

## 1. Background

### The context

Nepal remained isolated for centuries from the outside world, except India and China. It was only during 1950s when it was exposed to the outsiders through a democratic movement. This was uniquely a unlike story in view of her historical status of being the oldest country in the world. The development discourse, hence, in this small but landlocked nation is found as a recent phenomenon. It is still in search of a right process of economic development, which is egalitarian, inclusive and quick in delivery.

Of course, the process of economic development is not independent of a country's social framework, as the economy and society are interlocked. While many social behaviors remain as the binding constrains for economic activities split into consumption, production, exchange and distribution, on the one hand, the state of the economy, on the other determines the intensity of conflicts within a society. Nepal with a tradition bound society, which is lagging behind other counterparts in respect of the pace of economic development, is experiencing higher level of conflicts and contradictions in both of the social and economic spheres.

The conflicts and contradictions were overwhelmingly intensified over the years in such a way that the situation in the country was alarming in mid 1990s and after. It was manifested into the people's war during 1996-2006, which initiated process of state restructuring keeping people and their concern at the centre. Mainly, the nation as a whole was in a different mood and tried to assert for a better society as stated above. The national agenda was changed due to this people's revolt against existing system of governance. The national desires now are

- (a) Restructuring of the state with stress on wider participation in governance
- (b) Sharing of benefits and decision-making power through the orders of the government under federalism.

The nation endorsed these issues through both of the simultaneously launched movements in early twenty first century, say, the people's war and peaceful demonstrations and strikes. Its purpose was a rapid transformation of the feudal socio-economic set up into a modern industrial society. These conflicts in the past, moreover, were manifested even into the mammoth political movement in 2006 organized jointly by war and peaceful means which ultimately declared Nepal as a Federal Democratic Republic. It was really a moment of the beginning of the new course in Nepal's modern history aiming at an egalitarian social structure which incredibly is committed to level the playing field.

The first and foremost commitment of the society now is a non discriminatory, efficient and judicious process of economic development that has to do with a better society enjoying qualitative life through increased income, social opportunities and easy access to quality education, medical and other essential services all over the country. The instant agenda, therefore, of the planned process of development is the rapid transformations in the economy and society through uses of appropriate but modern technology, soft as well as hard infrastructure and institutional bases helping to realize broad based economic growth attained with realize resource efficiency, distributive justice, transaction and market efficiency and socio economic integration. The process in all will pull all the resources across the country, including human, natural, financial, intellectual and cultural, into the national mainstream that provides room for socio- economic conversion promoting national harmony.

The attribute of newly rediscovered national harmony is the kind of seriousness about a new development paradigm with a strong favor to backward as well as forward linkages and spillovers at every point of development initiatives whether it is in the big townships or in a remote deficient distant area. These linkages and spillovers are expected to generate sufficient economic and social forces with dynamic posture within the system helping to resolve the fundamental problems in Nepalese economy such as of unemployment, underemployment, recession, repression, inequality of income and wealth, payments imbalance and the wide spread gaps and fragmentations.

The strategic papers take these issues, perceptions and processes of the economic development into notice and try to shape the thinking on national development accordingly. The challenges in lieu of them, however, may not be undermined. They need elaborations.

### **Challenges and Their Strengths**

Economic development becomes a trick when the process relies more on production relationships having influenced by social, cultural, demographic and many other non economic factors with their origin at home and abroad. The trick is also in choosing the combinations of the factors of production, say, land, labour, capital, technology and the socio-cultural milieu. Nepal has an experience that a host of factors are shaping its economic position and, hence, the process of development is uniquely complex demanding the multifaceted approach towards growth with distributional justice. Of course, it is a challenging issue to initiate the process and make it optimal in terms of efficiency and redistribution. Internally, the list of challenges the country faces for growth with justice at present hinges around the question of how to:

1. Fight against absolute poverty, chronic unemployment, deeply rooted inequality, widespread discriminations, and rampant corruptions.
2. Confront with ecological and environmental imbalance as an outcome of climatic change.
3. Initiate the process of remaking the society.
4. Strike a balance between efficiency and social justice.
5. Reverse the process that does not repeat the mistakes in the past.
6. Moderate the emotions of aggressions in the diverse groups.
7. Satisfy the land hunger or demand.
8. Tackle with food crisis.
9. Make programs well targeted.
10. Fulfill constitutional obligations of the rights of people.
11. Control population growth affecting real per capita income.
12. Attract FDI and modern technology.
13. Mitigate with growing debt burden.
14. Make delivery system working, effective and efficient.
15. Promote science, technology, research and development.
16. Integrate rural based economic activities with urban counterparts.
17. Make NGO activities people and development friendly.
18. Make best use of rare domestic and foreign savings.
19. Build up confidence in governance.
20. Do away with feudal mode of production and strengthen the capitalist process of the development accelerating the growth process and generating mass scale employment opportunities.

21. Create a new but industrial society which generates wealth as well as employment opportunities at a faster pace.

The further challenges as a concern of donors relate to the question of how to:

1. Raise foreign aid efficiency.
2. Increase absorptive capacity.
3. Tie up foreign aid policy with domestic needs.
4. Devise strategies for realizing growth with equity.
5. Avoid overlapping in foreign assisted projects and programs in Ministries.
6. Restructure and reorient foreign aid policy for attaining the goal of the growth with justice and stability.

These challenges primarily emanated from the low profile of the economic and social activities in the past as a result of which the economic indicators, except a few, were depressed. The following table is an evidence of these economic and social weaknesses.

Indicators	1989/90	2004/05	2007/08
Growth in real term			
Agriculture	3.0	2.8	4.7
Non-agriculture	6.3	1.6	5.7
Under employment		22.3	
Inequality		0.41	
Population below poverty line	49	31	25
Allocation of public resources			
Trade deficit	16.6		
Export-Import ratio	5.7:20.2		
Capital formation			
Literacy rate	39	54	63
Fertility	5.8		3.1
Maternal mortality	850	539	281
Child mortality	165	91	61
Infant mortality	102	64	48
Life expectancy	54	62	63
Banking and finance	6		160
Roads (Bitumin)	2899	3495	4258
Roads (Earthen)	2516	7643	3080
Roads (Graveled)	1621	4703	2062
Electricity	227		687
Communication (Tel. line)	71000		1402000
Drinking water (% population)	36		78
Irrigation	293895		1211739

In order to reduce the steadily perpetuated strength of the said challenges over the years Nepal needs to become strategic and selective. There is the essence for further economic reforms directed specifically towards the overcoming of the structural and institutional deficiencies which are either inherited or growth generated. There needs a rapid transformation of the traditional sectors and a systematic management of the modern sectors together with perfect competition in all the markets. The following measures help reduce the strength of the challenges.

1. Broad based economic growth employing more of labour, capital, natural resources electricity and technology available all over the country through infrastructural development and private sector participation
2. Transformation of traditional outlook, in each sector, into the scientific one relating, especially, to
  - a. Food habit – Agriculture
  - b. Dialogue between employer, workers and consumers and the protection to indigenous skills, process, product and activities – Agriculture and Industry
3. Connectivity between productivity and earnings (payments) – Agriculture, Industry and Services
4. Shift of the focus from tertiary education to vocational and applied areas of training
5. Stress on rural finance, cooperation, resettlement and marketing
6. Launching the pro-poor programs – Health, Education
7. Effective delivery of essentials – Goods, Services
8. Widespread network in rural side – Transformation and Communication
9. Strengthen transmission lines – Electricity
10. Promotion of modern institutional practices – Governance, Rural sector and Foreign Relations
11. Fiscal Balance and Discipline – Debt servicing, Public budget
12. Financial stabilization – Banking, Finance and Insurance
13. Well targeted incentives, disincentives and corrections – Public sector role

## **2. Macro Economic Framework**

### **Objective of macroeconomic policy**

The main objective of the macroeconomic policy is to lay the foundation for achieving double digit economic growth with adequate measures for ensuring equitable distribution.

### **Strategies**

The strategies of the Macro Economic Policy are as following.

- ❑ Good governance and effective service delivery
- ❑ Enhanced Public-Private Partnership
- ❑ Inclusive development process
- ❑ Nationwide cooperative movement

### **Assumptions of Economic Growth**

The following assumptions are made when making economic growth projections for NDSP.

- Political stability will prevail and security conditions will improve. This will to some extent help to mitigate the fallout effects of global recession on Nepalese economy.
- Inflation rate will gradually reduce with political stability and the restoration of peace. Three year inflation will average 6 percent on a decreasing trend for 2009/10; 2010/11; and 2011/12 being 7, 6 and 5 percent respectively.
- Exchange rate will remain more or less stable.
- Economic activities and fiscal management, particularly capital expenditure

will improve during the coming three years.

- As peace is sustained, revenue mobilization and foreign absorption will improve.
- Current expenditure growth declines and capital expenditure will increase as security situation improves.
- Investment climate will improve.

### **Target of Economic Growth Rate**

Taking into account the current situation and potential availability of internal and external resources, the annual average economic growth rate for NDSP is projected to be 7.6 percent. Of the overall growth, the agriculture sector is estimated to grow by 5.2 percent and non-agriculture sector by 8.9 percent. During the next three years, the average annual rate of inflation is estimated at 6 percent. This period aims to provide the foundation for having double digit growth. In 2009/10; 2010/2011; 2011/2012 it is projected to grow by 7, 7.5 and accelerating to 8.5 percent respectively.

During the period of NDSP, the agriculture sector will be oriented towards commercialization; cooperatives will be promoted; and emphasis will be on irrigation, agriculture roads, agriculture loans, research and technology dissemination, rural electrification, framework for scientific land reform and development of market.

- The average annual growth rate of the agriculture sector is projected to be 5.2 percent.
- In the industrial sector, policy, procedural, and institutional reforms will be carried out to improve industrial environment. Similarly, there will be development of industrial and commercial infrastructure, expansion of services, expansion and promotion of small and medium-scale industries. The new industries will be encouraged to establish. The GON will revive the potential sick industries.
- By guaranteeing peace in the industrial sector, and creation of an environment for existing industries to make full use of their installed capacity, the growth rate in this sector is estimated to be 8.7 percent. During the Plan period, rural electrification will be given special attention.
- In addition, some hydroelectric projects will be completed with the participation of the private sector.. Together with energy available from other sources the average annual growth rate of the electricity sector is estimated to be 10.8 percent.
- In the construction sector, projects that could not be carried out due to conflict and other reasons in the past will be completed, damaged and destroyed infrastructures will be reconstructed, and new infrastructures will be constructed. The participation of the community and private sector will also gradually increase. This is estimated to raise the growth of this sector to an annual average of 9.3 percent. Labor intensive new construction works will be carried out. Similarly massive self-employment schemes will be executed to utilize surplus labor.
- In the trade sector, the positive impact of economic diplomacy and improvement in the industrial environment is expected to result in the growth of 8.3 percent.
- As peace is restored and sustained the tourism sector will flourish. New areas and services with the extension of policy and institutional reforms will be carried out to remove structural obstacles in the development of tourism. As a result, this sector's growth is estimated to average 8.4 percent.

- As the government is committed for accelerated investment in complementarity with the private sector, the transport and communications sector is projected to grow by 9.0 percent.
- After restoration of peace, the investment climate is expected to improve, and this is likely to generate 7.9 percent growth in the finance sector and 9.1 percent growth in the real-estate sector. In the social service sector, the government's priority is to heavily increase investment in health and education; these two sectors are projected to grow by 8.7 and 9.8 percent respectively.
- Similarly, community, social and individual services activities, is projected to grow by 8.3 percent.

**Gross Domestic Product Sectoral Value Added (at 2008/09 constant prices)(Rs. in million)**

Sectors	Estimate of GDP				ICOR	Average Growth Rate
	2008/09		2011/12			
	Production	% share	Production	% share		
Agriculture, fishery and forestry	298876	32.8	347631	30.6	2.9	5.2
Non-agriculture	611646	67.2	787320	69.4	5.8	8.8
Industry, mining and quarrying	66229	7.3	85134	7.5	4.5	8.7
Electricity, gas and water	15865	1.7	21557	1.9	25.0	10.8
Construction	58412	6.4	76267	6.7	1.8	9.3
Wholesale and retail trade	124880	13.7	158770	14.0	3.0	8.3
Hotel and restaurant	13825	1.5	17625	1.6	7.0	8.4
Transport, storage and communication	95218	10.5	123304	10.9	9.0	9.0
Financial intermediation	43571	4.8	54783	4.8	5.0	7.9
Real estate, renting and business activities	75878	8.3	98622	8.7	5.6	9.1
General administration and defense	17803	2.0	21283	1.9	4.0	6.1
Education	54854	6.0	72533	6.4	3.2	9.8
Health and social work	11999	1.3	15424	1.4	9.1	8.7
Other community, social and personal services activities	33112	3.6	42018	3.7	9.5	8.3
Total value added	910522	100.0	1134952	100.0	5.1	7.6
GDP at producers' price	960011		1213487			8.1

**Government Budget and Source of Financing**

During this period the total revenue (at constant prices of 2008/09) is estimated to be Rs. 532.25 billion. While projecting the revenues, it is assumed that the revenue will increase on an average by 13.6 percent each year. As a proportion to the GDP, it is assumed to be 14.5 percent in 2008/09 and projected to reach 16.7 percent in 2011/12.

As regards government expenditure, during the period of NDSP the total expenditure (at constant prices of 2008/09) is estimated to amount Rs. 836.38 billion.

Of this the regular expenditure is estimated to be Rs. 448.16 billion. It is estimated to be 12.8 percent of the GDP in 2008/09. This will increase to 13.2 percent due to finalization and adoption of the constitution, the subsequent holding of general and local election and the pay rise of civil servants. As regards capital expenditure, it is projected to be Rs. 323.92 billion during the Plan period. In the FY 2008/09, the proportion was 7.9 percent of the GDP. This will gradually increase to 10.6 percent in the final year of the Plan.

As regards foreign aid during the period of NDSP, a total of Rs.233.31 billion (at constant prices of 2008/09), is expected to be mobilized. Of this, grant is estimated to total Rs. 165.03 billion and loan at Rs. 68.28 billion. As a proportion to the total GDP, it comes out to be 5.4 percent in 2008/09. It is expected to gradually increase to 7.1 percent in the final year of NDSP.

In case of resource mobilization during the period of NDSP, there will be an increase in revenue mobilization, expected increase in the availability of foreign aid and there will be control in the increase in regular expenditure. Due to these reasons, it is expected that the growth rate in domestic borrowings can be kept within a desirable limit. In FY 2008/09, internal borrowings would be 2.6 percent of the GDP. It will decrease to 1.7 percent in the final year. In this way, it is assumed that the budget projection in the government sector will help to maintain the macro-economic stability (Table 4 and 6). While projecting the government budget and the sources of funding it, it is based on the concept of maximum mobilization of inputs and the minimization of leakages.

**Projection of Government Budget (at FY 2008/09 constant prices)(Rs. in million)**

	2008/09		Three Year's Total Budget	
	Amount	% of total exp.	Amount	% of total exp.
Total expenditures	215516	100.0	836376	100.0
Recurrent expenditures	122581	56.9	448156	53.6
Capital expenditures	75510	35.0	323916	38.7
Principal repayment	17425	8.1	58305	7.0
<b>Sources of financing total expenditures</b>				
Revenue	138722	64.4	532254	63.6
Foreign Aid	51794	24.0	233310	27.9
Grant	38093	17.7	165035	19.7
Loan	13701	6.4	68275	8.2

Domestic Borrowing	25000	11.6	70812	8.5
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### Investments and Sources of Funding

During this period the total capital investment, including the change in stock amounting to Rs. 172.8 billion, will be Rs. 1324.4 billion. Of this amount Rs. 1091.1 billions (82.4%) would be borne through national savings, and Rs. 233.3 (17.6%) through foreign assistance. Similarly, of the total fixed capital investment of Rs.1151.6 billions, the private sector share is Rs. 827.7 billion (71.9%) and the government sector will have Rs. 323.9 billions (28.1%).

### Allocation of Development Program Expenditure

As regards to the expenditure in development programs, it is assumed that Rs. 506.9 billion at 2008/09 constant prices would be spent. Of this, agriculture will have 12.9 percent and transport, storage and communication 17.9 percent. Similarly, electricity, gas and water will have 19.5 percent followed by education 12.6 percent. Local development will have 17.5 percent and health and social works 10.8 percent. Peace and reconstruction will have 1.8 percent. Out of the total development expenditures, 63.9 percent would be incurred by the government.

### Sectoral Allocation of the Development Expenditure of the Three Year Interim Plan (at 2008/09 Constant Prices)(Rs. in million)

S.N.	Description	Amount	Share in %
<b>1</b>	<b>Agriculture, Irrigation and Forestry</b>	<b>65138</b>	<b>12.85</b>
	Agriculture	25954	5.12
	Irrigation	29857	5.89
	Forests	5221	1.03
	Land reform and survey	4106	0.81
<b>2</b>	<b>Industry, Geology and Mining</b>	<b>3041</b>	<b>0.60</b>
<b>3</b>	<b>Electricity, gas and water</b>	<b>98746</b>	<b>19.48</b>
	Electricity	58599	11.56
	Other energy	31682	6.25
	Drinking water	8465	1.67
<b>4</b>	<b>Wholesale and Retail Trade</b>	<b>5880</b>	<b>1.16</b>
	Commerce	3143	0.62
	Supplies	2687	0.53
<b>5</b>	<b>Hotel and Restaurants</b>	<b>3548</b>	<b>0.70</b>
	Tourism	760	0.15
	Culture	2839	0.56
<b>6</b>	<b>Transport, Communication and Storage</b>	<b>90788</b>	<b>17.91</b>
	Roads	59815	11.80
	Civil aviation	13535	2.67
	Communication	6590	1.30

	Housing and urban development	10848	2.14
<b>7</b>	<b>General Administration and Defense</b>	<b>15613</b>	<b>3.08</b>
	General administration	355	0.07
	Revenue and financial administration	456	0.09
	Constitutional organs	2535	0.50
	Planning and statistics	659	0.13
	Home	558	0.11
	Other financial*	8161	1.61
	Labor and transport management	1065	0.21
	Others**	1825	0.36
<b>8</b>	<b>Social Services</b>	<b>210419</b>	<b>41.51</b>
	Education	63921	12.61
	Health and other social services	54544	10.76
	Local development	88861	17.53
	Women, children and social welfare	3041	0.60
<b>9</b>	<b>Miscellaneous</b>	<b>13737</b>	<b>2.71</b>
	Environment	253	0.05
	Science and technology	1622	0.32
	Peace and reconstruction	9124	1.80
	Other miscellaneous	2737	0.54
	<b>Total</b>	<b>506911</b>	<b>100.00</b>

\* Including budget for financial intermediation

\*\*Budgets for senior citizens, people with disability, youth and NGO

### Impact of Investments in the Overall Economy

It is assumed that the proposed investment of the Plan will have a positive impact on the overall economic indicators of the economy. In this Plan, the macroeconomic stability will be maintained and economic growth will be made employment-oriented, more inclusive and broad-based. Expressed as a proportion to the GDP, the revenue is expected to increase from 14.5 percent in 2008/09 to 16.7 percent in 2011/12.

During the period of NDSP, average growth rate is projected to be 7.6 percent, inflation is 6 percent and fiscal deficit ratio is 4.3 percent.

### Macro Economic Indicators

The following physical targets are set for the three years period.

#### Physical Targets

S. No.	Indicators	Current Situation	Targets
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1	Population below Poverty line	24.85	21.5
2	Employment Growth Rate	3.0	4.0
3	Women receiving maternity services from SBA (%)	31.7	42
4	Family Planning Contraceptive users (%)	48	56
5	Total Fertility Rate (Women aged 15-49) (%)	3.1	2.6
6	Maternal Mortality Rate (per 100,000)	281	180
7	Infant Mortality Rate (per 1000 live births)	48	38
8	Child Mortality Rate (per 1000 live births)	61	48
9	Population with access to drinking water (%)	78.13	90
10	Population with sanitation service (%)	46	68
11	Literacy Rate (%)	63	95
12	District Headquarters with road connectivity (district number)	69	75
13	Telephone, including mobile (per 100 density)	18	25
14	Electricity supply including generation (MW)	687	1503
15	Irrigation (hectares)	1,211,739	1,320,839

### **Macroeconomic Policies**

This part discusses on four policy papers namely: (1) Money, Banking and Credit; (2) Agriculture, Rural Credit and Micro-finance; (3) Price; and (4) Foreign Exchange and Balance of Payments Situation (External Trade).

### **Money, Banking and Credit**

The principal objectives of monetary policy are (a) price stability; (b) maintaining necessary surplus in the balance of payments; (c) ensure financial sector stability and (d) to develop a secure, healthy and efficient system of payment. The main instrument of monetary policy is the open market operations. Using fixed exchange rate with the Indian Rupee as a monetary anchor, the monetary policy is guided by the quantum of money supply. In the past, the financial sector expanded considerably despite slow growth rate due to strong remittance inflow and the slow expansion of credit to the private sector. Consequently the financial system remained flush with liquidity. This compressed interest rate on the deposits. The amount of non-performing loan in the banking sector, though declining, is still high. In such a situation, a financial reform program is in operation with the objective of strengthening and enhancing the capacity of the financial sector.

### ***Problems and Challenges***

The task of sustaining financial stability remains a challenge due to: (1) continued problems in government owned, and some private sector financial institutions; (2) lower level of demand for loans from the private sector is repressing the upward adjustment of deposit rates, with consequence of the negative real deposit rates; (3) overhang of foreign currency in the nation makes monetary management complex; and (4) the rural areas still lack access to banking services leading to inequality in access vis-à-vis the urban areas.

### ***Objectives***

The objectives of monetary policy are to

- Maintain balance of payments and domestic stability while managing required liquidity to facilitate sustainable and high economic growth rate;
- Strengthening and maintaining stability in the financial sector; and
- Expanding access to banking services to the entire country and strengthening the payment system.

### ***Quantitative Targets***

- Inflation will be limited to an average of 6.0 percent per annum.
- Average annual broad money supply growth rate per annum will be 18.2 percent
- Average private sector credit will increase by 21.8 percent.

### ***Policies***

- Monetary management will be geared to maintaining macroeconomic stability and make available the liquidity required for sustainable and high economic growth rates. In this regard monetary management will be oriented towards increasing the volume of credit to the private sector and gradually decreasing the ratio of the banking sector credit to the government.
- Open market operations will be used as a prime tool of monetary policy. A system of non-paper settlement will be brought into practice with respect to government bond transactions.
- Focus will be on expanding outreach of the formal financial system to the nation's populace.
- A Financial Sector Master Plan will be formulated with the participation of the regulators, financial institutions and the Government.
- Financial institutions will be encouraged to issue an infrastructure development bond for channeling the private sector remittance inflow into the infrastructure development.
- With a view to facilitating commercial banks to invest in infrastructure, such as hydropower development, the existing single borrower limit will be increased.
- The financial sector will be further strengthened by implementing international financial standards.

### **Agriculture, Rural Credit and Micro-finance**

Agriculture remains a strategic sector in terms of output, employment and food and nutrition security of the country. Despite such strategic importance, this sector remained neglected in terms of both public and private investment.

### ***Problems and Challenges***

With the suspension of priority sector the credit program is facing eroding access to institutional sources of credit. Identification and implementation of various kinds of instruments relating to insurance of deposit, agriculture crop, extension in livestock insurance, provision of alternative energy (solar panel, bio-gas, micro-hydro, water mills etc.) and micro-insurance also remain as challenges due to the absence of an institutional set up to regulate such instruments.

### ***Objective***

Diversification of microfinance tools, increased access to microfinance, expansion of agriculture and rural financing activities/support for agricultural sector's growth remain the major objective of microfinance policy.

### ***Policies***

- Agriculture, rural and micro finance together will be used as an effective medium of poverty alleviation by coordinating them with all other targeted programs.
- Banks and financial institutions will be encouraged to gradually reopen, to the extent feasible, their dislocated branches, and start new branches in the remote and rural areas.
- Poverty Alleviation Fund's role and its program will be reviewed and streamlined.
- A "National Micro Finance Act" will be issued for strengthening the micro finance sector within the parameters set by the recently promulgated "National Micro Finance Policy".
- "Rural Self Reliance Fund" will be developed as a "National Microfinance Development Fund", in which the Government of Nepal, Nepal Rastra Bank, donor agencies and other organizations and individuals may contribute resources. The deposit money will be meaningfully utilized by expanding MF outreach in rural & remote areas through MFIs. Efforts will be made to tax exempt interest income from such deposits.
- National Co-operative Bank will be developed as a vehicle to supply rural and micro-credit. To achieve this, its organizational structure, program and resource management will be reviewed.
- An institution to regulate and supervise microfinance institutions - i.e. a Second Tier Institution - will be established and necessary standards will be implemented.

### ***Prices***

Price rise at a reasonable level might be considered a natural phenomenon. High inflation, however, will have negative impacts on the economy. The overall price level, therefore, needs to be stabilized. Price is the combined result of demand and supply. Nepal's price level is more exposed to supply constraints, particularly, due to fluctuations in the international price of petroleum products and the price situation in India. In recent years, while the budget deficit has remained under control and the monetary policy is focused on maintaining price stability there has been volatility in external (commodity and asset) markets which have affected the domestic price situation.

### ***Problems and Challenges***

As agriculture is still dependent on the monsoon, prices of agricultural products increase rapidly whenever there is adverse weather condition and reduced agricultural production. The tasks of periodic adjustment of petroleum product prices in accordance with international prices, and creating enough storage capacity to ensure regular supply of food grains as well as other essential commodities, are also challenging. Moreover, due to uncompetitive market practices

such as, cartelling, hoarding and transport syndications, there is pressure on prices from time to time even when goods and services are available adequately.

### ***Objective***

The objective is to stabilize domestic inflation to a desirable limit during the period.

### ***Quantitative Target***

Annual average price increase will be limited to an average of 6 percent.

### **Foreign Exchange and Balance of Payments Situation (External Trade)**

Participation in the global economic activity is important to sustain the pace of economic growth and development. In this regard, Nepal has increased integration with the global economy as reflected in contribution to GDP from external sources: in 1975/76 contribution of service and merchandise trade was about 25% of GDP which increased to about 47% in 2007/08. Nevertheless, the overall balance of payments remained stable, due mainly to a sizable increase in remittance inflow from the increase in overseas employment of Nepalese in recent years.

### ***Problems and Challenges***

- Spillover of the current global economic crisis on Nepal's external balance.
- Enhancement of export through diversification, both product and country-wise.
- Management of foreign exchange due to compliance to the commitment to regional and multilateral trade agreements such as BIMSTEC, SAFTA and World Trade Organization.
- Liberalization of the capital account in the light of India's possible stance to further make such an account convertible.

### ***Objective***

The principal objective will be to maintain the growth of global economic integration through external sector stability.

### ***Targets***

- To maintain stability in the balance of payments with comfortable amount of foreign exchange reserve amount sufficient for 6 months import of goods and services.
- To provide continuity to the exchange rate policy.

### ***Policies and activities***

- Establish an institutional mechanism to (1) maximize flows of remittances from India and other countries, through formal channels and (2) to ensure that remittances are used in a productive manner.
- Strengthening the management of foreign exchange reserve, its income, expenditure and trade.
- Enhance effective monitoring of the real foreign exchange rate to minimize the possible risks and adverse impacts on external competitiveness due to short fluctuations in the foreign exchange rates.

## **3. Industrial Development**

### **Status Review**

Transition from poverty, inequality and stagnation towards long-term broad based and sustainable development is the major challenge facing the national economy. Industrial development will be one of its cornerstones; particularly industrialization would have to encompass rural, agro-based/local resource-based as well as at more formal urban-based industrial segments.

The present TYIP aims at creating an industrial climate conducive to and competitive with global economy and capable to generate a high and sustainable growth. The plan has also set objectives to support poverty alleviation by putting emphasis on inclusion through micro, cottage and small industries. TYIP has set the target of achieving 6.3 percent annual industrial growth rate with investment of Rs. 47 billion during the Plan period.

During first year (FY 2007-2008) of the Plan period, industrial growth remained at 0.18 percent and its contribution to GDP is estimated at 7.03 percent. This period has been able to bring Rs. 9.8 billion worth of foreign investment from 214 approved projects, about a quarter of which is approved for hydro power sector. The manufacturing sector was able to attract about 13 percent of the total investment. Likewise, the local investment worth Rs. 15 billion was approved for 227 medium and large industries during the period. Of them, only 68 industries are of medium and large scale. Close to 9,500 small and cottage industries are registered with the investment of about Rs. 8 billion. A study shows that, however, only about 25 percent of registered small and cottage industries tend to be realized. Large industries like cement, paper, iron and steel, textile and yarn and sugar Mills have suffered from low capacity utilization of around 50 percent, attributed to the inherent systematic and labour problems as well as power shortage.

Industrial and Foreign Investment Policies are being appraised in line with the newly formed federal democratic republic government's economic policy of public-cooperative-private partnership cherished in the common economic program of the present coalition government. Likewise, Micro Enterprise Policy has been promulgated. Micro Enterprise Development Project has promoted more than 30,000 entrepreneurs since its inception. The Project is extended to 30 districts focusing in the remote and marginalized districts of Karnali, Seti and other Zones. Some progress has been made in infrastructural development at Bhairahawa EPZ and preliminary work for land consolidation and fencing of the acquired land has been initiated in Birgunj SEZ. SEZ Bill and BOI Bill are in discussion at a higher level. In addition, Department of Mines and Geology has initiated action for promoting Surkhet Limestone Deposit, Kathmandu Natural Gas Deposit, Kalitar (Makwanpur) Copper Deposit and Gandhari (Dang) Limestone Deposit, among others. On the other hand, small enterprises needing less physical infrastructure facilities and using local materials and small finance, like handicrafts, herbal , tea and coffee processing, paper and paper products, food processing are faring well and have tended to contribute substantially in creating self-employment and employment.

### **Strengths**

- The highest Himalayan mountain range, unparalleled natural beauty and historical heritage like Lumbini and huge hydropower potential
- Prospect for the farming of valuable herbs, agriculture, timber and non-timber products because of rich bio-diversity.
- Locational advantage owing to its location between fast growing giant economies of China and India

- Mining and processing prospect of limited but high quality non-metallic mineral deposits (limestone, precious and semi-precious gemstones)
- Scope of customs facilities in the world market under WTO provision
- High level effort towards sustainable peace and security as well as harmony on development agenda bringing in all political parties and rebels to the dialogue table
- Consultation with neighbours in opening north-south highway and expansion of information technology and communication network

### **Challenges**

- Political instability and unpredictable investment climate
- Poor infrastructure, especially power, transport and other industrial and trade infrastructure
- High costs due to terrain, poor transport network, low labour productivity and deteriorating peace and security situation.
- Weak institutions, problems of technology up-gradation and transfer
- Unwillingness of major trading partners to award duty-free access to Nepalese commodities in their markets despite benefitting from huge bilateral trade surplus

### **Strategies**

- With common efforts of private sector and cooperatives, develop broad-based industrial sector having comparative advantage.
- Support poverty alleviation with the target of promoting social inclusion in industry by means of micro, cottage and small industries development,
- Conducive microeconomic and other supporting policies as well for the protection of industrial property aiming at developing base for enlarged investment to establish Nepal as a hub for safe and profitable investment,
- Prop up processing industries based mainly on agro, non-timber and indigenous raw materials by using local skill and craftsmanship.
- Develop physical infrastructure needed for promotion of limestone based cement industries in Dang, Surkhet, Arghakhanchi and Salyan Districts.
- Evolve measures, in addition to forging of industrial security force with private sector participation, to restore industrial security and peace.
- Increase investment inflow, intensify investment promotion program by organizing one investment promotion forum and placing investment officers in investment source markets.

### **4. Trade**

#### **Status Review**

The trade sector, instrumental for accelerating growth rate is the overarching goal of Nepal's development policy. The government has given priority to the trade sector to accelerate economic growth rate. To do so, it is necessary to create new opportunities in export trade through conducive policy and working environment, managing physical, human and social capital, structural changes and the development of technical competence. It is also necessary to tap the resources being provided by many development partners, bilateral, regional and multilateral, to support the trade capacity development program.

Some efforts are being made during the current TYIP period to increase the quality and volume of foreign trade, specially the export. Ministry of commerce and Supplies (MOCS) has prepared action plan amending Trade Policy, formulating - Market Competition and Market regulation Rules, Anti-Dumping Act, Nepal Inter-model and Transport Authority Act, Nepal Multi-model Transport Rules and other related laws aiming at creating conducive and business friendly environment in the trade sector within this Year.

However, Nepal's trade is depended on a single country. The trade with India alone accounts for nearly two-third of the total trade volume. Similarly, the country has not been able to diversify the trade in terms of commodity also. There are limited goods to export. Therefore the trade sector is to be restructured in order to diversify both commodity and the country. Similarly, there is a need to strengthen the domestic trade and internal market has to be expanded. There is a need to develop Nepal as a bridge between India and China.

During the fiscal year 2007/2008, the total export stood at Rs.58.55 billions in comparison to Rs. 58.93 billions in 2006/2007. Of this, with India accounted for 66 percent and with other countries remained 34 percent. However, the target set for export was Rs. 100 billion. The trade deficit in the fiscal year 2007/2008 is Rs.180.63 billion in comparison to Rs. 136.88 in the year 2006/2007. Trade deficit to GDP ratio went up to 17 at the beginning of the Three-year plan. The target of employment generation would hardly be achieved in this three year plan period.

### **Strengths**

- Sound Peoples' willpower.
- Active stakeholders.
- Consumers & People's awareness
- Strong media, civil societies and consumers groups.

### **Challenges**

- Poor forward & backward linkages in Trade and Commerce related activities.
- Frequently changing and amending the trade related laws.
- Difficult to identify the goods & services having its comparative advantages.
- Weak mechanism to monitor & regulate market activities within the proper time frame.
- Diversification of the market, country wise and product wise.
- Insufficient infrastructure of the private sector.
- Feeble institutional capacity for supporting commercial activities.

### **Strategies**

- Make the supply side strong by increasing production and productivity.
- Review Trade & other trade related policies and laws.
- Develop physical and other infrastructures related to trade.
- Promote fair competition in trade and commerce.
- Enhance Trade facilitation services.
- Give special emphasis to promote production and exports of handicrafts and goods based on traditional skills.
- Identify the goods and services that have comparative and competitive advantages.

- Develop competent human resources in the trade sector in addition to institutional reforms.

## **5. Supplies**

### **Status Review**

The duty of the State is ensure and facilitate the supply of essential goods and services of daily necessities to the general public, at competitive prices, quality and standards. It is also the duty of the State machinery to protect and promote rights and welfare of the consumers. On the one hand it is necessary to ensure supply under a competitive and healthy market mechanism and on the other hand, it is equally important to increase the access of weaker communities in the economic, social and geographical perspective to goods and services. In the Nepalese context, it has become necessary to make the system strong and effective with active cooperation and participation of the private sector. This calls for compatibility and coordination between the government, cooperatives and the private sector.

The government has been supplying food grains with transport grants to 30 remote districts and iodized salt to 22 districts. In FY 2007/08 the government supplied 11575 MT of food grains which works out to 11896 MT. In the same year the supply of iodized salt at 32450 quintals the target by 104 quintals expected. Likewise, FY 2008/09 had set the target of 11896 MT of food grains and 35158 quintals of iodized salt. The progress in the first half of the year was 7,910 Metric Tons and 11,918 quintals respectively.

In the remote districts, the private sector is supplying these goods under the transport grant based on the limited means and resources of the government. Accessible parts of the country have been served through the private sector and other market mechanisms. In the deprived and backward areas; the government has assumed the responsibility of supplying essential commodities.

### **Strengths**

- Strong political will power
- Nationwide networking
- Consumer awareness on food item and service quality.
- Strong media, Civil societies and Consumers groups

### **Challenges**

- Price/Quality control.
- Coordination between various types of service providers.
- Identifying low income groups properly.
- Resource management for Infrastructure improvement.
- Effective monitoring and evaluations.

### **Strategies**

- Participation of the cooperatives, the private sector and local bodies will be ensured.
- Arrangement will be made for easy, accessible and regular availability of essential and quality goods.

- Necessary institutional and policy arrangement will be made to ensure welfare of the consumers.
- Effective coordination will be ensured among agencies involved in the supply sector in order to manage an integrated supply of essential goods and services in the remote areas.
- The development of commercial farming of goods locally produced and consumed.
- Buffer stocks will be maintained for National food security and also for SAARC level buffer stock.
- The supply of goods and essentials for public health and subsistence will be made convenient, and supply will be managed through market intervention during abnormal conditions as per the need.
- For making supply convenient, the competition Act will be implemented.

## **6. Agriculture**

### **Status Review**

Agriculture is the backbone of Nepalese economy because it contributes 33 percent to Gross Domestic Product (GDP), generates direct employment to 66 percent population, and supports livelihoods for 79 percent farm households. Cereal and other crops, fruits and vegetables, livestock, and forestry are the major sub-sectors of agriculture in terms of their contribution to GDP.

The overall performance of major agriculture sub-sectors [cereal and other crops, fruits and vegetables, and livestock (meat, milk, egg and fish)] in terms of increase in total production during the first year of Three Year Interim Plan (TYIP) was 6 percent compared to the previous fiscal year 2006/07. The growth rate of these sub-sectors could be considered satisfactory in terms of annual TYIP estimated target of 5.7 percent. The annual TYIP target for overall growth of agriculture sector has been set at 3.6 percent. About NRs. 3.9 billion budget was allocated for 2007/08 and NRs 5.75 billion budget was allocated for 2008/2009.

Agriculture in Nepal is still subsistence type mainly dependent on local resources. However, the abundant land, water and diverse biological resources as well as the climatic variation offer a great potential for agricultural development in the country. The concerted efforts and focus on some important components of agricultural development during the coming fiscal years starting from 2009/10 to 2011/12 would contribute 30 percent to AGDP.

### **Strategies**

#### ***Strategies to Attain Food Security***

- Research Focus
- Seed Security
- Resource Center Development
- Increase Chemical Fertilizer Use
- Strengthen functional linkages between research, extension and education
- Food Safety, Nutrition and Technology

#### ***Strategies to Increase Agricultural Gross Domestic Product***

- Agricultural Commercialization and Diversification
- Provision of modernized inputs and irrigation facilities year around

- Special Agriculture Mission
- Infrastructure Development
- Financial and Programmatic Intervention in Cooperatives
- Resource Conservation Technology and Mechanization
- Human Resource Development (HRD)

***Strategies to Promote Conservation and Utilization of Agricultural Biodiversities in the Context of Global Climate Change and Agricultural Commercialization***

- Construct Gene Bank at NARC
- Develop stress drought, heat, flood and other stress tolerant varieties and technologies in consideration of global climate change
- Promote utilization of rare and native species as an initiative to conserve agrobiodiversity and support food security
- Develop and disseminate environment friendly production technologies
- Establish Agricultural University

## **7. Forests and Soil Conservation**

### **Status Review**

Forestry is an extensive land use system in Nepal. Forest and shrub together covers about 5.83 million hectare which is 39.6% of the total land area of the country (DFRS, 1999). The per capita forest area is 0.27 ha. The forest area decreased at an annual rate of 1.7%, whereas forest and shrub together decreased at an annual rate of 0.5% during the period of 1978/79 to 1994. The recent studies in 20 Terai districts found that forest cover has decreased at an annual rate of 0.06% only from the period of 1990/91 to 2000/2001 (DoF, 2005). Forest and tree resources provide basic commodities such as fuel wood, timber, fodder and primary health care to the people and serve as an important ecological function such as biodiversity conservation, erosion control, and carbon dioxide consumption. Forestry and agriculture together contributes 39.3% in total gross domestic product (GDP) of the country (MoF, 2006). A recent study revealed that forestry sector is contributing 27.55% in the GDP (DFRS, 2007), out of which 9.45% is tangible and 18.1% is intangible. Likewise, fuel wood alone is contributing 78.1% share in energy consumption of the country (WECS, 2006).

Moreover, the revenue generated from forest sector was 543.2 million rupees in 2000 and 303.1 million rupees in 2006. Community forestry user groups (CFUGs) alone is generating 1.8 billion rupees per year (Kadel, 2004). Forestry sector is also supporting in the development and promotion of eco-tourism, agriculture, water resources, primary health care and above all environment conservation. Despite such facts, forestry does not come under the national priority sector. In view of the present context, forestry sector programs are designed to significantly contribute to the national economy by promoting and strengthening forest based micro, small and medium scale industries such as resin products, wood and wood products, mainly timber and fuel wood, sawmills, wood seasoning plants (pole and pole treatment) and orchids, herbs, herbal and medicinal and aromatic plant (MAP) products mainly homeopathy medicine, cosmetics and distillation plant etc. Overall, the ministry is committed to maintaining 39.6% forest area in the coming years for the protection, conservation and utilization of nature's gift; flora and fauna for the future generations.

- Forestry Sector achieved only 40% progress of the TYIP in one and half years.
- Community Forestry Development Program and leasehold Forestry Program for the people below poverty line has been found satisfactory. Out of 1500, 700 (46.6% of the

total target and 66% of the annual target) CFUGs are handed over to the users. The target for one and half years is 1059. Similarly, out of 1900, 614 (32.3% of the total target and 62% of the annual target) leasehold forest user groups (LFUGs) are handed over to the users. The target for one and half years is 991.

- One village one product (herbs, herbal medicinal and aromatic plants) campaign program to tie up cultivation with market for demonstration effect has been successfully launched in Salyan (Timur) and Makwanpur (Pipla).
- Out of 5.5 million cft., 2.22 million cft. (40.4%) log is collected and marketed through Department of Forest (DoF) and Timber Corporation of Nepal (TCN). Likewise, out of 20,000, 2776 (13.9%) chatta of fuel wood is collected and marketed through DoF and TCN.
- HPPCL annually produces 25 metric tons of essential oils from medicinal and aromatic plants (MAP) with the help of contract farming with local landless farmers. The employment generated is about 100 thousand man-days a year.

### **Strengths**

- 9,549 manpower (technical, forest guards, game scouts and administrative support staffs)
- Institutional Establishments: 5 departments (Forest, Soil Conservation and Watershed Management, Plant Resources, National Parks and Wildlife Conservation, Forest Research and Survey) and 3 parastatals (the Timber Corporation of Nepal Ltd., Herbs Processing and Production Co. Ltd., Forest Production Development Board),
- Office in 75 districts (District Forest Office: 74 districts, District Soil Conservation Office: 56 districts, 9 National Parks, 7 District Plant Resources)
- Good Collection of Scientific Journals
- GIS/Remote Sensing, tissue culture, oil extraction labs for service provision and R&D
- Research/Demo plots for in-situ and ex-situ testing and experiment plots
- Policy Instruments and Guidelines

### **Challenges**

- Bring sustainable reforms in the overall development of forests by catering to growing demand in forest products.
- Provide maximum benefits from the forestry sector, including Terai to the nation by controlling illegal extraction.
- Protect endangered wild fauna and flora from illegal poaching and illegal collection respectively.
- Reduce human pressure on national forests of the Terai, Chure and Bhawar areas through optimal use of forest products.
- Protect genetic deterioration of exotic plants.
- Control and pull out illegal settlers from forest areas

### **Strategies**

- Ensure social and economic empowerment of the poor and deprived communities through community Forest (CF), leasehold forest (LHF), collaborative forest (Col. F), block forest (BF) management.

- National forest management and industrial plantation.
- Comprehensive mapping of forests and countryside land-use mapping
- Promote forestry in private land.
- Formulate and adopt private investment friendly policy and guidelines for micro and small scale industries.
- Inclusion of socially excluded groups and community in the forest resources.
- Expansion of income and employment generation through forest resources.
- Service delivery through Basin approach and development of appropriate watershed management modalities.
- Establishment of Protected Area (PA) Networks with landscape level regional conservation planning and implementation.
- Focus on study of various aspects of plant resources and provide technical services at one place.
- Adoption of long-term, medium term, short term and action research and valuation of forestry sector contributions.

## **8. Tourism**

### **Status Review**

In order to revive the tourism industry using resource endowments of cultural heritage and natural diversity to contribute to economic growth, employment, and poverty alleviation, Three Year Interim Plan envisioned to develop tourism as a major sector of national economy. Accordingly, 539 million rupees for the promotion, 407 million rupees for the development, and 1.56 billion rupees for cultural preservation were earmarked for three years with target of achieving 700,000 annual international arrivals. Contribution of Tourism to Gross Foreign Exchange was estimated to be 300 million US dollars with 63 US\$ per capita per day expenses creating direct employment to 100,000 Nepalese from the base year of 375,000 arrivals, 148 million Gross Foreign Exchange, 58.5 US \$ per capita spending, and direct employment of 83,000. Similarly 25 international airliners were expected to connect Kathmandu from 17 airliners with 1,500,000 passenger movement in the international sector from 1,383,000.

In one and half years of the plan period around 300 million rupees in tourism promotion and around 500 million rupees are estimated to be spent on tourism development activities under Ministry of Tourism and Nepal Tourism Board.

The fuel crisis and recent phenomenon of recession in the international markets and transitional ups and downs at home have not substantially deterred international tourists from visiting Nepal. In 2007 with clear steps towards peace, tourist arrivals saw an unprecedented growth of 37% over 2006 recording total international tourists of more than 526,000. Similarly, 2008 witnessed 4% of growth over 2007 with 374,661 international arrivals by air. However there has been a set back through surface arrivals due to closure of Tibet during the Olympics, frequent closures in Southern belt of Nepal, and the Koshi flood in the east. Gross Foreign Exchange from Tourism sector is recorded over 230 million US dollars which is 41% up from 2006. Similarly, the average length of stay achieved 12 days compared to 10.5 days in 2006.

World Travel and Tourism Council estimated 237,000 direct employment created in Nepalese tourism and proportional percentage of contribution to GDP as 3 compared to 2 in the year 2006.

Coming to the end of year 2008, passenger movement in the international sector reached a total of 18,13,630 with 840,091 arrivals and 990,539 departures. Number of operating international airlines, however, has not increased from 17 with annual one way air seat capacity totaling around 1.2 million. Air seats in the year 2008 is estimated to have annual occupancy of around 70 percent. It has clearly demonstrated accessibility constraints during the peak season.

Some of the problems and challenges outlined in the Three-Year Interim Plan still equally remains valid as the Tourism Master Plan and Tourism Policy are yet to be finalized, pro-poor tourism, seasonal, and spatial distribution of tourists, accessibility, and tourism related infrastructures are yet to be addressed. Destination Community involvement and private tourism entrepreneurs capability are to be substantially enhanced to expand and extend tourism activities to be economically benefited in a sustained way.

Promotion of some potential segments of tourism as adventure sport, pilgrimage, agro and rural eco-tourism which can alleviate poverty among *Adibasi, Janjatis, Dalits*, women and other underprivileged groups could not gather momentum.

### **Future Thrust**

Although, the year 2007 saw an unprecedented increment in the number of arrivals over the year 2006, the annual average growth between 1990 and 2007 remains at 4.15 %. During the election of Constituent Assembly, almost all the political parties were found to have explicitly mentioned the need for developing the tourism sector for the economic growth of Nepal. Accordingly the present government of Nepal has placed marked emphasis on tourism identifying it as a priority sector for growth and expansion to provide the widest possible range of income and employment opportunities to the poor and maximize to the greatest possible extent foreign exchange earnings as well as spreading the economic benefits to the common people. The decision to observe Nepal Tourism Year 2011 is just one example of the commitment of the government.

By harnessing the opportunities and strengths in the tourism sector and bringing together the commitment of the government, dynamism of the private sector and communities, the following quantified targets can be set as benchmarks for the future:

- In order to achieve a scale to have visible impact in the national economy in terms of revenue, employment, multiplier effects, present volume of international arrivals is to be doubled to annual 1 million
- As Nepal's tourism has been spatially polarized limiting to five areas, Kathmandu, Pokhara, Chitwan, Sagarmatha, and Annapurna, dispersal of 40 percent of the arrivals beyond the present tourism sites is greatly needed.
- Enhancement of Destination Community capability is much needed involving them in providing service to tourists to feel the impact of economic distribution of tourism earnings to the people
- Public and private sector investments are to be encouraged for the Improvement and Expansion of basic and tourism related infrastructures and facilities including human resource development.
- Domestic tourism is to be duly recognized and institutionalized for the scale as well as sustainability of the industry.

As the government, private entrepreneurs, local destination communities, and rural poor clearly recognize the significance of peace and stability for tourism to thrive. With high expectations and so many challenges in facilitating investment particularly in the context of global economic

downturn, substantial financial and technical assistance from the donor community will be needed to develop tourism.

### **Strategies**

- Improve Air and Surface accessibility to and from Nepal to different generating markets to facilitate reliable tour packages.
- Focus trade as well as consumer marketing activities on short haul source markets with better accessibility
- Consolidate promotional activities in traditional generating markets of West Europe, North America, Australia, and Japan
- Develop Lumbini as major centre of cultural tourism and develop Kathmandu-Pokhara-Lumbini triangle
- Construct three international airports
- Attract tourists from and to Lhasa
- Assertive marketing campaign in neighboring market of South Asia and China
- Expand promotional activities in new emerging markets of Middle East, Eastern Europe, and South East Asian countries
- Establish "Naturally Nepal once is not enough" as distinct Destination Brand along with different sub-segmentational brands as "Wild West", "Virgin East".
- Encourage private sector for investment in tourism facilities, attractions and superstructures by special incentives from government
- Innovation of new products or repackaging of existing products
- Joint marketing with airlines offering promotional packages, especially in lean and shoulder seasons
- Capacity building of human resources involved in tourism by organizing tailor-made training and management development programs
- Launch Community capacity building awareness, skill training, and business development programs
- Mainstream tourism to local development
- Promote domestic tourism activities by making a provision of Leave Travel Concessions in public and private sector
- Effective coordination for the success of Nepal Tourism Year 2011 national campaign

### **9. Irrigation**

#### **Status Review**

In Nepal, of the total geographical area of 14,718,100 ha., the land suitable for arable agriculture is estimated to be about 2,641,000 ha. Of this land, the potential irrigable area under surface and groundwater sources is about 1,766,000 ha owing to the rugged topography and landform. With limited irrigable area and need for enhancing agricultural production to meet the food demand of the growing population, the government has been making conscious efforts in the development of irrigation infrastructure, which is a prerequisite to agricultural productivity enhancement.

Historically irrigation development in Nepal began with the initiative and investment of farmers in numerous farmer managed irrigation schemes and that the governments' investment began mainly after the era of planned development. Several small, medium and large irrigation schemes

were developed in different parts of the country utilizing the surface and groundwater resources under internal and external funding sources upon the inception of planned development plans. The irrigation infrastructure development accomplished towards the end of Fiscal Year 2007/08 has been in a total of 1,211,739 ha, as stated hereunder:

1. With the Initiative of Government Agencies:
    - a. Surface Irrigation Development - 660,139 ha
    - b. Groundwater Irrigation Development - 261,837 ha
  2. Farmer Managed Irrigation Systems - 289,733 ha
- Total - 1,211,739 ha

**Target and Progress of Three Years Interim Plan (2007/08 to 2009/2010)**

S.N.	Project/ Program	Physical Target for planned period in ha	Achievement in ha by F/Y 2007/08
1	Infrastructure development for new expansion of irrigated area		
	Surface Irrigation Project	56,900.00	5,213.00
	Groundwater Irrigation Project	37,400.00	8,625.00
	Non Conventional Irrigation Technology Program	1,600.00	177.00
2	Improvement of FMISs	23,700.00	3,096.00
	Total	119,600.00	17,111.00

**Problems**

The problems faced by the irrigation sector have been:

- Less interest in undertaking development of large and reservoir based irrigation schemes with irrigation coverage as envisaged by the Water Resources Strategy, 2002 and the National Water Plan, 2005.
- Due to the lack of financial resources from internal as well as external sources targeted irrigation infrastructure development could not be achieved.
- Lack of due priority to irrigation.

**Challenges**

The challenges faced by the irrigation sector have been:

- *Provision of year round and dependable irrigation services in the irrigated areas,*
- *Collection of Irrigation Service Fee (ISF) to cover the operation, repair and maintenance cost of irrigation schemes,*
- *Management transfer of public sector irrigation schemes to organized groups of water users for operation and management on a sustained basis,*
- *Generation of financial resources for irrigation infrastructure development in order to irrigate additional larger parts of potentially irrigable area.*

**Strengths/Opportunities**

The strengths of the irrigation sector, and thereby the opportunities can be stated as hereunder:

- Possibilities of multi purpose projects with year round and dependable irrigation in larger parts of potentially irrigable area with existing surface and groundwater potential.

- Adequate human resources within the country for the development of irrigation infrastructure.
- Continued progress in the participation of user farmers and their capacity building in the development and management of irrigation.

**Strategies**

- Formulate round the year irrigation projects based on the concepts of Integrated Water Resources Management by constructing multi propose projects to obtain regionally balanced and inclusive development and creating opportunities of additional employment.
- Undertake research/studies, innovations and exploratory works on appropriate water management practices, including feasibility of reservoir based irrigation schemes and trans-basin water transfer projects, e.g. Koshi-Kamala, Bher-Babai for the development and expansion of irrigation facilities. as envisaged by the Water Resources Strategy 2002 and the National Water Plan, 2005
- Special plans and programs for Terai and tars in min-hills
- Storage dams/lakes/ponds for dry season use
- Utilize surplus labor to build irrigation projects