.[17] To give this sector a boost, the government is conducting several programs such as agriculture insurance, interest rate subsidies for commercial farming, subsidies to the ultra-poor to uplift living standards, small scale irrigation projects, and subsidies for chemical fertilizers.

Figure 2: Credit Flow of Commercial Banks to Agriculture Sector (NPR in billion)



Source: Economic Survey FY 2013/14, NRB

EDUCATION

Despite making remarkable progress in creating access to education, Nepal seems unlikely to meet the Millennium Development Goals in terms of universal primary education. With a high school drop-out rate and gender parity far from achieved, the country still faces an enormous challenge in ensuring that children, both boys and girls alike, complete a full course of primary education.

World Bank credit to education sector: The World Bank has approved a credit of NPR 6.5 billion (USD 65 million) for the Nepal Higher Education Reform Project.[18] The project focuses on implementing reforms in various areas, such as strengthening of the examination system, expansion of new academic programs and research, financial support for under-privileged students, institutionalization of the national accreditation system, greater institutional autonomy, developing

more effective public funding for higher education institutions, and development of human resources. The project, which is a part of National Program for Higher Education Reform and Development, is expected to benefit over 500,000 current and future students of over 150 public universities and affiliated campuses through different interventions.

More schools to lose their license: After cancelling the licenses of 28 schools for existing only on paper, the District Education Office (DoE), Bhaktapur, is planning to revoke the licenses of nine more schools.[19] The DoE had earlier issued a public notice regarding the license cancellation process, directing the schools to furnish reasons within 25 days of publication of the notice if they wished the office to stop the license cancellation process.

Literacy drive in Pachthar: The District Education Office (DoE) in Pachthar has come up with an innovative idea to eradicate mass illiteracy in the district. Under its new literacy campaign called "Passing the knowledge from one to other", each literate person will help another illiterate to become literate and the latter will help the next illiterate person. This process of passing on the knowledge will continue until a satisfactory literacy rate is achieved. The individuals will participate in the campaign voluntarily and DoE will provide the required education materials. The office aims to educate approximately 9,000 illiterates under this campaign.[20]

New education policy: The Ministry of Education has decided to form a high-level commission to draft the new education policy that fits into the country's changing political context. Since the drafting of the last education policy over 15 year ago, various programs have been launched to overhaul the education sector. A majority of lawmakers agree that the sector needs a new policy that will guide it in the changing context.[21]

Consolidated equity strategy 2014: In an effort to improve quality of education and eliminate irregularities in schools, the Ministry of Education has launched the Consolidated Equity Strategy for the school education sector 2014.[22] The strategy focuses on identifying marginalized groups that are deprived of education and bringing all children within the boundary of school education. It aims to eliminate the differences that exist on the basis of sex, society, economic status, geographical conditions, health and disability, and provide equal education opportunities to all. Upgrading the learning process and reducing the number of school dropouts are some of the other objectives mentioned in the strategic document.

ENERGY

With the increased load shedding hours particularly during the dry season, sale of solar power systems have seen a significant boost in the past few years. The government's provision of subsidies in the renewable energy sector has further assisted in promoting this sector.[23]

IFC, GMR Group partner for power projects: The International Finance Corporation (IFC) has partnered with India's GMR Group to develop the 900 MW Upper Karnali hydropower plant, and two transmission line projects in Nepal. The transmission lines will distribute power from the Upper Karnali and 600 MW Upper Marsyangdi Hydropower projects in Nepal. IFC InfraVentures, a global infrastructure project development fund, is a co-developer of these projects. IFC will make investments for project development and help achieve financial closure for these projects, which have a total investment outlay of NPR 170 billion (USD 1.7 billion). The Upper Karnali plant is expected to create over 3,000 jobs and help reduce greenhouse gas emissions of nearly 2 million tons of carbon dioxide equivalent annually. According to the joint development agreement, 12% of the power generated from the Upper Karnali project will be provided free of cost to Nepal.[24]

FDI funded projects get IPB nod: The development of three Foreign Direct Investment (FDI) funded hydropower projects are set to move ahead following approval from the Industrial Promotion Board (IPB). The IPB has approved 92% FDI and 8% domestic investment in the 65MW Kaligandaki Upper Hydro Project, alongside allowing Excel Clean Hydropower Company, registered under the foreign investors' category, to increase capital and capacity, and allowing Madi Power Private Limited to amend its loan agreement.[25]

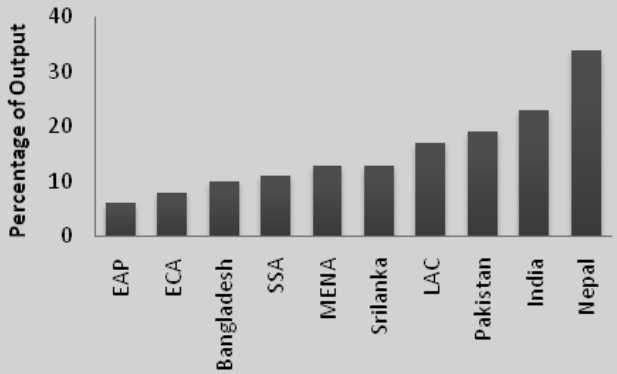
Middle Trishuli Ganga Nadi Hydropower ready for development: Perfect Energy Development is set to start developing the 55 MW Middle Trishuli Ganga Nadi Hydropower Project funded by Nepali and Indian

NEPAL RANKS 4TH IN TERMS OF ELECTRICITY LOSSES

According to the Global Economic Prospects Report 2015 released by World Bank, Nepal falls among the top ten countries with the highest amount of electricity losses. Nepal stands at the fourth position in terms of high electricity losses after countries such as Haiti, Republic of Congo, and Iraq. Electricity loss in Nepal during transmission and distribution stood at 34% as of 2011. Nepal, therefore, not only lags behind in energy generation but is also far behind in managing electricity transmission and distribution efficiently. With growing demand and power generation unable to keep pace, shortages are expected to persist in the country as well as the neighboring countries of Bangladesh, India, and Pakistan.[32]

Nepal Electricity Authority (NEA) has claimed that the losses are not as high as projected in the report. The NEA annual report for the same fiscal year (FY 2010-11) accounts the losses at 28.35%. The system lost has come down to 25.11% as of FY 2013-14.[34] Figure 3 highlights the electricity loss faced by Nepal relative to other countries.

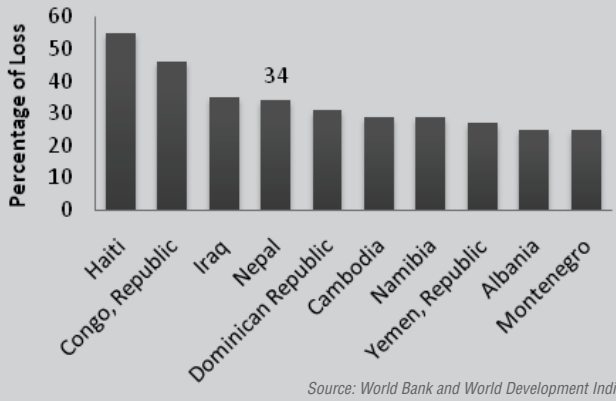
Figure 3: Electricity Losses



*EAP: East Asia Pacific, ECA: Europe and Central Asia, SSA: Sub- Saharan Africa, MENA: Middle East and Northern Africa, LAC: Latin American Countries

Source: World Bank and World Development Indicators

Figure 4: Top Ten Countries with Largest Electricity Losses (% of output)



Source: World Bank and World Development Indicators

Investors. The project is estimated to cost NPR 10.37 billion (USD 103.7 million). Developers aim to conclude the Power Purchase Agreement (PPA) with Nepal Electricity Authority within a year, with constructions expected to be completed four and a half years following the PPA. The project encompasses building a 11 meter high, 80 meter long dam at Manakamana-3 and Lahare Pauwa-1, Rasuwa, and a 1,580 meter long tunnel. Water will then be diverted from the tailrace of Trishuli III B hydropower project, leading it through the tunnel to the power house at Tupche-2. The energy generated by the project will be evacuated through a 132 kVA transmission line situated in Tupche.[26]

AEPC launches biogas program: A national-level biogas program has been launched by the Alternative Energy Promotion Centre. The project aims at developing the market for renewable energy by utilizing commercial and municipal waste to generate energy. The project is looking to bring together various actors to promote knowledge sharing and help form networks that enable the business and development community to participate in waste management.[27]

Four nations explore energy cooperation: Following the signing of the South Asian Association for Regional Cooperation (SAARC) Framework Agreement of Energy in the 18th SAARC Summit, four members of SAARC—Bangladesh, Bhutan, India and Nepal—are exploring the scope for power trade, inter-grid connectivity and the possibility of using multi-

model transport facilities. The Joint Working Group on Water Resources Management and Power/Hydropower reviewed the existing cooperation and bilateral arrangements between the four countries on data sharing for flood forecasting and ways to improve it. Agreements have been made on undertaking a joint effort in exploring harnessing water resources, including hydropower and energy from other sources available in the sub-region.[28]

Micro and pico hydropower projects power Gorkha villages: 36 micro and 31 pico hydropower projects have managed to power 24 Village Development Committees. The projects generate a total of 1,702 KW of power, electrifying 17,339 households in villages such as Simjung, Lapu, Gumda and Kharibot which are not yet connected to the main grid. 39 of these power projects were installed by the government run Alternative Energy Promotion Centre, 14 by Gorkha Welfare (Kaduri), four by Manaslu Conservation Area Project, and the remaining 10 funded privately.[29]

Bhote Koshi resumes power generation: Following five months of not being in operations, the 45 MW Bhote Koshi Hydropower Project has resumed generating electricity after agreeing to provide a 6% stake of the company to locals. Electricity generation had come to a halt after the project transmission towers were swept away by a massive landslide and flooding in the Sunkoshi River in August 2014, following which repair work was barred by locals and political parties demanding shares of the company.

Apart from the allotment of shares to locals, the company will be providing NPR 2.25 million (USD 0.022 million) each to two project-affected Village Development Committees (VDC), Tatopani and Fulpingkatti, while seven other project-affected VDCs, Marming, Gati, Maneshwara, Ramche, Dhuskun, Tekanpur and Pangretar, will jointly receive NPR 2.25 million (USD 0.022 million). The shares will be distributed at a face value of NPR 100 (USD 1) per share.[30]

NEA fixes power purchase tariff: Nepal Electricity Authority (NEA), the sole buyer of power in Nepal, will soon start buying energy generated by hydropower projects with an installed capacity of 25 MW to 100 MW at flat rates of NPR 8.40 (USD 0.084) per unit during dry seasons and NPR 4.80 (USD 0.048) per unit during wet seasons. The setting of the tariff clears the pricing ambiguity for developers building hydropower projects with installed capacity of over 25 MW to 100 MW. The only difference for projects of up to 25 MW, and projects of over 25 MW to 100 MW is the pricing mechanism and the frequency at which tariffs can be revised. Power purchase tariff for projects of over 25 MW to 100 MW can be raised by 3% for a maximum of eight times, as against a maximum of five times for projects of up to 25MW.[31]

FOREIGN AID

The Aid Management Platform (AMP), an online system that helps the government effectively coordinate and manage foreign aid, has been more or less crippled by the donors' delay in submitting aid details. The system was launched four years ago with the aim of maintaining a proper database of the foreign aid entering Nepal annually. Though there has been an increase in the number of donors and international non-government organizations reporting to it, delays in feeding aid details into the system act as hurdles in terms of determining the exact status of foreign aid in the country.[34]

Swiss supports Small Irrigation Programme: The Swiss government has agreed to provide a grant assistance of NPR 1.78 billion (USD 17.8 million) to implement the Small Irrigation Programme (SIP). The Government of Nepal will be contributing NPR 1.12 billion (USD 11.2 million) to the project which has its total cost pegged at NPR 3.06 billion (USD 30.6 million). The program aims at increasing agricultural incomes of the rural poor, particularly the disadvantaged groups, by building or rehabilitating 1,800 farmer-managed small irrigation systems with involvement of small farmers. This will provide irrigation to 15,000 hectares of land and will benefit more than 25,000 small farming households. The project will be implemented by the Ministry of Federal Affairs and Local Development over a period of four years.[35]

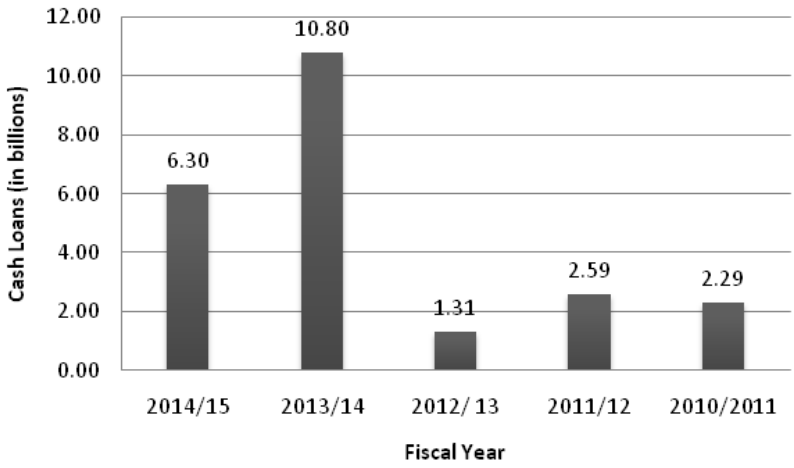
ADB to provide USD 1 billion to support infrastructure: The Asian Development Bank (ADB) will be providing NPR 10 billion (USD 1 billion) in concessional loans and NPR 1.3 billion (USD 13 million) in technical assistance grants to Nepal over a period of three years. Over 80% of the financial support will be allocated for major infrastructure projects in hydropower generation and transmission, international airport expansion, transportation, education,

and agriculture productivity growth. ADB is committed to assist Nepal close its power deficit by supporting tariff reform, improve institutional capacity and financial health of the Nepal Electricity Authority, and strengthen the sector's regulatory framework.[36]

World Bank approves financing for solar energy project: The World Bank has agreed to provide a NPR 13 billion (USD 130 million) credit with a six year grace period and a maturity of 38 years to finance a 25 MW Nepal Grid Solar and Energy Efficiency Project. The assistance is expected to address shortages in energy and assist in increasing electricity supply to the national grid through grid connected solar farms, meanwhile reducing distribution losses in pilot distribution centers. According to the Ministry of Finance, NPR 5.4 billion (USD 54 million) of the loan will be invested in solar plants while the rest will be used to reduce transmission losses.

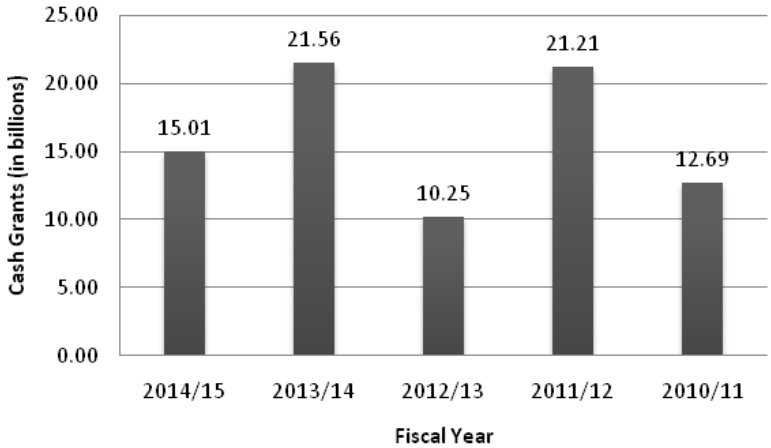
The project will be conducted in two phases with the first phase focusing on design, supply, construction, commissioning, operation and maintenance of grid connected solar farms to supply electricity directly to the Nepal Electricity Authority's (NEA) distribution network. The second phase will include the preparation of a Distribution Loss Reduction Master Plan and implementation of pilot loss reduction projects in selected distribution centers of NEA.[37]

Figure 5: Comparison of Foreign Cash Loans in Six Months Over the Past Five Years



Source: Current Macroeconomic Situation, Nepal Rastra Bank

Figure 6: Comparison of Foreign Cash Grants in Six Months Over the Past Five Years



Source: Current Macroeconomic Situation, Nepal Rastra Bank

Norway continues aid for better public schools: The Norwegian government, in support of quality improvement and inclusion in public schools, has continued its support to the education sector by providing a grant of NPR 177 billion (USD 1.7 billion). The support will be used for the School Sector Reform Program. Norway has supported this program in Nepal since 2009, which involves developing a public school system that can offer free and quality basic education to all children. While Nepal has shown impressive developments in the education sector with 95% of children enrolled in schools,

Nepal and Norway share common concerns on improving quality and learning, as well as better inclusion of girls and vulnerable groups in the public sector program.[38]

Germany increases development cooperation: The Government of Germany has committed a total of NPR 5.71 billion (USD 5.71 million) as Technical and Financial Cooperation for FY 2014-15, an increase by NPR 714.3 million (USD 7.14 million) from its previous commitment. This brings the total German financial support to Nepal to NPR 136.5 billion (USD 1.36 billion) since 1961. The bilateral development cooperation will focus on three core areas with NPR 3.03 billion (USD 30.3 million) of the committed funds being allocated to the health sector, NPR 1.78 billion (USD 17.85 million) to Sustainable Economic Development and Trade, and the remaining to Energy Efficiency and Renewable Energy. The geographical focus of the cooperation will be on rural regions in Mid and Far Western Nepal to expedite sustainable development and poverty alleviation in these areas.[39]

ADB assistance for water supply, sanitation project: The Asian Development Bank (ADB) has agreed to provide the Government of Nepal with a loan assistance of NPR 5.78 billion (USD 57.8 million) and a grant assistance of NPR 127.4 million (USD 1.27 million) to implement the Third Small Town Water Supply and Sanitation Project. The project aims at upgrading and constructing water supply systems for 26 small towns and construction of approximately 20,300 additional private toilets with septic tanks, alongside strengthening sector policy, regulatory and institutional capacity, service delivery and project management. The project will be implemented by the Ministry of Urban Development and Town Development Fund and is expected to reach completion by 31 January, 2021.[40]

Switzerland provides grant of over NPR 1 billion: The Government of Switzerland is providing a grant of NPR 1.1 billion (USD 11 million) in support of the Trail Bridge Sub Sector Programme - Phase IV. The program aims at increasing access of the rural population to basic social public services and economic resources besides providing safer river crossing facilities. The project includes the construction of 2,500 trail bridges and maintenance of 5,000 trail bridges every year over a five year period. A grant of NPR 580 million (USD 5.8 million) is also being provided to implement the River Protection Works and Livelihood Improvement Project in Chitwan - Phase II, which looks at developing river protection infrastructure and up lifting livelihoods, and offering resilience to people of eastern Chitwan against natural disasters. The projects will be implemented by the Ministry of Federal Affairs and Local Development.[41]

World Bank supports Kabeli Hydro Project: The World Bank has agreed to finance the 37.6 MW Kabeli Hydroelectric Project with a loan of NPR 4 billion (USD 40 million) and a grant of NPR 600 million (USD 6 million). The financing aims to address concerns raised by the Commission for the Investigation of Abuse of Authority regarding the non-completion of the project's financial closure. International Finance Corporation, will also be making an investment of NPR 3.81 billion (USD 38.12 million) as equity partner, whereas Kabeli Energy Limited will invest NPR 2.29 billion (USD 22.96 million) as an equity investor. The total cost of the project is estimated at NPR 10.2 billion (USD 102.08 million).

The loan will be used for developing the hydro project, whereas the grant will be used to develop institutional capacity of the Department of Energy Development and the Investment Board of Nepal to negotiate power development agreements with large investors. The project located in the Taplejung-Panchthar border in eastern Nepal is expected to reach completion by June 2019.[42]

HEALTH

Nepal has been successful in meeting its Millennium Development Goals in terms of improving maternal health and reducing its child mortality rate. While the maternal mortality ratio stood at 850 per 100,000 live births in 1990, the country was successful in bringing it down to 170 in 2015. Similarly, the under-five child mortality ratio has been brought down from 162 in every 1000 child in 1990 to the current 54. Studies by various government and international agencies also show the rural-urban gap in skilled care during childbirth has narrowed. However, achieving universal access to reproductive health and family planning continues to remain a major challenge.

Health insurance program to be launched: The National Social Health Insurance Program will have

its beta testing within this fiscal year. According to the Ministry of Health and Population, preparations are underway to launch the program. The pilot testing will be held in the districts of Ilam, Baglung and Kailali and will be expanded to 15 more districts.[43] The insurance will cover a one-time free health checkup facility for a person of 35 years of age or above. There will also be a subsidiary insurance for those whose annual income is below NPR 50,000 (USD 500).[44] The insurance will cover all primary health centers, district hospitals and higher-level government hospitals. It also provides subsidy to underserved people who cannot afford insurance services.

Risks of excessive antibiotic use: While antibiotic resistance is a global concern, only a handful of developing countries, including Nepal, have shown willingness to approach this issue and assess the factors associated with it.[45] As per the evidence released by the Global Antibiotic Partnership (GARP)–Nepal, though the extent of antibiotic resistance in Nepal is relatively less, there are studies that document high levels of resistance to life saving drugs among patients with acute respiratory infections, bacterial diarrhea, bloodstream infections, sexually transmitted diseases and urinary tract infections. GARP Nepal is currently working towards addressing the issue of excessive antibiotic use by educating healthcare workers–both human and veterinary–at all levels, and advocating policy changes.

Myagdi, Rupandehi fully immunized: Children of 30 VDCs in Myagdi district and 20 VDCs in Rupandehi have been fully immunized.[46] Under the immunization campaign carried out by the government, various vaccines such as DPT, BCG, OPV and anti-measles vaccination are provided free of cost to protect the infants from various infectious diseases. An infant is considered fully vaccinated after he/she is regularly administered nine different immunizations within a year of birth.[47] With the increase of access to vaccination, the mortality of child below five has decreased.

Doctors' absence affects health services: Despite mounting public criticism of doctors' absence in Baglung based Dhaulagiri Zonal Hospital, out of the 20 doctors posted there, only five doctors are on duty. The remaining have failed to resume their duty even months after being directed by the Health Ministry.[48] In Syuja, a remote village in Dang, the sole primary health center is run by an office assistant; no doctor has set a foot in this health facility in the past several years. The two primary health centers in Kotajhari and Kol VDCs in Rukum district are ill-equipped, understaffed, and not a single doctor has seen the insides of these health posts since their establishment.

What this means is, health services is practically non-existent in remote areas of Nepal and even to get treated for a common cold and fever, patients have to walk for hours to reach health facilities at the district headquarters.[49] All requests made to the District Public Health Office for positing of doctors to these facilities have so far gone unheard. Meanwhile, health posts are being run by maternal and child health workers who are not authorized to prescribe medicines.

Increased life expectancy: Nepal now has the second highest life expectancy after Sri Lanka among the South Asian countries.[50] The average lifespan of a Nepali is now 71 years, while for Sri Lankans it is 76 years. Bhutan follows closely at 69 years. India and Pakistan are on the same level at 66 years, followed by Afghanistan which has the lowest life expectancy at 56 years. Going up by 12.3 years between 1991 and 2011, Nepal has made a remarkable increase in lifespan and is among the top ten countries to have drastically improved life expectancy. This is mainly because of the decrease in maternal and child mortality and better access to health care, education, nutrition and immunization. The maternal and under five mortality rates have also improved from 880 per 100,000 mothers to 170 per 100,000 and 150 in every 1,000 children to 54 in two decades. This has been seen as a result of increase in per capita income of Nepalese who can now buy healthier goods and can also afford better medical care.[51]

INFRASTRUCTURE

Feasibility study for cable car line: The Government of Nepal is looking to construct an urban cable car metro system in Kathmandu Valley. The technical and economic feasibility study, expected to be conducted over a period of nine months, will soon be carried out for two routes–one from Narayan Gopal Chowk to Lagankhel and another Kalanki to Boudha. A Memorandum of Understanding has been signed between the government and French Engineering Companies Consortium of MDP and Systra. The proposed metro

system is aimed at minimizing growing traffic congestion within the valley and also to promote tourism.[52]

Nepal-India Petroleum Pipeline: The Indian Oil Corporation has decided to fund NPR 8.8 billion (USD 0.08 billion) for the construction of the 41-km Amlekhgunj-Raxual pipeline. The implementation of the much-delayed project gained speed after the Indian Prime Minister Narendra Modi, during his Nepal visit in August 2014, assured to construct the pipeline. It is believed that the project will reduce the transportation cost of fuel by over 50%, control leakages, ensure quality, and end the frequent shortage of petroleum products caused by strikes by petroleum transporters.[53]

Delay in building houses for Rautes: The budget crunch has become a major barrier in implementing People's Residence Programme aimed at rehabilitating Rautes. The Department of Urban Development and Building Construction had started the program five years ago to build 85 houses for Raute families of Dadeldhura. But till date, only 45 houses have been built. Despite several attempts made by officials at the District Forest Office, District Administration Office and Doti office of the Department of Urban Development and Building Construction, no notable progress has been seen due to the budget crisis.[54]

Gas Pipeline: The Indian Government has shown interest in building a Nepal-India gas pipeline that will supply liquefied petroleum gas (LPG) and natural gas. An Indian technical team will soon be visiting Nepal to study the feasibility of constructing the gas pipeline. It is expected that the project will help meet the increasing demand for LPG in Nepal.[55]

Larcha Dry Port construction resumes: Construction works on Larcha Dry Port have restarted after a temporary bridge was built over the Bhotekoshi River. The construction work, which was targeted to complete in February, was hindered by floods and landslides that swept away the under construction bridge and the temporary bridge built to transport construction materials to the project site. In addition, the contractors also had to bear a huge loss of around NPR 100 million (USD 1 million) due to obstruction in construction work. It is expected that the Larcha Dry Port will give a new drive to Nepal-China trade.[56]

Sewerage system and road projects: An assistance of NPR 773 million (USD 7.73 million) was pledged by the Asian Development Bank for the construction of 60 km sewerage system and 8 km roads in Nepalgunj. In this regard, an agreement has been signed between China's CTCE Company, Kalika Construction Pvt. Ltd and Nepalgunj submetropolis. The construction works, scheduled to be completed within two years, will be implemented under the Integrated Urban Development Project. To execute the project, the government has to remove about 250 illegal physical structures from the public land.[57]

Mechi Dry Port still handled by government: The government has been obliged to manage Mechi Dry Port by itself as they failed to attract satisfactory bids from private sector even after inviting tender bids thrice in the past four years. The minimum lease fee is NPR 160 million (USD 1.60 million) for a period of 10 years is considered too expensive by the private sector. Though the government lessened the fee to NPR 100 million (USD 1 million) the second time and to NPR 40 million (USD 0.40 million) the third time, it has still failed to lure the private sector. Meanwhile, the government is bound by the agreement it made to Asian Development Bank, which stipulates that the service charge should be at par with that of the Biratnagar and Bhairahawa dry ports.[58]

MANUFACTURING AND TRADE

The country's manufacturing and trade sector continued to witness a downfall in the first six months for the FY 2014-15, registering a drop of 3.9% in export, amounting to NPR 43.39 billion (USD 433.9 million). Although imports registered a comparatively smaller growth of 13.3% amounting to NPR 378.82 billion (USD 3.78 billion), the fall in global petroleum price can be attributed to this. The inflow of remittance has also fallen while the consumption of luxury goods such as vehicles has increased greatly making vehicles and spare parts the second highest imported goods after petroleum products. Exports, which do not even make up a fraction of the country's import figures, have not been able to pick up and are instead witnessing a downfall. The absence of government policies focused on facilitating export industries has resulted in further degradation of the country's already failing export sector.

Foreign trade scenario: Nepal's total export has decreased by 3.9% to NPR 43.39 billion (USD 433.9 million) in the first six months of FY 2014-15 as shown in Table 1. Though this fall

was influenced by a decrease of 8.1% export bound to India—amounting to NPR 27.16 billion (USD 271.6 million), it still constituted over 50% of Nepal's total export. During the same review period in the previous year, exports to India increased by 18.4%. On the brighter side, exports to China increased by 16.9%, which is a substantial increment compared to the increase of 2.2% in the same review period in the previous year. However, exports to other countries increased by only 3% which in the previous year had increased by 9.9%.

Import continues to increase, registering a growth of 13.3%—amounting to NPR 378.22 billion (USD 3.78 billion)–in the first six months of the current fiscal. This is a decrease in comparison to the import rise of 23.1% during the same period last fiscal. However, the prime reason behind decrease in import growth is the decrease in petroleum prices in the international market. Import from India, which had registered a growth of 25.6% in the last fiscal, witnessed a growth of only 9.3% amounting to NPR 241 billion (USD 2.41 million).

Trade with China has increased as imports also registered a growth of 48.1% compared to the growth of 6.9% during the same period last FY. Imports from China amounted to NPR 53.58 billion (USD 535.8 million). Import from other countries increased by 24.6% contributing NPR 83.59 billion (USD 835.9 million) to the import portfolio; this segment grew by 8.3% during the same period last fiscal.

Top exports, imports: The increment of exports to China was fueled by export of tanned skin, woolen carpets, noodles, and other handicraft goods. Although metal and wooden handicraft contributes a major chunk in the export portfolio to China, this sector has been facing a decline. Nepal only exported handicrafts worth NPR 97.8 billion (USD 978 million) during the first six months of FY 2014-15, while the export figure stood at NPR 168.1 billion (USD 1.68 billion) during the same review period last fiscal. Export of woolen carpets to China registered a remarkable growth of 128%.

Table 1: Foreign Trade Statistics for the First Three Months of FY 2014-15 (in millions)

NPR in millions	2012/13	2013/14[R]	2014/15[P]	Percent Change	
				2013/14	2014/15
TOTAL EXPORTS	39245.9	45142.9	43391.0	15	-3.9
To India	24981.6	29566.1	27163.9	18.4	-8.1
To China	1312.7	1341.3	1567.7	2.2	16.9
To Other Countries	12951.6	14235.5	14659.4	9.9	3.0
TOTAL IMPORTS	271348.5	333907.4	378217.0	23.1	13.3
From India	175531.1	220516.9	241043.4	25.6	9.3
From China	33823.7	36168.4	53579.0	6.9	48.1
From Other Countries	61993.7	77222.1	83594.7	24.6	8.3
TOTAL TRADE BALANCE	-232102.6	-288764.5	-334826.0	24.4	16.0
With India	-150549.5	-190950.8	-213879.4	26.8	12.0
With China	-32511.1	-34827.1	-52011.3	7.1	49.3
With Other Countries	-49042.0	-62986.6	-68935.3	28.4	9.4
TOTAL FOREIGN TRADE	310594.4	379050.3	421608.0	22.0	11.2
With India	200512.7	250083.0	268207.2	24.7	7.2
With China	35136.4	37509.7	55146.7	6.8	47.0
With Other Countries	74945.3	91457.6	98254.1	22.0	7.4

Based on customs data R=Revised / P=Provisional

Source: Recent Macroeconomic Situation, Nepal Rastra Bank - Based on six months data of 2071-72

Zinc sheet, textiles and polyester yarn are the top three exported goods to India. However, all three products registered negative growth of -18.1 %, -4.6% and -3.5% respectively as compared to the same review period in FY 2013-14, contributing to the decline in export to India. In terms of other countries, woolen carpets, readymade garments and pashmina are the highest exported products, with pashmina registering the highest growth of 11.7%.

Though petroleum products continue to be the top imported item from India amounting to NPR 56.53 billion (USD 565.3 million), there has been a decline of 6.9% this fiscal mainly due to the fall in global price of petroleum products. Moreover, MS billet has been displaced as the second highest imported good by vehicles and spare parts which contributed NPR 20.94 billion (USD 209.4 million) to the import portfolio, registering a growth of 24% compared to the same review period last fiscal. India remains Nepal's top trading partner followed by USA and Germany; China, UK and Bangladesh are the forthcoming trade partners.[59]

BOP surplus: Nepal's Balance of Payments (BoP) continues to record a surplus scenario with current surplus standing at NPR 34.26 billion (USD 342.6 million) during the first six months of FY 2014-15. In comparison, BoP surplus stood at NPR 77.19 billion (USD 771.9 million) for the same period last FY. The high growth of merchandise and service imports, decrease in grants, and slow growth of workers' remittances have contributed to the low level of surplus.[60]

Non-Tariff Measures affecting trade relations: The member states of SAARC nation have not been able to substantiate the commitment to develop South Asia as a free trade area. Due to non-tariff measures (NTMs) enforced by the member states, the intra-regional trade currently accounts for less than 5%. Port access limitations, sanitary and phytosanitary measures, quantitative restrictions, trade or limited goods and technical barriers are common NTMs enforced.[61]

In the Chinese market, Nepal has requested for simplification of the export process for goods listed under the Duty Free Quota Free facility. Nepal has been unable to substantially increase its exports to China due to various NTM measures. Following the bilateral agreement signed recently, China has included an additional 199 products from least developed countries to its zero customs duty lists, taking the total number of products eligible to benefit from this facility to 8030 products. With the signing of Letter of Exchange, all the major export items from Nepal to China have been covered under this facility. Further, to enhance the country's export capacity, the government is pushing for the simplification in the process of exporting goods from Nepal.[62] The Ministry of Commerce and Supplies has already forwarded 221 agricultural and food products to its Chinese counterparts seeking relaxation of non-tariff barriers.[63]

Export incentive to be revised: The Ministry of Commerce and Supply is preparing to introduce incentive rates based on employment opportunities created by exporting firms, their performance and contribution to poverty alleviation. Currently, the government is offering 1-2% cash incentives to exporters on 30 goods with at least 30% value addition, excluding products exported to India. Exporters have been demanding for an increase in cash incentives and simplification of the process for claiming the facility. The increased incentive is expected to support production cost, boosting the product's competitiveness in the international market.[64]

NTIS list proposed to be shortened: The Ministry of Commerce and Supplies (MoCS) has proposed to shorten the list of goods and services having high export potential in the Nepal Trade Integration Strategy (NTIS) from 19 to 15. The NTIS list currently comprises of large cardamom, ginger, honey, lentil, tea, instant noodles and medicinal herbs/essential oils under agro products, and handmade paper, silver jewelry, iron and steel, pashmina and wool products under manufactured products. Under services, tourism, labor, IT and business process outsourcing, health, education, engineering and hydroelectricity are covered.

The list is being revised to boost the export of products with the highest potential as the current list is not being able to achieve the initial aspiration with which NTIS was initiated. The current list will be evaluated on the basis of two sets of indicators: export potential measure and inclusive and sustainable development measures. Under this, the export product will be evaluated in a diverse criteria ranging from potential value added to contribution to promotion of skills and earning intensity.[65]

Agro imports continue to increase: Nepal's import dependency on agro products has been continually increasing. In FY 2013-14, Nepal imported a total farm products worth NPR 127.51 billion (USD 1.27 billion), registering a sharp growth of 28%. Rice is the top imported product with imports worth NPR 17.25 million (USD 0.17 million) in FY 2013-14. While the exports of farm products have been dismal, imports continue to rise. Crude soybean oil is the second largest agro import with a growth of 35.8%. While the import of betel nuts has increased two folds, it is believed that these betel nuts are re-exported to India. Import of fruits has also soared with fruits amounting to NPR 6 billion (USD 60 million) being imported in the last fiscal year. 75% of Nepal's total fruit requirement is met through import.[66] The current provision of 5% agriculture reform fee on agro products imported from India has not helped to discourage imports. The government needs to push attractive subsidies to fuel domestic production and improve trade scenario.[67]

Rice export to China to be opened: The Ministry of Commerce and Supplies is planning to open up export of up to 10,000 tons of rice to China citing huge demand for Nepali rice in China where the importers quote high prices. However, this decision comes at a time when Nepal has been importing substantial volumes of rice to meet its daily demand. There has been a ban for more than a year on the export of rice due to goods deficit and no substantial improvementsbeing made in this regard.[68]

Lab test for betel nut: Indian authorities will start conducting lab tests to determine the origin of betel nuts being exported from Nepal. Since this announcement, no shipments were dispatched to India from Biratnagar Customs Office. Commission for the Investigation of Abuse of Authority had earlier seized 421 tons of contraband betel nuts in Biratnagar after the consignment was found with fake certificate of origin. Traders continue to smuggle betel nuts claiming them to be of local origin. As a result, Nepal's betel nut imports far surpasses domestic requirements as most of the products are re-exported to India after being labeled as Nepali product. The government has set an export quota of 11,000 tons from Jhapa and Morang for this fiscal year.[69]

Nepal's participation in Ambiente negligible: The Ambiente Trade Show, organized by Messe Frankfurt, is considered the most important annual international consumer goods trade fair. Despite the fact that a trade show of this scale can provide the much needed platform for export oriented businesses in Nepal, only nine Nepali companies—out of the total 4811 exhibitors from 94 countries—showcased their products during the event. Lack of government support has been cited as the reason behind this low participation.[70]

Revised Trade Policy 2009: The Ministry of Commerce and Supplies is revising the Trade Policy 2009 to promote products and services that have a competitive edge so as to boost exports by expanding production. The draft proposal has listed 29 products of high potential, including 11 new products: red lentils, all textiles, footwear, iron and steel products, cement, transformers, dairy products, oranges, carpets, leather, noodles and sugar. Besides the exportable products, the policy also aims to promote information technology, engineering, tourism, health, education and hydropower. This policy will be compatible with Nepal Trade Integration Strategy for better integration and implementation of the country's trade strategy and aims to establish better coordination among ministries and other government agencies.[71]

Proposal called for registration of trademark: The Trade and Export Promotion Centre (TEPC) has called for proposals from associations dealing with exports of carpets and large cardamom to register their trademarks in export destinations. 70% of the cost of registration will be borne by TEPC while the concerned associations will pitch in the remaining amount. TEPC is planning to register the trademark of Everest Big Cardamom and Nepal Carpet in at least four countries within this fiscal year. Branding activities of Himalayan Coffee is also being carried out.[72]

REAL ESTATE

Online access to land records: The government has started to provide online information to general public regarding their land and property transaction through the Land Records Information Management System. This system was first introduced in January at the Land Revenue Office (LRO) in Kalanki and subsequently at the LROs in Dillibazar, Chabahil, Lalitpur and Bhaktapur. The government is also planning to operate this system in nine

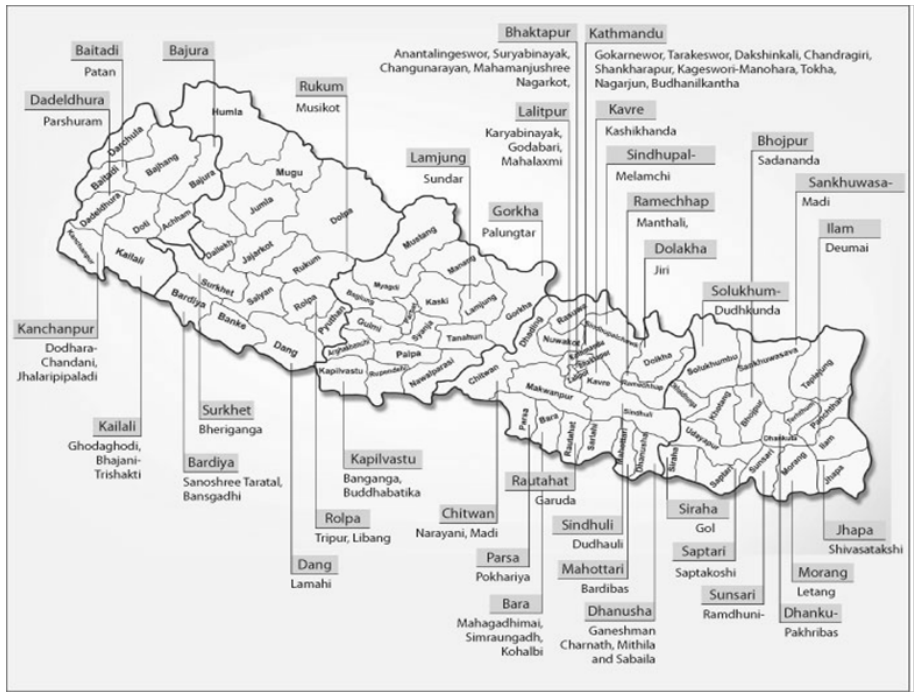
other LROs where necessary hardware and software have been installed and Operational Acceptance Testing carried out. The Asian Development Bank has provided the funds for this project, which is aimed not only at reducing crowds at the LROs but also allowing property owners the convenience of acquiring all details related to their property and land taxes–paid or out standing–online. Similarly, the project is being handled by India-based company RMSI.[73]

Formulation of rental code: The Ministry of Urban Development is working to introduce a rental code of conduct by the end of this fiscal year to address the rental issues of both renters and landlords. Especially in Kathmandu, where about 58.65% of households are living in rented houses, most of the tenants have to struggle for basic facilities like drinking water, sanitation and toilet. Meanwhile, the landlords also have grievances regarding irresponsible behavior from tenants. The rental code will be designed to guide the minimum requirements for rental space, agreement format, rent charges, tax, registration of tenants, etc. that would make both parties more responsible and accountable.[74]

Developers keen to initiate new housing projects: The real estate sector in the valley has been witnessing a growth, with the revenue collection from land and housing registration going up by 30% during the first quarter of this fiscal as compared to the same period last year. Encouraged by the positive trends in the sector, real estate developers are planning to come up with new housing projects. Most of the developers are targeting the peripheral areas 2-4 km away from the Ring Road as the land is too expensive in core areas. Bhaisipati, Kalanki, Chobar, Jorpati, Tokha, Balaju, way to Bhaktapur are some of the most sought after areas for the projects.[75]

61 new municipalities approved: The proposal forwarded by the Ministry of Federal Affairs and Local Development regarding addition of 61 new municipalities has been approved by the government. Now there are 191 municipalities in Nepal with 9 new municipalities in Kathmandu, 4 in Bhaktapur and 3 in Lalitpur. This program has removed Village Development Committees (VDCs)

Figure 7: 61 New Municipalities added in The Map of Nepal



Source: Ministry of Federal Affairs and Local Development

Table 2: Registration Revenue Collection of The Valley in the First Quarter FY 2014-15 (in NPR millions)

Months	Dillibazar	Kalanki	Chabahil	Bhaktapur	Lalitpur
Mid-July to Mid-Aug	124	60	93	32	50
Mid-Aug to Mid-Sep	164	67	79	37	72
Mid-Sep to Mid-Oct	124	45	69	26	49
Total	412	172	241	95	171

Source: Department of Land Reforms and Management

from Kathmandu and Bhaktapur districts as VDCs in these districts have been converted into municipalities. Similarly, the number of sub metropolitan cities has reached 11 after upgrading 7 municipalities, namely Itahari, Dharan, Butwal, Janakpur, Bharatpur, Nepalgunj and Hetauda. Likewise, the area of 16 municipalities has also been expanded.[76]

Dillibazar Land Revenue Office at the top: The overall land and house registration revenue collection increased by 35% in the first quarter of this fiscal year as compared to the FY 2013-14. Out of 83 Land Revenue Offices (LROs), Dillibazar collected the highest amount of registration revenue worth NPR 412 million (USD 4.12 million) while Manang was at the bottom of the list with revenue collection of NPR 90,012 (USD 893.69). The main reason behind Dillibazar collecting the highest amount of revenue is its location; the LRO is located in the capital city and has 29 wards out of 35 metropolises which bagged the highest rate of transactions. Additionally, the gain in registration revenue is supported by recent increase in registration gain tax from 2% to 4.5% and appreciation of land price valuation that soared by 100% or more in semi urban areas.[77]

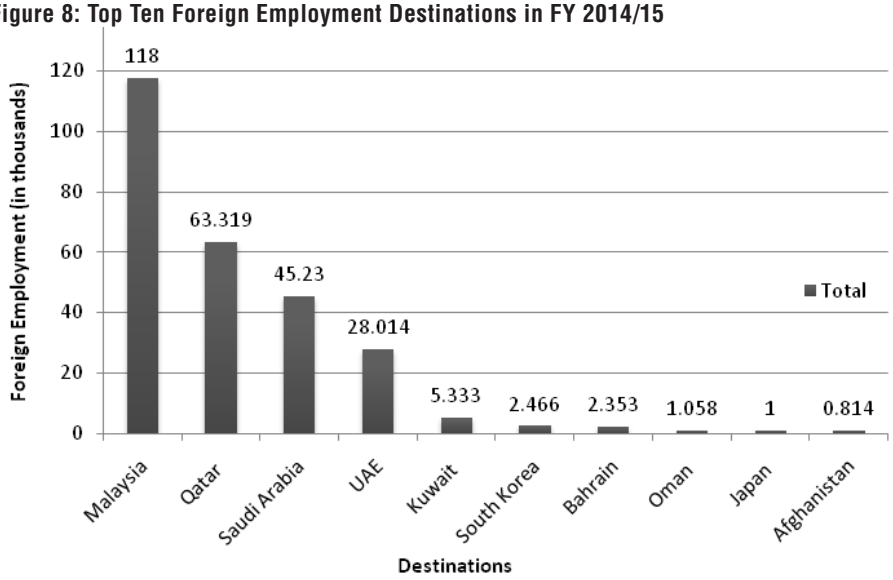
Table 3: Changes in Remittance (in NPR billion)

Particulars	2012/13		2013/14		2014/15P	Percent change during six months	
	6 Months	Annual	6 Months	Annual	6 Months	2013/14	2014/15P
Grants	11.8793	34.1805	22.6880	48.5198	19.5333	91.0%	-13.9%
Workers' remittances	197.6986	434.5817	265.6236	543.2941	275.9594	34.4%	3.9%
Pensions	16.9319	35.3267	19.7631	41.3731	20.1125	16.7%	1.8%

P= provisional

Source: Current Macroeconomic Situation, based on six months data, NRB

Figure 8: Top Ten Foreign Employment Destinations in FY 2014/15



Source: Department of Foreign Employment

REMITTANCE

Remittance contributes significantly to Nepal's economy. This is evident from the fact that the number of Nepalese looking for employment abroad increased by 20% in the first half of the current fiscal year to NPR 275.95 billion (USD 2.75 billion). Foreign employment has become one of the most preferred options among the Nepali youth because of comparatively better payment in the foreign labor market and lack of employment opportunities in the country. Meanwhile, despite steps initiated by Nepal Rastra Bank to revise remittance business management, remittance inflow through informal channels continues unabated.

Rise in remittance inflow: The review of the first six months of FY 2014-15 shows a growth in remittance. Worker's remittance amounted to NPR 275.95 billion (USD 2.75 billion) as against NPR 265.62 billion (USD 2.65 billion) that was registered during the same review period last year, indicating a rise of 3.9%. On a monthly basis, remittance inflow increased by 4% in December/January of the current fiscal year compared to that of the previous month.[78] The growth of 3.9% in the sixth month of the FY 2014-15 looks promising compared to the decline of 0.6% in the first 3 months.

Nepal tops remittance recipient list: With a 9% growth in its remittance inflow, Nepal was the top recipient of remittance as the share of the Gross Domestic Product (GDP) among the least developed countries (LDCs) in 2013.[79] Of the USD 21 billion (NPR 2,100 billion) received by LDCs, Nepal was accountable for 25% of the total remittance. In terms of remittance as the share of GDP, Nepal was followed by Haiti and Liberia which accounted for 21% and 20% of the total remittance into LDCs.

Increase in foreign job seekers: The number of Nepalese looking for employment abroad has increased by 20% in the first half of the current fiscal year (mid July 2014 to mid-January 2015). A total of 271,339 individuals acquired the permit for foreign employment in the review period compared to 225,725 in the same period last fiscal year.[80] Malaysia topped the foreign employment ladder hiring 117,686 Nepali migrant workers followed by Qatar and Saudi Arabia, which took in 63,319 and 45,230 Nepali job seekers respectively.

As per the Department of Foreign Employment officials, these migrant population send home NPR 1.5 billion (USD 0.015 billion) on an average each day contributing to over 29% of Nepal's GDP. These figures also suggest that Nepal has witnessed an 18% decline in absolute poverty in the past six years during which a total of 2,226,152 labor permits were issued for foreign employment.[81]

The government has started taking initiatives to organize and advance labor which will diversify labor supply and explore potential destinations where returns are higher.[82] The legislature–Parliament's International Relations and Labor Commission has started checking the details of licensed manpower agencies and scanning over possible involvement of these agencies in cheating migrant workers. This will track down irregularities in the foreign employment sector and will make it more organized.

NRB revises rule on remittance: Commercial and development banks conducting remittance business can now make remittance payments of up to NPR 100,000 (USD 1000) in cash. Payments exceeding this amount have to be either made through cheques or deposited in bank accounts. Nepal Rastra Bank (NRB) had earlier issued circulars directing banks to start making remittance payments to beneficiaries through bank accounts. Bankers had then criticized the central bank's directive of giving undue advantage to remittance companies and had warned that it would make informal channels more popular among migrant workers as banking network is not available in many rural areas.[83]

NRB has also issued a directive to banks and other financial institutions to follow the exchange rate that is fixed by the Foreign Exchange Dealers Associations of Nepal to curb inconsistency in fixation of exchange rates for domestic and overseas purpose.

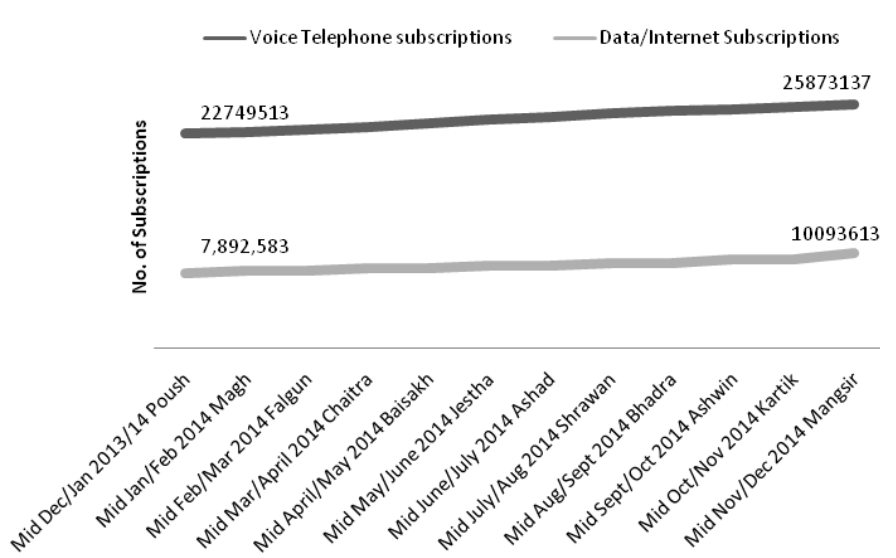
Gold smuggling affects remittance growth: The smuggling of gold into the country has been linked with the fall in remittance income rate in the first quarter of this fiscal year. Instead of sending remittance home directly through proper channels, a huge portion of the money collected from Nepali workers employed overseas is used to buy gold abroad. The gold is then smuggled into the country, while money handed over by the migrant workers abroad reaches their beneficiaries here through local agents. The smuggled gold is sold to local traders in Nepal who are lured towards it as they do not need to pay import duty of NPR 5200 (USD 52) that is levied per 10 grams of gold. The gold is then sold at market price, which includes duty levied on import of gold. Nepal Rastra Bank authorities suggest that unless gold smuggling is stopped, growth rate of remittance income will continue to remain at a low level.[84]

TELECOMMUNICATION AND MEDIA

The telecommunications sector is on a growing trajectory covering all major portions of the market, whereas social media has been gaining rampant popularity with continual increase in the internet base. Consequently, this sector as a whole has transformed the transmission of information and has made a worthwhile contribution to one of the cornerstones of development, i.e. communication, making it efficient and effective. With this contribution, the telecommunications and media sector has become a major force in Nepal's economic development.

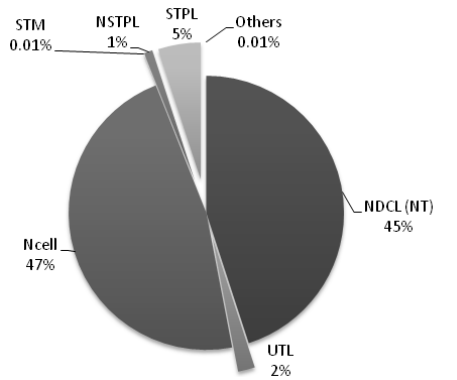
Nepal Telecom invites strategic partners: Nepal Telecom (NT) is looking to take on a foreign strategic partner to maintain a competitive edge over private operators. NT, a

Figure 9: Growth Trend in Voice Telephone and Data/Internet Subscriptions during 2013/14



Source: Nepal Telecommunications Authority

Figure 10: Market Share of Telephone Service



Source: Nepal Telecommunications Authority

largely state-owned company and once a monopoly, has been rapidly losing market share after the entry of various privately owned telecom companies. NT plans to sell 30% of its shares to the strategic partner with emphasis on improving service quality, increase market penetration and attain customer satisfaction. NT currently holds 48% of the market share and 55% of the data market and has been seeing a gradual increase in customer base and net profit.[85]

Nepal Telecom to add 77 new base stations: Nepal Telecom (NT) has made preparations to deploy 77 new base transceiver stations (BTS) within Kathmandu valley with the hope of improving telecom quality and data services. This adds to 430 currently functional BTS towers in the valley and aims at reducing disruptions in service quality caused by frequency-related issues. With the work said to be completed in February 2015, NT also plans to further expand into other parts of Nepal.[86]

Growth in Voice Telephony, data/ internet base: Nepal Telecommunications Authority (NTA), in its latest Management Information System report (17 November – 15 December, 2014), has recorded a growth in Voice Telephony services as well as Data/ Internet services. The former rose by almost 14% since December of 2013 whereas the latter grew by 27.8%. The total base for Voice Telephony services numbers stood at 25,873,137 subscriptions and for Data/Internet services at 10,093,613 subscriptions. Likewise, telephone service accessibility has increased from 85.86% in the beginning of the year to 97.65%, whereas the data/internet service shows positive penetration growth trend from 29.78% at the start of 2014 to 38.09%.[87]

Nepal examines feasibility to launch its own satellite: A five member committee consisting of officials and experts from the Ministry of Information and Communications, Nepal Telecom and Nepal Telecommunications Authority has been formed to prepare terms of reference (TOR) to conduct feasibility study on launching a satellite. A consultant shall be chosen as per the guidelines in the TOR to conduct the study. The ministry has estimated the project to cost around NPR 35-40 billion (USD 0.35 million – 0.40 million) and the satellite to take around 10 years from the launch to be operational. The International Telecommunications Union has urged the government to make a claim for the orbital slot, which was allocated to Nepal in 1984, by the end of 2015.[88]

United Telecom woes: For the past few months, United Telecom Limited (UTL) has been facing multiple disruptions in providing services to their customers. Constant internal disputes among management and workers, poor service deliverance and maintenance,

inability to meet outstanding legal charges, and recurrent scuffles with Nepal Telecommunications Authority have raised questions about UTL's future. Of late, it has been charged with multiple offences, including halting services for more than 24 hours and failure to clear outstanding balance of NPR 390 million (USD 3.9) after acquisition of unified license. Likewise, UTL's 198 towers and 600,000 phone lines have been rendered useless due to the latest flare among workers and management resulting in temporary arrest of eight staff members.[89]

Google to launch low budget smart phones: Google is all set to launch its low cost Android One series of smart phones in the South-Asian markets. The selling price would amount to USD 100 (NPR 10,000); however, the price could rise up to USD 150 (NPR 15,000) in Nepal given the Nepal Telecommunications Authority regulations. Even before the official launch by Google, a few manufacturers have already released Android One phones, including Micromax Canvas A1, Karbonn Sparkle V, and Spice Dream Uno. Although the specifications remain largely similar, unlike other manufacturers, Google shall provide direct OTA (Over-the-air) Android updates to all the phones released under Android One series for up to 2 years.[90]

Ncell introduces iPhone 6 in Nepal: Ncell officially introduced Apple's iPhone 6 and iPhone 6 plus into Nepalese market in the closing weeks of 2014. This iPhone scheme ranges from NPR 67,199 (USD 671.99) to NPR 117,999 (USD 1179.9) depending on the model and storage capacity. Earlier, Ncell had introduced the bundled Google Nexus 5 scheme in May 2014, which was a huge success.[91]

NTA demands details on share ownership of telcos: Nepal Telecommunications Authority (NTA) has ordered six telecom companies, namely Nepal Telecom, Ncell, United Telecom Limited, Smart Telecom, Nepal Satellite Telecom and STM Sanchar, to present details on their share structure following speculations regarding share ownership changes. The telecom companies are required to inform NTA regarding such changes which, NTA officials maintain, have not been made. Although NTA had directed the companies to submit details on their share structure on November 18, 2014, their failure to comply prompted NTA to issue yet another restatement.[92]

TOURISM

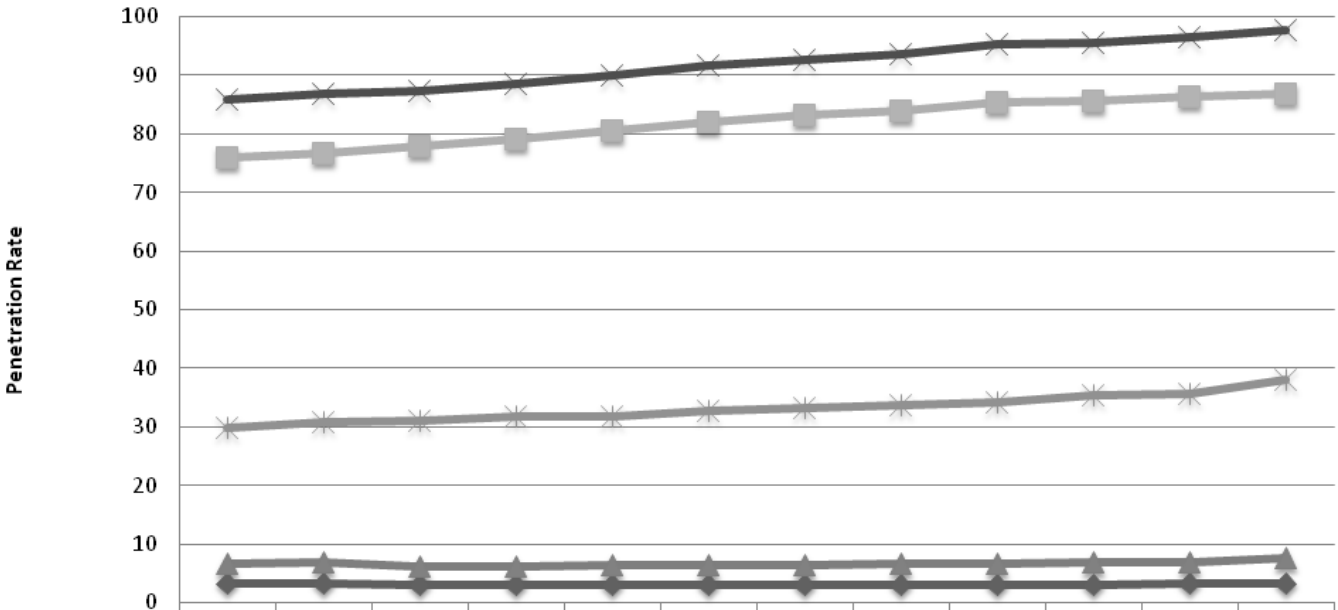
Nepal's tourism industry has been reaping the benefits of the country's rich culture and diverse topography. The upsurge in the flow of tourists and increasing optimism among entrepreneurs have resulted in augmented investment in the hospitality sector ranging from hotels and lodges to services like paragliding. Adventure tourism is at the heart of Nepal's tourism industry with offerings ranging from mountaineering, trekking, paragliding, bungee jumping, mountain biking, rafting, rock climbing, etc. However, lack of good tourism infrastructure has hindered the sustainable growth of the sector and the political uncertainty further hampers the future outlook.

Indian government provides leave travel concession: India is already one of the largest market for Nepal tourism; this is expected to be further boosted by the recent decision of the Indian government to provide leave concession to government employees to visit Nepal and other SAARC countries. According to the Ministry of Culture, Tourism and Civil Aviation, Indian visitors constituted 23% of foreign travelers to Nepal in 2013, spending an average of 8.67 days in the country. Indian Prime Minister Narendra Modi's suggestion to enhance connectivity between the two neighbors to boost tourism has already spread good optimism in the market. This combined with the substantial changes in India's policy towards Nepal; shows immense growth potential for the tourism industry.

Nepal and India has signed a landmark agreement on tourism to mutually promote the Buddhist pilgrimage circuit. Moreover, agreement has been made to establish sister city relations between Kathmandu and Varanasi—Kathmandu, the city of Pashupatinath, and Varanasi, the home of Kashi Vishawanth; similarly Janakpur and Ayodhya—Ayodha, the birthplace of Lord Ram, and Janakpur, the home of Lord Ram's wife Sita. Moreover, the Indian government's plan to issue visa on arrival to travelers from 180 countries is also a big opportunity for Nepal as it is expected to increase tourist arrivals to Nepal as well.[93]

Joint working team on tourism: The Joint Working Group (JWG) on tourism between Nepal and India has been created to oversee implementation of agreements related to tourism sector that are included in the Memorandum of Understanding signed between Nepal and India during the

Figure 11: Growth Trend of Voice Telephone and Data Penetration



	Mid Dec/Jan 2013/14 Poush	Mid Jan/Feb 2014 Magh	Mid Feb/Mar 2014 Falgun	Mid Mar/April 2014 Chaitra	Mid April/May 2014 Baisakh	Mid May/June 2014 Jestha	Mid June/July 2014 Ashad	Mid July/Aug 2014 Shrawan	Mid Aug/Sept 2014 Bhadra	Mid Sept/Oct 2014 Ashwin	Mid Oct/Nov 2014 Kartik	Mid Nov/Dec 2014 Mangsir
Fixed	3.21	3.21	3.12	3.12	3.12	3.13	3.13	3.13	3.14	3.14	3.15	3.16
Mobile	75.93	76.8	77.92	79.11	80.62	82.02	83.23	84.03	85.42	85.58	86.25	86.89
Other	6.72	6.81	6.16	6.26	6.35	6.49	6.32	6.53	6.72	6.86	7	7.6
Total	85.86	86.82	87.2	88.49	90.09	91.64	92.68	93.69	95.28	95.58	96.4	97.65
Data/Internet	29.78	30.7	30.99	31.69	31.88	32.78	33.15	33.76	34.09	35.28	35.7	38.09

Source: Nepal Telecommunications Authority

18th SAARC Summit. The Ministry of Culture, Tourism and Civil Aviation has formed a 10 member team under the leadership of Joint Secretary Umakanta Parajuli to represent Nepal in the JWG. The first meeting of the group will be held in New Delhi.

It is expected that the JWG will expand bilateral cooperation in tourism sector, facilitate exchange of information and data related to tourism, encourage cooperation between tourism stakeholders, establish exchange program for cooperation in human resources development, increase investment in tourism and hospitality, exchange of experience in areas of promotion, marketing, destination development and management and promotion of sustainable tourism among others.[94]

Rise in Chinese tourists: In 2009, the number of Chinese tourists visiting Nepal was 32,272, this number rose sharply to 113,173 in 2013 which is a 250% jump. The increase in inflow of Chinese tourist is evident with the sudden spur in Chinese restaurants, Chinese hotels, billboards written in Chinese language and entrepreneurs in the tourist hubs conversing in Mandarin. Many Chinese investors have come to Nepal to open hotels and restaurants given the boom in business. It is estimated that if infor-

mation about Nepal is available in Mandarin, more Chinese tourists will prefer to visit Nepal. Only few Nepali websites like welcomenepal.com have a Chinese page; this has constrained the promotional reach of Nepal tourism in its prospective market. With the increased number of flights between China and Nepal, it can be anticipated that more Chinese tourists will be visiting the country.[95]

Nepal attends PATA event: Pacific Asia Travel Association (PATA) Nepal Chapter, Nepal Tourism Board and 14 travel trade operators participated in PATA's Adventure Travel & Responsible Tourism Conference & Mart held in Thimphu, Bhutan. The conference is a business-to-business interaction event for buyers and sellers in adventure tourism and provides an opportunity to encounter new frontiers and create business in high adventure tourism segment. This is a good opportunity for Nepali operators to have a focused reach of its target market and network with tourism professionals involved in adventure travel tourism.[98]

Travel warnings issued against Nepal: Citing the increase in strikes due to the constitution making deadline of January 22, 2015; Australia, Canada, the United Kingdom, and the United States of America have advised their citizens to exercise high degree of caution while travelling to Nepal. Negative travel advisories from major tourist generating countries will impact the tourism industry in the short as well as long run. Since roadblocks and national or local strikes occur without notice, access to airports and taxis can be disrupted. The issue of such travel advisories increases the premium for travel insurance and discourages potential tourists to travel to Nepal.[99]

Rara gets more tourists: Rara National Park (RNP) has been receiving increasing numbers of tourists since the beginning of this fiscal year. More than 600 Nepali and 66 foreign tourists visited the protected area in the first quarter of FY 2014-15. During this year, RNP hosted events like Ultra Marathon, Lomanthang-Lumbini-Fewa-Rara Trekking Trail promotional campaign, and National Climate Change Conference.[100]

Increase in domestic tourists visiting Bardia: Bardia National Park, the largest national park and wilderness area in Terai, received a relatively few number of international tourists but witnessed a large number of domestic tourist arrivals. Bardia has not been able to attract international tourists due to lack of good infrastructure, and only received 3,606 foreigners in the first six months of the current fiscal year. While international tourists spend three to seven days in Bardia, domestic tourists spend an average of four to five days in the region.[101]

ENVIRONMENTAL IMPACT ASSESSMENT FOR 38 HOTELS

The recent surge in the tourism market has resulted in the initiation of the establishment of numerous hotels. According to the Department of Tourism 38 proposed new hotels have applied for Environmental Impact Assessment (EIA). Among them, 17 hotels are planned to be built in Kathmandu, including five five-star properties. Hotels planning to have more than 100 beds are required to do an EIA before starting the construction.

As per the statistics, MIT Group Holdings Nepal's Sheraton Kathmandu Nepal, Nepal Hospitality Group's proposed five star and four star properties, Chhaya Devi Complex's Aloft Kathmandu Hotel, and Tiger One Kathmandu and Le Sherpa Hotel are the hotels to be constructed in Kathmandu. Outside Kathmandu, Rara Project is constructing a five-star hotel on the western shore of Rara Lake and five three-star hotels are proposed to be built in Chitwan with other proposed hotels in Lalitpur, Kavre, Jhapa, Morang, Parsa, Lumbini, Kaski, Nepalgunj and Janakpur. Moreover, the Summit Group of Hotels and Resorts and Leela Palaces have signed a memorandum of understanding to establish four hotels across the country.[96]

Further, the Government of Nepal has also requested the Indian government to open three more air entry points at Janakpur, Bhairahawa and Nepalgunj. The additional cross-border direct routes will facilitate flights between the planned regional airports in Pokhara and Bhairahawa. Indian PM Narendra Modi had also signaled the start of direct bus service between Kathmandu and New Delhi.[97]

Arrivals increase in Lumbini: The improved road access and increased publicity of Lumbini has aided in the increment of arrivals to Lumbini. Last year, the number of pilgrims visiting Lumbini reached 1.19 million—registering a 40% growth from the previous year—out of which 902,621 were domestic travelers. Major events like international Buddhist conference and the SAARC summit has helped boost the number of visitors. However, local businesses have been unable to benefit from this surge in visitors as most tourists come overland and are handled by Indian operators. Entrepreneurs are now hopeful that the ongoing upgradation of Gautam Buddha Airport will aid in revitalizing the local economy.[102]

Visitors staying for shorter duration in Pokhara: Due to lack of skilled guides and unavailability of information about the natural biodiversity and cultural heritage of Pokhara, visitors' length of stay in the region has been shortening. Unavailability of package tours and untrained guides has resulted in tourists only coming for trekking and avoiding the cultural and historical heritage of the lake city, relegating Pokhara to a one and half day tourist destination.[103]

Lack of road makes Ghunsa an expensive destination: The lack of road access in the Ghunsa region, which is only 90 km away from the district headquarters, has resulted in the cost of basic goods like salt and sugar to be exorbitantly high. As a result, prices of various food items at local hotels, guest houses and restaurant are at least four times the price in Fungling, the closest market place. Since the daily essentials have to be transported to remote areas using porters or mules from Fungling, the transportation cost comes around NPR 160 (USD 1.60) per kg for all goods while NPR 200 (USD 2) is charged for transport of each kg of beverage, oil and other sealed items. Visitors have to pay very high prices for basic goods, making the trip to Ghunsa an expensive one.[104]

Tourist route through Chitwan National Park: A 24km tourist route is being developed from Sauraha to Madi inside Chitwan National Park. The hike will require 12 hours of walking through plain land and then climbing up the Chure hill. Lodgings are being built along the trekking route wherein the lodges will have a sleeping room, a bathroom and a kitchen. The tourists will get to observe the wildlife from the cottages. The new route is being introduced to extend the tourist's length of stay.[105]

Fake rescue business: Due to intense competition among the six helicopter companies currently providing rescue services in the country, it appears the competition to get a larger share of the search and rescue operation has resulted in malpractices wherein the helicopter companies are providing inflated bills to their clients so that they can claim greater amount from their insurance. Although the per hour helicopter rental fee is around USD 2500 (NPR 250,000) the charges for almost every helicopter evacuation stands between USD 9000 – USD 10000 (NPR 900,000 – NPR 100,000) irrespective of terrain from where the sick tourists were evacuated. The insurance companies are of the view that if Civil Aviation Authority makes it mandatory for helicopter companies to provide copies of log books of pilots, the issue of fake rescue business can be tackled.[106]

Rising investment in elephant safari: Elephants have become an integral part of Sauraha tourism. Accordingly, entrepreneurs have invested around NPR 330 million (USD 3.30 million) in rearing elephants. Currently there are 51 elephants owned by hoteliers and cooperatives in Sauraha and it is becoming increasing difficult for hoteliers to operate without elephants as the packages are incomplete without an elephant ride through the thick jungles. The cost of elephant ranges from NPR 4.8 million (USD 48,000) to NPR 8.2 million (USD 82,000) and rearing them is an expensive business. The daily feeding cost stands at NPR 2000 (USD 20) and at least two mahouts have to be employed. Although the elephant lives for 70 years, there are numerous health risks to the animals whereby operators have demanded the government to introduce insurance coverage.[107]

Investments in tourist accommodation: The survey conducted by Economic Activities Report 2013-14 conducted by Nepal Rastra Bank (NRB) has revealed that more than 5,357 new rooms were added by hotels and lodges in the last fiscal year. The survey was done in eight major city areas—Kathmandu, Biratnagar, Janakpur, Birgunj, Pokhara, Bhairahawa, Nepalgunj and Dhangadhi. The survey has revealed that Nepal can accommodate 13.27 million tourists annually with the existing infrastructure of 1,792 hotels and lodges making available 36,371 rooms per night. Room nights or bed numbers of hotels grew 17.27% this year while

hotels and lodges registered a growth of 14.50%.[108]

In Pokhara, around four dozen hotels are being constructed at a cost of NPR 6 billion (USD 60 million). The decision to construct a regional airport in Pokhara has enticed entrepreneurs to invest in the hospitality sector.[109] Investment in new hotels and restaurants along with refurbishing of existing hotels is also being carried out in Bhedetar, the gateway to Arun Valley. Around NPR 2.5 billion (USD 25 million) has been invested in Bhedetar with more than a dozen new hotels constructed in the last three years. Indian tourists accounts for 40% of arrivals while domestic visitors make up 50% and the remaining is from SAARC states. Hoteliers and travel trade entrepreneurs are also developing tour packages that includes sightseeing, rafting on the Tamor River, mountain bike and paragliding so as to attract new visitors to Bhedetar.[110]

Lamjung's rock climbing fails to pick up: Nepal's tourism master plan had conceptualized the development of Lamjung's Puranokot as a hub for rock climbing and Taghring Syange as a canoeing center for development of tourism in the district; however, this plan has failed to materialize. The 150 meter tall Tarebhitta hill had been selected for rock climbing but due to lack of promotion and awareness only a handful of tourists visit the area. The District Development Committee citing budget cuts has not been able to launch programs to promote the destination.[111]

Dusit Thani International re-enters Nepal: Hotel Annapurna has signed a management contract with Bangkok based hotel and resort chain Dusit Thani International. The hotel will now be renamed "The Dusit Thani Annapurna Hotel". Earlier, Dusit Thani had managed Hotel Fulbari in Pokhara under the name of Dusit Thani Fulbari Resort & Spa. After the signing of the contract, Hotel Annapurna will now be redeveloped and rebranded with plans to add 100 new rooms with a makeover budget of NPR 5 billion (USD 50 million). Dusit Thani has 25 hotels in countries like UAE, Nairobi and Bhutan and plans to add five more chains this year.[112]

New Paragliding permits issued: The Ministry of Culture, Tourism and Civil Aviation has issued 22 new paragliding licenses for the Toripani and Mandre Dhunga airspaces in Pokhara. Only applications received before August 28, 2014, were considered as the number of paragliding flights had reached a saturation point congesting the Pokhara airspace and making it unsafe. New permits have been denied at Sarangkot, Toripani and Mandredhunga. Paragliding has also started in other areas of the country.[113]

After Pokhara, Nepal Air-sport Association (NAA) has said that Surkhet can be developed as a new paragliding destination. The successful test flights held from Bayelkada for two days have shown that the location has a good air pressure and overall environment. The sport is expected to play a vital part in the development of the district as a tourist destination.[114]

Thamel, Durbar Marg may operate 24 hours: Kathmandu District Administration Office, Kathmandu Metropolitan City, Thamel Tourism Development Board, and Nepal Police are working jointly to allow Thamel and Durbar Marg to operate 24 hours. This initiative is being taken to make the capital more tourists friendly and allow tourists the opportunity to experience both day and night life of Kathmandu. Entrepreneurs willing to operate their business round the clock will have to make their business complexes sound proof. The implementation of this plan will start on a trial basis wherein the areas will operate for 24 hours for two days a week—Friday and Saturday. Further actions will be taken after collecting feedback from the stakeholders and management of logistical arrangements such as security personnel, parking management, waste management, etc.[115]

MACROECONOMIC OUTLOOK

Nepal's economy is driven by agriculture. A recession in agricultural sector automatically leads to a general recession in the country. In order to stabilize the agriculture sector, the government needs to develop and implement policies that favor the sector. Agriculture Development Strategy—a strategic document that envisions reducing Nepal's poverty by 50% in 10 years through an agriculture-led economy—has recommended several policies to the government that can revive the country's failing agriculture sector. The government needs to implement these policies to make the agro sector more attractive to both the country's youth and to the investors as well.

Meanwhile, the government is all set to roll out a number of programs and policies aimed at overhauling the education sector. For instance, the sector may soon receive a new education policy that will guide it in the changing political context. The launch of Consolidated Equity Strategy for the School Education Sector 2014 will not only improve the quality of education in schools but also eliminate irregularities in schools and in the education sector. However, for these programs to succeed, the government needs to ensure effective implementation. What it also needs in place is an efficient supervision mechanism that enables effective monitoring of these programs.

In the energy sector, the decision by the Nepal Electricity Authority (NEA) to fix a purchase tariff for hydropower project from 25 MW – 100 MW reduces the ambiguity in pricing for developers. This means that Independent Power Producers no longer have to engage in negotiation with the NEA over pricing of electricity. This mechanism will also benefit NEA in terms of less fluctuation in price fixing of tariff rates.

A review of the first six months of FY 2014-15 shows a decline in foreign cash grants as well as cash loans as compared to the same period in the previous fiscal year. The total amount of foreign cash grants has decreased from NPR 21.56 billion (USD 215.6 million) in FY 2013-14 to NPR 15.01 billion (USD 150.1 million) in the current fiscal. Similarly, the total amount of foreign cash loans has decreased from NPR 10.80 billion (USD 108 million) in FY 2013-14 to NPR 6.30 billion (USD 63 million) in the current fiscal year.

Although Nepal has been able to show impressive improvements in health indicators, the outcomes show inequalities in geographical regions and between income groups. The state is constantly working to make health service accessible and affordable to all its citizens and taking steps to reach goals such as the MDGs and immunization. However, lack of commitment among a section of health professionals, coupled with ineffective monitoring system and proper implementation of policies, has been preventing the sector from making the desired progress. Another hurdle being faced by the sector is limited access to health services due to the country's geography and underdeveloped infrastructure. If the health sector is to make any real progress, these are the issues that need to be looked into by the leadership.

In the infrastructure sector, there is a new wave of optimism following Indian Prime Minister Narendra Modi's Nepal visit that gave momentum to the much delayed Nepal-India Petroleum pipeline project, with many viewing the project as a permanent solution to the twin problems of petroleum leakage and shortage. The Indian government has agreed to fund NPR 8.8 billion (USD 0.08 billion) for the project; in addition, the government has showed interest in building a gas pipeline. Furthermore, the French government is keen on investing in an urban cable car system which will help reduce traffic congestion in Kathmandu. Similarly, construction of sewerage system and road in Nepalgunj with Asian Development Bank's funding will upgrade the infrastructure in the sub-metropolis.

In terms of manufacturing and trade, Nepal's dependency on imports of both manufactured and agro goods have made the country highly reliant on its trading partner, especially its neighbor India. However, the government has failed to rectify the situation even as imports continue to climb while exports have been faltering wherein the trade deficit is ever widening. In terms of policies to promote the country's export industries, Nepal Trade Integration Strategy (NTIS) was introduced to strengthen the country's export scenario, but this strategy is getting increasingly wobbly with continuous failure of products listed in NTIS to achieve the expected export growth rate. The export cash subsidy scheme aimed at boosting overseas exports has also failed to gain any substantial benefit as exporters have found the incentive very less and the procedure cumbersome. In order to uplift the country's trade scenario, the export procedure has to be made more efficient to facilitate the export industry and incentives and subsidies aimed

at improving production should be relevant and encouraging for the market players.

The increase in Land and House registration revenue collection is a growing sign of revival of the sector. This has encouraged developers to introduce new housing projects. The realty sector crisis during the 5 – 6 year period has helped in filtering out unreliable developers. It is expected that the realty sector will be more organized with genuine developers. However the sector still faces inherent risk related to the government's decision on regulation of the crusher industry which faces shutdown for noncompliance.

As people from various parts of the country are migrating to cities for better job opportunities and facilities, the city areas have become crowded creating various rental problems for both tenants and landlords. Therefore, the introduction of rental code is a great step taken by government of Nepal that will guide landlords and tenants to handle various rental issues.

At a time when the country's major economic indicators are not favorable, remittance has played a vital role in maintaining macroeconomic stability and keeping the economy afloat.The overall Balance of Payment recorded a surplus of NPR 34.26 billion (USD 0.34 billion) during the first six months of FY 2014-15 compared to a surplus of NPR 77.19 billion (USD 0.77 billion) during the same period the previous year. Despite the rise in remittance this quarter, there are still concerns regarding the trends and patterns it is following in Nepal. With more and more Nepali workers employed overseas opting for informal money transfer channels; the country has been recording a fall in remittance income. Regardless of the billions of dollars flowing into the country annually, directing the remittances to productive investment continues to pose a challenge.

The telecommunication sector has made commendable strides in the past few years and is well on its way to become one of the important sectors with considerable contribution to the country's economic development. Major telecom companies, namely Nepal Telecom and Ncell who hold a total of 93% of the market combined, have stepped up their operations to ensure quality of service, and introduce newer products and schemes. However, as competition stiffens, other operators are facing increasing difficulty in running their operations. One such company, UTL, has found itself in dire need to solve internal as well as external problems. In the midst of growth, it would be interesting to see how NTA would respond to the ongoing changes and with it the discrepancies that will arise.

In Nepal's tourism sector has been attracting major hotel groups and investments off late. With shorter gestation periods and quick returns; the tourism industry has been luring many investors. Given the cultural diversity and naturally blessed geography, Nepal caters to varied interests of different segments and age groups. If the government can improve infrastructure in key tourism areas and further improve domestic and international air and road networks, along with insuring the smooth functioning of airports, the tourism entrepreneurs will be able to deliver quality service and enhanced experience for incoming tourists, as well as attract larger number of visitors to the country.

REVIEW

REVIEW

Agriculture Sector

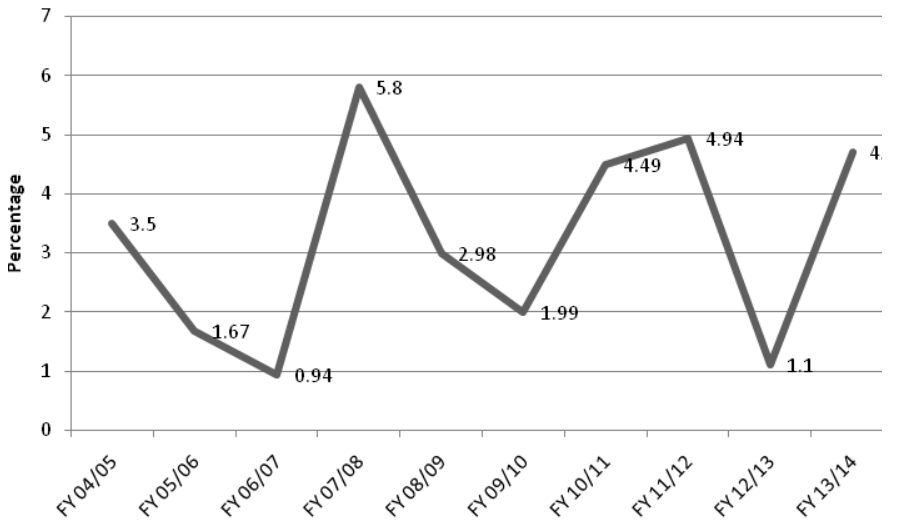
Nepal is an agrarian economy with the sector contributing 33.9% to the total GDP as of FY 2013-14.[116] While agriculture is still a major contributor to the economy, Nepal faced a negative growth in the agriculture sector in the 1990s with contribution to the Agriculture GDP at -0.7%, [117] a result of the armed conflict taking place within the country. In 1995, agriculture contributed 39% of the GDP; by 2001 it had fallen to 37%, and by 2008 to 33%.

The GDP of agriculture sector is derived from the aggregate contribution of various sub-sectors such as crops, livestock, forestry, irrigation, tobacco, jute, and tea/coffee. Productivity of this sector is hence directly linked with the performance of each of the sub-sectors.

Figure 12 showcases the percentage growth in agriculture over the last few years. Prior to FY 2005-06, the sector could not achieve upward growth due to conflict within the country, resulting in a dip in the growth of the sector during this period. Following the end of the conflict, the sector experienced significant growth as government expenditure and donor assistance increased and implementation of various agricultural programs took place. Despite the growth in the following years, various issues in the sector such as shortage of agriculture input, untimely rainfall, and outmigration of labor force has slowed down the sector's performance from time to time.

A significant proportion of the population, about 65.6%, is estimated to be engaged in agricultural activities for their livelihood;[118] however,

Figure 12: Agricultural Sector Growth



Source: Economic Survey 2013/14,Ministry of Finance

productivity of this sector has not increased due to inadequate capacity expansion in agriculture research and innovation. Similarly, the land used for agriculture cultivation has remained stagnant for the last five years at 21%, whereas the average size of land holdings stood at 0.80 hectare as of FY 2001-02, a drop from 1.11 hectare in FY 1961-62.

In a step towards achieving increased growth in the sector, the Government of Nepal during the mid-1990s developed and implemented the Agricultural Perspective Plan (APP), which aimed at overall development in this sector. However, ineffective implementation resulted in a failure to bring about the desired results. The government, with the support of various development agencies, is now in the process of developing an Agriculture Development Strategy (ADS)—a strategic document that envisions reducing Nepal's poverty by 50% in 20 years through an agriculture-led economy. The ADS recommends several policies to revive the country's failing agriculture sector alongside aiming to make the country self-reliant in food grains by increasing agricultural land productivity and increasing competitiveness in the sector.

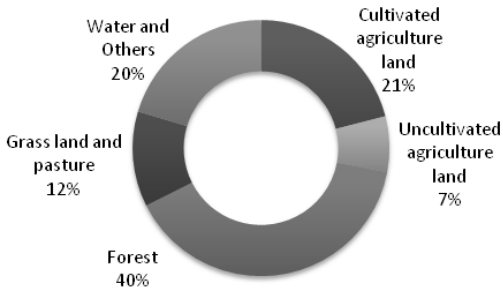
GOVERNMENT EXPENDITURE

With agriculture being a major contributor to the economy, government expenditure in this sector is an important tool for promoting economic growth. It facilitates increased productivity alongside reducing poverty, which in turn has larger aggregate effects on the economy.

Government expenditure in the agriculture sector comprises of capital and recurrent expenditure. Over the last ten years, capital and recurring expenditure have grown by 36% and 31% respectively.[119] Expenditure undertaken through the Ministry of Irrigation is generally capital expenditure as it focuses on building agriculture infrastructure, while expenditure undertaken through the Ministry of Agriculture Development is predominantly recurrent expenditure as it focuses on agriculture inputs and services. Therefore, proper allocation of government expenditure will determine the overall development of the sector.

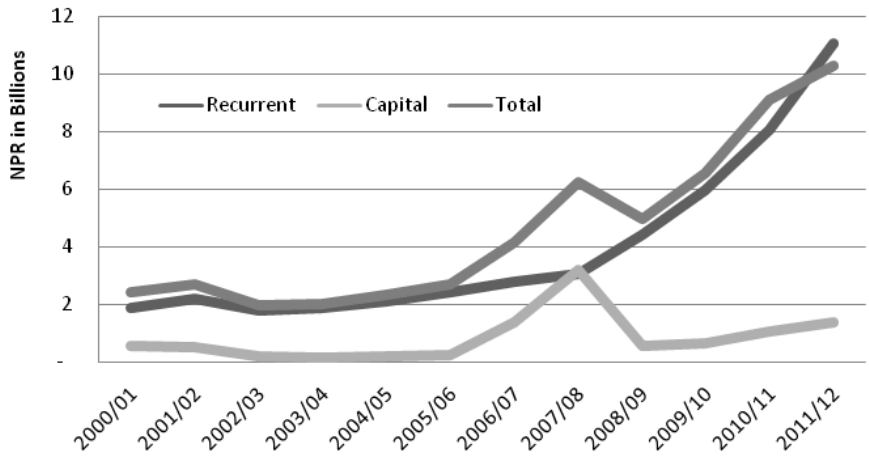
While growth in the sector declined between FY 2001-02 and FY 2005-06 due to an unfavorable investment environment–a result of political instability within the country–government expenditure remained consistent at an average of NPR 2.3 billion (USD 23 million). Expenditure rose significantly after this period resulting in an annual growth rate of 23.08% in government expenditure from FY 2005-06 to FY 2012-13. Figure 14 showcases the growth in expenditure in this sector over the last 12 years.

Figure 13: Land Use Statistics for Nepal



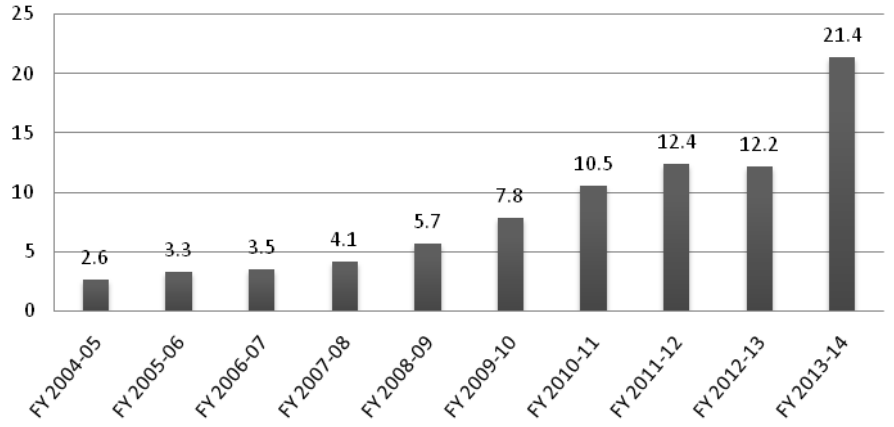
Source: Statistical Information on Nepalese Agriculture 2012/13, MoAD

Figure 14: Government Expenditure in Agriculture Sector



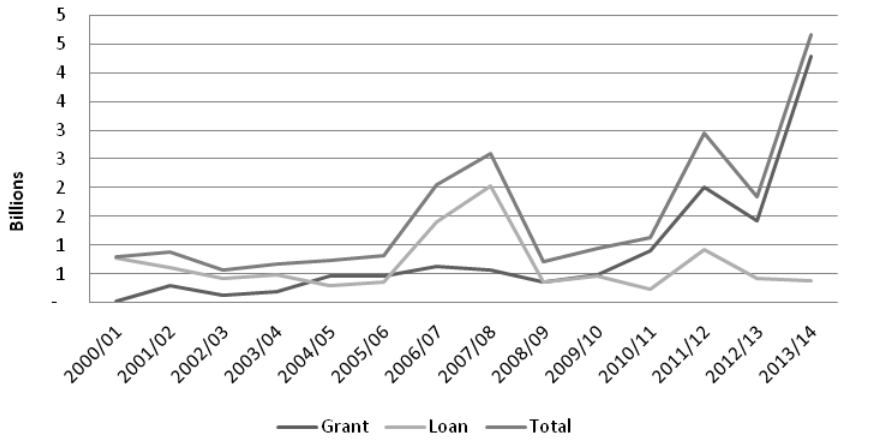
Source: Economic Survey, Ministry of Finance

Figure 15: Budget for the Agriculture Sector (in NPR billions)



Source: Economic Survey, Ministry of Finance

Figure 16: Foreign Assistance in the Agriculture Sector



Source: Statistical Information on Nepalese Agriculture 2012/13, MOAD and MOF

BUDGET ALLOCATION

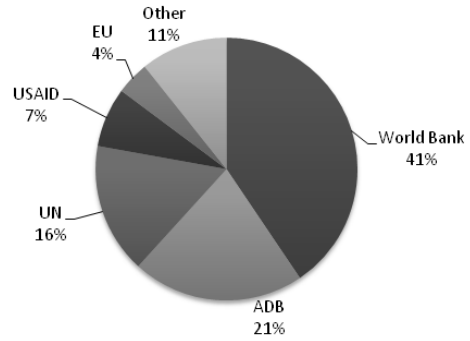
Budget allocation for the agriculture sector has been on an increasing trend over the past 10 years as can be seen in Figure 15, with the annual growth rate at 26%. With the government shifting focus towards commercialization of the agriculture sector in recent years, policies regarding credit to agriculture sector have changed, interest on loans to small farmers have been subsidized, and the use of advanced technology encouraged through the provision of tax and custom incentives. Agriculture insurance coverage has also been expanded, and various programs (such as youth in agriculture) are being promoted. For instance, Nepal Rastra Bank has directed Banks and Financial Institutions to increase the agriculture and hydropower loan portfolio to 12% from their existing portfolio, which is currently below 10%.

FOREIGN ASSISTANCE

The end of conflict within the country in FY 2005-06 led to an increase in commitments from the international donor community towards the agriculture sector both in terms of loans and grants. In FY 2013-14, total donor assistance stood at NPR 4.6 billion (USD 46 million)[120] in comparison to NPR 2.6 billion (USD 26 million) in FY 2007-08. Figure 16 showcases the total grants and loans received by the agriculture sector. As can be seen in the figure, there was a significant increase in loans following the end of conflict in FY 2005-06. While grants to the sector have been relatively stable in the past, there has been an increase in assistance of late following the government's prioritizing of commercialization of the agriculture sector.

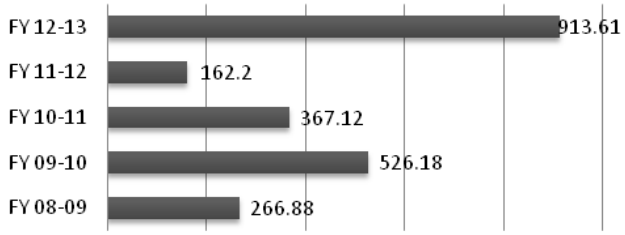
As can be seen in Figure 17, which highlights the top donors in the agriculture sector, the World Bank is the highest contributor with NPR 14.9 billion (USD 149 million) in assistance, almost half of the total assistance to the sector. Other top donors include the Asian Development Bank (ADB) with NPR 7.8 billion (USD 78 million), United Nations with NPR 5.9 billion (USD 59 million),USAID with NPR 2.7 billion (USD 27 million), and the European Union with NPR 1.5 billion (USD 15 million).[121] Assistance from the donors is categorized as on-budget and off-budget assistance. On-budget assistance is dispersed by the government on capital and

Figure 17: Top Donors in the Agriculture Sector



Source: Development Corporation Report 2013-13, MOF

Figure 18: FDI in the Agriculture Sector (NPR in millions)



Source: Department of Industry, Industrial Statistics 2012-13

recurrent activities, whereas off-budget assistance is dispersed through various development programs that donors conduct. Donors such as the World Bank, USAID, and ADB generally channel their assistance off-budget for capacity building, research and development projects, and infrastructure development projects.

Foreign Investment has many developmental benefits such as technology transfer, infrastructure development, and employment creation, alongside filling in the investment gap in Nepal. Although Foreign Investment in the agriculture sector is increasing due to the high potential of production of some agricultural products, the percentage of foreign investment to the sector in comparison to other sectors still remains small. Most investment in the sector is geared towards agriculture products such as livestock, tea, flower, fishery, organic farming, and vegetable seeds. In FY 2012-13, foreign investment to the sector stood at NPR 913.61 million (USD 9.13 million),which is only 5% of total foreign investment,[122] whereas foreign investment in other high performance sectors such as manufacturing, service, and tourism remained at 20%, 38%, and 20% respectively. Figure 18 highlights the total Foreign Direct Investment in the agriculture sector in consecutive years.

Table 4: Comparison of Agro Crops Performance to the Past

Agro products	First half of 1990s		Second half of 1990s		% Change in Culti-vatedArea	% Change in Growth Rate
	Cultivated area %	Growth rate % p.a	Cultivated area %	Growth rate % p.a		
Cereal Crop	77.1	1.7	83.9	2.3	+6.8	+0.6
Cash Crop	8.1	3.4	9.4	5.6	+1.3	+2.2
Pulses	8	8.6	8	4.3	0	-4.3
Livestock	-	1.6	-	3.6	0	+2

Source: Agriculture Sector Performance Review, 2002

AGRICULTURE PERSPECTIVE PLAN (APP)

The Government of Nepal in 1991 bought into effect the Agriculture Development Policy following which it developed the Agriculture Perspective Plan (APP) in 1995. The objectives of the APP were: i) transforming subsistence based farming into commercial, ii) accelerating agriculture growth rate through increased factor productivity, thereby reducing poverty and increasing the standard of living, and iii) developing guidelines for preparing periodic plans and programs in the future.

Despite progress relative to the past, implementation of the APP was not able to achieve the envisioned growth in this sector. The growth of agricultural sector, following the implementation of the APP, was too sluggish to create a strong enough force that would

Table 5: Summary of APP Target and Achievements

Item	*Targets*	*Achievement*
AGDP growth	4%	3%
Agribusiness	Institutional development and private investment	Commodity associations and Agri-Enterprise Center in FNCCI was formed. Department of Agribusiness Promotion was established. Private sector investment growth (1996-2006) in: dairy 201%, floriculture 73%, tea 37%, seeds 16% and poultry 2%.
Irrigation	1.44 million hectare	1.2 million hectare in 2009
High Value Crops	5.8% if AGDP	11.8% (fruits and vegetables) in 2011
Livestock	45% of AGDP	29.4% in 2011, Private sector investment in the sector
Fertilizer	131 kg/hectare	102 kg/hectare in 2001
Credit	109.5 billion estimated need, 75% from ADB	ADB and Small Farmer Development Bank loans to agriculture was about 50 billion

Source: APP implementation status report, MOAC Statistical Yearbook 2011, Agriculture Sector Performance Review, 2002

Table 6: Productivity Gaps in Agricultural Products

Product	Units	Current Production	Potential Production
Fish	t/ha/year	3.6	10
Timber	m3/year	0.337	13.4
Paddy	t/ha/year	2.72	10 to 12
Vegetable	Mt/ha/year	12.8	17

Source: Agriculture Development Strategy, 2013

lead to sustained poverty reduction and transformation, and a move from subsistence farming to commercial farming. The overall performance of the APP has, therefore, been mixed.

Table 4 and Table 5 summarizes the targets and achievements of APP. The tables indicate that agricultural diversification from cereals has not occurred following the implementation of APP, as the cultivated area has grown and the growth rate of cereal crops outpaced the population growth rate of 2.27%[123] only by a narrow margin. Cash crops had a healthy growth rate of 5.6% due to expansion of cultivated area and higher yield growth,[124] while pulses growth slowed due to low yield growth. Livestock experienced positive growth due to commercialization of chicken, goat, and pig farming in the APP implementation period. However, the growth rate of cattle and buffalo farming slowed during the period.

Despite the ineffective performance of APP, private sector engagement during the period increased relative to the past. Productivity of sub-sectors such as livestock, poultry, floriculture, seed, etc., has seen increased investments by private sector, making these sub-sectors more competitive and resulting in increased productivity. Likewise, access to finance has also increased as the credit to the sector has been expanded by BFIs and donors.

CONSTRAINTS ON GROWTH

For unmitigated growth in the agricultural sector, certain factors need to be taken into consideration. Some of the constraints faced by the sector that impede its growth and development have been identified below:

Outmigration: A large percentage of the population in rural areas, particularly young males who would otherwise be engaged in agricultural activities, are increasingly choosing employment in areas other than agriculture. Migration has left only women, children, and elderly people behind in these rural areas creating labor shortages, directly affecting agricultural output. Use of advanced technology and mechanization of the agricultural sector is, therefore, necessary to cope with this problem and for the agriculture sector to grow.

Subsistence Farming: Nearly 78% of small and medium scale farmers of Nepal depend on subsistence farming for their livelihood.[125] However, growth cannot be spurred in subsistence agriculture because of low yield per unit area relative to the labor force per unit

area.[126] While transformation from subsistence to commercial farming is essential, it has not occurred due to low productivity, a consequence of low adoption of improved technology. This has resulted in a productivity gap between current and potential production. Productivity gaps exist due to 80% of the land being used to grow cereal crops, whereas land productivity could be increased by using this land for other agriculture activities such as fishery, livestock, etc. Table 6 highlights the productivity gaps in certain agricultural products.

Agricultural Input: Productivity of agriculture highly depends on the availability of agriculture inputs. In Nepal, unavailability of agriculture inputs such as fertilizers, seeds, and other raw materials during the harvesting season are major productivity constraints and are likely to affect the food security situation as well as GDP growth.

Suitable Investment Climate: Commercialization of the agriculture sector requires the government to develop suitable policies (e.g. contract farming), and an incentive system to promote innovation, risk reduction instruments such as agro insurance, and services and infrastructures to support value chain development. The agriculture sector in Nepal, however, lacks these variables to attract substantial involvement of the private sector.

Lack of Implementation of Policies: The government sector has a key role in facilitating implementation of policies and plans, monitoring performance, and enforcing regulations. However, various factors such as weak institutional capacity, reduction in government and donor support due to conflict, lack of coordination between institutions, etc., has resulted in weak performance of policies.

Financial Constraints: While effective implementation of policies and development programs are essential for growth in the sector, such activities require sufficient financial resources. While the government allocates expenditure and budgets, and donor agencies provide grant, loans and technical assistance to financially support these programs, insufficient financial resources often acts as a constraint in terms of effectiveness.

Competitiveness: The competitiveness of agriculture products from Nepal is low and on a steady decline. Various constraints to competitiveness in the agriculture sector exist such as weak governance, limited skilled human resources, limited access to credit, lack of advanced technology and well-functioning systems of quality and safety control. Improvement in these areas could result in strong performance in export of agriculture products.

OUTLOOK

Agriculture contributes to a significant portion of the GDP in Nepal. Rapid agricultural growth is hence essential for Nepal's overall economic development as the productivity of this sector is directly linked to the country's economic growth. Poor governance at present, a weak regulatory framework, and civil unrest in the past have curtailed agricultural growth in Nepal. It is, therefore, necessary to have a strong regulatory environment in place for effective use of foreign investment, as well as to attract additional investments particularly from the private sector.

REVIEW

Financial Markets

The deposit mobilization of banks and financial institutions at the end of the first six months of the current fiscal year depicted an average deposit growth rate as compared with the same period of the previous fiscal year while deposits of development banks decreased due to merger of some development banks.

In the first six months of FY 2014-15, the deposit mobilization of Banks and Financial Institutions (BFIs) increased by 6%, i.e. NPR 83.76 billion (USD 837.6 million), as compared to a 8%, i.e. NPR 95.41 billion (USD 954.1 million), during the same period last year. During the review period, deposit mobilization of commercial banks and finance companies increased by 7.2% and 2.3% respectively while that of development banks decreased by 1.1%. The deposit mobilization of commercial banks had increased by 7.2%, development banks by 13.9% and finance companies by 8.4% in the same period the previous year.

Likewise, loans and advances of BFIs increased by 9.5%—NPR 125.39 billion (USD 1.25 billion)—compared to a growth of 7.3%—NPR 83.66 billion (USD 836.6 million)—in the same period the previous year. In the review period, loans and advances of commercial banks increased by 11.6%, development banks by 0.2% and finance companies by 4.1%. In the corresponding period of the previous year, such loans and advances had increased by 14.2%, 1.3% and 1.5% respectively.

In order to control the excess liquidity of the BFIs, NRB injected net liquidity of NPR 157.20 billion (USD 1.57 billion) through the net purchase of USD 1.66 billion from foreign exchange market (commercial banks), while net liquidity of NPR 168.93 billion (USD 1.68 billion) was injected through the net purchase of USD 1.69 billion in the corresponding period of the previous year. The NRB purchased Indian currency equivalent to NPR 171.10 billion (USD 1.71 billion) through the sale of USD 1.74 billion in the review period.

PRABHU BANK SET TO ACQUIRE GRAND BANK

After successful mergers between various development banks, finance companies and a commercial bank, Prabhu Bank, a 'A' class financial institution, is all set to acquire Grand Bank Nepal, the first ever acquisition of a commercial bank by another. A Memorandum of Understanding has been signed between the two commercial banks to take over the financially troubled commercial bank. The swap ratio between the two companies is yet to be agreed upon which will be determined once the due diligence audit is completed.

Grand Bank Nepal came under the inspection of NRB after the bank's Capital Adequacy Ratio was hovering around 4.07%, way below the regulatory requirement of 10% for commercial banks. With the acquisition, Prabhu Bank's paid up capital will reach NPR 5.20 billion (USD 52 million). The unified organization will have a deposit of NPR 45.90 billion (USD 459 million) while its loan sits at NPR 39.05 billion (USD 390.5

million). The ratio of bank's idle fund will reach 16.17% while the capital fund will reach 10.2%.[127]

NMB SIGNS MERGER DEALS

NMB Bank has gone on a merger spree, signing merger agreements with four financial institutions within two months. The commercial bank has already signed Memorandum of Understanding with Prudential Finance, Clean Energy Development Bank, Pathibhara Development Bank, and Bhrikuti Development Bank.

If the merger processes conclude successfully, the merged bank's total capital and reserves would reach NPR 6 billion (USD 60 million). The new entity will also have a foreign shareholder, FMO Development Bank of Netherlands which owns 14% stake of Clean Energy Development Bank. NMB Bank has been currently providing banking services through its 29 branches, which will increase to 69 branches post-merger.[128]

NEPAL RASTRA BANK EXITS NEPAL BANK LIMITED

Nepal Rastra Bank (NRB) has finally exited from the management of the country's oldest bank, Nepal Bank Limited (NBL), and handed it over to the real owners—public shareholders and the government, after a period of 13 years. In March 2002, KPMG, an international auditing agency, had termed Nepal Bank and Rastriya Banijya Bank technically insolvent due to high level of non-performing loans. The central bank had taken over the management and board of the NBL following serious crisis in the bank which threatened to take the bank on the verge of collapse. The Special Annual General Meeting has unanimously elected Nishchal Pradhan and Surendra Bahadur Singh as public directors while the government, which hold 62% stake, will appoint four board directors and a professional director.[129]

RASTRIYA BANIJYA BANK PLANS TO GO PUBLIC

Rastriya Banijya Bank is planning to issue 30% of its stake to the general public within this fiscal year. The Initial Public Offering (IPO) is expected to be more than NPR 3 billion (USD 30 million). The bank has also sought the government's approval for the proposed IPO. The bank, once on the verge of collapse due to massive loan defaults, underwent huge financial sector reform program for over a decade and fully recovered from the crisis. The supervision reports of the Nepal Rastra Bank have repeatedly been directing the state owned bank to go public as per the Bank and Financial Institution Act 2006.[130]

PROBLEMATIC AND CRISIS RIDDEN BFIS

Nepal Rastra Bank declared Arun Finance, Corporate Development Bank, and Nepal Finance Limited troubled, problematic and crisis ridden after the companies' financial conditions deteriorated despite instructions to take corrective actions. The financial reports of all the companies showed dismal performance with high levels of non-performing loans and negative Capital Adequacy Ratio. The inspection conducted by the central bank revealed that all three companies' loans were concentrated among a few borrowers and that the banks and financial institutions (BFIs) had not been adhering to the banking principles. The regulator has also barred BFIs from collecting new deposits, renewing matured fixed deposits, providing loans, and opening new branches.[131]

OUTLOOK

As of the second quarter of 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 14.15 billion (USD 141.5 million) from NPR. 9.89 billion (USD 98.9 million), as compared to the same quarter of previous year.

The weighted average 91 day Treasury bill rate has marginally decreased to 0.1551% from 0.47% a year ago. The weighted average inter-bank transaction rate among commercial banks remained at 0.15% during the 2nd quarter of this FY from 0.21% a year ago. The average cost of funds of commercial banks has dropped to 4.37% from 5.57% at the end of first quarter of the current fiscal year.

TABLE 7: 2ND QUARTER RESULTS OF COMMERCIAL BANKS-UNAUDITED FY 2014-15 (FIGURES IN NPR IN TEN MILLION)

			DEPOSIT			LOANS AND ADVANCES			OPERATING PROFIT			NET PROFIT			NPL (%)		COST OF FUND (LCY)			BASE RATE %
Bank	Paid-up Capital	Reserve & Surplus	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	FY 13/14	FY 14/15	Change	FY 14/15
			2 QTR	2 QTR		2 QTR	2 QTR		2 QTR	2 QTR		2 QTR	2 QTR		2 QTR	2 QTR	2 QTR	2 QTR		2 QTR
Nabil Bank	365.76	509.57	6909.74	8877.22	28.47	5139.69	6469.77	25.88	139.25	171.25	22.98	105.53	111.12	5.30	3.05	2.10	3.61	3.02	-0.59	6.08
Nepal Investment Bank	477.12	412.28	7199.64	7992.6	11.01	5225.09	6374.46	22.00	126.20	115.23	-8.69	93.88	96.60	2.90	1.76	1.13	4.41	3.60	-0.81	6.07
Standard Chartered Bank	224.81	348.69	4002.64	5066.37	26.58	2511.64	2945.73	17.28	94.42	88.01	-6.79	63.33	64.46	1.78	0.63	0.44	1.92	1.75	-0.17	5.72
Himalayan Bank	333.27	334.02	5976.71	6702.55	12.14	4395.74	5294.46	20.45	85.35	91.69	7.43	54.44	58.95	8.28	3.46	2.12	4.67	3.42	-1.25	7.05
Nepal SBI Bank	305.80	228.47	5644.58	5725.83	1.44	3232.56	3894.19	20.47	65.16	82.04	25.91	45.90	53.27	16.06	0.32	0.22	4.25	3.23	-1.02	6.89
Nepal Bangladesh Bank	243.13	200.99	2370.02	2720.65	14.79	1598.22	2368.10	48.17	28.32	41.14	45.27	27.12	33.11	22.09	1.50	1.26	5.81	4.49	-1.32	7.90
Everest Bank	213.73	409.09	5992.22	7001.97	16.85	4796.51	5470.17	14.04	106.30	118.23	11.22	67.91	77.12	13.56	0.60	0.65	4.13	3.08	-1.05	6.01
Bank of Kathmandu	212.02	175.91	2931.76	3415.50	16.50	2483.42	3060.75	23.25	36.10	51.36	42.27	25.04	33.07	32.07	1.33	1.12	5.27	3.98	-1.29	7.06
NCC Bank	147.00*	143.50	2201.73	2238.22	1.66	1760.76	1916.38	8.84	20.89	26.02	24.56	15.99	24.87	55.53	2.46	2.21	6.60	4.90	-1.70	8.05
NIC Asia Bank	265.82	257.53	3844.10	4809.22	25.11	3183.85	3940.53	23.77	52.34	47.83	-8.62	38.53	36.06	-6.41	2.96	2.41	6.40	5.06	-1.34	7.78
Lumbini Bank	200.08	71.66	1254.28	1753.49	39.80	1104.49	1565.67	41.76	8.88	21.23	139.08	6.86	17.00	147.81	2.18	0.77	6.59	4.93	-1.66	7.87
Machhapuchchhre Bank	277.62	99.99	3111.42	3961.18	27.31	2527.00	3364.93	33.16	25.30	39.57	56.40	20.40	34.40	68.63	2.67	1.73	6.28	4.59	-1.69	7.55
Kumari Bank	243.16	71.65	2740.18	2988.47	9.06	2150.05	2528.92	17.62	8.68	22.76	162.21	6.17	18.16	194.33	4.26	3.84	6.33	4.92	-1.41	8.05
Laxmi Bank	233.79	106.48	2819.01	3433.24	21.79	2190.71	2898.40	32.30	20.60	24.62	19.51	14.58	17.71	21.47	2.14	1.18	6.25	4.71	-1.54	7.96
Siddhartha Bank	203.11	129.52	3141.99	3893.85	23.93	2472.01	3199.96	29.45	37.19	46.27	24.42	24.25	32.60	34.43	3.52	2.47	5.74	4.71	-1.03	8.29
Global IME Bank	501.16	189.17	3697.57	5520.26	49.29	3011.61	4756.38	57.93	43.88	66.17	50.80	53.28	54.04	1.43	3.22	2.57	5.05	4.20	-0.85	7.60
Citizens Bank International	237.95	65.76	2418.56	3091.80	27.84	2041.73	2655.60	30.07	30.91	34.51	11.65	23.64	27.98	18.36	2.46	2.01	5.64	4.55	-1.09	7.46
Prime Commercial Bank	314.00	83.89	2694.67	3692.89	37.04	2332.39	3020.21	29.49	36.36	50.67	39.36	31.01	36.21	16.77	2.21	2.46	6.32	4.68	-1.64	7.69
Sunrise Bank	234.94	72.17	2532.95	2921.08	15.32	2012.99	2335.30	16.01	18.84	26.45	40.39	20.58	26.64	29.45	2.91	3.97	6.03	4.68	-1.35	7.48
Grand Bank	200.00	-107.81	1993.86	1274.49	-36.08	1538.95	1185.66	-22.96	9.86	-33.40	-438.74	9.39	-138.68	-1576.89	4.29	26.61	7.24	6.92	-0.32	9.35
NMB Bank	240.00	68.35	2391.15	2906.49	21.55	1741.31	2331.26	33.88	24.49	39.34	60.64	19.70	27.05	37.31	1.58	0.63	6.00	4.26	-1.74	7.44
Prabhu Bank	320.88	17.88	1940.37	3316.03	70.90	1587.51	2720.27	71.35	-40.00	-15.20	62.00	-19.88	54.02	371.73	17.54	10.86	6.38	3.98	-2.40	7.79
Janata Bank Nepal	206.00	25.64	1430.20	2073.58	44.99	1294.95	1841.10	42.18	1.91	5.49	-187.43	1.26	10.92	-766.67	1.10	0.86	6.76	5.16	-1.60	8.53
Mega Bank	260.96	28.77	116.40	284.44	144.36	1372.30	1754.85	27.88	25.63	24.83	-3.12	16.63	15.83	-4.81	1.93	1.78	5.24	4.13	-1.11	7.23
Civil Bank	269.89	54.63	1848.58	2354.60	27.37	1529.30	2110.67	38.02	5.34	27.81	420.79	3.39	17.69	421.83	1.45	1.93	7.98	5.85	-2.13	8.67
Century Commercial Bank	200.00	32.54	1428.59	2338.36	63.68	1233.72	1977.55	60.29	5.91	12.87	117.77	3.93	9.98	153.94	0.91	0.34	6.44	5.10	-1.34	8.11
Sanima Bank	255.02	56.13	1988.99	3014.74	51.57	1717.07	2589.35	50.80	29.92	43.23	44.49	19.43	27.81	43.13	0.10	0.04	6.91	4.93	-1.98	7.19
Public Sector Banks																				
Nepal Bank	646.50	-259.98	6298.88	6934.07	10.08	3785.52	4119.59	8.82	36.10	70.03	-93.99	79.15	123.59	56.15	4.53	4.74	4.52	4.08	-0.44	8.07
Rastriya Banijya Bank	858.89	-260.13	9700.65	10254.20	5.71	5217.78	6589.75	26.29	61.35	44.53	-27.42	71.78	360.07	401.63	4.92	3.74	3.08	2.40	-0.68	4.89
Agriculture Dev. Bank	963.68	663.01	6496.60	6907.56	6.33	5269.88	6176.25	17.20	31.14	50.97	63.68	46.00	53.45	16.20	6.05	5.14	5.30	5.74	0.44	10.80
Total	**9509.09**	**4229.37**	**107118.04**	**127464.95**	**18.99**	**80458.75**	**101456.21**	**26.10**	**1176.62**	**1435.55**	**22.01**	**989.22**	**1415.10**	**43.05**	**2.93**	**3.04**	**5.57**	**4.37**	**-1.20**	**7.55**

Capital Markets REVIEW

SECONDARY MARKET PERFORMANCE

The Nepal Stock Exchange (NEPSE) index (+13.93%) bounced back from last quarter's plunge as the index gained 120.15 points to close at 982.65 points during the review period (November 21, 2014, to February 21, 2015). The index fluctuated the entire month and rallied upwards on hope of positive political consensus and the promulgation of the constitution.

Similarly, during the second half of the review period, the market witnessed positive sentiments from the investors in spite of political chaos and delay in promulgation of the constitution. Regardless of these issues, the market was able to attract a huge number of individual investors due to good second quarterly reports, low interest rates from bank and financial institutions on margin loans and huge institutional buying.

During the review period, all the sub-indices closed in the green zone as shown in Table 8. The Development Bank sub-index (+25.67%) was the biggest gainer among the sub-indices as the index gained a whopping 168.6 points. The Manufacturing & Processing sub-index (+15.70%) continued with its upward spiral for the second consecutive quarter with the index gaining 193.68 points. The Commercial bank sub-index (+15.18%) managed to bounce back from last quarter's loss as the index gained 113.19 points to close at 858.66 points. Likewise, the Finance sub-index (+13.85%) also ended positively this quarter with a gain of 66.22 points.

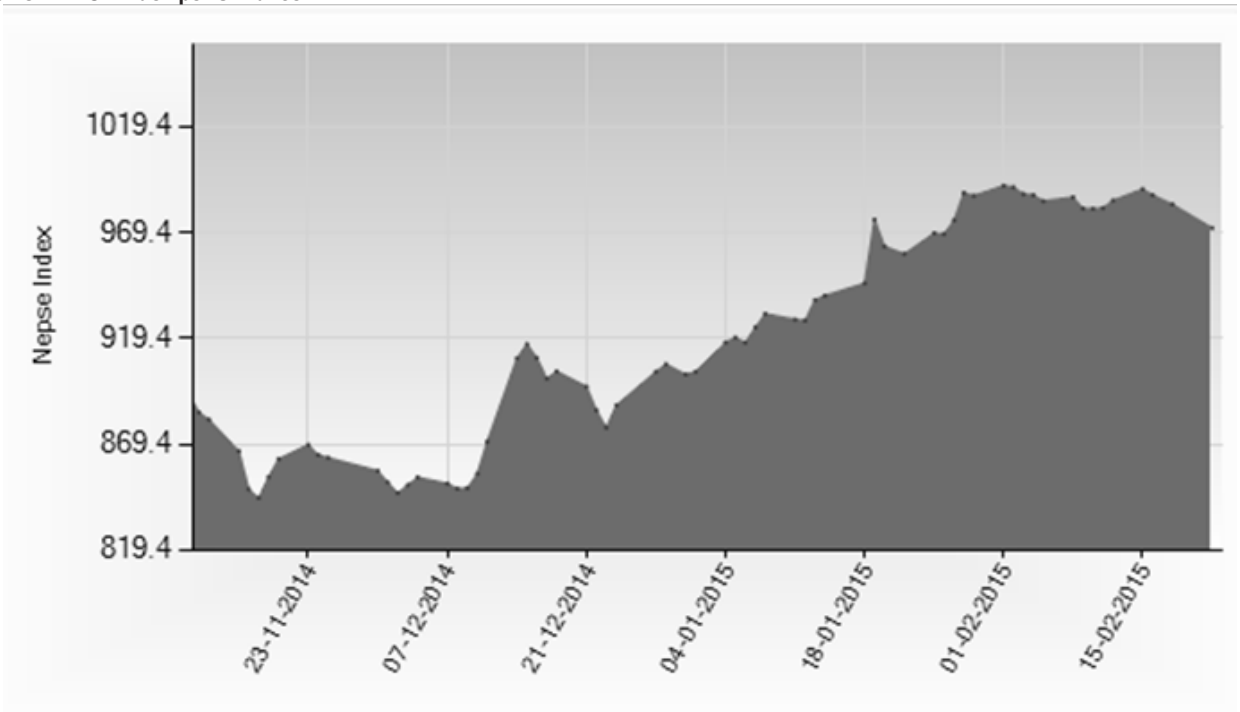
The Insurance sub-index (+12.81%) bounced back on possible news of increase in paid-up capital with the sub-indices gaining a massive 486.06 points. The Hotels sub-index (+8.56%) bounced back from last quarters' disappointing performance gaining 161.34 points. The Hydropower sub-index (+6.45%) was the least gainer amongst all the sub-indices as the sub-index increased merely by 135.59 points.

Table 8: Sector wise Performance of the Sub-Indices

Indicators	21-Nov-14	21-Feb-15	% Change
NEPSE Index	862.5	982.65	13.93%
Commercial Bank Index	745.47	858.66	15.18%
Development Bank Index	656.84	825.44	25.67%
Hydropower Index	2103.8	2239.39	6.45%
Finance Index	478.18	544.4	13.85%
Insurance Index	3793.12	4279.18	12.81%
Others Index	704.91	746.02	5.83%
Hotels Index	1884.87	2046.21	8.56%
Manufacturing & Processing	1233.59	1427.27	15.70%

Source: NEPSE

Figure 19: NEPSE Index performance



KEY DEVELOPMENTS

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

SEBON TO ALLOW LAUNCH OF PRE-IPO

Securities Board of Nepal (SEBON) is planning to amend its Securities Registration and Issue Regulation to allow infrastructure companies to issue shares to the public prior to the launch of Initial Public Offering (IPO). Such amendments provide opportunities for companies like Nepal Purwadar Bikash Company, which is constructing a 58 kilometer tunnel highway, to generate financial resources needed for the project prior to operations.

The revised regulation will also include a provision on re-registration of merged companies to keep track of shares floated in the stock market. Similarly, the regulation will also include provision for international financial institutions like Asian Development Bank and International Finance Corporation (IFC) to float local currency bonds in the stock market. IFC had received approval from the government to issue bonds worth NPR 50 billion (USD 500 million) earlier in 2014.[132]

INSURANCE BOARD TIGHTENS PROVISIONS FOR SHARE TRANSACTIONS

Insurance companies' shareholders will have to take prior approval from the Insurance Board (IB) to buy or sell more than 1% stake of their holdings. This decision comes in the wake of the failure of some companies to inform the Board regarding huge share transactions. Similarly,

the promoters of the insurance companies holding more than 1% stake will have to take permission of the IB if they need to take loans against shares. Also, the promoters cannot take loans of more than 50% of the face value of the shares.

Likewise, if a shareholder is blacklisted for defaulting loans, the insurers will have to inform the IB within a period of 15 days. Further, the insurers should mention any loan taken by the promoters against shares in their financial statement. The insurance companies should also adopt necessary measures to manage possible risks that could arise due to the loans taken by the promoters. However, in the event of a promoter's death, the company concerned should transfer the ownership of the promoter's shares to the nominees specified, and inform the regulator about it within 15 days. The IB should also be informed about transaction of shares among the promoters.[133]

IPOS OF HYDROPOWER COMPANIES IN THE OFFING

The Nepali capital market witnessed one of the biggest Initial Public Offering (IPO) in its history with the much awaited IPO of Upper Tamakoshi Hydropower Limited. The company floated a total of 36,006,000 units of primary shares at face value during its first phase for the project affected locals of Dolakha as well as for the staff of Citizen Investment Trust (CIT), Employees Provident Fund (EPF), Nepal Electricity Authority (NEA), Beema Samiti and Nepal Telecom. The issue to the general public will commence at the second phase.

Similarly, Barun Hydropower Company Limited will be issuing 486,000 units of ordinary shares for the general public. The IPO of the hydropower company received Grade 4 rating from ICRA Nepal, indicating company's below average fundamentals.[134]

"OUTLOOK

The NEPSE index saw a series of fluctuations in its indices in the last quarter with the benchmark index crossing the 900 point mark following the news of possible positive political consensus and promulgation of the constitution. Likewise, the market continued to rise although there were no signs of positive political developments. The increase in the index can be attributed to the good growth of the listed companies in the second quarter financials.

The Key Technical Analysis Indicator and the Relative Strength Index signal that the market will be approaching an over sell situation, which may result in the market witnessing some upward spiral provided it is supported by positive developments on the political front.

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Nepal Economic Forum (NEF) strives to be 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) eco-system, NEF has benefited from extensive exposure, experience and network of beeds who contribute in the research and dialogue process. With Sujeev Shakya as Chair, NEF benefits from the leadership of one the most respected economic analysts in Nepal, known for his bestseller Unleashing Nepal - Past, Present and Future of the Economy (Penguin 2009). 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, and **nefcast**, an online dissemination platform. BPRC is in the process of starting **nefsource** a resource center, and holding a nefclave, a platform for discourse on economy and beyond, which is scheduled for September 2013.

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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