

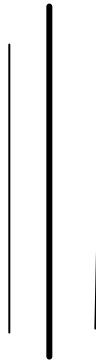
**Budget Speech
OF
THE FISCAL YEAR
2006/07**



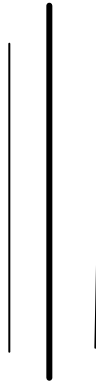
**Government of Nepal
Ministry of Finance
2006**

Unofficial translation

**Budget Speech
of Fiscal Year 2006/07**



**Delivered by
Finance Minister Dr. Ram Sharan Mahat
to the House of Representatives on 12 July 2006**



**Government of Nepal
Ministry of Finance
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Website: <http://www.mof.gov.np>

Hon'ble Speaker,

1. It is a privilege to be able to present the budget for FY 2006/07 in the capacity of Finance Minister of the present coalition government in this sovereign House of Representatives restored at the strength of people's movement, after a parliamentary vacuum of four years. On this historic occasion, I pay homage with deep respect to martyrs who sacrificed their lives in the course of peaceful peoples' movement. I pray for the quick recovery of all those injured. I have high regard and respect for exemplary valor, participation and solidarity that Nepali people displayed during the popular movement.
2. Nepal is in an open moment after the popular movement. New prospects of opportunity for socio-economic transformation have emerged . In this context, if we are able to form a common vision of socio-economic development through dialogue among political and social forces active in the country, we can certainly create a new prosperous, developed and peaceful Nepal for the present generation and the posterity. Such an opportunity arises rarely in any country's history. Our actions today, and courage that we muster to break from the past, will determine how our history will read tomorrow. With this fact in mind, dialogue between Government of Nepal and Nepal Communist Party (Maoist) has commenced to end all forms of conflict prevalent in the country. The need of the hour is to make institutional arrangement for constitution, policy and structure through national consensus so that Nepali peoples' rights are never compromised. Therefore, the present government, in accordance with the House of Representatives' historic Declaration and the consensus reached with Nepal Communist Party (Maoist), is fully determined to expedite the process of formulating interim constitution, managing weapons and forming interim government through the election of Constituent Assembly in an atmosphere free of violence and fear.
3. The national debate today has surely centered on determining the future political system and process to achieve sustainable peace. This does not mean that the issue of economic development should be pushed to back burner. Democracy cannot flourish on the foundation of a weak economy. The economy is in crisis for over half a decade. It is looking for a new momentum. The economic activities, suspended during the period of conflict, insecurity and absence of peoples' representatives, are waiting to pick up. The rural area seeks new opportunities for employment and income generation. Crisis-ridden industrial, trading and tourism sector is yearning for industrial peace and investment climate. Damaged and destroyed physical infrastructures are in need of reconstruction. People displaced due

to conflict want to return home and begin to consolidate their broken social life. They are impatient to repair the houses that were damaged and cultivate their land. They want to live a normal life. Socially excluded and oppressed group of people and those in the geographical region excluded from mainstream of development want a fair share in the services and facilities given by the state.

4. For too long, the state did not pay due attention to inclusive development. This contributed to pushing the country towards conflict. A new situation has now emerged in the country. The political parties competing with each other in the past are now joining hands. An atmosphere of consensus on common problems facing the country has emerged. Such a conducive environment must, therefore, be used for the socio-economic transformation of the country. There is a need for new compact between political forces and people. People's aspirations and needs are boundless. The state does not have adequate resources to immediately fulfill unlimited needs of the people. However, a new compact between state and the people will definitely help in bringing about a balance between the collective wishes and collective means. In this challenging hour, we must honestly recognize that one's rights must be matched by obligations towards the state. We must place public interest above all else by ignoring personal and communal interests. This is the need of the hour. If we do otherwise, we would only be setting ourselves up for failure.
5. I have already informed Hon'ble members the status of economy through White Paper-2006 presented to this august House of Representatives on 15 May 2006. Most of the economic indicators are not satisfactory. There is a need to maintain macroeconomic stability by correcting the asymmetries prevalent in the economy and by promoting greater equity. We must all, therefore, commit ourselves to creating foundation for a new and inclusive political economy by attaining high economic growth and by enhancing the access of ordinary and poor people in the benefits accruing from such a growth. I have kept this fact in mind while formulating this budget. I want to inform Hon'ble members that the Annual Policies and Programs of Government of Nepal presented by Rt. Hon'ble Prime Minister to this House of Representatives, suggestions made by Finance Committee of the House of Representatives, Poverty Reduction Strategy Paper and Medium Term Expenditure Framework have been the main basis of formulating this budget.

Hon'ble Speaker,

6. We all are not unaware of that fact that the Royal regime made all efforts to undermine the socio-economic achievements made during the democratic

period. In the first decade after the peoples' movement of 1990, economic growth of 5.1 percent was achieved due to the liberal and practical economic policies adopted by governments accountable to people. Several infrastructures for social and economic development were ready. However, the political stalemate after the dissolution of parliament in June 2002, absence of democratic structure and escalating conflict had negative impact on the growth and consequently the average annual growth in these years remained at 2.7 percent. As a result, peoples' standard of living could not improve. Peaceful democratic environment, government accountable to public, good governance, political stability, and liberal, practical and stable economic policies and infrastructures are foundation to achieving higher economic growth. If only we are able to ensure the stability of these foundations, our own experience shows that we can achieve a growth rate of more than 6 percent without any difficulty. High economic growth and equitable distribution of economic resources can help create inclusive economy by alleviating poverty. Therefore, the present government believes that our concerted efforts should focus on this direction.

Review of the current Fiscal Year

7. Economic Survey, 2006 explaining current trend and features of socio-economic indicators and opportunities and challenges of the country and ministry-wise progress report of the implementation of budget and program of fiscal year 2005/06 have already been presented to this august House of Representatives.
8. The economic growth during the current fiscal year 2005/06 at constant price factor cost has been estimated to be 2.3 percent and 1.9 percent at producers' constant prices. Of which, the contribution of agriculture is estimated to be 1.7 percent while non-agriculture sector will contribute by 2.8 percent.
9. Inflation, in terms of consumer prices, is expected to be in the range of 8.0 percent. Broad money supply and narrow money supply are expected to increase by 13.5 and 12.0 percent, while total domestic credit and deposit is expected to increase by 12.0 and 14.3 percent respectively.
10. On the international trade front, exports are expected to increase by 15 percent and imports by 25 percent. Trade deficit will rise by 3.3 percent in comparison to previous fiscal year and the ratio of trade deficit to GDP is expected to be 20.3 percent.
11. The balance of payment surplus is expected to be Rs. 14 billion with net foreign assets growing by 13 percent. The foreign exchange reserve is expected to be Rs 144.52 billion with a growth of 10.9 percent.

12. In fiscal year 2004/05 current expenditures of the government were Rs. 61.69 billion, capital expenditures Rs. 27.34 billion and repayment of debt principal Rs 13.53 billion totaling Rs. 102.56 billion. The revised estimate of current expenditures for FY 2005/06 is Rs 69.07 billion, capital expenditures Rs 28.80 billion and repayment of debt principal Rs 14.20 billion totaling Rs 112.07 billion.
13. With regard to resource mobilization, the total revenue collection during FY 2004/05 was Rs 70.12 billion, while for FY 2005/06 the revised estimate of revenue collection is Rs 73.50 billion.
14. In respect of foreign aid usage during FY 2004/05, a total aid of Rs 23.66 billion was used of which Rs 14.39 billion was foreign grant and Rs 9.27 billion foreign loan. The revised estimate for FY 2005/06 is Rs 13.81 billion of foreign grant usage and Rs 9.41 billion of foreign loan usage totaling to Rs 23.22 billion.
15. The domestic borrowing during FY 2004/05 was Rs 8.94 billion. A sum of Rs 11.85 billion will be raised by domestic borrowing in FY 2005/06.

The Prevailing Challenges

16. Restoration of sustainable peace in the country is the aspiration of general people. The task of socio-economic transformation of Nepal and Nepali by converting the aspiration of people into reality remains a challenge.
17. Fiscal imbalance leads to instability in the overall economy. In view of this, it is a difficult task to balance peoples' aspiration of development and available resources.
18. The foundation for inclusive economy can be laid only by increasing public investment in underdeveloped area and for backward groups and communities. It calls for increased investment in rural areas so that deprived and poor people can benefit from the gains of economic development.
19. Because of the creation of long-term obligations by the previous Royal regime, current expenditures went up beyond control at the cost of capital expenditures. It is necessary to increase investment in capital formation by controlling this trend of public expenditure.
20. The investment atmosphere remains disturbed. Several business entities under the private sector are in crisis and are passing through difficult times due to internal and external reasons. The future is at risk. The challenge before us is to create investment-friendly atmosphere by finding durable solution to the problems of security and peace and help rehabilitation of business entities that suffered due to conflict.

21. The state must honestly address these challenges immediately.

Hon'ble Speaker,

22. Now, I would like to highlight the basis of estimating macroeconomic indicators and assumptions taken while formulating this budget.

23. The violent conflict in the country will come to an end through the dialogue between government and Nepal Communist Party (Maoist). The closed factories and business will reopen in the peaceful environment. Private sector investment will significantly increase in the country due to stability in policy. Capital investment will rise by a higher rate due to huge public investment in rural infrastructure and rehabilitation and reconstruction programs. Employment and income generation opportunities in the urban and rural areas will be augmented. Similarly, remittance inflow from foreign employment will lead to the creation of additional demand of capital and consumable goods. Due to these reasons, the non-agriculture sector is expected to grow by 6 percent, agriculture sector by 3.5 percent and hence the total economic growth will be by 5 percent. The inflation in the coming fiscal year is expected to be 6 percent.

Objectives and priorities of the Budget

24. Following are the objectives and the priorities of this budget :

- To institutionalize the democratic system,
- To develop economic infrastructures,
- To improve investment climate,
- To make economic programmes pro-poor and inclusive,
- To increase investment in social sector,
- To implement programmes for relief, rehabilitation and reconstruction, and
- To increase capital investment and productivity by containing consumption expenditures.

Institutionalization of Democratic system

25. The nation today is heading towards economic and social transformation. It is essential to have a common vision of the future among us in order to make Nepal a developed and prosperous country in the world. A common conceptual vision incorporating social and economic development targets to be achieved in ten years time would be prepared with wider consultation among all stakeholders and presented before this august House of Representatives soon.

26. The principal mandate of the peoples' historical movement is the election of the Constituent Assembly. This will lead to creation of the foundation for sustainable peace, inclusive and multi-party democratic political system. The present government, therefore, has accorded foremost priority to hold the election of the Constituent Assembly in a free, fair and fearless environment. I have allocated Rs. 1.25 billion for this purpose. In this historical political exercise, the government would seek co-operation of United Nations in order to ensure impartiality and freedom from all forms of fear.
27. Peoples' participation and transparency would be ensured in all stages of public policy formulation and decision-making. In order to make government's activities transparent, the targets and the budget allocation of the high priority projects as well as the income and expenditures of the local bodies would be made public. Similarly, the physical and financial progress reports of such activities would also be made public in every trimester. All decisions relating to contracts of more than Rs 60 million will be made public. Public audit will be made mandatory for all construction works implemented by the community. Likewise, system of public hearing and Citizens' Charter will be made more systematic and effective.
28. To make the local bodies responsible to coordinate the development activities at the local level through decentralization, the policy of devolution with resources and authority will be encouraged.
29. It has been difficult to coordinate the development activities at the local level due to lack of peoples' elected representatives. For this, an appropriate alternate mechanism will be developed with the participation of all concerned. An All-party Development Cooperation and Monitoring Committee will be formed under the chairmanship of the Member of the House of Representatives of the concerned constituency to help select and monitor the district-level programs.
30. The foundation of democracy is the awareness of the general people towards their rights and responsibilities. Socio-economic transformation is possible only through their empowerment. Our past development experience has shown that programs based on peoples' direct participation are the ones that are effective and sustainable. Community forestry, community managed schools and health posts, drinking water projects and irrigation systems, etc., are some of the glaring examples of the development activities managed successfully by the communities. Considering such experiences of the past, local communities will be made responsible for the selection, implementation, and operation of projects at the local level.

31. Existing grant of Rs. 500,000 to the Village Development Committees allocated for the purpose of accelerating rural transformation by devolving more and more resources to the local level will be continued. An additional grant of Rs. 500,000 will be provided to the VDCs for implementing community-based infrastructure projects such as rural electrification, roads, irrigation, bridges, drinking water and school buildings. Such projects must be completed by mid-June of each fiscal year and the public auditing must be completed within that period. Ministry of Finance will send the expenditure authorization for the unconditional grants directly to concerned DDCs. I hope that the pressure on central level allocation for local level projects will come down due to additional grants made available to Village Development Committees. Emphasis will be given on labor-intensive technology in implementing such projects. Arrangement will be made to carry out the functions of operation and maintenance of such projects by the communities themselves. A detailed working manual for such projects will be prepared by mid-September 2006.
32. Similarly, the ceiling of current expenditure of each Village Development Committees has been fixed up to Rs. 200,000 to recruit additional teachers in the schools where teacher-student ratio is inadequate and to recruit health worker in the health post out of the first Rs.500,000 grants. I am confident that this will help to minimize the scarcity of teachers and health workers in the community managed schools and health institutions.
33. The previous government had postponed the constituency area development program following the dissolution of the House of Representatives. Now, after the restoration of the House of Representatives, elected people's representatives should have to reach the people of their constituency area in order to address their burning issues. Hence, the constituency area development program initiated in the past has been revived.
34. Based on the recommendation of the detailed technical study, the urbanized Village Development Committees will be converted to municipalities. Arrangement will be made to provide additional resources to the municipalities in line with the fiscal devolution policy of the government.
35. In order to make the rule of law effective with contemporary amendments in existing laws, improvements in physical infrastructures of courts, human resources development, improvement in the record-keeping system and thereby helping to improve the judicial system, a sum of Rs 920 million is allocated for judicial administration. Similarly, adequate amount is set aside for other constitutional bodies to make their activities effective by building their capacity and improving physical facilities.

Creation of Inclusive Society and Economy

36. Income generating, skill-oriented and awareness programs will be implemented for the upliftment and strengthening of socio-economically disadvantaged regions and backward communities, *Dalits*, indigenous people and *Janjatis*. Similarly, additional resources have been allocated for Karnali zone and other backward regions.
37. *Dalits*, backward marginal farmers having land ownership of less than 0.5 hectares and agriculture laborers will be classified into targeted groups and special facilities will be provided to them. This program will be piloted in six districts, three in eastern region, two in central region, one in western region.
38. Special arrangement will be made for the provision of citizenship certificate, before the election of Constituent Assembly, to the people of Terai community hitherto deprived of citizenship. I have earmarked necessary budget for this purpose.
39. In order to promote women's ownership of property, the provision of 20 percent rebate in land registration fees will be given continuity. Such rebate will also be available to *Dalit* community for their land transaction.
40. The system of making gender-responsive budget will be institutionalized. The gender-benefit analysis will be made mandatory in the formulation of policies, programs and projects as well as in the allocation of resources from the government sector. Starting from the next fiscal year, arrangement will be made to conduct the post-evaluation of the effects of all programs and projects costing over Rs 50 million on men and women.
41. Women will be empowered as strong contributor to nation's economic development and will not just be treated as beneficiary population. Arrangements will be made to monitor the progress of the commitments made in respect of women in Women's Rights Convention Action Plan, Beijing Action Plan and Millennium Development Goals through the National Planning Commission.
42. Additional gender equity and economic strengthening programs will be implemented in the coming fiscal year for the upliftment of women. I have allocated Rs. 100 million for this. Likewise, I have made provision of the budget for the continuation of affirmative discrimination programs initiated in the past.

43. Scholarship at the rate of Rs 350 will be provided to 50 percent of primary level girl-students belonging to economically weak and deprived communities as well as to all students of the Dalit community studying at the primary school level. Arrangements will be made for public distribution of such scholarship in two installments on 4th Jestha and 7th Falgun with a view to ensuring effectiveness and transparency in such scholarship fund distribution.
44. Arrangements will be made to require private schools to enroll at the rate of one student per 50 students from among the children of Dalit, conflict victim and martyrs with scholarship according to the concept of public private partnership. I hope this program will enable about 20,000 children to get educated.
45. Programs related to children's rights protection and promotion for the physical, mental, social and psychological development of the children as well as to safeguard them against all forms of torture and discrimination will be given continuity.
46. For the social rehabilitation and improvement in the physical condition of the handicapped people, arrangement of free Medicare services to them will be made. In addition, arrangements will be made so that local bodies invest a fixed amount of their income for the welfare of handicapped people. I have increased the income tax exemption limit for the blind and handicapped people by 50 percent. Scooters used by disabled people and equipments used by blind people have been fully exempt from custom duty.
47. I have made an increment of Rs 25 in the monthly allowance of the elderly and helpless people making it Rs. 200 per month. The existing monthly allowance of the widows has been raised by Rs. 25 to make it Rs 150 per month. Similarly, the allowance for the women widowed due to the conflict is raised from Rs 125 to Rs. 200.

Pro-poor and Agriculture Programs

Hon'ble Speaker,

48. It has been a general complaint that the benefit of the economic reform programs initiated in the past did not percolate down to the poor and backward segment of people. Poverty alleviation is possible only by the implementation of pro-poor programs. For this, it is necessary to promote the investment in the rural areas. Therefore, pro-poor programs will be implemented through the resources saved by implementing economic and

other reforms. As agriculture is the backbone of rural economy, the public investment will focus on the welfare of marginal farmers and developing commercialization of agriculture.

49. Agriculture Business Promotion Policy will be formulated with a view to enhancing private sector participation in agriculture market infrastructure development and agro-industries. For the development of agriculture and livestock produce market, wholesale Market with the physical infrastructure and provision of market information system will be developed in Attariya of Kailai, Chaulakibaba of Banke, Wangsing of Syangya, Gadahiya of Sarlahi, Hanspur-Kathpula of Dhanusha and Mahmampur of Rauthat in the coming fiscal year.
50. As per the concept of public-private partnership, a policy will be adopted to encourage private sector in the expansion of technology and seeds under agriculture extension program. Assistance will be provided in the area of irrigation, seeds and agriculture loan to marginal farmers, based on cost participation, who have less than 7 Ropanis of land in the Hills and 10 Kathas of land in the Terai. Under this program, arrangement has been made to provide interest subsidy of 2 percentage points in agriculture loan to be provided through specified agriculture credit agencies, up to an amount of Rs. 10,000, for agriculture and livestock related activities. It is hoped that this facility will directly benefit farmers by reducing their cost of production.
51. Interest subsidy in tea farming, floriculture and milk chilling centers will be continued. This kind of subsidy will be provided for cardamom and coffee farming from the next fiscal year. Ministry of Finance will prepare and issue procedures relating to this by mid- October 2006.
52. Due to the high demand charge of electricity used in shallow and deep tube-well operation, farmers are unable to benefit from these technologies. Considering such a situation, 50 percent cost of the demand charge will be borne by the Government.
53. "One-Village-One-Product" program under public-private partnership will be initiated to increase production of commodities, which have adequate export potentials in foreign countries. Under this program, Ramechhap and Sindhuli districts for Sweet-Orange (*Junar*); Banke, Bardia, Ramechhap and Siraha districts for *Bel*; Bhaktapur district for *Lapsi* and Nuwakot and Rasuwa districts for rainbow-trout specie of fish have been selected. Ministry of Agriculture and Cooperatives will prepare and issue procedure for this by mid-September 2006.

54. Commercial sheep farming business in the Mountain region will be initiated under the public-private partnership to meet the demand of necessary raw wool for carpet industries by producing wool in the country, although on a limited scale. For this purpose, technical assistance through the Ministry of Agriculture and Cooperatives will be provided for breed improvement necessary for producing high-breed sheep.
55. Assistance will be provided for improved seeds, fertilizers and technology to jute producing farmers. I believe that this measure will help farmers in getting adequate benefit and improve supply of raw materials to Jute industry. Similarly, jute products have been made mandatory in the packaging of raw and solid food items by local industries since jute products are environment-health friendly.
56. Poultry business is badly affected due to avian flu in the recent years. Therefore, preventive and curative measures will be adopted to combat with the epidemic of avian flu disease in chicken. I have earmarked some budget to compensate possible losses from this disease in poultry business. Possibility of insurance in this business will be explored with a view to providing long-term security to poultry farmers.
57. Income-generating activities will be supported to 18,700 farmer families through Community Livestock Programs targeted to *Dalits* and freed bonded labors in 22 districts which have high density of such community. Goat exchange program under Community Livestock Development Program in 22 districts including 7 districts of Western, 9 districts of Mid-Western and 6 districts of Far-Western Development Regions has been continued. Rs 200 million has been allocated for this program.
58. A sum of Rs 3.96 billion has been allocated for the development of agriculture sector.
59. A sum of Rs 1.25 billion have been allocated to Poverty Alleviation Fund in the next fiscal year. The fund will implement 667 income generating programs, 379 community infrastructure development programs and, 1,714 creative programs based on new concept in 1,200 Village Development Committees of 25 districts including 7 districts of Far-Western and 10 districts of Mid-Western Development Region of the country which are identified as backward districts in terms of economic and human development. About 50,000 low-income households will benefit from this program.

60. Arrangements have been made to complete 64 medium-scale irrigation projects including Siddikhoh, Dhodari Tarataal and Gugibaandh irrigation schemes within three years. These projects were initiated to be operated and managed by farmers themselves. Necessary amount is allocated in the next fiscal year to complete the construction of 40 irrigation projects, which were initiated in the past. Similarly, 250 medium-scale irrigation schemes will be initiated in 40 districts covering Western, Mid-Western and Far-Western Development Region under the Irrigation and Water Resources Management Program. Rs 704 million has been allocated for both of these programs.
61. In the next fiscal year, 480 shallow tube-wells under Ground-Water Shallow Tube-Well Irrigation Program and 5,400 shallow tube wells under Community Ground-Water Irrigation Sector Project, covering 12 districts, will be installed. Likewise, 4,000 shallow tube-wells will be installed in Banke, Bardia, Dang, Kailali, Kanchanpur, Kapilvastu, Nawalparasi and Rupandehi on a trial basis under the cost-sharing scheme with the farmers. A total of 9,880 shallow tube-wells will be installed and an area of 24,700 hectares of additional land will have irrigation facilities with the implementation of this program. A sum of Rs 336.8 million has been allocated for this.
62. In the next fiscal year, 37 deep tube-wells will be installed under Ground-water Deep Tube-well Program which will provide additional irrigation facilities in 1,600 hectares of land.
63. Arrangements have been made for earmarking 50 percent of government allocations to river training programs to implementing projects under River Training Master Plan.
64. I have allocated Rs 4 billion for the expansion of irrigation facility and for water-induced disaster control program.
65. Dual ownership of land shall be discontinued by delineating land ownership rights of owner and tenants. Legal provision shall be made to increase the access of landless people to the land. Concessional credit facility will be provided to the landless people for the purchase of land. Necessary budget has been allocated for this purpose.
66. Rural people have been increasingly demanding for the supply of electricity. Local people's participation in the rural electrification program is very encouraging. Therefore, Rs. 890 million has been allocated for the expansion of community electrification program in the coming fiscal year,

which is an increase over the current fiscal year allocation of Rs 590 million. With this increased budget allocation, 54 schemes where community has deposited its contribution will be completed and equal number of new schemes will be initiated. Private companies distributing electricity will also be encouraged to expand power transmission under the community electrification program. I have earmarked Rs 1.76 billion for all programs under rural electrification scheme. More than 200,000 households will benefit from this rural electrification program.

67. Alternative source of energy shall be provided to the areas where supply of electricity from the micro-hydro plant is not feasible. For this, 20,000 units of solar panel will be distributed throughout the country in the coming fiscal year. A sum of Rs 160 Million has been allocated for this program.
68. In the coming fiscal year, small hydro power plants of the capacity of 3,500 KW will be installed in rural areas of 46 districts. Grant subsidies provided for the construction of small hydropower projects will be reviewed to make necessary increase in the coming fiscal year. I have also made arrangements for the exemption of Value Added Tax for the machinery; tools and construction materials used by the private developer of micro hydropower projects and small hydropower projects up to 3 MW capacity.
69. I have provisioned Rs 210 million in the next fiscal year for the distribution of 21,500 units of biogas plants; 300 solar dryer and cooker; 1,280 improved water mills and 50,000 improved ovens.
70. Income generating opportunity shall be provided to 2,795 households, living below poverty line, by implementing eco-tourism and livelihood programs through the expansion of "Leasehold Forestry Program".
71. Government of Nepal will issue policy on bio-protection by mid-April 2007 in order to conserve medicinal herbs and biogenetic diversity, institutionalization of fair distribution of benefit from these resources, environmental protection and to prevent from negative effects on human health. Private sector will be encouraged to produce and use skilled human resources in this field for the development of modern bio-diversity technology in Nepal.

Employment Promotion

72. Institutional and legal reforms will be made with a view to making foreign employment business prestigious, organized and transparent. Restriction

imposed on women willing to go for foreign employment as household workers will be lifted.

73. In the coming fiscal year, government agencies will provide vocational trainings to 9,066 and various skills-oriented trainings to 44,743 individuals in different disciplines. Priority will be given to individuals injured during people's movement, women and *dalit*.
74. I have made necessary budget allocation for the expansion of Skills Training Centers in three districts through Federation of Nepal Chamber of Commerce and Industries in line with the Public-Private Partnership concept. Under this program, priority will be given to individuals injured during people's movement, women, *dalit* and *janajatis*.

Basis of Rural Economy: Roads Expansion

Hon'ble Speaker,

75. Local level Users' Committees will be mobilized for the construction of infrastructure including roads in the villages. Highest priority will be given to low-income communities while mobilizing communities for construction of such infrastructures. Likewise, community users groups will get priority for the construction of public works implemented by the central level agencies.
76. It is mandatory for each district to spend 70 percent of the total budget allocated for rural roads to complete the ongoing projects. Arrangement will be made to use the rest 30 percent of the budget for the construction of rural roads prioritized by the District Development Committees under the approved District Transport Master Plans. In districts where master plan is not ready, such amount may be used for the construction of roads linking districts headquarters, or other strategic roads that support growth and create access of agriculture produce to market. A sum of Rs 580 million has been allocated for this purpose.
77. A "District Transportation Master Plan-Roads Construction Fund" will be created out of government's own fund for further development of rural roads construction in a planned manner. This Fund will provide money for the construction of one road of high priority of local body under the District Transportation Master Plan. Before making money available out of this Fund, there will be an agreement with the DDC based on sound technical proposals developed using prescribed criteria. Ministry of Finance will

prepare procedural details for this by mid-October 2006. I have allocated Rs 200 million for this purpose.

78. Budget is being allocated for on-going 1,500 rural roads. The construction work will not complete even after a long period if the present level of allocation is continued. Therefore, the Ministry of Local Development will be preparing directives and action plan by mid-October 2006 to ensure the completion of rural roads within a fixed timeframe and cost. Release of funds for the road projects, which do not perform within the approved framework, will be frozen and arrangements will be made to take action against the concerned decision makers.
79. It has been a practice to support the local bodies with conditional and unconditional additional grants through various programs every year. Local bodies have at times used such additional grant in contravention to approved policies. Hence, performance-based grant system will be introduced with a view to increasing local resource mobilization and enhancing the effectiveness of allocated resources. The grant under this system can increase or decrease based on the performance.
80. Altogether, 250 Kilometers of roads in 20 districts consisting of 200 km of all weather roads and 50 km of seasonal roads will be constructed under the Rural Access Improvement and Decentralization Project. Similarly, the construction of 66 suspension bridges will be completed. I have allocated Rs 600 million for these projects.
81. Decentralized Rural Infrastructure Development and Lively-hood Program will be implemented in 20 remote districts affected by conflict. Under this, the construction of 100 km of rural roads and 20 suspension bridges will be completed through the implementation of programs like infrastructure development, transportation network expansion, creation of rural employment opportunities and local level institutional capacity enhancement. Rs 500 million has been allocated for this program.
82. The construction of some 1,384 km of earthen roads and regular maintenance of 2,370 km of roads will be completed under Rural Roads Program in the coming fiscal year.
83. I have allocated Rs. 9.40 billion, including for the purpose of rural infrastructure development, in the sector of local development.

Karnali Area Development Program

84. The absence of road transportation network is the main reason for economic backwardness of Karnali Zone. Therefore, the construction work of the roads connecting Manma, capital of Kalikot and Khalanga of Jumla will be completed within December 2006. Besides, the road construction from Yaari to Simikot of Humla district and from Dunai to Jufal of Dolpa district will be accorded high priority. A detailed survey for the construction of a road between Martadi and Kolti of Bajura district that will link to the National Roads Network of Humla and Mugu districts will be made. The survey of Jajarkot-Dunai road will also be carried out.
85. The employment and income generating opportunities will be created by implementing income generating infrastructure development and programs based on new concepts in all five districts of Karnali Zone under Poverty Alleviation Fund (PAF).
86. I have allocated budget with a view to completing the Heldung Hydro-Electricity Project of Humla by the mid-November 2006 and Gamgadh Hydro-Electricity Project by the mid-April 2007. In addition to this, the Galbagadh Mycro-Hydro-Electricity Project will be started soon.
87. In order to electrify the villages hitherto cut off from electricity supply, 31,000 solar powered lanterns will be distributed in all the five districts of Karnali Zone under "Karnali Illuminated Program". The government will bear 95 percent of the cost and users will bear 5 percent for this purpose. Likewise, additional 29,000 solar power lanterns will be distributed in districts like Jajarkot, Bajhang, Aacham and Bajura, the bordering districts of Karnali Zone. 60,000 families of 9 districts will enjoy the minimum facility of using a radio and two bulbs. I have allocated Rs. 142.5 million for this purpose.
88. I have given continuity to the school scholarship program, which was being given to girls studying up to class 10. I have made arrangements accordingly for the distribution of the first installment of scholarship amount on the Parliament Declaration Day, the 4th day of Jestha (May 18) and the last installment on the Democracy Day, the 7th day of Falgun (February 19). Similarly, free tiffin will be provided to 24,000 students of up to the lower secondary level schools of Karnali Zone and they will be given de-worming medicine.
89. In course of rehabilitation and reconstruction of infrastructures in district head quarters destroyed by conflict, the construction work will be

undertaken in various districts including Jumla, Dolpa and Mugu. Along with this, I have accorded priority to the reconstruction of destroyed suspension bridges of Karnali Zone.

90. With a view to giving relief to the families unable to get employment opportunities through any projects/programs and development/construction works carried out by the Government or those able to have self-employment opportunities, campaign of "One-Family-One-Job" will be launched in Karnali Zone on a pilot basis. Under this campaign, one member of the unemployed family will be getting Rs. 50 per day for 100 days in a year, as employment allowance. The detailed working procedures relating to this program will be prepared, issued and implemented by the Ministry of Local Development by mid-November 2006.

Infrastructure for Economic Growth

91. The livelihood of people in the region without road access has been troublesome. They have not been able to take advantage of income generating opportunities and market their local production at competitive prices. In the past, although the construction of connecting roads to district headquarters was given priority, it witnessed slackness due to conflict. Therefore, the task of constructing roads connecting 14 district headquarters, hitherto without road access, within the coming four years will be carried out as a campaign. In this connection, the construction of headquarters-connecting motor roads will be completed in seven districts, namely, Bhojpur, Sankhuwasabha, Khotang, Jajarkot, Bajhang, Jumla and Kalikot in the coming fiscal year. I have allocated Rs 710 million for this purpose.
92. The importance of Mid-Hill Highway is very important for developing National Roads Network, besides Mahendra Highway and Postal Roads. A significant portion of this proposed Highway, which will connect Chhyanthapu of Panchthar District in the East to Jhulaghat of Baitadi District in the West, has already been constructed. With the aim of carrying out the construction of the remaining parts as per this concept, budget allocation has been made in the coming fiscal year. Likewise, study will also be carried out on the concept of Himalayan Highway.
93. Upgrading works of Dandeldhura-Satbanjh, Dolalghat-Chautara, Mirchaiya-Katari-Sunkoshi, Belbari-Chauharwa, Biratnagar-Rangeli-Bardanga-Urllawari, Pauwa Bhanjyang-Phidim and Damak-Gaurigang Roads will be completed under the Roads Improvement Program. A sum of Rs 1.98 billion has been allocated to Road Network Development Project and Rs 480

million has been allocated to Road Maintenance and Development Program in order to give continuity to the road network, in addition to these works.

94. Detailed design of Galchhi-Trishuli-Syaphrubesi, Phidim-Taplejung and Naya Pul-Khimti-Manthali-Ramechhap segments of road will be commenced under the Road Connectivity Project in the next fiscal year. Similarly, Syaphrubesi-Rasuwagadhi road construction will begin.
95. Upgrading and Blacktopping works of Satbanjh-Baitadi-Jhulaghat, Sanfebagar-Mangalsen, Tulsipur-Salyan, Chakchake-Liwang, Bhaluwang-Pyuthan, Maldhunga-Beni, Chandranigahapur-Gaur, and Nawalpur-Malangwa roads will be initiated in the coming fiscal year. I have allocated Rs. 510 million for this purpose.
96. Bishnumati Link Road of Kathmandu connecting Naya Bazaar and Kalimati will be upgraded to four-lane blacktopped road. I believe that this will reduce the traffic pressure in the inner parts of the Kathmandu city. Likewise, road construction works including Tilganga-Manohara-Balkhu Section of Bagmati Corridor and Om Hospital-Bijulibazar Section of Dhobikhola Corridor will be initiated under the Urban Roads Program. These roads will be constructed within three years and handed over to the Municipality.
97. In addition to these programs, investment in ropeways and railways including connectivity between Kathmandu and Terai will also be encouraged under the policy of Build-Own-Operate-Transfer (BOOT) from the private sector.
98. Construction work of Industrial Corridor Road connecting Pathalaiya-Birgunj Dry Port and Sunauli-Parasi section of road will be initiated from the coming fiscal year. I have allocated Rs 540 million for this purpose.
99. Likewise, construction works of 27 on-going bridges on highways and feeder roads will be completed and construction works on other bridges will be continued.
100. I have allocated Rs. 7.71 billion for roads and bridge construction.
101. Demand for electricity has been rising following industrialization and urbanization. People have to bear with load shedding and industrial production has suffered adversely because of the scarcity of electricity supply during the dry season. Keeping in view of the possibility of further deterioration in electricity supply in the coming days, every possible alternative will be followed to increase electricity supply. In this respect,

construction works of Madhya-Marsyangdi Project will be completed in the coming fiscal year, while implementation of Tamakoshi Hydroelectricity Project (309 MW) will be carried out by attracting foreign investment, as well. Construction works of medium-scale Hydroelectricity Projects, namely, Kulekhani III (14 MW) and Chameliyagaad (30 MW), will be initiated. Likewise, detailed feasibility study of Upper Seti (122 MW) and Upper Trishuli “A” and “B” will be carried out.

102. Arrangement will be made to implement small and medium-scale projects, namely, Kaveli (4 MW), Handikhola (2 MW) and RiddiKhola (2.4 MW), from Power Development Fund. Likewise, private sector investment will be encouraged in large and medium hydroelectricity projects, for which studies have already been completed, under BOOT arrangement.
103. I have allocated Rs 8.41 billion for the overall power sector.
104. I have allocated Rs 400 million for the irrigation projects implemented in Banke and Bardiya for the expansion of irrigation facility.
105. Real Estate Transaction law will be prepared and enacted by mid-December 2006 with a view to supporting planned township development and discouraging the tendency of house construction without basic infrastructure. National Urban Policy will be issued.
106. Since planned urbanization leads to large contribution towards economic development as well as creation of additional employment, planned city construction works will be initiated in Aattariya of Kailali and Itahari of Sunsari in the coming fiscal year. The government will construct basic infrastructures like land development, inner roads, sewerage, electricity and drinking water supply in such areas. Private sector will be encouraged for the construction of infrastructures like buildings, hospitals, schools and parks.
107. In view of huge cost requirement for the provision of infrastructures for development in the scattered settlements of the Himalayan and mountainous regions, it has been felt that infrastructures including roads, drinking water and electricity need to be developed by integrating the settlements of such areas. I, therefore, have made provision of necessary amount to carry out the feasibility study on integrated settlement development in Humla and Kalikot districts in the coming fiscal year.
108. I have allocated a sum of Rs 890 million for housing and urban development.

Investment in Education, Health and Drinking Water for Human Development

109. I have taken the Millennium Development Goals as the basis for formulating social sector programs. Sector-wide Approach has been emphasized for foreign aid mobilization and program formulation in these sectors. Investment in education is focused on achieving the main goal of "Education for All". A policy has been adopted to increase investment in basic health services and rural drinking water.
110. One of the reasons for the current low quality education in the public schools is also the mismatch of teacher-student ratio. Therefore, the status of teacher-student ratio of all public schools will be made public within mid-October 2006. Teacher's positions will be restructured by transferring the positions from schools having excess positions to those having insufficient number of positions. In the case of those public primary schools that still face the shortage of positions despite such adjustment, grants made available in respect of teachers will be increased.
111. As notable improvements have been witnessed in education as well as overall educational environment of the community-managed schools, handing over of schools along with financial resources will be expanded. In respect of the schools being operated by communities since the beginning as well as schools handed over to the communities, I have allocated Rs. 160 million for providing additional grant to those schools that have high teacher-student ratio. Such additional grant will be made available on the condition that only female teachers will be recruited. As many as 3000 women will get job due to the creation of additional employment opportunity from this scheme.
112. Measures like curriculum development, legal provisions and administrative structural development required to integrate school education by classifying grade 1 to 8 as primary education and from 9 to 12 as secondary education will be expedited by the end of the next fiscal year.
113. In order to make text-books easily accessible to all, arrangements have been made to provide grants within the end of February every year in respect of text-books and educational material to concerned school through District Education Office. It will be mandatory for schools buy books out of the given grant and distribute books by April-end in a gathering of parents.

114. In order to enhance the capacity of teachers, 19,410 primary level teachers and 16,000 secondary level teachers will be given in-service training in subjects related to their teaching. In addition to this, 700 women will be given training with scholarship with a view to enhancing the access of Dalit and deprived women to the teaching profession. I have allocated Rs 370 million for this purpose.
115. In order to improve the infrastructures (physical facilities) of schools, I have allocated budget for constructing 190 schools and 4,200 classrooms.
116. Second Higher Education Project will be launched for the improvement of higher education management and enhance the quality of education Under this program, the university campuses will be given the lump-sum incentives grant, partial grant and performance grants. Such grants will also be made available to affiliated community colleges. Financial assistance will be given to increase access of poor students to higher education. Higher education policies will be reviewed and timely changes will be incorporated. Emphasis will be given to Ph. D., M.Phil, Group Research and infrastructure development.
117. Different types of sports will be launched at the school level and local level for making sports professional through increasing their competitiveness. Necessary budget has been allocated for the participation at the upcoming South Asian Games and 15th Asian Games.

Hon'ble Speaker,

118. A patient should be able to receive medical attention (treatment) and medicines easily. Budget allocation to the health sector has been made by keeping this consideration in mind. The availability of doctors and medicines in rural, remote and hilly areas for basic health services will be ensured.
119. The services of MBBS doctors who studied under the scholarship of the Government of Nepal will be made available in remote and rural areas. The policy of appointing health workers on contract with additional economic incentives in such areas will be adopted. Trained maternal care workers employed in sub-health posts will be promoted to assistant nurse midwives. Assistant nurse midwives will be recruited on contract in sub-health posts where there are no maternal care workers. Posts remaining vacant after the retirement of maternal care workers will be annulled.

120. Free medical camps will be conducted in 25 districts for the treatment of prolapse among women. Continuity will be given to the funds made available to maternity programmes and the transport fare given to mothers delivering babies in maternity units for ensuring safe motherhood.
121. Funds have been made available to Martyr Gangalal Cardiac Institute for treating the cardiac problems of children below 15 free of charge. Keeping the availability of limited services in the public sector for the treatment of kidney, necessary funds have been made available for the establishment of Kidney Treatment Unit in the Regional Hospital of Kaski, the sub-regional Hospital of Parsa as well as in the Zonal Hospitals of Morang and Nepalgunj.
122. In order to reduce infant mortality rate, I have made arrangements for giving the vaccines of measles, polio, TB and Pneumonia to 742,169 children below one year of age in the country free of charge and to launch special polio vaccination programme throughout the country.
123. In order to control HIV/AIDS and sexually transmitted diseases, 15 treatment centers in 8 additional districts will be used to provide anti-retroviral treatment and preventive programmes will be launched to contain the transmission of HIV/AIDS from mothers to their children.
124. Funds will be made available to the District Public Health Office for the purchase of medicines to serve local needs. The community medicine distribution program will be implemented in 9 additional districts.
125. I have allocated Rs 790 million next fiscal year for completing continuing projects under small urban water supply and sanitation projects including the 13 projects in Fikkal, Triyuga, Attaria, Kamalamai, Bardibas, Prithvinarayan, Waling, Kusma, Beni, Kawasoti, Bijuwar, Kohalpur and Mahendra Nagar.
126. Adopting the policy of completing within the next three years 346 on-going projects, 128 water supply projects will be completed in the next fiscal year benefiting 818,000 people. I have allocated Rs 1.15 billion for this purpose.
127. Under the Melamchi Water Supply Project, Adit Access Roads in Sindhu-Gayalthum and Sundarijal area will be completed and work on 33 KVA electricity transmission line and Distribution Network Improvement will be commenced. Similarly, bids for tunnel work will be invited after preparing detailed design report. I have allocated Rs 1.66 billion for this purpose.

128. I have allocated Rs 52.0 billion for social sector, which includes Rs. 22.77 billion for education sector, Rs. 9.30 billion for health sector and Rs 6.19 billion for water supply sector.

Private Sector Development and Industrial Rehabilitation

129. In order to enhance the competitiveness of the trade and industry sector and reduce the risk of investment, review of the existing industrial policy, foreign investment policy and trade policy will be completed within the next fiscal year with the participation of the private sector. Competition law will be made enacted within November 2006 to end unhealthy competition and monopolistic trend found in the industrial sector.
130. An Industrial Rehabilitation Fund will be established with the participation of the government, central bank, financial institutions and interested industrialists and entrepreneurs in order to rehabilitate the conflict affected sick industries. For this purpose, the Government of Nepal has allocated Rs 500 million. The total capital of this fund is expected to reach to Rs. 2 billion with the participation of private sector and banking sector.
131. In order to rehabilitate the small borrowers affected by the conflicts, those who have taken loans up to Rs.50,000 from commercial and development banks will be granted waiver from remainder of the interest if they pay the principal amount and 50 percent of the interest. Likewise, if the borrowers getting loan of Rs 50,000 to Rs. 500,000 deposit interest equivalent to the outstanding loan, the remaining interest on their loan will be waived. This scheme will benefit about 432,000 borrowers.
132. The Special Economic Zone under construction in Bhairawa, for the purpose of providing all services and necessary infrastructures to promote the export industries from one place, will be operated in the next fiscal year. Customs Duty and Value Added Tax will be fully exempt on the import of raw materials, machinery and spare parts for the industries established in such zones. Similarly, a law related to the Special Economic Zone will be enacted in order to provide full income tax exemption for the first five years and 50 percent exemption in the years thereafter. A feasibility study will be made for the establishment of Special Economic Zone in Birgunj.
133. Additional employment generation in the industrial sector is the demand of the day. An employment-oriented new labor policy will be enacted in consultation with and obtaining consensus of industrialists, entrepreneurs and trade unions. It is estimated that 50,000 additional employment will be generated within the next three years with the implementation of the new

law that will be applicable in new industries, special economic zones and export processing zones.

134. Except the industries in the negative list, the newly established industries in 22 remote districts will be provided full income tax exemption for ten years.
135. An arrangement has been made to take the basis of transaction price by canceling the existing floor price system in the export of carpets.
136. Necessary amount has been allocated for "Small and Cottage Industry Development Fund" program which has been implemented to promote and develop the small and cottage industries, to enhance the capacity of the small business entrepreneurs and to promote credit facility and the markets. In addition to the programs being regularly carried out of this fund, investment will also be made for the establishment and development of small and cottage industry village.
137. Legal framework for non-resident Nepali Investment will be improved to create investment climate for the non-resident Nepali to employ their knowledge, technology, skill and capital. Steps will be taken to make provision for dual citizenship to such non-resident Nepali.
138. In order to promote the domestic production, the existing legal provision to purchase the domestic products by the government agencies even in cases where such goods are costlier by 10 percent than the foreign products will be implemented strictly. It is believed that the use of indigenous shoes and clothes by agencies like Nepal Army, Armed Police and Nepal Police under this program will encourage the domestic industries to a great extent.
139. To encourage foreign tourists through the chartered flights, additional royalty levied on such flights will be waived and arrangement of the chartered flight system will be simplified. In addition, an arrangement has been made to provide 10 percent discount on landing fee in the international flights. A new Air Services Agreement will be concluded with India in order to increase the tourists from major Indian cities.
140. In order to control the revenue leakage in the open trekking regions caused by illegal business activities, an arrangement has been made for the tourists to take trekking certificate from the Trekking Agents Association of Nepal. Likewise, the best five local tour operators bringing more than 25 percent additional foreign tourists by airways compared to the previous year will be rewarded.

141. The One Window Committee existing under the Department of Industry will be converted into a separate and permanent Industrial Facility Office to provide all facilities for the industries from one place. Arrangements will be made to expedite all matters including duty drawback from this mechanism.

Financial Sector Reform for Financial Development

Hon'ble Speaker

142. Loan rescheduling will be extended to all loan defaulters and borrowers under distress, who have borrowed loans from the banks and other financial institutions, by providing a grace period until the end of mid-September 2006. Stern measures, such as, impoundment of passports and deprivation of other facilities rendered by the state will be taken against those who do not meet the deadline of loan settlement by the rescheduled time period in order to recover the outstanding loan amounts.
143. With a view to encouraging free and fair business, Anti Money Laundering, Bank Fraud Control and Negotiable Instrument laws will be enacted.
144. Rural Self-Reliance Fund will be granted additional Rs 100 million in the next fiscal year to enable it to meet the demand of micro credit, to expand Micro Finance Centers in the rural areas and to provide wholesale credit to such centers. Act related to micro finance will be enacted.
145. An agency will be set up for effective regulation, inspection and supervision of financial cooperatives and non-governmental organizations registered under the Cooperatives Act and Societies Registration Act.

Reforms of Public Enterprises

146. Liquidation process will be carried out in the case of all such public enterprises that have been closed down citing the reason of their inability to operate. A High Level Committee will be formed to carry out the study on the restructuring of loss making Public Enterprises. Policy on whether to continue or closedown the public enterprise will be adopted upon the recommendation of study report.
147. Accumulated loss of Nepal Oil Corporation has escalated up to the point of unsustainable level due to the failure of the past governments to adjust the petroleum price at par with the international market price. Such price control policy has benefited more to the privileged people than the poor have. The rich people consume majority of the products of the Corporation, while its loss is unequally borne by the poor people who are deprived of using such

products. Therefore, the price adjustment of petroleum products will be made in consultation with the stakeholders with a view to reducing the burden on low-income people. Similarly, policy provision will be made to involve private sector in petroleum product business.

Communication, Technology and Culture

148. In order to provide telecommunication services in the rural and peri-urban areas, 1068 P.C.O. will be set up. Similarly, Nepal Telecom will extend V-SAT technology based telephone in the far remote areas through 200 terminals. At least two telephone lines will be installed in all Village Development Committees that do not have access to telecommunication services. At the same time, telephone services will be extended in 25 more districts through Nepal Telecom.
149. Optical fiber cable will be installed in Lamahi-Kohalpur, Lamahi-Tulasipur and Katmandu through Tatopani.
150. Private sector investment will be encouraged in Information Technology Park established in Banepa by providing special concessions. Private sector will be entrusted with the responsibility of operation and maintenance of the park.
151. E-Governance Master Plan will be initiated to reduce costs and time of service-reipients by improving public service delivery. Prerequisite works will be initiated to convert the present citizenship certificate into the national identity card.
152. Nepal Academy will be restructured to develop it as a specialized entity in order to promote and develop language, literature, arts and musical dramas.
153. I have made provision of minimum grant to the Federation of Nepalese Journalists and others to support the agencies involved in this sector in view of professional development of journalism.
154. To protect the archaeologically important goods and contribute to the tourism development, such heritages and places will be reflected into the map of Nepal. National Culture Policy will be revised and Museum Act will be formulated.

Relief, Rehabilitation and Reconstruction

Hon'ble Speaker,

155. It is now time to capitalize the present peaceful moment to make arrangements for displaced people to return to their original places and reconstruct the destroyed infrastructures. Government of Nepal has accorded high priority to this task and allocated budget accordingly. As it may require huge resources, arrangement will be made to mobilize internal resources as well as foreign assistance.
156. The martyrs who sacrificed their life for the establishment of democracy are our perennial sources of enthusiasms and inspiration. The Government is determined to honor the martyrs and protect their families. In this connection, provision has been made for the free education for martyrs' children up to the graduate level and maintenance allowances of Rs. 3,000 per month for their family. I express my sincere appreciation to those private schools that have provided free education to martyr's children. In the same manner, monthly financial disability allowance will be provided to the completely maimed persons and appropriate financial assistance will be provided to those partially maimed, depending on their disability. Similarly, identity cards will be issued to martyrs' families for free treatment in government hospitals and commemorative parks will be built to honor the martyrs' contribution.
157. Budget has been allocated for the treatment of those who suffered injuries in the people's movement. This amount will be used for the medical treatment of the injured, and for the provision of their wheel chairs, crutches and artificial organs.
158. As an immediate relief package and income generating activity, a grant of Rs 5,000 will be provided to the conflict victims to return to their normal lives. In addition, agricultural credits up to Rs. 10,000 will be made available in the coming fiscal year to every such family with four-percentage point of interest subsidy.
159. After the successful conclusion of ongoing talks between the government and the NCP (M), a large number of Maoist cadres will have to be assimilated into national mainstream. Special program for rehabilitation, income-generating and employment generation will be implemented for their benefit.

160. The reconstruction of the completely destroyed district headquarters will be expedited at a rapid speed. In this connection, the reconstruction of district headquarters, including Achham, Myagdi, Arghakhanchi, Palpa, Bhojpur, Sarlahi, etc., will be initiated. In the same manner, reconstruction activities of various infrastructures like school buildings, health posts, village development committee buildings, bridges, telecommunication networks, electricity lines, etc., will be initiated. A sum of Rs 1.1 billion has been allocated for these reconstruction and rehabilitation activities.

Reforms in Public Service Delivery: Citizen's Right

161. At the time of giving the authority of the head of the department to the chiefs of government units, orientation program will be conducted and performance management contract manual will be prepared. In order to give incentive on the basis of performance, an operational manual of the performance incentive funds will be prepared.

162. Arrangement will be made for electronic correspondence among Ministries on a pilot basis. It is expected to bring about improvement in the job performance.

163. Necessary amount has been allocated for the enhancement of skills of civil servants. It is expected that it will boost up the performance level through the training opportunities made available both at home and abroad. In the same way, in order to increase the opportunities of career development in civil service and make it more efficient and professional, necessary legal and institutional reforms through the unified civil service will be initiated from 14 April 2007.

164. As per the policy of providing dearness allowance on the basis of inflation, civil servants will be provided 10 percent dearness allowance effective from 17 July 2006.

165. A lump sum of Rs 1,500 as annual clothing allowance will be provided every year in the month of September to the lower level employees like peons and drivers. Those who have been receiving this allowance at present will be given the difference amount. Employees of remote areas receiving this allowance will not get the clothing allowance which was provided in every two years in the past. Group accident insurance scheme will be arranged for the drivers.

Control of unproductive expenses, capital expenditure and growth in productivity

166. The defense expenditure cannot be decreased unless the number of Nepal Army cadres, which has been increasing for the last four years, is reduced to a given level. Therefore, more emphasis will be given to the qualitative rather than to its quantitative aspect. The vacant positions in the Nepal Army this year will be made automatically redundant. It will cut down the defense expenditure in the long run. Even under this situation, total expenditure of the defense agencies has been proposed in such a manner that it does not exceed expenses of the current fiscal year.
167. In the current fiscal year, a total of Rs. 749.1 million was released to the Royal Palace. Of this amount, Rs.405 million was initially allocated in the different headings of the budget and additional Rs. 344.1 million was released during the year. A total of Rs. 219.7 million has been allocated to the Royal Palace for the next fiscal year. This allocation is lower by 70.7 per cent of the total expenditure and lower by 45.8 per cent of the initial allocation.
168. To maintain fiscal balance, government needs to be self-disciplined by making government budget economic growth friendly. In order for this, Fiscal Transparency Act will be formulated and enacted. Similarly, in order to make the public procurement systematic, transparent and productive, Public Procurement Act will be enacted by mid-October 2006.
169. Singhdurbar Reconstruction Project will be terminated and Building Construction and Maintenance Division shall undertake the responsibility of reconstruction of central offices inside the Singhdurbar compound.
170. Nepal Development Forum (NDF) meeting will be organized before mid-October 2006.
171. To ensure an effective implementation of the policies and programs, arrangement has been made to have a progress review meeting on the 7th day of each month under the chairmanship of the Hon'ble Minister in respective Ministries. Similarly, a meeting will be organized at the Ministry of Finance in every two months with the participation of Secretaries, for monitoring and evaluation of the projects and programs.

Hon' ble Speaker,

172. To achieve the objectives and priorities of the budget as stated above, I have allocated a total expenditure of Rs. 143 billion and 912.3 million. Out of

total expenditure, Rs. 83,767,861,000, Rs. 44,976,412,000 and Rs. 15,168,027,000 have been estimated for capital expenditure, recurrent expenditure and repayment of principal amount respectively. This estimate of expenditure is higher by 21.3 percent, 56.2 percent and 6.8 percent in capital expenditure, recurrent expenditure and repayment of principal amount respectively and total expenditure is higher by 28.4 percent as compared to revised estimate of Fiscal Year 2005/06.

173. Out of total expenditure, Rs. 79,635,342,000 and Rs. 64,276,958,000 have been allocated for general administration and development programs respectively.
174. Out of the estimated expenditure, Rs. 80,824,511,000 will be borne from current source of revenue, Rs. 23,728,600,000 from foreign grant and Rs. 16,907,900,000 from foreign loan. There will be a deficit of Rs. 22,451,289,000.
175. While preparing the budget of fiscal year 2006/07, arrangement has been made to ensure adequate budget for the prioritized programs and projects based on the Mid-Term Expenditure Framework. 86.9 percent of total budget is allocated for the first priority (P1) programs.
176. Now, I would like to present the estimates of the expenditure for fiscal year 2006/07 for four main strategies of the Tenth Plan and for the general administration.

- For high, sustainable and broad-based economic growth. Rs. 21, 883,466,000
- For social sector and infrastructure development Rs. 29, 493,733,000
- For the targeted programs Rs.4, 502,127,000
- For Good Governance Rs.8, 397,632,000
- For general administration Rs. 79,635,342,000

Revenue Policy and Programs

Hon'ble Speaker,

177. While formulating the revenue policy, attention has been given mainly to broaden the tax base, to provide facilities and concessions of a definite

standard for sick industries' rehabilitation, to improve investment climate and to increase the effectiveness and efficiency of the revenue administration. Likewise, the recommendation of the Revenue Advisory Committee, the recommendation of the Revenue Administration Organizational Structure Reform Advisory Taskforce and the Nepal's commitments to the WTO and other bilateral and multilateral agreement and conventions have also been considered while formulating the revenue policy and programs.

178. The effectiveness of the Revenue Advisory Committee will be enhanced by restructuring its existing formation. Basic services and Human Resource Development will be emphasized to enhance the professionalism and organizational capability of the revenue offices.
179. As per the commitment made by the Government of Nepal to WTO, the customs tariff for marbles, marble chips, granites, hydraulic brake fluids, chemical waste, advertising materials, transmission equipments, electric switch, plugs, sockets, etc., has been reduced. To recover the revenue deficit caused by this provision, adjustment has been made by levying excise duty on certain goods. Similarly, excise duty has been proposed on some goods, such as imported packed food, ready-to-eat food products, marble, etc. consumed by high-income people.
180. The customs tariffs on items more than 40 in number, including melamine utensils, cosmetic products, air condition machines, dry cleaner machines, motor parts, etc., have been increased to minimize the negative impacts in revenue collection and in the trade and industry sector caused by the changes in the rate of customs duty implemented last February.
181. In order to promote the domestic industries, the customs tariffs rates on finished goods, such as, readymade garments, noodles and macaroni, steel utensils and battery industries, etc., have been increased to some extent.
182. Income tax rate applicable on alcohol, beer and cigarette has been raised by five percentage point.
183. For the export oriented industries importing raw materials using the facility of bonded warehouse and passbooks, the time for releasing the bank guarantee or cash deposit has been extended to those industries which could not export in time due to the People's Movement.
184. The Automated System of Customs Data (ASYCUDA), which has been implemented in the customs administration, will be expanded to two more

customs points in the next fiscal year to fully implement this system. The Selectivity Modules and Agent Modules based on risk management will be added in the customs offices implementing ASYCUDA. This system will be linked to the Central Monitoring Unit established in the Ministry of Finance.

185. The system of purchasing the under-invoiced goods will be made effective to reform the customs valuation methods. Similarly, arrangement has been made to complete the post clearance audit of the selected firms and goods within 60 days.
186. The policy of imposing tariff rate of one level lower in the classification for the import of raw materials by the domestic industries has been given continuity.
187. In order to encourage the film production based on the digital technology, arrangement has been made to exempt the customs duty of the digital instruments imported by such companies and the film halls on the recommendation of the Film Development Board.
188. To enhance access of the low-income people to the alternative energy technology, the provision of providing exemption of Value Added Tax and customs duties on the import of goods and equipment on the recommendation of the Alternative Energy Centre has been given continuity. Similarly, arrangement has been made to provide such facilities to the import of raw materials required by domestic industries for the production of battery on the recommendation of the Alternative Energy Centre.
189. For the purpose of making Kathmandu Valley a pollution free city, the owners of cars, jeeps, buses, vans and trucks that are older than 15 years will be provided the facility of importing new Euro standard vehicles through 33 percent custom duty exemption facility, if they voluntarily cancel their registration and operate them outside Kathmandu valley.
190. An Empowered High Level Tax Arrears Settlement Commission will be constituted to realize the outstanding tax revenue assessed by various Tax Offices and Inland Revenue Offices including the other outstanding government dues up to FY 2003/04. A Tax Clearance Committee will be constituted to settle disputed and pending tax returns submitted until FY 2003/04.
191. If private schools failing to pay income tax due to various reasons, file the income tax returns up to FY 2004/05 and submit them by the end of mid-

November 2006 after completing the final audit by the registered auditors, the fees and penalties will be waived.

192. To make excise administration stronger and more effective, the existing organizational structure of the Inland Revenue Department will be reviewed and improved accordingly.
193. The excise duty has been slightly increased on the items harmful to health like cigarettes, beer, alcohol, *pan parag* and *kattha*.
194. Arrangements have been made for the taxpayers to submit tax returns in any Inland Revenue Office. In order to make taxpayer service more effective, information about the tax system and tax related information will be made available through Voice Message Service. Likewise, functional system being introduced in the Inland Revenue Offices will be made more effective.
195. Considering the contribution of the non-tax revenue, the rates of non-tax revenue will be reviewed and regularly monitored.
196. Keeping in view of the role played by the journalists in the democratic movement, arrangements have been made to provide 50 percent rebate in the rate of domestic postal duty currently being imposed on newspapers under "*Hulak Darta Samachar Patrapatrika*". Similarly, FM Radios shall get 50 percent rebate on the existing royalty.
197. Attention shall be given to the development of risk management system by identifying the areas of revenue leakages in order to maintain effective control. Similarly, the institutional capacity of Revenue Investigation Department will be strengthened. Monitoring Unit of the Ministry of Finance will be provided full authority to make it powerful to control revenue leakages.
198. In order to motivate the manpower involved in the revenue administration, arrangements have been made to introduce an Incentive Package System based on work performance on pilot basis in some selected offices.
199. Revenue amounting to Rs. 4,551,289,000 will be mobilized through the changes in revenue rates, administrative reforms and the revenue policy reforms. Net deficit will remain at Rs17, 900,000,000.
200. The net deficit of Rs 17,900,000,000 will be mobilized through domestic borrowing.

Hon'ble Speaker,

- 201 Upon implementation of the policies and programs as mentioned above, it is expected that the foundation for high and sustainable economic growth will be laid due to the reconstruction of the economy, investment will increase, increase in the access of the poor and marginalized classes to the resources due to increased rural investment and increase in employment opportunities. I have expected that the implementation of the above policies of the budget shall be helpful in improving deteriorated economic indicators and maintain macro-economic balance.
- 202 I have already stated in the beginning about the estimates of the economic growth rate and inflation for the coming fiscal year. It is estimated that, narrow money supply and broad money supply will remain at the rate of 12.5% and 14.1 % respectively during next fiscal year.
- 203 Statements of actual income and expenditure of FY 2004/05, revised income and expenditure of FY 2005/06 and estimated income and expenditure of FY 2006/07 have been presented in the Annexes. A brief description of technical assistance provided to Government of Nepal by friendly countries, donor communities and INGOs has been presented separately.
- 204 Nepal Rastra Bank will prepare and implement monetary policy in line with the fiscal policy of the government.
- 205 I would like to extend my heartfelt gratitude to Hon'ble Members of the House of Representatives and National Assembly, including institutions and individuals representing industry, commerce and trade sector, and representatives of professionals, civil servants and civil societies for their support in preparing this budget.
- 206 I have expected that the recent visit of Honorable Prime Minister of Nepal to India will further enhance bilateral interest and contribute to socio-economic development of Nepal. I would like to express my sincere gratitude to Government of India for high respect shown towards Nepal and for its keen interest on Nepal's development.
- 207 On behalf of the Government of Nepal, I would like to extend my heart-felt gratitude to all members of donor community for their continued support in the socio-economic development of the country. Likewise, I have expected to receive the continued support from friendly countries and the donor community in the coming days.

Hon'ble Speaker,

208. Every possible effort has been made to address the demands with regard to the people's needs as raised by Hon'ble Members of the House of Representatives, representatives of the political parties, various unions, organizations and the civil societies. However, as the Finance Minister I have prepared this budget with heavy heart of not being able to address all genuine demands raised by Hon'ble fellow parliamentarians and civil society due to lack of adequate resources. I am saddened by the fact that I could not address all concerns due to resource constraints.
209. Finally, I am confident that the implementation of this budget shall definitely make some contribution towards building foundation for new inclusive Nepal through equitable economy, by materializing the people's aspirations expressed through the People's Movement. I hope that all Nepali people will extend their full cooperation for the successful implementation of this budget.

Thank You.

Annexes