

(Unofficial Translation)

**Budget Speech of the Fiscal Year
2000/2001**

Delivered by:

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To the Eighteenth Session of the Parliament

30 May, 2000

His Majesty's Government

Ministry of Finance

Right Honorable Speaker,

1. As I have stood here to present the budget of the fiscal year 2000/2001, I am happy to note that this budget is being presented to this august House at the mark of the first decennial of the government elected by the people. This is the budget of the Golden Jubilee year since His Majesty's Government started to present the budget as a part of its legal duty. This budget is also has the mark of being the first budget for our country in the new millennium. With this note, Honorable Speaker, I consider this day as the day of historical importance indeed. At this opportunity, I would like to pay my humble tribute, to all the sisters and brothers of my country and recalling my memory of all the martyrs of great fame who sacrificed their lives for the great cause of the country and democracy, I pay my due respect and homage to all of them.

2. The decade that has passed after the restoration of democracy has left with profs of mixed results for the Nepalese people. In these ten years, the democracy coupled with the organized force and awareness of the people has prevailed down to the rural societies. People have been able to raise their voice through their organized strength and awareness for development and social justice in their favor and take their stand for the development policies and plans that foster their interest. They have started to exercise their right to dissent with the development strategies that are worn out and sans effectiveness. In these ten years, the imprints of progress in the field of education and health, drinking water supply and rural infrastructure development have also become visible. To this list, one can also add, the policy initiatives in place has stimulated the private sector participation, development of water resources, increase in exports and industrial activities, tourism, aviation and financial sector development, which has impact on the economy as a whole is favorable.

3. In our economy, which is overly dependent on agriculture, a structural change has come about with a gradual increase in the role and contribution of non-agriculture sector during the ten-year period. A perceptible change in agriculture also is taking place. The food crop, which continued to be largely for self-consumption and the cash crops are beginning to tilt towards commercialization. At the same time, the farming of livestock, dairy, tea, cardamom, fruits and vegetables, fish and poultry, sericulture and coffee are on the rise. In the post-democracy restoration years, modern industries of large and small scales as well as agro-industries are increasing in number. These economic activities in their expansion process have also created job opportunities and incomes to hundreds of thousands of Nepalese.

4. The debt service liability of the government, though increasing in absolute term, has not gone out of control. Nepal's identity as non-defaulter continues to remain untarnished.

5. Nepal's export trade has continued to grow steadily. The balance of payments continues to stand in our favor placing us in a position to sustain the increasing import volume. The impact of the liberal policy we adopted in this period in respect of foreign exchange has also remained in our favor despite serious doubts expressed by some quarters about its viability. It is evidenced by the continued increase in our foreign exchange reserve to its current level of about Rs. 89 billion. It is more than enough to sustain import of ten months. This decade has also witnessed a broadening of capacity to mobilize savings and to invest by the financial institutions.

On education, the number of primary, lower secondary and secondary schools jumped from 23,759 to 37,397. The number of students enrolled in these schools also increased from 34,98,000 a decade ago to 52,86,000 at present. The literacy level by 2048 was at 39.6 percent, which by 1997 reached 52.6 percent of the total population then. An extensive improvement has also taken place in number of school buildings and the access to school based education. The numbers of health workers delivering health services were 28 thousand prior to the decade. This number has nearly tripled to 79 thousand now. Infant mortality rate during the decade scaled down. By 1990 it was 102 per thousand births. It reduced to 64 by 2000. By the same year of 1990, the average life expectancy was forty-nine and a half years. It has now increased to 58.9 years. Crude birth rate of 5.6 by 1991 has come down to 4.3 per thousand.

6. At the beginning year 1990 of the restoration of democracy, 255 thousand tourists had visited Nepal. This number in 1999 increased to 492 thousand. The facilities and services rendered to the tourists have also improved accordingly. As the record goes, total earnings of tourism sector in fiscal year 1989/90 amounted to Rs. 3,120 million. In fiscal year 1998/99, it increased by four-fold to Rs. 12,170 million. Right Honorable Speaker, let me present a few examples of the progress achieved in infrastructure development. Total length of roads, for instance, stood at 6,706 kilometer by mid-July, 1990. The road network more than doubled to 13, 849 kilometers by mid-March 2000. During the decade, thousands of Nepalese people benefited from added supply of treated drinking water every year. Between 1990 and the present, additional 6,853,000 people started receiving piped water. Electricity generation capacity of 176 megawatt by 1990 stands to 352 megawatt by now.

Right Honorable Speaker,

7. I do not intend to limit myself to portraying the golden picture of the achievements of the past decade. It is also evident that the existing issues of our economy and our shortcomings have been laid bare by our democracy and by the increased degree of awareness of the people. In education, for instance, we have added number of schools but they sorely lack teachers in sufficient number, let alone the quality of education. Our villages are now dotted with schools but there are large segment of poor people who cannot yet afford their children those school-based education. We have added number of health posts, health centers and hospitals, but the villagers lack the services of health workers and doctors and adequate medicines. We do lack full compliments of medicines and services to the poor people, to the young children who meet their untimely death, and to the sisters who fall victims of death in their labor pain. In these post democracy restoration years, extensive length of roads was constructed, yet millions of people are still living in the remote and inaccessible areas with their two meals a day and minimum clothing unsecured. The added roads and the air links, if at all, mean too little for them. It is equally true that the increased number of job opportunities in various sectors during these ten years is just not sufficient for millions of Nepalese people, who are mired in the state of unemployment and under employment. Notwithstanding the fact that we have achieved some extra mileage in social change and attendant development, they are often found neutralized by the existing problems of disparities, discriminations, untouchability and exploitation still being practiced in our society at large.

8. Investment and development in the water resource sector have been progressing during the past decade but the momentum to provide electricity to people has not increased nor their affordability to pay increased tariff has improved, as desired. Every year banking and financial institution is being added but the cost of

capital has not decreased as expected nor the access of the rural poor to the capital of these institutions has improved satisfactorily. Our effort and responsibility towards resource mobilization have increased but still we lack institutional capability and alertness to prevent the misutilization of the scarce resources.

Right Honorable Speaker,

9. In this regard, the decade long democratic exercises have opened numerous avenues to economic development potential as well as to the opportunities to correct the shortcomings and lapses present in our economy. I would like to recall my note on the prevailing challenges of the economy during the budget presentation of fiscal year 1999/2000, in which the low productivity of agricultural economy due to inadequate irrigation facility, inadequate agricultural inputs and traditional technology employed in it were highlighted. Slackness in investment needs to be removed in industrial and commercial sectors, aggravating poverty and unemployment due to the high rate of population growth combined with sluggish investment in the industrial and commercial sectors were also highlighted. Public Enterprises are showing negative growth and are becoming onerous, financial sectors flaws, distortions in the mobilization and utilization of the foreign aid, ad hocism prevalent in project selection, project implementation were also summarized. Further, I had also brought to the fore many of the short comings of diminishing morale of our bureaucracy, diminishing efficiency of our institution, prevailing corrupt practices in public life and fiscal indiscipline. I had stressed the need to reform public expenditure management and revenue mobilization to curb the budget deficit growth due to imbalances between public expenditure and revenue mobilization. I had also deliberated on negative effects on the economy due to the unemployment, low saving rate and unproductive investment.

Right Honorable Speaker,

10. The aforesaid problems and challenges continue to go unabated. The cause and effects of these challenges are so profound and extensive that the one or two year's policies, programs and endeavors are not enough to address these challenges in entirety. Our continued efforts together with determined and coordinated national commitment for the reform process in the area of policy, institutional and structural front will only generate expected economic outcome in the years to come. Keeping in view these stark realities and the determination I have made poverty reduction and the economic reform as the focal point of our determination and priorities. I have attempted to encompass these in the forthcoming fiscal year's budget and programs.

Review of the Current Fiscal Year

Right Honorable Speaker,

11. With an objective of presenting to this august House the basic economic trends, salient features and the indicators, I have already submitted the Economic Survey 1999/2000. Now, allow me to present brief review of the economic condition of fiscal year 1999/2000.

12. It is estimated that agriculture production will increase by 5 percent and non-agriculture sector by 6.7 percent resulting in 6 percent increase in the overall Gross Domestic Product. This is the highest growth rate after fiscal year 1993/94. Overall economic growth rate 4.0 percent was posted during the previous fiscal year, whereas, agriculture sector contributed 2.7 percent and non-agriculture sector contributed 4.9 percent. An exceptionally high industrial growth rate of 11.8 percent is expected this year as compared to 5.7 percent in the last year.

13. The revised estimate indicates and increased in the revenue mobilization by 14.3 percent to a total of Rs. 42,580.00 million compared to Rs. 37,250.00 million in the previous fiscal year. The increased amount represents 95.7 percent of the current fiscal year. Revenue to GDP ratio is expected to remain at 11.3 percent as compared to 11.0 percent in the fiscal year 1998/99.

14. The estimate of expenditures of this year was Rs. 77,238.2 million including Rs. 35,386.3 million as regular and Rs. 41,851.9 million as development expenditures. The regular expenditure as per revised estimates, which also includes the additional resources spent on security measures, is expected to reach Rs. 34,272.7 million, 96.9 percent of such allocation. The development expenditure on other hand is estimated to be Rs. 33,292.0 million, which is 79.5 percent of the allocated amount. This was due to the shortfall in mobilization of foreign loans and grants and less than expected elasticity in internal revenue mobilization.

15. The investment that had decreased for the first time by 8.2 percent in the last fiscal year after 1989/90 has posted an increase of 14.9 percent in the current fiscal year. The Gross Domestic Saving (GDP) has increased by 9.9 percent compared to 8.9 percent in the previous fiscal year. The ratio of Savings and Investment to GDP in the current fiscal year have registered 13.2 percent and 20.9 percent as compared to 13.3 percent during the last year, respectively.

16. The export has registered 41.9 percent increase in the first nine month of the current fiscal year as compared to 33.4 percent in the corresponding period of the previous fiscal year. The total import that had decreased by 6.6 percent in the previous fiscal year has increased by 27.3 percent in the current fiscal year. The total trade deficit has increased by 16.8 percent in the current fiscal year that had posted a decrease of 23.3 percent in the previous fiscal year. The export has registered a high growth rate which ultimately has improved export / import ratio from 42 percent to 46.8 percent in the corresponding period of the previous years even though the trade deficit increased.

17. During the first seven months of this year, the current account deficit of external transaction has reached Rs. 3,460 million. During the same period last year, the deficit in this account was only Rs. 110 million as a result of contraction in imports. The balance of payment surplus, during this period, has been Rs. 10,160 million and the foreign exchange reserve has reached to Rs. 89,060 million by mid-April, 2000. This level of foreign exchange reserve can sustain 10 months of imports.

18. The narrow money supply has risen by 12.4 percent during the first nine months of this fiscal year. Such increase during the same period last year was 9.2 percent. The broad money supply has increased by 12.8 percent during this period as compared to 16.4 percent in the same period last year. The national urban consumer price index rose only by 2.5 percent during this period, implying stability in prices when compared to the increase of 10.1 percent during the same period last year.

Right Honorable Speaker,

19. Now, I would like to dwell upon the outcomes of the objectives, policies and programs underlying the current year's budget. In this regard, I have separately presented a ministry-wise progress report in a booklet.

20. The current year's budget had enunciated objectives as to reduce poverty, attain high economic growth rate, and continue economic reform for a sound economy in cooperation with the private sector and to ensure good governance.

21. Among the new programs directly related to poverty reduction, Bishweshwor Among the Poor, Poverty Alleviation Fund and Awakening Program have been launched. Although some time has lapsed for the preliminary preparation, these programs, which directly target the poor to benefit, will be implemented in an organized and institutionalized manner by the end of this fiscal year. A total of 212 income generating, infrastructure development and human development programs have been started in 16 Himalayan and 9 hill districts under the special area development program.

22. The establishment of Small Farmers and Cooperative Development Bank within this fiscal year is in preparation. In order to provide self-employment opportunity, skill-oriented training have been provided to the Kamaiyaas and micro credits at the rate of Rs. 20,000 have been distributed to blind, deaf and physically handicapped without collateral.

23. A strategic action plan has been prepared to reform the financial sector. Preparation are underway to present the bill on credit recovery in the current session of the parliament. Arrangement has been made to provide pre-export credit for exporters at the concessional rate. Exporters have been allowed to open liaison offices in foreign countries and foreign exchange provided for this purpose.

24. The number of ministries has been reduced from 26 to 21 after reviewing the organizational structure and rationale of government offices, corporations and committees as per the policy of closure, merger or integrating redundant organizations.

25. A decision has already been made to privatize Nepal Tea Development Corporation. Arrangement has been made to appoint general managers in the government corporations from within the corporation or corporations of similar nature or from among the government officers. Criteria and process for the appointment of the chairman in government corporations have been fixed.

26. Effort has been made to reduce the number of projects and to prioritize them. Foreign aid policy will be made public within this fiscal year.

27. Revenue Consultative Committee has been formed in order to bring sustainable reform in the area of revenue administration. As a result of the effort of developing value-added tax as the main instrument of revenue mobilization, the number of businesses registered under this system has crossed 17,000. In the customs front, the system of honoring transaction value is in place. Providing permanent account number to taxpayers has started. The new income tax bill has been drafted to present it to the current session of the parliament. The task of creating new organization of customs surveillance will be completed within this fiscal year. Some policies as well as process related suggestions for reforms, as pointed out in the report of the Parliamentary Joint Committee, 1999 on the investigation of revenue leakage, have been implemented. Regarding the other matters raised in the report of the Joint Committee, Revenue Investigation Department has been activated to begin process for necessary actions. The Abuse of Authority Investigation Commission has also been approached for their indulgence.

28. Distribution of free textbooks up to class five is continuing. In order to ensure better utilization and transparency in the distribution of appropriated fund to old, handicapped and widows, necessary improvement has been incorporated in the related manual. A sum of Rs. 14.1 million has been already deposited in the Kamaiya Debt Relief Fund. Besides, training to 2739 Kamaiyaas has been provided in 12 different subjects.

29. Positive trend in the economy is visible during this fiscal year as the indicators like the economic growth rate has been satisfactory, the price level has been very low, rate of growth of export has been high, monetary expansion has been contained, cost of capital has come down to some extent, share market has expanded, balance of payment situation has been encouraging and the level of foreign exchange has remained high.

Right Honorable Speaker,

Objective

30. The foremost goal of our entire development endeavor and of this budget is to achieve the prime objective of "poverty reduction" as envisaged by the Ninth Plan. In order to achieve this goal, the budget of the fiscal year 2000/2001 will have the following objectives:

- (a) to enhance the effectiveness of public resource management,
- (b) to accelerate economic reform programs, and
- (c) to improve institutional capacity.

Poverty Reduction Strategy

31. His Majesty's Government will adopt the following strategies in order to achieve the objective of poverty reduction:

- (a) to achieve broad based and sustained high economic growth rate,
- (b) to enhance the access of the poor in economic opportunities through the development social service sector,
- (c) to create a healthy and efficient economic structure by resolving institutional, structural and policy issues, and
- (d) to make targeted poverty reduction programs effective.

Poverty reduction Program

32. The programs to be implemented by various ministries and institutions, particularly, in rural areas will be implemented in accordance with the spirit of "Income to Destitute - Justice to Helpless". The access of destitute and backward community will be increased in social service sector programs like education, health, and drinking water. Incomes earning from programs like agriculture, irrigation, rural and micro credit, and cooperative will be raised. The programs related to forestry, environment, rural road and infrastructure development would expand economic activities. The programs like skill development and training, women empowerment would provide additional income earning opportunity. These programs will be implemented by involving the oppressed, tribal and native communities and women in a group. All these programs will be primarily guided by the objective of poverty reduction.

33. Aside from the allocation made by the government, the resources channeled through foreign technical assistance and INGOs will be tied with the main objective of poverty alleviation. Similarly, resources made available to rural areas through food security reserve and allowance to old, widows, disabled and handicapped will also be targeted as the poverty reduction activities.

34. Within the coming five years, direct programs of poverty reduction will be taken to all village development committees by mobilizing NGOs, district and village development committees' programs through the medium of Poverty Alleviation Fund.

35. Economically and socially backward as well as terrorist stricken areas and the most inaccessible districts will be identified to launch development and construction works undertaken by various organizations in an integrated and coordinated manner through the basket funding mechanism. Arrangement will be made to select, formulate, implement and monitor the development and construction works on the basis of district level government offices, district development committees and all party consensus.

36. The Bisweshwor Among the Poor Program, implemented from this fiscal year, will be made more cost effective by limiting the administrative expenses and through the small, swift and uncontroversial structure. In implementing this, the program will target those districts where Kamaiyaas culture prevail so as to provide them alternative for their livelihood. In addition to the Kamaiya Debt Relief Fund, this program will contribute considerably to the task of emancipating them.

37. Programs of improving the socio-economic condition and poverty reduction of the neglected, oppressed, exploited, ethnic tribes, and other native communities like Praza will be implemented with priority. The 25 percent subsidy program provided to the old and economically weak senior citizens for their hospital-based treatment in the government hospitals will be made more effective.

38. The access of women in political, economic and social spheres will be made effective in order to enhance their active participation in the various fields of development. Women awakening and income earning program, leadership development, girl trafficking control and skill development for women will be expanded in additional village development committees. A high level "National Women Commission" will be constituted to provide advice to the government on matters of women's right and well being.

39. Population management will be made effective by formulating long-term population plan. Family planning program will be expanded for targeted community.

40. Employment and self-employment programs will be implemented for the large number of unemployed in the country by providing skills to them. The youth self-employment program implemented from this fiscal year will be restructured and implemented. In order to tie up the skill development-training program with its market demand, the work of obtaining and disseminating information on employment exchange and labor market will be expanded.

41. The employment opportunities will be improved to minimize the existing problem of unemployment. This will be realized by developing expected skills of labor on the basis of domestic and foreign labor market study. The recent opening of Royal Nepalese Embassy in Qatar is expected to protect the right and interest of Nepalese workers in the Gulf region.

42. In order to avoid the incidence of food shortage in any part of the country, arrangement will be made to establish National Food Security Reserve of 40,000 MT and to supply 8500 MT for smooth distribution to targeted groups in the remote districts. Food for Work Program will be expanded to food scarce areas.

43. Priority will be given to the involvement of cooperatives in the tasks of agriculture enterprise, market promotion, storage and input supply. In the coming fiscal year, cooperative bank will be established by involving private sector as well. Agriculture extension program will be implemented by involving the NGOs and community based organizations.

44. "Karnali Zone Agriculture Development Project" will be launched for the agriculture development of five districts of the Karnali Zone categorized as backward as per the human development index. Under the program, horticulture, potato and vegetable, livestock development, food and herb processing, and research will be included.

45. In order to bring gradual improvement in the income level of the overwhelming peasants living below the poverty line, programs like, goat farming, rural poultry, sericulture, vegetable production and bee keeping will be implemented with priority. Under the poverty reduction program, "commercial goat farming program" will be implemented for 2,200 families in 22 districts of five development regions. Likewise, "rural poultry development program" will be implemented through women group for the 900 families in 9 districts of the Far Western Development Region.

46. As per the target of raising the literacy rate to 70 per cent by the end of the Ninth Plan period, the campaign for non-formal education will be extensively expanded and made effective. It will be expanded altogether to 20 districts in the next fiscal year.

47. Scholarships under the "Education for All" scheme will be provided to children belonging to all ethnic and tribal groups, downtrodden classes, students from poor and isolated from the social mainstream, and those from remote areas, in order to make education easily accessible and to bring them into the mainstream of national development.

Effectiveness Enhancement in Public Resource Management

Right Honorable Speaker,

48. Now I would like to present the policies and programs to be adopted in the next fiscal year.

A. Reform in Public Expenditure Management:

49. Resource allocation to priority sectors, like agriculture, irrigation, infrastructure development, education, and health will be increased for effective public resource management. Reform measures in the implementation process will be undertaken for optimum returns from such investments, and unproductive expenses will be controlled. Expenditure Review Commission will be set up to give professional and expert advice to the government in the management of expenditures. These measures will help do away with the ad hocism in the allocation of scarce resources of the country, and financial discipline will be maintained. Besides, privatization process of public enterprises will be intensified, and debt management activities streamlined and made accountable in order to reduce financial deficit.

50. Our public expenditure system is unbelievably burdened with economically unfeasible projects and from our compulsion to invest in those sectors where rate of returns is lower. In order to improve the present situation, the following measures will be adopted from the next fiscal year: (a) adopt performance-based funding process and begin multi-year programming in the selected projects, (b) enhance the level of funding to feasible projects identified and recommended by the Expenditure Review Commission, (c) ensure periodic monitoring and evaluation. Implementation level project staff will be awarded with the "Prime Minister Award," on the basis of their objective performance evaluation, and those who have ignored their respective responsibilities will be punished accordingly.

51. Beside reforms in the revenue administration, new avenues of revenue source will be identified for enhanced revenue mobilization. Additional efforts will be made

for the collection of dividend, royalty, and principal and interests due to the government by regular monitoring of non-tax revenue. These efforts will bring discipline in public expenditure management and enhance the level of revenue collection as well. I hope that these steps will help in effectively managing public expenditure by cutting down the budget deficit.

52. Starting from next fiscal year, domestic borrowing will be consolidated under one heading as against the past practice of classifying it into banking and non-banking sectors. As this will lead to mobilization of domestic borrowing on the basis of changing needs of the economy and the level of debt burden, I am confident that this will help for overall development of financial sector and for strengthening of financial management in public sector.

B. Reform in the Revenue Administration

53. In order to make revenue administration taxpayer-friendly, revenue administration will be made to function based on procedural manual with simplified overall revenue administration procedures, transparent revenue administration rules and regulations, and free of administrative hurdles. Administrative procedures will be made uniform to create a congenial environment where the government respects taxpayers and the taxpayers in turn fulfill their administrative obligations.

54. Existing administrative hurdles will be removed in order to make issuance of receipts compulsory in all types of transactions from importers and whole-sellers to retailers and get every level of transaction duly recorded in books for the successful implementation of Value Added Tax (VAT). Customs valuation will be done on the basis of transactions value. Beginning from the coming fiscal year, transactions of commercial agricultural farming, export business, non-agriculture business of cooperative institutions will be brought into the tax net. Similarly, dividend and interest earned from loan investment of foreign investors will also be brought into the tax net. Although this decision may seem harsh and unpopular, it is imperative for the overall benefit of the nation.

55. Functional reform will be done in the overall revenue administration, and integration of Department of Taxation and Department of VAT will be initiated in the coming fiscal year. Training will be provided to taxpayers on their duties and rights, and also arrangements will be made to provide information to civil society on procedures and progress on valuation of taxation, and tax arrears.

56. Skill of revenue administration officials will be enhanced through training, orientation workshops and refresher training programs. Good performers will be rewarded, and those found inefficient and guilty will be punished.

C. Improvement in the Effectiveness of Foreign Aid

57. In this fiscal year, foreign aid policy will be formulated with focus on fundamental elements like aid mobilization is in line with the national interest and our development priorities, national execution modality is established in relation to foreign aid mobilization and management, long-term cooperation between His Majesty's Government and the donor community is developed, and donor community play the role of facilitators and promoters rather than doers. I believe that the foreign aid policy will help resolve the existing issues on disbursement, modality and priorities of aid.

58. With due consideration of debt service situation of the economy, priority will be given to grant assistance over loans to the extent possible while mobilizing foreign

assistance. In the mobilization of foreign assistance, emphasis will be accorded to sectoral or program-wise approach.

59. Institutional capabilities of various governmental organizations will be enhanced in the areas of selection of projects for foreign assistance, aid negotiations and clarity and simplicity in conditionalities of foreign assistance. Use of local capacity and skills will be encouraged instead of use of expensive expatriate technicians and advisors.

60. Reform measures will be undertaken in the management, accounting and auditing system in foreign aided projects. Reform measures to improve the present situation of low re-imbursment vis-à-vis the release of foreign aid will be continued. Commodity assistance and direct payment from donor institutions will be subjected to auditing. Arrangements will be made for flow of information on aid disbursement from donor institutions to central treasury of the government. I am confident of the donor community cooperation in this regard.

Acceleration of Economic Reform Measures

Financial Sector Reform and Private Sector Development

61. Bills for pertinent reforms in Loan Recovery Act and Commercial Banking Act will be presented in the present session of the Parliament. Work plan for institutional strengthening and getting rid of hurdles in financial sector will be prepared and implemented immediately. Strengthening of management and restructuring of Rastriya Banijya Bank, Agriculture Development Bank, Nepal Industrial Development Corporation under government ownership as well as financial institution with government participation, such as Nepal Bank Limited, will be initiated. Fitting reform will also be made in Nepal Rastra Bank Act and its capabilities in supervision and monitoring will be enhanced. Transactions of all types of banks and financial institutions, extending credits and accepting deposits, will be brought to regulatory supervision and monitoring mechanism of Nepal Rastra Bank. In order to reform the operation and efficiency of non-banking financial institutions, role of central bank will be made effective and safeguard the deposits in such institutions.

62. Institutions dealing with rural and micro credits and their existing arrangements will be made more functional and extensive. Besides, efforts will be made to augment the flow of rural credit by giving priority to establish development banks at regional and local levels. Nepal Rastra Bank will undertake organizational and financial strengthening programs for rural development banks established with the objectives of alleviating poverty in the rural areas.

63. Establishment of branches of internationally reputed banks will be promoted under the terms and conditions and procedures set by the Nepal Rastra Bank. Besides, the policy and legal provisions will be implemented to enhance the national and international investment in the insurance markets.

64. In order to bring improvement in the regulatory provisions relating to securities and to make the securities transaction simple, accessible and more transparent, draft of a new Securities Transactions Act will be presented in the next session of the Parliament. Arrangements regarding transfer of title of securities will be strengthened and simplified.

65. On the initiative of the Nepal Rastra Bank, arrangements for the establishment of a Credit Rating Agency will be started in the coming fiscal year. This will assist in ascertaining the investment risk and developing the capital market.

66. Assets Reconstruction Company will be established in the coming fiscal year as a joint venture of the Nepal Rastra Bank and private sector. The Company will accept the land and buildings and other assets as collaterals against the bad debts of the commercial banks at a price that can be raised in the market and will provide them special bonds equal to such amount. The company will make arrangements for the repayment of special bonds out of the cash receipts of such transactions of collaterals. I have hopes that this will enable the banks to concentrate on strengthening and organizing their businesses rather than being embroiled in legal course of auctioning the collaterals.

67. In view of the increasing number of private sector owned financial institutions and banks and their transactions and expansion of their branches, arrangements have been made for a mandatory provision through the Nepal Rastra Bank for their final auditing as per the international practice and also in respect of branches of the banks with a specified ceiling of transactions.

68. In order to enhance the private sector investment and reduce business costs, necessary policy, legal, administrative and procedural reforms will be implemented. Through the timely review of the existing provisions relating to industrial policy and foreign investment, administrative hassle will be eliminated to create an investment friendly environment. In order to fulfill the long-term need of the industry sector, a 20-year industrial perspective plan will be prepared.

69. Appropriate policy related backstopping and other facilities will be arranged for those industries (such as textile, sugar, paper) that cannot be competitive due to various reasons.

70. Registration of trade names of medicines that are imported into Nepal (under various traded names) has been made compulsory. Likewise, appropriate increase will be made in the registration fee of the pharmaceutical companies.

71. Privatization process will be carried out effectively to reduce the pressure on public expenditure and to direct the resources to the needy areas. Government's involvement in commercial activities will be eliminated gradually. Investment, productivity and economic growth of the country will be ensured by giving top priority to the overall and sectoral improvements that are necessary for the development of the private sector.

72. Private sector involvement will be enhanced for infrastructure development. Continuity will be given to adoptions of Build, Operate and Transfer (BOT) system in the development of physical infrastructure.

Improvement in Institutional Capability

A. Decentralization

73. Decentralization process will be institutionalized. The problems encountered in its implementation in the past years will be reviewed and monitored for their effective solutions. Capacity of the local bodies and institutions will be enhanced in order to provide "Gaun Ko Adhikar Gaun Lai" (villages' right to villages). In order to make the local bodies self-reliant, as per the provisions of the Local Self-Governance Act, I have made arrangements to provide resources by means of land revenue and local development fee, besides registration fee, entertainment fee and house tax.

74. Besides, greater responsibilities will be entrusted to the local bodies in carrying out development and construction works. Programs aimed at strengthening the capability of the local bodies regarding management, institutional development, plan

preparation, information system, training and delivery of services will be implemented.

75. Ministries and departments at central level will be mobilized to the maximum as the institution responsible for policy formulation and giving directions, monitoring and providing technical assistance. Similarly, regional directorates will be mobilized as the institution responsible for monitoring and coordination. Resources for public services and facilities and development works will be mobilized, especially through District Development Committees, through the participation, partnership and joint effort of the local bodies.

B. Good Governance and Civil Service

76. In order to provide state services expeditiously, efficiently, impartially and effectively, stress will be given to reform programs relating to motivate administration to be people oriented, transparent and accountable. Public sector role will be made effective by encompassing the fundamental elements of administration, like clarity, efficiency, result oriented culture and discipline.

77. Government's efforts will be concentrated to strengthening security situation, enhancing the access of general public to individual security and justice, to bring improvement in the service delivery efficiency of offices having high public relations and to making available the services to be delivered to the poor and the target group easily and effectively.

78. By the implementation of recommendations forwarded by the Corruption Control Recommendation Committee and strengthening Commission for Investigation of Abuse of Authority, actions against the corrupt practices will be pursued to the final point of the law. An administrative system to ensure transparent and accountability will be put in place by reducing the discretionary authority of the responsible officer. Development of a culture has been considered as necessary that ensures every activity of the political parties, non-governmental organizations and civil societies governed by such values as transparency, clarity and accountability and rule of law in their public dealings. Accordingly, legal, administrative and institutional arrangements will be made for the development of such values. By modifying and improving the existing laws relating to corruption control, a legal provision will be made for the mandatory submission of the property declaration each year by everyone enjoying government facilities. The property not covered by the declared income source will be treated as earned through corrupt practice. An Act will be introduced for the confiscation of such property.

79. In the direction of making civil service productive, efficient and effective, the bureaucracy and the government institutions will be trimmed to the right size. Administrative reform process will be adopted including the closure and/or merger as necessary. Unproductive positions will be curtailed and no new positions and organizations will be created except for the tasks considered as essential.

80. All the vacant positions of the Ministries and the offices thereunder of His Majesty's Government and of the government owned corporations would be frozen through restructuring. The vacant positions until such time will not be filled. As a result of such freeze, the excess or shortfall to positions in the concerned offices or corporations will be filled by internal adjustment on the basis of assessment.

81. While presenting the budget of this fiscal year, I had submitted before this august house the problem of failure to raise net income of civil servants and problem thereby keeping up facilities and incentives to work. Also, I had mentioned about the deteriorating institutional capacity and falling administrative morale. On the one

hand there has been a need to bring about policy reform to transform the administration into professional, capable and strong machinery, on the other hand, enhancement of institutional capability has been a challenge. On this background, I have made significant up-scale in the salary structures of Army, Police, Civil Service, Teachers and Professors. This salary increment is based on the recommendations of the Pay Commission constituted by HMG/N in 1998. This up-scaling of salary is expected to enhance the morale, capability, and performance of civil servants. I also expect that this increment will create a basis for quality performance of public servants with efficacy and efficiency. Following is the proposed salary scale:

Position/Class	Starting pay-scale
Peon Level	3,000
Non-gazetted class I	3,300
Non-gazetted class I	3,630
Non-gazetted class I	4,100
Non-gazetted class I	4,900
Gazetted Class III	7,500
Gazetted Class II	8,650
Gazetted Class I	10,500
Secretary	14,000
Chief Secretary	15,000

82. According to the Civil Service Act, a civil servant is entitled to receive grade equivalent to one day's pay on completion of each year. The pay commission recommended the adjustment in the grade, subject to Amendment in the Act. The proposed salary scale will be enforced upon the approval of the proposed amendment, which will be submitted during the current session of the Parliament.

83. Civil servants willing to retire, who have completed 20 years of service and has crossed 50 years of age, will receive a lump sum pension of seven years. Vacancies created from such retirements will be automatically eliminated.

84. Local allowances applicable for remote areas will be revised. But, except in case of special provision made by specific law, allowances like accounts allowance, store allowance, special allowance, training allowance, additional allowance, or overtime allowance and all other types of allowances will be withdrawn upon the enforcement of the new pay-scales.

85. I have made arrangement not to fill any vacancy in Government owned or Government grant funded public Corporation, Board, Development Committee, Council, Commission, Academy or Institution, and Authority without prior approval of the Ministry of Finance. Arrangement has been made not to recruit temporary staff in Development Boards, but to depute permanent staff as required.

86. In view of annually increasing liability in providing pension to retired employees, a feasibility study will be carried out for the establishment and operation of a "pension fund" on a joint contribution from the government and the employees. It is envisaged that the amount annually set aside for pension will be deposited therein so that it can earn interest and also do investment.

Civil Society

87. The government will play a supportive and promotional role for the development of civil societies to facilitate them to work as an important institution in our development efforts. Civil societies will be motivated as an effective tool to work for the development of good governance, poverty reduction and socio-economic development. Their transparency and institutional responsibility will be enhanced by developing performance standards and code of conduct.

88. The non-Governmental Organizations (NGOs) can make significant contribution to social and economic development of the country. With this in mind, necessary arrangements will be made for the NGOs to maintain transparency in their financial transactions, conduct their activities strictly in accordance with the law of the country, and direct them to implement poverty reduction programs in remote areas of the country.

89. International Non-governmental Organizations (INGOs) will be made accountable by encouraging them to enhance the level of resource mobilization in priority areas by making more transparent their programs, origin and uses resources. Accordingly, for services to be provided to both NGOs and INGOs by the government, procedures will be made short and simple.

Right Honorable Speaker,

90. A strong law and order system in place is the mainstay of our economic and social development. Any degree of violence and war waged with arms by the Nepalese against other Nepalese only aggravate the poverty already on the back of the Nepalese and shatter law and order and whatever strength Nepalese have as a nation. Our neighboring countries are marching towards the bright future by fighting with poverty and deprivation. In the meantime, Nepal and we Nepalese people are facing the danger of being pushed backward as a result of getting trapped in the vicious circle of violence, weapons and killing of our kith and kin. Whoever loses life in this destructive path of violence and killings, it is ultimately the Nepalese woman who is widowed (with the vermilion wiped from her forehead and bangles of her wrist shattered; vermilion and bangles symbolizing her conjugal life). The Government is the representative of the people as well as their guardian. On the background of visible sign of repentance and regret among youths indulged in criminal and violent activities driven by flared up emotions, the policy initiated to welcome them to the national mainstream will be continued. For this structural improvement of Ganeshman Singh Peace Campaign program will be continued this year to relieve and rehabilitate the people sandwiched in violence.

91. Existing capacity of security related organizations would be enhanced to ensure the existence of convincing and reliable security arrangements so as to create the terror-free environment in the society. Security related information system and intelligence would be given high priority. Security personnel deputed on risky and dangerous jobs will be well equipped.

Agriculture and Irrigation

92. Agriculture is given high priority, as revolution in this sector is the base of economic transformation. Based on the priorities set by the Agriculture Perspective Plan, agriculture production program will be carried out by giving special emphasis to potential pocket areas. For this, integrated provisions of agricultural credit, fertilizers, seed, training, rural roads, and irrigation facility will be made. Crop intensification, and commercialization and diversification of agriculture will be emphasized in irrigated areas. The export market promotion program will be given emphasis by conducting studies and analysis on export promotion of high value agriculture crops.

93. Production oriented programs will be carried out in areas closer to North-South road corridors. Farm technicians will be familiarized with market oriented programs. Animal health program will be strengthened in livestock and dairy pocket areas along with the emphasis on the promotion of productive livestock resource.

94. Land reform program will be made people responsive, timely and effective. A national Land-use Policy will be drafted to guide land management and land related activities.

95. Land integration and consolidation policy will be adopted to raise agricultural production and productivity. In order to support the industrialization process of the country and to utilize unproductive and idle capital asset existing in the form of land as well, His Majesty's Government will provide share certificates of privatized institutions against the value of land acquired from willing land owners.

96. I have retained the provision of subsidy on electricity bill on private sector operated 'Cold Storage'. In addition, I have also proposed interest subsidy on the construction of Cold Storage facility for the active participation of the private sector.

97. Sinking of deep as well as shallow tube wells will be continued on the basis of ground water irrigation potential. Execution of small and quickly executable irrigation schemes will be given priority for the development of reliable irrigation system. Irrigation would be considered as an agricultural infrastructure and its development programs will be continued on the basis of scheme selection and their implementation on the partnership of irrigation user farmers.

Forestry and Environment

98. Employment and income generating opportunities will be created for the people of rural and remote areas through training and extension on collection, processing and promotion of forestry products. A portion of annual revenue collected from parks and wildlife conservation areas will be invested for local community development activities to raise their income level as well as developing partnership in local resource conservation activities.

99. With the participation of deprived people, Herbal Promotion Centers will be established in feasible areas with an aim to reduce poverty and create self-employment opportunities for them. And, effort will be made to benefit the targeted people by involving them in herbs farming and processing at local levels.

100. In view of the role of alternative energy resources (bio-gas, micro-hydro, solar energy and wind energy), emphasis will be given to technological development and expansion of these resources.

Population and Employment

101. National Census activities will be started from the next fiscal year. Gender Mapping will be included in this census taking exercise. Such mapping exercise will

provide information necessary for social and economic development of women thereby to contribute to overall women development endeavor.

102. Nepalese diplomatic missions abroad will be mobilized to take promotional measures to develop foreign employment as a means to resolve unemployment problem and develop it as a dependable source of foreign exchange earnings. These missions will also help in creating employment opportunities, use those opportunities for the benefit of Nepal and protect the rights of Nepalese laborers abroad.

103. Labor policy and laws will be amended to support industrialization of the country. A secure and hygienic environment will be created for industrial labors.

104. Efforts will be made to establish polytechnic institutions and expand community and vocational training centers in order to fulfill the demand of low and medium level manpower in the country, and provide employment oriented short-term and long-term training.

Social Development

105. Gradual expansion of community participation based nursery classes will be carried on to strengthen primary education system. Distribution of textbooks up to the students of grade five will be made more efficient and effective. Arrangement of one female teacher in each primary school will be made to raise the level of women participation in education.

106. Arrangement will be made to train 10,000 primary school teachers and 3,000 lower secondary school teachers as a measure for the capacity enhancement of teachers and making them more capable and accountable thereby bringing qualitative improvement in school level education.

107. I have made provision to make available a copy of any research report except those sensitive to national security and law and order issues. This measure will benefit to all those interested to access such research outcomes and also avoid conducting same type of research repeatedly.

108. In pursuance of the declared policy of providing cost-free service to helpless and old people, the Government will bring improvement in the arrangement of treatment of old and disabled persons. Safer motherhood and children health care services will be made more effective to reduce maternal mortality, infant mortality, and child mortality rates.

109. Distribution system of vitamin "A" and iodized salt will be made effective. Efforts will be made to take preventive measures to control the sudden occurrence of epidemic diseases including tuberculosis, malaria, kala-zaar, leprosy, HIV/AIDS, meningitis etc.

110. Quality of services provided by the district and regional hospitals will be improved and capacities of some district hospitals will be further enhanced. Ayurvedic health centers and Ayurvedic hospitals will be established gradually at different places of the Kingdom.

111. A feasibility study of "Health Insurance Scheme" will be carried out with a view to provide most needed health services to the people. In an effort to make health services more effective, community drug scheme will be expanded.

112. In the coming fiscal year, rain water collection program for drinking and other domestic purposes will be expanded in places where natural resources are lacking and no alternative source of water is available.

113. In order to meet the demand for drinking water in the Kathmandu Valley, small nearby water resources will be tapped, ground and surface water sources will also be fully utilized until the Melamchi water supply project is commissioned.

Export and Investment Promotion

114. His Majesty's Government will support the development and expansion of industries producing high value-added exportable products using local skills and raw materials along with the identification of exportable goods and services.

115. Existing system of pre-export credit, at reduced interest rate, up to 35 percent of total export based on L/C, to the exporters will be continued in the coming fiscal year too. Exporters will be receiving loan in foreign exchange at 7.5 percent interest rate as usual. An export support counter will be set up at departure lounge of the Tribhuvan International Airport to support and simplify export of handicrafts and low weight goods to be carried as accompanied by the air passengers. Arrangement will be made to extend long term credit for the development of physical infrastructure to the export oriented industries.

116. From the coming fiscal year, government offices and government owned corporation should strictly follow the policy of procuring locally produced goods and services to the extent possible.

117. In order to make Nepali readymade garments competitive after 2005, long-term export policy and strategy on readymade garments will be prepared and implemented.

118. Emphasis will be given to conserve sources of important natural herbs, develop collection technique, processing and export of herbs. Patent rights will be guaranteed for the important natural herbs available in Nepal.

119. Investment friendly environment will be created in order to attract foreign investment and enhance employment, production and income opportunities by establishing schools of international standards, medical, engineering, polytechnic institutions, info-tech and recreation centers, health resorts, tourist spots and golf centers etc in a few selected hill regions such as Illam, Rabi, Hile, Dhankutta, Sindhuli, Gorkha, Palpa, Tikapur of Kailali, and Dipayal, where physical instrusctures have been either developed or developing.

120. Arrangement has been made to take account of depreciation of fixed assets at a accelerated rate for the additional investment to be made in the comparatively advantageous sectors such as water resources, software and info-tech development, school of international standard, hospitals, children park, recreation parks, sports facilities, film studios, conference centers etc. I am confident that these measures will help promote investment and support industrialization process.

121. I have withdrawn the prevailing service charge levied on the information service provider in the private sector. This will help make information technology services competitive.

122. I have reduced the registration fees on ownership transfer of residential houses and apartments built by organized sector in the urban areas. I am confident that this measure will help modernize the residential housing management system and make housing facilities in urban areas less expensive and easily accessible in sufficient number.

Culture and Tourism

123. Comprehensive master plan for the Lumbini Area Development Program will be continued by integrating development of historically and archeologically important places such as: Ramgram, Tilaurakot, Kotihawa and Niglihawa of Lumbini area.

124. Cultural tourism will be promoted while protecting and promoting cultural heritage of different castes, ethnic groups and lingual and bring them to wide publicity both at national and international levels. Similarly, renovation and conservation of important monuments of tourist attraction will be carried out and publicity of world heritage sites will be enhanced.

125. Feasibility study will be carried out to make tourists arrival and departure simple and convenient at Pashupatinagar, Rani Biratnagar, Madhavpur, and Jaleswor. New trekking points will be opened up in order to further develop trekking tourism in Nepal. Destination Nepal, 2000, a special program, will be launched to increase the number of tourists.

Basic and Physical Infrastructure

126. Water resources have remained the backbone of national prosperity. With the objective of implementing overall development and management of water resources in an integrated manner, Water Resources Strategy will be finalized and preparation of national water resources plan will be initiated.

127. In order to attract foreign investment and encourage active private participation in the development of hydropower in Nepal, existing acts and rules will be revised and made transparent, more attractive and simpler. Restructuring and reforming of power sector will be initiated.

128. Efforts will be made to complete ongoing hydropower projects within stipulated time. Electricity will be made available in the district headquarters that do not have access to such services, in the coming fiscal year. In the course of connecting various districts in the national grid, transmission of electricity through national grid will be made available in Panchthar, Taplejung, Sankhuwasabha, Okhaldhunga, Rukum and Jajarkot districts.

129. To prevent damage from floods and soil erosion to agricultural land as well as life and property, a master plan will be prepared and river training works will be carried out accordingly. People's participation and private sector involvement will be encouraged in the river training work.

130. As per the policy of establishing Ilaka post offices (area post offices) all over the country, 20 Ilaka post offices will be established in the coming fiscal year.

131. Rural Telephone Exchange will be established in 16 urban-oriented rural areas and telephone exchanges with 68,602 telephone lines will be established and expanded in the coming year. Priority will be given to the implementation of "Special Rural Telecommunications Program" in order to establish and extend telephone services to all Village Development Committees by FY 2002/2003.

132. In order to bring the main agencies related with journalism at one venue with a view to make them work in an integrated manner, continuity will be given in setting up Communications-Village (Sanchar-Gram). Information Technology Park will be set up to develop and expand information technology.

133. Satellite medium will be used to expand Nepal Television's transmission throughout the country. In order to promote private sector role and to ensure competitiveness for the development of transmission services, facilitating role will be played.

134. In line with the objective of balanced development of urban areas for making such areas comfortable, clean and safe, a National Urban Development Policy will be formulated to manage the physical, economic, social and environmental aspects of such areas. Continuity will be given to the rural development programs through the development and expansion of small towns and market centers by establishing and deepening interconnectedness between rural and urban areas.

135. Programs relating to construction and maintenance of road network, which are the prerequisites to development, will be implemented effectively. Among the districts head quarters having no road links, Bajhang, Achham and Rukum districts will have road links in the coming year.

136. Road Fund will be established with the support of road users and money for the maintenance of roads will be made available from this Fund.

137. In order to avoid the brain drain of national talents engaged in science and technology, a policy of increasing private sector investments in research and development for creating adequate opportunities within the country will be adopted.

Expenditure Proposals

Right Honorable Speaker,

138. Now, I would like to present the estimates of expenditures for the FY2000/2001.

139. A total sum of Rs. 91,621.335 million is expected to be spent in the coming fiscal year. Of this, I have appropriated Rs. 43,512.746 million for the regular expenditure and Rs. 48,108.589 million for the development expenditure. As compared to the revised estimate of the current fiscal year, the regular expenditure is higher by 27 percent, development expenditure by 44.5 percent and total expenditure by 35.6 percent.

140. Out of the total appropriation for the regular expenditure, I have allocated Rs. 12,762.8 million for external and domestic debt servicing, Rs. 3,897.1 million for defense, Rs. 5,271.2 million for police, Rs. 8,203.4 million for education and Rs. 1,663.3 million for health.

141. I have allocated necessary fund for National Human Rights Commission.

142. As per the commitment of the Government of the Nepali Congress, to ensure free and fair election that is fundamentally based on the up dated voters' list, the distribution of voters identification cards will be continued next year. By the end of the current fiscal year, voters' identification cards would be distributed in 54 constituencies of the country and additional 51 constituencies will be covered in the coming fiscal year bringing altogether to 105 constituencies. I have allocated Rs. 80 million for this purpose.

143. With a view to make the police force more capable and make them as a dependable ally of the people and sentinel of security, provision has been made for additional manpower for the Nepal Police to strengthen and make the law and order situation reliable. I have made arrangements of additional Rs. 1,865 million.

Right Honorable Speaker,

144. Development expenditure constitutes 52.5 percent of the total expenditure appropriated for the coming fiscal year. Out of this, 35.1 percent has been allocated for the social services sector, 7.1 percent for education, 6.3 percent for health, 8 percent for drinking water and 10.7 percent for local development. Out of the total

allocation of 63.4 percent in the economic services sector, I have allocated 13.8 percent for transportation, 22 percent for electricity and 19.6 percent for agriculture, irrigation, land reforms and forestry sector.

145. As compared to the revised estimates of the development expenditure of the current fiscal year, appropriation has increased by 44.5 percent in social sector, 51.6 percent in education, 59.7 percent in health, 74.6 in drinking water and 22.3 percent in local development sector. Similarly, appropriation in the economic services sector has increased by 44 percent against revised estimates of the current fiscal year. Of this, I have proposed to increase the allocation by 36 percent in agriculture, 40.9 percent in irrigation, 31.5 percent in forestry, 25.3 percent in transportation and 85.9 percent in electricity sector.

146. "Karnali Zone Agriculture Development Project" will be carried out to increase agriculture production and productivity by developing local environment friendly agriculture in the five districts of the remote Karnali Zone. I have allocated Rs. 50 million for this program, which aims at achieving self-sufficiency in food production in coming five years.

147. In order to increase feasible agricultural product in the local level and making those sectors self-reliant by providing agriculture technology and inputs, an integrated Special Agricultural Production Program will be launched in 21 remote districts: Taplejung, Khotang, Okhaldhunga, Solukhumbu, Sankhuwasabha, Terathum, Bhojpur, Ramechhap, Gorkha, Manang, Mustang, Myagdi, Bhajang, Bajura, Rukum, Jajarkot, Rolpa, Salyan, Dailekh, Achham and Darchula, which have either no road access or have limited access. This program will directly support in the reduction of poverty. In order to maintain regular supply of seeds, a Seed Company will be established at the central level. I have allocated Rs. 79.3 million for both the programs.

148. In the coming year, goats exchange program (goat bank) will be launched for 2200 families in the 22 feasible districts: Siraha, Saptari, Udaypur, Sarlahi, Kavrepalanchowk, Makwanpur, Arghakhanchi, Baglung, Nawalparasi, Dang, Surkhet, Banke, Jajarkot, Rukum, Rolpa, Pyuthan, Salyan, Kailali, Kanchanpur, Bajhang, Bajura and Dadeldhura in all 5 development regions. Likewise, programs on rural commercial poultry; proper replacement of sheep and goats; distribution of improved variety of bull and Murra male buffalo; fodder grass and pasture land development will be carried out to promote self employment for 900 families of the 9 districts of the Far-Western Development Region. I have allocated an amount of Rs. 138.7 million for this program. Arrangement has been made to invest Rs. 208.8 million under Agriculture and Cooperatives Ministry and Rs. 150 million through Agriculture Development Bank for the implementation of on going Third Livestock Development Project.

149. Growth centers will be developed in Ilam, Panchthar, Terathum, Dhankuta and Udaypur districts of the Eastern Development Region which have access to highway and road infrastructure by launching programs to increase the high value agricultural products such as cardamom, orange, off season vegetables. I have allocated Rs. 25 million for this program.

150. In order to increase productivity through integrated and coordinated services of agriculture credit, irrigation, rural roads and market system; programs like cardamom, commercial vegetables farming, potato cultivation and intensive crop development will be carried out as a "Pocket Package" in a coordinated manner from the coming fiscal year in the feasible areas of Taplejung, Sunsari, Sindhupalchowk, Nuwakot, Dolkha, Syanja, Lamjung, Dang and Kanchanpur districts on pilot basis.

For this purpose, I have made arrangements to invest Rs. 14.1 million, the credit amount required for the rural farmers for this purpose, through Agriculture Development Bank. I have allocated Rs. 10 million for other services and support programs.

151. A sum of Rs.48.5 million has been allocated to develop physical infrastructure and provide equipment for sericulture activities being carried out in Ilam, Sunsari, Kavrepalanchowk, Dhading, Tanahu, Chitwan, Kaski and Syanja districts.

152. Present service and support program initiated with a view to uphold the living standards of small farmers through the production and extension of cash crops like tea, coffee, cardamom and ginger will be continued. A sum of Rs.16.5 million has been allocated for this purpose.

153. A fishery development center will be established in the Mid-Western Region in the coming fiscal year. It is expected to improve the supply situation of such fish products through the extension of income-generating occupational services in natural ponds and rivers. A sum of Rs.42.6 million has been allocated for this program.

154. Small irrigation program will be carried out in feasible locations where there are no irrigation services. The implementation of integrated agriculture and irrigation program will help increase the agricultural production and productivity thereby improve the living standard of farmers, which is expected to help ultimately the poverty reduction program. A sum of Rs.143.9 million has been earmarked for this program. Arrangement has been made to finance the small irrigation through Agriculture Development Bank credit.

155. A Women Farmers' Development Program will be launched to increase women's participation in agriculture extension, training and livestock development with a view to increase employment opportunities and income generating activities for women. Rs. 4.4 million has been earmarked for this program.

156. Five cooperatives in each development region will be promoted through the credit facilities from Agriculture Development Bank to cater agriculture inputs. The bank will implement poverty reduction programs in rural areas through the small farmers development program and small farmers cooperative institutions. In the coming fiscal year, the Agriculture Development Bank will lend over Rs. 3,000 million through its own resources in sectors envisaged by the Agriculture Prospective Plan (APP).

157. A sum of Rs.3387.1 million has been allocated as development expenditure for agriculture sector for the next fiscal year.

158. A sum of Rs.689.3 million has been allocated for Second Irrigation Sector Program being launched in 35 districts of Eastern and Central Region, and Rs. 1076.3 million has been allocated to Nepal Irrigation Sector Program implemented in 40 districts of the three regions. A shallow tube-well construction program based on the demand of the user farmers in feasible locations of Terai is envisaged. I have allocated Rs.39.6 million for this purpose.

159. Among the on-going irrigation projects, Bagmati Irrigation Project, Rajapur Irrigation Project and Chandra Mohan Irrigation Project will be completed in the coming fiscal year. Likewise, the incomplete Mahakali II and Bhairahawa- Lumbili Ground Water Irrigation Projects will also be completed in the coming fiscal year. It is aimed to extend the irrigation facilities to a total of 48787 hectares of land including 21171 hectares through farmer system improvement and 27616 hectares

through new irrigation system. Adequate amount has been appropriated for these programs.

160. To prepare a master plan of different rivers with the popular participation of local people and to launch river training program in a planned manner, a sum of Rs.290.0 million has been earmarked.

161. A sum of Rs.10 million has been allocated to provide the irrigation facilities to 1200 hectares of land of Chitwan district from Budi Rapti river. Likewise, Rs.30 million has been allocated to Sikta Irrigation project to provide irrigation facility as well as to solve the problem of submerged area in Banke district. The ground water irrigation project, community shallow tube-well project and ground water deep and shallow tube-well projects implemented in various Terai districts will be continued. A sum of Rs.205.2 million has been allocated for these programs.

162. A total of Rs.4946.2 million has been proposed for the appropriation in irrigation sector.

163. Towards land reform, programs like development of central integrated land information system and central land ownership archive will be implemented. Programs will be carried out to solve the problem of unplanned settlement of landless and other families migrated from different parts of the Kingdom. A sum of Rs.23.0 million has been allocated to accomplish this task soon.

164. A sum of Rs.31.9 million has been earmarked to expedite and make effective the programs launched to provide livelihood and debt relief to bonded labor (KAMAIYA) existing in the Western Terai.

165. Special attention will be given to discourage illegal encroachment of forest under the national leasehold forest program and new afforestation program will be carried out in 1200 hectares of encroached land in fiscal year 2000/2001 with a view to maintain sound environment. A sum of Rs.41.4 million has been allocated for this purpose.

166. Through Food for Work and additional resource mobilization of His Majesty's Government programs like, landslide control in Chure and Siwalik Bhawar, drinking water resource protection, improvement in afforestation, and forest and shrub protection will be carried out. A sum of Rs. 20.1 million has been allocated for this purpose.

167. With a view to creating awareness of bio-diversity, plant production and developing eco-tourism and help promote education of Lumbini development area Lumbini garden project will be implemented. Likewise, park development projects will also be initiated in Maipokhari (Ilam), Dhanushadham, Godawari, Tistung, Daman, Brindawan (Hetaunda) and Dhakeri (Banke). An amount of Rs.9.1 million has been allocated for this program.

168. A sum of Rs.645.0 million has been allocated as development expenditure for the forest sector.

169. Basic and Primary Education Program (BPEP) will be extensively expanded to 50 districts including additional 12 districts with a view to make available of the enrollment opportunity in primary school to all school-going age children. Arrangement will be made to provide education in favorable location to children of an age group of 6-8 years who have not been able to join school in 50 centers of BPEP launched districts. Likewise, special program will also be launched to provide grade 5 level education in 3 years to the children of an age group of 8-10 years in those district centers. For this purpose, an amount of Rs.1447.7 has been allocated.

170. Computer education along with physical infrastructure and training will be provided to selected public school, one each in 25 districts from the next fiscal year and continued thereafter. Boarding schools will be established each in Mustang, Humla and Rasuwa districts with a view to making education easily accessible in remote areas. A sum of Rs. 21.5 million has been appropriated to initiate public school quality improvement program from the next fiscal year.

171. On girl education front, 99,592 girl student scholarships will be distributed under primary school girl scholarship program. Similarly, a sum of Rs.51.9 million has been allocated for 38198 primary school scholarships, 13607 local student scholarships, 360 upgrading scholarships and 518 campus scholarships.

172. A sum of Rs.3420.7 million has been allocated as development expenditure for the education sector.

173. Twenty new health centers will be established to extend the basic health services. Five district Ayurvedic clinics will be established to develop Ayurvedic health services in different parts of the country. Adequate funds have been appropriated with a view to check epidemic diseases in different parts of the country.

174. The medical treatment facilities against snakebites will be made available in all primary health posts of the Kingdom from the next fiscal year. Such facilities are limited only to central, regional and districts hospitals at present.

175. Sums of Rs. 9.6 million and Rs.10.0 million have been allocated for Bir Hospital for water treatment facility and heart surgery respectively.

176. A sum of Rs.3020.8 million has been allocated as development expenditure for health sector.

177. A sum of Rs.1158.5 million has been allocated for the preliminary works of Melamchi Drinking Water Supply project, launched in order to solve long-term drinking water problem of Kathmandu Valley. With a view to make available adequate supply of drinking water and sanitation facility and qualitative service to various city oriented small towns of the Kingdom a sum of Rs.109.0 million has been earmarked to launch first phase of programs in eight small towns including Attariya, Bandipur, Birendranagar, Fikkal, Gaighat, Lekhnath municipality, Parsa (Chitwan) and Ratnanagar.

178. Considering the usefulness of rain water collection program and its demand in places where other alternative sources of water is lacking, Rs.10.0 million has been allocated to run the program in five additional districts of Dhankuta, Kavre, Syangja, Ilam and Gorkha, in the coming fiscal year.

179. Total development expenditure of Rs. 3838.1 million has been allocated in Drinking Water.

180. Rs. 2806.5 million has been allocated for the continuation of grants to local bodies. At the time of Budget delivery in June-July 1999 to this august house, I had expressed that the amount provided for the development of parliamentary constituency would be increased. Accordingly, the amount will be doubled to Rs. 1.0 million for implementation of development programs as approved by the honorable members of Parliament.

181. Rs. 102.9 million has been allocated for 22 remote districts of the country to run employment oriented and immediate impact programs; to provide access of rural roads, mule track and construct suspension bridges and small hydro-electric Project as well as to install Turbine.

182. In order to implement to protect the rights and interests of tribal, neglected, oppressed and suppressed section of the people through enhancing direct participation in the development process and raising socio-economic level and civil awareness, a sum of Rs. 31.1 million is allocated.

183. In absence of regular maintenance and rehabilitation of thousands and thousands of kilometer of rural roads constructed under districts level due to the above reasons, those roads can not be used regularly for the whole year. In the coming fiscal year Rs. 96.6 million has been appropriated to establish and operate "Rural Road Maintenance Fund" for rural road maintenance in each district with joint economic co-operation between His Majesty's Government and local bodies.

184. Rs. 100.0 million has been allocated to achieve clean environment by managing solid wastes of the Kathmandu Valley.

185. Total development expenditure of Rs. 5167.0 million has been allocated for the local development sector.

186. Rural Women have been greatly benefited through the Women Development Program since 1982. This program is carried out at present in 67 districts and will be expanded to all 75 districts in the coming fiscal year. Rs.115.4 million has been allocated for this program.

187. To minimize the youth and literate unemployment, which is the main problem of the country, Rs. 100.0 million has been allocated for continuation of Youth Self Employment and Employment Oriented Training Program, which was started in the current year, with appropriate restructuring.

188. Rs.10 million has been allocated to promote educational awareness including volunteer programs in different backward areas of the country.

189. Budget has been allocated to start primary work for construction of houses at Sainbu Bhainsepati to provide housing facilities for honorable members.

190. A sum of Rs. 120 million has been allocated for the banks to return back the principal and interest amount to the earthquake victims, who had already paid up to Rs.10 thousand to the banks in the past.

191. For the preliminary work of the national population census, an amount of Rs. 284.2 million has been allocated. And, Rs. 9.0 million has been allocated for the Fifth National Agriculture Census.

192. An amount of Rs. 410.5 million has been allocated for the establishment of Water Treatment Plant in Hetauda Industrial Estate.

193. A sum of Rs. 42.5 million is allocated for the construction work of Information-Technology Park, B.P. Koirala Planetarium and observatory.

194. A substantial amount has been allocated for the speeding up the construction work in the backward areas in terms of road transportation mainly in the districts of Far Western and Mid-Western Regions. For this purpose, Rs. 109.9 million for Mahakali Highway (Baitadi-Darchula Part), Rs. 50.0 million for Jai Prithivi Bahadur Singh Marg (Khodpe-Bajhang-Chainpur), Rs. 77.8 million for Sanfebagar -Martadi, Rs. 50.9 million for Sanfebagar-Mangalsen Roads and Rs. 12.5 million for Dasharath Chand Marg (Baitadi-Jhulaghat), Rs. 10 million for Mahendra Nagar -Daiji-Jogbudha-Budhar Road and Rs. 12.5 million for Sahajpur-Dipayal Road have been allocated in Far Western Region.

195. To accelerate the road construction work in the districts of Mid-Western Development region, Rs. 353.1 million for Karnali Highway (Surkhet-Jumla part) and Rs. 10.0 million for Karnali-Manma have been allocated. Likewise, Rs. 160.4 million for Chhinchu-Jajarkot Road and Rs. 40.0 million for Rapti Highway (Salyan-Musikot part and Musikot-Burtiwang part) have been allocated. Rs. 22.5 million for Chakchake-Liwang Road and Bridge, Rs 10 million for Holeri-Chunawang Road, Rs 10 million for Tulsipur-Purandhara-Surkhet Road, Rs. 10 million for Bodichour-Gutu Road, 10 million for Surkhet- Ranimatta-Dailekh Road, Rs. 10 million for Ameliya-Tulasipur-Salyan Road have been proposed.

196. In Western Development Region Rs. 30 million for Beshishahar-Chame Road, Rs. 15 million for Rudrabeni-Burtiwang-Dhorpatan Road, Rs. 40.0 million for Baglung-Beni-Jomsom Road and 106.7 million for Gorusinge-Sandhikharka Road have been allocated.

197. In the Central Region Rs. 400 million for the construction of B.P. Koirala Marg (Banepa-Sindhuli part), Rs. 12 million for road construction of Trishuli-Soiafrubesi-Rasuwegadhi, and Rs. 112.0 million for the continuation of road construction work of Bardibas-Jaleswor-Janakpur-Dhanushadham, Rs. 14 million for Puspamal Marga (New Bridge Khimti-Manthali-Ramechhap), Rs 15 million for Galchhi-Devighat Road and Rs 17.5 million for Namobuddha-Panauti-Lamatar-Luvu Road have been allocated.

198. In the Eastern Development Region Rs. 60.0 million for Katari-Okhaldhunga, Rs. 40 million for Sagarmatha Highway (Gaighat-Beltar-Diktel), and Rs. 35.0 million for Basantpur-Chainpur-Khadbari Road, have been allocated. Similarly Rs. 10.0 million has been proposed for Kanti-Highway as a alternative link highway between Kathmandu and Terai.

199. Rs. 10.0 million and Rs. 190.0 million have been allocated for the maintenance of Tribhuvan Highway under Road Improvement, Upgrading and Rehabilitation Program as well as upgrading of Kalu Pandey Marg (Malekhu-Dhading) respectively. Likewise, Rs. 82.1 million for rehabilitation, improvement and gravelling of Harthok-Ridi-Tamghas Road, and Rs. 14.6 million, for road rehabilitation of Lumbini-Taulihawa-Tilaurakot have been allocated. Similarly, Rs. 35.0 million has been allocated for Mechi Highway (Phidim-Taplejung part) which links remote hill districts of Eastern Development Region with road network. A sum of Rs. 30.0 million for Naradmani Thulungmarga (Hile-Leguweghat-Bhojpur), and Rs. 30.0 million for Basantpur-Terahathum-Athrai road have be allocated. Rs. 136.0 million and Rs. 35.0 million have been allocated for the maintenance work of Arniko Highway and to construct Barhabise-Kodari portion of an all whether road, respectively.

200. Likewise, Rs 40.0 million for postal road, Rs. 109.2 million for city road, Rs. 697.4 million for bridge construction have been allocated.

201. The Royal Nepalese Army will be given responsibility to construct Musikot-Burtiwang part in addition to their existing Hile-Leguweghat-Bhojpur Road, and Salyan-Musikot road.

202. In aviation sector, a total amount of Rs. 1,114.2 million has been allocated for the reinforcement and installation of necessary equipment in the Tribhuvan International Airport and other six domestic airports.

203. I have proposed a sum of Rs. 6634.6 million for transport sector. Of this Rs. 5520.4 million has been allocated for roads.

204. A sum of Rs. 7.5 million has been allocated to implement programs supporting the promotion of tourism in the mountain region; preparing detail description of snow-picks and managing solid wastes in and above base camp.

205. Rs. 571.1 million has been allocated in tourism sector for the improvement of infrastructures for tourism through the Second Tourism Infrastructure Development Project, promotion of tourism business through King Mahendra Trust for nature conservation as well as construction of micro-hydro power plants and maintenance of clean environment in tourist places.

206. Rs. 249.80 million is earmarked to complete 'Dry Port' facility, which is being constructed in Birgunj for the past few years with a view to simplify foreign trade procedures and make them economical. Rs. 60 million is earmarked for the establishment of one export processing zone in the vicinity of the Dry Port facility at each of Birganj, Biratnagar, and Bhairahawa.

207. With the joint effort of India and Nepal border Customs Offices along the five major Customs Offices in Nepal-India border, a border area management program will be initiated in order to facilitate, widen and organize the movement of people, vehicles and transport carriers across the borders.

208. Construction of the 14 MW Modikhola Hydropower Project will be completed by the end of this fiscal year. In order to complete the construction of the Kaligandaki "A" Hydropower Project within the planned time-frame, budget allocation has been increased from the current year's level of Rs. 4920.0 million to Rs. 5405.90 million. Similarly, the construction of the 70 MW Middle Marsyangdi Project will be commenced from the coming fiscal year. Rs.1635.40 million is allocated for this purpose. With a view to meet demand for power by developing large projects, Rs. 160.5 million has been allocated for the preparation of detailed feasibility study report of the Upper Karnali Project of 300 MW capacity.

209. Rs. 192.40 million is allocated to begin the detailed design and construction of an attractive 30 MW Chameliyagad Hydropower Project identified by the feasibility study. Similarly, Rs. 73.50 million has been allocated to carry out the feasibility study of the 48 MW Kulekhani III Project.

210. Feasibility studies of the 245 MW Naumure Hydropower Project of Arghakhanchi district and projects based on reservoir will be conducted in the coming fiscal year. A sum of Rs. 17.50 million has been allocated for this purpose.

211. A sum of Rs. 602.3 million has been allocated for rural electrification in districts where electricity has not reached yet. Currently, there are 57 districts where power is supplied through the central power grid. With a view to supply power to additional 6 districts of Panchthar, Taplejung, Sankhuwasabha, Rukum, Jajarkot and Okhaldhunga through the central grid in the coming fiscal year, necessary amount is allocated for the construction of grid connection line. Rs. 85.9 million is earmarked to begin the construction of Heldung (Humla) and Gamgadi (Mugu) small hydropower projects.

212. Rs. 100.10 million has been allocated to begin the preparation of the detailed design report of the Sapktakoshi Multipurpose Project and Sunkoshi Kamala Diversion Project.

213. Construction of 132KV Dalkewar-Vittamod transmission line, 132KV Parwanipur-Birgunj, 33KV Ilam-Phidim-Taplejung, 33KV Sitalpati-Musikot-Jajarkot, 33KV Tatopani-Larjung-Muktinath, 33KV Buipa-Okhaldhunga, 33KV Chhinchu-Rakam-Jajarkot, Budar substation transmission lines (Attariya-Dadeldhura

transmission line), and rural electricity transmission and distribution lines will begin in the coming fiscal year. Among these projects, the construction of 33KV Tatopani-Larjung-Muktinath transmission line will be completed within the coming fiscal year. Rs. 115.40 million has been allocated for these projects. Similarly, Rs 227.90 million has been allocated for Kailali-Kanchanpur rural electrification. The rural electrification program will be gradually expanded by linking it to activities related to mobilization of peoples' participation.

214. Taking into account of the importance of alternative sources of energy such as, bio-gas, micro-hydro, solar power and wind power to meet energy needs of rural sector, due emphasis will be given to developing and expanding these resources and technologies related to them. Collection of data and mapping work of wind energy will be initiated. A total of Rs 442.40 million has been allocated for alternative energy sector.

215. For power sector, the total amount of Rs. 10572.20 million has been allocated.

216. I have allocated Rs. 30 million to improve radio broadcasting system in order to clearly receive in all parts of the country, including the Far Western Region. Likewise, I have allocated Rs. 50.0 million to upgrade the capacity of Nepal Television.

217. Rs. 600.0 million has been allocated for the improvement of capital structure of the Rastriya Banijaya Bank, Agricultural Development Bank, and Nepal Industrial Development Corporation, and for the institutional and structural reform of financial sector.

218. Of the total allocation of Rs 91,621.335 million for the above-mentioned regular and development programs, Rs. 47,929.946 million will be met from the existing source of revenues, Rs. 11841.627 million will be met from the foreign grants and Rs. 19792.662 million from the foreign loans. Thus, there will be a deficit of Rs. 12,057.10 million.

Revenue Proposals

Right Honorable Speaker

219. Now, let me present the proposals on revenue estimates.

220. I have taken into account the following factors while presenting the revenue proposals:

- (a) To create Value Added Tax (VAT) as the main base of revenue mobilization and customs and income tax supplementary to VAT
- (b) To broaden the income tax base by bringing all income generating economic activities into its fold,
- (c) To encourage export import transactions through organized and banking sector, systematizing customs administration based on the actual invoice and transaction
- (d) To implement effective measures to control revenue leakages.

221. The tax proposals for fiscal year 2000/2001 have been prepared on the basis of suggestions provided by Honorable members of the parliament, learned people of the economic sector, persons and institutions connected with industry and trade sectors, and Revenue Advisory Board.

222. To promote Value Added Tax (VAT) as the main mechanism of revenue mobilization, all industrialists, traders, and entrepreneurs who are above threshold

will be brought into the net of VAT in the coming fiscal year. For this, necessary improvements will be made in the income tax and customs systems and they will be made more systematic and reliable.

223. To control revenue leakage, the matters concerning tax reforms such as, timely amendments in tax acts and regulations, making tax rates simple and scientific in their applications and making tax system effective, will be implemented with high priority.

224. The Central Monitoring Unit established under Ministry of Finance will be further strengthened and activated to monitor revenue leakages, revenue mobilization and to address the grievances of tax- payers. The Central Monitoring Unit with the cooperation of Departmental heads and expert services, as per the need, will implement programs geared towards implementing VAT effectively up to retailers level; recognizing transaction value for customs purposes; recognizing accounts based statements for income tax; and to effectively implement regular monitoring activities to curb unauthorized trade.

225. The existing revenue surveillance force will be fully empowered to effectively control smuggling and leakage of revenue through timely reforms in its organizational structure. For this, appropriate rules will be formulated within the fiscal year 2000/2001 and the organizations will be made effective. In addition, revenue leakage will be effectively controlled through reforms in the existing structure and procedural system of Revenue Investigation Department and through analysis of relevant information by computer.

226. Now, let me present proposals on indirect taxes.

227. With an objective to developing VAT as the main source of revenue, I have proposed extensive reforms in income tax and customs, including the system of issuing sales invoice even at retailer's level.

228. In the current fiscal year, I have proposed to exempt value added tax on sarees made of cotton and artificial fibers generally used by the common people, aluminum, copper, and bronze utensils traditionally used by low-income people from value added taxes in order to make them cheaper. Similarly, I have proposed to exempt value added tax on the organic tea that encourages the use of organic fertilizers.

229. I have proposed to waive penalty to those who are supposed to be registered under VAT, if they apply for registration by mid July 2000.

230. To control the unauthorized trade of goods through VAT bill, I have proposed a new arrangement to allow transfer of goods, at a time, worth more than Rs 10,000 under the name of VAT registered firm to non-registered firm or person or to transfer stock from one place to another only with the bills certified by the income tax officer.

231. For government purchases, I have increased the existing maximum limit of Rs 25,000 to Rs 35,000 that can be bought from VAT registered person and to Rs. 2 million for contract related purchase. And, I have withdrawn the existing purchase system that does not require VAT registration in remote hill districts.

232. I have extended seven days' time limit to be given by income tax officer to tax payer while determining the income tax to 15 days, which will be effective from the coming fiscal year. In addition, I have made changes in the existing provisions for penalties.

233. I have proposed to broaden the network of VAT and levy tax on flour, services provided by health institutions in private sector including those by lawyers, doctors, engineers, and accounting professionals.

234. I have made an arrangement that every sale of cigarette, beer, and alcohol to those who are not registered with the VAT, must be at retail price irrespective of quantity and the type of persons.

235. I have increased the excise rate on health hazardous products such as, alcohol, cigarette, beer, chewing tobacco, Paan Parag, and Paan Masala. In order to regulate the import of these items into Nepal, I have made a new arrangement under which only the authorized representatives of the concerned industry will be allowed to import these goods.

236. I have proposed to levy excise at a flat rate on bricks produced by local kilns which are not environment friendly and not registered in VAT or Tax Offices. I have proposed to waive penalty to those who clear their excise arrears by mid-October.

237. I have proposed excise duty on polythene bags on the basis of microns.

238. Interest rate on late fee on payment of excise duty has been reduced by 50 per cent in view of the existing bank rate of interest.

239. Production of liquor in pouch has been banned with immediate effect. Taking into account of environmental hazards, new arrangement has been made for its production in sealed bottles only.

240. The rate of vehicle tax has been adjusted upward and vehicle tax has been imposed on rental vehicles as well. Income tax levied to the owners of rental vehicles has been reduced and adjusted with vehicle tax payable by them.

241. An additional revenue mobilization of Rs.2,302.5 million is estimated from the proposed changes, expansion of tax base and administrative strengthening of VAT, excise rates and vehicle tax.

Right Honorable Speaker,

242. While formulating tariff rates for the coming fiscal year, I have taken into account the need for some protection measures for agro-based, labor intensive and mining based industries, and the international competitiveness and supply considerations.

243. Nepalese agricultural products are not competitive in comparison to those from foreign countries due to lack of proper protection. Therefore, I have proposed agriculture reform duty on the imports of some agriculture related products to provide proper protection to similar Nepalese products.

244. Nepal has adopted the WTO recognized and internationally practiced harmonized custom valuation system, discontinue the discretionary regime by reinforcing importer's transaction value based customs valuation system.

245. I have made the following arrangements for procedural reforms, effective from the very beginning of the coming fiscal year in order to better regulate the Nepalese imports through the banking system:

(a) Except traditional items imported under the barter system from the autonomous T Region of the People's Republic of China, imports of all other goods have to be arranged through banking system;

(b) Except for the imports of some selected items. import of any single consignment

exceeding Rs.16,000 will be subject to the banking system.

246. I have made arrangement for a 5 per cent rebate in customs duties on goods imported through the above-mentioned procedures.

247. To cope with air pollution emanating from commuter and transport vehicles, I have made an arrangement to prohibit the import of such vehicles, which do not comply with the provisions of the Nepal Vehicle Pollution Standard, 2056.

248. I have proposed minimum customs duty on raw materials meant for export oriented industries to make them competitive by reducing production costs of such industries. Likewise, facility to import raw materials under bank guarantee has been limited to few items and arrangements have been made to improve and simplify the existing one-window duty refund system upon exports of products using such raw materials.

249. The facilities provided to tourism industries, textile and dairy industries will be continued in the next fiscal year with an intent to promote them.

250. Effective from July 16, 2000 I have revised the existing system of gold and silver imports under the personal effects regulation. I have made arrangement to curb the import of gold and silver on individual basis, and regulate and improvise the supply of those items through Nepal Rastra Bank. In addition, arrangement has been made to ban the transportation and collection of Rs. 500 denomination Indian currency notes.

251. I have reduced import duties on textiles to be used by the general public.

252. The changes made in the customs tariffs, export service fee, agriculture reform fee, excise duties, VAT, levies on tobacco and liquors, liquor control service fee, registration fee, services fee and the house and land transaction suspension fees will be effective from today's date.

253. Additional revenue collection of Rs.980.0 million is estimated from the changes in the customs tariff and related administrative strengthening.

Right Honorable Speaker,

254. Now, let me present the proposals on direct taxes.

255. While presenting the budget of this fiscal year, I had made the commitment before this august House that reform measures will be initiated to bring about qualitative improvement in the performance of tax administration. In this connection, to make income tax and value added tax more effective and to simplify the tax paying process, the Department of Tax and Value Added Tax will be merged and Internal Revenue Department will be established in the coming fiscal year.

256. With the objective of bringing all the income generating areas within the tax net and to make timely improvement in the existing Income Tax Act, an Income Tax Act will be formulated and presented to the on going session of the Parliament.

257. In order to avoid duplication in registering separately in the Tax and Value Added Tax Departments, in the first phase, an arrangement will be made in Kathmandu starting from the month of Shrawan (July 16, 2000) wherein the taxpayers will be given Permanent Accounts Number (PAN) on an integrated basis. Thereafter, gradually this system will be introduced in all over the country. Taxpayers holding PAN do not need to renew the income tax registration certificate.

258. An arrangement for automated data system will be developed for the purpose of collecting tax on the basis of data received from income tax, customs and VAT and other commercial transaction by installing an effective inter departmental information network. The collection system of such type of information and data will eliminate the hassle encountered by the taxpayers.

259. Present arrangement of Tax Deduction at Source has been simplified and hence, such deductions will be made generally as and when the payment of income is made.

260. Arrangements have also been made to jointly conduct on-the-spot investigation and audit by Department of Value Added Tax and Department of Taxation in order to prevent revenue leakage by controlling acts like concealing of income or evasion of tax and activities helping to evade tax. Likewise, system of investigation and field audit of tax returns by the team of experts by visiting taxpayer's premises will be expanded.

261. The surcharge that is being collected on income tax since last few years has been withdrawn. With the belief that social equity will be maintained and open economy would become more competitive by bringing incomes from agriculture, cooperatives, export and the interest earned on foreign investment within tax net, I have proposed to levy 5 percent tax on income from dividend. Likewise, on the income from export transaction, 40 percent of prevailing income tax rate or only 0.5 percent of transaction value will be levied. Similarly, I have proposed to levy tax on the income of registered firm, partnership or company which is engaged in commercial agricultural activities and also in the case of income generated from the land held in excess of ceiling set by the Land Reform Act as well as in the income of cooperatives from non-agriculture sector engaged in commercial nature of transactions.

262. The arrangements have been made to introduce simplified accounting system to motivate the small tax payers whose transaction do not exceed Rs. 2 million in a year with a view to relieve them from the burden of maintaining books of accounts. Any tax payer whose transaction in the fiscal year 1999/2000 do not exceed Rs.10 million will be regarded as the final tax assessment, if the tax payer pays additional 15 percent in excess of the income tax paid on the transaction of fiscal year 1998/99. With a view to motivate tax payers to issue receipt to buyers, these facilities will be extended only to those taxpayers who are registered in the VAT but are unable to record their transactions. Likewise, small tax payer having transactions not exceeding Rs.1 million or income not exceeding to Rs 100,000.00 will be allowed to pay presumptive tax as prescribed.

263. The transaction shown in the VAT system would be taken as a proxy for the purpose of income tax assessment. Tax assessment of those taxpayers, who are not compelled to keep books of account will be based on the transaction record submitted to VAT. A transparent system of assessing taxable income at a fixed rate will be implemented.

264. Those who comply with 2 of the 6 conditions in all municipalities will have to file the tax returns. Existing system of collecting minimum tax amount of Rs. 5000.00 has been withdrawn.

265. Under the existing provision of the income tax, only the married couples, both of which are salaried taxpayers, are allowed to file tax returns separately. The new arrangements have been made for couples to have an option either to file tax returns separately or jointly.

266. In respect of the commercial advertisement through any media made to include VAT in the bills of such services, the VAT so paid will be allowable for deduction.

267. To provide further relief to low income tax payers, tax exemption ceilings have been increased to Rs. 55 thousand for an individual and to Rs. 75 thousand for a married couple or for a family.

268. The valuation system of land applied by Land Revenue Office will be improved to make more practical, realistic and scientific on the basis of transparent criteria.

269. For the planned town development through collective housing scheme, the ratio of registration fee has been reduced to minimum for the registration of deeds of land and houses under the said scheme.

270. Keeping in view the slackness in transaction of real estates, I have proposed a reduction in the present level of registration fee on the transaction of real estates to stimulate economic activities.

271. The registration fee applicable to the deeds of purchase or lease or contract of land, with an intention of consolidating the fragmented land intended for agricultural activities will be exempted on the recommendation of concerned VDC or the Municipality in the interest of increasing agricultural productivity.

272. Arrangements have been made to handover the land tax, land revenue and house and land tax being collected by the government during the current year to the local bodies from the coming fiscal year.

273. Arrangements have been made to allocate the royalty collected from house and land registration fee, mines, forests products and generation and operation of electricity according to Article 220 of Local Self-governance Act, 2055 and Local Self-governance Regulations, 2056.

274. Additional revenue of Rs. 1074.6 million is estimated to be collected from the proposed changes in direct taxes.

275. Parameters for dividend allocation by the public enterprises will be prescribed and monitored effectively. Similarly, the payments of principal and interest due from the PEs will also be ascertained and monitored for their timely payment.

276. Various fees, royalties and charges in force will be rationalized.

277. From the proposals made above in the indirect taxes, an additional Rs. 700 million is estimated to be realized in the coming fiscal year.

278. Apart from the changes made in direct and indirect taxes, other rates remain unchanged. In addition to the revenue to be realized from the changes in direct and indirect taxes, there will be an additional revenue mobilization of Rs. 5,057.1 million from the changes in the rates of tax and non-tax revenues and administrative reform. The net deficit will be Rs. 7,000 million.

279. The deficit of Rs. 7,000 million, which I mentioned above on the basis of expenditure estimation, will be met through internal borrowings.

Right Honorable Speaker,

280. Our country has arrived at an important juncture of economic and social development transformation. There are numerous possibilities within the country to liberate it from the vicious circle of poverty and orient it toward the path of progress and change. A plenty of opportunities will be created for the domestic private sector and foreign investment as a result of our commitment to the effective

implementation of broad economic reform and the augmentation of institutional capacity by focusing on the public resource management and investment to priority areas. I am confident that the positive result will be attained from the implementation of economic reform programs presented in this budget, the enabling policies of government investment and institutional strengthening and the implementation of action plan.

281. The reform proposals presented through this budget will help transform the challenges of the economy into opportunities while strengthening the economic liberalization and restructuring measures initiated in the past. It is expected that there will be improvement in public resource management in the coming fiscal year. Similarly, it is felt that the cost of capital will be competitive, the ratio of investment to saving will rise, the productivity of investment will improve, exports will increase, the balance of payments surplus will be significant and the exchange rate will be stable in the coming fiscal year. As a result of these initiatives, I have expected that GDP will grow by about 7 percent in the next fiscal year. The price rise is estimated to remain at around 5 percent. The rate of money supply will be limited to 12 percent. The ratio of revenue mobilization to GDP is projected to reach 12.5 percent. In sum, I am confident that there will be improvement in the pervasive situation of poverty and unemployment through this budget.

282. Actual income and expenditure for the fiscal year 1998/99, revised estimates of income and expenditure for the fiscal year 1999/2000 and estimates of income and expenditure for the fiscal year 2000/2001 have been presented in the annexes.

283. In accordance with His Majesty's Government (Functional Division) Rules, 2000, allocation of item-wise budget in each heading and sub heading has been readjusted according to the revised functional division of Ministries, which are shown in annexes.

284. A brief description of technical assistance made available to His Majesty's Government by friendly countries and donor agencies as well as by INGOs has also been presented separately.

285. I would like to express gratitude to Honorable members of the parliament, various organizations, distinguished individuals, intellectuals, and representatives from civil society, for their advice and suggestions in the preparation of this budget. I would also like to extend thanks, on behalf of His Majesty's Government of Nepal, to friendly countries and donor agencies and to their representatives for their continued support in the socio-economic development of Nepal. On behalf of His Majesty's government of Nepal, I extend special thanks to all donor countries and agencies, civil society, intellectuals and representatives from private sectors for their cooperation in making Paris meeting of Nepal Development Forum a grand success.

Right Honorable Speaker,

286. For all the Nepalese and particularly for the political parties and their leaders, there is a formidable challenge of the development waiting for its solutions. In this context, I see urgency on the part of the elites, the journalists and the awakened civil society to play their role of monitoring the economy and social transformation efforts on a continued basis and warn the government accordingly. It is the call of the day to all of us for our firm commitment and strong determination to take the challenge before us from the very hour I am making this appeal. To conclude, Right Honorable Speaker, I also appeal to all for their active indulgence and support in the implementation the objectives and the programs under the budget of the fiscal year 2000/2001.

Jaya Nepal !

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Revised: 5 June 2000