

# NEPAL ECONOMIC GROWTH ASSESSMENT

## A. INTRODUCTION AND EXECUTIVE SUMMARY

### 1. PURPOSE

Nepal has recently emerged from a civil war with a newly elected Maoist government expected to take charge soon. As the government and donors revisit their strategies, USAID is taking this opportunity to update its strategy with respect to economic growth. In June 2008, an economic growth assessment team<sup>1</sup> visited Kathmandu and surrounding areas to address the issue of inclusive economic growth, the constraints to growth, and opportunities for moving forward. As USAID's Economic Growth Strategy makes clear "Poor countries that fail to grow can pose serious problems. They are vulnerable to crisis, sometimes including state failure and violent conflict;...and can make large claims on U.S. and international resources<sup>2</sup>." This is especially true in the case of Nepal.

The purpose of this assessment is to outline key issues of inclusive economic growth for Nepal, and to recommend practical areas where USAID can be of assistance to promote economic growth taking into account other donor programs, USAID's comparative advantage, and the Congressional earmark in support of increasing rural incomes.

### 2. SUMMARY OF PRIORITY RECOMMENDATIONS

While there are a large number of recommendations, the top five priority recommendations are as follows:

- Vocational and skill training for poor and disadvantaged youth for local employment and migration;
- Labor intensive work programs aimed at the poor and excluded groups to provide infrastructure maintenance and other needed public works;
- Technical Assistance to FNCCI and/or other policy reform institutions including regional Chambers of Commerce and the National Planning Commission to build a consensus amongst government, political parties, civil society, and the private sector for an enabling environment for private sector growth;
- Technical Assistance to the Ministry of Finance to increase tax and customs revenue and local government revenues to finance essential social services and infrastructure;
- Technical assistance to upgrade SPS and TBT quality control capacity coordinated with other donors through the Enhanced Integrated Framework.

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<sup>1</sup> Danielle Dukowicz, EGAT Economic Advisor, Kishore K.C., USAID/Nepal Economic Advisor, and James Walker, ME/TS Senior Economic Advisor.

<sup>2</sup> USAID, "Economic Growth Strategy: Securing the Future", April 2008.

## B. INCLUSIVE GROWTH AND POVERTY REDUCTION

Nepal's *Three Year Interim Plan* focuses on the acceleration of pro-poor and broad-based economic growth. This section provides a brief overview of recent economic growth trends and their impact on poverty reduction and social inclusion. Implications for government economic policies and donor interventions are outlined.

Nepal's decade-long civil conflict, ongoing political instability, poor governance, and weak structural reforms have retarded economic growth<sup>3</sup>. Per capita GDP has barely increased in the past decade and the country remains one of the poorest in the world with a 2004/05 GDP per capita below US \$300.

While the government has successfully maintained macroeconomic stability, political turmoil, civil conflict, and a weak and unstable business enabling environment have hampered business operations and investment and government and donor development initiatives. Nevertheless, Nepal's poverty rate has declined from 42% in 1995 to 31% in 2003, primarily as a result of international remittances, urbanization, falling dependency ratio, and improved rural infrastructure.<sup>4</sup>

Household incomes for basically all groups increased, including the poor, with the exception of those in the rural eastern hills. However, inequality increased, with the incomes of the wealthiest increasing the most (6.4% per year for the top 20%, compared to 3.7% for the next quintile, and 2.5% for the poorest quintile). While the upper and middle income groups have seen greater increases in their standard of living, the real incomes of the poor increased 22% between 1995 and 2003, allowing them to afford better quality food, as well as durables such as bicycles, radios, etc.<sup>5</sup>

Pathways out of poverty between 1995 and 2003 have included:

- Poor landless agricultural workers became subsistence farmers by land rental or purchases;
- Poverty declined amongst subsistence farmers primarily due to remittances and non-farm wage incomes;
- Wage employment in manufacturing and construction provided higher incomes;
- The poor and excluded groups, as well as the middle castes from the Terai, migrated to India for work, while the hill Janajatis migrated to higher income destinations predominately in the Middle East. While many poor remained in poverty, all migrant groups increased their incomes through migration.

Policy for Inclusive Growth: Sound economic policy is a necessary condition for economic growth and poverty reduction. This includes sustainable monetary and fiscal policies, a supportive business enabling environment, secure property rights, and open trade and investment regimes supportive of competitive markets and foreign direct investment. These policies in support of broad-based growth appropriately encourage

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<sup>3</sup> IMF Nepal – Staff Report for the 2008 Article IV Consultation, May 2008, p. 4.

<sup>4</sup> DFID, “Final Report: Supporting Inclusive Economic Growth in Nepal,” April 2008, p. 5.

<sup>5</sup> Magnus Hatlebakk, “Inclusive Growth in Nepal,” First Draft, funded by Norwegian Embassy, June, 2008.

the private sector investors to decide where profitable investment can be made rather than decisions by ill-informed bureaucrats.

A policy for inclusive growth will have to combine traditional growth policies with policies for poverty reduction and inclusion. Primary education and skills training programs targeted toward the poor and excluded are both growth enhancing and inclusive. Skill training programs enhance access to higher paying local jobs and jobs abroad. Agricultural research and extension are critical to increasing agricultural productivity and encouraging growth of high valued agricultural products. Access to inexpensive health care services, including subsidized public health services and regional hospitals, are also important for growth and inclusion.

Physical infrastructure, including roads and electrical transmission lines, is essential for growth, and when extended to rural areas, inclusion. But increasing connectivity to neighboring countries with road, rail, and air infrastructure is essential for increased foreign trade and investment.

Finally, investments in physical and human capital in support of inclusive growth require government funding. Hence establishing broad-based tax and customs systems that can generate the needed funding with low tax and tariff rates that do not unduly distort nor discourage private sector activities are essential. And with the increased interest in revenue sharing for the rural districts that lack government services and infrastructure and local revenue sources, strengthened government revenue systems are essential.

## **C. OPPORTUNITIES, ISSUES, AND DONOR ASSISTANCE**

### **1. LABOR MIGRATION AND REMITTANCES**

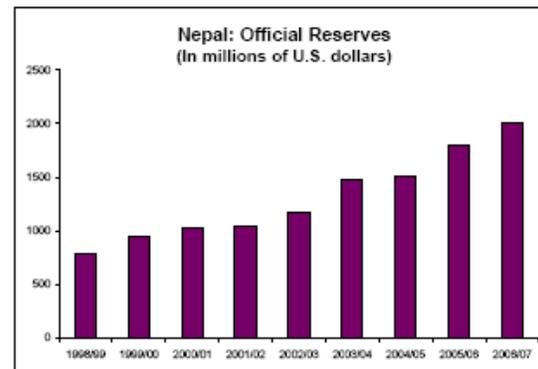
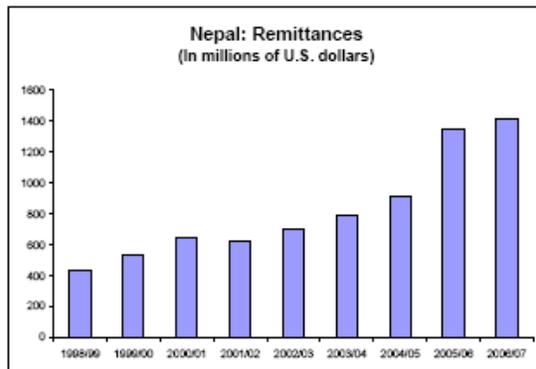
Migration both within Nepal and abroad has steadily increased over the past decade (see graphs below). Remittances have risen from Rs. 47.5 billion in FY2001-02 to Rs. 100.1 billion in FY2006/07. The IMF estimates remittances at roughly 14% of GDP for FY2006-07. During the first nine months of FY2007-08, remittances again soared to Rs. 93.8 billion.

This reflects, in part, migration from conflict prone areas but also migration because of a lack of economic opportunities for young workers. Migration within Nepal to urban areas has increased such that half Nepal's population is expected to be urbanized within 20 years, as compared to the current 16% urbanization rate. While 35% of total remittances come from domestic migration, the majority of remittances (65%) come from abroad<sup>6</sup>.

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<sup>6</sup> DFID, "Supporting Inclusive Economic Growth in Nepal: Potential interventions for the Government of Nepal and Development partners", April 2008.

Remittances are the single largest source of foreign exchange inflows and are less volatile than other sources. They contribute more foreign exchange than do exports and play a major role in maintaining the balance of payments. With stagnating exports, foreign exchange earnings from remittances are used in part to finance imports. The graphs below should the steady rise in remittances from FY1998/99 through FY2006/07 as well as the rise in foreign exchange reserves over the same period.



Source: IMF, Article IV, May 2008

Remittances have significantly supported poverty reduction in Nepal. Data from the Nepal Living Standard Surveys (NLSS) conducted in 1995-96 and subsequently in 2003-04 show an 11 percent reduction in the poverty rate despite the decade long conflict.

### *Issues of Access*

However, there are costs to migration both to the migrant as well as to the domestic economy. Migration can further exacerbate existing income inequality patterns. Migrating abroad, in particular to the Gulf States as opposed to India, incurs costs of up to Rs. 70,000 (\$1,000) making it difficult for lower income groups to finance the initial investment. Lower class groups who have been the traditional migrant groups are either precluded from migrating to higher paying Gulf States and/or spend a higher proportion of their future remittance income repaying the loan they incurred. An economic study commissioned by the Norwegian Embassy estimates that the richest 20% of Nepalis have seen their income, much of which is remittances, grow the most during the FY1995/96 to FY2003/04 time period while the poorest 20% of the population has seen their income grow the least during the same period<sup>7</sup>.

Another issue is the lack of government regulation and oversight of the roughly 740 labor recruitment or manpower agencies. These agencies have been characterized as unprofessional and financially non-transparent.

<sup>7</sup> Dr. Hatlebakk estimates that the top quintile has experienced income growth of 6.4% per year over the 1995/96-2003/04 period. The next top quintile has seen 3.7% per year growth in their incomes, and the bottom 20% has seen 2.5% growth in their incomes over the eight year period. "Inclusive Growth in Nepal", June 2008.

While the financial benefits of migration are clear, there are also social costs of migration that should be recognized. Men, in particular, are migrating in greater proportion to women leaving many rural households and villages with a shortage of men. However, until Nepal has an enabling environment more supportive of private sector growth, these trends will continue.

Formal financial institutions do not serve the needs of most Nepalis. An estimated 69 percent of foreign remittances come through informal channels, mostly likely through family and friends. Only six percent of remittances are saved in financial institutions<sup>8</sup>.

The government, supported by donors, is working to reverse this and devise policies to encourage remittance flows through formal channels rather than informal ones. Migrants should be encouraged to hold their savings in domestic financial assets rather than holding cash. As the domestic economy grows, additional opportunities for investment in productive assets within Nepal should also become available.

#### *Donor Involvement*

Donors involvement revolves mostly around skill training programs (eg, ADB, USAID-OTS, etc.) The ILO is conducting surveys on recruiting agencies and returning migrant workers. GTZ has financed a study on Remittances, Migration, and Employment.

#### *Scope for USAID Involvement*

- Although skill/vocational training programs are popular amongst donors this should not preclude USAID from entering the field since the need for training new labor force entrants is some 300,000 a year. USAID could support training programs to improve English language skills as well as needed skills such as for masons, tailors, mechanics, and drivers<sup>9</sup>. (see also Youth and Training Programs);
- Grants program to assist in start-up costs for migration (DfID is also interested in this form of assistance). Also, encourage a loan repayment plan for migrants linked to future earnings. Avoids reliance on high-interest loans from the informal sector as a means to finance migration;
- Increase the financial literacy of migrants through classes (pre-migration) aimed at educating migrants about the different channels for sending remittances home and the costs, advantages and disadvantages associated with each one;
- TA to strengthen regulations regarding labor recruitment agencies in order to better protect future migrants.

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<sup>8</sup> World Bank, "Access to Financial Services in Nepal",

<sup>9</sup> Hatlebakk, Magnus, "Inclusive Growth in Nepal", June 2008.

## 2. YOUTH AND TRAINING PROGRAMS

There are roughly 7 million youth, aged 15-29, in Nepal according to the NLSS (FY2003/04). There are 300,000 new entrants into the labor market every year, most of whom are youths. The unemployment for youth is 11.4%, almost three times higher than the national unemployment rate at 4%<sup>10</sup>. This figure, however, is deceptive as underemployment among youths is much more common and stands at almost 50%. Indeed, youth unemployment and underemployment is considered an important contributory factor to the conflict and potential obstacle to peace and economic growth if current trends continue.

More youth are attending school than ever before. However, with respect to literacy, notable differences exist with respect to gender and location (rural/urban). According to the NLSS 2003/04 two thirds of female youth are illiterate and over half of all youth in rural areas are illiterate.

Youth Literacy Rate				
Location/Sex	15-19 yrs	20-24 yrs	25-29 yrs	All Age
<b>Urban</b>				
Male	93.1	94.9	93.4	84.5
Female	89.5	83.1	79.9	64.2
Total	91.4	88.8	86.0	74.4
<b>Rural</b>				
Male	85.8	80.1	70.7	59.3
Female	64.0	50.8	33.3	34.3
Total	74.4	62.4	48.2	46.1
<b>All Nepal</b>				
Male	87.0	83.4	75.3	63.5
Female	67.8	56.3	41.1	38.9
Total	77.1	67.5	55.1	50.6

Source: Nepal Living Standard Survey, 2003.04

A large proportion of youth remain engaged in agriculture (85 percent of females, 50 percent of males.) However, many youth aspire to work in non-agricultural, non-rural sectors and seek opportunities in urban areas or abroad for higher wages. Male youth are more likely to migrate abroad, and female youth are more likely to migrate domestically. 86% of young female migrants remain in Nepal compared to only 53% of their male counterparts.

Most migrants to urban areas are absorbed in the informal sectors, and become self employed as a survival strategy.

### *Early Marriage for Women*

Young women who lack skills and employability find their best alternative is early marriage and child bearing. Although the average age of marriage is increasing (20.2 years for boys, 17.2 years for girls), it varies widely by caste, ethnicity, and wealth, with one in five Nepali girls getting pregnant or having a child by the age of 15.

### *Donor Involvement*

Donors are actively involved in this area and youth remains a priority topic. In 2008, USAID awarded \$14.7 million towards a youth vocational education program in mid-West Nepal. The program is expected to training over 70,000 youth over a five-year period. SDC (with DFID supported work with Helvetas) has led a work program

<sup>10</sup> Government of Nepal, Three Year Interim Plan,

regarding youth. The ADB has pledged up to \$25 million to work with Government Centers for Technical and Vocational Training. The ILO is coordinating a National Plan of Action for Youth Employment. UNICEF has taken the lead regarding the reintegration of ex-combatants as pertains to youth. Despite these efforts only a small proportion of the need for skill training is being met by these programs.

#### *Scope for USAID Involvement*

- Labor intensive work programs aimed at youth and contributing to overall sector development (eg, youth oriented labor intensive road maintenance programs);
- Vocational and skill training programs enabling poor and excluded youth to obtain higher skilled forms of employment locally and abroad;
- Literacy programs aimed at young girls coupled with a basic skills training program (sewing etc.) Support to existing programs such as the Biratnagar FNCCI skills training workshop for young women.<sup>11</sup>

### **3. SHORT-TERM JOBS CREATION AND SOCIAL PROTECTION**

There is an immediate need for short term, income generating jobs in Nepal. Jobs are needed both for youth and adults alike, entering the job market for those already in it. While longer term job growth should come from the private sector, USAID's "Guide to Economic Growth in Post-Conflict Countries" makes clear that in the short term, donors should "promote employment generation and stimulate the economy...The goal is to get labor and capital back to work, and quickly."<sup>12</sup> In the medium term, emphasis should be placed on the sustainability of the employment activities and for this to happen private sector development is crucial. However, for private sector led job growth to occur the Government of Nepal will have to maintain peace and stability as well as to promote domestic and foreign investment by creating an enabling environment that is attractive to investors.

Nepal's current labor law deters job growth and benefits neither the employer nor the employee. The law imposes excessively costly and burdensome requirements on businesses and with little enforcement<sup>13</sup>. The ILO has taken the lead amongst donors in providing support to revise and redraft the labor law. Amongst its key proposals, the ILO proposes an unemployment insurance program as part of an overall social protection program. A well designed unemployment scheme could provide minimal insurance payments for the unemployed workers as they transition to productive

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<sup>11</sup> Site visit by USAID to Biratnagar training center for young women aged 18-30. The program was sponsored by the local chapter of FNCCI. The three month program is aimed at teaching basic sewing skills to the young women. The FNCCI states that roughly 95% of program participants find positions in factories in and around Biratnagar.

<sup>12</sup> USAID, "A Guide to Economic Growth in Post-Conflict Countries", October, 2007.

<sup>13</sup> Example: for each one year of employment, the employer must pay one month separation allowance. Interview with Biratnagar FNCCI, June 23, 2008.

employment. Unions, presently opposed to any changes to the labor law, should react more favorably to such provisions.

#### *Government and Donor Involvement*

The government and donors are involved in the area of short term job creation. The Ministry of Local Development supports up to 40,000 families in 5 districts through the One Family, One Job program. Participants received between Rs. 250-300 a day. In 2005, USAID provided \$8.1 million towards an income generation project focused on rural infrastructure. \$8.1 million generated 3.3 million days of employment, or roughly \$2.45/day.

In terms of social protection, the ILO is leading on reforming the labor law. The European Commission (EC), SNV, and the Finnish are all involved in social protection programs aimed at social inclusion.

#### *Scope for USAID Involvement*

- Income generation projects similar to those undertaken in 2005 by USAID. In an effort to expand the number of participants in such a program, reduce the payment to \$1-2/day, 100 days of employment per participant. By limiting the pay to \$1-2/day, USAID will target those most in need;
- Link job programs to capital building activities such as road maintenance (desperately needed in and around Kathmandu as well as in rural areas.)

## **4. INFRASTRUCTURE**

Nepal's topography makes investments in infrastructure and in particular, roads, difficult at best. However, infrastructure plays an essential role in unlocking the economic potential of the country and of rural areas in particular. Along with access to credit, access to markets is a key issue for Nepal's SME community. Road density in Nepal is the lowest in South Asia with 40% of the population living more than 2 hours away from the nearest road. In addition, road maintenance is also sorely lacking.

Nepal's abundant endowment in potential hydropower is in stark contrast to the fact that 40% of Nepali households have access to electricity (and only 11.5% of the rural population has electricity access.) Many businesses and households rely on small 'stand alone' power generation. The cost of electricity in Nepal is the highest in South Asia.

Irrigation is also lacking with only 0.5 Ha out of 1.7 Ha currently irrigated.

Estimates of access to water and sanitation in rural areas stand at 81% for water and 41% for basic sanitation<sup>14</sup>.

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<sup>14</sup> DfID, "Rural Infrastructure".

The GON's Three Year Plan makes infrastructure development a priority with particular focus on hydropower and road projects.

- BOOT (Build, Own, Operate, Transfer)

#### *Donor Involvement*

The ADB, World Bank, GTZ, and Japan all currently have programs focusing on roads. ADB's Road Connectivity Project (\$55.2 million over 7 years) focuses on enhanced access to district headquarters, markets, employment opportunities and social services. Similarly, the World Bank has extensive roads and hydropower projects.

#### *Scope for USAID Involvement*

- Labor intensive jobs program linked to infrastructure maintenance;
- Support to BOOT hydropower and roads through USAID Global Development Alliance (GDA) program.

## **5. TOURISM**

Nepal is one of the world's most popular tourist destinations. The conflict dampened tourism to Nepal though now it is rebounding. In 2007 tourism to Nepal reached levels not seen since before the conflict with half a million visitors entering the country, contributing 2-3% of GDP. This number is expected to further increase if peace and security are maintained by the new government.

The government of Nepal is actively involved in promoting tourism, recognizing its ability to bring in foreign exchange as well as employment. Tourism is recognized as a labor intensive industry which employs both skilled and unskilled workers. The Nepal Tourism Board (NTB) estimates that the average tourist spends nine to ten days in Nepal, spending roughly \$31 a day.<sup>15</sup>

Tourism as a sector can contribute in a more meaningful way to the goals of economic growth and poverty reduction. Tourism investment should be promoted for small and medium enterprises (SMEs) to boost local investment, capital formulation and value added. Through all the various value chain interventions tourism has the potential to unlock all types of economic activity from the goods and services used by each tourist, to the suppliers which serve the above, and on down. Each tourist is estimated to support about 9 jobs in Nepal through value chain interventions<sup>16</sup>.

There is scope for even greater levels of tourism. At present tourism is confined to certain areas of the country and the absorptive capacity of tourist spending in the economy is low. If the government considers tourism a priority industry, a national

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<sup>15</sup> Asian Development Bank, Policy Brief, "Building Confidence in Tourism Through Crisis Management", Nov. 2006.

<sup>16</sup> DfID, "Supporting Inclusive Economic Growth in Nepal", April 2008.

plan to promote tourism should be developed which promotes private investment in the sector in order to widen the reach of the benefits of tourism. However, attempts to spread tourism should focus on viable tourism centers rather than politically motivated investments (eg, proposed international airport in the Terai).

#### *Donor Involvement*

Donor involvement in tourism is limited. SNV, the Netherland Development Organization, provides advisory services to the sector. A UNDP funded project is in the pipeline. DfID's s Inclusive Growth Strategy also outlines some proposed interventions to promote pro-poor tourism.

#### *Scope for USAID Involvement*

- TA to develop a national plan for tourism promotion in collaboration with the private sector tourism industry;
- Support micro-enterprise and SME programs in the tourism sector;
- Support training programs for women in the tourism industry (eg, hospitality training).

## **6. PRIVATE SECTOR ENABLING ENVIROMENT AND POLICY DIALOGUE**

“To alleviate poverty, wealth has to be created. The creation of wealth is the business of the private sector. Wealth can be created by people who work for subsistence to work for commercial terms in micro-small enterprises and co-operatives. Private sector large or small has to be the engine for Nepal’s growth.<sup>17</sup>”

Economic growth is being held back by a poor enabling environment for the private sector. The main reason for this is the fragile peace and the unstable political environment. Following their April election win, the Maoist leadership announced their commitment to capitalism and their intension to implement investor-friendly business and economic policies.<sup>18</sup> Despite these assurances, extortion, life threatening attacks, and property seizures continue without any significant evidence of calls for restraint by the party leadership. The lack of public security is especially severe in the Terai, which contains the best agricultural land and most of Nepal’s manufacturing enterprises. Industrial strikes and extortion continue to be endemic, and reportedly the cause of factories shutting down in the Terai

Domestic investment is very depressed. Likewise, foreign director investment is barely a trickle, with less than \$2 per capita in 2007<sup>19</sup>. Although the GON is open

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<sup>17</sup> DFID, “Supporting Inclusive Growth in Nepal,” February 2008, p. 49.

<sup>18</sup> The Economist Intelligence Unit, “Nepal Country Report, May 2008.

<sup>19</sup> DFID, “Supporting Inclusive Growth in Nepal,” February 2008.

to foreign direct investment, implementation of its policies is often distorted by bureaucratic delays and pervasive corruption.<sup>20</sup>

The World Bank's low Doing Business Rankings for Nepal provide further evidence of the weak enabling environment for the private sector. Out of 175 countries, Nepal ranked 127<sup>th</sup> dealing with licenses, 150<sup>th</sup> employing workers, and 136<sup>th</sup> trading across borders. In the overall ranking of ease of doing business, Nepal is ranked 100<sup>th</sup>, lower than Bangladesh, which is ranked 88<sup>th</sup>.<sup>21</sup>

In view of the need for an improved enabling environment supportive of private sector growth, a government-donor economic taskforce chaired by DFID and attended by ADB, IMF, GTZ, ILO and the National Planning Commission recently identified economic policy reform as a priority for government and donor action. This recommendation included helping the private sector to identify priorities and to become an effective constituency for reform.

The private sector's Federation of National Chambers of Commerce and Industry (FNCCI) recently indicated their interest policy dialogue and reform. They are especially interested in creating an economic agenda for growth and building a national consensus in support of the agenda, including amongst the government, parliament, political parties, civil society, and donors.<sup>22</sup>

The Political and Economic Section of the US Embassy/Kathmandu has very effectively supported private sector dialogue by organizing a series of business roundtables. These have resulted in a growing consensus on the key enabling environment issues and interest upon the part of the private sector to support critical reforms.

USAID should consider playing a strongly supportive role in these policy reform initiatives by:

- Providing USAID funded technical assistance to the FNCCI and/or other appropriate public/private policy dialogue and reform institutions, including regional Chambers of Commerce and Industry and the National Planning Commission that are interested in policy and regulatory issues. The technical assistance preferably would be both long-term and short-term, and would assist with preparation of economic policy analyses and coordinate their dissemination on topics such as the role of the private sector in creating wealth and jobs in a market economy, essential reforms to ensure private sector investment and inclusive growth, trade reform for growth, etc.
- USAID staff is encouraged to remain fully engaged in the Embassy-led private sector roundtables and consider ways to provide technical assistance on private sector growth issues that may require more in-depth analyses.

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<sup>20</sup> US Embassy/Kathmandu, "Investment Climate Statement," October 2007.

<sup>21</sup> World Bank, Doing Business Survey 2007.

<sup>22</sup> Meeting with Mr. Suraj Vaidga, Senior VP, FNCCI, June 2008.

## 7. FINANCIAL SECTOR

Despite civil conflict and political upheavals, inflation has remained stable. The exchange rate peg to the Indian rupee has helped keep consumer price inflation below 8 percent since 2002. Inflation has been projected to remain around 7% this, but higher food and fuel prices are likely to cause a higher rate of inflation. Foreign exchange reserves are more than adequate and have doubled since 2002 as the deteriorating trade deficit has been more than offset by growing remittances from overseas migrants and to a lesser extent donor inflows. While the rate of reserve growth has recently slowed, reserves currently amount to \$2 billion, or 6 months of imports.<sup>23</sup>

There has been limited progress in addressing Nepal's structural weaknesses in the financial sector, including the following:

- The real exchange rate has appreciated by 20 percent over the last three years in large part driven by the decline of the U.S. dollar against the Indian rupee. With 70% of exports going to India, this may overstate the impact of the dollar decline on Nepal's export competitiveness. The IMF and the Nepal Rastra Bank (NRB) appear to be in agreement that given the current unstable political conditions, now is not the time to change the exchange regime or rate. However, if productivity continues to grow faster in India than in Nepal, a full assessment of the exchange regime will eventually need to be undertaken
- Expansionary credit policies have led to negative real interest rates, rapid and potentially unsustainable increases in stock market and real estate prices, and capital flight to India. The IMF has encouraged the monetary authorities to tighten monetary conditions, including through increased use of open market operations.
- The Nepal Rastra Bank's (NRB) supervisory capacity and regulatory compliance remain weak. The anticipated parliamentary approval the proposed Banking and Financial Institutions Act should enhance the legal framework for supervision, but much depends upon the enforcement efforts of the NRB. Efforts to collect sizeable overdue loans from willful defaulters have yielded few results, despite legal action through the Debt Recovery Tribunal. The reformed licensing policy adopted in 2007 has been undermined by the recent proliferation of banking institutions under the old licensing regime.
- Despite the expansion of banks and credit growth, access to credit by small and medium enterprises (SME) remains very limited. Banks prefer to limit their credit to loans in excess of one million rupees for clients with real estate collateral. The relatively high transactions costs of monitoring small loans, absence of a moveable property registry, and lack of credit bureau coverage for small loans largely explains the lack of SME lending. In addition, banks have had limited success in turning the large flow of remittances into bank savings accounts. The relatively high transactions costs associated with managing small remittance accounts may explain the limited success. The World Bank and IFC are reportedly addressing the SME lending issues related to the absence of a moveable property registry and the lack of coverage of

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<sup>23</sup> IMF, "Nepal—Staff Report for the 2008 Article IV Consultation," May 2008.

small loans by the credit bureau.<sup>24</sup> However, the exact nature of the Bank and IFC involvement needs to be determined.

- World Bank supported reforms of the two large public banks have been halted. Despite progress with lending on a more commercial basis, the banks are still insolvent and there is no clear political consensus on a strategy how to move forward to commercialization, much less to private management and ownership.

USAID should consider providing assistance to the financial sector including the following:

- Once the political stability is achieved, provide short-term technical assistance to assess the appropriateness of the current exchange rate peg and alternative regimes that would enhance export competitiveness. USAID economics staff and EGAT contractors have had considerable success with such analyses that are essential for export growth.
- Provide long-term and short-term technical assistance to support development of moveable property registry and credit bureau coverage of small loans if it is determined that World Bank and IFC assistance will not fully resolve these development needs;
- Consult with USAID/Philippines on their successful work lowering the transaction costs of remittances, including encouraging the use of the banking and micro-finance systems.

## **8. PUBLIC FINANCE AND DECENTRALIZATION**

Despite civil conflict and political upheavals, stable fiscal and monetary policies have sustained 3% average annual growth since 2002. Cautious public finance management has played a key role. Over the last several years domestic budget deficit financing has been held to 1-2% of GDP. Revenue growth has been robust, averaging 15% per year. Limited foreign borrowing and the depreciation of the U.S. dollar have reduced public debt to below 50% of GDP.<sup>25</sup>

Macroeconomic performance has been relatively stable, but limited progress has been made in addressing Nepal's structural weaknesses in tax and customs administration. While significant progress has been made on improving tax administration with the technical assistance of the IMF to the Large Taxpayer Office, further reforms are needed to modernize customs and the VAT.

Public enterprises, including the Nepal Oil Corporation (NOC), pursue fiscal activities requiring significant subsidies. NOC is running an annual deficit around 2% of GDP. Recognizing that this large drain on the budget is not sustainable, there is broad agreement that an automatic pricing mechanism to bring domestic petroleum prices more in line with international prices is a preferred solution.

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<sup>24</sup> Meeting with Radhesh Pant, Managing Director, Bank of Kathmandu, Ltd., July 2008.

<sup>25</sup> IMF, "Nepal—Staff Report for the 2008 Article IV Consultation," May 2008.

Despite strong revenue performance, Nepal's deficit could rise this year to 3.5% of GDP, reflecting the costs of the elections and clearance of NOC arrears. While these costs could be absorbed this year, this cannot be continued in future years without undermining stable fiscal policy.

Further improvement in revenue collection is essential to ensure the sustainability of the budget. Tax and customs revenue have averaged less than 10% of GDP in recent years, a rate which is low by developing country standards. The Secretary of the Ministry of Finance has repeatedly requested USAID technical assistance to deal with customs under-invoicing, VAT procedures to expand coverage and reduce leakages, and tax structure, systems and procedures<sup>26</sup>. Related to this last area, there also is need for reconsideration of the formula for revenue sharing to over 4,000 local governments. The formula currently includes district indicators based on the UN's Human Development Index, population, area, and a cost/accessibility index. Further, the feasibility of increased local government revenue generation needs to be evaluated.

According to the Local Government Ministry, the fiscal decentralization program has made considerable implementation progress<sup>27</sup>. The Ministry of Finance has developed a computerized accounting system to track the decentralization funds it sends to the 75 districts. The District Development Committees (DDC) prepare plans and budgets for the districts, and reviews and approves the plans and budgets of the municipalities and Village Development Committees (VDCs). Despite the absence of locally elected officials, political party and civil society representatives provide some semblance of representation of local preferences and accountability. Nevertheless, program planning and implementation remain very weak. The UNDP is providing around 50 advisors, but they are obviously overwhelmed with over 4000 local government units. Other donors, including Norway, DFID, UNICEF, UNDP, World Bank, and ADB are assisting with the design and implementation of local government and community development programs. Given the limited capacity of DDCs and VDCs, and the need for rural programs in support of poverty reduction and social inclusion, USAID could effectively support the inclusive decentralization initiative with technical assistance.

USAID should consider assistance in the following areas:

- Technical support, preferably long and short term, to the Ministry of Finance to increase tax and customs revenue, assessment of the revenue sharing formula, and determination of the feasibility of local governments raising more revenue;
- Leverage other donor efforts in support of more effective project implementations by local governments. Consider supporting labor-intensive projects managed by local governments.

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<sup>26</sup> Meeting with Mr. Rameshwor Prasad Khanal, Secretary, Ministry of Finance, June 16, 2008.

<sup>27</sup> Meeting with Mr. Ganga Datta Awastee, Joint Secretary, Local Development Ministry, June 18, 2008.

## 9. INTERNATIONAL TRADE

Nepal's earlier adoption of market-oriented reforms to accelerate economic growth recognized trade as an engine of growth. Nepal also became a member of the World Trade Organization (WTO) in 2004, joined the South Asia Free Trade Agreement (SAFTA) in 2006, became a member of the Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMSTEC) in 2006, and renewed its liberal trade agreement with India in 2007<sup>28</sup>. However, these trade reform programs have been unable to accelerate exports and reduce the trade gap.<sup>29</sup> The trade gap has increased from 11.6% of GDP in FY2002 to 17.3% in FY2007 as a result of export reductions in the first two years and slow export growth the last two years, compared to the rapid expansion of imports.<sup>30</sup> The trade gap is projected to increase to 19% in FY2009.<sup>31</sup>

The weak performance of exports can be attributed to a number of factors such as:

- Insurgency and continued unrest in the Terai;
- Increased labor disputes, widespread protests and strikes, and power outages;
- Expiration of the Multi Fiber Arrangement in 2005;
- India's liberalized-trade regime increasing competition facing imports from Nepal;
- Decline of foreign direct investment (FDI);
- Export taxes ranging from 0.5% to 8% levied on 35 products; cumbersome and ineffective refund system for VAT taxes on exports; and local government export taxes on locally produced products;
- Quality controls imposed by India on Nepal exports, including sanitary phytosanitary measures (SPS) on agricultural products and technical barriers to trade (TBT) imposed on non-food products;
- High transit costs;
- Exchange rate peg with the Indian rupee.

Nepal needs to address the constraints that it faces to increase its export capacity. Donor support is essential as the funding requirements for technical assistance and equipment are substantial. Beginning in January 2008, Nepal will receive increased assistance by the Enhanced Integrated Framework, which is supported by a large number of donors, including the United States.

Nepal needs to adopt SPS and TBT capacity measures as part of its accession to the WTO and to expand its trade with India. However, the country lacks institutional capacity and technical expertise to carry out conformity assessments for product standards and production processes. The existing laboratories are not considered capable of testing and verifying product standards due to the lack of necessary technical information, equipment, and trained staff. The EU and GTZ are providing some technical assistance in this area.

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<sup>28</sup> DFID, "Supporting Inclusive Growth in Nepal," February 2008.

<sup>29</sup> ADB and Nepal Ministry of Finance, "Tax Policy for Export Promotion," Policy Brief, June 2006.

<sup>30</sup> ADB, Quarterly Economic Update, Nepal, December 2007.

<sup>31</sup> IMF, "Nepal—Staff Report for the 2008 Article IV Consultation," May 2008.

Recommendations:

- Given the extent of the SPS and TBT problems and the potential trade benefits, USAID should consider providing technical assistance to upgrade SPS and TBT quality control capacity. USAID has considerable successful experience upgrading capacity for quality standards using EGAT contractors and USG agencies such as USDA and FDA. This effort should be coordinated with other donors through the Enhanced Integrated Framework.
- As discussed repeatedly in the press, the exchange rate peg with the Indian rupee is increasingly undermining Nepal's export competitiveness. Once political stability is restored, USAID should consider providing technical assistance to conduct an objective assessment of the current exchange regime and needed reforms. EGAT staff and contractors have successfully conducted many such analyses that led to trade enhancing reforms.

## **D. SUMMARY OF FINDINGS AND RECOMMENDATIONS**

### **1. Labor Migration and Remittances**

#### **Findings**

- FY2006/07 remittances were 14% of GDP;
- Make up single largest source of foreign exchange, more than total exports;
- High costs to migrate abroad (up to \$1,000). Higher income groups go to Gulf States, lower income to India or within Nepal.

#### **Recommendations**

- Migrant semi-skilled training, eg masons, mechanics, tailors, drivers and English language;
- Assistance to finance costs of migration;
- Financial literacy training;
- TA to strengthen regulations regarding labor recruitment agencies in order to better protect future migrants.

### **2. Youth and Training Programs**

#### **Findings**

- 300,000 new entrants into the labor market, most of whom are youth;
- Youth underemployment at 50%;
- 2/3 of female youth and 1/2 all youth are illiterate in rural areas.

#### **Recommendations**

- Labor intensive work programs;
- Vocational programs aimed at young migrants going abroad to obtain higher skilled employment;
- Literacy programs for young girls and rural youth.

### **3. Short-term Jobs Creation and Social Protection**

#### **Findings**

- Urgent need for jobs. USAID’s “Guide to Economic Growth in Post-Conflict Countries” supports employment generation to get labor and capital back to work quickly;
- Nepal’s labor law deters job growth. ILO leads reform to revise labor law;
- ILO unemployment insurance program as a form of social protection.

#### **Recommendations**

- USAID to support income generation projects;
- Link job programs to road maintenance.

### **4. Infrastructure**

#### **Findings**

- Infrastructure (roads) plays an essential role in linking urban and rural markets;
- Hydropower grossly underutilized;
- Irrigation, water, and sanitation are lacking.

#### **Recommendations**

- Labor intensive jobs program linked to infrastructure maintenance;
- BOOT method (Build, Own, Operate, Transform) - encourage GDA alliance.

### **5. Tourism**

#### **Findings**

- Tourism contributes 2-3% of GDP and is expected to increase with peace and stability;
- Tourism is labor intensive and employs both skilled and unskilled workers;
- Each tourist supports 9 jobs in Nepal.

#### **Recommendations**

- Support micro-enterprise and SME progra TA to develop a national plan for tourism promotion;
- Support micro-enterprise and SME programs in the tourism sector;
- Support training programs for women in the tourism industry (eg, hospitality training.)

### **6. Private Sector Investment and Partner Dialogue**

#### **Findings**

- Economic growth held back by poor enabling environment including unstable political environment, extortion, life threatening attacks etc;

- Doing Business rankings are low, especially for licenses, employing workers, and trading across borders;
- Donor task force and National Planning Commission have identified priority need for policy reform in support of private sector growth;
- Private sector interested in policy and reforms (FNCCI); US Embassy Pol/Econ supportive of private sector dialogue with business roundtables.

#### **Recommendations**

- USAID TA to FNCCI and/or other policy reform institutions including regional Chambers of Commerce and the National Planning Commission to build a consensus amongst government, political parties, civil society, and the private sector for an enabling environment for private sector growth;
- USAID staff should remain fully engaged in private sector roundtables and consider providing TA.

### **7. Financial Sector**

#### **Findings**

- Stable macroeconomic environment although food and fuel prices are an issue;
- Appreciating real exchange rate undermining competitiveness of exports;
- Credit to SMEs remains limited due to lack of moveable property registry and credit bureau coverage of small loans.

#### **Recommendations**

- Short term TA to assess exchange regime;
- TA to develop moveable property registry and credit bureau coverage of small loans;
- Consult with USAID/Philippines on their successful work with remittances.

### **8. Public Finance and Decentralization**

#### **Findings**

- Prudent public finance management has contained budget deficit to 1-2% of GDP, but Nepal's deficit could rise to 3.5% this year reflecting the cost of elections and NOC;
- Tax and customs revenue less than 10% of GDP;
- Political party and civil society representatives oversee local governance; however, program implementation remains very weak.

#### **Recommendations**

- TA to Ministry of Finance to increase tax and customs revenue; revise revenue sharing formula; increase local government revenues;
- TA to support more effective project implementation.

## 9. International Trade

### Findings

- Export growth stagnated as a result of (i) India's liberalized trade regime, (ii) Nepal's export taxes, (iii) quality controls imposed by India on Nepal's exports, (iv) appreciating exchange rate, etc;
- Nepal to receive increased trade assistance through the Enhanced Integrated Framework (IF) process;
- Nepal lacks institutional capacity and lacks technical expertise to adopt SPS and TBT measures required to expand trade.

### Recommendations

- TA to upgrade SPS and TBT capacity;
- TA to assess exchange rate regime.

## **SUMMARY OF PRIORITY RECOMMENDATIONS**

While there are a large number of recommendations above, the top five priority recommendations given other donor's programs, USAID's comparative advantage, and the Congressional earmark in support of increasing rural incomes are as follows:

- Vocational and skill training for poor and disadvantaged youth for local employment and migration;
- Labor intensive work programs aimed at the poor and excluded groups to provide infrastructure maintenance and other needed public works;
- Technical Assistance to FNCCI and/or other policy reform institutions including regional Chambers of Commerce and the National Planning Commission to build a consensus amongst government, political parties, civil society, and the private sector for an enabling environment for private sector growth;
- Technical Assistance to the Ministry of Finance to increase tax and customs revenue and local government revenues;
- Technical assistance to upgrade SPS and TBT quality control capacity coordinated with other donors through the Enhanced Integrated Framework.

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**ANNEX I**  
**ECONOMIC GROWTH TEAM MEETINGS IN NEPAL**

## ANNEX II: MAJOR DONOR PROGRAMS

### 1. ASIAN DEVELOPMENT BANK

#### NEPAL ONGOING PROJECTS (1 June 2008)

No.	Project Name	Project Objective/Components	Approved Amount	Approval Date	Closing Date
<b>I. Agriculture and Rural Development Sector</b>					
1.	Loan 1609-NEP: Community Groundwater Irrigation Sector Project	<p>Increased agricultural productivity and improved incomes of small farmers in 12 districts</p> <ul style="list-style-type: none"> <li>• Water user groups and water user associations formed and strengthened to enable them to participate actively in planning, designing, implementing and operating their shallow tubewells</li> <li>• Improved irrigated production methods promoted for adoption among the beneficiaries</li> <li>• Improvement of farm-to-market roads</li> <li>• Credit for shallow tubewell investments and crop production provided by the participating financial institutions to groups of beneficiaries without collateral</li> <li>• Project management unit, Department of Irrigation, Nepal Rastra Bank, Department of Agriculture, and participating financial institutions strengthened to provide effective Project management and create a sustainable shallow tubewell support system</li> </ul>	\$30.0 m	26 Feb 1998	31 July 2007
2.	Loan 1755-NEP: Crop Diversification Project	<p>Promoted production and marketing of secondary crops</p> <ul style="list-style-type: none"> <li>• Gender-balanced farmer groups effectively mobilized in the project area</li> <li>• Sustainable support services provided to gender-balanced farmer groups</li> <li>• Client-oriented research conducted</li> <li>• Project activities effectively managed</li> </ul>	\$11.0 m	09 Nov 2000	31 Dec 2007
3.	Loan 2071-NEP: Community Livestock Development Project	<p>Improved food security, nutrition, incomes and employment from livestock production and small-scale livestock-related enterprises in 48 districts</p> <ul style="list-style-type: none"> <li>• Community development and capacity building</li> <li>• Livestock productivity improvement</li> <li>• Livestock processing and marketing</li> <li>• Livelihoods pilot program for higher altitudes</li> <li>• Project Management Services</li> </ul>	\$20.0 m	19 Dec 2003	30 Jun 2010
4.	Loan 2092-NEP: Decentralized Rural Infrastructure and Livelihood Development Project	<p>Enhanced social and financial capital for poor and disadvantaged people in 18 remote districts</p> <ul style="list-style-type: none"> <li>• Community development and rural livelihood restoration</li> <li>• Capacity building and decentralized local governance strengthened</li> <li>• New and upgraded rural transport infrastructure provided using the labor-based, environmentally sound, participatory construction approach</li> </ul>	\$40.0 m	24 Sep 2004	31 Oct 2011

No.	Project Name	Project Objective/Components	Approved Amount	Approval Date	Closing Date
5.	Loan 2102-NEP: Community Managed Irrigated Agriculture Sector	Improved agriculture productivity and sustainability of existing farmer managed irrigated system (FMIS) suffering from low productivity and high incidence of poverty <ul style="list-style-type: none"> <li>• Participatory irrigated agriculture development for FMIS</li> <li>• Institutional strengthening and project management</li> </ul>	\$20.0 m	17 Nov 2004	30 Sep 2012
6.	Loan 2143-NEP: Gender Equality and Empowerment of Women	Poor rural women, including low-caste and ethnic groups, empowered economically, socially and politically <ul style="list-style-type: none"> <li>• Increased income, assets, and employment opportunities for poor rural women</li> <li>• Increased control by poor rural women over their lives through the use of law</li> <li>• Increased available time and improved opportunities for poor women to pursue both personal and community development</li> <li>• Increased capacity to mainstream gender and promote women's empowerment</li> </ul>	\$10.0 m	16 Dec 2004	30 Jun 2010
7.	Grant 0063-NEP: Commercial Agriculture Development Project	Improved efficiency of production, marketing, and processing of high value crops such as vegetables, fruits, tea, and spices, within the project area (11 districts of Eastern Development Region) <ul style="list-style-type: none"> <li>• Increased public and private investment in commercial agriculture</li> <li>• Inclusion of poor and semicommercial stakeholders in commercial agriculture</li> <li>• Timely availability of market information to farmers</li> <li>• Enhanced capacity of project partners in supporting farmers</li> </ul>	\$18.0 m	16 Nov 2006	30 Jun 2013
Subtotal			\$149.0 m		
<b>II. Education Sector</b>					
1.	Loan 1840-NEP: Teacher Education Project	Improved accessibility to quality and efficient teaching facilities and teachers inclusive of women and disadvantaged groups <ul style="list-style-type: none"> <li>• An effective and sustainable system for teacher education established</li> <li>• Effective teacher education curriculum and materials prepared</li> <li>• Teacher and management training provided</li> <li>• Teachers who can better serve the needs of disadvantaged groups and girls educated</li> </ul>	\$19.3 m	24 Sep 2001	15 Jul 2009
2.	Loan 1917-NEP: Secondary Education Support Project	Improved the quality and relevance of public secondary schooling Improve access to public secondary schooling, with a particular emphasis on girls and students from poor and disadvantaged groups and districts Develop the institutional capacity and management of central and district education institutions and public secondary schools based upon a decentralized system of planning and management <ul style="list-style-type: none"> <li>• Increased equitable access to an improved learning environment especially for girls and other disadvantaged</li> </ul>	\$30.0 m	20 Sep 2002	30 Sep 2008

No.	Project Name	Project Objective/Components	Approved Amount	Approval Date	Closing Date
		groups <ul style="list-style-type: none"> <li>• Improved and increased relevancy of curriculum, technically improved assessment and accessible instructional materials</li> <li>• Teacher education, development and management</li> <li>• Improved institutional capacity in the school sector based on decentralized planning and management</li> </ul>			
3.	Loan 2111-NEP: Skill for Employment	Increased opportunities for market-oriented short-term training <ul style="list-style-type: none"> <li>• Increase access to market-oriented short-term skills training</li> <li>• Capacity strengthening</li> <li>• Supporting policy development, articulation, and implementation</li> </ul>	\$20.0 m	25 Nov 04	31 Mar 2011
4.	Loan 2277-NEP: Education Sector Program I	Increased access to and improved quality and efficiency of basic and primary education in accordance with Education for All Increased stakeholder capacity in policy analysis, formulation, and sector-wide processes <ul style="list-style-type: none"> <li>• Support to Nepal EFA program</li> <li>• Preparation for a 1-12 school sector reform and restructuring, and improvement in EFA</li> </ul>	\$30.0 m	01 Dec 2006	31 Jan 2010
5.	Grant 0065-NEP: Education Sector Program I	Increased stakeholder capacity in policy analysis, formulation, and sector-wide planning and processes <ul style="list-style-type: none"> <li>• Education legal and regulatory framework adjusted for 1-12</li> <li>• Sector and school financing system adjusted for 1-12</li> <li>• Central and local sector operations management adjusted for 1-12</li> </ul>	\$2.0 m	01 Dec 2006	30 Jun 2010
6.	Grant 0105-NEP: Education Sector Program II	Broadly accepted and adequately financed school sector reform policy, program and financing framework <ul style="list-style-type: none"> <li>• A revised school sector reform Core Document, with an analysis of preferred policy options, and a program and financing framework</li> <li>• Capacity of stakeholders at various levels developed throughout the country in support of school sector reform</li> </ul>	\$8.0 m	24 Jan 2008	30 June 2012
Subtotal			109.3 m		
<b>III. Energy Sector</b>					
1.	Loan 1732-NEP: Rural Electrification, Transmission and Distribution Project	Expand and strengthen Nepal Electricity Authority's (NEA) distribution and transmission systems Reduce NEA transmission and distribution losses Support institutional strengthening and commercialization of NEA <ul style="list-style-type: none"> <li>• Extend distribution system in rural areas, both on-grid and off-grid</li> <li>• Reinforce distribution in existing service areas</li> <li>• Strengthen the transmission system</li> <li>• Establish computerized customer billing</li> <li>• Establish distribution district profit centers</li> </ul>	\$50.0 m	21 Dec 1999	31 Dec 2008

No.	Project Name	Project Objective/Components	Approved Amount	Approval Date	Closing Date
Subtotal			\$50.0 m		
<b>IV. Governance and Finance Sector</b>					
1.	Loan 1811-NEP: Corporate and Financial Governance	<p>Increased competition for improved financial resource mobilization and intermediation</p> <p>Reduced transaction costs to increase the effectiveness of financial intermediation</p> <p>Improved transparency as basis for sound financial sector risk analysis</p> <p>Improved corporate and sector governance with effective enforcement and dispute resolution mechanism</p> <ul style="list-style-type: none"> <li>• Adequate regulatory and supervisory framework to ensure and safeguard orderly market entry/exit mechanisms for finance institutions; includes Bankruptcy Act, Companies Act, Secured Transaction Act, Securities Exchange Commission Act, e-Commerce Act.</li> <li>• Improved corporate and capital markets</li> <li>• Improved legal enforcement capacity and infrastructure</li> <li>• Nepal Payments Association established and functioning electronic interbank settlement service</li> <li>• Detailed operational and financial diagnosis and recommendations for restructuring of Agriculture Development Bank of Nepal and Nepal Industrial Development Corporation</li> </ul>	\$7.3 m	14 Dec 2000	30 Nov 2007
2.	Grant 0059-NEP: Rural Finance Sector Development	<p>Improved soundness, efficiency, and outreach of rural finance (RF) system through policy, legal, regulatory, and institutional reforms</p> <ul style="list-style-type: none"> <li>• Procurement and installation of core banking system for ADBL</li> <li>• Consultancy services for the restructuring of ADBL and SFDB</li> <li>• Sector capacity building</li> <li>• Supportive legal and regulatory framework</li> <li>• Product and process innovations</li> </ul>	\$8.7 m	26 Oct 2006	30 Jun 2009
3.	Loan 2268-NEP: Rural Finance Sector Development Cluster Program	<p>Improved soundness, efficiency, and outreach of rural finance (RF) system through policy, legal, regulatory, and institutional reforms</p> <ul style="list-style-type: none"> <li>• Favorable policy environment for RF operations</li> <li>• Institutional restructuring and reforms at Agriculture Development Bank Limited</li> <li>• Institutional restructuring and reform at Small Farmers Development Bank</li> <li>• Institutional restructuring and reform at Grameen Bikas Banks</li> <li>• Supportive legal and regulatory framework</li> <li>• Sector capacity building</li> <li>• Product and process innovations</li> </ul>	\$56.0 m	26 Oct 2006	30 Jun 2009
Subtotal			\$72.0 m		

<b>V. Transport and Communication Sector</b>					
1.	Loan 1876-NEP: Road Network Development Project	Improved access to efficient road transportations in the project areas <ul style="list-style-type: none"> <li>• East West Highway strengthened</li> <li>• Feeder and district road upgraded</li> <li>• Feed road constructed joining a district headquarter</li> <li>• Road maintained</li> <li>• Heavy Vehicle Management Policy</li> <li>• Benefit poor households</li> </ul>	\$46.0 m	13 Dec 2001	31 Dec 2008
2.	Loan 2097-NEP: Sub-regional Transport Facilitation Project	Improved effectiveness and efficiency of trade management Upgrade governance capacity and improve transport facilities <ul style="list-style-type: none"> <li>• Institutional capacity of customs agency strengthened</li> <li>• Cargo clearance system improved throughout all major customs stations in the country</li> <li>• Civil Works</li> </ul>	\$20.0 m	04 Nov 2004	01 Jul 2010
3.	Grant 0051-NEP: Road Connectivity Sector I Project	Enhanced access to district headquarters, markets, employment opportunities, and social services including health and education Increased traffic growth rate Reduced transport cost Reduced road accident rate Improved efficiency and sustainability of Department of Roads (DOR) in planning, constructing, and managing the strategic road network Enhanced capacity of local construction and consulting services <ul style="list-style-type: none"> <li>• Road connectivity component</li> <li>• Connected district headquarters</li> <li>• Maintainable strategic road network</li> <li>• Road Safety capacity improved in DOR</li> <li>• Strengthened road safety database</li> <li>• Prevention of overloading</li> <li>• Building capacity of DOR and local contractors</li> <li>• HIV/AIDS and anti-trafficking component</li> </ul>	\$55.2 m	10 Aug 2006	30 Jun 2013
4.	Grant 0099-NEP: SASEC Information Highway Project	Agreed design for the loan project <ul style="list-style-type: none"> <li>• Investment plan to ensure robust data interchange capacity between all four SASEC members</li> <li>• Applicable peering arrangements and organizational model for operating the regional exchange and in-country gateways</li> <li>• Operational design of telecenters</li> <li>• Mandates and organizational setup of the regional research and training center, and a business model to operate it in a financially self-sustainable manner</li> <li>• Feasibility assessment for investment components</li> </ul>	\$9.0 m	17 Dec 2007	30 June 2010
5.	Grant 0106-NEP: Information and Communication Technology (ICT) Development	ICT made more accessible, affordable, inclusive, sustainable, and useful to remote and rural communities Public Services made more citizen-centered and business-friendly through ICT Improved accessibility, efficiency, and transparency in	\$25.0 m	28 Jan 2008	31 Dec 2014

Project	government service delivery with the application of ICT Enhanced ICT business and industry				
	<ul style="list-style-type: none"> <li>• Voice and broadband internet connectivity through wireless fidelity technology and telecenters in all 75 districts</li> <li>• e-government framework and data infrastructure</li> <li>• e-citizen services and applications for driver's license and land registration</li> <li>• Nationwide human resource development for e-government and ICT</li> <li>• National ICT operating policies and guidelines to ensure interoperability with online technologies of government, business, and the broader community</li> </ul>				
		Subtotal	\$155.2 m		
<b>VI. Water Supply, Sanitation and Waster Management Sector</b>					
1.	Loan 1755-NEP: Small Towns Water Supply and Sanitation Sector Project	Improved water supply, health and sanitation in 50 town subprojects benefiting 600,000 population Supported participation of local beneficiaries in all stages of the project	\$35.0 m	12 Sep 2000	30 Sep 2008
		<ul style="list-style-type: none"> <li>• 29 water supply and sanitation facilities completed</li> <li>• Public awareness campaigns and health and hygiene education increased</li> <li>• Water Users and Sanitation Committees strengthened</li> </ul>			
2.	Loan 1820-NEP: Melamchi Water Supply Project	Improved supply of potable water in Kathmandu Valley	\$120.0 m	21 Dec 2000	31 Dec 2013
		<ul style="list-style-type: none"> <li>• Raw water diverted from Melamchi Valley to Kathmandu Valley by development of infrastructure</li> <li>• 26km Melamchi diversion tunnel completed</li> <li>• 25km access roads and upgrading of 29km access roads completed</li> <li>• Social and Environmental Support provided</li> <li>• Efficient project management established and capacity building attained</li> </ul>			
3.	Loan 2008-NEP: Community Based Water Supply and Sanitation Sector Project	Improved water supply and sanitations services of rural population including poor through community-based approach	\$24.0 m	30 Sep 2003	31 Dec 2010
		<ul style="list-style-type: none"> <li>• 692 communities mobilized and capacitated</li> <li>• Community water supply and Sanitation facilities constructed</li> <li>• Improved participation of women and disadvantaged ethnic/caste groups in subproject</li> <li>• DDC capacity strengthened to provide water supply and sanitation services</li> <li>• Strengthened Department of Water Supply and Sewerage to facilitate and monitor the water supply and sanitation sector on behalf of MPPW</li> </ul>			
4.	Loan 2058-NEP: Kathmandu Valley Water Services Sector Dev. Program	Equitable distribution of program benefits, in particular targeting the poor customers Implement water sector institutional reforms to ensure a professional and commercially driven operation environment on a sustainable basis	\$5.0 m	18 Dec 2003	31 Mar 2008
5.	Loan 2059-NEP: Kathmandu Valley	<ul style="list-style-type: none"> <li>• Institutional reforms achieved efficiently operated</li> </ul>	\$10.0 m	18 Dec 2003	31 Dec 2014

	Water Services Sector Development Project	<ul style="list-style-type: none"> <li>• Water distribution and wastewater system improved by provision of capital works</li> <li>• Social and Environmental support provided in Kathmandu Valley</li> </ul>			
			Subtotal	\$194.0 m	
<b>VII. Multisector</b>					
1.	Loan 1966-NEP: Urban and Environmental Improvement Project	<p>Self-sustainable urban development, compatible with environmental improvement directly benefiting 320,000 urban residents</p> <ul style="list-style-type: none"> <li>• Increase urban management and revenue generating capacity of the municipalities</li> <li>• Improve and expand urban and environmental infrastructure</li> <li>• Improve small urban community facilities (public toilets, sports ground, recreation park etc)</li> <li>• Increase revenue generating urban facilities (Bus Park, Vegetable Market, etc)</li> <li>• Increase health awareness in the communities through community development program</li> </ul>	\$30.0 m	10 Dec 2002	31 Mar 2010
2.	Grant 0093-NEP: Rural Reconstruction & Rehabilitation Sector Dev. Program (Project)	<p>Improved connectivity, enhanced economic and employment opportunities, and increased access to market and social services of rural communities in 38 districts</p> <ul style="list-style-type: none"> <li>• Improved rural roads</li> <li>• Developed and improved community-based supplementary rural infrastructure</li> <li>• Enhanced equity, employment, and income opportunities for the poor and disadvantaged</li> <li>• Strengthened institutional capacity of MLD, DOLIDAR, DDCs, and communities</li> <li>• Improved project management</li> </ul>	\$50.0 m	12 Dec 2007	30 Jun 2012
3.	Grant 0094-NEP: Rural Reconstruction & Rehabilitation Sector Dev. Program	<p>Greater economic and social inclusion, good governance, and improved service delivery in rural infrastructure</p> <ul style="list-style-type: none"> <li>• Enhanced poverty reduction and inclusive development</li> <li>• Improved and inclusive governance and decentralization</li> <li>• Strengthened support for rural infrastructure development</li> </ul>	\$50.0 m	12 Dec 2007	31 Dec 2011
			Subtotal	\$130.0 m	

## **2. WORLD BANK (TO COME)**