



NEPAL
ECONOMIC
FORUM

nefport

Docking Nepal's Economic Analysis

DECEMBER 2013 | ISSUE 15

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EDITORIAL

We are happy to present you the fifteenth issue of nefport, which provides an overview of the events of the past quarter that has had an impact on the Nepali economy.

The elections for the Constituent Assembly was held with NC and UML winning a majority of seats and Unified CPN (Maoist), the largest party in the earlier Assembly, losing its dominance. The potential fears of violence during the polls, due to the parties boycotting the elections, were proven wrong; and 70% of the registered voters exercised their right to vote. The challenge for the new government would be to continue to look at taking steps required to foster economic development, which should run parallel with constitution writing.

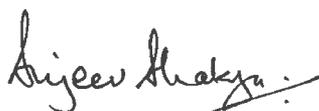
The US dollar continues to appreciate in value. We have used USD conversation rate of NPR 100.64 to a dollar, the quarterly average, for this issue.

We continue to cover the sections in the manner readers are now used to: the first section provides a general overview of the macroeconomic state of Nepal's economy. It goes into some depth within each sector and provides an overview of the key stories that have developed over the last quarter. This section also provides an outlook for the next quarter of the Nepali economy.

Like in the previous issues, the second part of nefport presents an in depth review of the financial and capital markets, where we provide a detailed analysis and assessment of the performance and figures of banks, financial institutions and capital markets. We also have an analysis of the Doing Business Index 2014, where Nepal's ranking increased to 105, moving three steps up in the last year. Nepal's favorable conditions can be attributed to positive steps in these two criteria: Starting a Business and Getting Electricity.

Nepal Economic Forum, a division of beed, is a not-for-profit organization that functions as Nepal's premier private sector led economic policy and research institution. 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
Chairperson
Nepal Economic Forum

POLITICAL OVERVIEW

After much speculation on whether or not the elections would take place, the Constituent Assembly elections were peacefully held in November. A technocrat government led by the Chief Justice and a determined Election Commission ensured that the elections happened within the stipulated time. Despite the threat by CPN (Maoist) and call for closure for ten days, citizens came out to vote to decide the future of Nepal. The successful conducting of elections sets the stage for constitution writing and defining the political discourse.

Elections 2013: More than 70% of the 12 million eligible voters cast their votes in Nepal's second Constituent Assembly (CA) election held on November 19, 2013.¹ The 601 member CA is made up of seats from First Past the Post (FPTP-240 seats) and Proportional Representation (PR-353 seats). The parties with the highest votes are Nepali Congress (105 FPTP, 91 PR) and CPN-UML (91 FPTP, 84 PR). The UCPN-M, which was the largest party in the CA in 2008, garnered the third highest number of votes. The UCPN-M boycotted the counting of votes, citing that the election has been rigged.

Economic agendas of major parties: In response to private sector's advocacy, political parties vowed to incorporate economic agenda in their election manifestos. The CPN-UML unveiled its election manifesto promising seven federal states based on multiple identities. The Nepali Congress, in their manifesto, proposed seven-Pradesh federal model

and identified multiple identity and power as bases for federal units. The UCPN (Maoist) proposed federating the country on the basis of nationality. These three largest political parties have decided to adopt the three-pillar economic model comprising of state, private sector and cooperatives in order to ensure economic prosperity in Nepal.² Some major agenda that the private sector is pushing forward is the construction of second international airport in Nijgadh of central Terai plains and upgrading airports in Pokhara and Lumbini to international airports. End of political intervention in all development sectors, including hydro power projects, fast-track road linking Kathmandu with Terai plains, and construction of the mid-hill highway, are also high on the private sector's agenda.³

Adopting a costly democracy: The Government of Nepal had allocated NPR 16 billion (USD 158 million) for election related expenses but the total election related expenses stood at NPR

THE COST OF PUBLIC HOLIDAY OR BANDH

Despite the fact that our economy is directly affected by *bandhs* (closure) or a large number of public holidays, the culture of declaring additional public holidays by the government and *bandhs* called by various political parties and other groups for their vested interest has been on the rise lately. Since Nepal is a developing economy, such closures put a significant downward pressure on the economy.

Since the declaration of Nepal as a democratic republic, the government has already added 18 public holidays out of which 3 public holidays are regional holidays. With such addition, the annual number of public holidays has risen to 41. Compared to international average public holidays that ranges from 10 to 15 public holidays a year, our holidays are way above the international average.

The Nepali private sector estimates that each day of closure costs around NPR 2 billion (USD 19.8 million) to the

economy. As the task of quantifying the daily impact of *bandhs*, and especially a public holiday, on the economy is very difficult—the business opportunity lost during the day can either be genuinely lost from the economy or spending can be deferred—therefore, taking a conservative figure of at least 50% of what the private sector has estimated, the cost of a public holiday per day is estimated to be around NPR 1 billion (USD 9.9 million).

Since the beginning of 2013, Nepal has already witnessed 14 national *bandhs* and 72 regional *bandhs*⁵ called by various interest groups. Similarly, the government declared four public holidays for the CA election; during the first CA election held in 2008, the government had declared five public holidays. With Nepal having 41 public holidays and on average more than 10 national *bandhs* during a year, this impacts the economy by a total of NPR 51 billion (USD 506 million) which is 3% of GDP per annum.

37.9 billion (USD 377 million) which, expressed in relative terms, is approximately 2.5 % of country's GDP. Half a million eligible workers stay away from their regular jobs for an extended period to help out in the election efforts. The opportunity cost of the use of such “free labor” and of media time that could have been used for non-election coverage is about NPR 5 billion (USD 50 million). The estimated expense of the United States' election in 2012, presidential and congressional combined, is at NPR 583.72 billion (USD 5.8 billion), a mere 0.036 % of GDP, or about 70 times lower than the same figure for Nepal.⁴

OUTLOOK

Given the successful elections, hopefully parties will learn from their past mistakes and focus on writing of the constitution this time around, while taking steps to promote investments and accelerate economic development. While there would be initial hiccups on the formation of the cabinet, the next quarter should witness activities that will provide positive signals to investors. It is also envisaged that bilateral and multilateral agencies will further their engagement as the government provides a sense of political stability. However, the manner in which the federal structure would be decided upon and the way in which the dissenting voices be addressed will determine whether or not a spate of closures and fresh rounds of agitation would plague Nepal. The first quarter of 2014 will decide how the next two years will shape.

INTERNATIONAL ECONOMY

“ The US economy is at partial recovery while the European economy is still barely growing. The difference lies in their focus: while the Americans are focusing on the tradable side of the economy, which has a multiplier effect that crosses the tradable/non-tradable boundary, the Europeans are dependent on domestic demand.

US economic shut down: Unable to enact legislation appropriating funds for fiscal year 2014, or a continuing resolution for the interim authorization of appropriations for fiscal year 2014, the United State federal government entered a shut down from October 1-16, 2013.

The shutdown curtailed most routine operations and economic growth rate of Unites States decreased by 0.6%, costing the US economy USD 24 billion (NPR 2.14 trillion). The yield on short term US Treasury bonds has risen, increasing US borrowing costs. Even though the US stocks are up by 18% for 2013, compared to the prior budget negotiations, the market activities have not shown any sharp improvements. The private sector remains focused on other concerns; the Federal Reserve is beginning to ease off its extraordinary efforts to prop up the US economy. But, as per the Fed, this will not happen any time soon. The Washington DC area lost an estimated USD 220 million (NPR 22.14 billion) a day while federal workers and contractors were furloughed. Overall, the federal government accounts for one-third of the region's economy.

The shutdown impacted the release of economic data, particularly important measures of job creation and prices.⁶

Vodafone sells stake to Verizon Communication: Vodafone sold its stake to America's biggest mobile phone business for USD 130 billion (NPR 13.08 trillion). This is the third biggest transaction between two companies ever recorded which involves Vodafone selling its 45% shareholding in Verizon Wireless to Verizon Communications, which owns the other 55% of Verizon Wireless. Vodafone plans to invest USD 9.66 billion (NPR 972.18 trillion) over the next three years on updating its own mobile and fixed networks and opening more high street stores. It will also use the proceeds to pay off debt to arm itself for further investments in Europe and emerging markets.⁷

Current Federal Reserve interest rates: The Federal Reserve has decided to keep its level of interest rates between 0% and 0.25% until 2015. Due to the current weak US economy, the Fed's decision to begin the process of tapering (i.e. reducing its USD 85 billion (NPR 8.55 trillion) asset purchase program) has been withheld for the time being.⁸

Despite the fact that many US stock markets are reaching record highs, the investors are advised to have a plan in place for the sharp predicted future declines in the market.⁹

Annual Meetings of the New Champions 2013 held in China: On September 11, the Annual Meeting of the New Champions, the foremost global business gathering in Asia, was conducted. Also known as the “Summer Davos”, the meeting created a unique opportunity for exchange between leaders from top-ranked multinationals and chief executive officers of dynamic and fast-growing companies, including key decision-makers from government, media, academia and civil society. It brought together more than 1,500 participants from 90 countries to share strategies and solutions and discuss global issues and risks.¹⁰

“ OUTLOOK

The devaluation on the Nepali Rupee will increase the expenditure on imports. Nepal's export may still face adversarries as the world consumption is still sluggish.

macroECONOMIC

OVERVIEW

The successful conclusion of the CA elections has resulted in some positive impacts on the country's economy. The stock market reflects the optimism in the Nepali economy; NEPSE has risen by nearly 50 points since November 19. However, there are fears of inflation owing to the fact that remittance is growing, albeit at a slower pace, and also because a huge amount of money has been spent on conducting the elections. The International Monetary Fund has also advised the government to tighten its liquidity conditions to guard against risks of rising inflation and reduce inflation expectations.

AGRICULTURE

Once again, the agriculture sector has seen positive changes in agro lending policies. Favorable lending policies that focuses on the productive sector development is expected to help achieve long term agro goals and increase productivity.

Collateral free loan for agro-based projects: The central bank has requested financial institutions to provide loans of up to NPR 1 million (USD 0.01 million) for agriculture business activities like coffee, orange, tea, livestock and dairy products without backing of any collateral on the loan. This move by the central bank will help the entrepreneurs borrow loans on the basis of viability of the business plan even if they do not have property to pledge. This provision will help financing the productive sector which is crucial for its long-term development.

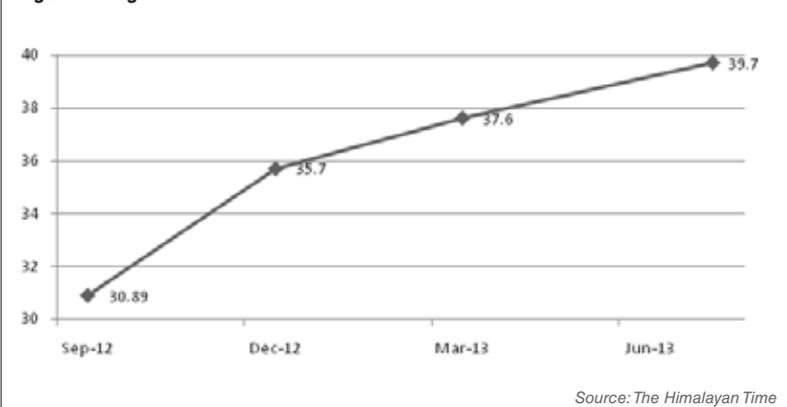
Agriculture sector lending rises: The agriculture sector received loans worth

NPR 23.3 billion (USD 231 million) from commercial banks during FY 2011-12. By FY 2012-13, the figure went up to NPR 31 billion (USD 308 million), a 33% upward jump from FY 2011-2013 (see *Figure 1: Agro loans of banks and financial institutions*).¹¹ In spite of the big leap in the lending percentage, commercial banks' loan exposure to the agriculture sector stood only at 4% of the total lending. Com-

mercial banks are required to extend at least 10% of their total loans to agriculture sector by the end of current fiscal year.

So far, Agriculture Development Bank Limited has remained the biggest lender to the sector with credit worth NPR 13.2 billion (USD 131 million) extended to projects related to agriculture and farming.

Figure 1: Agro loans of banks and financial institutions



Tea exports increase: Nepal's tea exports increased by 16.2% in FY 2011-12 compared to the export figures of FY 2010-11. According to the latest data provided by the Trade and Export Promotion Center, the country exported 10,708 tons of tea worth NPR 2.04 billion (USD 20 million) during FY 2011-12 (see Figure 2: Tea export).¹² In 2010-11, Nepal had exported 9,198 tons of tea worth NPR 1.57 billion (USD 15.6 million). Export figures of 2012-13 are due in January.

According to National Tea and Coffee Development Board, Japan, China, India, Pakistan, Germany, USA, and Bangladesh are the major consumers of Nepali tea.

Paddy output to grow by 2%: Food and Agriculture Organization (FAO) has predicted a rise in paddy production for Nepal in FY 2013-2014 mainly due to timely and ample rainfall. The FAO expects the 2013-14 paddy production in Nepal to recover by 2%, to 4.6 million tons; this rise in production is expected to compensate for the losses incurred last year. After a huge paddy harvest of

5.07 million tons in 2010-11, irregular rainfall and a shortage of fertilizers caused the output to drop by 11.3%, to 4.5 million tons in 2011-12.¹³

However, rice imported to Nepal this FY 2013-14 is anticipated to end higher, with a predicted 400,000 tons to be brought into the country. Nepal's rice import bill jumped to an alarming NPR 13.5 billion (USD 137 million) in the FY 2012-13, as the country's output failed to meet the growing rice demand. The Trade and Export Promotion Centre statistic show that the country imported 493,291 tons of rice last fiscal year, up from 398,482 tons in the previous year.

The Ministry of Agriculture Development had estimated that Nepal will face a shortage of 900,000 tons of rice this year, despite a likely surplus in total food grain reserves.

EDUCATION

With 34% of the population still illiterate, Nepal has been focusing on programs to

improve its literacy rate. According to the government, only 95.3% of school-age children have been enrolled in schools and 3.15 million Nepalese between the age of 15 and 60 are still illiterate. Despite the delay in the Literate Nepal Mission campaign launched in the previous fiscal year, the government has allocated NPR 1 billion (USD 9.94 million) to educate over 1.11 million people, aged between 15 to 60 within the FY 2014-15.

Community schools to be provided

ICT devices: The Department of Education has requested the Regional Education Directorates and District Education Offices to install Information and Communication Technology (ICT) devices in community schools across the country. The government plans to install ICT devices, such as computers, printers and internet service, in community-based secondary schools in selected areas by the end of this fiscal year (2013-14) and has allocated NPR 1 billion (USD 9.94 million) for this purpose.¹⁴

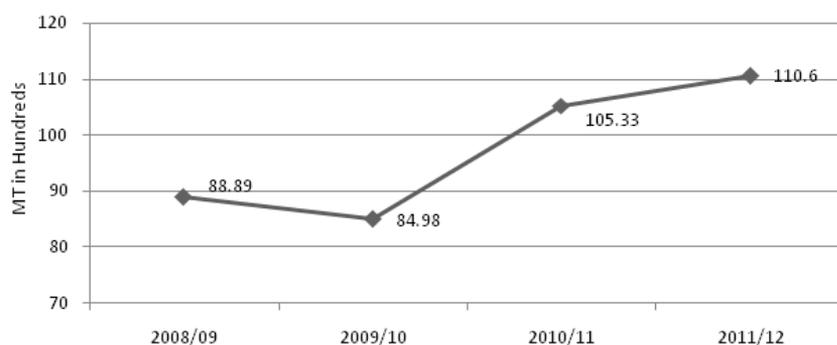
Over 100 schools to shut down in

Parsa District: Over 100 community-based primary schools in Parsa district are likely to close down. These schools have been reeling under a multitude of problems like shortage of teachers, frequent transfer of teaching staff, high student dropout rate, poor infrastructure and shortage of funds. Additionally, the locals allege that instead of serving larger sections of the society, the schools have become employment hubs for the kin of founders.¹⁵

60% students pass SLC supplementary exam:

The results published by the Office of the Controller of Examinations, Sanothimi, for the supplementary School Leaving Certificate (SLC) examinations for the academic

Figure 2: Tea export from FY 2008/09 to FY 2011/12



Source: The Himalayan Times, Fertilizer Development Policy in Nepal¹³

year 2069 indicates that the pass percentage for the year's supplementary examination was 60.1%. A total of 111,724 students appeared for the examinations, conducted from August 14-17 in 18 centers nationwide. Out of the total students who appeared in the exam, 67,051 students passed, with a majority of the students, 43.3 %, having passed in second division.¹⁶

Thirteen schools bag best schools award: The Ministry of Education, on the occasion of National Education Day, awarded 13 schools from across the country for their outstanding performance in the last academic session. The selected schools received NPR 0.2 million (USD 19.9 thousand) from the government.¹⁷

Mass communication enrolment continues to grow: Enrolment records show that during the last three and a half decades, several thousand students have admitted themselves in RR Campus, the only institution for mass communication. Academic institutions prepare students for the study of the broader field of mass communication career, while media institutions directly recruit promising undergraduates, with or without training in journalism, for their journalistic workplaces. There is a rush for direct recruitment offered by prestigious dailies, weeklies and broadcasting media in no fewer tempos than that for enrolment for university education.¹⁸

Government schools caught faking student data: A large number of public schools in Gulmi district have been found guilty of creating and submitting fake student data to the government to receive funds. Over 9000 fake students were created by these schools this fiscal year alone. According to the District

Education Office (DEO), the funds that the government schools receive under the Per Child Fund policy have been misused for personal interests. Under this policy, scholarships are provided to Dalit, impoverished and disabled students, and a budget is allocated for the purchase of textbooks based on the number of students. In an earlier instance, a team from the DEO had found over 27,000 students "missing" during a surprise monitoring. District Education Officers are very keen to seek clarification from headmasters of the schools involved in misusing budget in this manner. Strict legal actions are promised against the guilty.¹⁹

Nepal schools under infrastructural threat: According to the Nepal Society for Earthquake Technology (NSET), 12,000 school buildings need to be pulled down and rebuilt while another 48,000 buildings require retrofitting for sustainability. NSET report states that 25% of the total 80,000 school buildings cannot be considered totally safe, although they may be able to withstand major tremors in case of an earthquake. Negligence in construction and delay in maintenance due to lack of efficient technology are considered to be the major setbacks here.²⁰

Government takes initiative to reduce dropout rates: As per the 2012 report published by the Department of Education, a lack of separate toilet facilities for girls in 35% of the 29,100 government schools was a major reason for increase in dropout rates among girl students. The Ministry of Education has, therefore, decided to build 2,000 new toilets for girls in the current fiscal year. Even though the government receives sizable funds from the international community to boost

the country's education sector, public schools in Nepal still lack an efficient educational system. Despite the Nepal government allocating the largest share of the national budget for the development of this sector every year, it is yet to witness any significant progress. The private sector has held the burden of education for decades, and has saved the face of the government so far.²¹

ENERGY

As has been the case in the previous quarters, the predicaments of the energy sector still remain. The two state owned monopolies—Nepal Oil Corporation (NOC) and Nepal Electricity Authority (NEA)—continue making losses and supplying fuel and electricity not adequate to meet the demand. NOC has reported losses in the past three months with September recording the highest loss at NPR 1.68 billion (USD 16.7 million) due to the rise in crude oil prices and the appreciation of the US dollar.²²

On the other hand, NEA posted a net loss of NPR 4.56 billion (USD 45.3 million) in the FY 2012-13, despite the tariff hike last August. NEA managing director, Rameshwar Yadav, while presenting the financial report, said that the tariff revenue increased by 22.5%, bringing down the annual loss. However, the state electricity monopoly is still considered to be inefficient in controlling the leakage and recovery of outstanding dues which stand at NPR 7.94 billion (USD 78.9 billion).²³

NOC raises price of petroleum twice: NOC raised the prices of petroleum products this quarter, in order to curb the mounting losses of the state monopoly. In August, NOC raised the prices of petrol by NPR 2 (USD 0.02) per liter, diesel and kerosene by NPR 1

(USD 0.01) each per liter, and aviation fuel for domestic airlines by NPR 10 (USD 0.1) per liter;²⁴ and in September, petrol was dearer by NPR 5 (USD 0.05) per liter, diesel and kerosene by NPR 3 (USD 0.03) per liter, and aviation fuel for domestic airlines by NPR 7 (USD 0.07) per liter.²⁵ The current prices, per unit losses and overall projected loss for the month of November are provided in *Table 1*.

NOC gets a 2 billion loan, demands another 2 billion: The government, in September, approved loans to NOC worth NPR 2 billion (USD 19.8 million) and NPR 1 billion (USD 9.9 million) each from Employees Provident Fund (EPF) and Citizens Investment Trust (CIT). The total loans of NOC have now reached NPR 30 billion (USD 298 million), with the government providing NPR 12.64 billion (USD 125.6 million) out of this amount.²⁶ Nonetheless, NOC has again requested for a loan of NPR 2 billion (USD 19.8 million) from the government to pay its debt to Indian Oil Corporation. The proposal was sent to the Ministry of Commerce and Supplies, which was then forwarded to the Ministry of Finance (MOF). The MOF has reacted positively and requested EPF and CIT to extend NPR 1 billion (USD 9.9 million) each to NOC.²⁷ In the absence of a mechanism to adjust petroleum prices with the international market, the government has resorted to availing loans to ensure smooth supply.

Budget for transmission lines to be frozen: The budget allocated to the Energy Ministry for the construction of transmission lines by the Finance Ministry is now all set to freeze, thanks to lack of coordination between the two ministries. Instead of sanctioning the

Table 1: Per Unit Profit/ (Loss) on Petroleum Products as per Current Rates for the Month of November

Petroleum Product	Profit/ (Loss) in NPR	Profit/ (Loss) in USD
Petrol	7.5 per liter	0.07 per liter
Diesel	(8.9) per liter	(0.08) per liter
Kerosene	6.7 per liter	0.06 per liter
Aviation Turbine Fuel (Duty Paid)	29 per liter	0.28 per liter
Aviation Turbine Fuel (Bonded)	32.2 per liter	0.32 per liter
LP Gas	(649) per cylinder	(6.45) per cylinder
Estimated Total Loss for August 2013	(1.04 billion)	(10.3 million)

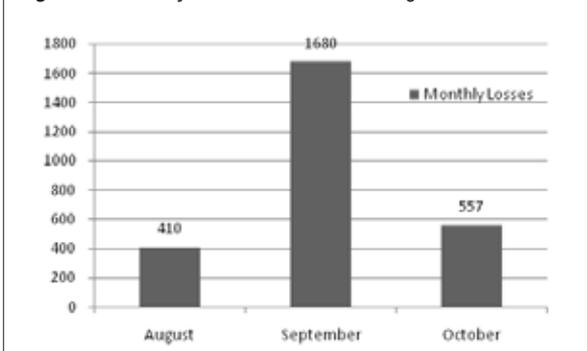
Source: Nepal Oil Corporation

Energy Ministry's demand for a budget of NPR 1 billion (USD 9.9 million) to complete land acquisition, the Finance Ministry allocated a budget of NPR 13.5 billion (USD 134.1 million) for erecting towers.²⁸ The Ministry of Energy has pointed out that without the completion of land acquisition, the process of erecting towers cannot be started. Nepal Electricity Authority has not been able to sign power purchase agreement with additional projects since the existing transmission lines are all occupied and, without the construction of new lines, the risk of generated electricity going unused is very high. The Finance Ministry has revealed it is ready to provide additional budget for land acquisition.

Electricity consumption lowest in Nepal: As per the paper on "Power Requirements in the Future Energy Scenarios of Nepal" presented at the Power Summit 2013, Nepal's per capita electricity consumption stands at 93 units, which is far below the per

capital electricity consumption of Asia which is 806 units. Experts are of the view that Nepal Electricity Authority should increase hydropower generation for substituting cooking fuel and other petroleum imports. Prof Amrit M Nakarmi submitted the paper stating that there is latent demand for electricity consumption given the increase in prices of alternatives such as LPG. Nakarmi also provided projections of electricity consumption stating that the energy demand would climb to 4,000 MW by 2020, 11,000 MW by 2030 and 31,000 MW by 2050. He projected these figures providing support

Figure 3: Monthly Loss for NOC from August to October



Source: Current Macroeconomic Situation of Nepal Series, Nepal Rastra Bank

Energy Efficiency: The Forgotten Pillar of a Sustainable Energy System

In the midst of energy shortage in the country, the economy has been struggling to meet the country's demands. Consequently, industries in Nepal have to generate electricity by themselves at triple the price during hours of load shedding which not only increases cost of production but also discourages private investment.

Energy efficiency could play an important role in overcoming the current energy crisis. Enhancing efficient use of energy will also slow down the growth of energy demand and, thus, reduce the investment costs in the generation sector. While other countries in South-Asia started energy efficiency initiatives more than 10 years ago, there is still no energy efficiency policy in place in Nepal.

The Federation of Nepalese Chambers of Commerce and Industry (FNCCI) has taken the lead to bring energy efficiency on the top agenda of Nepalese decision makers by establishing the Energy Efficiency Centre (EEC) under its roof. The center is supported by German Development Cooperation (GIZ) and provides professional energy efficiency services to the industries. It has developed technical capacity in the field of energy auditing that is the main tool for identifying energy saving opportunities in industries.

Adoption of Energy Efficiency (EE) can be taken as "grabbing the bull by the horn" approach, meaning the opportunity that arises must be seized immediately. The imperative is to consider all form of energy and discard its inefficient use immediately, thereby reducing the energy cost to the company and enhance the profitability. By implementing energy efficiency measures, companies can save up to 30% of its energy costs. A large part (30%) of savings can be achieved

Figure 4: Main three strategies for implementing energy efficiency



by simple good housekeeping measures, around 40% by process modification and another 30% by the installation of waste heat recovery.

With the support of GIZ, the EEC team has conducted a total of 21 Investment Grade Energy Audits in different Nepalese companies of food, metal, paper, chemical, hotel, cement and brick sector. The total number of 183 energy saving options were identified whereby most of them (107) are highly profitable having a payback period of investment of less than one year. It was estimated that the audited industries could save annually about NPR 520 million (USD 5.17 million) in energy cost by implementing all options.

A baseline study conducted by GIZ in eight energy-intensive industrial sectors of Nepal estimated annual saving potentials of about 160 Giga Watt hours (GWH) of electricity, which is equivalent to the consumption of 215,000 Nepali households. Approximately 8 million Giga-Joule (GJ) of thermal energy could be saved, which corresponds to 224.4 million liters of diesel to be imported. A total of 139 tons of carbon emissions could be reduced annually. Expressed in monetary terms, Nepali industries could save NPR 6 billion (USD 60.3 million) yearly by implementing energy efficiency.

Author: Susanne Bodach, Energy & Environment Expert at FNCCI-EEC

for the fact that if NEA has commercially viable hydropower projects, it should develop them as consumers will be willing to pay for it.²⁹

50 million units of electricity wasted: Nepal Electricity Authority suffered a spillover of around 50 million units in FY 2012-2013, incurring a wasted

energy worth NPR 420 million (USD 4.2 million).³⁰ The failure to extend sufficient power lines was one of the major reasons for the wastage, as energy generated from several projects was not connected to the national grid. According to the Local Dispatch Center at NEA, 14 million units of spillover worth NPR 120 million

(USD 1.2 million) have been recorded during the first month of the current fiscal year. NEA officials have estimated that the energy spill over will be around 50 MW in the current fiscal year.

Agreement not reached on Pancheswar Project: Nepal and India have been unable to reach an agreement on the

5,600 MW Pancheshwar multipurpose dam project, which was proposed 15 years ago for power and water sharing on a 50-50 basis. The two day meeting of the Nepal India Joint Technical Standing Committee, which was held after a gap of two years, discussed the establishment of a Pancheshwar Development Joint Authority to expedite the work on the venture.³¹ The panel has agreed to speed up the work on power trade, cross country transmission line, energy banking and exchanging information on a flood control mechanism.

India approves transmission line upgrade: The upgrading of transmission line in the Kataiya area has been approved by the Indian Government. NEA's transmission directorate chief Pushparaj Khadka stated that NEA would be able to import 140 MW of electricity after the completion of the transmission line upgrade. This, in turn, will ease the load shedding, limiting it to 14 hours a day during the dry season. NEA has already completed the upgrade process of the 14 km section of the transmission line on the Nepali side.³²

NEA to sign PPA in dollars: NEA has decided to sign Power Purchase Agreements (PPA) with two of the super six projects in dollars. The decision has paved the way for the NEA to sign PPA with 82 megawatts Lower Solu and 50 megawatts Mewa in USD. The sub-committee led by Laxman Prasad Agrawal had proposed paying USD 0.05 (NPR 5.1) per unit to the promoter till the loan payback period. The committee also proposed to make a 55% payment in dollars and 45% in local currency.³³

FOREIGN AID

According to the Nepal Millennium Development Goals Progress Report 2013, the country's total foreign aid utilization has increased significantly as compared to previous years alongside its share in the gross domestic product. The report indicates that the social sector continues to attract the highest foreign assistance, followed by the infrastructure sector which has been picking up speed after its steady decline during 2005-2008. The social sector started garnering interest during 2001 at the height of civil conflict in the country, which practically put a brake on infrastructure development, thereby pushing foreign assistance into the social sector. The Government of Nepal's increased interest in transport, electricity and communications is also said to be the reason behind the proportional rise in foreign aid to this sector.

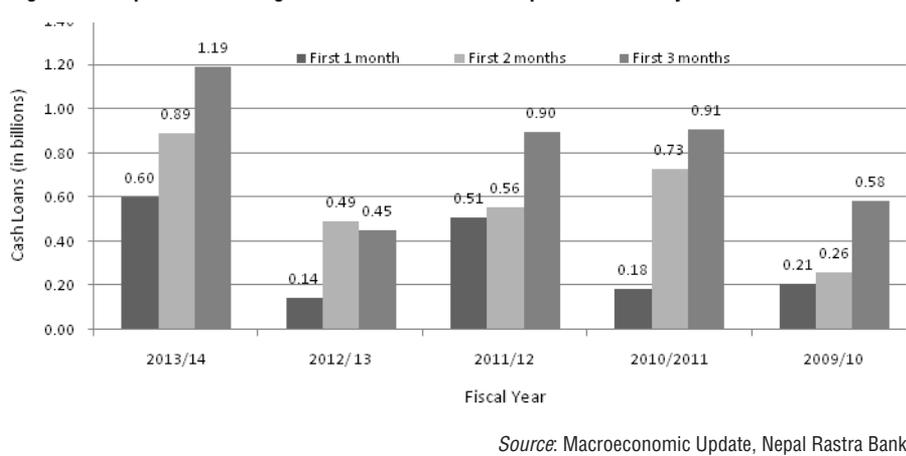
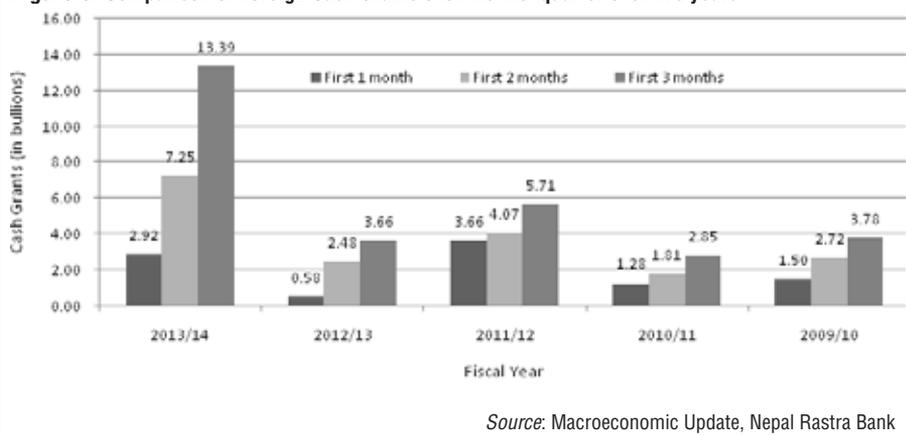
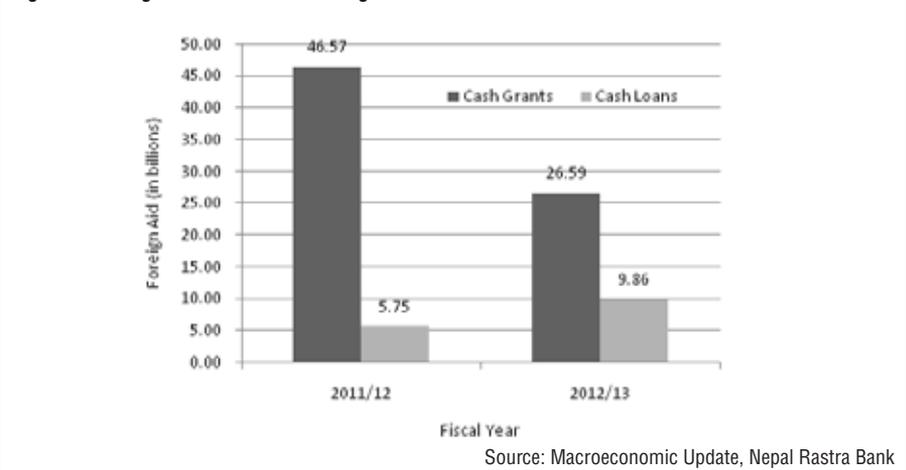
ADB promises USD 1.5 billion to Nepal under new partnership: The Asian Development Bank (ADB), under its new Country Partnership Strategy (CPS) with Nepal, has proposed to provide NPR 150.96 billion (USD 1.5 billion) in assistance to Nepal. Under its new five year strategy which anchors its assistance to Nepal over the next five years, ADB aims at integrating the country with the regional and world economy by supporting the Strategic Road Network in rural and urban areas and upgrading of key airports, completing the Melamchi Tunnels and connecting distribution systems by 2016.

The bank further aims to support the implementation of the Agriculture Development Strategy, boost private sector development by helping selected public-private partnership energy projects and improving the environment for private and foreign

direct investment, and improve urban infrastructure to support irrigation and watershed.³⁴

Development partners sign LGCDP-II MoU: For successful implementation of the second phase of Local Governance and Community Development Programme (LGCDP-II), a joint financing arrangement spanning five years has been signed between the Government of Nepal and the Governments of Norway and Switzerland, along with UNICEF, UNFPA and UN Women. The total estimated cost of the program is NPR 136.87 billion (USD 1.36 billion). As per the agreement, the Nepal government will contribute NPR 112.71 billion (USD 1.12 billion), with the development partners contributing NPR 23.75 billion (USD 236 million). The program will be executed by the Ministry of Federal Affairs and Local Development and implemented through local bodies. The program covers 75 districts, 58 municipalities and 3,915 village development committees, and will run from July 2013 to July 2017. It is expected to benefit two million households by providing community infrastructure and strengthening local governance.³⁵

ADB approves USD 23.5 million to ensure water supply: The Asian Development Bank (ADB), under one of its five components for Nepal's Strategic Program for Climate Resilience, has approved a grant of NPR 2.36 billion (USD 23.5 million) from its Strategic Climate Fund to ensure water supply to over 45,000 households during dry seasons. Additionally, the Nordic Development Fund will provide NPR 465.96 million (USD 4.63 million) and the Government of Nepal will provide NPR 195.24 million (USD 1.94 million) in complementary

Figure 5: Comparison of Foreign Cash Loans over the first quarter over five years**Figure 6: Comparison of Foreign Cash Grants over the first quarter over five years****Figure 7: Foreign Cash Grants vs. Foreign Cash Loans from FY 2011/12 to FY 2012/13**

technical assistance. The project will work in watershed management in six districts in the Far Western Development region that are dependent on agriculture but face water shortages during the dry seasons. The districts include Achham, Baitadi, Bajhang, Bajura, Dadeldhura, and Doti. The project will aim towards better water management and storage practices across 100 community subprojects, rehabilitating and protecting areas around water sources to improve their yield, meanwhile also educating these communities regarding water conservation, micro-irrigation, and methods for maintaining soil moisture in agriculture. The project will be executed by the Department of Soil and Watershed Management and is scheduled for completion in 2020.³⁶

Finland pledges NPR 1.85 billion for water supply and sanitation: The Government of Finland has agreed to provide a grant assistance of NPR 1.85 billion (USD 18.38 million) to the Government of Nepal for the implementation of the five year Rural Water Supply and Sanitation Project in Western Nepal. The project is aimed towards improving the health and socio-economic status through access to water and sanitation for inhabitants of the project area. The project will be implemented across nine districts in Mid-Western and Western Nepal with the Ministry of Federal Affairs and Local Development in charge of implementing the project at the local level.³⁷

ADB and World Bank provides USD 60 million in loans: The Government of Nepal has decided to accept a loan of NPR 6.03 billion (USD 60 million) in grants assistance from the World Bank and the Asian Development Bank (ADB). NPR 3.72 billion (USD 37

million) of the loan aid from the World Bank will be used for the Nepal-India Electricity Transmission and Trade Project (NIETTP) and whereas NPR 201.28 million (USD 2 million) of the grant aid from ADB will be injected into the Nepal Electricity Authority (NEA). The NIETTP aims to establish cross-border transmission capacity of about 1,000 MW to facilitate electricity trade between India and Nepal and to increase the supply of power in Nepal by importing at least 100MW of electricity.³⁸

Foreign aid highest at beginning of the year: A comparative study of foreign cash loans received by Nepal in the first quarter of the year over the past five years indicates that the country received NPR 1.19 billion (USD 11.82 million) in the current fiscal year 2013-14, the highest in the past five years, as can be seen in *Figure 5*. Last fiscal, the figure stood at NPR 449 million (USD 4.39 million) which indicates that cash loans have almost tripled as compared to the previous year. Similarly, foreign cash grants received in the first quarter of the year have also increased to NPR 13.39 billion (USD 133.04 million) this fiscal as compared to NPR 3.66 billion (USD 36.36 million) received in the previous year, which indicates an increase by over four times, as shown in *Figure 6*.

HEALTH

A report from World Vision indicates that Nepal is still lagging behind in the health sector despite making certain progresses. The report assesses 176 countries around the world according to the size of the gap between those who have access to good health and those who do not. With Nepal ranked at 124 in the global index for

health inequality among children, despite progress in terms of achieving the Millennium Development Goals, children in the country continue to pay the price for the gap in health with their lives.

Drugs left to rot for over a year: A large amount of life saving drugs meant for distribution in the Jajarkot district were left to rot and expire in a hotel in Surkhet for over 15 months, despite health facilities in Jajarkot often running short on basic drugs. According to reports, this incident took place owing to the negligence of the concerned district health office.⁴⁰

License exam to start for medical professional: To maintain the quality of health professionals, the Nepal Health Professionals' Council (NHPC) is aiming to start license examination for an additional 27 faculties. The NHPC was established under the Nepal health Professional Council Act 2053 to register all health professionals and bring them under one system to make services more effective, timely and scientific. The council has been issuing medical licenses to medical practitioners since 1999 based on their certificates. According to the NHPC, over 54,000 health professional have registered for licenses.⁴¹

WHO urges for elimination of lead paint use: The World Health Organization (WHO), on the occasion of International Lead Poisoning Prevention Week, has urged all countries to eliminate the use of lead paint to put an end to its adverse effects on health. According to WHO, children are the most vulnerable to lead poisoning, which can have devastating health consequences. Childhood lead exposure contribute to an estimated 600,000 new cases of children with

intellectual disabilities every year. WHO has identified lead as one of the 10 chemicals of major public health concern, with 30 countries already phasing out the use of lead paint. The Global Alliance to Eliminate Lead Paint, co-led by WHO and UNEP, has set a target of 70 countries, including Nepal, by 2015.⁴²

Cardiovascular diseases on the rise in urban areas: A study conducted by the Nepal Heart Foundation (NHF) indicates that the incidence of heart diseases in Kathmandu has risen three times over in the past 10 years. The rise in cardiac problems is said to be a result of physical inactivity which has increased by 85%, sedentary lifestyles, obesity, diabetes, hypertension and increased stress levels, all contributing towards high levels of cardiac risk. The study indicates that over 15% of the population suffers from some form of cardiovascular diseases, with the number increasing at an alarming rate.⁴³

INFRASTRUCTURE

Delay in construction of Kathmandu-Hetauda Tunnel: The much hyped 58 km four lane "Kathmandu-Hetauda Tunnel Highway" is yet to acquire approval for the designs of pavements, tunnels and bridges from the government. This delay in immediate approval of the design will push the planned construction date further away as well as make it difficult to achieve the target of completing 25% of earthwork and construction of the retaining structure and culverts by December 2013.⁴⁴

Fast Track project uncertain: Kath-

mandu-Terai fast track project is facing uncertainty as all three short-listed international developers did not submit their Request for Proposal (RFP) for the project even after the last extended deadline of September 21, 2013. As such, the government has virtually stopped the process of selecting contractors.⁴⁵

Terai Road project: The sixth meeting of the project steering committee of the “Terai Road Project-funded by the Government of India” reviewed the progress of the project with a view to expediting its implementation and to remove all constrictions. Financial assistance provided by India amounts to NPR 11 billion (USD 109.3 million). Phase I of the project covers 605 km of 19 Terai roads while Phase II of the project cost covers 845 km.⁴⁶

Delay in upgradation of Bhairahawa airport: The Gautam Buddha Airport upgradation has been delayed by two years from 2015 to 2017 due to lack of funds. On project completion, the airport will have a 3000 meter runway capable of handling international flights and wide body aircrafts. The initial study conducted during 2007/08 had estimated the total cost at USD 38.15 million (NPR 3.8 billion); however, the project cost has escalated to USD 90 million (NPR 9.05 billion) after a final design and construction survey was conducted by a Korean company.⁴⁷

Automation of ATC system by 2014: Automatic Air Traffic Control (ATC) system of international standards is currently being installed at the Tribhuvan International Airport under the Asian Development Bank project, which will be completed by 2014.⁴⁸ With the installation of automated ATC system, the ATC will overcome congestion in the VHF communication system.

IFC invest USD 3 million in Upper Trishuli-1 project: The International Finance Corporation (IFC) is, for the first time, participating as an equity partner in the development of 216 MW Upper Trishuli 1 hydro projects. IFC will inject USD 3 million (NPR 302 million) to become 15% equity partner in the project. Seventy-five per cent ownership of the project is held by a consortium of three Korean companies (Korea South East Power Company, Daelim Industrial Company and Kyeryong Construction Industrial Company), while Nepali investors and IFC hold 10% and 15% ownership in the project.⁴⁸

MANUFACTURING AND TRADE

The first three months of the fiscal year (FY) 2013-14 have not been encouraging for the manufacturing and trade sector, with the total exports from the country increasing only by a meager 11.3% as compared to a 14.9% increase during the same period in FY 2012-13. The trade deficit also continued to widen further as imports increased by 11.3% during the same period. The widening of the trade gap is hugely attributed to the country's inconsistent electricity supply to the industries and the ongoing political instability.

Exports of major exportable items bounce back: The exports of the country's major exportable items, i.e. readymade garments, woolen carpets and pashmina shawls, witnessed an impressive growth during the first three months of the FY 2013-14 as compared to the same period last year.

The exports of readymade garments to India increased to NPR 94.4 million (USD 0.93 million) from NPR 65.8

million (USD 0.65 million), an increase of 43.4%, while exports to other countries increased to NPR 1198.5 million (USD 11.91 million) from NPR 913.3 million (USD 9.07 million), an increase of 31.2% as compared to the figures of last year. Likewise, the exports of Pashmina products to other countries other than India have increased by a whopping 47.1% to NPR 720.4 million (USD 7.15 million) from NPR 489.7 million (USD 4.86 million). However, exports to India decreased to NPR 17.5 million (USD 0.17 million), a small decrease of 7.9% as compared to the same period last year.

Similarly, exports of woolen carpets also witnessed a growth during the first three months this fiscal year as compared to the fall the same period last year, with the exports rising to NPR 2162.2 million (USD 21.48 million), an increase of 24.5%. The exports were down 4.9% during the same period of FY 2012-13.⁵⁰

Exports of NTIS products rise: The exports of products identified in the Nepal Trade Integration Strategy (NTIS) 2010 have increased by 10.96% in the last fiscal year. Products listed in the NTIS exported were worth NPR 26.85 billion (USD 266.79 million) in the last FY as compared to NPR 24.19 billion (USD 240.36 million) in FY 2011-12. Amongst the NTIS list, cardamom, tea, medicinal herbs, ginger, essential oils, iron and steel products, woolen and pashmina products witnessed a rise in the exports while export figures dipped for products like lentils, noodles, natural honey, handmade paper, woolen products and silver jewelry. The products listed above accounted for 34.9% of the country's total exports. Amongst the total exports,

export of ginger witnessed a whopping growth of 162.5% to NPR 1.3 billion (USD 12.91 million) as compared to last year, followed by tea with total exports worth NPR 2.04 billion (USD 20.27 million). Iron and steel products topped the export chart with a total export of NPR 11.63 billion (USD 115.56 million), an increase of 2.8% as compared to the last fiscal year.⁵¹

Germany tops as biggest pashmina export destination: Germany has topped the list, surpassing the United States, to become the largest buyer of Nepali Pashmina products as demand for the pashmina knit wear and traditional pashmina shawls grew tremendously. The country imported pashmina products worth NPR 19.28 million (USD 0.19 million) in the first month of the current fiscal year.

United Kingdom, France, United States and Finland followed Germany in the list as they imported pashmina products worth NPR 17 million (USD 0.17 million), NPR 16.7 million (USD 0.16 million), NPR 13.4 million (USD 0.13 million) and NPR 11.7 million (USD 0.11 million) respectively. With the registration of the “Chyangra Pashmina” brand in various countries and the extended support by the International Trade Centre (ITC) to promote pashmina products, the exports of these products are forecasted to increase in the coming years. The government has provided financial assistance of NPR 4.5 million (USD 0.04 million) for the registration of trademark and it has already been registered in 41 countries. The ITC is supporting Nepal to strengthen the country’s backward and forward linkages of trade. The program will contribute towards the country’s socio-economic development through export

growth and market diversification of Chyangra Pashmina products.⁵²

Exporters urge government to lobby at WTO meet: The exporters have urged the government to continuously and strongly lobby for duty free access of Nepali readymade garments and Pashmina products to the United States during the ministerial level meeting of the World Trade Organization (WTO) scheduled to be held in Indonesia in December. The absence

of duty free access for these Nepali products has directly hit exports to the American market. As per the Trade and Export Promotion Centre, the US used to be the largest importer of Nepali garments before the Multi-Fibre agreement expired.⁵³

Government to revise cash incentive facility: The government is preparing to revise the cash incentive scheme for exportable products after much criticism from the exporters. The cash incentive

Table 2: Foreign Trade Statistics based on first quarter data of 2013-14

	2010-12	2011-13 ^R	2012-14 ^P	Percent Change	
				2012/13	2013/14
TOTAL EXPORTS	18037.4	20732.3	23070.2	14.9	11.3
To India	11572.4	12265.2	14497.2	6.0	18.2
To Other Countries	6465.0	8467.2	8573.0	31.0	1.2
TOTAL IMPORTS	100264.3	136479.5	151856.6	36.1	11.3
From India	100264.3	136479.5	151856.6	36.1	11.3
From Other Countries	36358.5	49558.4	52084.7	36.3	5.1
TOTAL TRADE BALANCE	-82226.9	-115747.2	-128786.4	40.8	11.3
With India	-52333.4	-74655.9	-85274.7	42.7	14.2
With Other Countries	-29893.5	-41091.3	-43511.7	37.5	5.9
TOTAL FOREIGN TRADE	118301.7	157211.7	174926.8	32.9	11.3
With India	75478.2	99186.3	114269.1	31.4	15.2
With Other Countries	42823.5	58025.5	60657.7	35.5	4.5

*based on customs data R=Revised / P= Provisional

Source: NRB Report - Recent Macroeconomic Situation (3 months) 2070/71

facility was simplified recently with the decision to allow a minimum of 1% and a maximum of 2% cash incentive, depending on the value addition of the product. Under the new scheme, the incentive fixed by the government for Chyangra Pashmina is 2%; for readymade garments, the incentive has been brought down to 1% from the earlier 2-3%. Calling the current cash incentive facility unsatisfactory, the pashmina industrialists and garment exporters have urged the government to revise the current facility, and called for a new system that will allow 10% cash incentive on exportable products that have the collective trademark.

Similarly, despite being one of the major exportable products, Nepali carpets have lost quality markets due to a lack of proper cash incentive and absence of a trademark. The government has fixed a cash incentive of 2% for hand-knotted carpets. The exporters have urged the government to support the registration process of a collective trademark and promote it in the international market.⁵⁴

Balance of Payment record surplus: During the first three months of the fiscal year 2013-14, the country's Balance of Payments (BOP) recorded a surplus of NPR 52.74 billion (USD 524.04 million), compared to a surplus of NPR 2.05 billion (USD 20.36 million) during the same period the previous year. The workers' remittances inflow into the country recorded a growth of 38.2% with the figure rising to NPR 135.03 billion (USD 1341.71 million) from that of NPR 97.71 billion (USD 970.88 million) the previous year.

The current account posted a surplus of NPR 40.19 billion (USD 399.34

million) in the review period in contrast to a deficit of NPR 2.94 billion (USD 29.21 million) in the same period the previous year.⁵⁵

Trade deficit surge further: During the first three months of fiscal year 2013-14, the country's trade deficit grew by 11.3% to NPR 128.78 billion (USD 1279.61 million), compared to an increase of 40.8% during the same period last year (see Table 2: Foreign Trade Statistics based on first quarter data of 2013-14). During the review period, the total exports were NPR 23.07 billion (USD 229.23 million), whereas the total imports stood at NPR 151.85 billion (USD 1508.84 million). Imports from India increased from NPR 86.92 billion (USD 863.67 million) to NPR 99.77 billion (USD 991.35 million), an increase of 14.8%, whereas the total imports from other countries increased from NPR 49.55 billion (USD 492.34 million) to NPR 52.08 billion (USD 517.48 million), a slight increase of 5.1% as compared to the same period last year.⁵⁶

A significant increase in imports of imports of, cold rolled sheet in coil, thread, fruits and raw cotton boosted the import figures from India. Likewise, imports from other countries rose mainly on account of an increase in the imports of silver, copper wire rod, scrapes and sheets, palm oil and other stationeries.

REAL ESTATE

Banks loan exposure to real estate at an all time low: Out of the total loan portfolio of banks, the loan exposure to the real estate sector declined from 17.1% to 14.9% between the last quarters of fiscal year 2012 and fiscal

year 2013. Six commercial banks had exposure to real estate in excess of 20% as opposed to 13 banks in the previous fiscal year. None of the banks have real estate exposure in excess of 25%.⁵⁷ The loan exposure of banks to the real estate stands at approximately NPR 66 billion (USD 655.8 million), a decline from NPR 100 billion (USD 993.64 million) when the sector headed to recession four years ago.⁵⁸

KMC scraps hike on land tax: The Kathmandu Metropolitan City office has scrapped its previous decision to hike land tax up to 200% in major parts of the city due to disputes over land valuation rates.⁵⁹

Migration hubs witness real estate recovery: Major migration centers such as Jhapa, Sunsari, Kaski, Rupandehi, and Chitwan has seen a slight improvement in collection of revenue from registration of land. The five migrations centers jointly collected NPR 104 million (USD 1.03 million) as land registration fee during the first month of the current fiscal year compared to the same period last fiscal year. Revenue from land registration stood at NPR 72.3 million (USD 718,402) in the first month of the last fiscal year.⁶⁰

Kathmandu valley Real estate market outlook 2013: The study conducted by Brihat Investment on the real estate sector within the Kathmandu valley reveals that currently there are 1,975 housing units and 4,307 apartment units in the valley, with residential spaces with price tags between NPR 5-10 million (USD 49,682-99,364) being in high demand. The study shows that 82% of housing and 72% of apartment projects sold had a price range of NPR 5-10 million (USD

Macroeconomic Overview

49,682–99,364). Out of the 858 housing units priced between NPR 5-10 million (USD 49,682–99,364), 702 were sold.

Similarly, 829 out of the 1,147 apartments units priced between NPR 5-10 million (USD 49,682–99,364) were sold. The average price of housing units and apartment units stand at NPR 12.3 million (USD 122,217) and NPR 9.2 million (USD 91,415) respectively.

Out of the 6,282 units of housing and apartments projects, 3,708 units were sold, which means 41% of the units are yet to be sold. The study indicates there is a higher demand for housing units; 76% of the housing projects have been sold already, whereas only 51% of apartment projects have been sold as of July 2013. A total average investment value worth NPR 64.4 billion (USD 640 million) has been invested in the real estate sector. NPR 24.25 billion (USD 241 million) and NPR 39.75 billion (USD 395 million) have been invested in housing projects and apartment projects respectively. The total investment in housing projects is 37% while 63% is in apartment projects.⁶¹

REMITTANCE

Remittance inflows to Nepal reached NPR 88.04 billion (USD 874.8 million) in the first 2 months of the fiscal year 2013-14, registering an increase of 34.7% as against an increase of 38.1% during the same period of the last fiscal year (see *Figure 8: Inflow of Worker's Remittance for First 2 Months of Past Five Fiscal Years*). In US dollar terms, remittance inflow went up by 19.6% to USD 880.6 million (NPR 88.62 billion) compared to

an increase of 13.2% in same period of the previous year.⁶² The strong dollar as against the Nepali Rupee has been the major reason for the rise in remittance.

On a monthly basis, remittances inflows declined by 3.8% in August/September of the current fiscal year compared to that of the previous month. This is due to the arrival of the festive season, which reduced the number of migrant workers resulting in the decrease in remittance inflows.

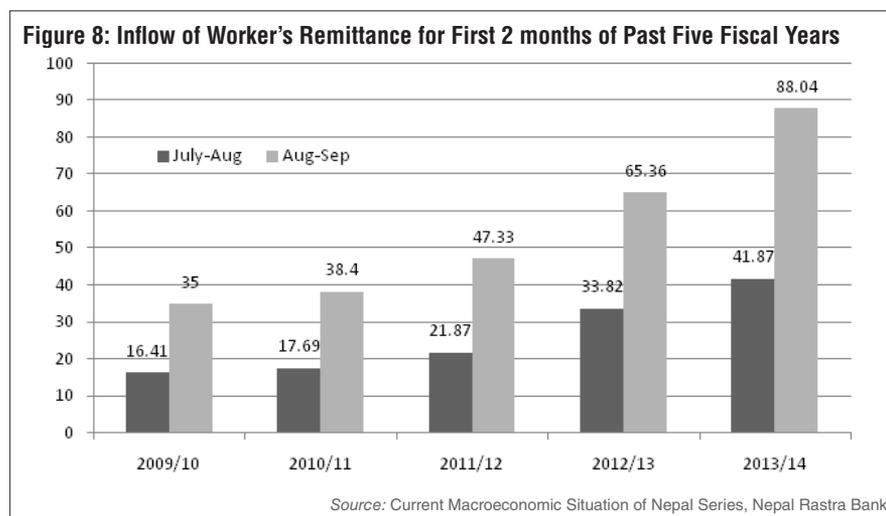
Nepal Third in Receiving Remittance:

As per the World Bank Report, Nepal ranked third in receiving the highest share of remittance worth 25% GDP in 2012 after Tajikistan and Czech Republic. The country had received NPR 434.58 billion (USD 4.35 billion) of remittance in FY 2012-13 when the estimated GDP was NPR 1.71 trillion (USD 16.9 billion). In the same year, Nepal's two closest neighbors India and China had received remittance income of USD 71 billion (NPR 7.1 trillion) and USD 60 billion (NPR 6.04 trillion) respectively which formed around

one third of the remittance income of developing countries. Further, it has been estimated that remittance income of developing countries will grow by 9% on an average annually reaching USD 540 billion (NPR 54.35 trillion) in the years to come.⁶³ Such amount had entered into the country mainly through informal channels and mainly spent on consumer goods.

Remittance spent on unproductive purposes:

The sixth global convention of Non-Resident Nepalis (NRN) revealed that inspite of massive migration from country in the last two decades, the country has not been able to benefit from the remittance, as most of this money is being spent on basic needs and fast moving consumer goods. In spite of receiving NPR 40 billion (USD 397.4 million) in remittance from migrant workers every month, the concerned bodies have not yet been able to track the area where all this money goes. Channelizing remittance through banking channels has also been emphasized, considering that much remittance come to Nepal via informal channels.⁶⁴



Government to issue Foreign Employment Bond third time around: In order to regulate the flow of remittance through formalized channels, Nepal Rastra Bank has recently made its plan to target people in foreign employment by issuing bonds worth NPR 3 billion (USD 29.8 million) yielding 10% interest to mobilize it in the productive sectors. It has thus solicited the support of Non-Residential Nepali Association to regulate the formal channel mechanism in the country so that the remittance amount is utilized towards productive sectors of the economy contributing to country's GDP.⁶⁵

Oman discards workers for construction and cleaning: Citing security reasons, Oman has brought a new provision to stop taking migrant workers for cleaning and construction work after six months. The provision is said to be a measure to regulate the labor market by discouraging illegal migrant workers who start their work with smaller construction companies and eventually move to other sectors different from the permit. Oman is one of the important labor destinations for the Nepali workers, particularly in the construction, cleaning and hotel sectors, where every year around 5,000 Nepalese go as migrant workers.⁶⁶

Foreign Employment Sector Reform: The Ministry of Labor and Employment (MOLE) has indicated a new set of guidelines to synchronize the existing irregularities in the license issuance procedure and functioning of the manpower and recruitment agencies. Earlier, several ministers and government officials were accused of being engaged in corrupt actions regarding controversial process of

Qatar 2022 World Cup

QATAR has drawn worldwide criticism after appalling scenes of exploitation and abuse of Nepali migrant workers, which amount to 'modern-day-slavery', came to light. To get the infrastructure ready for the world's most popular sporting event, the 2022 World Cup host country has been forcing thousands of Nepalis—who form the single largest group of laborers in Qatar—to work long hours in extreme heat, often without food and water, and live in unhygienic conditions. Reportedly, 44 Nepali migrant workers died over the space of nine weeks this summer, of which more than half died of heart attacks, heart failure or workplace accidents. Several death cases showed that workers had undergone operations for sensitive organs like kidneys, raising suspicions of foul play involved in their deaths.⁶⁸

The documents of investigation obtained from the Nepalese Embassy in Doha further revealed other facts such as evidence of forced labor on the World Cup infrastructure project, non-payment of salary to the Nepalese workers for months, and seizure of worker's passports by their employers. The workers had also alleged that they had been denied access to free drinking water in the desert heat and compelled to work under the brutal conditions. Over-burdened with high interest loans back home and stringent employers, the Nepalese have no choice but to stay until the Ministry of Labor makes efforts to return the bodies of migrant workers to Nepal from overseas.⁶⁹ A CNN report has quoted Suresh Man Shrestha, Secretary of the Ministry of Labor in Nepal, as saying that "from July 2012 to July 2013, 726 bodies have returned, mostly from the Middle east."

Qatar, however, defended the allegations saying that it realized the value of all human lives and the deaths in the earlier year was either as a result of neglecting safety measures or because of actions committed by the workers themselves. The country had further insisted on labor issues not being a part of its culture, and laws and policies being established and implemented to address the issue and take things in perspective. It remains to be seen if Qatar makes investments in cooling technologies for stadiums and training areas, and takes necessary actions considering the health issues of the workers.⁷⁰

license issuance. The reform provisions have been introduced with a view to keep the overall process transparent and these surround issues such as guaranteed amount for recruiting agencies and agents, educational criteria and building criteria for agents. The updated version of new guidelines is expected to resolve the existing anomalies and cover the new challenges in the foreign employment sectors by reining the manpower agencies.⁶⁷

TELECOMMUNICATION AND MEDIA

Continuing on its upward trend, the mobile subscriber base in Nepal increased from 18.93 million subscribers in July 2013 to 19.23 million subscribers by August 2013, registering a monthly growth of approximately 2%. The overall teledensity of Nepal, as on mid August 2013, reached

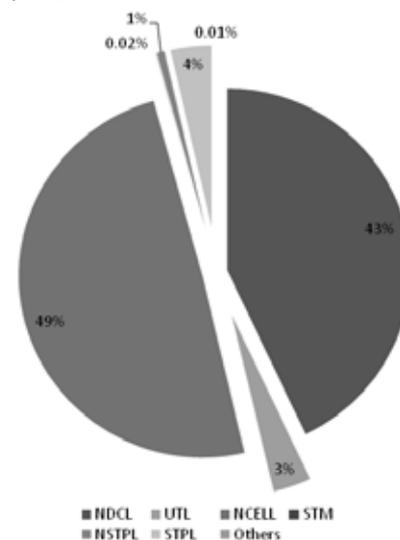
81.72%.⁷¹ With 163,054 new mobile subscribers opting for Ncell's mobile service in the month of August, the telecommunication giant's user base currently stands at 10.7 million. Following closely on Ncell's heels, Nepal Telecom added 134,436 new GSM (global system for mobile) and CDMA (code division multiple access) mobile subscribers during the same period.

Nepali telecom operators' market share: Ncell's and NT's market share stands approximately at 49% and 43% respectively. While UTL and Smart Telecom command around 3% market share each, Nepal Satellite controls only 1% (see Figure 9: Market Share of Telecom Operators). The data/internet services penetration rate has increased from 19.32% in mid-August 2012 to 26.93% in mid-August 2013 (see Figure

10: Growth Trend of Voice Telephone and Data Service Penetration).

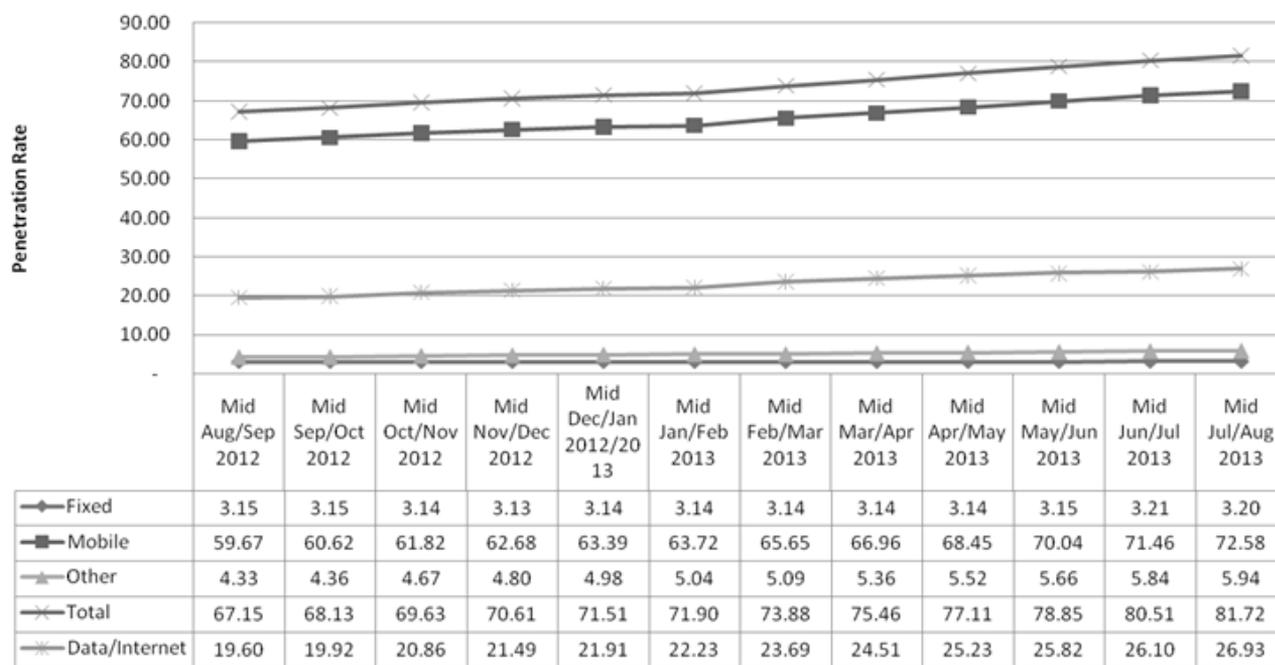
New telephone numbering plan: As per the new National Numbering Plan—currently being reviewed by Nepal Telecom Authority (NTA)—all telephone lines, including landlines, will have 10 digit numbers assigned to them. PSTN landlines and Limited Mobility (LM) phones have nine digits, including area code, at present. As per the plan, 10 digit PSTN number will start from 20, LM phone (UTL phones) will start from 24. Telephone numbers of Rural Telecommunication Services (RTS) will start from 29, fixed wireless phones will start from 22, and IP Telephony will start from 21.⁷² While mobile phone numbers will remain unchanged, they will be

Figure 9: Market Share of Telecom Operators



Source: Current Macroeconomic Situation of Nepal Series, Nepal Rastra Bank

Figure 11: Growth Trend of Voice Telephone and Data Service Penetration



Source: Nepal Telecommunications Authority "MIS report dated February 2013"

assigned a two digit operator code.

Collection of frequency fees: Under the country's new spectrum usage policy (Telecommunications Radio Frequency Distribution and Pricing Policy, 2012), the telecommunication companies operating in Nepal have jointly made advance payments of NPR 1.48 billion (USD 14.7 million) in frequency fees to the government. The largest telecom operators Nepal Telecom and Ncell paid NPR 746.4 million (USD 7.41 million) and NPR 441.7 million (USD 4.39 million) respectively.⁷³

TeliaSonera off-load stake in NST: TeliaSonera, the parent company of Ncell, announced its decision to sell back its stake in Nepal Satellite Telecom to Zhodar investment in September.⁷⁴ The Swedish and Finnish telecom conglomerate, which had acquired a 57% stake in Nepal Satellite in 2011 and 2012, cited increased legal and regulatory uncertainty around consolidation and granting of licenses in Nepal as the reason behind its decision.

NTA reviews cross holding of telecom operators: A committee has been setup by Nepal Telecom Authority to carry out a study on "cross holdings of firms in the country's telecom sector or when a company or individual holds equity in more than one licensee operating in the same service area". This comes in the wake of TeliaSonera—the parent company of Ncell—acquiring a majority stake in Nepal Satellite Telecom through its subsidiary TeliaSonera Asia Holding in 2012. Though TeliaSonera off loaded its shares, selling its indirect ownership to Zhodar Investment, the government is reviewing whether or not to allow cross holding.⁷⁵

Auction of 3G, 4G services: The government's failure to auction spectrum for third generation (3G) and fourth generation (4G) services, based on the "Telecommunication Service Radio Frequency Distribution and Pricing 2012" implemented last year, has restricted development of the sector. Based on the policy, the Ministry of Information and Communications was required to form a committee to study the international practice, pricing and auctioning procedure. However, this has not made any headway till date. According to Nepal Telecom Authority (NTA), which is responsible for implementing the policy, the spectrum policy has not been implemented effectively due to the controversies regarding the appointment of NTA chairman.⁷⁶

Cancellation of operator licenses of five ISPs: Nepal Telecom Authority (NTA) plans to revoke the licenses of Neptell Global internet service provider (ISP), Mandabi Multipurpose Society Development Centre, Samajik Nyayakalagi Sanchar Abhiyan, Pratidhwani Media and Namchhe Network. The reason cited for cancellation of licenses is attributed to operators not submitting financial reports each year declaring their income. As per NTA's rules, based on the financial report, the ISPs are required to contribute 2% of their annual income to the Rural Telecommunications Development Fund and 4% as royalty to the government.

TOURISM

A committee, led by the joint secretary at the Ministry of Tourism, has recommended changing the existing definition of tourist to "a visitor (domestic, inbound or outbound)

whose trip includes an overnight stay" as per the definition of United Nations World Tourism Organization.⁷⁷ The committee was entrusted to conduct an assessment for structural and functional restructuring of Nepal Tourism Board (NTB). Alongside, recommendations were made to make amendments in the objectives, activities, duties and rights mentioned in NTB Act 1997 along with changes in the NTB's Financial Bye-Laws 1998. An equal emphasis was given on setting up of academic qualification and experience eligibility criteria for candidates from the private sector to be eligible for the NTB Board of Directors.

Government enforces new standards for hotels: The government has enforced a new set of standards by making amendments in the Hotel, Lodge, Restaurant, Bar and Tour Operator Regulation 1981 in the Gazette. The new standards demand all star hotels to increase rooms by 20%, along with the prime requirements of having facilities such as Wi-Fi and LCD/LED TV in all rooms and CCTV in the hotel premises. The government has also made a provision for five-star hotels, such as Hyatt Regency, Soaltee Crown Plaza and Hotel Radisson that already possess necessary infrastructures to upgrade them by introducing deluxe five-star category. The criteria requires a minimum of 200 rooms, more than five food and beverage outlets with touch screen or remote Personal Digital Assistance (PDA), banquets having at least 6,000 sq. feet, spa and sauna bath, and vehicle scanning equipment among other facilities. The new standardization that has been brought into effect is deemed to uplift the quality of hotels in Nepal in line with the international standards. The new hotels are required to immediately follow it, while the existing hotels

have been given a five-year timeframe to fulfill the stated criteria.⁷⁹

New trekking route to be developed in Annapurna region: With motorable roads being connected to the existing trekking destinations in the Annapurna region, trekkers—who earlier used to spend a minimum of 10 days on this adventurous route—have started cutting the length of their stay, thus adversely impacting adventure tourism in this region. Keeping this in mind, the Trekking Agencies' Association of Nepal and Nepal Tourism Board (NTB) are jointly working on developing a new alternate trekking route from Besi Sahar, which is not yet linked with motorable roads.⁸⁰

Hotels registration up this fiscal year: The decline in tourist spending and easy registration process has accelerated the process of hotels registration in the first three months of 2013-14. A total of nine hotels were registered with the Tourism Industry Division under Ministry of Culture, Tourism and Civil Aviation. As per the recently enforced standardization criteria of hotels, the government has not yet announced any new requirements for these tourist standard hotels that have been increasing in numbers lately; however, they are subject to strict government monitoring. The simplification of registration process has been encouraging promoters of tourist standard hotels, which were already in operation without registration, to register with the division. Currently, Mid Group Holiday and Rara Pariyojana are doing internal preparations to start five-star hotels. Mid Group Holiday plans to open Sheraton Hotel in Kathmandu, while Rara Pariyojana is studying the feasibility of opening a five-star hotel near Rara Lake in Mugu. Likewise, two three-star hotels—Hotel

Galaxy and Hotel Shanti—are on the process of opening soon.⁸¹

Nepal promotes tourism in international trade fairs: Nepal Tourism Board, along with participants from the Nepalese travel trade and tourism agencies, participated in various international trade fairs—JATA Tabihaku Fair in Japan, and PATA (Pacific Asia Travel Association Mart) in China—in September 2013. The fairs gave a special platform to tour operators, travel agencies, MICE (Meetings, Incentives, Conferences, Exhibitions) tourism, hotel chains, etc., and placed emphasis on new contents in travel, services and trainings and the offerings for travelers with new trends and emerging destinations. Nepal's participation in JATA 2013 focused on garnering cooperation from all travel-trade fraternities, press and general public with the aim of enhancing sustainability and eco-friendly tourism image of the country.⁸²

PATA 2013 provided a platform for business and maximizing travel value for the global networks of highly professional companies. In the PATA board members' conference that coincided with the mart, Nepal highlighted on its new initiatives and special offers for the Chinese market by placing emphasis on leisure and incentive tours, besides the traditional notion of Nepal being an adventurous destination. With China emerging as one of the largest source market for Nepalese tourism, Nepal put forward its need to secure its share of tourism from China through mass outreach and strong destination appeal.⁸³

Nepal celebrates 34th World Tourism Day: The 34th World Tourism Day, with its theme of “Tourism and Water:

Protecting our Common Future”, was celebrated on September 27 in support of the United Nations International Year of Water Cooperation. The theme highlighted the role of tourism in water access, with emphasis on the actions being carried out in contributing to a sustainable water future. The event highlighted the significance of tourism and water on the country's economy and sustainable development for the major tourism products being linked to water resources. To mark the occasion, various clean-up programs were conducted at religious and tourism sites and rivers; a mini-street festival was organized by the Restaurant and Bar Association of Nepal - Pokhara Chapter, and several schemes and discount offers were provided on food and accommodation and on rafting packages for the tourists. Additionally, Enfield motorcycle rides on the Dharan-Kakkarbhitta, Narayanghat-Lumbini-Sunauli and Kathmandu-Kodari routes were also organized during the occasion.⁸⁴

FDI in tourism soars up: The most recent statistics on foreign investment provided by the Department of Industry revealed that the foreign direct investment (FDI) has soared by more than fourfold to NPR 3.89 billion (USD 38.65 million) in 2013 from NPR 837 million (USD 8.32 million) in 2012. The foreign investment in tourism was spread over 87 sectors of which hotels and resorts were the major recipients. The upsurge in FDI is assumed to be the result of a proposed five-star hotel project by a non-resident Nepali investor Shesh Ghale. Besides, a steady growth in the Chinese investment has also been witnessed. Though a significant rise in investment has not yet been observed in Kathmandu valley, a huge sum has

been poured upon infrastructures and towards the upgradation of hotels and restaurants elsewhere in the country. Given the competitive nature and the growing interests of potential foreign investors, the future scenario of Nepal's tourism is quite encouraging. The government has been making several efforts to attract foreign investment, particularly to promote business and corporate tourism in Nepal. The investments in travel and tourism sector in 2012, according to Travel and Tourism Economic Impact 2012 Nepal published by the World Travel and Tourism Council (WTTC), amounted to NPR 12.5 billion (USD 124.20 million), i.e. 4.1% of the total investment. Further,

it was said that the investment would rise to 8.2% in 2013. This provides an encouraging picture for the development of tourism sector towards job creation and GDP contribution in the country.⁸⁵

Non-Resident Nepalis to invest into hospitality sector: The Non-Resident Nepali Association (NRNA) is planning to establish a five star hotel in Nepal, in association with an international chain, with collective investments of the Non-Resident Nepalis (NRNs). The association has decided to invest in a five-star hotel so that the NRN community can have a direct impact on employment generation and enhance Nepal's

tourism infrastructure. The NRNs are planning to conduct a feasibility study initially and further generate collective investments from its members. Although the location of the proposed hotel is yet to be ascertained, Kathmandu, Pokhara and Lumbini are some of the locations the NRNs are considering for developing the property.

Likewise, the NRNA has continuously been lobbying for investment-friendly environment in the country. NRNA has also announced that it will start feasibility studies for potential sectors to invest in, especially in areas where large scale employment can be generated, and in infrastructure development.⁸⁶

MACROECONOMIC OUTLOOK

Despite the increase in budget towards agriculture by more than 80%, the increase still does not meet half the purposed annual budget allocation of the Agricultural Development Strategy. Although, the allocation of budget is not adequate, effective implementation of the proposed programs and projects could help Nepal achieve food security.

Nepal has been widely appreciated for its recent achievements in the education sector but it is still unlikely to meet all the literacy targets of the Millennium Development Goals by 2015. Even though the children's school enrolment campaigns across the country have been successful in the initial stages, these programs have failed when it comes to ensuring continuity to education, and thousands of children are still out of schools in various districts.

On the energy front, the demand for energy has been increasing with the rise in urbanization and industrialization. On the one hand, the scenario of hydropower is dismal and on the other the country is not ready, financially and technologically, to switch to alternative sources of energy to meet its ever increasing energy demands. If the status quo persists, NEA and NOC will have difficulties meeting the demands and continue to suffer losses. The government will have to continue extending credit as demand for petroleum products has been constantly on the rise and there is no indication of a rapid fall in petroleum prices in the international market.

Despite the huge foreign aid received by the country, the government has failed to adequately utilize the funds with the country spending only up to 70% of the budget allocated under foreign aid. Additionally, despite the Government of Nepal urging development partners to extend financial support under the budgetary system, 23% of total foreign assistance is still out of the budgetary system which continues to hamper the government's efforts to maintain transparency in foreign assistance and improving its utilization.

The housing and apartment market has leveled out with Nepal Rastra Bank imposing a 25% cap on lending to the realty sector. As per the Kathmandu Valley Real Estate Market Outlook 2013, the average price of a housing unit and an apartment unit stand at NPR 12.3 million (USD 122,217) and NPR 9.2 million (USD 91,414) respectively, which is still beyond the reach of most Nepalese. The existing demand and price is fuelled by easy bank credits and lowered bank interest on home loans, which currently stands at approximately 10%. The prices of housing units and apartment units are still unreasonable even after a 30% reduction from its peak level during 2010. A further correction is required to ensure increase in demand for residential properties.

With the country witnessing a negligible increase in its exports and a

huge rise in its imports, it is time the government focused on proper implementation of plans and programs for the promotion of export based industries, and give the ailing sector a much needed boost. It also urgently needs to address the causes crippling the production capacity of industries, i.e. ineffective policies and the perennial labor disputes, to boost exports and minimize the ever-ballooning trade deficit.

Remittance, over the years, has become one of the key pillars of Nepal's economy, contributing significant amounts to the national GDP. In the lack of employment opportunities in the country, it is hard to undermine the contribution of remittance inflows towards economic growth and strengthening balance of payments. However, since only a mere 2.4% is used for capital formation, remittance amounts are not put to productive purposes. Another problem arising out of foreign employment is the lack of labor for agricultural purposes in the villages. Nonetheless, given the state of Nepal's economy, labor migration cannot be stopped completely. However, the government should create opportunities in Nepal in order to reduce this number and also devise ways of using the remittance inflows productively.

In regard to the telecommunication sector of Nepal, its growth and development received a major setback with the government's inability to auction 3G, 4G services. However, the introduction of National Numbering Plan (NNP) will allow for new operators to get operator codes for mobile services in a standardized way. It is estimated that on full implementation of the NNP, there will be a capacity for over 200 million potential users. This will guarantee that the country will not run out of phone numbers for the next 30 years.

Nepal does not have laws that prevent cross-holding and mergers in the telecom sector. The committee established by Nepal Telecom Authority should study international practices and existing laws and accordingly recommendations should be made. However, to introduce a policy on cross-holding, the Telecommunication Act and the Company Act will need to be amended to implement the policy.

With the total contribution of the tourism industry to the national gross domestic product being around 4.3% in 2012 and the sector earning around NPR 67.2 billion (USD 667.72 million), the government has targeted to increase the contribution of the industry to NPR 112.3 billion (USD 1.11 billion) by 2023. The government aims to double the earnings by focusing on the aviation sector and the overall development of the tourism sector. Similarly, during FY 2012-13, Foreign Direct Investments in the tourism sector soared to NPR 3.89 billion (USD 38.65 million) from NPR 837 million (USD 8.32 million) in the previous year. The foreign investments in the tourism sector were spread across 87 sectors.

The background features a large, light gray, stylized letter 'R' on the left side. A trail of small, light gray dots starts from the top left and curves downwards and to the right, ending near the bottom right corner. The word 'REVIEW' is printed in a thin, black, sans-serif font, positioned horizontally across the middle of the page, overlapping the right side of the 'R' and the trail of dots.

REVIEW

REVIEW

Financial Markets

Trends in deposit, credit and liquidity

The deposit mobilization of Banks and Financial Institutions (BFIs) at the end of the first quarter of the current FY 2013-14 demonstrates better deposit growth rate as compared with the same period of the previous fiscal year.

As per the report published by Nepal Rastra Bank (NRB), the deposit mobilization of BFIs increased by 4.2%, i.e. NPR 49.64 billion (USD 493 million), as compared to a growth of 2.5%—NPR 24.97 billion (USD 248 million)—during the same period last fiscal year. During the review period, deposit mobilization of commercial banks, development banks and finance companies increased by 3.9%, 4.8% and 3.3% respectively as compared to a growth of 1.7%, 4.8% and 3.4% respectively during the same period last fiscal year. Despite the lower interest rates offered by the commercial banks, its deposit grew by 3.9% as compared to a meager growth of 1.7% during the same period last fiscal year.

Similarly, during the review period, the banking credit grew only by 2.7%—NPR 31.11 billion (USD 309 million)—as compared to a growth of 5.4%—NPR 51.79 billion (USD 514 million)—during the same period in the previous fiscal year. Amongst the BFIs, developments banks saw the highest

growth of credit mobilization by 3.6%, followed by 2.3% in commercial banks and 2.2% in finance companies.

The Central Bank mopped up net liquidity equivalent to NPR 43.50 billion (USD 432 million) via open market operations during the review period. The central bank purchased Indian Currency (IC) equivalent to NPR 81.54 billion (USD 810.2million) by selling USD 820 million (NPR 82.5 billion) in the Indian money market.

KEY CIRCULARS

The following are some of the key circulars issued by the central bank during the review period and its analysis:

Spread Rate: A provision had been made to bring the average spread rate between credit and deposit of BFIs to 5%. BFIs with spread rate above 5% will have to bring its spread rate below the stipulated requirement by the end

of current FY 2013-14. Spread rate is the difference between average interest rate of deposit and credit.

The new provision for spread rate is expected to affect profitability of BFIs who are less efficient. Such a provision can expect to slash both deposit and lending rates in near future. Meanwhile, 'B' class development banks and 'C' class financial institutions have urged the central bank to widen the spread rate for them due to their limitations in conducting business as compared to the 'A' class commercial banks.

Paid-up Capital: The central bank has given an additional one year for BFIs to increase their paid-up capital to meet the stipulated capital requirement set by the bank; the BFIs will now have to increase their paid-up capital by the end of current fiscal year 2013-14. The central bank's decision came at a time where most of BFIs were in no position to increase their paid-up capital via its profits or additional equity from its shareholders via right shares issuance.

The additional time provided by the central bank is expected to provide some extra time for BFIs who have limited resources and can opt for consolidation. The central bank requires commercial banks to increase its paid-up capital to NPR 2 billion (USD 19.8 million), NPR 640 million (USD 6.3 million) for national level development banks, NPR 100 million (USD 993 thousand) for regional level development banks and NPR 200 million (USD 1.98 million) for finance companies.

Institutional deposit: A provision of maintaining institutional deposits below 60% of the total deposits for commercial banks has been introduced by the central bank. This provision may positively impact those commercial banks by enhancing their total deposit growth and discouraging over dependence on institutional deposits; moreover, such provision is expected to eliminate unnecessary liquidity risk in the banking system arising from such deposits.

Branch expansion: The central bank has added an additional provision to open a branch in Kathmandu Valley. Now onwards, BFIs will be able to open a new branch in Kathmandu valley only after opening three branches outside the valley. Earlier, the banks had to open two branches outside the valley to do so. Moreover, within the three branches, one branch has to be within 14 identified remote districts and one branch has to be at least in a VDC or non-headquarter or

municipality area. The new provision is expected to control the oversupply of banking services in urban areas and also motivate BFIs to consolidate.

Productive sector lending: In a bid to increase investments into the productive sector, the central bank has directed BFIS to increase their lending to the agriculture, energy, tourism, small and cottage industries sector. The central bank has directed commercial banks to increase its investment into these sectors to 20% of the total loan portfolio by mid-July 2015. Moreover, a minimum of 12% of the loan portfolio should be invested in agriculture and energy sector alone. Likewise, the central bank has directed development banks and finance companies to prepare annual action plan to increase their loan portfolio to the productive sector to 15% and 10% respectively by the end of mid-July 2016. The directive is expected to increase much needed investments into these productive sectors. Meanwhile, it will be a daunting task for development banks and finance companies with their limited network and capacity to lend at minimal rates to these sectors.

FINANCIAL STABILITY REPORT

NRB has recently published the second issue of the Financial Stability Report, and the assessment is based on the data as of mid-January 2013. The

report outlines NRB's assessment of risks and threats that could jeopardize financial stability in the country and the capacity of the system to withstand potential shocks. It also reports the regulatory and supervisory developments, including the measures undertaken by the central bank to ensure financial stability. The report aims to promote greater understanding among various stakeholders of the financial system on issues affecting financial stability.

According to the report, the stress test (a risk management tool used to evaluate the potential impact on a bank of a specific event and/or movement in a set of financial variables) results of commercial banks as of mid-January 2013 on credit, liquidity and market shocks reveal banks' ability to withstand high shocks.

- **Credit Shock:** Among the 32 existing commercial banks, a standard credit shock would push the capital adequacy ratio of 28 banks below the regulatory minimum requirement of 10%. Earlier, this number stood at only 22 (as on mid-July 2012). Standard credit shock has been defined as 15% of performing loans deteriorating to substandard, 15% of substandard loans deteriorating to doubtful, and 25% of doubtful loans deteriorating to loss and 5% of performing loan deteriorating to loss. The numbers signifies that the credit quality of banks has not improved during the review period and the

commercial banks are likely to have a difficult situation in the future in case of slowdown in recovery, downgrade of loans and increment in provisioning for bad loans.

- **Liquidity Shock:** Sustained deposit withdrawals over five consecutive days would render 19 banks illiquid, which was only 5 in Mid-July 2012. Standard withdrawal shock is the withdrawal of customer deposits by 2% and 5% in the first two days and 10% each in the following three consecutive days. The liquidity shock indicates that the liquidity position of commercial banks has been deteriorating since mid-July 2012 despite the acute liquidity in the banking system.
- **Market Shock:** All the commercial banks' (excluding two state owned banks) Capital Adequacy Ratio (CAR) was above the regulatory requirement when calibrated through interest rate, exchange rate and equity price shocks. As per the report, the banks do not bear interest rate risks as these risks are passed on directly to their clients, i.e. depositors and borrowers; therefore, the banks are found to be less affected by the interest rate shock.

COMMERCIAL BANK PERFORMANCE ANALYSIS

As per the published unaudited data for the first quarter of the current fiscal year, of the 31 commercial banks, 18 banks saw their net profit increase;

however, 10 banks saw their operating profit decrease as compared to the same quarter in the previous fiscal year. During the period, the operating profit margin of commercial banks grew by 43.2%, whereas the net profit margin grew by 47.3%. These banks have been able to increase operating profit primarily due to a decrease in the overall cost of fund. At the end of the first quarter, the average cost of fund of banks stood at 5.94%, which

was at 6.41% during the same period last year. However, the average Non Performing Loans (NPL) of commercial banks increased during the quarter to 2.49% which was at 2.28% during the same period of the previous FY. Likewise, the average base rate of commercial banks stood at 9.24%, the highest being 11.07% of Civil Bank and the lowest being 6.37% of Rastriya Banjiya Bank.

OUTLOOK

The banking system is currently flush with excess liquidity, largely due to lower credit demand rather than increased volume of deposits amidst higher inward remittances and growing foreign exchange reserves. With excess liquidity, the yield on short term investment instruments have also fallen sharply which has exhausted direct pressure on BFIs to mobilize the excess loanable fund as these surplus funds have been able to yield only a meager return. While NRB has issued reverse repo worth NPR 40 billion (USD 397.4 million) to control the excess money supply and provide some relief to BFIs, such short term money supply control measures have failed to achieve desired results. Therefore, the central bank should work on introducing a mechanism such as 'interest rate corridor' to ensure interest rates on short term investments are not excessively volatile which creates unnecessary uncertainty.

Even though the average cost of fund of commercial banks has decreased over the period and the average base rate of commercial banks stood at 9.24% at the end of first quarter of current fiscal year, the

banks, on an average, have not been able to decrease the long term lending rates as expected. The rates on deposits and lending can be expected to continue with the current trend if BFIs are able to manage its deposits on short term basis. However, such practice can affect the banks' capacity to finance long term project financing. Moreover, the banking system is expected to see a surge in demand for credit only after the completion of Constituent Assembly (CA) election, as the borrowers are skeptical about the political environment for conducting business. Therefore, the future course of economy can be largely affected by the CA elections.

The banking consolidation is expected to expedite only after the second quarter of the current fiscal year. Vibor and Kist Bank have called off their merger process while Global IME Bank and Commerz and Trust Bank have signed a Memorandum of Understanding (MOU) to initiate a merger process between them. With additional provisions for network expansion in place, the banking consolidation can be expected to expedite further.

TABLE 3: FIRST QUARTER RESULTS OF COMMERCIAL BANKS-UNAUDITED FY 2013-14 (FIGURES IN NPR IN TEN MILLION)

Bank	Reserve & Surplus		DEPOSIT			LOANS AND ADVANCES			OPERATING PROFIT			NET PROFIT			NPL (%)			COST OF FUND (LCY)			BASE RATE %
	Paid-up Capital	Reserve & Surplus	FY 12/13	FY 13/14	% Change	FY 12/13	FY 13/14	% Change	FY 12/13	FY 13/14	% Change	FY 12/13	FY 13/14	% Change	FY 12/13	FY 13/14	% Change	FY 12/13	FY 13/14	% Change	FY 13/14
			4 QTR	1 QTR		4 QTR	1 QTR		1 QTR	1 QTR		1 QTR	1 QTR		1 QTR	1 QTR		1 QTR	1 QTR		1 QTR
Nabil Bank	243.7	453.6	5,759.8	6,351.8	10.3	4,510.0	4,764.6	5.6	266.3	303.1	13.8	170.0	223.2	31.2	2.33	2.13	-2.49	6.85	4.36	-2.49	7.04
Nepal Investment	376.8	427.6	5,852.5	6,242.8	6.7	4,692.9	4,770.0	1.6	135.7	226.6	67.0	103.9	199.2	91.6	3.32	1.91	-2.37	7.81	5.44	-2.37	9.16
Standard Chartered	185.4	350.5	3,825.5	3,946.6	3.2	2,157.4	2,313.8	7.3	169.4	186.2	9.9	116.9	121.8	4.2	0.78	0.77	-1.09	3.44	2.35	-1.09	6.34
Himalayan Bank	276.0	289.6	4,791.6	5,307.2	10.8	4,018.0	4,105.7	2.2	151.6	132.4	-12.6	95.9	102.4	6.8	2.09	2.19	-2.13	6.94	4.81	-2.13	9.01
Nepal SBI Bank	235.6	161.8	5,366.7	5,892.0	9.8	2,855.0	2,878.8	0.8	67.4	117.5	74.4	48.0	77.6	61.6	0.54	0.37	-1.05	5.49	4.44	-1.05	9.86
Nepal Bangladesh	200.9	153.5	1,470.8	1,784.5	21.3	1,281.4	1,313.8	2.5	36.9	56.1	52.2	80.9	59.1	-27.0	4.29	3.14	-1.90	7.29	5.39	-1.90	10.65
Everest Bank	176.1	387.5	5,129.3	5,772.0	12.5	4,185.4	4,419.7	5.6	153.8	230.3	49.7	109.1	147.1	34.9	0.84	0.62	-2.13	6.66	4.53	-2.13	7.16
Bank of Kathmandu	168.4	163.3	2,415.3	2,770.1	14.7	2,162.6	2,304.9	6.6	88.3	89.0	0.8	60.8	61.7	1.5	2.30	1.50	-1.79	7.00	5.21	-1.79	8.75
NCC Bank	147.0	82.4	1,853.5	2,165.0	16.8	1,591.5	1,601.3	0.6	12.7	46.0	261.0	17.8	37.1	108.8	2.73	2.60	-1.92	8.50	6.58	-1.92	9.91
NIC Asia Bank	231.2	254.5	2,336.2	3,990.9	70.8	1,881.8	3,156.0	67.7	61.5	93.7	52.3	39.2	62.0	58.3	0.73	2.32	-1.99	8.87	6.88	-1.99	9.59
Lumbini Bank	160.2	58.1	966.0	1,081.7	12.0	898.2	917.5	2.1	22.4	21.1	-5.9	19.3	15.0	-22.7	0.47	0.86	-2.72	9.24	6.52	-2.72	10.40
Machhapuchhre	247.9	31.7	2,474.0	2,713.8	9.7	2,006.9	2,164.8	7.9	10.9	13.5	24.6	3.8	14.8	287.4	2.84	2.83	-3.26	9.84	6.58	-3.26	10.26
Kumari Bank	160.4	106.4	2,392.4	2,531.9	5.8	1,976.2	2,011.9	1.8	42.9	46.4	8.1	27.6	29.2	5.8	2.21	2.91	-1.82	8.43	6.61	-1.82	10.36
Laxmi Bank	169.4	105.7	2,420.8	2,596.1	7.2	1,915.0	2,010.0	5.0	55.4	68.3	23.3	35.6	45.9	28.9	0.62	1.26	-1.40	8.02	6.62	-1.40	10.12
Siddhartha Bank	161.9	105.4	2,723.2	2,839.2	4.3	2,221.0	2,311.1	4.1	51.0	79.3	55.4	33.0	49.0	48.4	1.52	2.31	-2.54	8.88	6.34	-2.54	10.25
Global IME Bank	241.8	93.1	3,033.5	3,411.1	12.4	2,490.7	2,699.2	8.4	32.1	73.3	128.5	26.5	55.2	108.2	1.54	1.64	-1.86	8.50	6.64	-1.86	9.98
Citizens Bank	210.2	56.7	2,142.1	2,272.5	6.1	1,806.4	1,794.1	-0.7	26.5	58.1	119.0	22.5	40.0	77.8	2.01	2.02	-1.02	7.74	6.72	-1.02	9.72
Prime Commercial	234.0	73.0	2,567.0	2,881.4	12.2	2,139.2	2,121.6	-0.8	40.9	66.7	62.9	26.9	48.0	78.1	0.76	2.23	-2.62	9.61	6.99	-2.62	10.08
Sunrise Bank	201.5	45.5	2,217.1	2,327.1	5.0	1,779.0	1,773.1	-0.3	0.5	34.4	6,641.2	11.2	31.9	185.2	3.52	3.74	-2.85	9.34	6.49	-2.85	10.29
Grand Bank	200.0	36.1	1,648.2	1,932.2	17.2	1,403.6	1,452.6	3.5	20.7	26.9	30.1	18.3	20.1	9.7	1.28	3.52	-1.50	8.93	7.43	-1.50	10.31
NMB Bank	200.0	62.4	1,964.1	2,218.5	13.0	1,589.4	1,649.1	3.8	6.0	47.9	698.7	5.5	36.0	550.4	2.45	1.80	-2.88	9.02	6.14	-2.88	9.55
KIST Bank	200.0	15.4	2,102.0	2,109.3	0.3	1,713.0	1,682.6	-1.8	11.4	-7.4	-164.9	10.0	-8.9	-189.2	3.94	6.59	-1.96	8.41	6.45	-1.96	10.09
Janata Bank	200.0	25.8	1,200.8	1,354.6	12.8	1,111.5	1,207.6	8.6	9.2	19.8	114.1	5.7	19.7	244.3	0.00	0.23	-2.29	9.30	7.01	-2.29	10.95
Mega Bank	233.0	33.2	1,284.2	1,253.3	-2.4	1,161.9	1,146.3	-1.3	11.3	27.9	147.6	7.2	17.7	146.9	0.49	2.27	-3.00	8.49	5.49	-3.00	10.33
Commerz & Trust	200.0	9.7	896.3	996.1	11.1	847.0	903.1	6.6	0.8	9.2	1,065.8	1.5	5.9	288.1	0.00	1.33	-1.82	9.54	7.72	-1.82	11.91
Civil Bank	200.0	15.3	1,153.6	1,563.3	35.5	1,053.6	1,236.7	17.4	9.0	18.1	102.0	2.7	12.1	345.6	0.00	0.50	-2.47	10.52	8.05	-2.47	12.07
Century Bank	108.0	14.3	935.5	1,139.6	21.8	821.4	908.7	10.6	0.3	10.3	3,115.6	0.3	6.8	2,231.0	0.00	0.49	-3.00	10.44	7.44	-3.00	11.45
Sanima Bank	201.6	41.9	1,617.8	1,778.3	9.9	1,420.2	1,509.3	6.3	19.0	45.9	141.8	12.2	30.5	150.5	0.48	0.30	-2.67	9.91	7.24	-2.67	10.04
Public Sector Banks																					
Nepal Bank	396.6	-377.7	6,298.8	6,303.5	0.1	3,785.5	3,713.0	-1.9	-6.9	-4.8	-31.2	2.8	2.1	-24.4	5.85	4.72	0.28	4.11	4.39	0.28	9.04
Rastriya Baniya Bank	858.9	-684.7	9,109.7	9,278.2	1.8	4,904.4	4,865.6	-0.8	8.6	18.4	114.6	20.1	25.9	29.1	6.96	5.55	-0.68	3.79	3.11	-0.68	6.37
Agriculture Dev. Bank	963.6	604.8	5,439.7	6,068.6	11.6	4,977.0	5,072.4	1.9	11.4	10.0	85.7	22.3	23.7	6.4	5.88	5.57	-0.99	6.28	5.29	-0.99	9.51
Total	7,965.2	3,130.2	91,546.3	102,071.1	11.5	70,404.9	74,794.6	6.2	1,485.0	2,389.7	60.9	1,432.4	2,016.6	40.8	2.13	2.31	-2.05	8.05	6.00	-2.05	9.82

REVIEW

Capital Markets

SECONDARY MARKET PERFORMANCE

Political development, excess liquidity in the banking system, better than expected first quarterly financial results of key listed companies, and improving confidence of investors have helped the Nepal Stock Exchange (NEPSE) Index gain 82.15 points to close just above 600 points at the end of first four months of the current fiscal year 2013-13. Earlier, the market had reached this point in November 2009.

As shown in *Table 4*, during the review period, all the sub-indices ended in the green zone. The Insurance sub-index (+62.99%) saw the biggest gain amongst the sub-indices, as it gained a whopping 590 points. Similarly, the hotels sub-index (+37.05%) continued to impress investors as it gained valuable 244 points. The Hydropower sector (+29.14%) followed suit as it gained over 315 points.

Likewise, amongst the BFIs, only the Development banking sub-index

demonstrated encouraging growth (+24.91%) while the Commercial banking sub-index (+13.64%) and Finance sub-index (+14.12%) performance was average. Also, the 'Others' sub-index (+3.19%) performance remained below average as the share price of Nepal Telecom failed to achieve momentum.

Key Developments

Some of the key developments in the capital market during the review period are discussed below:

Foreign currency bonds

The Nepali capital market may witness the issuance of local currency bonds in near future as the Ministry of Finance (MoF) has given a green signal to issue such bonds in the local market. Local currency bonds are long term debt instruments denominated in local currency and issued by international financial institutions to raise funds locally to finance various long term development

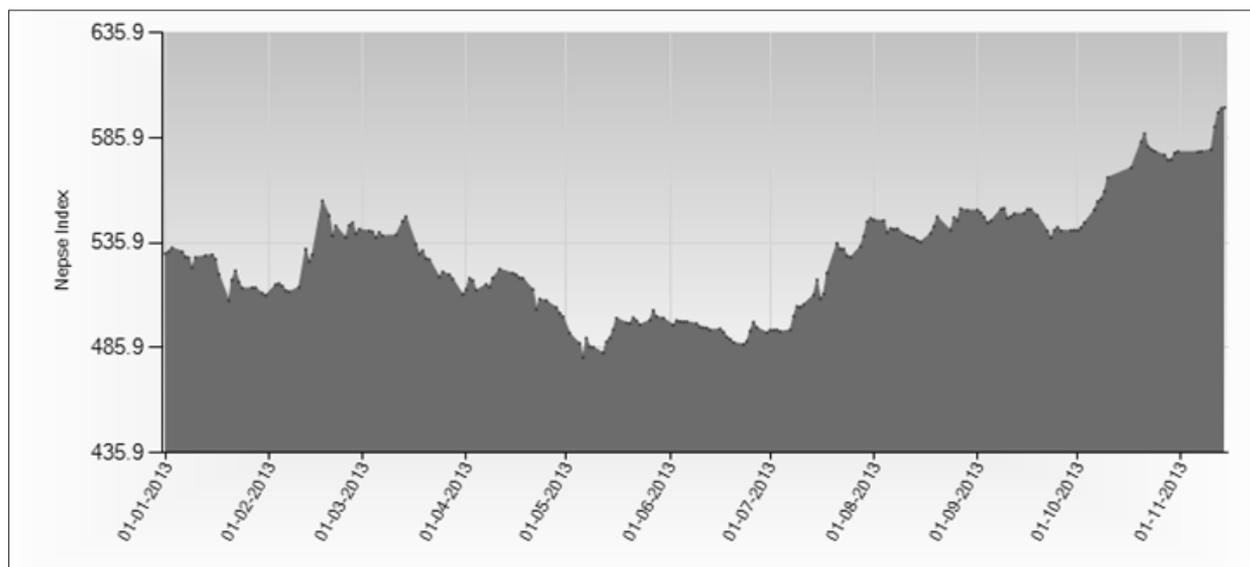
Table 4: Sector wise Performance of the sub-indices

Indicators	15-Jul-13	15-Nov-13	% Change
NEPSE Index	518.27	600.42	15.85%
Commercial Bank Index	505.48	574.44	13.64%
Development Bank Index	257.85	322.07	24.91%
Hydropower Index	1080.92	1395.86	29.14%
Finance Index	253.67	289.49	14.12%
Insurance Index	936.75	1526.85	62.99%
Others Index	700.22	722.54	3.19%
Hotels Index	657.49	901.07	37.05%
Manufacturing & Processing	868.72	934.25	7.54%

Source: NEPSE

projects within the country. In Nepal, International Finance Corporation (IFC) and Asian Development Bank (ADB) have been showing interest to issue such bonds in the local market.

Figure 17: NEPSE Index Performance in the FY 2012-13



Development Bond

As per the government's plan to collect NPR 44 billion (USD 437 million) via internal borrowing in the current fiscal year, the government has recently issued development bond worth NPR 3 billion (USD 29.8 million). Contrary to the regular practice of issuing bonds with coupon rates fixed by the government, the government for the first time had issued bonds which allowed market to determine the coupon rate on the bonds. Moreover, 70% of bonds were sold via competitive bidding while the remaining 30% were sold without competitive bidding. The issue was oversubscribed by eight times and the coupon rate was fixed at 3.25% based on competitive bidding.⁸⁷

Promoter shares

Seven commercial banks have converted 19% of their promoter shares into ordinary or public shares. After the conversion, the share structure of these

banks have changed to 51% promoter shares and 49% public shares. The conversion was possible due the recent amendment of provision in the Securities Registration and Issue Regulations 2008 which allows conversion of promoter shares into public shares through secondary market after getting approval from the central bank and the Securities Board of Nepal (SEBON). As per the amended provision, BFIs could convert their promoter shares into ordinary shares until the promoter shares drop to 51% and public shares to 49%. Since the previous provision allowed having up to 70% promoter shares, the listed companies can convert a maximum of 19% promoter shares into public shares.

The banks which have converted 19% of their promoter shares into public shares are as follows: NMB Bank

Limited, Nepal Credit and Commerce Bank, Nepal Bangladesh Bank, NIC Asia Bank, Sanima Bank, Siddhartha Bank and Kumari Bank.

Share offering on premium

In a bid to attract real sector companies into the capital market, the Securities Board of Nepal (SEBON) is currently conducting an internal homework to remove the existing provision which cap the price of premium shares while offering shares in the primary market. As per the existing provision, the companies can only issue shares in premium on the par with its net worth. SEBON plans to amend the provision in the existing Securities Registration and Issue Regulation 2008 and forward it to the Ministry of Finance for endorsement. Such amendment is expected to motivate companies to collect equity funds from the local market and will also help Nepali capital market to mature further.

“ OUTLOOK

On a positive note, the NEPSE Index has continued with its bullish trend at the end of the first four months of the current fiscal year indicating improved investors' confidence over the market. Despite the upward trend, the market was also impacted by various speculations and rumors about potential mergers between key listed companies that deterred investors and affected the market movement. Rumors of potential merger between key listed companies—such as Bank of Kathmandu and ICFC Finance, Everest Bank and Kumari Bank, Nabil Bank and Ace Development Bank amongst others—spread largely by certain interest groups, affected the share prices of these companies. Therefore, some measures should be adopted by the key stakeholders to ensure insider trading is completely discouraged and the market is not affected by such rumors.

Likewise, delay in dissemination of key information by the concerned stakeholders created unnecessary panic situation in the market; the news of conversion of promoter shares into public shares of key listed companies was delayed and investors were

highly skeptical due to such exercise and feared oversupply of scripts. In the future, the regulatory body should disseminate information on a timely basis to discourage insider trading and protect the rights of general investors.

On a positive note, the issuance of development bonds via competitive bidding for the first time in the country can provide a platform to create a sustainable bond market in Nepal. Moreover, it is also expected to provide a starting point for upcoming local currency bonds in Nepal.

Fundamentally, the performance of the key listed companies at the end of the first quarter of the current fiscal year is average. Since our secondary market is highly influenced by political developments rather than fundamentals, the future course of the market can be expected to be positive on the ground of successful completion of the CA election. Moreover, the market can be expected to be highly affected by the upcoming structure and formation of the new government.

The Doing Business Index: Nepal

Nepal's ranking in Doing Business Index (DBI) 2014 rose from 108th position in 2013 to 105th position in 2014 rankings. Although Nepal has climbed up, the overall performance of the country appears to be slipping in all fronts except the criteria of Starting a Business and Getting Electricity, wherein the country has climbed six spots and one spot respectively.

ANALYSIS OF DOING BUSINESS INDEX

A co-publication of The World Bank and International Finance Corporation (IFC), The Doing Business Index compares business regulations for domestic firms in 189 economies.⁸⁸ The 11th edition of the report benchmarks regulations that affect private sector firms, in particular small and medium-size enterprises. The data presented are as of June 1, 2013.

Of the 189 economies, the following economies rank the highest in terms of making reforms in the criteria measure by the Doing Business Index: Ukraine, Rwanda, the Russian Federation, the Philippines, Kosovo, Djibouti, Côte d'Ivoire, Burundi, the former Yugoslav Republic of Macedonia, and Guatemala. Following are an analysis of Nepal, our neighbors India and China, and Rwanda, one of the highest ranking

economies that have made reforms to business regulation.

Nepal shows improvement in only two DBI 2014 criteria: Nepal's ranking in Doing Business Index (DBI) 2014 rose from 108th position in 2013 to 105th position in 2014 rankings. Although Nepal has climbed up, the overall performance of the country appears to be slipping in all fronts except the criteria of Starting a Business and Getting Electricity, wherein the country has climbed six spots and one spot respectively. The fluctuation in ranking can be caused by the business regulatory environment, addition of new countries in the ranking and also by the progress made by the countries in consideration. However, DBI 2014 has adjusted Nepal's 2013 ranking to reflect data corrections whereby Nepal stood 103rd. On this basis, the

Table 12: Key market indicators

Criteria	2013 Rank	2014 Rank
Starting a Business	103	97
Construction Permits	97	105
Getting Electricity	99	98
Registering Property	22	24
Getting Credit	52	55
Protecting Investors	80	80
Paying Taxes	121	126
Trading Across Borders	173	177
Enforcing Contracts	137	139
Resolving Insolvency	123	125
Overall	108	105

Source: Doing Business Report 2014, World Bank

current ranking of 105th position is a slip of two spots for the country.

Starting a business: Nepal simplified preregistration and registration formalities including publication, notarization, inspection and other requirements for starting a new business. Along with that, Nepal introduced electronic filling of documents which has helped to reduce the registration time from 15 days to 7 days. Currently, the country is in the 97th position in terms of ease of doing business. However, the sustainability of the system is greatly questionable as it is still in its early phase and potential hurdles are yet to be identified and rectified. Despite the online registration system, companies still have to submit hard copies of the required document unless digital signature is recognized.

Construction Permits: In the updated ranking, Nepal is at 105th position in terms of dealing with construction permits. The fall from 97th position in 2013 ranking to 105th position in the 2014 can be attributed to the lengthy procedures involved. Investors need to spend 115 days and complete 13 procedures. South Asia average is 193.3 days and 16 procedures.

Getting Electricity: Nepal improved in the front of getting electricity climbing one spot to the 98th position. Investors have to spend at least 70 days to complete five procedures necessary to get electricity, which beats the South Asian average of 145 days and six procedures. The improvement in this front appears hypocritical for a country plagued by power shortage problems wherein households and industries face up to 17 hours of load shedding in dry seasons.

Registering Property: Nepal reached 24th position in the ease of regis-

tering properties, which is the best ranking in South Asia. Against a regional average of 6 procedures, 99.4 days and 7.2% of property value to register property, Nepal has a substantially low record of 3 procedures, 5 days and 4.9% of property value.

Getting Credit: In terms of the ease of getting credit, Nepal ranked 55th. This was a slip off from the previous 52nd position. However, Chief Secretary Lilamani Poudel said that access to finance is 80% in Nepal which is nearly double of the South Asian average, but the DBI 2014 has portrayed Nepal of having a poor performance in issuing credit. However, access to finance is not the sole criteria under which ease of getting credit is evaluated. In order to improve the getting credit ranking, the country needs to perform well on four criteria: strength of legal rights index, depth of credit information index, public registry coverage and private bureau coverage.

Protecting Investors: Nepal has maintained its 80th position in protecting the investor criteria. Since no reforms were made in this front, the ranking has not changed.

Paying Taxes: Nepal slipped to 126th position in the ease of paying taxes front from its earlier position of 121. There have been no concrete steps to improve the scenario of tax payment. Moreover, other countries in consideration have made tax payment easier and lowered the tax burden whereby they have climbed up the ranking.

Trading Across Borders: In the front of trading across borders also, Nepal

slipped to 177th position from its 173rd position in 2013. Nepal requires 11 documents with an average of 42 days against the regional average of 8 documents and 33 days, making Nepal a weak performer in this regard in the region.

Enforcing Contracts: Despite a lack of substantial reform in the sector of enforcing contracts, Nepal still holds a good place in the region and ranked at 139th position. The regional average is of 43 procedures whereas that of Nepal is 39 procedures.

Resolving Insolvency: Nepal's lack of reform and progress in resolving insolvency has resulted in the country being the worst performer in the South Asian region. In Nepal, it takes an average of 5 years to resolve insolvency and the recovery rate is 24.5 cents on the dollar. The regional average is 3 years with an average recovery rate of 29.1 cents on the dollar.

India falls in Doing Business Ranking: India's ranking in DBI 2014 has slipped to 134th position from its previous 131st position; out of the ten indicators for the index, India's performance has dropped in seven of them. At the current position, India is the worst performer among its neighbors and also among the BRICS (Brazil, Russia, India, China and South Africa) nations. Procedures for starting a business, getting electricity, registering property, getting credit, protecting investors, trading across borders and resolving insolvency has become more difficult in the country causing a fall in its overall ranking. Although the government is trying to come up with measures to improve the economy by allowing

foreign investors to start operations in India, investors are demanding more clarity on the rules and regulation of starting operation in India. Many government rules are still considered to be very restrictive and ambiguous. Moreover, the existing foreign companies like Vodafone Group, Cadbury PLC and others are stuck in a battle with the Indian authorities, who claim additional tax payments from these investors.

China makes some positive changes to its Business Environment: In DBI 2014 ranking, China climbed three spots to 96th position from its 99th position in the previous year. Despite showing a fall in four categories:

starting a business, getting electricity, registering property and protecting investors, the overall ranking of the country has improved on the back of improvements shown in getting credit, paying taxes and resolving insolvency.

Rwanda makes significant improvements: DBI 2014 has ranked Rwanda at 32nd position, making Rwanda one of the easiest countries in Africa to start and run a business; the country stands only behind Mauritius in this regard.⁸⁹ Rwanda has become one of the best destinations for doing business as the regulatory environment is very conducive for businesses. It is one of the best performing country

in the 2014's global index with the Rwandan government making great effort to improve its business environment. The only criteria where Rwanda is lagging behind is in the ease of trading across borders, where it ranks 162nd globally. However, the country is making efforts to improve in this front as well. Recently Rwanda introduced an electronic single-window system at the border to make trading across borders easier. Rwanda has performed extremely well in six categories: dealing with construction permits, registering property, getting credit, protecting investors, paying taxes and resolving insolvency. In the 2014 report, Rwanda is the second best performing country globally.

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NEPAL ECONOMIC FORUM

Nepal Economic Forum (NEF) strives to be the premier private-sector led economic policy and research organization by redefining 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 of 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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