



## Economic growth up, but misses govt's target

The healthy growth in the agriculture and service sectors has pushed the country's economic growth to 4.6 percent in the last fiscal year 2011-12. The growth was 3.5 percent in the earlier fiscal year. The Economic Survey made public on Saturday shows economic growth in the fiscal year 2011-12 was, however, below the government target of 5 percent.

The growth in the agriculture and service sectors has made a positive impact on the overall economy, said a top official at the Finance Ministry. According to ministry sources, the survey has projected the agriculture sector's growth at around 4.8 percent, a record food grain production. Nepal is expected to record an all-time high production of food grain of over 9.457 million tonnes in the fiscal 2011-12. With this, the contribution of the sector to the country's GDP will increase to 35 percent year under review, from the 33 percent earlier fiscal year. The agriculture sector's growth in the earlier fiscal year was 4.1 percent.

Likewise, the service sector that contributes 55 percent to the GDP is projected to grow by around 6 percent. However, the expansion of the manufacturing sector has been disappointing this year also. "The growth of the manufacturing sector would be above one percent," said a source. Over the last five years, the growth of the industrial sector has remained at just 0.3 percent, according to the source.

The statistics show that inflation rose moderately, compared to last year, although it is higher than what the government had targeted. The ministry sources said the survey projects inflation to remain at 8 percent, which is one percent higher than what the government had

targeted. The government, in the current fiscal year's budget, has targeted to control inflation at 7 percent. "The rise in the prices of petroleum products and bandas and strikes in April/May pushed the inflation higher," said the source. The average inflation last year was 9.6 percent.

Two years ago, Nepal Rastra Bank reduced the weight of food items while measuring the inflation, which lowered the inflation level despite heavy rise in prices of food items. Of late, the prices of food and vegetables have sky-rocketed. Balance of payment and current account has, however, reached a record high. The current account surplus has crossed the Rs 60 billion mark. The current account surplus soared due to increased remittance and tourism income. Although the country has failed to attract substantial foreign direct investment, the rise in remittance and remittance income helped the country post a balance of payment (BoP) surplus of a record Rs 112 billion, according to the survey. The capital expenditure has surged in the latest two months of the fiscal year, although its growth was slow until the first 10 months of the fiscal year.

According to the Finance Ministry, capital expenditure stands at 90 percent, although there had been just 30 percent expenditure as of the first 10 months of this year. It means, the ministry had predicted that the total expenditure this year would be Rs 370 billion. ♦



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## Non-tariff barriers hit SAARC trade

Non-tariff barriers deter intra-regional trade in South Asia and need to be addressed through modern technology, positive approach and shared vision, according to Sri Lankan minister for external affairs Prof GL Peiris.

Members of the South Asian Association for Regional Cooperation (SAARC) should look towards improving intra-regional trade as a way towards stronger political union, he said, inaugurating a seminar on 'Trade Facilitation in South Asia: Addressing barriers to foster Trade Chain,' organised by SAARC Chamber of Commerce and Industry in Colombo, Sri Lanka.

"SAARC is not just about political unity but economic unity

too," he said, adding trade had brought European nations towards political and monetary union. "They started with trade and once benefits of it were realised, they proceeded to agreeing on seemingly intractable issues."

"I'm not saying that monetary union is necessary or even desirable for SAARC, but we must learn from their example, because trade is a potent instrument as even a partial solution to improving trade will benefit all," he said.

Peiris also urged business representatives to lobby with their respective governments to remove barriers to intra-regional trade. "Business community needs to seek out greater business synergy within the region with joint promotion of trade."

## Industrial activity improves in third quarter

**Manufacturing Production Index grew by 8.76 percent in the three months**

Nepal's manufacturing activity has shown some improvement in the last two quarters. The Manufacturing Production Index (MPI) grew by 8.76 percent in the third quarter compared to an increase of 4.39 percent in the second and a decline of 1.5 percent in the first, according to the Central Bureau of Statistics (CBS). The Index had increased by 5.42 percent last fiscal year.

"We saw economic activities, including manufacturing, growing in the third quarter amid optimism that the peace and constitution making processes would complete," said Pashupati Murarka, vice-president of the Federation of Nepalese Chambers of Commerce and Industry (FNCCI). "The situation, however, is likely to reverse in the fourth quarter due to the bandas and strikes before the dissolution of the constituent assembly and the political crisis after that."

According to CBS, over the last three quarters, 12 out of 23 areas witnessed growth in their expansion, while 11 saw decline. However, a majority of the areas have tried to improve.

Big manufacturing areas, including construction material, animal products, food products and beverages, have done relatively better. The MPI of food products saw the highest growth of 61.23 percent, thanks to the growth in manufacturing of bread, sugar, chocolate and noodles.

Among the food products, the index of sugar saw grew by the highest 170.73 percent. "Favourable government policies in sugar production, including 70 percent rebate in VAT, helped sugar production," said Manish Agrawal, an industrialist. The index of beverages

such as liquor, beer, and soft drinks, also saw a significant growth of 57.48 percent. However, some weighty areas such as vegetable ghee and oil, textile and plastic products witnessed decline in their expansion. But the index of mustard oil, under the vegetable ghee and oil category, rose by a whopping 51 percent.



On the expansion of beverage manufacturing, Murarka said increased remittance played a key role in this regard as people use remittance mainly for consumption. "Local manufacturers' failure to compete with foreign garment products—within and outside the country—resulted in a downfall in activities of these

sectors," he said. Similar is the assessment of another industrialist Agrawal. "Due to increased remittance income, people's food habit has changed, resulting in high consumption of bread, chocolates, and noodles," he said. "Increased restaurant-going culture also helped grow the food and beverage sector."

People's focus on building/purchasing houses and apartments contributed to the growth of the construction material and paint sector. Under construction materials, the manufacturing index of cement and hume pipe, GI pipe and iron and steel grew significantly. Manufacturing of electrical items such as electric wire and cable has also grown significantly, according to the CBS statistics. "Due to a huge investment in the cement industry by various business groups, the country is heading towards self-reliance," said Murarka.

## Foreign trade rebounds, up 16pc

Nepal's foreign trade jumped 16.3 percent to Rs 344 billion during the first eight months of the current fiscal year, a massive surge compared to the growth of 1.9 percent during the same period last year. According to the Economic Survey released by the Ministry of Finance, exports swelled to Rs 48.56 billion, up 14.1 percent. In the previous fiscal year, the growth rate was 5.9 percent.

Meanwhile, exports to India climbed 13.5 percent compared to 10.1 percent last year. Likewise, exports to third countries increased 13.5 percent compared to a decline of 1.7 percent in fiscal 2010-11. Nepal's largest exports to India were clothes, polyester yarn, GI pipe, cardamom and sand. The major export products to third countries were carpet, readymade garment, Nepali paper and leather. India buys two-thirds of Nepal's exports.

Meanwhile, Nepal witnessed an increase in imports this year. Imports grew 16.6 percent to Rs 295.24 billion during the first eight months. Imports from India were up 12 percent while imports from third countries jumped 26.3 percent. During the same period last year, the country's imports increased 1.2 percent.

The largest imports from India consisted of petroleum products, coal, chemical fertiliser, readymade garment and farm equipment. Similarly, gold, crude soybean oil, edible oil and machinery were the major imports from third countries.

Export trade makes up 14.1 percent of Nepal's international trade and import trade accounts for 85.9 percent. Meanwhile, the trade deficit ballooned 17.1 percent in the first eight months of fiscal 2011-12.

## Cost competitive products key to bridge trade gap

Nepal needs to focus on cost competitive products that have a high demand in the Indian market to bridge the ballooning trade deficit with India, according to economists.

"Nepal's trade deficit has been rising at an alarming rate," said senior economist Prof Dr Bishwambher Pyakuryal addressing a 'Policy Dialogue on Global Economic Turmoil and Asia-Pacific's Economic Prospects: Implications for Nepal' organised by UN Economic and Social Commission for Asia and the Pacific (ESCAP) and South Asia Watch on Trade, Economics and Environment in Kathmandu last week.

In the 10 months of the current fiscal year, the country had witnessed merchandise exports of Rs 60.90 billion, whereas the country posted Rs 383.02 billion worth of merchandise imports creating a trade deficit of Rs 322.12 billion.

Increasing products, production and productive capacity through enhanced investment climate, smart industrial policy, investment on infrastructure with priority on agriculture will help boost exports, said former member of National Planning Commission Dr Posh Raj Pandey.

Apart from merchandise exports, promoting service trade will also help rebalance the economy, he said, adding that international trade, foreign aid, remittance and foreign direct investment are key to support growth.

"Keeping an eye on the international market is also key as the country is looking for more foreign direct in-

vestments," said vice chair of National Planning Commission Deependra Bahadur Kshetry. Similarly, expanding domestic market with increased production will also help propel growth, he added.

Former economic advisor at the Finance Ministry Keshav Acharya, on the occasion, opined that the scarcity of labour has pushed wages higher making domestic products uncompetitive. "Making money from money without production of goods and generating employment has also led to the crisis," he said, adding that indirect transmission is more costlier than the direct transmission of the crisis.

"The V-shaped recovery from the depths of the 2008-09 global financial crisis proved to be short-lived as the world economy entered a second stage of crisis in 2012 with a sharp deterioration in the global environment with the accentuation of the euro zone debt crisis and a continued uncertain outlook for the US economy," said director of ESCAP subregional office for South and South-West Asia Dr Nagesh Kumar, presenting the report Economic and Social Survey of Asia and the Pacific 2012.

"The growth rate of the developing economies of Asia-Pacific declined to seven per cent in 2011 from a robust rate of 8.9 per cent in 2010," he said, adding that the growth rate of the economies of the region is forecast to decline further to 6.5 per cent in 2012 with a slackening demand for the region's exports in advanced economies and as a result of higher costs of capital.

"Regional market integration and cooperation will help promote growth in the region," said central bank governor Dr Yubaraj Khatiwada.

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## Revenue mobilisation surpasses target

The preliminary data revealed that the government has been able to mobilise some Rs 430 million more than the annual revenue target to Rs 242.20 billion during the last fiscal year that ended yesterday.

"However, it is the preliminary data," said joint secretary at the Finance Ministry Shanta Raj Subedi.

"The data is based on information from various departments responsible to mobilise revenue," he said, adding that the

actual calculation will however, come after Nepal Rastra Bank provides it to the ministry. "The central bank has said that it will calculate the real figure by the end of this week."

The government had projected Rs 241.77 billion revenue for the fiscal year 2011-12. "The rise in value of dollar and inflow of remittance contributed to the increase in revenue growth surpassing the target," according to the ministry.

During the 11th month of the fiscal year 2011-12, the government had been able to mobilise Rs 210.96 billion.

## Kathmandu-Tarai Fast Track Project: Call for EoI sends Nepali firms looking for partners

Nepali companies have begun scouting for partners among international firms to invest in the Kathmandu-Tarai Fast Track Project after the government invited expressions of interest (EoI) to build the speedway.

On Wednesday last week, the government made a fresh call for EoI to construct the 76-km express road. According to the terms of reference, Nepali companies are allowed to invest up to 10 per cent of the total cost of the project in a consortium or joint venture with international firms.

Officials at the Fast Track project office said that they had received a number of queries from international companies, local firms seeking a partnership, representatives of global firms and potential agents for foreign investors. The government plans to construct the Fast Track, which has a price tag estimated at more than Rs 80 billion, through public-private partnership on a build-operate-transfer (BOT) basis.

Meanwhile, the Federation of Contractors' Association of Nepal (FCAN) on Wednesday wrote to its counterpart the International Construction Association of Korea (ICAK) in a bid to encourage Korean investment in the speedway. The ICAK is an organisation of Korean contractors involved in overseas construction and in-

frastructure development activities.

"The ICAK is likely to reply within a week about the interest of Korean contractors," said Jayaram Lamichhane, president of the FCAN. "We will be happy to collaborate with Korean companies on this project. However, it is hard to say if foreign firms will be interested because of the poor political situation in the country."

The FCAN had written to the ICAK as per an accord the two signed two months ago to exchange information about potential joint ventures, investment opportunities and infrastructure development projects in their respective countries. The pact aims to promote participation of each other's member contractors in engineering, construction and infrastructure developments projects.

According to the Ministry of Physical Planning, Works and Transport Management, Indian, Korean, Chinese, Japanese and a number of European contractors have shown interest in working on the Fast Track project. Landmark Worldwide Company of Korea, which had applied to invest in the project in 2009 and 2011, has also shown interest in the project.

## Melamchi deadline extended by 6 months

The construction of the much-talked about Melamchi Drinking Water Project (MDWP) will be delayed by six more months. As per its revised work plan, the project will complete by December 2015. A meeting between the Asian Development Bank (ADB), Chinese Contractor China Railway 15 Bureau Group (CRGC) and the Ministry of Urban Development endorsed the revised work plan of the project.

According to ministry officials, CRGC's Deputy Managing Director, who came from China, expressed commitment to expediting work with additional human resources and equipment. As per the approved work plan, the contractor should complete 2-km tunnel digging work in three months (August-October). The government had awarded the tunnel construction contract to CGRC three years

ago. It, however, has dug only 5.7 km tunnel so far though it was supposed to complete the entire 27-km tunnel — from the project site at Melamchi to Kathmandu — by mid-July.

MDWP Project Chief Krishna Acharya said the ministry and ADB will monitor the contractor's work. If it failed to complete task within the three months, the monitoring bodies will ask the contractor to add manpower and equipment, he said. "The contractor has promised to dig 600-715 metre tunnel per month to meet the three-month target," he said. The project was scheduled to complete by 2013. However, the deadline of the project has been revised several times, which increased the project cost as well as verification claims by contractors.

## Ministries sign MoU for power supply for proposed fertilizer factory:

In order address the dire scarcity of chemical fertilizer, the government has prepared for a chemical fertilizer plant in the agro-based country, Nepal. For this, the Ministry of Agriculture Development and the Ministry of Energy on Sunday, July 15<sup>th</sup>, signed a memorandum of understanding (MoU) to supply 100MW electricity to set up a chemical fertilizer plant.

As per the MoU, the Energy Ministry will arrange electricity from the Dhalkebar Substation within the next five years and the tariff will be in line with that for industrial purpose.

Energy ministry Secretary Hari Ram Koirala and Agriculture Ministry Secretary Nathu Prasad Chaudhary signed the agreement.

The Agriculture Ministry will carry out the detailed feasibility study (DFS) for the plant that will particularly produce urea. According to ministry officials, the government can seek support from the donor community for conducting the study.

The setting up of a chemical fertilizer factory was announced in the budget for the last two years. The budget 2012-13 announced on Sunday also prioritized the setting up of the plant. The government's move to establish a chemical fertilizer factory comes amid long-standing fertil-

izer shortage, unavailability of the vital input in time and ballooning demand. In recent years, fertilizer use has risen 10 per cent annually.

"As the government annually sends more than Rs 4 billion outside the country to procure chemical fertilizers, setting up a factory here will save the money and also make the input available in time," said Hari Dahal spokesperson for the Agriculture Ministry.

Currently, the government is providing Rs 2.83 billion subsidy on fertilizers and has announced to more than double the subsidy in the next fiscal year.

Since 2009, private companies have stopped dealing in fertilizers due to high cost and risk factor. It is estimated that more than Rs 5 billion goes outside the country annually for illegally-imported fertilizers. Government officials admit that fertilizer shortage becomes more severe here when India tightens security, particularly to prevent smuggling.

Currently, the country's fertilizer demand stands at over 700,000 tonnes per year and the government has been able to supply only 20-25 percent of the demand. As per the Japan International Cooperation Agency's study done 26 years ago, 100MW electricity is required to produce 275 tonnes of fertilizers per day, according to Dahal.

## Pokhara Regional Int'l Airport bid: Quotations higher than government estimation

Three Chinese firms, who are in the race for the Pokhara regional international airport contract, have quoted the project cost much higher than what the government had estimated. According to a highly-placed source at the Civil Aviation Authority of Nepal (CAAN), China CAMC Engineering Co has quoted the lowest \$305.13 million among the three firms. The financial proposals were opened on Monday after technical evaluation. Two other Chinese firms Sinohydro Corporation and China International Water and Electric Corporation quoted \$337.82 million and \$349.28 million, respectively, according to the source.

CAAN had estimated the project cost at around \$180 million, and the government planned to use soft loans of around \$145 million from the Export-Import Bank of China (Exim Bank) to fund the project. A six-member evaluation committee led by CAAN Engineering Department chief Mukunda Bhandari who is scheduled to submit the report to the CAAN board on Wednesday, will con-



duct a post-qualification evaluation of the lowest bidder and further negotiate the cost amount before recommending the firm to the Ministry of Tourism, Culture and Civil Aviation. The ministry will then forward the name of the selected company to the Finance Ministry, which will start loan negotiations with Exim Bank. Ten Chinese firms had obtained bid documents for the project under the Engineering Procurement and Construction model on February 9. However, only three of them submitted the documents to CAAN although the deadline was

extended twice.

A study carried out by the government and Japan International Cooperation Agency in 1989 had proposed a runway—2,500-metre long and 50-metre wide -- a terminal and a cargo building. But now, the airport will have around 3,000-metre-long runway, an apron, international and domestic terminal buildings, an air traffic control tower, a cargo terminal building and an airport hangar.

## Qatar – the most popular destination of Nepali migrant workers

Qatar has displaced Malaysia as the top destination of Nepali migrant workers. A total of 103,371 Nepali individuals went to Qatar in 2011-12, whereas the figure in Malaysia remained 98,339 Nepalis in 2011-12, according to the Department of Foreign Employment data. Workers' departure to Malaysia declined by 7.14 percent in 2011-12, mainly the due to legalisation programme carried out by Malaysian government.

the highest in a fiscal year so far.

Political instability and lack of job opportunities in Nepal are prompting more youth to opt for foreign employment.

The department's statistics clearly show that a majority of workforce entering job market are opting for overseas jobs.

According to government statistics, 400,000 fresh workers enter the domestic job market annually.

A total of 146,140 individuals obtained re-entry permission from the department last fiscal year. If the numbers of repeat migrant workers are taken into account, more than 530,000 workers left country for overseas jobs last year. "The number of outbound workers is increasing each year, primarily due to the lack of job opportunities in the country," said Gyanu Prasad Gaire, vice-president of the Nepal Association of Foreign Employment Agencies. He said comparatively good salary in international job markets was attracting Nepali youth towards foreign employment.

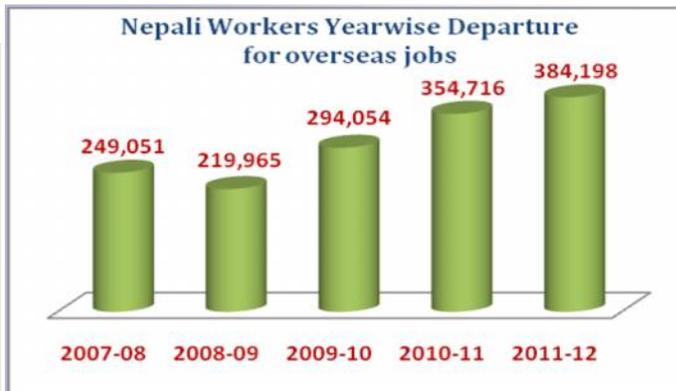
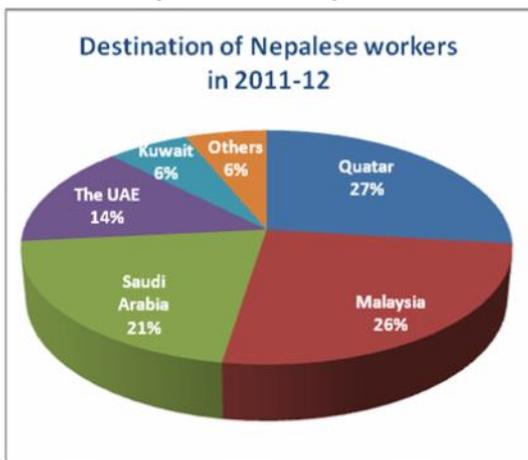
Foreign employment expert Ganesh Gurung said Tarai youth are getting more attracted towards countries other than India for foreign employment. "A huge number of youth from Tarai and even those losing their jobs in Nepali industries are found

Nepali Workers Departure for overseas jobs		
Year	Annual	Daily Average
2007-08	249,051	682
2008-09	219,965	603
2009-10	294,054	806
2010-11	354,716	972
2011-12	384,198	1053

Top five Destination of Nepalese Labourers in 2011-12				
Destination	2010-11	2011-12	% in 2011-12	% Change in 2 years
Qatar	102966	103371	27%	0.39%
Malaysia	105906	98339	26%	-7.15%
Saudi Arabia	71116	80380	21%	13.03%
The UAE	44464	54294	14%	22.11%
Kuwait	15187	23790	6%	56.65%
Others	15077	24024	6%	59.34%
Totals	354716	384198	100%	

Saudi Arabia, the UAE and Kuwait made the top five recipients of Nepali migrant workers. Saudi Arabia offered employment to 80,380 Nepalis, while the UAE and Kuwait took in 54,294 and 23,790 individuals, respectively.

According to the department, 384,198 individuals left the country for overseas jobs in last fiscal



year. The number is leaving for employment in the international labour market," he said.

## Nepal, S Korea renew labour pact

Nepal and South Korea renewed labour contract for next two years providing safe passage for the Nepali youths under the Employment Permit System (EPS).

contract, the EPS workers can renew their job term for the next job term but in the gap of three months. Similarly, biometric identification — eyes and fingerprints — and police report will now be mandatory

The new labour contract has, however, increased job term from current three years to four years and 10 months. According to the

## Nepal, S Korea renew labour .....

"We have renewed the labour contract with South Korea," informed joint secretary at the Ministry of Labour and Employment Binod KC. "Minister for Labour and Employment Kumar Belbase signed the contract on Friday," he said, adding that South Korea has forwarded the contract paper through their embassy in Kathmandu. "South Korean labour minister Lee Chan-woo had signed the contract paper before sending it to his Nepali counterpart."

The ministry has forwarded signed contract paper to Ministry of Foreign Affairs yesterday to send it back to South Korea. Labour contract with South Korea is renewed every two years. South Korea has been offering lucrative jobs to thousands of Nepali youths through EPS since 2008.

About 13,000 Nepalis have been working in manufacturing and

agriculture sectors in South Korea under the EPS. The EPS workers earn around \$1,000 (Rs 88,000) in a month while the job searching cost comes to about \$970 (Rs 85,360) making it a most lucrative and popular destination among Nepalis since the process began in August 2008.

About 32,000 Nepali youths have applied for the jobs in 2008, while it has increased to 42,000 in 2010 and 51,000 last year. About 15,298 Nepalis had passed Korean language test —Test of Proficiency in Korean — in August 2011 and of them around 5,000 have already reached the destination in last six months. South Korea has been planning to recruit 7,000 Nepalis in 2012 and remaining in the following year.

## Upper Trishuli 3A upgradation: MoE moves ahead with plan

The Ministry of Energy (MoE) is moving ahead with its plan to upgrade the Upper Trishuli 3A hydropower project. The MoE wants to increase its capacity from the originally planned 60 MW to 90 MW.

Energy secretary Hari Ram Koirala asked the Nepal Electricity Authority (NEA) to prepare a report on the matter. Koirala, who also chairs the NEA board, has formed an internal committee to do a study. The MoE has asked the MoF to agree in principle to its proposal and arrange funds by borrowing from China Exim Bank. However, the MoF has barred the MoE from moving ahead with the plan.

Koirala said that there was nothing wrong with increasing the capacity of the project. "Once the committee submits its report, the board will reach a final decision on boosting the capacity of

the Upper Trishuli project," said Koirala. He added that the MoF had not rejected the MoE's idea to upgrade the project's capacity. "As it is the MoE's internal concept to enhance the capacity, the MoF has no right to approve or reject it."

NEA officials confirmed that the ministry had asked them to prepare a report so as to reach a final decision. They also said that the NEA had been facing pressure from agents, contractors, politicians and the ministry. Raising the capacity of the project will add Rs 3 billion to its estimated price tag of Rs 10 billion. Construction of the project began six months ago with a loan assistance from China Exim Bank.

## WB aid for bridge improvement

The International Development Association (IDA) of the World Bank has agreed to provide an assistance of US\$ 100 million (equivalent to Rs. 8.88 billion) to the government of Nepal for Bridge Improvement and Maintenance Programme and Sunaula Hajar Din-Community Action for Nutrition Project. Two separate agreements to this effect were signed and exchanged at the Ministry of Finance on July 13th. Lal Shanker Ghimere, Joint Secretary at the Ministry of Finance, and Gigyan Pradhan, Acting Country Manager of the World Bank, Nepal, signed on the document on behalf of the respective institutions.

Out of the total assistance, loan assistance of US\$ 60 million, equivalent to Rs. 5.33 billion, would be used for Bridge Improvement and Maintenance Programme, and US\$ 22 million loan assistance and US\$ 18 million grant assistance, equivalent to Rs. 3.55 billion, for Sunaula Hajar Din-Community Action for

### Nutrition Project

The objective of the Bridge Improvement and Maintenance Programme is to provide safe, reliable and cost effective bridges on the Strategic Roads Network (SRN) of Nepal.

The expected output of the Bridge improvement and Maintenance Programme includes construction of 121 new bridges and maintenance of 89 urgently needed bridges, 242 non urgent bridges, and 95 minor bridges. The programme is scheduled to be implemented until July 15, 2017.

Similarly, the objective of the Sunaula Hajar Din-Community Action for Nutrition Project is to improve the attitudes and practices known to improve nutritional outcomes of women of reproductive age and children under the age of two. The project is to be implemented until June 30, 2017.

## Thinking of linking: Eager for Mergers in Nepali banking sector

When Nepal Rastra Bank (NRB) introduced the Merger By-laws in May 2011, many doubted whether Nepali banks and financial institutions (BFIs) would go for mergers as the concept was a relatively new thing for the country. However, soon after the bylaws were issued, Birgunj Finance and Himchuli Bikas Bank got the go-ahead from the central bank to merge and became H&B Development Bank.

Four other couples of banks and financial institutions combined while Global Bank and two other financial institutions merged to become a single entity last year. Three other couples of financial institutions are in the process of getting the final approval from the central bank.

Likewise, two couples of financial institutions plus three other financial institutions have obtained letters of intent (LoI) from the central bank to come together. Six other couples of BFIs have applied to the central bank to merge, according to NRB. Most of the BFIs have got their proposed merger endorsed by their annual general meeting (AGM). "Our assessment is that the number of mergers that took place last year is a big success," said Bhaskarmani Gnawali, spokesperson of NRB. "It is not only a success of NRB's merger policy but also the need of the hour."

### Mergers in 2011-12

BFIs Receiving Final Approval
Himchuli Dev Bank & Birgunj Finance
Kasthamandap Dev Bank & Shikhar Finance
Business Dev Bank & Universal Finance
Nepal Bangladesh Bank & Nepal-Sri Lanka Merchant Bank
Machhapuchchhre Bank & Standard Finance
Global Bank & IME Financial Institution & Lord Buddha Finance
Infrastructure Dev Bank & Swastik Finance
Annapurna Finance & Suryadarshan Finance
Pashupati Dev Bank & Udyam Dev Bank
LoI Received
Alpic Everest Finance, Butwal Finance & CMB Finance
Vibor Dev Bank & Bhajuratna Finance
Premier Finance & Imperial Finance
In Pipeline
Araniko Dev Bank & Surya Dev Bank
Shine Dev Bank & Resunga Dev Bank
Social Dev Bank & Corporate Dev Bank
Kathmandu Finance & Civil Merchant Finance
NIC Bank & Bank of Asia
Prudential Finance & Gorkha Finance

According to him, BFIs proliferated due to the liberal NRB policy in the past and invited unhealthy competition. "Competition increased the cost of BFIs while their profits slumped which would be unsustainable in the long run," said Gnawali.

Given that many BFIs are yet to fulfil their paid-up capital requirement which they have to do by the end of the fiscal year, they had to choose merger as an appropriate option for increasing the capital base. Particularly, development banks and finance companies are struggling to increase their paid-up capital. "As there is no environment for increasing the capital by issuing rights shares and issuing bonus shares will not be enough to raise the capital to the required level, finance companies have no other option than going for merger," said Rajendra Man Shakya, president of the Finance Companies' Association of Nepal. Shakya's CMB Finance is in the process of merging with Alpic Everest Finance and Butwal Finance. "Many finance companies have thought it better to opt for a merger than to face action by the central bank for failing to increase the capital to the required level next year."

They have to increase the capital to Rs 200 million by mid-July 2013.

Given the shaken public confidence towards banking institutions due to recent problems in the banking sector and their inability to give proper returns to their shareholders, BFIs are increasingly leaning towards consolidation. "In such a situation, there is hardly any possibility of increasing the paid-up capital by issuing rights shares," said Shakya. He added that as the size of loans being demanded by single buyers has been increasing in recent years, finance companies having the minimum paid-up capital of Rs 200 million cannot fulfill their requirement. "That's why it has become essential even for finance companies that have fulfilled the capital requirement to go for mergers," said Shakya.

Although most of the FIs that have chosen to merge are development banks and finance companies, commercial banks are also jumping on the bandwagon. There has been no case of two banks combining, but commercial banks and finance companies have merged. Machhapuchchhre Bank and Standard Finance merged recently. Likewise, Global Bank, IME Financial Institution and Lord Buddha Finance also came together.

Recently, two commercial banks, NIC Bank and Bank of Asia, signed a memorandum of understanding to merge. Following NRB's pressure on BFIs promoted by the same group to merge, NIC and the Bank of Asia which were promoted by the same group, have decided to go for a merger.

NIC CEO Sashin Joshi said consolidation is becoming increasingly necessary as banks are struggling to give returns to their shareholders. Looking at last year's experience, both NRB and

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## Eager for Mergers .....

bankers are hopeful that mergers will be the phenomenon in the new fiscal year that began on Monday, 16<sup>th</sup> July. "Almost all BFIs are eyeing merger, and the number of BFIs will come down notably in the next three years," said Gnawali.

However, bankers said more incentives are needed to speed up mergers, particularly between commercial banks. They have long been demanding a decrease in corporate income

tax to 20 percent from the current 30 percent for BFIs going for a merger. "The government had assured us about reducing the tax through the new full budget," said Joshi. "Unfortunately, a full budget could not be brought."

He predicted at least two to three couples of commercial banks would merge in the new fiscal year if the government provides

## Central bank caps overdraft lending

### Personal Loan

The central bank has put a cap on overdraft loans and revolving personal loans to prevent haphazard lending under the heading.

Nepal Rastra Bank (NRB)'s Unified Directives for fiscal year 2012-13 has limited the lending capacity of financial institutions (FI) under the heading of overdraft loans and revolving personal loans to Rs 10 million to a single borrower.

"In recent times, banks have been issuing large amounts of overdrafts and personal loans which are being lent for unproductive purposes," pointed out spokesperson of NRB Bhaskar Mani Gyanwali.

Likewise, to minimise the risk taking behaviour of directors, CEOs and top management officials of financial institutions, the central bank has prohibited financial institutions to forward loans besides personal loans, education loans, home loans and hire-purchase loans, to directors, CEOs and top management of other financial institutions.

### Purchase of land and building by FIs

Moreover, to control the exposure of the financial institutions to real estate purchase, the central bank has even spelt out conditions for the financial institutions to purchase land or building

only for their own use.

Last year, FIs ran into trouble due to large scale real estate purchases -- Vibor Bikas Bank and Gurkha Development Bank both had large scale real estate purchases that got the concerned FIs into trouble.

Even if a financial institution wants to acquire land or a building for setting up its office, it has to be earning profits for the last two years and should have already issued shares to the public.

Similarly, in addition to the public issue of shares, it needs to complete an annual general meeting and must have received approval for the purchase. In case, a financial institution fails to utilise the property for its own use in three consecutive years then it has to sell it.

### Supervision of 'D' class microfinance institutions

Nepal Rastra Bank has tightened supervision of class 'D' microfinance institutions as well. It has asked the microfinance banks – both wholesale lending and retail – to submit a consolidated report of transactions of each branch every quarter.

## Insurance regulator caps agent incentives

The Insurance Board has capped the incentives being doled out by insurance companies to insurance agents in order to bring down the expenses of the companies on the incentives being provided to insurance agents with a ceiling of a maximum of six per cent of the total premium, starting from the current fiscal year (16<sup>th</sup> July).

"We hope to discourage the unhealthy competition taking place at present as the companies are spending more on management expenses and paying insurance agents instead of providing more returns to the insured," said chairman of the board Prof Dr Fatta Bahadur KC.

Insurance companies have been giving away large sums of money as incentives to retain their insurance agents as the agents have started to defect to other insurance companies for better perks. "The companies are paying agents more incentives than commissions, which has increased their cost of operation leading to unhealthy competition," he pointed out.

The board has already fixed the commission rate that agents are supposed to be paid based on the maturity period, size and type of the policies but it used to allow the companies to give agents incentives in cash or kind. "By capping incentives, the unnecessary expenses of the insurance companies will definitely go down, increasing profits, which is better for the companies," added KC.

As the number of insurance companies has grown in the last few years, the fierce competition among them to retain their agents and in turn the agents' clients has also grown, and companies have been giving away higher amounts as incentives. "Moreover, in terms of life insurance, more profit means higher bonus to policy holders, which will definitely make policies attractive thus bringing in more clients without fuelling unhealthy competition among the agents," said chairman KC.

Contd on page 10

## Insurance regulator caps .....

Bonus is an amount given to life insurance policy holders apart from their maturity or death benefits which are declared based on the profit of the companies. There are about 90,000 licensed insurance agents working in the domestic insurance market for 25 insurance companies, i.e. 3600 in average per company.

Among the 25 companies, 16 are non-life insurance companies and eight are life insurance companies, while Rastriya Beema Sansthan, the government owned insurance company, can sell

both life and non-life insurance policies but the two operations will soon be separated.

Moreover, there are 26 financial institutions and cooperatives that have licence to work as insurance agents. However, the insurance regulator has forbidden them to work as agents while insuring assets under their company's ownership

## Tourist arrivals sees healthy growth

Total tourist arrivals increased to 22.1 percent during fiscal year 2011-12. Along with international promotional programmes and national tourism campaign, Nepal Tourism Year (NTY) 2011, Nepal successfully re-established itself as a tourist destination in the international market, states the Economic Survey Report 2011-12.

According to the report, total tourist arrivals during the year increased by 22.1 per cent as compared to the previous year. Meanwhile, the length of stay of tourists on average increased to 13.12 days, which was 12.67 days in 2010.

Nepal, as a tourism destination, was promoted through several international promotional programmes launched during the national campaign. A series of programmes such as advertisement of destination Nepal through CNN and BBC, and meetings and seminars of PATA, IH&RA, UAAA and UIAA in the country created a positive image of Nepal as a tourism destination at the international level.

During NTY 2011, the government had targeted total tourist arrivals of one million and almost met the target with 0.736 million

tourists in 2011. Similarly, its target to increase the stay period of tourists to 13 days was also accomplished with the total length of stay of tourists being 13.12 days, which was about 12 days in 2010.

Per tourist, income also increased to Rs 3067.26 and per tourist expenditure increased to Rs 3112.43, states the report. The total contribution of the tourism sector to the GDP in 2010 was Rs 13.46 billion, while the total GDP increased to Rs 15.58 billion in 2011, the survey states. According to the report, among the total tourist arrivals, 53.7 per cent was for general visit, 11.7 per cent for trekking and mountaineering, 8.7 per cent for pilgrimage, 4.1 per cent for entertainment, 2.4 per cent for trade, 3.3 per cent for official visit, 1.5 per cent for seminars, 0.3 per cent for rafting, 4.1 per cent for other reasons, and the remaining 9.5 per cent without major plans.

The top five countries contributing to tourist arrivals for Nepal during 2011-2012 were India (20 per cent), China (8.4 per cent), Sri Lanka (8.1 per cent), USA (5.7 per cent), and United Kingdom (five per cent), states the survey.

## 'Chaliye Pokhara' road show a big hit in Indian cities

Tourism entrepreneurs from Pokhara are setting their sights on tourists from bordering Indian cities to boost their business. The Paschimanchal Hotel Association Pokhara (PHAP) in association of Nepal Tourism Board (NTB) recently carried out promotion campaign 'Chaliye Pokhara' in Lucknow, Kanpur and Gorakhpur.

Hoteliers from Pokhara announced separate package for Indian tourists offering discounts upto 30 percent. A total of 25 hotels and their promoters from the lake city interacted with tour operators, travel agencies and hoteliers in the three Indian cities.

PHAP President Biplav Poudel said that Indian tourists would get 30 percent discount on room and 10 percent discount on food. "But, they must produce identity card that verifies Indian nationality," said Poudel. "The

offer will last till December 31, 2012."

Various hotels and resorts in Pokhara have announced various programs and tour packages with concessions to Indian tourists including package of Sunauli-Pokhara-Muktinath-Sunauli, Pokhara-Jomsom-Pokhara, Sunauli-Chitwan-Tansen-Pokhara-Manakamana etc and honeymoon packages.

The initiative by the hoteliers from Pokhara were well received by tour operators in Lucknow. "Discount offered by the hotels in Pokhara is very interesting and will attract lots of tourists," said Manish Nigjam of Ambika Travels in Lucknow.



## Tibet pledges support for Visit Lumbini Year

The Tibet Autonomous Region of China has expressed commitment to support Visit Lumbini Year 2012 (VLY 2012) and make it a success. Speaking at an interaction jointly organized by the Nepali Consulate General in Lhasa and the Nepal Tourism Board, Sangping Wang, deputy director general of the Tibet Tourism Administration, pledged to support VLY 2012. VLY has targeted hosting one million tourists this year, half of them foreign visitors.

According to the consulate general, Sangping has urged tour operators to make special packages for tourists coming to Lhasa to encourage them to visit Nepal. Sangping added that construction of the Rasuwagadhi-Kyirong road would help to promote tourism between Nepal and China.



Nepali Consul General Hari Prasad Basyal said that Nepal was expecting to welcome increased numbers of Chinese visitors to the birthplace of Gautam Buddha and urged support to make the VLY campaign a success.

Meanwhile, 20,000 Chinese have obtained visas in Tibet to visit Nepal in the fiscal year 2011-12. The figure represents a 20 percent rise compared to the last fiscal year. To promote Nepal's tourism, the Nepali Consulate General in Lhasa in coordination with the Tibet tourism office has placed hoarding boards at major tourist areas in Lhasa.

## 32 Thousand Nepali holidaymakers travelled abroad in 2011

The number of Nepali holidaymakers visiting foreign destinations rose 7.21 percent to 32,063 in 2011, availing the affordable tour packages and rising disposable incomes. Of the total 773,954 Nepali going abroad in 2011, the share of fun seekers is 4.1 percent.

According to Nepal Tourism Statistics 2011, an annual publication of the Ministry of Culture, Tourism and Civil Aviation, there were 29,904 Nepali vacationers going abroad in 2010 and 27,679 in 2009. The statistics show that male visitors amounted to 58.39 percent of the total outbound.

Tour operators said that the most popular destinations for Nepali fun seekers were Thailand followed by Malaysia and Singapore. The preferred time to travel is September-November, a festival season in Nepal. Simplification of visa procedures by European countries has also encouraged Nepali travellers to spend their holidays on the Continent. Apart from above, other destinations of Nepali holiday makers are Dubai, Mauritius, Turkey, China and some European destinations (Amsterdam, Paris and Belgium).

According to the Tourism Authority of Thailand (TAT), 25,728



Nepali travellers journeyed to the "Land of the White Elephant" in 2011. Tour operators said that affordable packages were the major factor encouraging Nepali outbound to Thailand.

The statistics show that there has also been a rise in the number of Nepalis travelling for purposes of health and for seminars and conferences. "People traveling for purposes other than academic study and employment can be categorized as tourists," said chief statistician at MoCTCA Rabi Prasad Kayastha, adding that travel in most of the

categories has been increasing since the last four years. It was only in 2008 that the government started keeping records of Nepalis flying abroad.

According to the data for 2011, 13,384 people went abroad for seminars, 5,827 for religious purposes and 9,654 for health purposes.

According to the operators, travelers were spending a week abroad on average. People traveling to places like Bangkok and Dubai spend 4-5 days on average and those traveling to Europe or under combined Bangkok-Malaysia-Singapore packages are spending 12-14 days on average.

## Grater Birgunj

Birgunj Chamber of Commerce & Industry (BCCI) has proposed a long term program to develop the Birgunj as an Economic Capital of the country. To fulfill the dream BCCI has planned two dozen of projects along with areal expansion of Birgunj.

To develop a Birgunj a full fledged of Metropolitan City and to build the capacity of bearing the potential of expansion of economic activities Greater Birgunj is a must, said Ashok Temani, President of Birgunj Chamber of Commerce & Industry. Birgunj itself is important as most of the industries are there and most of the economic activities take place in Birgunj. We have brought this proposal to make Birgunj managed, more prosperous and potential for business said Mr. Temani.

Chamber has brought a proposal for Greater Birgunj and mainly 22 new infrastructures are to be built there. Infrastructure like Ring Road, International Trade Centre, International Convention Centre, Agriculture University are the basic terms and conditions for the Greater Birgunj said Ganesh Lath, Past President of Birgunj Chamber of Commerce & Industry.

Proposal indicates that the an International standard Taxi Service to Trade Tower will be developed there. Development of Link road, Cleaning of the public areas and roads, Five Star Hotel, Convention Centre, Specialized Metro Police force, which are not available in Birgunj now and to provide all these infrastructures and facilities like in New York, Birgunj Chamber of Commerce & Industry has planned all these said Mr. Temani.

In the present context Birgunj is turning into the economic capital of the country and more than 50% of revenue is collected from Birgunj, 75% of Cargo move through Birgunj and 70% of Industries are here and from last 20 years, in Birgunj no such infrastructures are built that's why we have planned and proposed for the development of industrial and trading infrastructure now, said Mr. Temani. From the Geographical point of view also being



the central part of the country and connected with the Indian Rail Network there are tremendous potentiality for the master plan, said Mr. Temani.

### Required Infrastructure for Making the Greater Birgunj

1. Establishment of International Standard Grocery Market
2. Birgunj Ringroad
3. Transport Municipality /City Development
4. Establishment of International Trade Centre
5. Establishment of International Convention
6. Establishment of Agriculture Research Centre/ Establishment of Agriculture University
7. Up gradation of the road from Birgunj Custom to Pathlaiya
8. Development of Special Economic Zone
9. Announcement of Birgunj-Pathlaiya Corridor into Industrial Corridor
10. Extension of Birgunj-Amlekhganj Railway Line
11. Metropolitan Police
12. International Airport
13. New Mapping of Greater Birgunj
14. Birgunj-Thori Highway
15. Indo-China Transit Point
16. International Standard Terminal Bus Park
17. Up gradation of Birgunj Hospital into National Level Hospital
18. Up gradation of Parsa Wild Life Park into National Level Wild Life Park
19. Up gradation of all the roads of that area
20. Development of Religious Tourism
21. Development of Birgunj-Pokharia Corridor into Agriculture Processing Park
22. Establishment of Tourist Help Desk

## Indian envoy wishes U-19 Nepali cricket team success

Indian Ambassador Jayanta Prasad met the Nepali U-19 cricket team at the TU Cricket Ground, Kirtipur on Friday and wished them success for their upcoming international tournament.

Nepal is participating in the ICC U-19 World Cup in Australia in August. The Nepali team had just returned home from U-19 Asia Cup cricket tournament held in Kuala Lumpur, Malaysia from June 23 to July 2.

Ambassador Prasad praised the performance of the Nepali U-19 team during the U-19 Asia Cup and wished them luck for the World Cup. "I had seen the score card of Nepal U-19 team and India U-19 team during the Asia Cup which showed that you

played well in the tournament." U-19 skipper Prithu Bas-kota, after the brief meeting with Prasad said the team was motivated by his words.

Nepali U-19 team was having batting practice at TU Ground when ambassador visited the team. Coach Pubudu Dassanayake informed briefed about the team performance during the Asia Cup to the ambassador.

Ambassador Prasad also visited the gym hall setup at the TU Ground. Coach Dassanayake informed that the gym hall at TU Ground has helped the players for the training.

## India's June Coal production to rise by 6.8% in 2012-13

After a poor growth in coal output in the last few years, coal production is seeing an upward trend. Production rose by 6.1% during April-May 2012. However, this growth was less than the growth of around 9% expected in this period.

In keeping with this lower than expected growth in coal production, Centre for Monitoring Indian Economy (CMIE) has revised coal production forecast for 2012-13. The growth is expected to be about 6.8% in 2012-13 compared to the earlier estimate of 8.3%.

However, the growth of 6.8% is still much better compared to 1.2% growth seen in 2011-12. Heavy rains and floods in mining areas, strikes by employees of coal companies, agita-

tion in Telangana and environmental issues had negative effect on coal production growth.

Government's recent initiatives like scrapping of go/no go classification with regards to environmental clearance, quick environment and forestry clearance and approaching state governments for necessary assistance in land acquisition and in law and order problems are expected to boost coal production in 2012-13. The government is also pursuing Ministry of Railways for enhancing availability of rail rakes so that coal companies do not face any problem in transporting coal.

## Air India will be profitable soon, says aviation minister

Union civil aviation minister [Ajit Singh](#) said that the government's recently approved Rs 30,000 crore turnaround plan for the ailing state run airline, Air India, would make the airline profitable in the next few years.

"The Cabinet has given a mandate to make [Air India](#) viable and we are working on that," said the minister. Elaborating on the approved turnaround plan, the minister said, "We had set up a committee to look at routes that were profitable and those that were not. Now, we have set up a task force to look at the

unprofitable routes and see how to make them profitable." A decision has also been taken to monetize Air India's land assets. "At the company's Nariman Point headquarters we are trying to rent out some floors," he said, and added, "There is also a move to see whether we can move all of the airline's operations to one city." Currently, Air India's operations are split between Mumbai and New Delhi.

A bulk of the Rs 30,000 crore turnaround package would be through equity infusion by the government.

## Kingfisher Airlines shares fall below face value

Crisis-ridden Kingfisher Airlines's share price is now lower than its face value. On Monday, the [Bombay Stock Exchange](#) (BSE) saw the stock closing at Rs 9.9 after touching an intraday life low of Rs 9.8. The stock has crashed from Rs 40.6 to these new lows within a year, as the airline now struggles to survive.

The airline owes Rs 7,500 crore to banks (mostly public sector ones), its total lossescum-liabilities are close to Rs 12,000 crore and it is struggling to survive. Last April, lenders including [State Bank of India](#) and [ICICI Bank](#) had converted debt amounting to Rs 1,400 crore into equity at a

61.6% premium to the prevailing market price. Stock exchange filings showed that on March 31, 2011, there was preferential allotment to SBI and ICICI Bank due to conversion of compulsorily convertible preference shares into equity shares at a price of Rs 64.5 each. On that day, [Kingfisher Airlines](#) had closed at Rs 39.9 on the BSE.

Kingfisher has not been able to pay salaries to staff for the past five months and some of its pilots went on a flash strike on Saturday. The airline promised to pay them by Monday to get them back to work.

## Tata Consultancy Services profit grows

India's biggest IT outsourcing firm, Tata Consultancy Services (TCS), has reported a 38% rise in first-quarter net profit, helped by a weak rupee and a jump in outsourcing orders. TCS made a net profit of 32.8bn rupees (\$587m; £380m) in the three months to June, up from 23.8bn rupees a year ago, and ahead of analysts' expectations. Revenue jumped 37.7% to 148.7bn rupees.

The results contrasted with fellow software exporter Infosys, who earlier reported weaker-than-expected earnings. Infosys

also cut its sales forecast.

TCS and Infosys lead India's IT outsourcing industry, which provides services for western firms such as answering calls in call centres, processing insurance claims and software development.

A weak rupee helps Indian exporters as it makes their goods and services cheaper for foreign buyers and also boosts profits when foreign earnings are repatriated back home.

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## Dubai unveils 'Dubai Towers'

An attractive and amazing building is being constructed in one of the major Economic/ Trading Destination Dubai. In this connection design of two buildings likely to be built have got an attention of many people. The Dynamic Tower design is made up of 80 pre-fabricated apartments which will spin independently of one another in different direction. Among the designs the 80 storied skyscrapers "The Dynamic Tower" is the first building of its kind.

Designed by Italian architect David Fisher and located in Dubai will rotate 360 degrees, all at different speeds and it takes one hour to 24 hour as per the speed set by the people living there as per their desire. People living there can see the panoramic view around the city and "It's the first building that rotates, moves, and changes shape," said architect David Fisher "This building



never looks the same, not once in a lifetime," he added.

According to the builder of Dynamic Tower this will be the fully



Environment Friendly building. The 420-metre (1,378-foot) building's apartments would spin a full 360 degrees, at voice command, around a central column by means of 79 giant power-generating wind turbines located between each storey.

But to buy the Flat in Dynamic Tower large amount of money have to be paid and the builders have set the \$3 million to \$300 million cost for the flat.

With that the design of "Four Tower Complex" is also publicized which is also in the process of construction. This artistic skyscraper building seems to be built in the shape of burning flame of candle. Four Buildings of this complex will represent the hope, prosperity, opportunity, and coordination of human life said the builders of this complex.

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