NEF port
ISSUE 50 | SEPTEMBER 2022

LDC Graduation and Beyond

50th edition
COMMEMORATIVE ISSUE

NEPAL ECONOMIC FORUM

Nepal Economic Forum (NEF) is a not-for-profit organization aiming to be Nepal's premier private sector-led economic policy and research institution. We are an impact-driven economic and development think tank that seeks to redefine Nepal's development discourse by analyzing, facilitating and disseminating contemporary issues on society and the economy.

Please write to info@nepaleconomicforum.org, if you have questions or comments with respect to the document.

Issue 50

September 2022

Published by Nepal Economic Forum, August 2022

Nepal Economic Forum
P.O. Box 7025, Krishna Galli,
Lalitpur 3, Nepal

www.nepaleconomicforum.org

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The Nefport 50 edition will focus on what LDC graduation will mean for Nepal, providing a macroeconomic overview of the progress made thus far and the potential impact it will have on the economy. The publication also probe into lessons learned from other graduating LDCs and propose newer thinking that extends beyond graduation, to include matters of inclusive and green growth.

This issue of nefport takes into account news updates from May 16, 2022 to August 15, 2022.

The USD conversion rate for this issue 126.09 to a dollar, the quarterly average for this issue.

The special section of the Nefport 50 has been conceptualized and curated by Shraddha Gautam, Advisory Board Member at Nepal Economic Forum. The report has been edited by Sakshee Singh, Consultant at Nepal Economic Forum.

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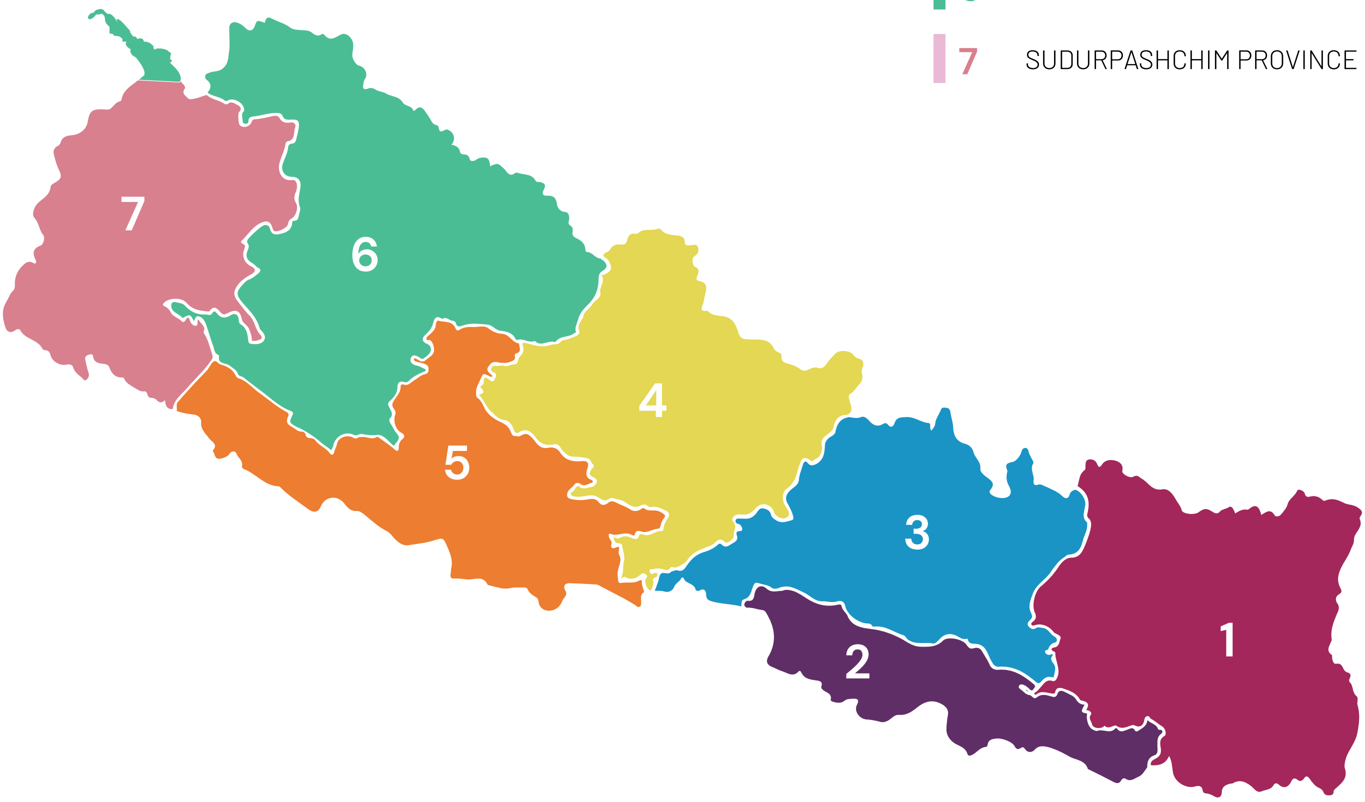


KEY ECONOMIC INDICATORS

GDP (estimated 2021/22)*	NPR 4.85 trillion	GDP growth rate****	5.84%
GNI (PPP)****	13.53	Inflation****	6.32%
Gross Capital Formulation (% of GDP)	29.37	Agriculture Sector****	23.95%
HDI***	0.602	Industry Sector****	14.29%
Rank***	142	Service Sector****	61.76%

**Preliminary estimate of FY 2021/22 (y-o-y mid-July to mid-July)*

***The World Bank data*

****HDI figure from Human Development Report of the UNDP 2020*

***** Current Macroeconomic and Financial Situation of Nepal (Based on annual data of FY 2021/22)*

Editorial

The Nefport journey has been an incredible one and we are thrilled to present the 50th commemorative issue.

Nefport began as a publication distributed for free to fill the gap of much-needed research publication that provides news and an outlook on the Nepali economy. We have received great feedback and the product went through many iterations especially after the 25th issue, taking up one issue each quarter as special sections, thereby providing good reference material from thought leaders. The publication has been popular with researchers, investors, and people working in the field of economic development.

When Nefport came up with the inaugural issue in 2009, Nepal's GDP was around USD 13 billion and now it has grown three times to USD 40 billion, but we still see a paucity of good research and analysis on Nepal's economy. Projects at their peak produce glossy publications but vanish once the funding vanishes. Similarly, despite the increasing presence of multi-billion-rupee companies in Nepal, we are yet to see the culture of supporting research projects and institutions. Nefport has, apart from sporadic support from institutions, continued to sustain to distribute it for free. This was also to make a point that publications should take a long-term sustainable approach rather than a project approach.

During the pandemic, we moved to digital platform and published the first ebook version of nefport partnering with Thuprai. For this issue, however, we have published limited copies.

We are extremely grateful for all the voluntary contributions (no honorariums are paid) from different people who have made the content of each issue enriching. We are also grateful to our readers and all of the people who have been continuously providing us feedback on how we can improve the product. For this commemorative issue, we are grateful to the contributors Arnaud Cauchois, Bishnu Raj Upreti, Faris Hadad-Zervos, Hernaikh Singh, Jason Seuc, Kul Chandra Gautam, Mohan Das Manandhar, Mustafizur Rahman, Paras Kharel, Prativa Pandey, Ratnakar Adhikari, Rensje Teerink, Suman Basnet, Syed Munir Khasru and Teresa Daban Sanchez.

For this issue, Shraddha Gautam, Advisory Board Member agreed to take on the responsibility of curating the special issue, and many thanks to her for her efforts.

As we celebrate this proud issue, we seek your valuable feedback on the issue and are open to receive any suggestions to help us grow further.

Sujeev Shakya

Chair, Nepal Economic Forum

1 General Overview

Political Overview

Nepali politics in the last quarter experienced a range of events in both domestic politics and foreign affairs. The Government of Nepal finally announced the dates for the federal and provincial elections. The budget for the new fiscal year was also unveiled with an ambitious 8% growth rate target. Meanwhile, Finance Minister Janardhan Sharma was involved in a controversy for allegedly allowing two unauthorized persons to tamper with the tax rates one day before unveiling the budget but was still reappointed to the same position amid public uproar. Nepal has also transformed into a geopolitical hotspot with back-to-back high-level visits from China and the US taking place in the quarter.

Factsheet

Index	Rank	Score
Fragile State Index 2022	49	80.2[1]
Economic Freedom Index 2022	148	49.7[2]
Corruption Index 2021	117	33[3]

EXECUTIVE UPDATES

Government Unveils Budget for New Fiscal Year

Minister of Finance, Janardan Sharma announced a budget of NPR 1.79 trillion (USD 14.22 billion) for the fiscal year 2022/23. The budget sets an ambitious economic growth target of 8% while containing inflation to 7% in the next fiscal year. Of the total budget, NPR 753.40 billion (USD 5.97 billion) (42%) has been allocated as recurrent expenditure and NPR 380.38 billion (USD 3.01 billion) (21.2%) as capital expenditure.[4] Likewise, NPR 230.22 billion (USD 1.82 billion) (12.8%) has been allocated for financing purposes and NPR 429.83 billion (USD 3.40 billion) (24%) for fiscal transfer to provincial governments and local bodies. The government has set a target to raise NPR 1.24 trillion (USD 9.83 billion) from tax revenues, NPR 55.11 billion (USD 437 million) from foreign grants, NPR 309.2 billion (USD 2.45 billion) from foreign loans, and NPR 256 billion (USD 2.03 billion) from domestic borrowing.[5] The government also aims to achieve a self-reliant economy by promoting the agricultural and industrial sectors. For this, the government plans on introducing support programs to develop and upgrade infrastructure to aid the domestic productive capacity. In addition, the government has set a target to achieve a trade balance in the next five years by implementing various strategies of export promotion and import substitution.

Prime Minister Sher Bahadur Deuba Reshuffles Cabinet

President Bidya Devi Bhandari on June 27, 2022, administered the oath of office and secrecy to four newly appointed ministers from the CPN (Unified Socialist). Prime Minister Sher Bahadur Deuba reshuffled the cabinet after the CPN (Unified Socialist) decided to recall its ministers and send in a new set of ministers. With the reshuffle, Metmani Chaudhary replaced Ram Kumari Jhakri as Urban Development Minister, Jeevan Ram Shrestha replaced Prem Ale as Tourism Minister, Bhavani Prasad Khapung replaced Birodh Khatiwada as Health and Population Minister, and Sher Bahadur Kunwar replaced Krishna Kumar Shrestha as Labor Minister. Similarly, Hirachandra KC has been appointed as Minister of State for Health.[6] Furthermore, Prime Minister Deuba reshuffled the cabinet once again on July 4, 2022, after the Janata Samajbadi Party (JSP) decided to recall three of its ministers – Renu Kumari Yadav, Mahendra Ray Yadav, and Ram Sahay Prasad Yadav. JSP lawmakers Mohmmad Ishtiyaq Rayi, Pradip Yadav, and Mrigendra Kumar Singh Yadav were inducted into the Cabinet as ministers of physical infrastructure and transport, forest and environment, and agriculture and livestock development, respectively. [7]

Senior Chinese Official Visit Concluded

Liu Jianchao, the head of the International Liaison Department of the Chinese Communist Party (CCP), completed his four-day visit to Nepal on July 13, 2022. He led a six-member delegation and called upon President Bidya Devi Bhandari, Prime Minister Sher Bahadur Deuba, Foreign Minister Narayan Khadka, and leaders of major political parties.[8] Liu stressed the urgency of implementing the pending Belt and Road Initiatives agreements signed during Xi Jinping's visit to Nepal in 2019. Every Nepali leader alluded to the commitment to the "One China Policy" and assured that Nepal will not be used against the interests of neighbouring countries.[9] Liu's visit was one of many high-level visits by Chinese delegations in recent months. Liu's visit and meetings with major political leaders show the growing interest of China in Nepal's political affairs.

Pushpa Kamal Dahal Concludes Three-Day India Visit

CPN (Maoist Centre) Chair, Pushpa Kamal Dahal concluded his three-day visit to India on July 17, 2022. Dahal was invited by the National President of the ruling Bharatiya Janta Party (BJP) of India.[10] The main agenda of the visit included the revision of the Indo-Nepal Treaty, the implementation of the Nepal-India Eminent Person Group report, the resolution of the long-standing border issues, and the long-term solution to the problems related to floods, and the reduction of trade deficit with India.[11] Furthermore, Dahal held a meeting with Indian Minister for Foreign Affairs Subrahmanyam Jaishankar and discussed matters of bilateral interest between the two countries. Additional discussions included provisioning petroleum products at cheaper rates to Nepal.

US Assistant Secretary of State Visits Nepal

On July 28, 2022, US Assistant Secretary of State for South and Central Asia Affairs, Donald Lu flew to Kathmandu for a two-day visit. He has been to Nepal twice since November of last year, but this is his first trip since Nepal's parliament approved the USD 500 million Millennium Challenge Corporation (MCC) agreement following months of controversy.[12] On July 29, Lu had separate meetings with Prime Minister Sher Bahadur Deuba and Foreign Affairs Minister Narayan Khadka. According to the US Embassy in Kathmandu, his visit to Kathmandu was routine and included discussions on various topics, including the 75-year partnership between the US and Nepal and inter-ethnic relations.[13] Lu's visit came at a time when the US's State Partnership Program (SPP) was being debated as a serious issue. Political analysts noted that a series of high-level visits from the US showed growing geopolitical interest of the US in Nepal.

Nepal Formally Backs Out from the State Partnership Program

The State Partnership Program (SPP) had become yet another contentious issue, dividing political circles once more, months after Nepal ratified Millennium Challenge Corporation (MCC) grant, which had already divided Nepali society and the polity. After a parliamentary controversy over the SPP, in which parties demanded a stop to any collaboration on a program with security and military components, the government chose to disassociate itself from it on June 21, 2022. According to the US Embassy in Nepal, Nepal was admitted to the SPP in 2019 following two requests made in 2015 and 2017.[14] Speaking at a House of Representative meeting on July 29, 2022, Foreign Minister Narayan Khadka assured that a letter to the US government had been sent on July 25 confirming that Nepal will not participate in the SPP.[15] Khadka's admission that the ministry has already sent a letter came at a time when US Assistant Secretary of State Donald Lu was on a two-day visit to Nepal.

Janardhan Sharma Reappointed as Finance Minister

CPN (Maoist Center) leader, Janardan Sharma was re-appointed as Finance Minister on July 31, 2022.[16] Sharma had turned on July 6, 2022, from the post after allegations that he employed two outsiders to tweak tax rates for the budget of the fiscal year 2022/23. The parliamentary probe committee submitted its report saying it could not gather evidence to prove the charges against him. The CPN (Maoist Centre) decided to send Sharma as Finance Minister in the Deuba Cabinet once again.[17] According to the Office of the President, Sharma had been reappointed as Finance Minister on the recommendation of Prime Minister Deuba.

LEGISLATIVE UPDATES

Citizenship Bill Passed by House of Representatives and National Assembly

The Bill to amend the Nepal Citizenship Act 2006 has reached the verification stage after being passed by both houses of the Federal Parliament. After the President approves it, it will take the form of an Act. The passing of the bill will open doors for children of the parents who were given citizenship by birth and changed to receive citizenship by descent. The bill also paves way for the Non-Resident Nepali to acquire citizenship without authority to enjoy political and administrative rights. The main controversial provision of the bill is the provision of immediate citizenship if in case a foreign woman married a Nepali man.[18] Experts say that if a foreign woman is given Nepali citizenship and voting rights upon marrying a Nepali man, that will have a long-term impact on national politics. If the President returns the bill, both Houses will have to reconsider the bill and pass the bill as presented or with amendments and resubmit it. Thereafter, the President would need to certify it within 15 days of its submission.[19]

JUDICIARY UPDATES

Impeachment Motion Against Rana Sent to the Recommendation Committee

The impeachment motion against Chief Justice Cholendra Shumsher Rana was forwarded by the House of Representatives to the Impeachment Recommendation Committee on August 7, 2022, for investigation. The motion was initially registered on February 13 and the recommendation committee to investigate the claims against Rana was formed on March 6. Up to 98 members of the ruling coalition, which included the Nepali Congress, the CPN (Maoist Centre), and the CPN (Unified Socialist), filed a motion against Rana with 21 charges, including encouraging judicial corruption and failing to perform his duties.[20] The appointment of Gajendra Hamal as Minister of Industry, Commerce, and Supply in October 2021 sparked controversy regarding Chief Justice Rana's apparent role in it.[21] The impeachment recommendation committee must submit a report with recommendations no later than three months after the start of its procedures, according to the House of Representative's regulations. Given that elections have been scheduled for November 20, it does not appear like the Parliament will be able to function after mid-October. The suspended Chief Justice Rana's term as Chief Justice would come to an end on December 27, 2022. According to analysts, the impeachment procedure can take a while and the Parliamentary sessions will end before the committee's deliberation of the impeachment motion is complete.[22]

ELECTION UPDATES

Election Date Confirmed for November 20, 2022

The government has decided to hold the federal and provincial elections on November 20, 2022, in a single phase, which is two days later than the date proposed by the Election Commission (EC). The EC had recommended holding the federal and provincial elections on November 18 in a single phase.[23] The EC had proposed that it needs at least 120 days for poll preparations, however, with the elections declared for November 20, the EC might not have enough time to prepare. The Commission has taken December 8 as the date of commencement of the tenure of the newly elected lawmakers as per the House of Representatives and Provincial Assembly Elections Acts.[24] Nepal has 330 provincial and 165 federal electorates. The proportional representation system will also see the election of 110 new federal and 220 additional provincial legislators.

Party Registration for Upcoming Elections Begins.

On August 7, 2022, the Election Commission (EC) began the process of registering political parties for the next general elections scheduled for November 20. The EC has issued a notice requesting registration from political parties aiming to run in the upcoming House of Representatives and Provincial Assembly elections. The registration deadline is August 16.[25] Information about the party, the number of executives and members of the province and district committees, and the date the party submitted its annual audit report to the commission must be included in the application for party registration.[26]

Ruling Alliance Forge Electoral Alliance to Secure Majority in Upcoming Elections

The five-party coalition consisting of the Nepali Congress, the CPN (Maoist Center), the CPN (Unified Socialists), the Janata Samajbadi Party and the Rastriya Janamorcha has decided to form an electoral alliance to run in the forthcoming parliamentary and provincial elections. The decision to form the electoral coalition was made at a meeting of the alliance's top leaders convened on August 5 at the Prime Minister's residence in Baluwatar.[27] The alliance is in discussion on seat sharing with the aim of achieving a majority in the House of Representatives (HoR) and provincial assembly elections. The parties have agreed to have the seat allocation finalized by the second week of August. Similarly, a task force will also be established for seat allocation. Alongside the joint efforts, major communist parties have held a discussion to form a united communist force to increase their bargaining power.[28]

Supreme Court Directs Government to Ensure Voting Rights for Government Workers, Security Officers, and Prisoners

The Supreme Court, on July 14, 2022, ordered the government to make the necessary preparations in order for security officers, government workers, and inmates to participate in the upcoming federal and provincial elections. Acting on a petition submitted by Nishant Pokharel and others, a single bench of Justice Bishwambhar Lal Shrestha issued the ruling.[29] The Supreme Court in a previous ruling on June 27, 2022, directed the government to ensure voting rights to the prisoners in the upcoming elections. Issuing interim order in a writ petition filed by two law students, a single bench of Justice Sapana Pradhan Malla asked the government to make sure the prisoners can vote under proportional representation. The apex court also issued an order to the government to collect or update the list of all the prisoners eligible to vote as they are saying that they cannot be deprived of their voting rights.[30]

OUTLOOK

Now that the dates for the federal and provincial elections have been announced, things have come down to seat-sharing, which is going to be a big burden for the five parties in the ruling coalition. Despite the desire of the coalition partners to contest the elections in accordance with a deal to restrain the CPN-UML, an internal struggle between the Nepali Congress and the coalition parties to secure as many seats as they might be seen in the upcoming months. Given that the Deuba government has been doing the same things the Oli government did over the past year, and in some cases has even outdone the former administration in wrongdoings, popular view of the Deuba government has declined. Likewise, Janardan Sharma's reappointment as Finance Minister despite the controversy surrounding the alleged tampering of the federal budget might impact the coalition's results in the upcoming elections, considering that the move was in complete disregard of the public opinion. The upcoming quarter would be crucial for Nepal as the general elections would outline the course of Nepali politics.

International Economy

After showing positive signs of recovery in the later half of 2021, the global economy has performed sub-optimally in 2022 due to global supply constraints and the war in Ukraine. International agencies such as the IMF and the World Bank, under the current baseline scenario have revised future growth prospects of the global economy downward. Globally, inflation has surged due to a persistent rise in the price of energy and essential grains, in response to which, major central banks have raised the interest rate to prevent the risk of the adverse impact of inflation. Considering increasing inflation and dampened growth prospects, international agencies are concerned about the possibility of stagflation in the global economy. Many low- and middle-income nations are on the verge of a debt crisis because of the pandemic-induced borrowing in the past, and many countries that import food are anticipated to experience a severe food crisis. The review period was marked by several international level meetings of the world leaders with the aim of finding solutions for mutual global problems to foster the global economy towards resilient growth.

Factsheet

Particulars	Amount/ Percentage
World GDP growth (2022)	3.2%[31]
Global trade imbalances (deficit and surplus) in 2022 expected	3.8% of world GDP[32]
World population in mid-November 2022 (expected)	8 billion[33]
Total global debt	USD 305 trillion (NPR 38,457 trillion)[34]
FAO Agricultural Price Index	23.1% (compared to June 2021)[35]
Number of people in acute food security (in hotspot countries)	161.05 million[36]

KEY HIGHLIGHTS OF INTERNATIONAL ECONOMIC REPORTS

Global Economic Outlook

International Monetary Fund (IMF) updated its "World Economic Outlook" report by revising the prospects of global economic growth downwards. The IMF predicts the global economy to grow by 3.2% and 2.9% in 2022 and 2023 respectively, a downward revision by 0.4% and 0.7% as compared to its previous forecast. The IMF cites the Russian-Ukrainian War, continuing lockdown in China, inflation in food and energy and global tightening of monetary policy as the key reasons for an economic slowdown. The report also forecasts the global economy to grow by 2.6% and 2% in 2022 and 2023, in the case of Russia halting gas flow to Europe, inflation increasing above expected and continued lockdown in China becomes eminent.[37] Similarly, World Bank in its "Global Economic Prospects", has revised the global economic growth forecast downwards to 2.9% and 3% for 2022 and 2023, respectively. The report highlights the negative risk of stagflation due to supply shock caused by the pandemic and the war in Ukraine, which has elevated inflation leading to a decrease in purchasing power of consumers around the world.[38]

Global Trade Imbalances Widen

The overall size of the global current account deficit across countries continue to widen since the onset of the pandemic. In External Sector Report[39], released by the International Monetary Fund (IMF), the global current account imbalances (deficit and surplus combined), which declined until 2019, widened to 3% in 2020 and 3.5% in 2021 of the global Gross Domestic Product (GDP). The report cites an increase in inflation in commodity prices, surging transportation costs, a rise in the price of energy and the strong United States (US) Dollar appreciation as the key reasons for widening trade imbalances. These factors have had an asymmetrical impact, as the trade deficit of importing countries increased while the trade surplus of net exporting countries increased. In 2021, the trade deficit of the United States grew by 0.4% of US GDP, while the trade surplus of China grew by 0.3% of China's GDP. The report forecasts the widening imbalances to increase to 3.8% of world GDP in 2022 but the gap is expected to close thereafter.

World Population Prospects 2022

According to the United Nations Population Division's "World Population Prospect"[40] study, the present global population of 7.94 billion people will increase to 8 billion by mid-November 2022. The world's population is expected to increase to over 8.5 billion people in 2030, 9.7 billion in 2050, and a peak of about 10.4 billion in the 2080s, according to the predictions. The report projects that India, with a population of 1.41 billion, will surpass China, with a population of 1.43 billion, by 2023. Earlier, India was expected to surpass China by 2027. The world population growth rate fell below 1% in 2020 for the first time since 1950. The report mentions that more than half of the projected increase in population up to 2050 will be concentrated in just eight countries – Congo, Egypt, Ethiopia, India, Nigeria, Pakistan and the Philippines and Tanzania. The report also highlights the improvement in life expectancy to 72.8 years and is projected to reach 77.2 years in 2050 due to a continuous decrease in the death rate.

POLICY UPDATE

Central Banks Raise Interest Rates as Stagflation Looms

Following the increasing inflationary pressure in face of economies recovering in the post-pandemic era, central banks around the globe have raised the interest rate to tame a runaway surge in the price levels. The Federal Reserve, the Central bank of the United States, has raised its policy rate twice by 0.75% each between March and June, to control raising inflation which was recorded at 9.1% in June 2022, the highest since 1981.[41] Similarly, the European Central Bank has raised the interest rate by 0.5%, for the first time in 11 years, as inflation reaches 8.6% in the eurozone.[42] The Bank of England also raised its interest rate by 0.5%, its biggest hike in 27 years, to control inflation which stood at 9.4%, the highest in four decades.[43] Following the trend, many developing countries have raised their interest rate to avoid the distortionary effect of inflation in their economy. According to the IMF, around 80% of the central banks across the globe, which the IMF tracks, have raised their interest rates.[44] Due to the rise in interest rate, the World Bank has raised its concerns about the potential of stagflation – a situation of high inflation and low economic growth – in the global economy.[45]

Digital Currency Launched in the Bahamas

The Bahamas became the third country to issue digital currency called – the Sand Dollar. Pegged one-to-one to the Bahamian dollar the new currency is available to people and businesses for payment and transaction. Sand dollars are blockchain-backed digital tokens which are issued and regulated by the Bahamas Central Bank. The Central Bank Digital Currency (CBDC) has been designed to solve the geophysical problem faced by the 700-island nation. It is expected to improve financial access by making the payment system disaster and weatherproof.[46] Countries, where CBDC are in the pilot phase, include – China, Russia, Indonesia, Thailand, South Korea, Nigeria, United Arab Emirates while concrete plans to launch CBDC are recorded in India, Canada, Australia, and Brazil. The European Central Bank of the European Union (EU) is also developing a regional digital currency, which will be valid in the EU region, and is expected to launch in 2023.[47]

Sanctions Challenges Dollar Hegemony

In a move to escape the sanctions imposed by the US and the EU, Russia and its trading partners are exploring and adopting alternative ways to settle trade. Russia, an important supplier of energy in the international market, has urged countries to settle trade in Russian Rubles and other currencies, to bypass the dollar-denominated SWIFT system of settling global trade. Following the suit, Turkey reached an arrangement on August 4, 2022, to set up a partial payment system to pay for Russian gas in the Rubles. Similarly, Iran announced on July 26, 2022, to settle its trade with Russia in the Ruble. Furthermore, since March 2022, China has been paying for its energy imports from Russia in its local currency, Yuan.[48] India, which used to trade in Rubles in the Soviet era, has also devised an alternative mechanism to settle its international trade, including trade with Russia, in India Rupees.[49] Similarly, other BRICS nations are exploring expanding national currency settlement.[50] The expansion of settling trade in a currency other than the world's reserve currency, the United States Dollar (USD), is a result of its weaponization by the US to control the economy of other countries. Increasing trade in a currency other than the dollar might lead to the de-dollarization of international trade, posing a challenge for the US to influence the global economy.

ECONOMIC CRISIS UPDATE

Looming Debt Crisis

Due to an increasing trend in borrowing during the pandemic, the global debt reached a new record of over USD 305 trillion (NPR 38,457 trillion).[51] The current global debt is more than 350% of the global GDP.[52] However, much of the burden has been felt by Low-and-Middle-Income-Countries (LMIC), as these countries were borrowing heavily during the regime of low-interest rates (period after the global financial crisis of 2008).

Due to the low-interest rate in the international market and to curtail the effect of the pandemic, many LMICs increased their borrowing in the international market as a result, the debt of LMICs has increased to USD 8.69 trillion (NPR 1,095 trillion), a 70% increase since 2011, and a 5.7% increase since 2019.[53] According to a report by the Committee for the Abolition of Illegitimate Debt, as many as 39 LMICs are found to be critically indebted, which is a three-fold increase as compared to the pre-pandemic era.[54] Due to the capital flights from LMICs towards developed countries, particularly the US, and exchange rate depreciation, the foreign exchange reserve of LMICs is decreasing, thus making debt payment in foreign currency difficult. Experts have warned that payment default by some LMICs – for example, Sri Lanka, Pakistan, and Ghana – is the beginning of a serious threat which could spread through other LIMCs.[56]

Food Crisis Raise Doubt about Achieving SDG Goals

According to the World Bank's Food Security Update, food prices have reached a record high triggering a global crisis that will drive millions towards poverty, which will magnify hunger and malnutrition. The war in Ukraine and global supply distributions have constrained the supply of major food grains and fertilizers, which has led to an increase in the price of essential food grains. As of July 29, 2022, the Agricultural Price Index is 19% higher, as prices of maize and wheat are 16% and 22% higher as compared to January 2021. Inflation in food prices is expected to have a greater impact on LMICs since they spend a higher share of their income on food as compared to high-income countries. According to World Bank's April 2022 Commodity Market Outlook, food prices are expected to remain high through the end of 2024.[57]

The Global Food Outlook Report, published by the Food and Agriculture Organization (FAO) and World Food Program (WFP), have identified a 'hunger hotspot' consisting of 20 countries where acute food insecurities could arise in near future.[58] The report by FAO and WFP, also cites that the SDG goal to achieve Zero Hunger by 2030 could become difficult to achieve if the current crisis persists.[59] A joint statement by various multilateral agencies has urged the international community to address food security by keeping trade open and supporting vulnerable countries to help them meet urgent needs.[60] In light of the developing crisis, an agreement between Russia and Ukraine has been reached which allows exports of wheat from Ukrainian port, which is expected to bring some respite in the price of essential food grain in the international market.[61]

GLOBAL EVENTS UPDATES

G7 Meeting Convened

The meeting of the Group of Seven (G7) nations in Germany in early June 2022, have pledged to launch the Partnership for Global Infrastructure and Investment (PGII) in a bid to pave the way for sustainable infrastructure development. By 2027, member nations have pledged to finance the creation of global infrastructure to the tune of USD 600 billion (NPR 75,654 billion).

The United States (US) has pledged to mobilize USD 200 billion (NPR 25.2 trillion), in a blend of public and private capital, over the next five years. The fund will be invested in health, digital connectivity, gender equality and equity, climate, and energy security. The PGII aims to focus on climate and energy security, and the development of soft infrastructure in the digital economy, which will help vulnerable countries to achieve resilient and sustainable development. The PGII is also expected to provide an alternative to China's multitrillion-dollar Belt and Road Initiative (BRI).[62] Additionally, the World Bank will collaborate with the G7 to invest in a new industrial-scale vaccine manufacturing plant in the western African Republic of Senegal.[63] Further, G7 nations along with major oil-importing countries are exploring ways to cap the price of Russian oil exports to the international market.[64]

G20 Meeting Commenced

Indonesia hosted the G20 Ministers for Finance Minister and Governor of Central Banks (FMCBG) from 15-16 July 2022.[65] The slogan of the meeting was "Recover Together Recover Stronger". The major agenda of discussions included the global economy, global health, international finance, infrastructure, and international taxation. On the economic agenda, the discussion was focused on the adverse impact of war on global inflation and the increasing risk of food and energy security along with the need to formulate an exit strategy by addressing the effect of the pandemic.

On the issue of global health, G20 members have committed to establishing Financial Intermediary Fund (FIF) for Pandemic Preparedness, Prevention and Response (PPR). A total of USD 1.28 billion (NPR 161.4 billion) has been secured by various member countries for FIF. Central Bank Governors of member countries discussed the macro-financial implication of CBDC and its importance in facilitating cross-border payments while preserving the stability of the international monetary and financial system. Member countries also reaffirmed their commitment to revitalizing infrastructure investment along with the adaptation of common international corporate tax measures based on the Inclusive Framework on Base Erosion and Profit Shifting (BEPS).

BRICS Summit Held

The BRICS submission was held on 23 – 24 June 2022 with the theme "Strengthening BRICS Solidarity and Corporation, Respond to New Features and Challenges in the International Situation".[66] Underscoring the slogan, several undertakings have been launched under the BRICS Cooperation framework, including the Initiative on Enhancing Cooperation on Supply Chains, the Initiative on Trade and Investment for Sustainable Development, and the Strategy on Food Security Cooperation.[67] The major emphasis was given to increasing communication and collaboration in trade in services and garnering support to practice 'true multilateralism'. A decision was taken to transfer the BRICS' New Development Bank headquarters facility to Shanghai along with establishing a regional office in India. In order to provide member countries with intellectual support, the BRICS Think Tank Network for Finance was founded.[68]

I2U2 Alliance Created

I2U2 is a new alliance created by four countries – India, Israel, the United Arab Emirates, and the United States to address the common challenges with the objective of strengthening food security, enhancing technology and trade, and mitigating the effect of climate change and COVID-19.[69] The focus will be on the renewable energy crisis and the food security dilemma, according to a joint statement from the I2U2 countries' inaugural conference on July 14, 2022. The alliance explored creative approaches to assure longer-term, diversified food production and food delivery networks. The United Arab Emirates has pledged to invest USD 2 billion (NPR 252.2 billion) to develop a series of food parks across India under the framework of I2U2. The private sector from the member countries will be engaged in providing their expertise and offering innovative solutions to contribute towards maximizing crop yield and tackling food security in South Asia and the Middle East. The group also promised to establish an advanced hybrid renewable energy project in Gujrat city of India, which will consist of wind and solar infrastructure.[70]

WTO 12th Ministerial Meeting Conducted

WTO members successfully conducted the 12th Ministerial Conference (MC12) in Geneva on 17 June 2022, to secure a multilateral negotiated trade-related outcome, also known as the "Geneva Package". Major initiatives include reform in WTO governance, epidemic response, food security, fisheries subsidy, and e-commerce. WTO expressed its commitment to reforming trade dispute settlement mechanisms to make them effective as the organization had struggled to deliver its mandate on multiple occasions in the past.

The MC12 decided to allow 'eligible countries' to override the patent on the COVID-19 vaccine until 2027. It will diversify the production of a vaccine to ensure trade restriction does not compromise global health safety, however, the definition of eligible countries has not been defined yet. The conference also renewed the moratorium on tariffs on electronic transmission equipment until March 2024. It will ensure the low-cost availability of internet services in developing countries. They also agreed not to prohibit or restrict food export purchased by the World Food Program for humanitarian purposes. The action helps to tackle food security risks stemming from the war in Ukraine. MC12 reached an agreement to end subsidies to operators engaged in illegal, unreported, and unregulated (IUU) fishing or fishing-related activities in support of IUU fishing. This measure is an effort toward crafting trade rules that will protect the environment.[71]

OUTLOOK

In light of the continuing rise in the prices of essential grains and the ban on wheat exports, as many as 20 low-and-middle-income countries could face the problem of access to food. It will aggravate hunger and poverty in vulnerable countries thereby hindering the progress toward Sustainable Development Goals. The subsequent rise in the policy rate by central banks and strong US dollar appreciation has led to capital flight from emerging economies towards 'safe havens', especially the US, leading to the deterioration of foreign exchange reserves and increased debt obligation of many low-and-middle-income-countries. Therefore, considering an increase in inflation and sub-par growth in global production along with a looming debt crisis in LMICs, the global economy could face the stagflationary-debt crisis.

Furthermore, the continued weaponization of US dollars to prevent international trade in certain countries will incentivize the development of alternative forms of settlement mechanism among affected countries thereby limiting the control of the United State on the global economy. A combination of problems in access to essential food grain and the risk of a stagflationary-debt crisis could trigger social unrest – as experienced in Sri Lanka – in vulnerable LMICs, leading to increasing humanitarian costs. However, several meetings by major world leaders at various multilateral platform has recognized mutual problems, for which measures have been adopted to prevent any emerging crisis in the global economy, enabling countries to achieve resilient growth.

2 Macroeconomic Overview

Macroeconomic Overview

For a country that is looking for foreign investments to increase its source of revenue and kickstart the development progress, the current macroeconomic situation is bleak with the surge in the inflation rate, continued trade deficit, increase in imports despite import-reduction strategies, increase in government spending as well as depleting foreign exchange reserves in addition to a lack of good governance. All these factors have the potential to depress the overall demand in the country. Although there has been a slight increase in remittances, the amount sent home by migrant workers is not being put to productive use, which cannot add relief to the economy in the longer term. In such a scenario, creating employment opportunities and restoring stable revenue sources must be prioritized in the coming months to provide some relief to the economy.

Factsheet

Particulars	Amount/Percentage
GDP at current prices	NPR 4.85 trillion
Year-on-year CPI	8.08%
Food and beverage CPI	5.69%
Non-food and service	6.83%
Net Foreign Direct Investment	NPR 18.56 billion
Remittance inflows	NPR 1007.31 billion
Gross foreign exchange reserves	NPR 1.215 trillion
Total Domestic Debt	NPR 984.28 billion
Total External Debt	NPR 1.027 trillion
Government expenditure	NPR 1.296 trillion
Government revenue	NPR 1.067 trillion
Total exports	NPR 200.03 billion
Total imports	NPR 1.92 trillion
Total trade balance	(NPR 1.72 trillion)
Total Foreign Trade	NPR 2.120 trillion
Current Account	(NPR 623.33 billion)
Balance of Payment	(NPR 255.26 billion)

GROSS DOMESTIC PRODUCT (GDP)

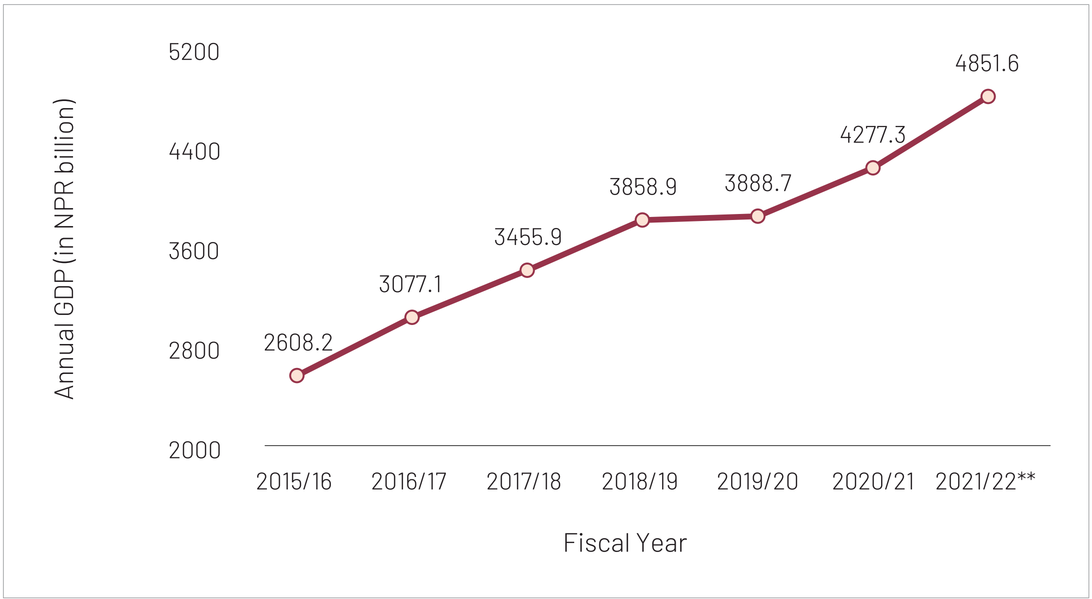
The annual data ending mid-July 2022 of FY 2021/22 was published by the Nepal Rastra Bank (NRB) as 'Current Macroeconomic and Financial Situation' on 16 August 2022. According to the report, the GDP at current prices stands at NPR 4.85 trillion (USD 38 billion) in the twelfth month of FY 2021/22 in comparison to NPR 4.27 trillion (USD 33 billion) in the corresponding period of the FY 2020/21.[72] This indicates an increase in the GDP by 13.42% despite depressing macroeconomic indicators and the onset of COVID-19 accompanied by several national and international political feuds.

As of 15 July 2022, the Asian Development Bank (ADB) also reported that Nepal's economy had grown by 5.8%, defying ADB's earlier projections, due to the ongoing COVID-19 vaccination campaign, restoration of economic activities and a steady path to accommodative macroeconomic policies.[73] As such, the annual data also revealed similar findings in growth i.e., real GDP growth by 5.5%, and Gross National Income (GNI) growth by 13.4%.[74]

Figure 1 below shows the annual trend in GDP at current prices over the seven FY.

On 29 May 2022, the Government of Nepal (GoN) announced a budget of NPR 1.793 trillion (USD 14.2 billion) for the current FY 2022/23, representing an increase of 5.5% compared to the previous FY 2021/22. The goal of the budget is to make

Figure 1 Annual GDP at current prices over the last six years (in NPR billion)



*** Preliminary estimate*

Source: *Current Macroeconomic and Financial Situation of Nepal (ending mid-July 2022)*

Nepal self-reliant by prioritizing agriculture, industrial development, hydroelectricity, and transmission line expansion, and boosting foreign investment and tourism. The current share of agriculture, industry and service sectors to the GDP stands at 23.95%, 14.29% and 61.76% respectively as of FY 2021/22, indicating that the budget for FY 2022/23 has targeted growth beyond the current 2.30%, 10.19% and 5.93% of the respective sectors.

In the budget, economic growth of 8% has been targeted for the current FY 2022/23 by doubling exports and reducing imports by 20%. There are also other plausible adjustments and plans for other macroeconomic indicators (described in each section below) that support the budget statement. However, the target of achieving 8% growth is higher than what the World Bank and the Asian Development Bank (ADB) had projected, i.e., 4.1% and 3.9% respectively for the FY 2022/23.[75] The reason behind the anticipated growth of less than 5% is due to the geopolitical and economic risks associated with the invasion of the Russian Federation on Ukraine, and the impact that it can have on the growth of entire South Asia among others as it can increase commodity prices, reduce people's purchasing power, mute the consumer demand, and weaken the capacity of the countries to generate external demand as well. As a result, the economic growth and GDP growth of Nepal in the current FY 2022/23 are highly uncertain and subject to significant risks.

However, having stated this, experts from Nepal as well as international agencies such as the International Monetary Fund (IMF) believe that Nepal's GDP growth rate and the financial state are not as deteriorating as Sri Lanka's, and hence, Nepal is still in the position to manage its economic and financial risks. Economic progress is what Nepal should aim for while tightening monetary policy and other measures can be adopted to provide respite to the economy.

INFLATION

The average inflation rate is measured by the Consumer Price Inflation (CPI). As per the data released by the NRB, the year-on-year CPI stood at 8.08% in the twelfth month of FY 2021/22 compared to 4.19% in the corresponding period of the previous FY 2020/21.[76] While the inflation in mid-July 2022 is a decrease from 8.56% in mid-June 2022 of the same FY 2021/22, it is worth noting that inflation has increased by multi-folds since the past FYs.

The inflation rate in Nepal has been on a gradual rise due to the pandemic-induced closure of markets, the Russia-Ukraine war, and the devaluation of the Nepali currency (NPR) with the US dollar. Apart from these reasons, the local elections 2022 conducted on 13 May 2022, as well as general elections 2022 scheduled for 20 November 2022 also play a role in increased spending in the economy, resulting in price hikes. Experts report that when election dates are announced, the consumer activist groups, as well as experts, see market monitoring weakening due to the flexibility that political parties levy to raise their campaign funds from business communities. This intensifies as the dates come nearer as the burden of raising money is transferred to consumers in the form of inflation, and the prices go up. In mid-March 2022, two months before the local elections, inflation reached a 67-month high at 7.14%, raising huge concerns as any level higher than 7%, is considered above the central bank's upper tolerance and has the potential to dampen the overall demand in the country.[77] Likewise, with the upcoming general elections, the anticipation of surging inflation is already on the way.

On a lighter note, the budget released by the GoN for current FY 2022/23 has prioritized that inflation has to be controlled and that it has been targeted to be brought down to 7%.[78] The Asian Development Outlook Supplement released in July 2022 underscored that Nepal's inflation rate is expected to be marginally lower in the upcoming months of the FY 2022/23 than its earlier forecasts, giving a positive outlook for the FY 2022/23.[79]

A series of monthly changes that have occurred in the CPI index over three consecutive corresponding periods has been shown in Figure 2 along with a linear forecast till the end of FY 2021/22 (12 months).

CONSUMPTION OF GOODS AND SERVICES

The Consumer Price Index is a measurement to calculate the weighted average price of a basket of consumer goods and services.[80] The basket of goods refers to a fixed set of consumer products and services whose prices are evaluated regularly.[81] Table 1 shows the pattern of consumption over a series of three consecutive periods.

Table 1 Food and Non-food Consumer Price Index over two consecutive periods (in percentage)

Headings	2020/21	2021/2022
Consumer Price Inflation	3.60	6.32
Food and beverage	5.00	5.69
Non-food and service	2.51	6.83

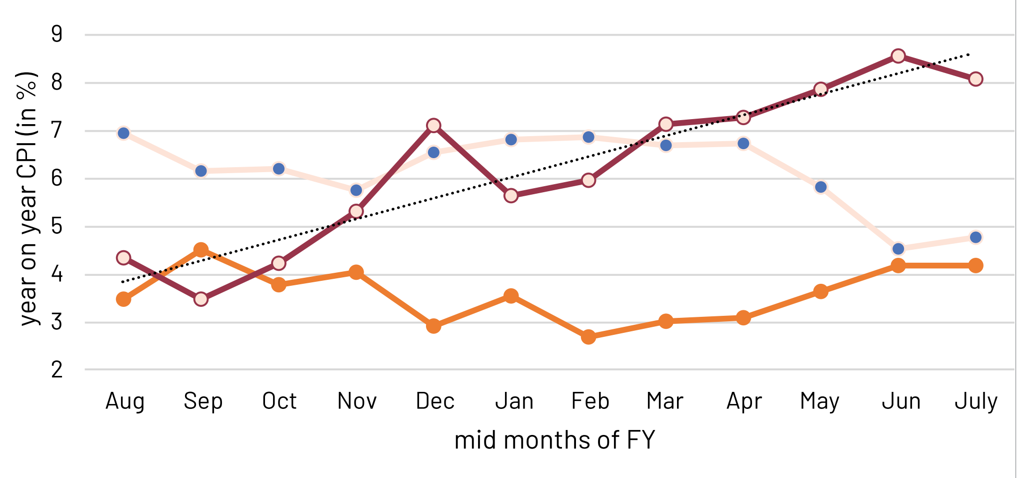
Source: *Current Macroeconomic and Financial Situation of Nepal (ending mid- July 2022)*

The changes in the consumer price index during the review period have been attributed to the rise in food and beverage inflation from 5% in 2020/21 to 5.69% in 2021/22. Within food and beverage, the price of ghee and oil, pulses & legumes, tobacco products, and alcoholic drinks sub-groups rose 26.13%, 9.92%, 9.84% and 8.57% respectively on a year-on-year basis.

Likewise, the review period also witnessed an increase in the non-food and service inflation, represented by a rise from 2.51% in 2020/21 to a significant 6.83% in 2021/22. Under this, the prices of transportation, education, furnishing & household equipment, recreation & culture rose by 15.82%, 8.78%, 7.09%, and 6.68% respectively on a year-on-year basis.[82]

Some of the reasons behind such an increment in consumer prices across sectors can be attributed to the limited domestic production capacity of Nepal, low agricultural production, over-reliance on even basic commodities such as rice, fruits, etc., supply chain disturbances, high petroleum prices, rising transportation fares, shipping charges, and the Russia-Ukraine war. Although import-

Figure 2 Year-on-year Consumer Price Inflation (CPI) index of eleven months over three consecutive FY (in percentage)



Source: *Current Macroeconomic and Financial Situation of Nepal (ending mid-July 2022)* restriction strategies were adopted in the past months, the annual data of the FY 2021/22 revealed that the import has not subsided, and hence, the increase in tax and duty for imported commodities can exert further upward inflationary pressure.[83] In Kathmandu alone, the CPI-based inflation increased from 2.87% to 5.73% from 2020/21 to 2021/22 respectively. Overall, the harshest impact of inflation would be on the lower and middle-income communities of Nepal as they spend as much as 70% of their income on food items.

FINANCE STATUS

Investments

In the review period, the net Foreign Direct Investment (FDI) decreased by 4.9% to reach NPR 18.56 billion (USD 147 million) in the mid-month ending July in FY 2021/22 from NPR 19.51 billion (USD 155 million) in the corresponding period of the previous FY 2020/21.[84] To increase the FDI to Nepal in the current FY year, the budget for FY 2022/23 has prioritized promoting foreign investment that can result in sustainable economic growth. For this, the GoN has reduced the lower limit of FDI allowed in Nepal to NPR 20 million (USD 0.158 million) from NPR 100 million (USD 0.793 million).[85] With this reduction in FDI, the investment environment in Nepal is expected to enhance. Further, the investment-savings gap of 28.1% is also expected to decrease which can further minimize the growing debt/ liquidity pressure and depleting foreign exchange reserves of the country.

To achieve tremendous growth in FDI in Nepal, enabling policies are necessary. Such policies must be inclusive of facilitating Non-resident Nepalis living outside Nepal and encouraging foreign investors interested in Nepal in Nepal. Moreover, directing FDI to productive sectors such as towards manufacturing sector can strengthen Nepal's production capacity and can further reduce the country's reliance on imports. For instance, the current share of FDI to the manufacturing sector is 16.3% which has to be increased in the upcoming FY.[86] For this, capacitating the local government to become more competitive to attract investments is the need of the hour.

Figure 3 depicts the change in annual net foreign direct investments in Nepal in four consecutive FYs.

Foreign Aid

BILATERAL AND MULTILATERAL AID

Germany to continue bilateral development cooperation with Nepal

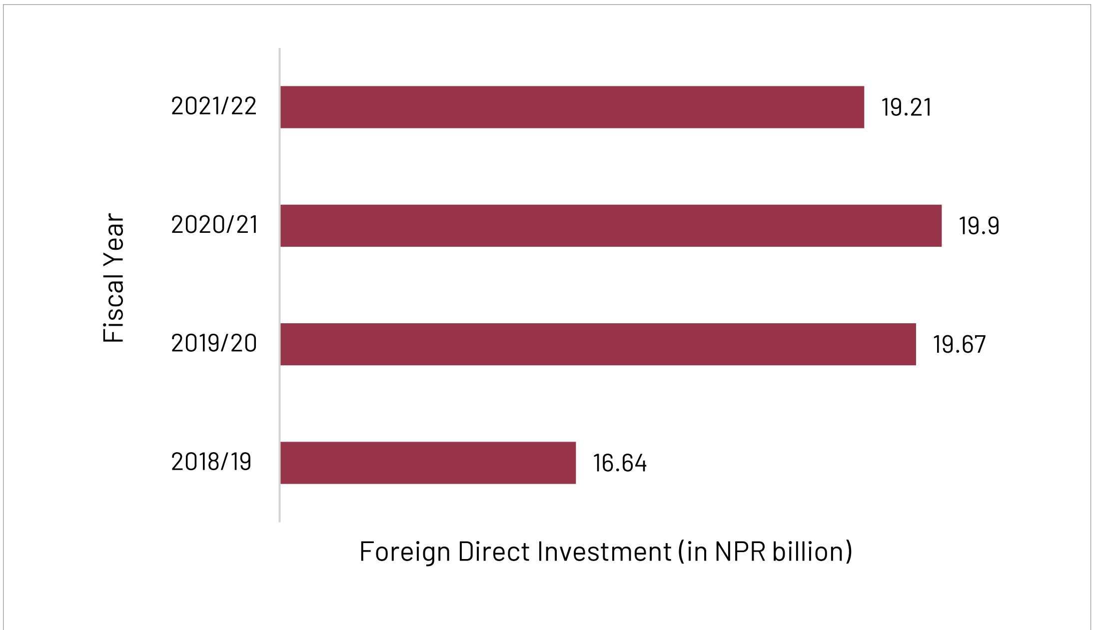
According to the German Ambassador, Dr Thomas Prinz, the bilateral development cooperation with Nepal is going to be continued beyond 2023 in some of the core areas such as Sustainable Economic Development, Climate and Energy, and Health and Social Protection.[87] Germany has been supporting Nepal's shift to green, resilient and inclusive development (GRID) since the Kathmandu Declaration was signed in September 2021. Along with this, an official government-to-government dialogue will also take place in 2022 between Germany and Nepal.

PROJECT/PROGRAM-SPECIFIC AID

Nepal and Bangladesh get approval for USD 1 billion for trade and connectivity

On June 29, 2022, the World Bank approved USD 1.03 billion (NPR 129.87 billion) for regional trade and connectivity-

Figure 3 Annual net foreign direct investments in Nepal for four consecutive FY (in NPR billion)



Source: *Current Macroeconomic and Financial Situation of Nepal (ending mid-July 2022)* related projects in Nepal and Bangladesh.[88] Under this, the Accelerating Transport and Trade Connectivity in Eastern South Asia (ACCESS) Programme Phase 1[89] is expected to help respective governments address key barriers to regional trade which include lengthy paperwork, approval process, inadequate transport and trade infrastructure and restrictive processes/regulations. The Phase 1 programme will help remove the barriers and promote digitization or digitized automated solutions in both Nepal and Bangladesh.

Out of the total amount, USD 753.45 million (NPR 95 billion) will be financed in Bangladesh whereas USD 275 million (NPR 34.67 billion) will be financed in Nepal.[90] The ACCESS project in Nepal will help upgrade the 69 km two-lane section of Butwal-Gorusinghe-Chanauta road along the East-West Highway to a climate-resilient four-lane highway, with a focus on ensuring better road safety. This will ensure that the travel time is reduced by 30% and there is easy access to India's western seaports which can create more markets for Nepal.

World Bank to support Chanauta road expansion project

The above-mentioned USD 275 million (NPR 34.67 billion) has been approved by the World Bank as a part of the ACCESS project. As stated earlier, the project aims at upgrading the 69 km two-lane section of Butwal-Gorusinghe-Chanauta road along the East-West Highway to a climate-resilient four-lane highway.[91] The main purpose or objective behind such upgradation is to ensure better road safety and connectivity, which can result in travel time reduction by 30% as well as increased connectivity to India's seaports.

With such ease in doing business, the World Bank also intends to engage and promote women entrepreneurs so that economic opportunities are enhanced in Nepal. For this, the market areas are envisioned to be equipped with infrastructures that prioritize inclusivity such as separate toilets for women, free Wi-Fi, digital bulletin boards, and so on. This will capacitate the people at the border points as well as prepare Nepal in a better manner for the implementation of the Motor Vehicle Agreement (MVA).[92]

Germany to aid in the education and technology sector of Nepal

The Government of Germany extended support to improve and increase the cooperation and collaboration for the promotion of education, technology, and other sectors in Nepal.[93] To implement this, the Embassy of the Federal Republic of Germany in Nepal elaborated their plan to conduct a hybrid model of German course in the Advanced College of Engineering and Management (ACEM) in Kathmandu. An expert team and language teachers will work together from Germany's side to implement the program effectively.[94] Such programs can enhance the collaboration and cooperation between the two countries in terms of exchange of culture, language, historical events of the past and others.

Japan handed over a vocational training centre to Nepal

On July 6, 2022, the Government of Japan handed over a Vocational Training Center constructed at Latinath Secondary School in Darchula District to the Government of Nepal. The building was newly built with the grant assistance of USD 82,953 (NPR 10.45 million) under the Grassroots Human Security Projects (GGP) of the Government of Japan.[95] The Embassy of Japan opines that the training center will be used by the local community for the right purpose i.e., vocational training and it will help improve the standard of living of people. Such efforts ensure that the money is not being spent on corruption among the builders or construction workers, and rather is being handed over for further enhancement.

Nepal and India to work on enhancing hydropower projects

NHPC Limited is India's state-owned hydropower board under India's Ministry of Power.[96] The company submitted a proposal to the Investment Board of Nepal (IBN) in May to develop 1200 MW hydropower projects in Western Nepal.[97] The projects comprise of 750 MW West Seti Hydropower Project and 450 MW Seti River (SR-6) joint storage project. Considering this proposal, the Prime Minister of Nepal, Sher Bahadur Deuba, decided to sign the draft of the memorandum of understanding with NHPC Limited at the 52nd board meeting of the IBN. The total estimated cost of the project amounts to USD 2.4 billion (NPR 302.61 billion) and has the potential to enhance the dam site, upstream confluence, and other aspects of the areas where the projects will be undertaken.

GRANTS AND CONCESSIONAL LOANS

The government of Nepal and the World Bank sign a concessional loan

The Government of Nepal and the World Bank signed a concessional loan amounting to USD 80 million (NPR 10.08 billion) for water and sanitation improvement as well as water resource management.[98] The concessional loan is provided in alignment to promote sustainable and inclusive growth. The amount will be used to improve the delivery of water and sanitation services to minority groups and vulnerable communities as well as to promote water resources management through increased integration, coordination and providing high-quality water.

Moreover, the Water Sector Governance and Infrastructure Support Project will also be implemented in strategic areas (cities and rural municipalities) in Karnali and Sudurpashchim provinces in western Nepal.[99] Through this mechanism, the local governments of the two provinces are envisioned to be strengthened and capacitated, as well as to help in the progress of the green, resilient, and inclusive development (GRID) of Nepal.

The government of Nepal accepts a grant from Japan

The Government of Japan extended a grant of NPR 366 million (USD 2.90 million) to Nepal for human resources development in Nepal.[100] The project has been titled 'Human Resource Development Scholarship (JDS)'. The Minister for Communications and Information Technology (MoCIT) and the spokesperson for GoN accepted the grant on 14 June after a meeting of the Council of Ministers. Under this, the JDS grant offers 22 young government officials of Nepal two-year Masters' Degree courses (20 applicants) and three-year Doctoral level courses (two applicants) in reputed universities in Japan. All their university tuition fees, accommodation, settlement, insurance, and other educational materials will be fully paid.[101]

Upon completion of the courses, the JDS fellows will be engaged in formulating and implementing plans, programs and policies related to socio-economic development and strengthening of friendly relations between Japan and Nepal.[102]

Apart from this, several efforts are being made by different agencies such as the Nepal Chamber of Commerce (NCC) and others to urge Japan to make further commitments or investments for creating an enabling investment climate related to hydropower, roads, and tourism sectors.

World Bank provides USD 100 million in loans to Nepal

The World Bank has been implementing the green, resilient, and inclusive development (GRID) agenda in Nepal and attempting to ensure the transition of Nepal is smooth in the GRID pathway. For this, the first of the three development credits have been provided to the Government of Nepal, amounting to USD 100 million (NPR 12.60 billion).[103] The credit support is specifically aimed at improving Nepal's environment by supporting Nepal's key sectors such as water, land, agriculture, forest, urban, waste and pollution. The amount is also envisaged to help in the sustainable and productive use of natural capital, which can strengthen the resilience of urban and rural infrastructure, human capital, and overall livelihoods of Nepali people.

Remittance

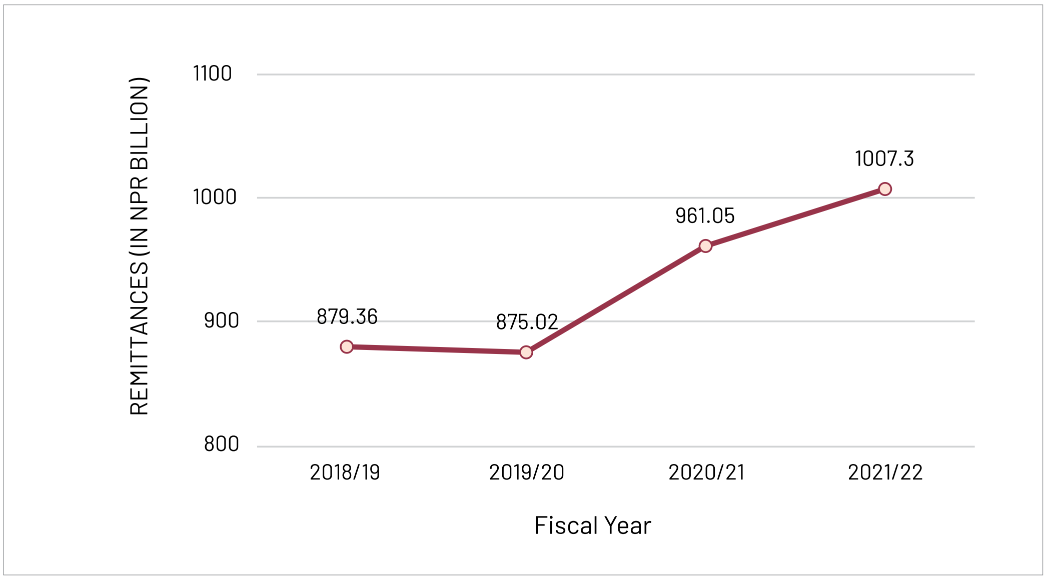
REMITTANCE INFLOWS AND MIGRANT WORKERS

Increase in Remittance Inflows by 4.8%, amounting to NPR 1.007 trillion

The inflow of remittances to Nepal increased 4.8% to reach NPR 1.007 trillion (USD 7.98 billion) in the last month of FY 2021/22 compared to NPR 961.05 billion (USD 7.62 billion) in the corresponding period of the FY 2020/21.[104] The increase in remittances, although by a small percentage, is significant to the amount sent home by migrant workers as well as the gradual revival of the country's tourism sector. This has the potential to ease the pressure of depleting foreign exchange reserves.

The remittance inflows to Nepal increased from NPR 87.1 billion (USD 0.69 billion) to NPR 92.4 billion (USD 0.73 billion) from mid-May to mid-June 2022 alone, which is a 6.12% increase from the previous month.[105] A continued surge in the upcoming months can likely revive the country's income. Figure 4 depicts the trend of remittance inflows to Nepal in the ninth month of the last six FYs.

Figure 4
Annual remittance inflows to Nepal in four consecutive FY (in NPR billion)



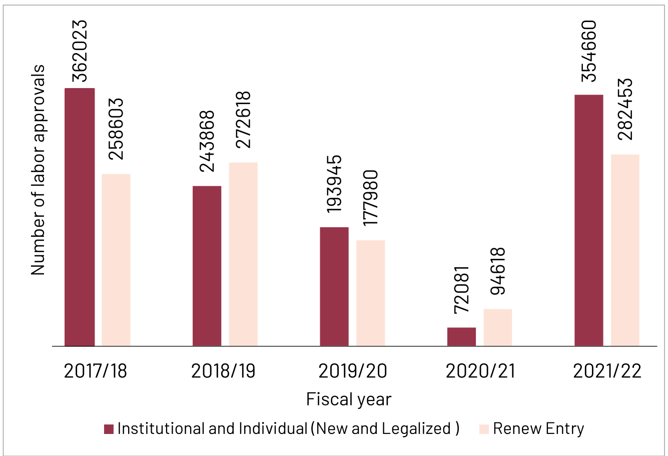
Source: *Current Macroeconomic and Financial Situation of Nepal (ending mid-July 2022)*

Increase in the Number of Migrant Workers Seeking Labor Approval

The number of Nepali workers, including institutional and individual (new and legalized) workers, taking approval for foreign employment increased from 72,081 to 354,660 in the last month's data of the FY 2021/22 (ending mid-July 2022).[106] The increase signifies a whopping 392% jump in the number of workers seeking employment abroad as most countries have relaxed lockdowns and COVID-19 restrictions, and are opening employment opportunities.

Likewise, the number of Nepali workers seeking renewed entry approvals also increased by 198.5% to reach 282,453 in mid-July 2022, against a decrease of 46.8% in the previous corresponding period.[107] Figure 5 shows the data on the same.

Figure 5 Annual number of labour approvals in the last five FY



Source: *Department of Foreign Employment*

DESTINATION COUNTRIES

Saudi Arabia and Qatar are Among the Top Destination Countries

As per the annual data ending mid-July 2022, an increasing number of Nepali workers sought labour approvals for Saudi Arabia, Qatar, and United Arab Emirates (UAE) among many others. Table 2 below shows the top 10 destination countries:

PLANS AND PROGRAMS TARGETED TOWARD MIGRANT WORKERS

Central Bank's directive on domestic remittances

In the last review period, the central bank of Nepal, Nepal Rastra Bank (NRB), had set a domestic money transaction (DMT) limit of up to NPR 25,000 (USD 204.78) per day in domestic remittances effective from 2 March 2022.[108] Following the new threshold, licensed remit companies, sub-agents, and sub-representatives were required to remit NPR 25,000 (USD 204.78) in domestic remittance transactions per person per day from earlier NPR 100,000 (USD 819.13).[109] The reason for setting such a threshold was to discourage the use of remittance intermediaries and incentivize people to use digital or formal methods such as banking institutions or connectIPS. This directive was also in line with the Monetary Policy of 2078/29.[110]

In this review period, significant growth was realized in domestic remittances due to the directive of setting the threshold limit. However, with DMT in action, the hundi/

Table 2 Top 10 labour destinations of Nepali migrant workers in the last three FY

S.N.	Country	Annual data			Per cent Change	
		2019/20	2020/21	2021/22	2020/21	2021/22
Institutional and Individual (New and Legalized)						
1	Saudi Arabia	39279	23324	125374	-40.6	437.5
2	Qatar	29835	22131	76822	-25.8	247.1
3	UAE	52085	11611	53846	-77.7	363.7
4	Malaysia	39167	106	25770	-99.7	-
5	Kuwait	8974	2	22786	-100.0	-
6	Bahrain	3305	3146	7592	-4.8	141.3
7	Romania	1930	1954	6423	1.2	228.7
8	South Korea*	3542	16	4253	-99.5	-
9	Oman	1996	1556	3627	-22.0	133.1
10	Cyprus	1447	1003	3222	-30.7	221.2

Including EPS / **Source:** *Department of Foreign Employment* illegal operators are using the F1 Soft payment gateway to transfer funds from overseas marketplaces,[111] indicating the lingering presence of illegal or hundi operators. Hence, there is a need to revisit the threshold directive and categorize it into individual and corporate thresholds for better monitoring. It can also enhance the digital drive of the country.

Increase in the uptake of the youth-migrant returnee workers' loan

The Government of Nepal disperses project loans for youth-returnee migrant workers. In the review period, the number of borrowers stood at 952 which is an increase from 839 borrowers in mid-July 2021. However, the outstanding loan amount for the same project has witnessed some fluctuations. The outstanding loan amount stood at NPR 564.2 million (USD 4.47 million) in mid-July 2022. The same data have been presented in Table 3:

According to the central bank, existing foreign exchange reserves are sufficient to support merchandise and services imports for 6.94 months (near to seven months) and prospective merchandise imports of 7.8 months, which is concerning given that reserves were sufficient to fund imports of goods and services for at least 10.2 months during the same period last year.[113] This shows that the reserves' ability to sustain imports is rapidly decreasing, and the government's import restrictions have not yielded the expected outcomes as there have been no significant reductions in import figures. Furthermore, studies and research being conducted in this arena suggest that while import costs are one of the major reasons for the decline in forex reserves[114], the data on the available reserves is questionable since a large number of loans are still being disbursed by many banks and financial institutions. Nevertheless, although the level of decline is not as severe as it was during the 2015 earthquake, the situation at this moment necessitates policy interventions and scrutiny.

Table 3 Project loan for youth-returnee migrant workers

Types of Loan	Number of Borrowers			Outstanding Loan Amount		
	2020	2021	2022	2020	2021	2022
	Mid-Jul	Mid-Jul	Mid-Jul	Mid-Jul	Mid-Jul	Mid-Jul
Project Loan for Youth-Returnee Migrant Workers	221	839	952	151.7	598.0	564.2

Source: *Current Macroeconomic and Financial Situation of Nepal (ending mid-July 2022)*

Government Reserves

According to the Current Macroeconomic and Financial Situation ending mid-July 2022, the gross foreign exchange reserves stood at NPR 1.21 trillion (USD 9.6 billion). This depicts a 13.1% decrease from NPR 1.39 trillion (USD 11 billion) in mid-July 2021.[112] Out of the total reserves, the reserves held by the central bank, NRB, decreased 15.1% to NPR 1.056 trillion (USD 8.37 billion), whereas reserves held by BFIs increased 3.2% to NPR 159.41 billion (USD 1.26 billion) in mid-July 2022.

Overall, the reserves to GDP ratio stood at 25.1% in mid-July 2022 in comparison to 32.7% in the corresponding period of the previous fiscal year as shown in Table 4:

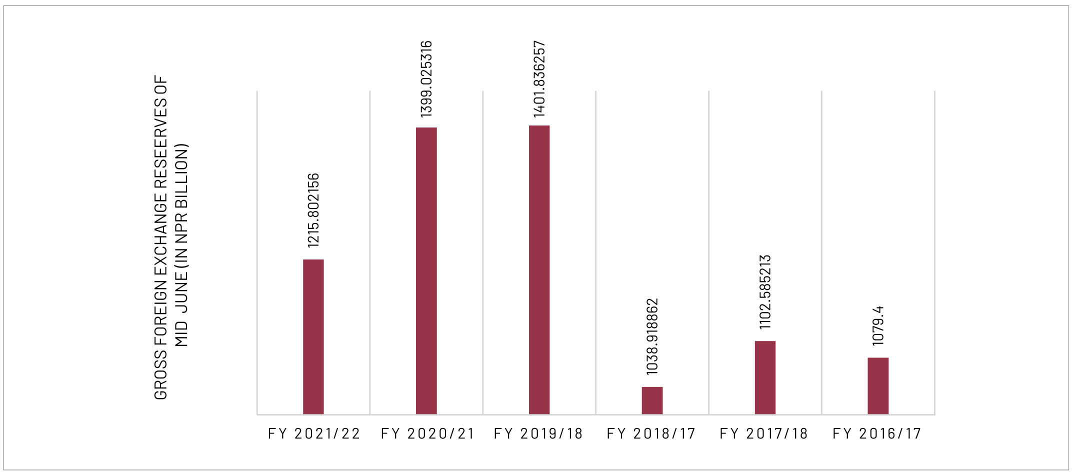
Table 4 Annual reserve to GDP ratio of the last three FY (in %)

Particulars	2020	2021	2022
	Mid-Jul	Mid-Jul	Mid-Jul
Reserves/GDP	36.0	32.7	25.1

The trend of the reserves in mid-June of the last five years has been depicted in Figure 6.

Figure 6 Gross Foreign Exchange Reserves of mid-June of the last five consecutive years (in NPR billion)

Source: *Current Macroeconomic and Financial Situation Update of Nepal (ending mid-July 2022)*



Government Debt

The total outstanding domestic debt accumulated by the Government of Nepal can be divided into treasury bills, development bonds, citizen saving bonds, foreign employment bonds, and others through Nepal Rastra Bank (NRB), commercial banks, development banks, finance companies, and others. In total, the total domestic debt stands at NPR 984.28 billion (USD 7.80 billion) in mid-July 2022 in comparison to NPR 800.32 billion (USD 6.34 billion) in mid-July 2021.[115] This indicates a surge of 20.3% in the government debt in a year, indicating the dismal economic situation of the country due to liquidity crunch, increasing trade imbalance, and depleting foreign exchange reserves. Likewise, the total external debt reached NPR 1.027 trillion (USD 0.0081 trillion), indicating an increase of 21.2% from the previous FY's mid-July.

Table 5 shows the breakdown of the government debt for the last three fiscal years:

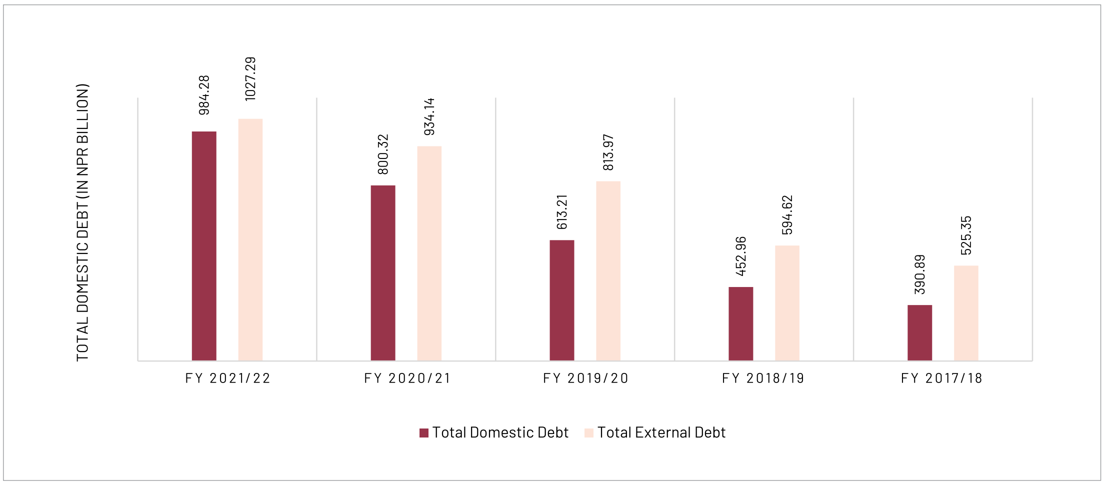
Table 5 Annual government debt of the last three years (in NPR billion)

Particulars	Annual government debt every fiscal year		
	2019/20	2020/21	2021/22
Total Domestic Debt	**613212.0**	**800320.1**	**984285.2**
1. Nepal Rastra Bank	66832.7	56786.5	51589.7
2. Commercial Banks	491382.2	651641.6	828830.2
3. Development Banks	31387.7	56758.3	68985.4
4. Finance Companies	12623.6	22441.2	22182.4
5. Others	10985.8	12692.6	12697.5
Total External Debt	813.973	934.147	1.027 (trillion)

Source: *Current Macroeconomic and Financial Situation of Nepal (ending mid-July 2022)*

Figure 7
Total domestic and external debt over the last five years (in NPR billion)

Source: *Current Macroeconomic and Financial Situation of Nepal (ending mid-July 2022)*



Moreover, with the increase in the amount of the total domestic debt over the years, the share of domestic debt as a percentage of GDP has also been rising. As such, the total domestic as a percentage of GDP stands at 40.6% as of FY 2020/21. The trend since 1974 has been shown in Figure 8:

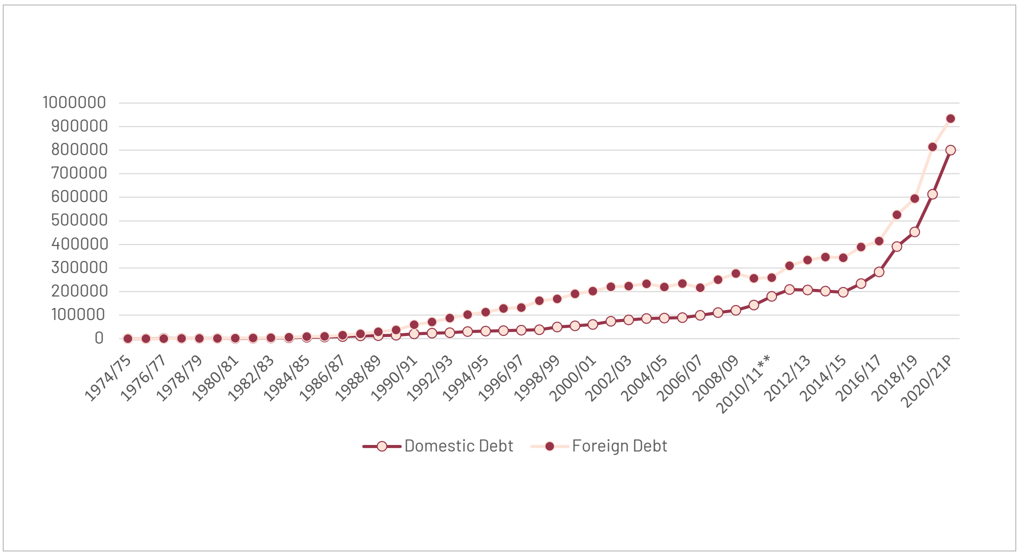


Figure 8
Trend of total domestic and foreign debt as a percentage of GDP (annual data)

Source: *Current Macroeconomic and Financial Situation of Nepal (ending mid-June 2022)*

Note:

P = Provisional Estimated

R= Revised Estimated

*** Since 2010/11, GDP based on revised estimates published by CBS in April 2021 following SNA 2008.*

Government Spending
(Expenditure and Revenue)

According to the Financial Comptroller General Office (FCGO), the total government expenditure and revenue for the FY 2021/22 amounted to NPR 1.296 trillion (USD 0.01 trillion) and NPR 1.07 trillion (USD 8.4 billion) respectively.[116] The expenditure and revenue witnessed an increase from NPR 1.2 trillion (USD 9.4 billion) and NPR 935.89 billion (USD 7.42 billion) respectively in comparison to the corresponding period of the previous FY.

The surge in expenditure is greater compared to the previous year's 3.7%. Admittedly, the capital expenditure of the country has declined by 5.4% whereas the recurrent expenditure has increased by a significant 13.6%. Concerning this, to revive the economy, the annual budget for the current FY 2022/23 has allocated 42% of the total budget of NPR 1.79 trillion (USD 14.2 billion) to recurrent expenditure and NPR 381 billion (USD 3.02 billion) has been allocated for capital expenditure. The allocation for capital expenditure only witnessed a 1.8% increment despite the pressing need.

In addition to this, revenue generation has also not been strong compared to last year's 25%. The tax revenue collection weakened notably. Considering this, the GoN has aimed to collect NPR 1.24 trillion (USD 9.8 billion) through tax (92%) and non-tax (8%) sources.

Table 6 Annual Government Spending (expenditures and revenue) of three FY (in NPR billion)

Particulars	2019/20	2020/21	2021/22
Total expenditure	**1091.33**	**1196.67**	**1296.24**
Recurrent expenditure	784.29	846.21	961.47
Capital expenditure	189.14	228.83	216.37
Financial Management	117.90	121.62	118.39
Total revenue	**793.78**	**935.88**	**1067.95**
Tax revenue	700.54	870.11	984.16
Non-tax revenue	793.78	935.88	1067.95

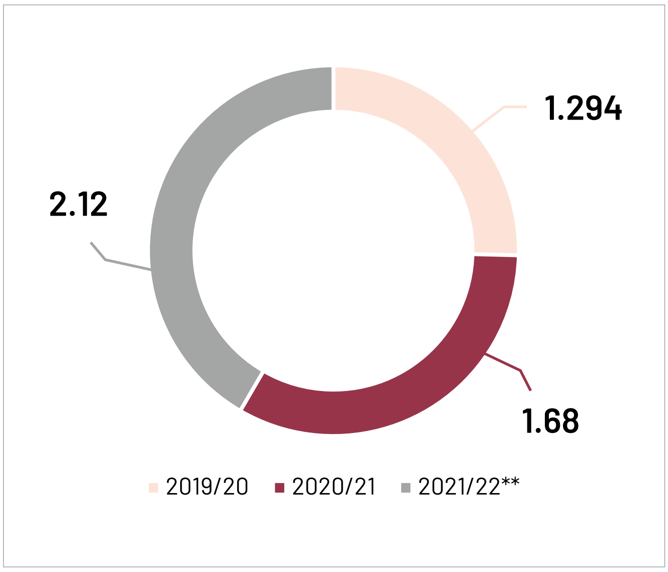
***Source:** Current Macroeconomic and Financial Situation of Nepal (ending mid-July 2022)*

TRADE STATUS

FOREIGN TRADE SCENARIO

In terms of the foreign trade scenario, the total foreign trade deficit reached NPR 1.72 trillion (USD 14 billion) as of FY 2021/22 (ending mid-July 2022) in comparison to NPR 1.39 trillion (USD 11 billion) in the previous year, indicating an increase in trade deficit by 23% against 27.5% in the previous year. The share of export and import in total trade is 9.4% and 90.6% in comparison to 8.4% and 91.6% respectively. This indicates a slight decrease in exports and an increase in imports. Figure 10 shows the trend of total foreign trade in the last three fiscal years.

Figure 10 Annual total foreign trade of last three FY (in NPR trillion)



***Source:** Current Macroeconomic and Financial Situation of Nepal (ending mid-July 2022)*

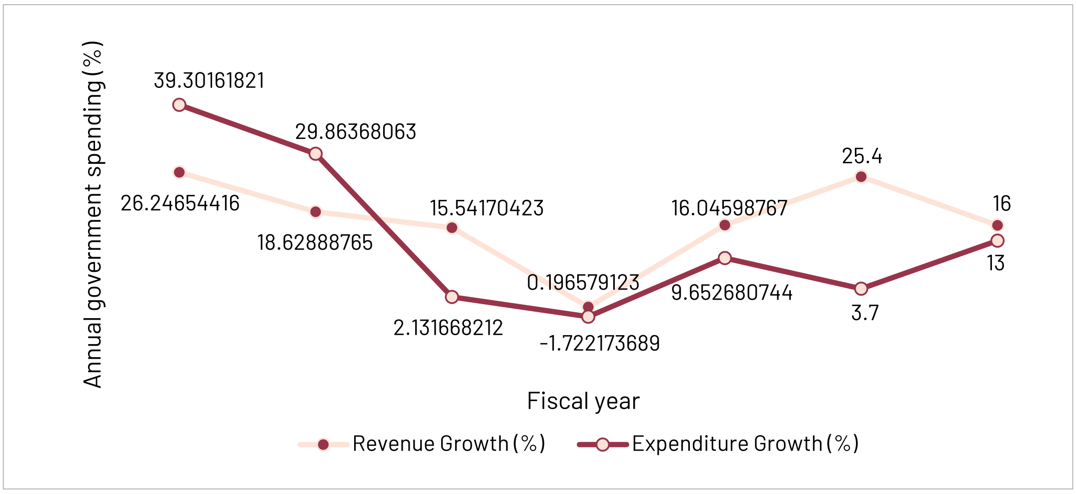


Figure 9 Annual government spending (expenditures and revenue) growth of last six FY (in percentage)

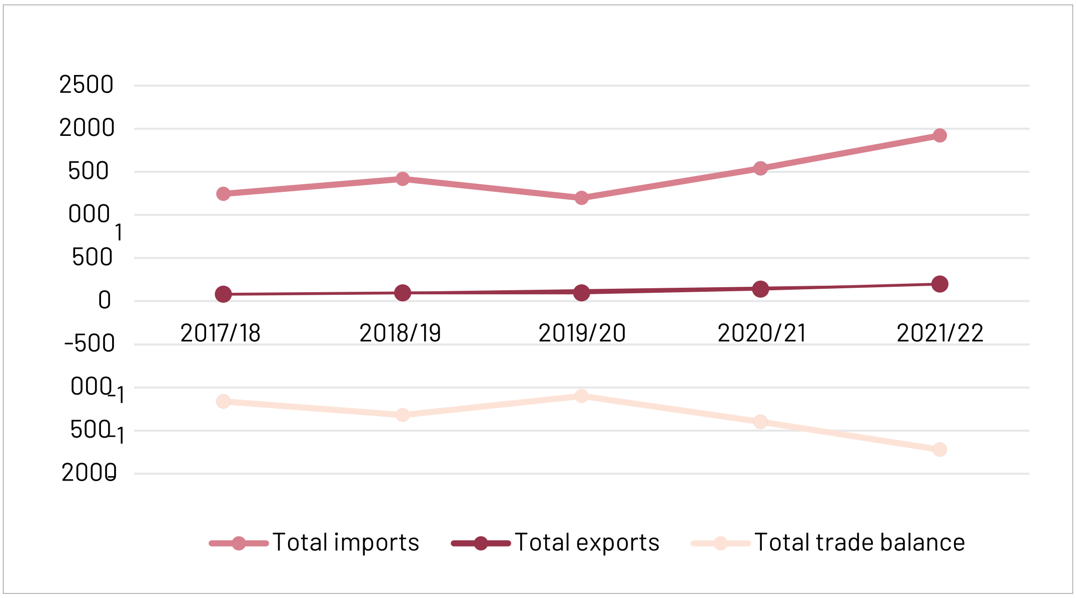
***Source:** Current Macroeconomic and Financial Situation of Nepal (ending mid-July 2022)*

TOP IMPORTS AND EXPORTS

According to the Current Macroeconomic and Financial Situation, the merchandise exports increased by 41.7% to reach NPR 200.03 billion (USD 1.58 billion) in comparison to an increase of 44.4% in the corresponding period of the FY 2020/21. Elaborating this, the exports to India and other countries rose by 45.9% and 30.4%, respectively. Contrastingly, exports to China decreased by 20.4%. With this, the ratio of exports to India and other countries stands at 77.6 and 22 respectively. Overall, the top five export commodities were soyabean oil (24.1%), palm oil (20.5%), polyester yarn a¬nd threads (4.8%), woollen carpet (4.8%), and jute goods (3.7%).

Likewise, according to the same report, the merchandise imports increased by 24.7% to reach NPR 1.92 trillion (USD 15 billion) against an increase of 28.7% in the FY 2020/21. In the case of imports, the imports from India, China, and other countries increased marginally by 23.5%, 13.2% and 36.3% respectively. With this, India's share in total imports reached 62.5% of the total imports in the review period, which is the highest, against 63.1% in the previous period. Overall, the top five imports were petroleum products (17.4%), transport equipment and parts (6.5%), machinery parts (4.8%), medicine (4.0%), and crude soyabean oil (2.9%).

Figure 11 Annual total imports, exports, and trade balance of the last five FY (in NPR billion)



***Source:** Current Macroeconomic and Financial Situation of Nepal (ending mid-July 2022)*

In the previous review periods, in light of the surging imports against a simultaneous rise in inflation and depleting reserves, the government had formally imposed a ban on the import of goods, that it considers luxury or non-essential, to control the situation from worsening. The ban came into effect on 26 April 2022 and was aimed at lasting until mid-July 2022 (end of the current FY 2021/22).[117]

There were both criticisms and anticipation related to the ban but the intent with which it was imposed was applaudable. However, the import trend did not subside despite the ban, indicating structural issues facing the economy.[118] Considering this, there is an urgent need to re-strategize development agendas and plan to increase investments, which can further increase production and lead to more exports. However, for increasing investments, related laws such as tax policy, capacitation at the local levels, identifying pocket areas of production and mapping export potential are all necessary.

BALANCE OF TRADE

Based on the Current Macroeconomic and Financial Situation of FY 2021/22, the total trade balance deficit witnessed a 23% increase in FY 2021/22 in comparison to an increase of 27.3% in the corresponding period of the previous fiscal year, suggesting a widening trade deficit. The total trade balance figure stands at a negative NPR 1.72 trillion (USD 14 billion) because of higher imports than exports.

Acknowledging the importance of trade but recognizing how it has not achieved positive results, the budget for FY 2022/23 has targeted to launch 'Prime Minister's Nepali Production and Promotion Program' to increase domestic production and promote export-oriented industries in Nepal. The goal of this program is to restore the trade balance in the upcoming five years.

The trade balance for the last five years is presented in Figure 12.

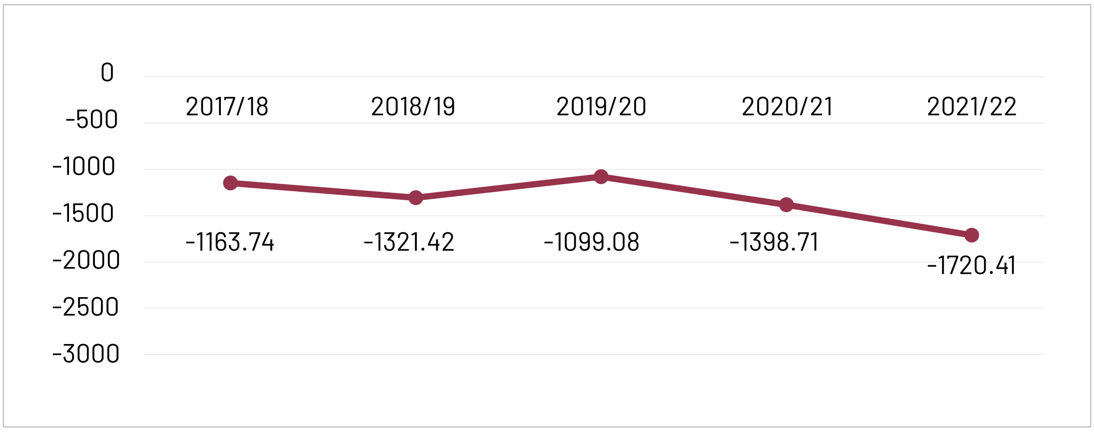


Figure 12 Annual total trade balance of the last five years (in NPR million)

Source: *Current Macroeconomic and Financial Situation of Nepal (ending mid-July 2022)*

BALANCE OF PAYMENT

As of the twelfth month's data of FY 2021/22 (ending mid-July 2022), the current account remained at a deficit of NPR 623.33 billion (USD 4.94 billion) compared to a deficit of NPR 333.67 billion (USD 2.64 billion) in the FY 2020/21.[119] Likewise, the balance of payments (BOP) registered a deficit of NPR 255.26 billion (USD 2.024 billion) in the review period, whereas there was a surplus of NPR 1.23 billion (USD 10 million) in the same period of last year.[120] Figure 13 suggests that the BOP is in a weakening condition in comparison to the previous year, as clearly depicted by a deficit against surplus.

GOLD/SILVER UPDATES

The import of gold increased from NPR 27.48 billion (USD 0.21 billion) in 2020/21 to NPR 42.69 billion (USD 0.33 billion) in 2021/22, indicating a surge in imports by 55.3%. The share of gold imports in total imports is 2.2% which signifies its growing significance in the Nepali market.[122] It also falls under the top 20 commodities that Nepal imports.

Likewise, the import of silver falls one of the most importing countries from China. Its import volume also increased from NPR 1.28 billion (USD 10 million) to NPR 2.02 billion (USD 16 million) in the same period, indicating an increase of 57.7%. However, silverware and pieces of jewellery also come under the top 20 commodities that Nepal exports and the exports for these increased by 51.8% in mid-April 2022.[123]

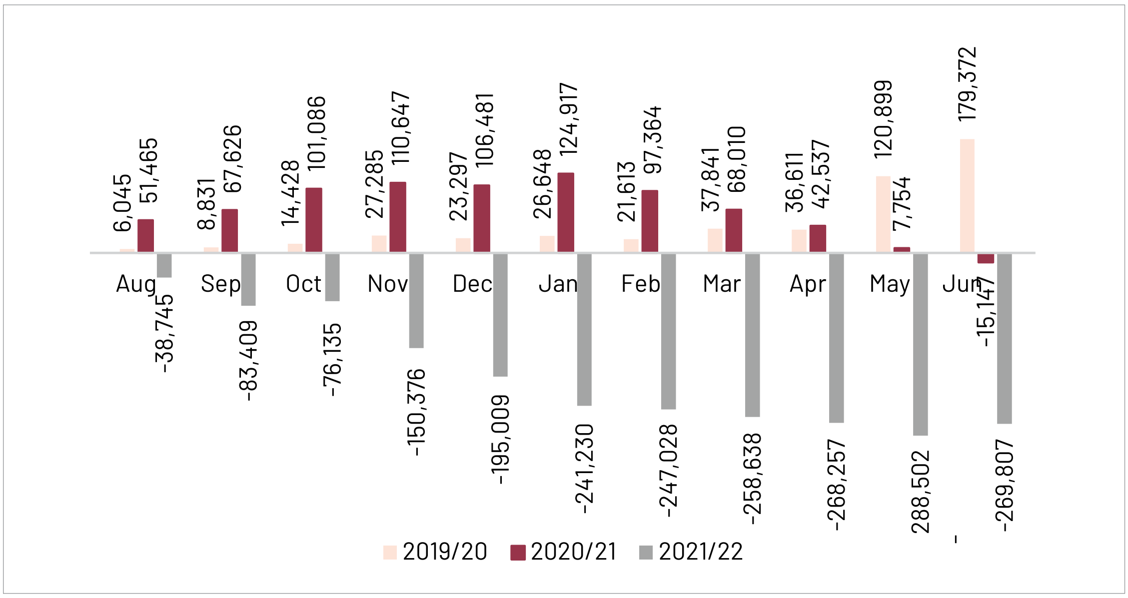


Figure 13 Annual balance of payment trend over the last three FY (in NPR million)

Source: *Current Macroeconomic and Financial Situation of Nepal (ending mid-July 2022)*

EXCHANGE RATE FLUCTUATIONS

Nepali currency visa-a-vis the USD depreciated 6.64% in mid-July 2022, against an appreciation of 1.1% in mid-July 2021.[121] Amid such fluctuations with the USD, the devaluation of the Nepali currency to the US dollar has caused the imports of the country to be expensive. It has also played a significant role in exacerbating the inflation surge in the country.

OUTLOOK

The macroeconomic indicators for the review period witnessed surging inflation, depleting foreign reserves, rising imports versus exports and devaluation of the Nepali currency among others. The import-ban strategy that was imposed in the last review period on luxury items has proved to be a questionable policy as the import volume did not subside in this review period. Instead, the trade balance has widened, and the BOP deficit has deteriorated. This indicates the need for re-visiting policies and pushing for increased domestic production as well as importing only selected goods based on consumption.

Alongside, it is critical to place significance on the remittance inflows to the country, which acts as one of the major revenue sources for the country. As such, more policies have to be developed and implemented that can smoothen the process of obtaining new and re-entry labour approvals, as well as facilitate the process through formalized channels. If the remittance sector grows, the foreign reserves, as well as the revenue stream, can become stable. At the same time, awareness building and facilitating learning platforms to exchange dialogues on the usage of remittance in productive sectors, employment opportunities for migrant returnee workers, etc., have to be explored. The more dialogue there is on such areas, the more funds can be retracted into the economy. This can prevent the Nepali economy from dampening.

3 Sectoral Review

Agriculture and Livestock

The seasonal droughts compounded with the lack of timely availability of fertilizers have been a recurring problem for the farmers as witnessed in the past quarter as well. The shipments of the chemical fertilizers continue to delay despite lifting various legal hurdles regarding payments to India. However, legal problems continue to linger as Nepal is not allowed to accept bulk shipments of chemical fertilizers that are not properly packaged. The agricultural imports are on the rise and while there is a slight increase in the agriculture exports, it is mainly due to the re-exports of edible oils rather than increased agro productivity.

Factsheet

Particulars	Amount/Percentage
Agriculture sector contribution to GDP	23.9% [124]
The growth rate for agriculture	2.3% [125]
GDP of the agriculture sector	NPR 98.32 trillion [126]
Food and Beverage CPI May/June	6.22% [127]
Price increase of ghee and oil	22.60% [128]
Price increase of milk products and eggs	11.22% [129]
Prince increase of tobacco	9.70% [130]
Price increase of pulses and legumes	9.13% [131]
Outstanding credit outflow for FY2021/2022	NPR 389.4 billion
Top 4 agricultural commodities imports (in NPR)	Crude Soybean oil (53.33 billion) [132]
	Rice and Paddy (45.08 billion) [133]
	Crude Palm Oil (36.60 billion) [134]
	Edible oil (NPR 18.40 billion)[135]
Top 4 agricultural commodities exports (in NPR)	Soybean oil (NPR 46.59 billion) [136]
	Palm oil (NPR 39.11 billion) [137]
	Jute Goods (NPR 6.93 billion) [138]
	Cardamom (NPR 4.52 billion) [139]
	Tea (NPR 3.06 billion) [140]
Top 4 livestock commodities imported	Live fowls of species Gallus domesticus (NPR 1.16 billion) [141]
	Live goats (NPR 454.64 million) [142]
	Purebred breeding cattle (NPR 9.27 million) [143]
	Live sheep (NPR 1.31 million) [144]

PRODUCTION UPDATES

Purbanchal Poultry Farm Faces Loss Due to Padlock

Purbanchal Poultry Farm in Khadak Municipality-8 and the largest poultry farm in the Saptari district has been shut down since June 4 due to the stench that has spread throughout the area. Due to the padlock, the farm has incurred a loss of more than NPR 1.2 million (USD 9,517.01 thousand) on a daily.[145] Out of the 125,000 chickens, 1000 have died in three days due to lack of food.[146] The padlock has affected egg production, decreasing from 80,000 eggs daily to 10,000-15,000.[147] Initiatives were being taken to implement better waste management, but local residents want to shift the farm to another location altogether.

Drought Affects Farmers in Terai

Terai farmers are experiencing a drought that has affected paddy plantations in the region. Farmers have had to delay planting paddy due to a lack of rainfall which has caused some paddy fields to be dry. According to Chief Kamladev Parsad Kushawa from the Agriculture Knowledge Centre, the region has only witnessed 50% of paddy plantation in mid-July. Bhagawati, Madhav Narayan, Yamunamai, Dewahi Gonahi, Paroha, Gaur, Ishnath, Baudhimai, and Maulapur primarily rely on rainwater for paddy plantation, but they have been left waiting.[148] The drought, coupled with excessive heat has also forced farmers and daily wage earners to remain indoors. Similarly, farmers in the Salyan district are experiencing drought and are worried about its implications for the paddy season. Farmers claim that corn and paddy seeds have dried up due to a lack of irrigation and rainfall.[149] They are also worried about the drought affecting paddy plantation as 70,000 hectares of land has already been prepared for cultivation.[150]

INPUT UPDATES

Farmers Face Fertilizer Shortage as Paddy Season Begins

Farmers in Nepal continue to deal with a shortage of fertilizers, an ongoing problem that Nepal has been facing in its agricultural sector. Nepal and India have agreed to a deal that will allow Nepal to receive farm inputs from India on a long-term basis. Nepal has also had talks with China regarding fertilizer imports but there have not been any developments as of June 2022.[151] Though talks with India are ongoing, there have been delays in receiving shipments from India due to payment problems and various bureaucratic hurdles.[152]

Farmers Start Planting Paddy Without Fertilizers

As the monsoon season has arrived in Nepal, farmers have stopped waiting for fertilizer shipments and started paddy plantations without the use of fertilizers. According to the World Bank's May report on food security, farmers will have trouble accessing fertilizer in the coming months which would adversely affect their production.[153] Local representatives claim they are unable to mitigate the fertilizer crisis as it is the federal government's responsibility to collect and distribute them. The regional Agricultural Inputs Company in Bhairahawa has acquired 24,007 urea and 16,074 tons of DAP since mid-July of 2021, whereas urea has been completely depleted since mid-January and the company has not received additional shipments. [154]

MARKET UPDATES

Fertilizer Shortage Causes Reduced Harvests and Income

As the Government of Nepal continues to fail to supply chemical fertilizers, farmers face reduced harvests and income leading to a food shortage and inflation.[155] Nepal's economy is already facing a sub-optimal growth rate coupled with high inflation and low inflation rate thus signalling stagflation.[156] The lack of productivity in the agriculture sector would contribute further to the downward economy. The shipments of the chemical fertilizers continue to delay despite lifting various legal hurdles regarding payments to India, but legal problems have always existed in Nepal as the country is not allowed to accept bulk shipments of chemical fertilizers that are not properly packaged.

Fertilizer Shortage Affecting the Tea Industry

The fertilizer shortage has adversely affected Nepal's tea industry, which is one of Nepal's top foreign exchange-earners. Despite the revenue and employment that tea farming brings to Nepal, the government has stopped subsidizing the industry and lifted various incentives that encourage tea plantations.[157] Subsequently, the government's inability to support the industry will negatively affect rural workers who rely on the tea industry and cause farmers to switch to other crops, causing them a heavy financial burden.[158]

EXPORT AND IMPORT OF AGRO-COMMODITIES

Imports and Exports

Nepal has imported more agricultural products in FY 2021/22 than in FY 2020/21. Nepal imported 3% more crude soybean oil, 2.6% more rice/paddy, 2.1% more crude palm oil, and 1% more edible oil than compared to FY 2020/22.[159] The country performed fairly well in its agricultural exports. In FY 2021/22, Nepal exported 10% more soybean oil, 21% more palm oil, 3.7% more jute goods, and 2.4% more cardamom.[160] Despite the slight increase in exports, Nepal's trade deficit is widening, and its agricultural sector is still struggling to reach its full productive potential due to fertilizer shortages.

Food and Beverage Prices (CPI and WPI)

During May/June of FY 2021/22, the CPI for ghee and oil, tobacco, fruits, and were the highest with CPI of 211.1, 177.40, and 170.52, respectively.[161] CPI for cereal grains was 133.39, 123.43 for pulses and legumes, 140.09 for vegetables, 142.42 for sugar, 150.77 for milk products and eggs, 141.99 for spices, and 155.73 for meat and fish.[162] For beverages, the CPI was 141.99 for non-alcoholic drinks, and 193.81 for alcoholic drinks. [163]

Wholesale Price Index

The year-on-year wholesale price inflation decreased from 16.06% in May to 14.77% during the review month of June. The average monthly wholesale price inflation for 11 months of FY 2021/22 was 9.26%.[164]

LIVESTOCK HEALTH UPDATES

Soy Fed Introduced to Nepal

The United States Soybean Export Council has introduced "Soy Fed" in Nepal, a feed label for animal protein product producers which will allow consumers to differentiate poultry, fish, and meat through a soybean meal.[165] Soybean is beneficial for the health of livestock, poultry, or fish because it is high in protein. This ensures that meat products will be of high-quality protein when it is ready for consumption.

ACCESS TO FINANCE UPDATES

Credit to the Agriculture Sector

The total outstanding credit outflow in the agricultural sector has increased since the previous fiscal year. In FY 2020/21, the credit outflow was NPR 324.2 billion (USD 2.57 billion), while the credit outflow for FY2021/2022 was NPR 389.4 billion (USD 3.09 billion), signalling a 20.1% increase.[166] In FY 2020/21, the agricultural sector received NPR 90.72 billion (USD 0.72 billion) in credit, whereas it received NPR 65.21 billion (USD 0.52 billion) in FY 2021/22. Banks and Financial Institutions (BFIs) extended more loans in 2020/21 than in 2021/22. According to the Current Macroeconomic and Financial Situation report from mid-June, outstanding concessional loans remained at NPR 215.91 billion (USD 1.71 billion).[167] Out of this amount, NPR 139.84 billion (USD 1.1 billion) was given out to 60,618 borrowed for commercial agriculture and livestock businesses.[168]

Agriculture Insurance

Nepal's insurance regulatory authority, Beema Samiti, has implemented the "Agriculture, livestock, and Medical Herb Insurance Directive" effective from July 17, 2022.[169] The insurance aims to expand its services to various districts by allowing insurers to open branches along the Agriculture Knowledge Center for Agriculture and Livestock office.

Financing Programs in Agriculture

The federal budget for FY 2022/23 states that a microfinance fund will be established for the agriculture sector, and it will be mandated to finance up to NPR 500 billion (USD 3.97 billion).[170] Under this provision, BFIs will be mandated to invest in loans for people in the agriculture sector. While this initiative would boost production in the sector and increase agricultural yields, the government lacks a plan for its implementation. Chakra Bahadur Budha, Chief of the Budget, and Programme Division at the Ministry of Finance claims that the government still needs to figure out if an existing agency or a new institution should carry out this process. Otherwise, the Agricultural Development Bank itself could function as a microfinance fund. However, central, and commercial banks remain in the dark about the microfinance funds as the central bank was not consulted, and there is no agriculture-specific credit target for commercial and development banks.

Investments in Agriculture

Monetary Policy for FY2022/23 showed investments in the agricultural sector from BFIs remain minimum. According to the Nepal Rastra Bank, Commercial banks should extend at least 12% and up to 15% of the total credit investment for agriculture sector development however, as of mid-April commercial banks have only extended NPR 490.15 billion (USD 3.89 billion) or 12.28% of the total credit required to the agricultural sector. [171]

GOVERNMENT PLANS /PROGRAMS UPDATES

Federal Government Allocates 56 billion to the Ministry of Agriculture and Livestock

In the federal budget for FY 2022/2023, the Government of Nepal has prioritized achieving self-reliance in agricultural production by decreasing imports. NPR 55.97 billion (USD 0.44 billion) is being allocated to the Ministry of Agriculture and Livestock, which is an increase from NPR 41.4 billion (USD 0.33 billion) from FY2021/22.[172] [173] The government also aims to boost paddy productivity from the current 5.13 million metric tons to 6.69 million metric tons which is a 30% increase in just a year.[174] Though ambitious, the lack of irrigation and accessibility to chemical fertilizers poses a challenge to this goal. The government also plans on reducing agricultural imports by 30% in FY2022/23.[175] This goal will be achieved by developing a cold storage facility, refilling NPR 500 billion (USD 3.97 billion) funds at a subsidized rate, loaning farmers, and implementing a minimum support price on milk. [176]

OUTLOOK

The agriculture sector contributing almost one-fourth has been suffering the impacts of a disrupted supply chain and a lack of coordination among the authorities in terms of providing timely inputs for the plantation seasons. A situation of this kind has slowed growth and will eventually decrease the productivity of the sector while the farmers plan to harvest the plantation in the coming quarter. As we approach the festival season, the next quarter will also witness increased rates of agriculture imports offsetting the marginal increase in the agricultural exports observed in the past quarter. Additionally, the next quarter will witness an increased import of livestock and poultry to fulfil the domestic demand for meat products in the festival season. Likewise, inflation is bound to increase in the next quarter, given the malpractices of the private sector to manipulate prices during festival seasons. Unless the government strictly monitors the market, the consumers will be paying more for the food products.

Energy and Environment

The review period was marked by the commencement of surplus energy export to India and the prospect of increased electricity production with the arrival of the monsoon season. The federal and provincial governments also unveiled their budgets for FY 2079/80 in the review period, with a major emphasis on enhancing the production capacity of hydropower plants while promoting the development of alternative sources of energy to improve access to electricity in remote regions. As the price of imported fuel, petrol, diesel, and cooking gas – has soared in the past, putting a dent in consumers' purchasing power, several measures have been launched to promote the consumption of domestically produced energy. Several initiatives and decisions were taken to protect the environment while also mitigating the risk of climate change to minimize losses caused by natural disasters.

Factsheet

Particulars	Amount/Percentage
Total import of petroleum products (First 11 months of FY 2021/22)	NPR 292.77 billion (USD 2.32 billion) [177]
Peak energy consumption	1710 MW [178]
Hydropower generation capacity (2021-22)	2300 MW [179]
Increase in hydropower production (2021-22)	843 MW [180]
Population receiving access to electricity from the national grid	93% [181]
Per capita electricity consumption	330 KW/hrs. [182]
Power generation from solar energy	44 MW [183]
Transmission line construction	4795 km [184]
Total domestic electricity consumption	5572 GW per hour [185]
Number of Installed Bio-gas plant (2021-22)	1,733 [186]
Employment generated in the renewable energy sector	40,000 [187]

POLICIES AND PROGRAMS

Budget Allocated for Energy and Environment in FY 2079/80 (FY 2022/23)

Government of Nepal

The Government of Nepal has allocated NPR 108.61 billion (USD 861.36 million) for the Ministry of Energy, Water resource and Irrigation (MoEWI). A budget of NPR 1 billion (USD 7.93 million) has been allocated for the completion of the Upper Arun Hydropower Project. A total of NPR 43.95 billion (USD 348 million) has been allocated for the construction of transmission and substations. The GoN aims to add 415-megawatt hydropower capacity in FY 2022-23. To promote the use of electric vehicles, charging stations will be installed at 50 locations throughout the country. Further, industries consuming electricity worth more than NPR 100 million (USD 793,084) will get a rebate of up to 15% on their electricity bill. [188]

Similarly, A budget of NPR 16.13 billion (USD 127.92 million) has been allocated to the Ministry of Forest and Environment. To account for the adverse impact of climate change and to reduce the risk of disaster, an early warning disaster assessment system will be developed to protect the vulnerable population, a sum of NPR 1.61 billion (USD 12.76 million) has been allocated for the same. [189]

Province 1

The provincial government has allocated a sum of NPR 1.82 billion (USD 14.43 million) to the Ministry of Forest, Environment, and Wildlife. The major program includes the greening of schools and roadways in the province. A program will be formulated for the protection of wildlife in the province.

Similarly, the government has allocated NPR 6.29 billion (USD) to the Ministry of Drinking water, Irrigation and Energy. The government has adopted an initiative to promote the generation of alternative sources of energy to generate at least 20 MW of electricity from solar energy.[190]

Madhesh Province

The provincial government has allocated a budget of NPR 633 million (USD 5.02 million) has been allocated for environmental protection in the province. The major program includes "Protect Chure, Protect Madhesh", to limit the adverse environmental impact in the Chure region.

The government has allocated a budget of NPR 1.68 billion (USD 13.32 million) to the Ministry of drinking water and energy development. To promote alternative sources of energy, the government has allocated NPR 113 million (USD 896,185) to develop solar energy infrastructure in collaboration with the private sector. [191]

Bagmati Province

The provincial government has allocated a sum of NPR 3.23 billion (USD 25.61 million) to the Ministry of Forest and Environment. An Urban Development and Environmental Specialized Research Center in the province will be established to promote research on environmental issues.

Similarly, a budget of NPR 9.81 billion (USD 77.80 billion) has been allocated to the Ministry of Drinking Water, Energy, and Irrigation. The government launched the "Purna Ujjayalo Pradesh Program", under which access to electricity will be improved in rural regions by promoting solar energy usage. [192]

Gandaki Province

The provincial government has allocated NPR 953 million (USD 7.55 million) to the Ministry of Forest, Environment, and Land Protection. An initiative to protect lakes in the province will be undertaken for which NPR 20 million (USD 158,616) has been allocated. To protect land, the government will launch a tree plantation drive for which NPR 180 million (USD 1.42 million) has been allocated.

A budget of NPR 5.11 billion (USD 40.52 million) has been allocated to the Ministry of Energy, Drinking Water, and Water Resources. To promote the use of electric vehicles, charging stations will be set up across the province.[193]

Karnali Province

The provincial government has allocated a budget of NPR 2.17 billion (USD 17.20 million) to the Ministry of Industry, Tourism and Environment. To mitigate the impact of climate change, NPR 875.87 million (USD 6.94 million) will be sent to protect the livelihood of vulnerable populations. The FY 2079-80 has been declared as 'Karnali Tree Plantation Year' for which NPR 150,000 (USD 1,190) has been allocated.

A budget of NPR 3.79 billion (USD 30.05 million) has been allocated to the Ministry of Water Resource and Energy. To develop alternative forms of energy, NPR 100 million (USD 793,084) has been allocated to establish a solar power plant in the province. [194]

Lumbini Province

The provincial government has allocated NPR 2.02 billion (USD 16.02 million) to the Ministry of Forest, Environment, and Land Protection. The government will promote the 'One House, Two Tree' initiative to promote household responsibility towards the environment. To protect forest area, NPR 721 million (USD 5.71 million) has been allocated for the management of 50,000 hectares of forest.

The government of Lumbini province has allocated NPR 3.6 billion (USD 28.55 million) to the Ministry of Energy, Water Resource and Irrigation. A budget of NPR 187.3 million (USD 1.48 million) has been allocated to promote 'Ujjyalo Pradesh: Lumbini Pradesh', under which households will be incentivized to use rooftop solar power units. An electric induction stove will be provided to students pursuing graduation in any educational institutions in the province. [195]

Sudurpashchim Province

The government has allocated NPR 2.61 billion (USD 20.69 million) to the Ministry of Industry, Tourism, Forest, and Environment. To enhance greenery in Dhangadi city, the government will launch the 'Green City, Everyone's City' campaign. To improve access to electricity in the rural regions, NPR 70 million (USD 555,160) will be allocated to build the necessary infrastructure. [196]

NEW DEVELOPMENT

Nepal Power Export to India Increases

Nepal Electricity Authority (NEA) has started selling 364 MW of electricity to India through Indian Energy Exchange (IEX). The authority sold electricity worth NPR 1.72 billion (USD 13.64 million) by selling 178.19 million units of electricity in June 2022. Nepal has been producing surplus electricity with a total production of 2190 MW, while the domestic demand is around 1,710 MW. NEA has been receiving an average price of NPR 9.67 (USD 0.076) per unit, with the highest price received at NPR 15.93 (USD 0.12) per unit and the lowest rate received at NPR 4.92 (USD 0.039) per unit.[197] NEA expects to sell 613.4 MW of electricity worth NPR 16 billion (126.9 million) to India by the end of FY 2022/23. Similarly, 1,296 MW in FY 2023/23, 1,831.6 MW in FY 2024/25 and 2,456.4 MW in FY 2025/26. [198]

Domestic Industries Face Power Shortage

A research paper by the Confederation of Nepalese Industry (CNI), states that 60% of the Nepali industries are compelled to use diesel generators considering the frequent power outages. Due to reliance on the generator, the monthly cost of operations has increased by 5.3%, the paper states. CNI has expressed its displeasure with Nepal Electricity Authority (NEA), as Nepali industries continue to face energy shortages while NEA continues to export electric energy to India. [199]

Master Plan to Upgrade Energy Infrastructure in the Valley

In light of the expected electricity demand of 3100 MW by 2050 in the Kathmandu valley, Nepal Electricity Authority (NEA) has prepared a 'master plan' on transmission infrastructure for the valley. To improve the current state of infrastructure, which is only capable to sustain the power demand of 500 MW, various infrastructure projects have been planned by NEA. As per the master plan, 132kV and 220kV underground transmission lines within the valley will be laid. Likewise, a 400 kV transmission ring around the hills of Kathmandu will be constructed. Similarly, a 400 kV substation will be built at Dukkuchhap of Lalitpur, a 220 kV substation has been planned at Pipaltar of Nuwakot and a 400 kV substation will be built at Changunarayan of Bhaktapur.[200] To improve the supply of energy in the valley, an 82 km long transmission line connecting Tanahu to Kathmandu became operational on June 17, 2022. The new line will bring 200 MW of electricity, upgrading the existing 100 MW line. [201]

18-point Agreement on KMC Waste Disposal

The Kathmandu Metropolitan City and the inhabitants of Sisdole and Banchare Danda, the location of the landfill site, reached an 18-point agreement for the resumption of waste transportation. According to the agreement, waste collected from Kathmandu will only be disposed of at night for which KMC will have to develop road infrastructure and night light facilities. NPR 425 million (USD 3.37 million) have been allocated to facilitate this process. Included in the agreement, KMC will start providing health insurance services to the residents of the affected area. A sum of NPR 17 million (USD 134, 824) has been allocated for river embankment, community building, and tree plantation in the area. [202]

Nepal's Tiger Population Doubles

As per the Tiger Census that was held in December 2021 and released on July 17, 2022, the number of Tigers in Nepal has doubled to 355. The census is conducted by the Department of National Parks and Wildlife Conservation, Ministry of Forest and Environment, Government of Nepal. Nepal became the first country to double the population of tigers, as committed at the first Global Tiger Submit in St. Petersburg in 2010. As per the census, the number of tigers was 121 in 2010, 198 in 2013, and 235 in 2018. [203]

RENEWABLE ENERGY

Hydrogen Plant to be Constructed in Nepal

Api Power Company of Nepal and New Delhi-based GreenZo Energy have signed a memorandum of understanding (MoU) to develop green hydrogen plants of capacity totalling 50MW in different parts of Nepal. Api Power will be investing NPR 16 billion (NPR 4.53 billion) in the projects. The company has proposed to build hydrogen projects at its existing sites of hydro and solar projects at locations including Bardeghat, Chanauta, Kawasoti, Dhalkebar, Parwanipur, Simara, and Chandranigahpur. These projects are scheduled to be installed within three years or by 2025 and aim to generate 4,000 tons of hydrogen annually, according to the company's reports. The plant is the first of its kind in Nepal which will break water into hydrogen and oxygen and hydrogen will be collected to generate electricity. [204]

Solar Power to be Constructed, Morang

GI Solar Company has started constructing a 6.8 MW solar power project in Hattimudha of Budhigandaki Rural Municipality, Morang. The company has pledged an investment of NPR 580 million (USD 4.6 million) for the installation of the solar power plant and the per MW cost stands at NPR 85 million (USD 674,121). The project started in mid-June 2022 and is expected to be completed by mid-November 2022. The company will also build a 5 km transmission line from the power plant to the Nepal Electricity Authority substation based in the Duhabi municipality of Morang. [205]

HYDROPOWER ENERGY

Super Dordi 'B' to Come Under Operation

Around 88% of the Super Dordi 'B' hydropower project has been completed and is expected to come into full operations from February 2023. The construction of the project, located in Dordi Rural Municipality of Lamjung district, has been halted many times due to unexpected flood floods, an earthquake in 2015, and subsequent economic blockade. A total investment of NPR 8.80 million (USD 69,791) has been pledged under consortium financing with an additional investment of NPR 270 million (USD 2.12 million) by the local people of the district. [206]

The decline in the Share of Reservoir Hydropower Projects

In a concept paper on 'National Energy Crisis Alleviation and Electricity Development Decade' in 2016, the Government of Nepal pledged to produce 10,000 MW by 2027 of which 40-50% would be produced through the reservoir power plant. However, in a cabinet decision in June 2022, the share of power produced by reservoir power plants has reduced to 20-25% of total hydropower production. The share of the reservoir-based projects out to total power projects, which has a power purchase agreement with the Nepal Electricity Authority, is only 7%. Currently, Kulekhani I, II, and III are the only reservoir-based hydropower projects, whose combined production stands at 106 MW. [207]

Power Leakage Raises Slightly

According to Nepal Electricity Authority (NEA), power leakages raised slightly to 14.89% by mid-May 2022, up from 14.63% in mid-April, whereas the leakage in mid-March was 14.2%. The increasing leakage can be explained by the increasing consumption of electricity during the summer season. Despite the increase in leakage, it remained within its target of 15.5% as set by NEA. The electricity leakage was 17.18% in FY 2020/21 and 15.27% in FY 2019/20. According to NEA, leakages from the distribution network (wired network reaching households) are much higher than the transmission lines, as losses from the distribution network were 10.41%, while transmission line losses stood at 4.48%. [208]

Butwal-Lumbini Transmission Line in Operation

Construction of an 18 km long, 132 kV double circuit from Yogikuti (Butwal) to Mainhiya (Lumbini) has come into operation from July 6, 2022. The new transmission line will improve the power supply by controlling technical leakage between Butwal and Lumbini. The new transmission line can supply 200 MW. It is expected to improve the infrastructure required to transmit electricity to the state of Uttar Pradesh, India for which a 132 kV transmission line from Mainhiya (Lumbini) to Sampatiya substation in Uttar Pradesh will be added later this year. [209]

PROJECTS

Two Reservoir-based Hydropower Projects in the Pipeline

The Investment Board Nepal (IBN) on August 8, 2022, gave its nod to India's state-owned NHPC (National Hydroelectric Power Corporation) Limited to study and develop two hydropower projects totalling 1,200 MW in western Nepal. The projects based on reservoir-type hydropower plants include the 750 MW West Seti Hydropower Project and 450 MW Seti River Project, spreading through six districts in western Nepal. As per the IBN, the combined cost of the project is estimated to cost around USD 2.4 billion (USD 19.03 million). [210]

Construction of the Hetauda-Dhalkebar-Inaruwa Transmission Line Begins

The Supreme Court on July 5, 2022, paved the way for the construction of pylons at Padariya in Lahan Municipality of Siraha district, which is a part of the 400 kV Hetauda-Dhalkebar-Inaruwa transmission line. On January 30, 2019, a petition was filed in the Supreme Court demanding the change of route of the transmission line. The line is a part of the Nepal-India Electricity Transmission and Trade Project, which also includes a 200kV Bharatpur-Bardaghat transmission line. The project was initially supported by the World Bank, however, the World Bank decided to withdraw from the project in November 2021, following the delayed decision by the Supreme Court. [211]

Company Setup for Budhi-Gandaki Project

A cabinet meeting on June 28, 2022, paved the way to set up a public company for the construction of the Budhi Gandaki Hydropower Project. 'Budhigandaki Hydropower Development Company Limited will be registered with paid-up capital of NPR 60 billion (USD 475.85 million). The project is a storage-type hydropower project which can generate 3,383 Giga-Watt-hour of energy, annually.[212] The authorized capital of the company will be NPR 1 trillion (USD 7.93 billion) and will be funded by issuing one billion shares at the rate of NPR 100 each. Of the total shares issued, 400 million will be given to the Ministry of Energy, Water Resources, and Irrigation, 200 units will be allocated to the Ministry of Finance and 150 million shares will be allocated to Nepal Electricity Authority. [213]

New Substations Constructed along Koshi Corridor Transmission Line Project

The Nepal Electricity Authority brought into operation three 220 kV substations in Province 1. Of the three substations, one is in Inaruwa of Sunsari district and the remaining two are located in Tumlingtar and Baneshwar locality of Sankhuwasabhi district of the province. The power line is expected to improve the voltage of power and enhance electricity transmission in the hilly regions of the province. These substations will be connected by the newly constructed 220kV transmission line, which is a part of the Koshi Corridor Transmission Line Project (KCTLP). To improve Nepal's capacity to export electricity to India, an additional transmission line has been planned to be constructed as a part of KCTLP, to connect these substations to Dhalkebar Substation in Dhanusha District, which is a powerhouse to export electricity to India. [214]

POLICIES AND REGULATION

SC Strikes Decision by PMC

The Supreme Court (SC) issued an interim order against a decision of Pokhara Metropolitan City (PMC), which reduces the space to be left vacant around the lake from 65 meters to 30 meters. In a meeting of Pokhara Metropolitan City's executives on 30th march, 2022, the standard to leave 30-meter around all nine lakes in Pokhara valley, including Fewa Lake, was adopted. However, a writ petition was filed following the decision, challenging the construction of a structure at less than 65-meter from the lakes. [215]

Ban on Plastic Bags

The Department of Environment of the Ministry of Forest and Environment has issued a notice to ban the production, import, sale, distribution, and use of plastic bags thinner than 40 microns. The ban will come into effect on August 14, 2022.[216] To effectively implement the ban, the department has issued an Action Plan for Ban of Plastic Bags – 2022. Legal action against the offender will be taken as per the Environment Protection Act – 2019, and a fine of up to NPR 300,000 can be imposed on a person or institution not following the directive on the ban. [217]

Locals in Taplegunj Banned to Enter the Community Forest

Fourteen community forests in the Taplejung district have been temporarily banned from human entry. The restriction, aimed to protect the endangered red panda, came into effect in mid-July and will continue till mid-September 2022. The Department of Forest and Soil conservation implemented the ban to prevent human activities in the forest, which tends pandas to move with their newborn cub, causing harm to the development of cubs. [218]

SC Issued an Order to Halt Crushing and Activities

The Supreme Court issued an interim order, on June 29, 2022, against the Government of Nepal's decision to amend 'Standard on Extraction, Sale, and Management of Stone, Pebbles, and Sand – 2020'. The amendment aims to reduce the distance at which crusher industries can operate vis-à-vis bridges, ponds, lakes and rivers, educational institutions, dense settlements, highways, places of archaeological importance, parks and wildlife reserves, and highways. A writ petition has been filed stating more than 1,000 crusher industries across the country were operating against the Supreme Court's directive to the government aimed to prevent haphazard extraction of river material. [219]

KMC to Segregate the Garbage

The government of Kathmandu Metropolitans City (KMC) has obtained 50-ropanis of land in Kirtipur to segregate biodegradable garbage from non-biodegradable garbage starting mid-August 2022. To bring sustainable and effective management of waste generated in the valley, around 40,000 kilos of recyclable waste will be collected from eight wards of KMC. The management of the remaining 23 wards of KMC has been contracted to private companies. The waste collected would be turned into manure at the Kirtipur site, which will be sold at a subsidized rate. Following the new provision, KMC announced that it would stop disposing of harmful garbage in the Bancharedanda site in the Nuwakot district, however, the site will still be used to dispose of biodegradable waste. [220]

Government Considers Removing the Q40 Requirement for Hydropower Projects

Amid signs of growing market access to India, the government plans to remove the Q40 provision, which limits electricity production by hydropower plants in the wet (monsoon) season. As most of the hydropower plants in Nepal are run-of-the-river, Nepal's hydropower production is high during the wet season and low during the dry (winter) season, the Q40 provision was implemented to limit excess electricity produced during the wet season. However, with the increasing export of electricity to India, the Nepal Electricity Authority with other private sector stakeholders are in discussion to remove the Q40 provision to allow for hydropower plants to increase production to meet the increasing demand for Nepali electricity in the Indian market. [221]

OUTLOOK

The monsoon season is expected to increase the production of electricity by hydropower plants, and with the addition of transmission lines to the national grid, Nepal's electricity production capacity is expected to increase, both in short term and over time. The increasing number of transmission line projects and reservoir-based hydropower power projects in the pipeline will enable Nepal to export electricity throughout the year and reduce reliance on imported electricity during the dry season. Access to electricity is expected to improve as various provincial have emphasized alternative sources of energy which includes electricity generation by solar plants, micro, and small hydro plant, and biogas plant. However, there remain environmental concerns as the monsoon is expected to increase water levels causing the incidence of flash floods which have huge economic and humanitarian costs. In such a scenario, proactive implementation of disaster prevention and recovery measure should be adopted to limit damage associated with it.

Infrastructure and Real Estate

The three-month review period from June 2022 to August 2022 witnessed delays in several important infrastructure projects in aviation, railways, and road transportation. The global rise in fuel prices, along with supply chain issues has increased inflation in Nepal and affected the aviation industry across the world. The contractionary monetary policy for the fiscal year 2022/23, which was introduced to reduce inflation, has implications for real estate prices. Further, regulations have also been introduced for proper land management.

Factsheet

FY 2021/22 up to March 2022	
Total Length of Road	33,871 km [222]
New road constructed	155 km [223]
Road maintenance	7500 km [224]
Total number of bridges constructed	80 [225]
Construction of railway	56 km [226]

Nepal Formally Asked by ICAO to Split CAAN

In a preliminary report prepared by International Civil Aviation Organization (ICAO), Nepal's score on the organizational structure needed to meet safety standards has decreased from 50% to 45.45%.[227] ICAO has formally asked the Civil Aviation Authority of Nepal (CAAN) to split into regulator and service provider. The separation of CAAN into regulator and service provider is required for proper and unbiased oversight of the airline services. The proposal to split CAAN into two bodies has been on Nepal's agenda since the Three-Year Interim Plan 2007/08 including the budget for the current fiscal year 2022/23.[228] The bill regarding the split was finally passed by the upper house in August 2021[229] but the proposal is yet to be implemented.

France Commits to Remove Nepali Airlines from the EU Blacklist

The French Civil Aviation Authority has committed to removing Nepali Airlines from the European Union's (EU) blacklist. The EU blacklisted Nepal's airlines in 2013 following the International Civil Aviation Organization (ICAO)'s ban on Nepali airlines for being unsafe. Assessing various progress made by Nepal in civil aviation since 2013, the French Civil Aviation Authority committed to the 57th Conference of the Directors General of Civil Aviation, Asia, and Pacific regions.[230]

Opening of Pokhara International Airport Delayed

Despite the physical infrastructure being 98% complete, the operation of the international airport in Pokhara has been delayed until December 2022, citing delays in conducting flight and equipment tests. The project failed to conduct flight inspections of the new airport due to delayed approval of the Environmental Impact Assessment (EIA) report. The EIA report on the flattening of an 817-meter hill on the eastern side of the airport has been approved recently. A landfill site located 1.5 km from the airport also needs to be relocated as it attracts birds and poses risks to aircraft. The relocation has faced delays and discussions are ongoing with the local government regarding the relocation.[231]

The Rise in Fuel Prices Increases Domestic Airfare

Nepal Oil Corporation (NOC) increased the price of Aviation Turbine Fuel (ATF) by NPR 19 (USD 0.15) per litre. Citing the hike in ATF, airfare across different routes has been increased by NPR 170 (USD 1.34) up to NPR 840 (USD 6.66). The airfare of the longest route i.e., the Kathmandu to Dhangadhi has reached NPR 16,805 (USD 133.28) and the airfare of the shortest route i.e., Kathmandu to Simara has reached NPR 4,195 (USD 33.27). [232]

Only 18% Progress in Butwal-Narayanghat Road

The Butwal-Narayanghat road upgradation project is only 18% complete since it started in March 2019. The project was supposed to be completed within 42 months, i.e., by August 2022.[233] Along with the COVID-19 pandemic, the work was delayed due to issues with felling trees along the road and shifting electricity poles from the roadside.[234] The contractor, China State Construction Corporation, had requested an extension of the deadline by 2 years. The Department of Roads is preparing to extend the project deadline by 1 year after conducting the necessary study on the contractor's proposal.[235]

Preparations Underway for Operating Bathnaha-Biratnagar Railway

The Bathnaha-Biratnagar Railway track, which runs from Bathnaha in India to Buddhanagar in Biratnagar, is planned to start operations by October 2022. There are plans to operate freight trains from the Integrated Check Post (ICP) in Buddhanagar to Bathnaha. Preparations are underway to start constructing a road from the station in Buddhanagar to the ICP. The railway was supposed to be constructed from Bathnaha in India to Katahari in Nepal, but the railway track in Kalahari has not been completed due to a dispute over land compensation. Nevertheless, India is interested in operating the freight trains by handing over the completed parts to Buddhanagar by October 2022.[236]

Few Traders at Chobhar Dry Port

The Chobhar Dry Port has only received two dozen container trucks since it opened in April 2022. Despite the dry port providing cheaper clearance for goods compared to border checkpoints, it has failed to attract many traders. The lack of an expressway linking the port to the border has created a hassle for transporting goods to the port. Nepal Intermodal Transport Development Board, which currently runs the port, expects more activity in the dry port in the next few months as goods take 3 months to arrive after opening a Letter of Credit (LC). [237]

Monetary Policy Decreases LTV Ratio

The Loan to Value (LTV) ratio for mortgaging houses or land for new loans and property loans has been tightened by the monetary policy for the fiscal year 2022/23. The LTV ratio should be a maximum of 30% within the Kathmandu Valley and a maximum of 40% in other places.[238] This is a decrease from an LTV ratio of up to 40% within Kathmandu Valley and up to 50% outside the Kathmandu Valley.[239] The contractionary monetary policy introduced for the fiscal year 2022/23 reduced the LTV ratio to decrease lending to non-productive sectors such as real estate.

Zoning Introduced by Land Use Regulation

The Ministry of Land Management, Cooperatives and Poverty Alleviation has endorsed the Land Use Regulation 2022. This new regulation divides land into 10 categories based on its features and geographic situations. Some of the categories are agriculture, residential, commercial, industrial, forest, and public use. Land classified into one category cannot be used for other purposes, but land classifications are changeable.[240]

The regulation has also allowed for land-pooling to promote agriculture mechanization and control land fragmentation. Agricultural land cannot be fragmented if the smallest piece of resulting land would be less than 500 sq m for lands inside the Kathmandu Valley and 675 sq m for lands in Terai and inner Madhesh. Furthermore, residential land plotting inside Kathmandu Valley is prohibited for lands with an area less than 130 sq m or 4 aana 1 daam. [241]

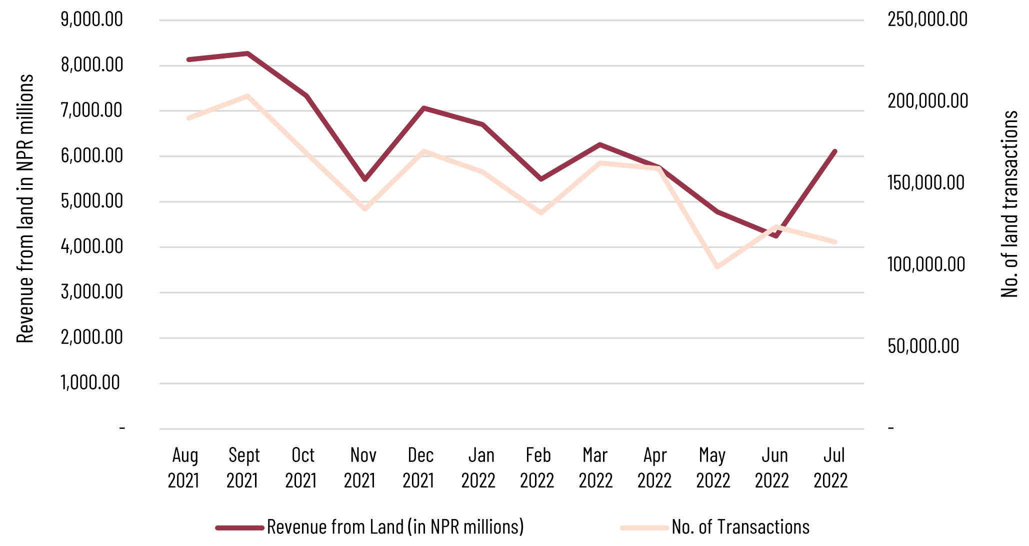


Figure 14 Revenue from Land transactions and number of land transactions

Source: *Department of Land Management and Archive*

OUTLOOK

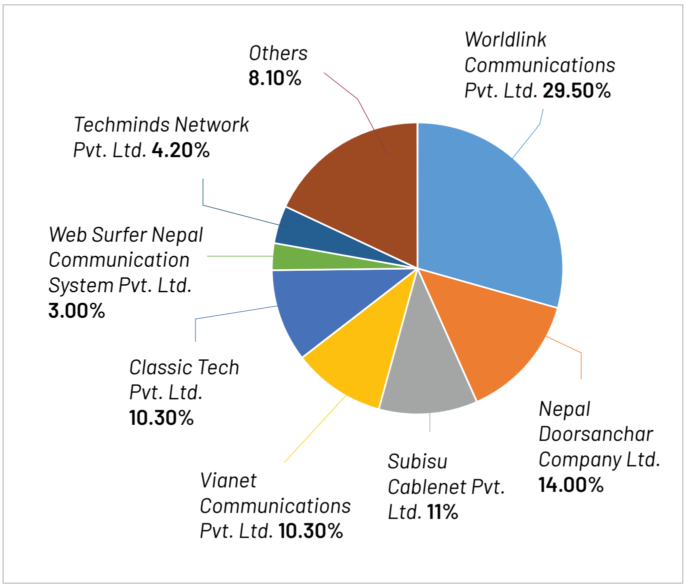
The splitting of CAAN into regulator and service provider will lead to unbiased oversight of the service provider and might improve accident and incident investigation. This might also improve the perception of the safety of Nepali airlines and remove Nepal from the EU's blacklist. Moreover, Industrialists in the Sunsari-Morang Industrial Corridor have claimed that the transportation fare by rail is about half cheaper than by road.[242] This is because the operation of a freight train from Bathnaha in India to Biratnagar in Nepal will make the import of raw materials cheaper and make the industries in the Sunsari-Morang Industrial Corridor more competitive. The delay in construction of the Butwal-Narayanghat road has resulted in several unrepaired potholes leading to an increased risk of accidents. The delay in construction of the Butwal-Narayanghat road, which receives heavy traffic, has resulted in hours-long traffic jams. The reduction in the LTV ratio mandated by the monetary policy is expected to stagnate the real estate prices as people will not have easy access to finance from BFIs. The newly introduced zoning regulations are a step in the right direction towards promoting the proper use of land in the long run and increasing agricultural productivity. However, proper monitoring and implementation of the zoning regulation are required to bring the desired results.

Information and Communication Technology

With the number of internet users growing at a rapid pace, the Nepal Telecommunications Authority (NTA) has taken steps to provide better services. These steps include – the preparation of a Merger and Acquisition policy for Internet Service Providers (ISPs) and allowing customers to refurbish the same routers for different ISPs. Additionally, Nepal Telecom (NTC) is experimenting with 5G technology throughout the country to close the digital gap between rural and urban areas. In addition, Nepal plans to advance itself digitally by exploring the possibilities in the area of digital currency.

Particulars	Amount/ Percentage
Tele density	144.18%
Internet data subscribers	38 million
Number of smartphone users	41.27 million
Internet Penetration	130.20%
Average download speed of mobile internet connection	15.3 Mbps
ICT goods imported as a % of total import	2.9%
Total Digital Payment Transaction	NPR 5.40 trillion from mid-May to mid-June [243]

Figure 15 Market Share of ISPs based on number of subscribers



Source: *NTA MIS Report Baisakh 2079 (mid-April to mid-May 2022)*

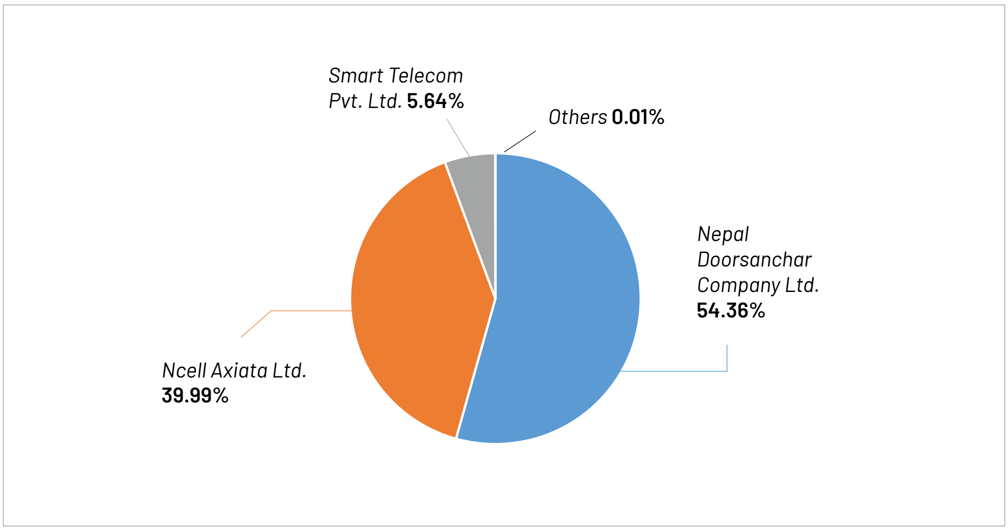
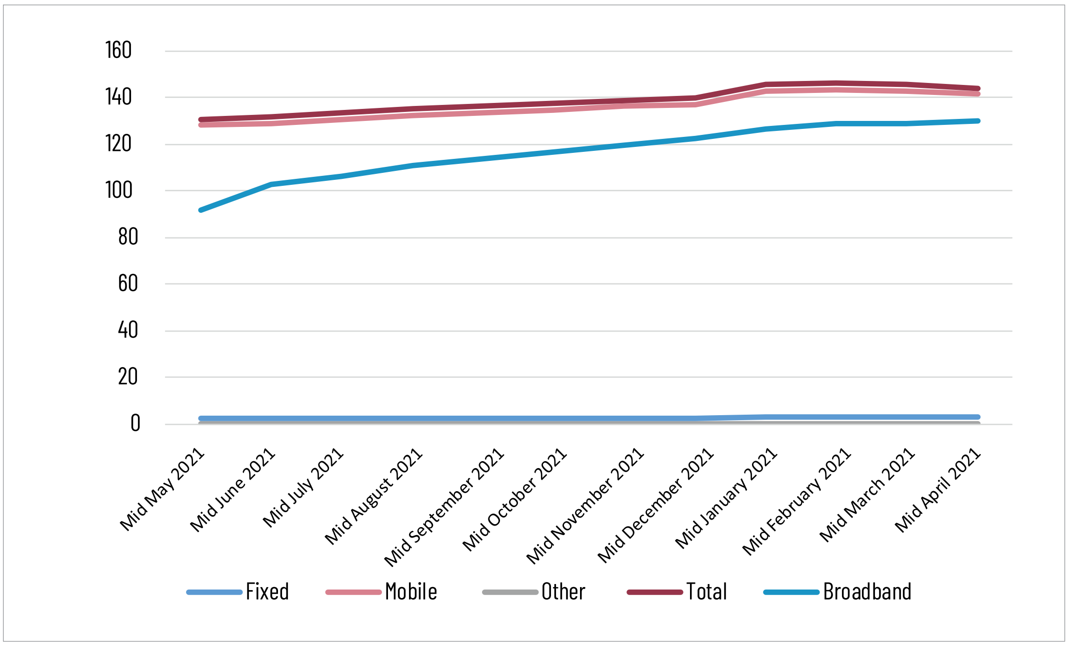


Figure 16 Market Share of Telephone Operators

Source: *NTA MIS Report Baisakh 2079 (mid-April to mid-May 2022)*

Figure 17 Growth Trend of Voice and Data Services



Source: *NTA MIS Report Baisakh 2079 (mid-April to mid-May 2022)*

NTA to Expedite Broadband Internet Service Expansion

The Nepal Telecommunications Authority (NTA) is accelerating its project to provide broadband internet service to areas in 74 districts through the Rural Telecommunications Development Fund (RTDF).[244] Eight projects have completed the monitoring and verification process. Furthermore, 1,314 kilometres of optical fibre have been laid in Province 1, Madhesh Province, and Bagmati Province to link the Mid-Hill Highway and the district headquarters. After the installation of broadband internet service, the NTA will provide internet tariffs to the worst affected eight districts from the Gorkha Earthquake for up to two years.

NTC to Carry out 5G Testing

Nepal Telecom (NTC) will soon be receiving 5G equipment from Zhongxing Telecommunications Equipment (ZTE) and Huawei.[245] The testing will be carried out in the first month of the delivery. The testing will follow the Master Action Plan set by the NTA and be carried out in both urban and rural areas to reduce the digital divide between the two settings. The trial will operate from a band of 2500 MHz-2560 MHz, commonly known as a mid-band which will deliver a good mix of speed and coverage.

NTA to Merge ISPs for a Better Internet Market

Out of the 138 licensed Internet Service Providers (ISPs) that operate across Nepal, many businesses struggle to reach a mere 20,000 clients.[246] This has led to an unhealthy internet service market. To resolve this issue, the NTA plans to limit the number of service providers and establish a merger among them. An ISP Merger and Acquisition (M&A) policy is being prepared by the regulator, which is included in the NTA's plans for the FY 2079/80. The regulator has set aside a budget of NPR 1.7 billion (USD 13 million) for the next FY.

Fibre Internet Users Reaches 1.9 million

According to the latest NTA report, there are around 1.9 million people who utilize fibre-optic internet in Nepal.[247] The number of customers using unique fibre broadband has increased by 95,409 in a single month. WorldLink continues to dominate the ISP market by serving over 600,000 customers. Government-backed telecom Nepal Telecom (NTC) is also making waves from its fibre internet service NT Fiber with 4503 new customers. After making its debut in the fibre internet market in 2020, Dish Home has gained 10,012 customers.

New Policy Bans Refurbished Routers

A new standardization policy that bars Internet Service Providers (ISPs) from repairing wireless routers and selling them has been approved by the NTA.[248] This policy has been implemented in response to complaints of old routers being exported to Nepal. To ensure quality and high-quality standards, the NTA will provide type clearance for routers before they are imported. According to the authorities, one of the primary causes of poor internet quality is low-quality or duplicate equipment. The NTA has also allowed customers to continue using the same wireless router for different ISPs to reduce costs and easily switch services.

Nepal to Launch Digital Currency

The Nepal Rastra Bank (NRB) has drafted an amendment bill for the Nepal Rastra Bank Act 2022 to allow the central bank to develop a digital version of the Nepali currency.[250] The bank had released an announcement in the Monetary Policy 2021/22 regarding the study of a Central Bank Digital Currency (CBDC) in Nepal. The task force that led this study concluded that the project is feasible. The NRB plans to use a separate digital wallet for digital banking transactions. Instead of making a huge leap in CBDC development at once, Nepal plans to create the proper infrastructures required and strengthen cybersecurity.

Foreign Enterprises' Digital Services to be Taxed

The Digital Service Tax issued by the Inland Revenue Department under the Ministry of Finance was implemented on July 17, 2022.[249] Non-residents providing digital services such as video, music, gaming, app downloads and other services will be levied a 2% digital service tax if yearly turnovers exceed NPR 2 million (USD 15,861). The services will also be required to pay a 13% VAT, annually. A fee of 15% will be charged if the digital tax is not paid within three months of the end of the fiscal year. Taxpayers following this policy will be exempt from paying taxes under the Income Tax Act 2002.

Underground Cable Plans Raise Concerns for ISPs

The Nepal Electricity Authority (NEA) is investing NPR 15 billion (USD 119 million) to move aerial cables and wires underground within a year.[251] This measure has been taken to reduce overcrowding of electric cables as well as due to safety and defacing concerns. However, this could cause problems for Internet Service Providers (ISPs) as they depend on utility poles to provide their services. Instead, ISPs have been requested to start using the three fibre ducts that have been installed on underground distribution lines.

OUTLOOK

Numerous projects have been introduced for the development of the ICT sector in the review period. The provision of broadband internet comes as a pleasant change as it will reduce the digital divide between rural and urban areas of Nepal and encourage remote development. Furthermore, establishing a 5G network will allow better performance, improved capacity, lower data latency and reduce the congestion we experience on 4G networks. Taxing foreign digital services will provide more income for Nepal, but they might be banned if they do not agree to be registered under the new tax system. Before establishing a digital currency, it is important to observe neighbouring countries China and India first, as well as strengthen cyber security measures.

Education

The review period was marked by the budget announcement for the FY 2022/23 by all levels of the government, of which NPR 196.4 billion (USD 1.56 billion) has been allocated to the education sector. The major focus has been given to improving the quality of education by expanding the concept of model schools at each local level. A considerable portion of the budget has been allocated for educational infrastructure development to improve access to education. However, studies show that Nepali children have fallen behind in learning outcomes, as evident by the Secondary Education Examination result whose long-term adverse impact on the economy is higher for Nepal as compared to other South Asian counterparts. Based on these findings, all level of government has taken various initiatives such as scholarship programs, digital learning, and insurance programs to lure children back to school. However, with the continued shortage of reading material and the two-day holiday policy still being implemented in the public institutions, students in public institutions continue to lag as compared to their private counterparts.

Factsheet

Particulars	Amount/ Percentage
The total budget allocated to the Education sector for FY 2022/23	NPR 196.4 billion (USD 1.56 billion) [252]
Share of budget for the education sector for FY 2022/23	10.15% [253]
Number of Schools	35,674 [254]
Number of Community School	28,941[255]
Number of Private School	6,733[256]
Expansion of access to technical education	655 districts [257]
Community School with internet access	51.25% [258]

POLICIES AND PROGRAMS

The budget for Education in FY 2079/80 (FY 2022/23)

Government of Nepal

The total budget for FY 2022/23 has been allocated as NPR 196.4 billion (USD 1.56 billion). Out of this, NPR 70.05 billion (USD) has been allocated to the education sector i.e., the Ministry of Education, Science and Technology (MoEST) and NPR 5.32 billion (USD) as well as NPR 121.01 billion (USD) have been transferred to provinces and local levels, respectively. Along with this, the Government of Nepal (GoN) has also targeted to promote the "Education with Skill Program" to promote 'education with skill, skill with labour, labour with employment, employment with production, and production with the market' campaign. Further, a budget of NPR 8.88 billion (USD 72.7 million) has been allocated to upgrade 1200 schools under the "Presidential Education Improvement Program". The school lunch program has also been extended to Class 6 and will be gradually extended to Class 8.

Likewise, the Council of Technical Education and Vocational Training (CTEVT) will be restructured and separated into two bodies and a budget of NPR 8.30 billion (USD 65.83 million) has been allocated for the same. To make research more effective, a research and development coordination committee will also be established to coordinate and collaborate on research and innovation among various agencies. [259]

Kathmandu Metropolitan City

In the budget for FY 2022/23, Kathmandu Metropolitan City (KMC) has allocated a total amount of NPR 700 million (USD 5.55 million) for the education sector. This allocation indicates a threefold increase as compared to the allocation of NPR 220 million (USD 1.74 million) in the FY 2021/22. The metropolis has introduced various programs to improve the quality of infrastructure and learning in schools. Other major policies include imparting skill-based education to students enrolled in Classes 11 and 12 once a week, provisioning locker facilities in school, improving toilets, and digitalization of education. The government announced to expand the meal program to Class 6, which currently is served until Class 5. The budget will increase the amount allocated per student per meal from NPR 15 (USD 0.12) to NPR 25 (USD 0.20) in the upcoming FY 2022/23. [260]

Bagmati Province

Bagmati province has allocated a budget of NPR 1.6 billion (USD 12.69 million) for the education sector for FY 2022/23. With this, many specific programs and plans have been introduced as well. A fund amounting to NPR 550 million (USD 4.36 million) has been allocated to equip 100 primary level and 200 secondary level communities with Information Technology (IT) infrastructure. The government has allocated a budget of NPR 50 million (USD 396,542) to provide scholarships to students from marginalized communities studying in Classes 11 and 12.

Likewise, a budget of NPR 463 million (USD 3.67 million) has been allocated to particularly enhance the infrastructure of schools in the province. A budget of NPR 70 million (USD 555,159) has been allocated to upgrade five schools to fully residential schools to improve access to education for children living in remote regions of the province. An amount of NPR 65 million (USD 515,504) has also been allocated to provide digital learning materials to students and NPR 100 million (USD 793,084) has been allocated to two schools at each local level to a model school. The province has also underscored the importance of digitization and innovation in the educational arena and considering this, a Provincial Science and Technology University will be established to promote scientific research and innovation. This university has been allocated NPR 50 million (USD 396,542). Financial assistance will be provided to community schools holding classes on agriculture and animal husbandry. [261]

Madhesh Province

The Government of Madhesh Province has allocated NPR 1.02 billion (USD 8.09 million) for education sector development for FY 2022/23. The government will resume the 'daughter education insurance scheme', under its flagship campaign 'Chief Minister Beti Padhau, Beti Bachau (Educate Girl, Save Girl)'. A sum of NPR 100 million (USD 793,084) has been allocated for the establishment of Madhesh University. A Model school in each district will be established for which NPR 260 million (USD 2.06 million) has been allocated. [262]

Province 1

The sum of NPR 1.52 billion (USD 12.05 million) has been allocated for the education sector. The government announced the 'Chief Minister Education Improvement Program', to improve the quality of education in primary schools within the province, for which NPR 96.5 million (USD 765,326) has been allocated. The government plans to set up at least one science laboratory in one school in each district. [263]

Gandaki Province

The provincial government has allocated a budget of NPR 1.67 billion (USD 13.24 million) has been allocated for education sector development. A sum of NPR 240 million (USD 1.90 million) has been allocated for upgrading the infrastructure of Gandaki University. Intending to convert one school to a model school in each district, the government has allocated NPR 24 million (USD 190,340).[264]

Karnali Province

The provincial government has allocated NPR 872.24 million (USD 6.92 million) for the development of the education sector. To ensure the presence of at least one public school at each local level, the government has allocated a budget of NPR 336 million (USD 2.66 million). [265]

Lumbini Province

The Government of Lumbini has allocated a budget of NPR 2.22 billion (USD 17.61 million) to support and develop the education sector in the province. A sum of NPR 700 million (USD 5.55 million) has been allocated for the 'Chief Minister Education Improvement Program', which aims to improve the quality of education in schools. The scholarship will be provided to students from marginalized communities by the provincial government, for which NPR 380 million (USD 3.01 million) has been allocated.[266]

Sudurpashchim Province

The Government of Sudurpashchim has allocated NPR 4.05 billion (USD 32.12 million) for the education sector, which is the highest among all provinces. The government will launch 'Educate Children: To gain self-reliance', to promote the quality of human capital in the province. One model school will be established at each local level and NPR 630 million (USD 49.96 million) has been allocated to give scholarships to school students from marginalized communities. [267]

POLICIES AND PROGRAM

School Education Sector Plan

The Ministry of Education, Science and Technology (MoEST) has brought a 10-year plan, called School Education Sector Plan (SESP), for school education reform to be implemented from FY 2022/23 with an allocated budget of NPR 953.43 billion (USD 7.56 billion) that has to be spent in the first five years of its implementation.[268] The Asian Development Bank (ADB) has extended a result-based concessional loan worth USD 200 million (NPR 25.21 billion) to support SESP. SESP is the successor of the School Sector Development Plan which was implemented between 2016 to 2021. Some of the objectives of SESP:

i. equitable access for all.

ii. quality and relevance of education.

iii. lifelong education for all citizens; and

iv. good governance and management.

According to ADB, the program will help contribute to the achievement of Sustainable Development Goals (SDGs) 4, 5, and 10, namely – Quality Education, Gender Equality, and Reduced Inequalities, respectively.[269] Such programs ensure that plans are being formulated at the local levels which have the potential to transform the education sector from the bottom-up, however credible implementation is necessary.

Free Education for Unaccompanied Children

The Tamankhola Rural Municipality of Banglung district has announced to provide free education to helpless and orphaned children in the municipality. The municipality and the Children's Home Steering Committee under the federal government have jointly decided to provide food and accommodation to such children along with tuition fees up to Class 12. Currently, 16 children are availing the benefit and are residing at a children's home, which has been set up in ward number 3 of the rural municipality. The rural municipality initiated the program by allocating funds of NPR 200,000 (USD 1,586.17), which has now reached NPR 800,000 (USD 6,344.67) with the help of donor agencies. The program will also sponsor MBBS education for three students who score excellent marks in Class 12. The municipal chair and vice chair along with ward chairs have pledged to donate 5% of their salary, during their tenure, to support the initiative.[270]

Government Asked to Withdraw the Two-day Holiday

In a bid to reduce the usage of fuel amid deteriorating foreign exchange reserves, the Government of Nepal (GoN) declared Sunday a holiday in both public and private educational schools. The policy was implemented on May 16, 2022, but stakeholders from both private and public expressed their grievances. While private sector schools have been running classes on Sunday, public schools were forced to comply with the decision and shut down schools two days a week.

Considering the loss of learning due to the pandemic, the Community School Management Committee Federation of Nepal has urged GoN to revoke the provision of the two-days holiday. Citing that teachers in the community would struggle to complete the syllabus on time, the federation has been lobbying to withdraw the decision otherwise performance gap between private and public schools might widen. [271]

Medical Education Fees Hiked

Issuing a public notice on July 15, 2022, the Medical Education Commission revised the rate for the new intake of students. The rates have been effectively hiked by 3.6% and have been implemented from the beginning of the session starting mid-July 2022,[272] considering the inflation of the past few years. [273] In the new rates, a student pursuing the MBBS degree inside the Kathmandu Valley will have to pay NPR 4.16 million (USD 32,992), indicating an increase from NPR 4.02 million in the previous academic session 2021/22. Similarly, the fee for the MBBS study in the medical colleges operating outside the valley has been fixed at NPR 4.59 million (USD 36,402). The bachelor's in dental surgery (BDS) and BSC Nursing will now cost NPR 2.09 million (USD 16,575) and NPR 1.03 million (USD 8,216), respectively. The cost for a master's degree in education related to medical science will be between NPR 519,660 (USD 4,121) to NPR 2.381 million (USD 18,883).[274]

DIGITAL LEARNING

Hamro Patro Launches E-learning Platform

Hamro Patro, in collaboration with Deerwalk Sifal School, has launched its new digital learning platform called "Hamro Learning Center". The services can be accessed free of charge through the Hamro Patro app or website. The platform contains more than 2200 video lectures spanning from Classes 4 to 9.[275] The digital learning platform has been launched to bridge the gap between quality and accessible education in Nepal. The service will address the lack of access to schools in remote regions of the country while enhancing the learning outcome of the students by providing quality teaching. It will address the need of the deprived community which lacks the means and resources for quality education. Students can access lectures for various subjects according to different grades that are available on the platform. [276]

KEY DEVELOPMENTS

Shortage of Textbooks Halts Learning in Community School

The students in the community school, especially in remote regions of the country, has been facing an acute shortage of textbook since the beginning of the current academic session i.e., mid-May 2022. Janak Education Materials Center (JEMC), a government-owned company responsible for printing textbooks for Classes 4 to 12 is unable to print an adequate number of textbooks. The students in classes 5, 6, and 8 have experienced much of the impact of the shortage. Nepal's constitution and the Act Relating to Compulsory and free Education protect the right to education and access to reading material before the commencement of the academic session. The Ministry of Education, Science and Technology and JEMC in an explanation to the Parliamentary Committee on Education and Health explained the cause of the shortage by citing the lack of paper in the international market due to war in Ukraine and the diversion of resources to print ballot papers for the local election.[277]

Negative Consequences of School Closure

The recent Child and Family Tracker Survey carried out by UNICEF on April 20 shows that 50% of the guardians reported a decline in academic performance of their ward when the school switched to alternative methods of teaching-learning through various digital platforms. Highlighting the disparity in learning outcomes, the survey shows that children in Karnali province have fallen behind the most when compared to other provinces. The survey also suggests that children from public schools performed poorly as compared to their private school counterparts. The survey also raises the concern that children from low-income households were more likely to fall behind in learning.[278] A report by the Asian Development Bank highlights the adverse long-term impact of school closure on Nepal's Gross Domestic Product (GDP). Among countries in South Asia, the effect of school closure remains the highest for Nepal where GDP is forecasted to fall below potential by 0.48% in 2023, 1.4% in 2025, and 4.97% in 2030. [279]

CURRICULUM

New directive to teach social studies in Nepali

A new directive issued by Curriculum Development Center (CDC), before the beginning of the current academic session i.e., mid-May 2022, directed secondary-level schools, both public and private, to teach the subject of 'Social studies' in the Nepali language. Issuing a guideline, the CDC sought to assist teachers of Social Studies for smooth transition due to changes in language. The decision to teach social studies in Nepal has been taken following suggestions from experts and students and after observing the teaching practices of similar subjects in neighbouring countries. Although the intention of the decision is positive, many teachers and students are struggling with transition and, argue that it could have been implanted gradually instead of making an overnight decision to minimize the disruption in the learning process of students. [280]

EXAMINATION

SEE result

The Secondary Education Examination (SEE) for 2022 was held from April 23 to May 3, 2022, physically after a halt from the last two consecutive years (2020 and 2021). According to the Examination controller of the NEB, a total of 514,977 students appeared for the exam out of which 50.08% were male and 49.94% were female.[281] The results for the same were published by the National Education Board (NEB) on July 28, 2022. However, the results remained sub-optimal as compared to the result in 2019, the last time when SEE was conducted physically.

In 2019, 3.83% of the total examinees had scored between 3.6 to 4.0 GPA. Contrastingly, only 1.94% of the students scored grades in this range. Similarly, in 2019, the number of examinees who had scored a GPA between 3.2 to 3.6 was 11.13% against only 8.4% in 2022. Additionally, the number of examinees achieving a GPA below 3.2 was more in 2022 than in 2019. The plummeting results are significant of the lower performance owing to the closure of educational institutions in the aftermath of pandemic-induced lockdown, thereby shifting learning to digital platforms.[282]

OUTLOOK

In the review period, various evidence has shown that Nepali children have fallen behind in learning outcomes due to pandemic-induced school closure. The SEE result has shown that students have suffered in terms of their learning performance due to two-year hiatus from physical learning. Students from public schools and lower-income communities have been disproportionally impacted due to the shift toward digital learning as the students from these backgrounds lack the necessary resources and infrastructure to adapt to digital learning. As a result, the loss of learning due to the pandemic is expected to adversely affect the long-term economic performance of Nepal as the quality of human capital might lag more than projected earlier. This can also widen the gap between students studying in public institutions as compared to their private counterparts, resulting in poor development and hence lower earning capacity.

Such a situation requires special attention to cover the learning gap and reduce the widening gap between public and private sector educational institutions. In light of such performance, policy for proper school management, enhancing skills and competency of teachers as per the new curriculum, availing adequate resources to students, and equipping soft skills through extra-curriculum activities could help in minimizing losses to human capital development of Nepal and therefore achieve resilient socio-economic development. All of this can be achieved by implementing the plans and policies designed for the education sector for the FY 2022/23 and ensuring its effective implementation.

Health

With the onset of monsoon, the review period witnessed the spread of several communicable diseases such as cholera, dengue, and kala-azar across the country. As Nepal prepares itself for a potential fourth wave of COVID-19, the administration of vaccines to children aged 5-11 years has commenced and booster doses are available. Owing to major global upheavals, the global supply chain has been subjected to pressure and disruptions which have adversely affected the supply of crucial medical equipment to Nepal.

Factsheet

FY 2021/22 up to March 2022	
Total fertility rate (Number per woman)	2.0 [283]
Infant Mortality rate (Per 1000 live birth)	25 [284]
Total Health Institutions	7598 [285]
Total Health Personnel	97,449 [286]
Total Hospital Beds	15,790 [287]

COVID-19 UPDATES

Fourth Wave of COVID-19 Strikes

The number of COVID-19 cases started to double every three to four days beginning mid-July 2022, likely caused by the BA.4 and BA.5 sub-variants of Omicron.[288] The 7-day average of new cases as of 9 August 2022 is 491 cases.[289] The BA.2.75 variant, a possible super contagious variant of Omicron, has been spreading rapidly in India. Although there have been no confirmed cases of BA.2.75 in Nepal, it is possible that this variant is already spreading in Nepal due to the open border with India. [290]

Over 4.5 million Paediatric Doses of COVID-19 Vaccine Received

Nepal has received two consignments, totalling 4.5 million doses of Pfizer vaccine from the COVAX facility.[291] This is a part of 9.2 million doses committed by the facility in the past quarter.[292] The first consignment of 2.2 million doses was received in June 2022[293] and the second consignment of 2.3 million doses was received in July 2022. With the arrival of these vaccines, the government started the administration of the first dose for children between 5 and 11-year-old on 23 June 2022.[294]

However, a shortage of syringes has resulted in over 60,000 children not receiving their first dose, while the administration of second doses has come to a halt.[295] The shortage of syringes is caused by a delay in the supply of syringes from the COVAX facility. The government has been working on transferring syringes from districts with surplus stocks to districts with syringe shortages. [296]

Cholera Outbreak in the Kathmandu Valley

At least 23 people in several places in the Kathmandu Valley and Makwanpur district have tested positive for Cholera.[297] The number of cases of Cholera is said to be understated as only 10% of infected people developed severe symptoms.[298] Following the outbreak, the Ministry of Health and Population (MoHP) is considering the launch of a vaccination drive to contain the spread. [299]

This outbreak is attributed to an increase in contaminated water due to heavy rainfall and delays in garbage collection.

A study conducted by the MoHP, on jar and tap water samples collected since June 2022 in the Kathmandu valley, found that nearly 70% were contaminated with E. coli and faecal coliform. [300]

Dengue Reported in 59 Districts Across Nepal

Cases of dengue have been reported in 59 districts, including the Kathmandu valley. At least 396 cases of dengue were reported across the country in July 2022 alone. Experts estimate that the official reported numbers are understated as up to 80% of dengue cases are asymptomatic. However, asymptomatic dengue patients can still transfer it to others. Despite the post-monsoon season being the highest transmission period for dengue, Nepal has witnessed the outbreak in both pre-and post-monsoon seasons.

Kala-azar Infection in Children Rises

The cases of Kala-azar or black fever are rising, especially in children under the age of 5. About 57 children under the age of five were infected with Kala-azar in 2021, whereas only 42 children in 2020 and 22 children in 2019 were infected.[301] A total of 257 new cases of Kala-azar were reported last year, and the number is expected to rise this year.[302] Nepal had committed to eliminating Kala-azar by 2023, but with the expected increase in the number of cases, this target is unlikely to be met. [303]

Kala-azar is transmitted through the bite of an infected female Phlebotomine sand fly, which previously could not survive in areas above 650 meters from sea level. However, as cases of Kala-azar have been seen in districts located at altitudes up to 2000 meters, it indicates that the sandflies are moving to a higher altitude as temperature rises from climate change. [304]

Regular Immunisation Missed by Children Under Age 2

At least 50,000 children under the age of two have missed their regular vaccine schedules during the pandemic. It is estimated that over 6,000 children under the age of 2 have not been inoculated at all. The regular immunisation programs were disrupted due to the COVID-19 pandemic and subsequent restrictions. The Department of Health Services is working on the launch of a special programme to inoculate children who missed their vaccines during the pandemic. [305]

Routine Heart Surgeries Disrupted by Oxygenators Shortage

The shortage of oxygenators, a medical device essential for heart surgeries, has halted routine heart surgeries in major public hospitals in the country. Shahid Gangalal National Heart Center, a major hospital for cardiac treatment, has postponed the surgeries of 45 patients due to the shortage. The suppliers of major public hospitals have been unable to supply oxygenators due to a surge in global demand, but deliveries are expected to be complete in less than a month. While the private hospitals in the country have not faced such a shortage, these hospitals are expensive for much of the Nepali population. [306]

Hospitals Closing Health Insurance Programs

Major hospitals in the country – namely Tribhuvan University Teaching Hospital, B&C Medical College, and Nobel Medical College are closing the government's health insurance program. This decision comes amidst the Health Insurance Board failing to clear the dues for treatment provided via health insurance. The Health Insurance Board owes NPR 450 million (USD 3.56 million) to B&C Hospital and NPR 543 million (USD 4.3 million) to Nobel Medical College. B&C Hospital has been unable to pay salaries to their staff and run their medical college due to the amount owed. The Health Insurance Board claims to have been providing the amount owed to hospitals whose documents have been verified. [307]

Meanwhile, the budget for the fiscal year 2022/23 has announced that health insurance programs will only be operated by community and government hospitals. This decision was taken because the private hospitals under the health insurance program began asking for a hefty compensation. [308]

Budget Allocates NPR 69.38 billion to the Health Sector

The budget for the fiscal year 2022/23 has allocated NPR 69.38 billion (USD 550.24 million) to the health sector, representing a decrease of NPR 52 billion (USD 412.4 million) from the previous year.[309] Of this, NPR 1.5 billion (USD 11.89 million) has been allocated to provide a monthly stipend of NPR 5000 (USD 39.65) to people undergoing kidney transplantation and dialysis, all types of cancer patients and patients with spinal paralysis.[310] The budget has provisioned for nutrition expenses of NPR 5000 (USD 39.65) to postnatal mothers in 25 districts that fall behind on the Human Development Index (HDI).[311] NPR 500 million (USD 3.96 million) has also been allocated to purchase a PET scan and cyclotron machine required for the diagnosis and treatment of cancer. [312]

Import of Medicine Increases

In the fiscal year 2021/22, Nepal imported medicines worth NPR 76.09 billion (USD 603.45 million), representing a 90.3% increase from the previous fiscal year.[313] Medicines have accounted for 4% of the total imports in the fiscal year 2021/22, compared to only.[314]

OUTLOOK

The triple threat of COVID-19, dengue, and cholera could potentially strain Nepal's hospitals and medical personnel. The contaminated drinking water which caused the cholera outbreak could further lead to outbreaks of dysentery, typhoid, hepatitis A and E as well. Cases of dengue might further increase as the country approaches post-monsoon season. Furthermore, the withdrawal of major hospitals from health insurance programs might lead to other hospitals leaving as well, further reducing the subscription of people to the insurance program. This will increase the inequality in medical care and lead to a further rise in both communicable and non-communicable diseases in Nepal. The disruption in regular immunisation for children under the age of 2 could increase the risk of infection and potentially increase the child mortality rate.

Tourism

The tourism industry of Nepal has seen significant growth in tourist arrivals in comparison to 2021. The revenue growth from the increased tourist arrival has been significant in the past months. The government is making concerted efforts to overturn the impacts of COVID-19 on the industry by introducing new plans and policies. At the federal level, the Visit Nepal Decade 2023-2033, which is a 74-point action plan and the Gandaki Tourism Act, at a regional level are a few initiatives being undertaken. While these efforts are planned to promote tourism, some provisions witnessed in the tourism sector such as the hike in fuel prices of airlines and the ban on liquor imports have negatively affected the tourism sector.

Factsheet

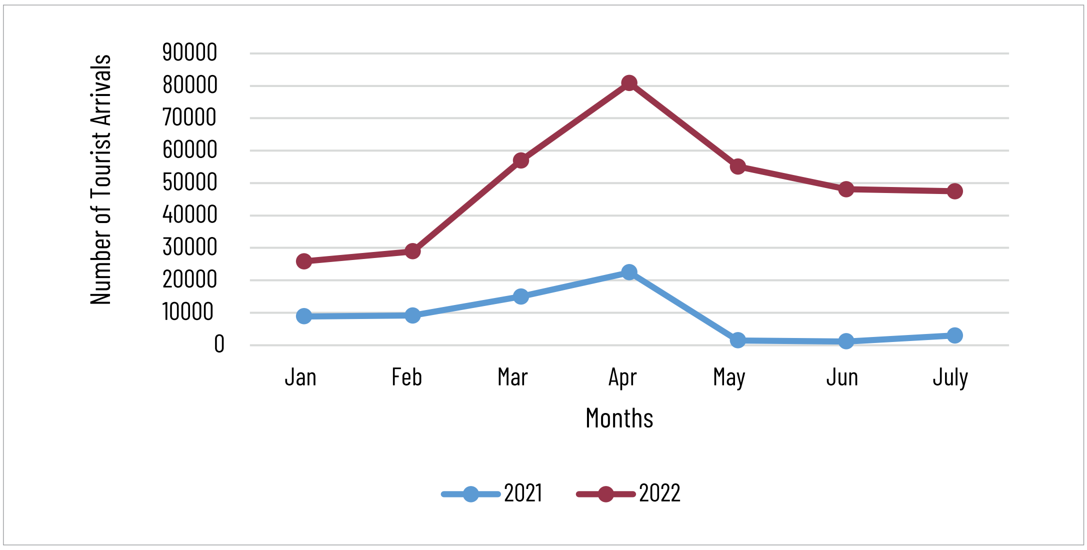
FY 2021/22 up to March 2022	
Contribution of tourism to GDP	3% [315]
Contribution to Employment	20% [316]
Tourist arrivals (till January 2022-July 2022)	282,122 [317]
Nepal's Asia-Travel-Ready Index Rank	9th [318]
Credit to tourism sector (July 2022 Provisional)	NPR 24.7 billion [319]
Security market turnover	NPR 7.5 billion [320]

TOURIST ARRIVALS AND REVENUES UPDATES

Arrivals Trend Increased by More Than 150%

After being disturbed by the COVID-19 pandemic, the Nepali tourism industry has finally shown much-needed growth in the first half of 2022. According to the Ministry of Tourism and Department of Immigration, around 237,696 foreign tourists visited Nepal in the first 6 months of 2022.[321] This data does not include tourists who have travelled through the land border. India, the United States, Bangladesh, the United Kingdom, and Australia have the highest number of tourist arrivals in Nepal. Tourist trends in the same months last year compared to this year shows an increase of more than 150%. Domestic tourism, which flourished throughout the COVID-19 days, has not slowed down at all and is contributing actively to reviving the industry.

Figure 18 Monthly data of foreign tourist arrivals in Nepal in 2021 and 2022



Source:

Current Macroeconomic and Financial Situation Tables Based on Annual Data

Record High Number of Domestic Tourists Visit Chitwan National Park, Yet Revenue Plunges

Domestic tourists have been flocking to Chitwan National Park after the cutback in COVID-19 restrictions, generating a record high number of tourists in FY 2021/22.[322] Out of 190,458 visitors, 155,671 of them were Nepali. Nevertheless, compared to the revenue of NPR 294 million (USD 1.9 billion) earned in FY 2019/20, the park only earned NPR 115 million (USD 0.91 million) in 2021/22. This is because the tax rates for foreign visitors are much higher than for domestic visitors. Now that international travel restrictions are slowly getting laxer, businesses plan to target more foreign travellers.

MARKET UPDATES

Credit to Tourism Sector

Tourism in Nepal is a capital-intensive industry that requires a significant amount of credit from the government. The Government of Nepal provides this credit through sector-wise outstanding credit to the tourism sector under headings such as trekking, mountaineering, resorts, rafting, camping and others.[323] At the end of FY 2020/21, there was a 6.1% decrease in credit for the tourism sector compared to July 2020. However, there was a 1.8% decrease at the end of FY 2021/22, a 4.3% increase compared to July 2021. This data is further explained in the table below.

Table 7 Changes in Credit to Tourism Sector during fiscal years 2020/21 and 2021/22

HEADING	CHANGES DURING FISCAL YEAR			
	2020/21		2021/22	
	Amount	Percent	Amount	Percent
Tourism (Trekking, Mountaineering, Resort, Rafting, Camping, etc.)	-1638.9	-6.1	-442.5	-1.8

Source: *Current Macroeconomic and Financial Situation Tables Based on Annual Data*

Securities Market Turnover of Tourism Sector

Securities market turnover is a measure of how much trading activity takes place within a specified amount of time to raise capital for markets that require it. Under Nepal's securities market, hotels and tourism sector companies are also traded. As such, the securities market turnover of the tourism sector refers to the number of shares or volume of shares traded in the securities market for these companies. In FY 2020/21, the total percentage share of hotels and tourism in the Nepal Stock Exchange (NEPSE) was 0.8% compared to 0.6% in FY 2021/22.[324]

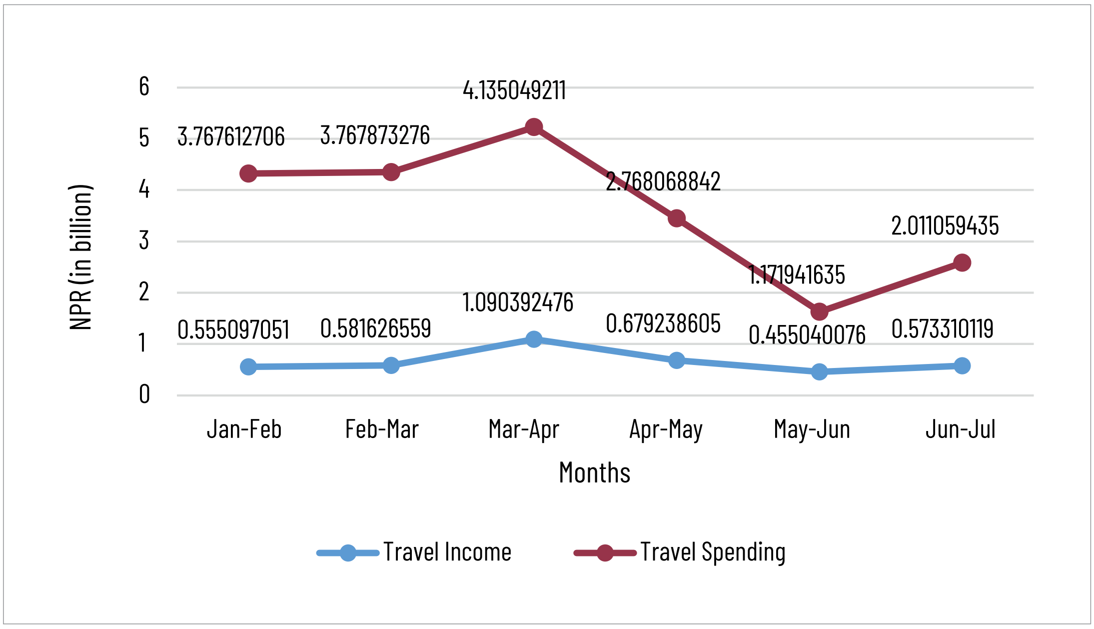


Figure 19 Comparison of travel income and travel spending in 2021

Source: *Current Macroeconomic and Financial Situation Tables Based on Annual Data*

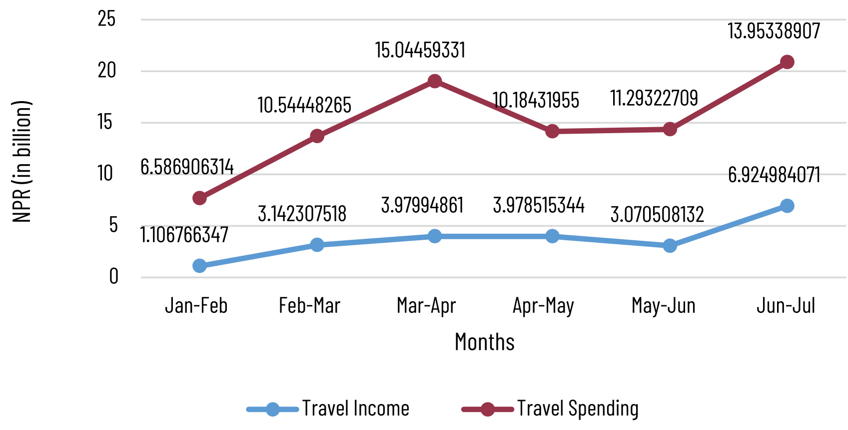


Figure 20
Comparison of travel income and travel spending in 2022

Source: *Current Macroeconomic and Financial Situation Tables Based on Annual Data*

Revenues Generated by Travel Income and Travel Spending

At the end of FY 2020/21, the total travel income was NPR 0.6 billion (USD 4.7 million) and travel spending was NPR 2 billion (USD 15.8 million) for Nepal.[325] The total travel income was NPR 6.9 billion (USD 54 million) at the end of FY 2021/22, a 1050% increase in comparison to 2020/21. Travel spending was NPR 14 billion (USD 111 million), a 2400% increase from the last fiscal year. As much as income increased in FY 2021/22, spending also increased by a large margin. With the subsivding imvpact of COVID-19, hotels and tourism is recovering slowly.

POLICIES AND REGULATIONS UPDATES

74-point Action Plan Unveiled by the Tourism Ministry

A 74-point action plan was introduced by the Ministry of Culture, Tourism and Civil Aviation on July 24, 2022, to revive the tourism industry in Nepal.[326] The plan includes building a multi-language foreign tourist support helpline within two months. Furthermore, airport shuttle bus services that take tourists from the airport to major attractions will be operational within three months. The plan along with an extensive list of actionable agendas will also provide taxi drivers with hospitality training and will be expected to wear designated uniforms. To attract foreign senior citizens to Nepal, the government is also planning to launch retirement visas that provide different packages for a comfortable stay in the country under the plan.

'Visit Nepal Decade' to be observed from 2023-2033

The Ministry of Culture, Tourism and Civil Aviation has set the years 2022-2023 as the 'Visit Nepal Decade' in their Tourism Revival Action Plan.[327] In place of this project, the Ministry will run the 'One Nepali One Foreign Friend Send Nepal Campaign' and 'Hop on Hop off City Bus' campaigns. Similarly, heritage walks will be conducted at night in Kathmandu, Patan, Bhaktapur and Kirtipur to promote night tourism within the next two years.

New Tourism Act in Gandaki Province

The Provincial Government for Gandaki Province has released a new 'Tourism Act' that has made it compulsory for foreigners to pay only in US dollars for any services or goods.[328] These transactions will be carried out through national banks. The prices of services for every hotel, lodge, restaurant, and resort must be submitted to the Ministry of Tourism of the province, following a prescribed format. The announcement of this act has caused an uproar amongst entrepreneurs as not all businesses are allowed to conduct business in dollars since they do not have a license. Additionally, electronic payments will be difficult to conduct in different currencies, which would be inconvenient for tourists.

TOURISM DESTINATION UPDATES

New Tourism Infrastructure added to the Mardi Trekking Route

The Mardi Mountain trekking route, from Pokhara Metropolis-5, Melbot to Astan of Machhapuchhre Rural Municipality, has seen developments in new tourism infrastructures.[329] Last year, the Gandaki Provincial Government set aside NPR 2.5 million (USD 19,827) to build these structures under the 'One Electoral Constituency, One Tourism Infrastructure' project. Various mountain trekking routes and parks were constructed along the area. Additionally, a 300-meter slate-placed path, 311-meter railing side wall, four waiting stands and ponds were also built. A committee has been formed for the construction of a hiking route connecting Melbot, Astan, Dhital, Dhampus and Mardi Mountain.

India's 'Bharat Gaurav' Trains to Pass Through Janakpur in Nepal

India has launched the 'Bharat Gaurav' train, which travels to major religious destinations related to the Ramayana.[330] This initiative, which has been inaugurated to promote domestic tourism in India will also promote tourism in Nepal. The train passes through Janakpur, Nepal via Jayanagar, where the tourists will visit the Janaki Temple, participate in Ganga Aarti, and visit Janakpurdham as a part of the trip. The first set of travellers arrived in Janakpur on 23 June 2022. Due to the success of the first run, the Indian Railway Catering and Tourism Corporation (IRCTC) announced a second trip on 24 August 2022.

NEW DEVELOPMENTS

Illegal Businesses Established by Chinese Traders Uncovered

With the number of Chinese tourists visiting Nepal increasing exponentially, Chinese businesses are attracted to invest in hotels and restaurants around the country. However, the statistics of these investments are not seen in Nepal's payment system.[331] Illegal business practices are carried out on tourist visas and through WeChat and Ali Pay, services which are banned in Nepal. Moreover, even though up to 4000 rooms were sold through Airbnb before the COVID-19 pandemic, however, none of the businesses were registered in Nepal. Domestic and foreign citizens use these platforms to evade taxes as they are not registered with any authority and do not take any tax liability.

Nepal's Airplane Fuel Hike Negatively Impacts Tourism

Nepal Oil Corporation announced a USD 100 (NPR 12,609) increase in Aviation Turbine Fuel (ATF) on June 17, 2022, raising the price per kilo litre to an all-high of USD 1,645 (NPR 200,000).[332] Due to the hike in costs, airlines will have to add the ATF costs to passenger tickets, which might deter foreigners from considering Nepal as a budget-friendly tourist destination. Since Nepal has finally started recovering from a slump in the number of tourist arrivals since COVID-19, this will negatively impact people working in the tourism service and hospitality sector. Some domestic airlines may have to halt operations in the country, while other international airlines might also have to terminate long-distance flights which refuel in Kathmandu.

Nepal's Hospitality Industry Affected by Liquor Import Ban

The ban on imported liquor, imposed by the Government of Nepal has been extended from July 16 till the end of August.[333] This decision has gathered disapproval from hoteliers as without the ban, prominent hotels can earn up to 15% of revenues in alcohol sales. These sales further increase during special events such as weddings. Tourism industry insiders shared that foreign tourists who come to Nepal mostly drink international alcohol brands. Since the ban has made the prices of imported liquor more expensive, tourists are less likely to buy them. According to hoteliers, meetings, incentives, conferences, and exhibitions (MICE) which consume large percentages of imported alcohol, will reduce in numbers.

Mycotourism Opportunities Bloom in the Everest Region

In the Everest Base Camp region, all tourist traffic is usually halted after the start of the monsoon season, from early June to early September. However, Nepali and American mycologists who visited the region in June 2022 have suggested that the Everest region could be a great source of ecotourism or mushroom tourism.[334] Once the snow begins to melt, the region becomes a haven for all kinds of exotic plants and fungi. 156 mushroom species were discovered during the June expedition in this area, with some never-before-seen species. The area has the potential to become a research hub for scientists as well as provide an opportunity for local people to farm mushrooms.

OUTLOOK

There has been an influx of international tourists in the review period, compared to 2021. As the festival season is approaching in the upcoming quarter, there might be a rise in these numbers due to an increase in domestic tourism. International arrivals will also see inflation as the tourism season in Nepal is about to begin. The introduction of the Gandaki Tourism Act could force businesses to carry out unofficial monetary transactions. Thus, monitoring foreign transactions would be difficult for the central bank. The import ban on alcohol might encourage people to purchase such products through smuggling and the production of illegal alternatives, which would put public health at risk. The government should be able to monitor such activities carefully.

4 Market Review

Financial Market

During the review period, the Balance of Payments (BoP) remained at a deficit. The central bank of the country, Nepal Rastra Bank, also introduced a contractionary monetary policy to ease the liquidity problem of the country and maintain external sector stability. During the review period, the fuel prices continued rising, with some fluctuations which further added to the inflation of the country. The net profit of commercial banks has been showing a significant upward trend. Both deposits from customers as well as loans and advances to customers of the commercial banks increased.

Factsheet[335]

Indicator	Data
CPI	8.08%
Gross foreign exchange reserves	USD 9.54 billion
Buying Exchange Rate (per USD)	NPR 127.51
Weighted Average 91-day Treasury Bills Rate	10.66%

FOURTH QUARTER PERFORMANCE ANALYSIS OF COMMERCIAL BANKS

As per the unaudited quarterly results of commercial banks of FY 2021/22, as shown in Table 8, the operating profit of commercial banks increased by 21.72%, while the net profit grew by 22.46%.

In the fourth quarter of the FY 2021/22, Rastriya Banijya Bank bagged the highest net profit of NPR 5.21 billion (USD 41.32 million), followed by Global IME Bank and Nabil Bank. Century Commercial Bank registered the lowest net profit of NPR 1.36 billion (USD 10.79 million). Civil Bank and Century Commercial Bank had a whopping increase of 147.54% and 80.96% in their net profits. When we look at reserves and surplus, Nabil Bank held the highest amount of reserves of NPR 26.38 billion (USD 209.22 million) followed by Nepal Bank and Rashtriya Banijya Bank with NPR 17.82 billion (USD 141.33 million) and NPR 15.51 billion (USD 123.01 million), respectively. 8 banks fared more than the reserves and surplus industry average of NPR 7.84 billion (USD 62.18 million). The deposits from customers saw an 11.50% rise compared to the corresponding period last year with the highest deposits being made at Nabil Bank, NIC Asia Bank and Global IME Bank with NPR 326.22 billion (USD 2.59 billion), NPR 289.90 billion (USD 2.30 billion) and NPR 277.49 billion (USD 2.21 billion), respectively. Standard Chartered Bank recorded the lowest deposits from customers with NPR 93.72 billion (USD 743.28 million). However, Nabil Bank had the highest increase in deposits at 45.98%. Nabil Bank holds the highest loan and advances portfolio of NPR 301.07 billion (USD 2.39 billion) followed by Global IME Bank and NIC Asia Bank at NPR 258.54 billion (USD 2.05 billion) and NPR 252.44 billion (USD 2 billion), respectively. Standard Chartered Bank had the lowest credit disbursement of NPR 76.17 billion (USD 604.09 million).

Also, during the review period, average Non-Performing Loans (NPL) stood at 1.15% as compared to 1.35% in the same period the previous year. Furthermore, the average cost of funds was 7.26% against 4.90% in the corresponding period the previous year. Similarly, the average base rate stood at 9.43% during the review period, the highest being 10.57% for Kumari Bank followed by Civil Bank at 10.46%.

KEY INDICATORS[336]

Some of the key macroeconomic indicators as per the macroeconomic and financial situation report based on the annual data of the FY 2021/22 published by the Nepal Rastra Bank (NRB) are highlighted below:

Deposit and Credit Mobilization

The deposits at Banks and Financial Institutions (BFIs) increased by 9%, as compared to an increase of 21.4% in the corresponding period of the previous year. Of total deposits, the share of demand, saving and fixed deposits stood at 8.9%, 27.6% and 55.8%, respectively. As of mid-July 2022, the share of institutional deposits in the total deposit of BFIs stood at 38.3%, whereas last year it was 42.7% in the same period.

Similarly, private sector credit from BFIs increased 13.1% compared to a growth of 27.3% in the previous year. Private sector credit from commercial banks, development banks and finance companies increased by 12.7%, 13.9% and 29.8%.

Loans of BFIs to the agriculture sector increased by 19.7%, the industrial production sector by 8%, the transportation, communication, and public sectors by 15.7%, the wholesale and retail sector by 13.3%, and the service industry sector by 8.7%, respectively.

In terms of credit exposure, the term loan extended by BFIs increased by 28.4%, overdraft loans increased by 13.3% and demand and working capital loans increased by 15.2%. Additionally, real estate loan, which includes residential personal loans, increased by 17.5%, while the trust receipt (import) loan decreased by 61.9% and margin nature loans decreased by 42.3%.

Liquidity Management

In the review year, the central bank i.e., Nepal Rastra Bank (NRB) mopped up NPR 60 billion (USD 475.85 million) liquidity of which NPR 28.35 billion (USD 224.84 million) was through reverse repo auction and NPR 31.65 billion (USD 251.01 million) through deposit collection. In the previous year, it was NPR 303.29 billion (USD 2.41 billion) liquidity.

Additionally, NRB injected liquidity of 355.57 billion (USD 2.82 billion) through the net purchase of USD 2.91 billion (USD 23.08 million) from the foreign exchange market. Liquidity of NPR 425.94 billion (USD 2.28 billion) was injected through the net purchase of USD 3.60 billion (USD 28.55 million) in the previous year.

Foreign Exchange Reserves and Adequacy

In the review period, the gross foreign exchange reserve stood at NPR 1215.80 billion (USD 9.64 billion), decreasing by 13.1% in mid-July 2022 from NPR 1399.03 (USD 11.09 billion) in mid-July 2021. Of the total foreign exchange reserves, reserves held by NRB fell by 15.1% to NPR 1056.39 billion (USD 8.38 billion) in mid-July 2022 from NPR 1244.63 billion (USD 9.87 billion) in mid-July 2021. Reserves held by BFIs other than NRB increased by 3.2% to NPR 159.41 billion (USD 1.26 billion) in mid-July 2022 from NPR 154.39 billion (USD 1.22 billion) in mid-July 2021. The Indian currency's share in total reserves stood at 23.6% in mid-July 2022.

Based on imports of FY 2021/22, the foreign exchange holdings of the banking sector are sufficient to cover the imports of prospective merchandise for 7.8 months, and merchandise and service imports for 6.9 months. The ratio of reserves-to-GDP, reserve-to-imports and reserve-to-M2 stood at 25.1%, 57.8% and 22.1% respectively in mid-July 2022.

Federal Government Expenditure and Revenue

In the review period, the total expenditure of the federal government was NPR 1296.24 billion (USD 10.28 billion) while the revenue collection stood at NPR 1067.96 billion (USD 8.79 billion).

Money Supply

In the review period, broad money (M2) increased 6.8%, compared to a 21.8% growth in the same period last year.

Interest Rates

The weighted average 91-day treasury bill rate remained at 10.66% in mid-July 2022, as against 4.55% a year ago. Furthermore, in mid-July 2022, the weighted average inter-bank transaction rate among commercial banks stood at 6.99% as against 4.12% a year ago. The average inter-bank rate of BFIs, which is considered the operating target of the monetary policy, stood at 7.01% in the review month.

Furthermore, the average base rate of commercial banks stood at 9.54% in the review month from 6.86% a year

Table 8 Fourth Quarter Performance Analysis of Commercial Banks (in 000)

Bank	Paid-up Capital	Reserve & Surplus	Deposit			Loans and Advances			Operating Profit			Net Profit			NPL (%)		Cost of Fund (LCY)			Base Rate (%)
			FY 21/22	FY 20/21	% Change	FY 21/22	FY 20/21	% Change	FY 21/22	FY 20/21	% Change	FY 21/22	FY 20/21	% Change	FY 21/22	FY 20/21	FY 21/22	FY 20/21	% Change	FY 21/22
			4th QTR	4th QTR		4th QTR	4th QTR		4th QTR	4th QTR		4th QTR	4th QTR		4th QTR	4th QTR	4th QTR	4th QTR		4th QTR
Nabil Bank	22,832,909.00	26,379,186.00	326,222,310.00	223,478,087.00	45.98	301,073,089.00	198,107,369.00	51.97	7,096,341.00	6,435,173.00	10.27	4,972,756.00	4,504,437.00	10.40	1.54	0.78	7.17	4.41	2.76	8.77
Nepal Investment Bank	18,307,541.00	14,678,011.00	184,791,072.00	174,557,704.00	5.86	157,469,744.00	156,891,806.00	0.37	6,727,600.00	5,255,187.00	28.02	4,086,382.00	3,651,496.00	11.91	1.47	2.46	7.06	4.04	3.02	8.54
Standard Chartered Bank	9,429,454.00	5,763,701.00	93,721,916.00	87,564,220.00	7.03	79,173,991.00	62,405,253.00	26.87	3,251,138.00	2,031,507.00	60.04	2,269,855.00	1,401,244.00	61.99	0.59	0.96	6.21	3.06	3.15	8.81
Himalayan Bank	12,968,725.73	6,468,767.56	168,419,486.69	141,021,074.86	19.43	147,993,952.58	126,029,781.86	17.43	3,540,570.54	4,307,757.51	(17.81)	2,482,136.50	2,998,000.88	(17.21)	0.77	0.48	8.00	4.61	3.39	9.88
Nepal SBI Bank	9,825,853.11	5,836,919.84	119,710,205.43	106,238,466.85	12.68	105,272,526.89	96,830,602.62	8.72	2,365,108.71	1,357,244.46	74.26	1,638,284.34	960,961.38	70.48	0.15	0.23	6.12	5.27	0.85	9.61
Everest Bank	9,467,340.00	9,092,936.00	172,739,185.00	160,220,257.00	7.81	145,474,070.00	127,681,524.00	13.94	3,639,657.00	2,616,866.00	39.08	2,546,059.00	1,828,276.00	39.26	0.24	0.12	7.31	4.48	2.83	8.82
Bank of Kathmandu	10,623,994.07	5,897,061.35	109,443,441.22	103,413,488.79	5.83	102,511,149.58	93,581,210.38	9.54	2,534,368.42	2,255,811.40	12.35	1,810,276.51	1,535,972.84	17.86	1.18	1.67	7.67	5.10	2.57	9.83
NCC Bank	11,139,678.01	3,849,622.47	134,576,014.97	106,667,152.59	26.16	121,190,450.42	94,537,650.73	28.19	2,672,129.06	1,872,373.96	42.71	2,022,222.77	1,271,233.90	59.08	1.93	1.78	7.40	5.62	1.78	9.20
NIC Asia Bank	11,564,005.37	9,743,645.45	89,903,959.72	286,820,615.21	1.08	252,443,497.54	248,811,415.26	1.46	6,409,941.85	4,798,892.25	33.57	4,525,422.36	3,251,084.15	39.20	0.49	0.46	7.39	5.30	2.09	9.25
Machhapuchchhre Bank	10,257,155.58	3,324,649.48	145,026,049.85	131,617,964.62	10.19	128,562,254.56	113,571,049.31	13.20	3,130,040.87	,474,260.29	26.50	2,160,900.26	1,630,681.64	32.52	0.84	0.62	7.75	5.29	2.46	9.86
Kumari Bank	"14,711,183.33	4,612,273.69	176,767,665.56	148,694,070.81	18.88	153,369,812.60	137,998,572.21	11.14	3,988,158.21	2,852,093.57	39.83	2,835,234.06	2,001,145.46	41.68	0.96	1.08	7.76	5.55	2.21	10.57
Laxmi Bank	11,551,345.00	4,253,804.00	137,147,381.00	114,603,117.00	19.67	128,001,269.00	106,014,805.00	20.74	2,284,685.00	2,179,774.00	4.81	1,603,571.00	1,541,394.00	4.03	0.89	1.21	7.62	4.61	3.01	"9.99
Siddhartha Bank	12,524,426.84	7,784,236.05	191,550,643.58	180,924,009.32	5.87	178,754,322.78	158,541,874.11	12.75	4,715,042.69	4,135,932.19	14.00	3,219,741.45	2,836,114.15	13.53	1.03	1.16	7.55	4.98	2.57	9.45
Global IME Bank	23,795,753.00	10,153,075.00	277,492,013.00	268,433,792.00	3.37	258,544,423.00	228,893,978.00	12.95	7,560,151.00	5,862,071.00	28.97	5,206,455.00	4,126,512.00	26.17	1.22	1.42	7.48	4.66	2.82	9.40
Citizens Bank International	14,200,974.01	4,849,239.12	152,798,097.39	140,638,411.48	8.65	131,612,478.51	118,570,877.68	11.00	3,067,674.51	2,153,523.79	42.45	2,251,171.13	1,598,793.47	40.80	1.87	2.77	8.17	5.85	2.32	10.09
Prime Commercial Bank	18,656,322.80	6,506,955.39	160,203,350.80	154,149,965.45	3.93	148,166,954.68	135,376,649.72	9.45	5,236,956.85	4,699,215.69	11.44	3,681,232.02	3,254,777.42	13.10	1.40	1.19	8.31	5.74	2.57	9.99
Sunrise Bank	10,118,892.81	5,143,398.74	131,606,256.88	106,432,370.62	23.65	120,149,289.06	100,493,435.41	19.56	2,730,981.54	2,310,409.56	18.20	2,150,944.81	1,502,990.35	43.11	1.40	1.38	7.92	4.69	3.23	10.01
NMB Bank	18,366,706.00	6,448,565.00	184,829,048.00	164,408,149.00	12.42	175,788,057.00	150,998,435.00	16.42	5,212,942.00	3,834,126.00	35.96	3,701,317.00	2,730,593.00	35.55	1.33	2.27	5.86	5.79	0.07	9.38
Prabhu Bank	12,708,704.00	5,557,706.00	178,652,171.00	164,832,154.00	8.38	145,961,916.00	135,171,207.00	7.98	3,846,250.00	2,963,215.00	29.80	2,600,397.00	2,011,653.00	29.27	1.20	1.68	6.44	4.70	1.74	9.24
Mega Bank	16,120,461.45	5,010,015.41	153,482,277.36	136,893,588.41	12.12	147,781,345.86	137,318,905.02	7.62	4,137,996.41	3,270,318.86	26.53	2,831,864.38	2,302,586.29	22.99	0.74	1.26	7.58	5.27	2.31	10.01
Civil Bank	9,075,844.00	1,936,886.00	94,490,971.00	88,634,877.00	6.61	83,440,120.00	79,060,602.00	5.54	2,113,271.00	901,979.00	134.29	1,384,685.00	559,368.00	147.54	1.08	1.05	7.59	6.46	1.13	10.46
Century Commercial Bank	9,553,909.00	1,728,644.00	98,959,807.00	93,496,628.00	5.84	88,855,001.00	78,096,792.00	13.78	1,950,144.00	1,034,545.00	88.50	1,357,231.00	750,037.00	80.96	1.59	1.95	7.91	5.66	2.25	10.23
Sanima Bank	11,327,377.33	4,308,110.04	157,518,535.24	128,425,867.18	22.65	137,161,371.31	118,988,337.17	15.27	3,252,584.53	3,248,722.42	0.12	2,292,909.33	2,276,494.43	0.72	0.35	0.16	7.63	4.75	2.88	9.71
Public Sector Banks																				
Nepal Bank	14,405,904.83	17,816,719.88	196,063,952.13	162,743,229.01	20.47	171,797,577.76	134,536,142.76	27.70	4,111,011.17	4,493,424.15	(8.51)	3,266,085.02	3,065,457.70	6.54	1.90	2.10	5.94	3.56	2.38	7.99
Rastriya Banijya Bank	14,940,359.10	15,510,545.73	259,383,267.06	264,077,133.68	(1.78)	212,049,558.98	178,572,151.98	18.75	7,018,497.26	5,098,101.83	37.67	5,214,248.56	3,795,477.83	37.38	2.00	3.07	6.01	3.24	2.77	7.86
Agriculture Dev. Bank	18,620,627.76	11,222,003.14	166,496,965.81	162,677,269.94	2.35	178,514,788.74	152,862,504.95	16.78	4,118,166.38	5,226,703.83	(21.21)	2,690,057.78	3,694,470.14	(27.19)	1.68	1.84	6.89	4.70	2.19	8.90
Total	42,384,263.80	03,876,677.34	4,461,996,043.69	4,001,663,663.82	11.50	4,001,113,011.85	3,469,942,932.17	15.31	106,711,408.00	87,669,228.76	21.72	4,801,439.28	61,081,252.03	22.46	1.15	1.35	7.26	4.90	2.36	9.43

ago. Weighted average deposit rate and lending rate of commercial banks stood at 7.41% and 11.62%, respectively in mid-July 2021/22, as compared to 4.65% and 8.43% respectively a year ago in the same review period.

Balance of Payments

The current account registered a deficit of NPR 623.33 billion (USD 4.94 billion) in the review period, compared to a deficit of NPR 333.67 billion (USD 2.65 billion) last year in the corresponding period. The overall BOP remained at a deficit of NPR 255.26 billion (USD 2.02 billion), as compared to a surplus of NPR 1.23 billion (USD 9.75 million) in the previous year.

KEY DEVELOPMENTS

Some of the key developments that transpired in the financial market are as follows:

Monetary Policy announced for FY 2022/23[337]

Nepal Rastra Bank (NRB) has released a monetary policy for FY 2022/23 and has adopted a contractionary monetary policy. Some key provisions of the monetary policy are:

- The bank has reduced its private credit growth target to 12.6%, whereas it was 19% in the last fiscal year.
- The growth rate of the broad money supply has been reduced to 12%, whereas it was 18% in the previous monetary policy.
- The Cash Reserve Ratio (CRR) has increased from 3% to 4% of the total deposit base of a bank. Similarly, the Statutory Liquidity Ratio (SLR) has been increased to 12% for commercial banks and 10% for development banks and financial institutions.
- The bank rate and deposit collection rate have been increased to 8.5% and 5.5% respectively. Such rates were 7% and 4% in the previous fiscal year.
- BFIs extending credit up to NPR 20 million (USD 158 thousand) to the productive sector can charge a maximum of 2% above the base rate.
- To ease the pressure on CD (Credit-to-Deposit) ratio, the monetary policy has allowed bonds and debenture to be included as deposits while calculating the CD ratio.
- The counter-cyclical buffer, suspended during the onset of the pandemic to release extra loanable funds for lending will be reimposed starting next fiscal year.
- The single obliger, margin lending, which was limited to the 4/12 rule has been relaxed. Now margin lending limit has been changed to 12/12 i.e., any individual can avail of credit up to NPR 120 million (USD 952 thousand) from one or more financial institutions.
- The loan to value (LTV) ratio norms has been tightened to 30% for Kathmandu and 40% outside of Kathmandu, the LTV ratio was 40% and 50% in the previous fiscal year.

Steep Rise in Short-term Interest Rates[338]

After the central bank decided to increase the interest rate to control the price increase, the rate of treasury bills reached 14%. Moreover, the inter-bank interest rate increased from 7% to 8.45% after the monetary policy was released. Banks are facing liquidity shortages since the release of the monetary policy by NRB.

Banks' Deposits Surge by NPR 100 billion in Asadh[339]

Commercial banks' deposits have increased by NPR 100 billion (USD 793.08 million) in the first three weeks of Asadh (Mid-June to Mid-July). Deposits reached NPR 4.494 trillion (USD 35.64 billion) on July 8, up from NPR 4.394 trillion (USD 34.85 billion) on June 17. However, the credit flow of the banks declined by NPR 14 billion (USD 111.03 million) in the first three weeks of Asadh (Mid-June to Mid-July). Following the mandatory provision that all banks should reduce the CD ratio to 90% by mid-July, the banks have shown restraint in the flow of credit.

Banks Decide Not to Raise Interest Rates[340]

The Nepal Bankers Association (NBA) has decided not to raise interest rates until mid-October. Banks are offering interest rates of 11.03% per annum, on average, on fixed deposits of individuals, and interest rates of 9.03% per annum, on average, for institutional depositors.

EPF, CIT Raise Interest Rates on Savings and Credits[341]

Employees Provident Fund (EPF) and Citizen Investment Trust (CIT), state-owned public financial organizations, have raised their interest rates. EPF has increased the interest rates on deposits and lending by 1.5 % per annum. Savers in EPF will receive 8% interest, while borrowers on home loans, education loans, and house maintenance loans will be required to pay 9.75% in interest. Likewise, the CIT has raised the interest rate on its pension fund from 6.5% to 8% annually. The borrowers will be required to pay interest of 9.5% per annum.

OUTLOOK

During the review period, NRB introduced a contractionary monetary policy, raising interest rates, which might attract deposit of funds from other financial avenues such as the capital market and financial instruments. However, banking operations, in terms of extending loans might be limited due to the higher cost of borrowing for businesses. Similarly, the interest rate has risen in the market for bonds, treasury bills, and commercial papers, hence increasing the cost of borrowing for businesses and the government by issuing these financial instruments. With regards to inflation, higher interest rates can contribute to controlling the high inflation of the country, which might be one of the objectives of the contractionary monetary policy. During the review period, the inflow of remittances has slightly improved. Moreover, the tourism sector is reviving, and the government has extended its policies to curb imports. These factors may ease pressure on the foreign exchange reserve. In addition to these factors, the increased net profits of commercial banks will ensure a healthy and consolidated financial market, thereby promoting stable economic growth. As interest rates are expected to remain high, the aggregate demand of the economy might decrease, having an impact on the income of businesses and further affecting their ability to pay back their interest payment obligation. This will have an adverse consequence on the balance sheet of the banking sector.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Capital Markets

During the review period, the secondary market initially had a bearish trend. However, the market reacted well to the Monetary Policy 2022/23 released on July 22, 2022. Change in the margin lending from the 4/12 rule to the 12/22 rule, implying that an individual can now borrow a total of NPR 120 million either from a single or multiple banks and financial institutions (BFI) might have provided confidence to investors and halted panic-selling. In the fiscal year 2021/22, the average return on investment of the stocks was -26.8%, a significant decrease from the return of investment of the stocks in the fiscal year 2077/78 when it was 194.15%. This shows that investors lost a lot in the last fiscal year and reflects on NEPSE's volatility.

Factsheet [342]

Indicator	Data
NEPSE Index (mid-July, in points)	2009.5
Stock market capitalization (mid-July)	NPR 2869.34 billion
Number of companies listed at NEPSE (mid-July)	234

SECONDARY MARKET

During the review period, the NEPSE index decreased by 3.04%, closing at 2065.89 points. The total market capitalization at the end of the review period amounted to NPR 2950.14 billion (USD 23.39 billion), while the total floated market capitalization reached NPR 1206.55 billion (USD 9.57 billion). The most significant decrease was seen by the Commercial Bank sub-index (8.59%), followed by the Life Insurance sub-index (7.11%) and Non-Life Insurance sub-index (5.99%).

Table 9 Key indicators

	1 Jun 22	15 Aug 22	% Change
NEPSE Index	2,130.73	2,065.89	(3.04%)
Sub-Indices			
Commercial Bank	1,483.31	1,355.91	(8.59%)
Development Bank	3,682.64	3,768.79	2.34%
Hydropower	2,471.32	2,490.51	0.78%
Finance	1,552.59	1,828.73	17.79%
Non-Life Insurance	8,839.99	8,310.29	(5.99%)
Others	1,569.44	1,537.13	(2.06%)
Hotels & Tourism	2,748.39	2,793.71	1.65%
Microfinance	4,390.14	4,703.36	7.13%
Mutual Fund	15.03	14.73	(2.00%)
Life Insurance	10,245.19	9,516.52	(7.11%)
Manufacturing & Processing	5,137.16	5,156.84	0.38%

Source: *Nepal Stock Exchange (NEPSE)*

Primary Market: During the review period, Initial Public Offerings (IPO) of multiple companies were approved. [343]IPO of Sayapatri Hydropower and Construction Ltd., Mandakini Hydropower Ltd., People's Power Ltd., Rasuwagadhi Hydropower Company Ltd., Sanjen Jalavidhyut Co. Ltd., Sikles Hydropower Limited, Dhaulagiri Laghubitta Bittiya Sansta Ltd., Aviyan Laghubitta Bittiya Sanstha, Eastern Hydropower Ltd., Khaptad Laghubitta Bittiya Sanstha Ltd., and Srijanshil Laghubitta Bittiya Sanstha Ltd. were approved by Securities Board of Nepal (SEBON).

KEY DEVELOPMENTS

Some of the key developments that transpired in the financial market are as follows –

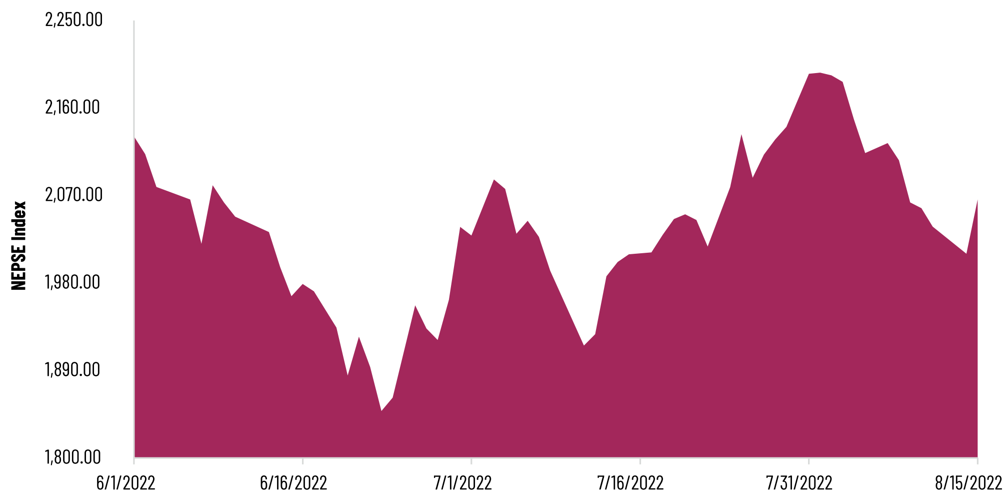

Figure 21 NEPSE Movement Index

Source: *Nepal Stock Exchange (NEPSE)*

Stockbrokers Permitted to Operate Their Own TMS for Online Trading Shares [344]

SEBON has now permitted stock brokerage firms to operate their own Trade Management System (TMS). Interested firms need to take approval from the concerned authorities to open their own TMS. The brokerage firms are required to manage the system and network administration and data recovery site, in addition to collaborating with the online payment system to operate the platform.

Six Brokerage Companies Applied to NEPSE for Approval of TMS Operation[345]

Following the approval of the Securities Transaction Management (Third Amendment) Regulations, six companies have made their own TMS and have applied to Nepal Stock Exchange (NEPSE) for in-principle approval of TMS operation. 37 brokers are interested in building their own TMS and are making an application for it.

Share Reservation for Nepali Migrant Workers[346]

SEBON has proposed a 10% share reservation for Nepali migrant workers to recognize their contribution to the country, to bring in remittance to Nepal in a legal way, and to expand the capital market. For this to be implemented, SEBON will amend the Securities Registration and Issue Regulation, 2073. SEBON Chair Ramesh Kumar Hamal also said that SEBON will amend laws to open the securities market in Nepal for non-resident Nepalis.

Global Equity Fund Permitted to Operate Venture Capital Business [347]

SEBON has permitted Global Equity Fund (GEF) to operate venture capital businesses. In addition to GEF, eight other firms, Adhyanta Fund Limited, Avasar Fund Limited, NMB Capital, NIC Asia Capital, Prabhu Capital, Laxmi Capital Market, Nabil Investment Banking and NIBL S Capital, are in process of receiving licenses from the regulator.

Prabhu Bank to Acquire Century Commercial Bank [348]

Prabhu Bank is set to acquire Century Commercial Bank with a swap ratio of 1:1, after both banks signed an agreement on July 31. The total paid-up capital of the new entity will be NPR 31.71 billion (USD 251.59 million). As per the initial agreement, Prabhu Bank's current CEO Ashok Sherchan will continue as the Chief Executive Officer.

Siddharta Insurance Company and Premier Insurance Company Nepal Sign a Merger Agreement [349]

The Chairman of Siddharth Insurance and the Chairman of Premier Insurance have signed a preliminary agreement on the merger. Currently, Siddhartha Insurance has a paid-up capital of NPR 1.28 billion (USD 10.15 million) while Premier Insurance has NPR 1.22 billion (USD 9.68 million) as paid-up capital. Both companies will decide on the share swap ratio after conducting due diligence audit (DDA).

HBL and CBL Ink Agreement for Acquisition [350]

Himalayan Bank Limited (HBL) and Civil Bank Limited (CBL) signed a memorandum of understanding (MoU) for the acquisition. The swap ratio will remain at 100:81. The unified entity will carry out transactions in the name of Himalayan Bank and the deputy chief executive officer of the entity will be hired from the Civil Bank.

Jyoti Life Insurance and Surya Life Ink MoU for Merger [351]

Surya Life Insurance Company Limited (SLICL) and Jyoti Life Insurance Company Limited (JLI) have signed an MoU of the merger to raise their capital. The net premium of the unified entity will be NPR 6.07 billion (USD 48.14 million).

OUTLOOK

During the review period, the banking system continued to face a liquidity crisis as the Balance of Payment (BOP) remained at a deficit, and the inflow of remittances, although increasing are still low. The decision of commercial banks to not raise interest rates until mid-October might lead to more traction in the stock market. Moreover, SEBON's proposal to reserve a 10% share for Nepali migrant workers might also attract more investors to the capital market, while also increasing remittance inflow to the country through formal channels and providing some support to the depleting foreign currency. Moreover, the change in margin lending from the 4/12 rule to the 12/22 rule might further increase people's participation in the stock market due to their ability to borrow more from the BFIs. Furthermore, since SEBON has granted operating licenses for venture capital and private equity funds, businesses will not have to rely only on the capital markets for raising funds. As a result, start-ups and businesses will be able to secure funding and financing from specialized investment funds like venture capital and private equity funds.

Special Section

Special Section
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Overview of Nepal's LDC Graduation

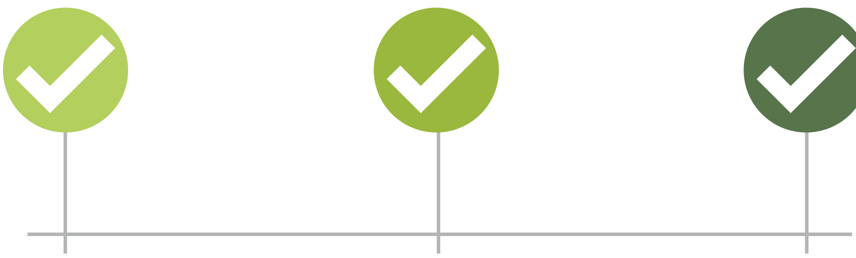
LDC Identification Criteria

The United Nations defines Least Developed Countries (LDCs) as low-income countries that are facing grave structural impediments to sustainable development. To identify LDCs, the Committee for Development Policy (CDP) uses three identification criteria:

Gross National Income (GNI) per capita

Human Assest Index (HAI)

Economic and Enviromental Vulnerablity Index (EVI)



Low-income Countries Graduation Criteria

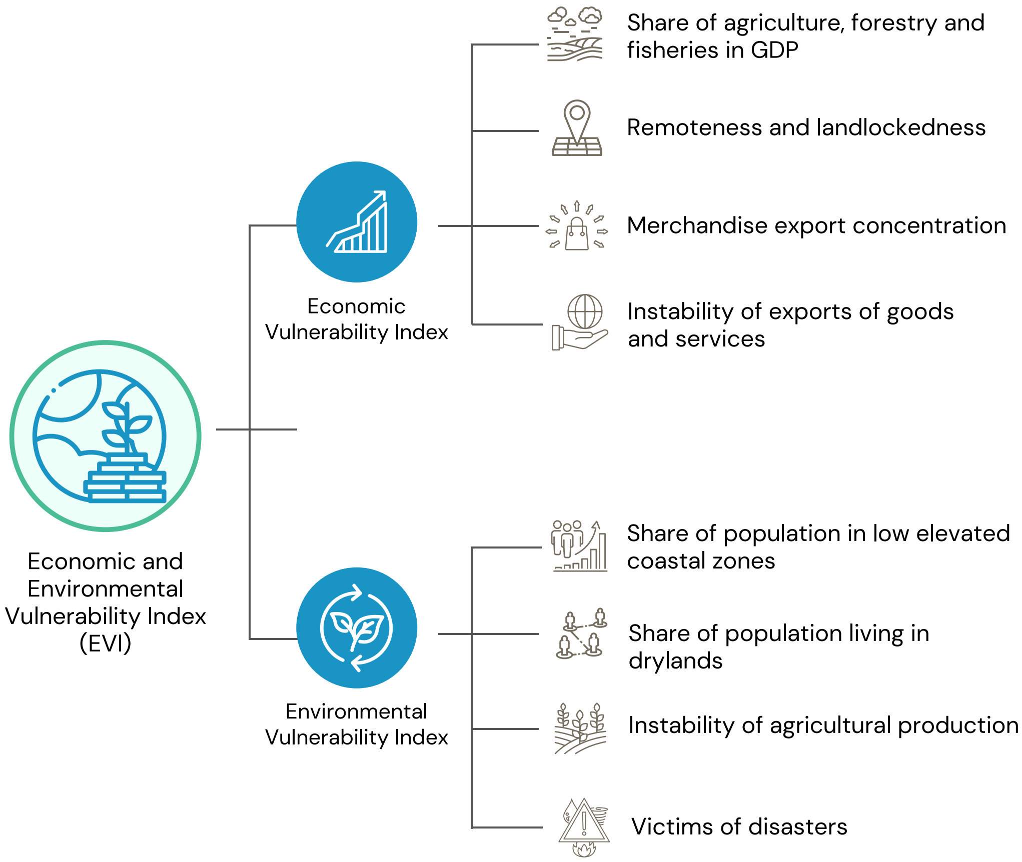
The EVI and HAI indices are composed of eight and six sub-indicators respectively, each of which are assigned equal weight. While the per capita GNI measures the average income of individuals in a country, the HAI captures the development of human capital in an economy through dimensions of health, education and nutrition. Lastly, the EVI indicator measures the resilience of an economy and its ability to absorb the impact of external economic and environmental shocks, without summoning a crisis.

Graduation Eligibility Pathways

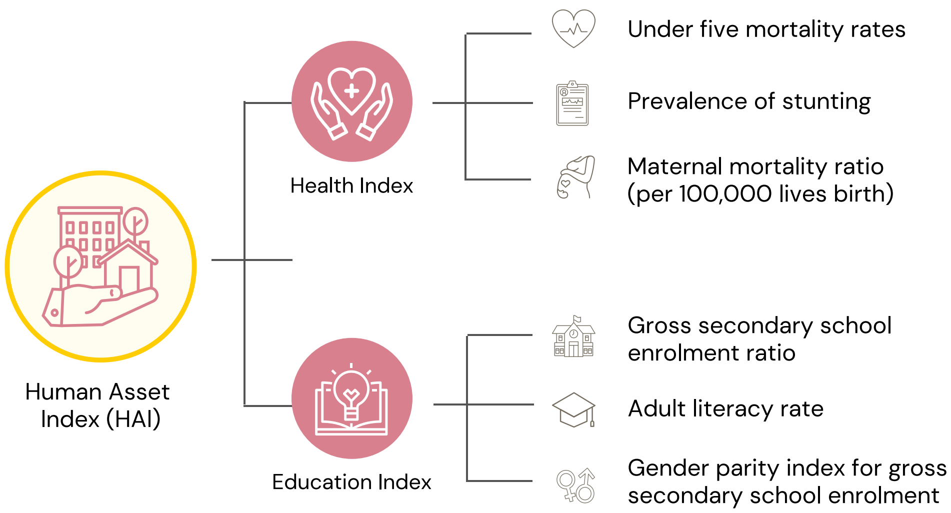
(i) For a country to graduate, graduation threshold must be met for two of the three criteria (per capita GNI, HAI and EVI) in two consecutive triennial reviews.

(ii) Alternatively, a country is eligible for graduation when its per capita GNI is at least twice the graduation threshold (income-only criteria).

Composition of Economic and Environmental Vulnerability Index (EVI)



Composition of Human Asset Index (HAI)



Key figures for Nepal

The Committee for Development Policy (CDP)'s 2021 triennial review formally recommended for Nepal's graduation from the LDC category and granted a preparatory period of five years. The recommendation was based on the grounds that Nepal had met the threshold for two categories –HAI and EVI, for two consecutive triennial review periods (2018 and 2021).

As per the triennial review of 2021, Nepal's score for each index and indicators are presented below:

Per capital gross national income (GNI) **USD 1,027**

Graduation threshold

- Graduation threshold – USD 1,222
- Income-only graduation threshold – USD 2,444

Human Asset Index (HAI) **74.9**

Graduation threshold

66 or above

HAI Indicators
Health Index – 71.5

- Under-five mortality rate – 30.8 (per 1000)
- Prevalence of stunning – 31.4%
- Maternal mortality rate – 186 (per 100,000 lives birth)

HAI Indicators
Education Index – 78.4

- Gross senior secondary enrolment ratio – 80.2%
- Adult literacy rate – 67.9%
- Gender parity index (for school enrolment) – 1.07

Economic and Environmental Vulnerability Index (EVI) **24.7**

Graduation threshold

32 or below

EVI Indicators
Economic Vulnerability Index – 28.5

- Share of agriculture, forestry and fisheries in GDP – 28.6%
- Remoteness and landlockness – 51.6
- Merchandise export concentration – 0.14
- Instability of exports of goods and services – 5.2

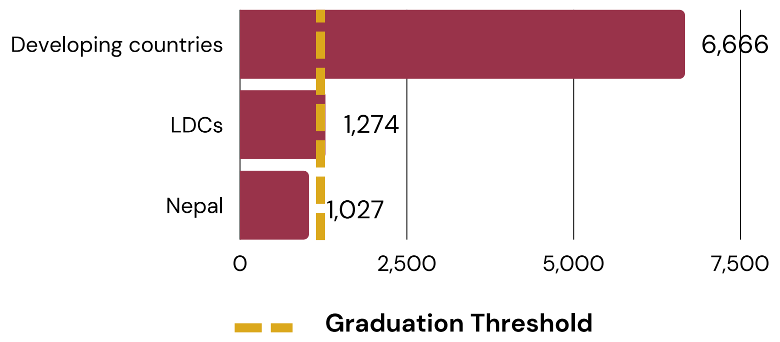
EVI Indicators
Environmental Vulnerability Index – 20.9

- Share of population in low costal area – 0%
- Share of population living in drylands – 0%
- Instability in agriculture production – 2.3
- Victim of disaster – 2.02%

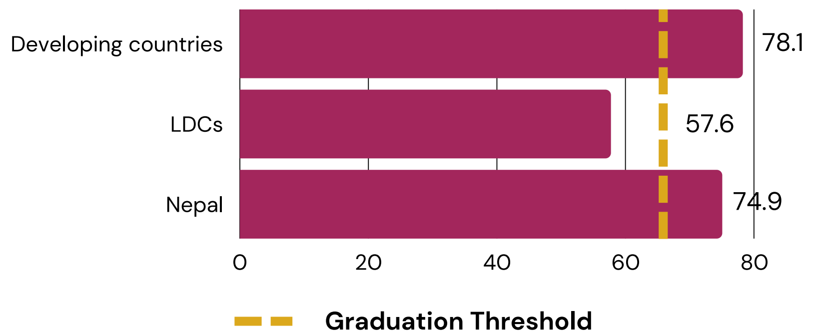
Source: "Official triennial review dataset (2000-2021)", Committee for Development Policy, Department of Economic and Social Affairs, United Nations. https://www.un.org/development/desa/dpad/least-developed-country-category/ldc-data-retrieval.html

Nepal's Performance as per the Triennial Review of 2021

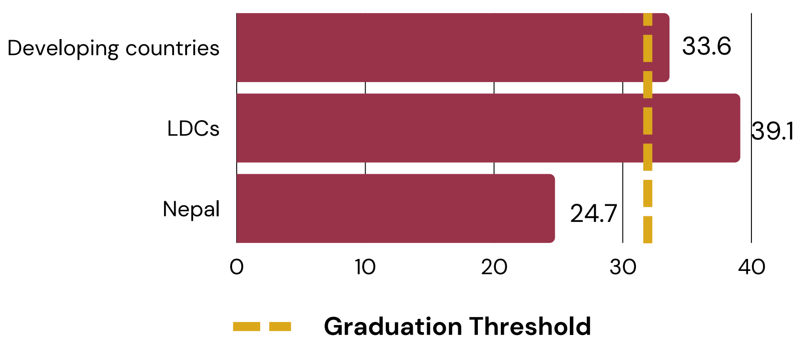
Per capital gross national income (GNI)



Human Asset Index (HAI)



Economic and Environmental Vulnerability Index (EVI)



Nepal's journey towards Graduation

2015

CDP Triennial Review

Nepal meets the graduation threshold for HAI and EVI indices, but the process towards graduation is deferred due to setbacks caused by the 2015 earthquake.[352]

2018

CDP Triennial Review

Nepal meets the minimum threshold for HAI and EVI indices. Eligibility to be reconfirmed in next triennial review.[353]

United Nations Department of Economic and Social Affairs (UNDESA) notifies the country its findings on graduation criteria indices.

2018 to 2021

Between CDP Triennial Review period

UNCTAD prepares 'Vulnerability Profile of Nepal' to identify the possible consequence on identified LDC criteria upon graduation.[354]

UNDESA prepares 'Ex-ante Impact Assessment' report to access the probable impact of the loss, upon graduation form the LDC category.[355]

Nepal initiates preparation for possible graduation by starting consultative mechanism with development partners.[356]

2021

CDP Triennial Review

CDP confirms Nepal's eligibility in two consecutive triennial review.[357]

Nepal is given 5 years as grace preparatory period considering the adverse impact of the COVID-19 crisis.[358]

Economic and Social Council (ECOSOC) endorses the CDP recommendation for Nepal's graduation.[359]

UN General assembly takes note of CDP's recommendations.[360]

2026 onwards

Graduation becomes effective, country no longer in LDC category.

All trade special provisions by WTO and bilateral partners for LDC to be revoked.

2021 to 2026

Graduating country finalizes on a smooth transition strategy and reports to CDP on the preparation of the strategy.[361]

CDP will analyze in its 2024 triennial review whether the preparatory period is adequate to mitigate the impact of the COVID-19 pandemic.

For smooth transition:

- UN system provides targeted assistance for capacity building.
- Development partners and trading partners develop consultative mechanisms to provide support.

During this period, CDP monitors progress made by the country annually.[362]

Understanding LDC Graduation for Nepal

By Ratnakar Adhikari

Executive Director of Enhanced Integrated Framework, World Trade Organization (WTO)

Centrality of International Support Measures for Graduating LDCs

International Support Measures (ISMs), for the least developed countries (LDCs), are provided in the areas of trade; financial and technical assistance;[12] and support for participation in international forums. The Enhanced Integrated Framework (EIF)[13] – a trilateral partnership between the LDCs, donors, and international agencies – is one such mechanism that provides ISMs in the form of Aid for Trade (AfT) to the LDCs for undertaking analytical studies, strengthening institutional structure, and building productive capacity.

The recently concluded programme evaluation of the EIF[14] shows some impactful results, of which the most notable one is a finding that states that the doubling of EIF AfT was linked to an approx. 20% increase in total exports from countries with stronger economies having average and above average export volumes, most of which are graduating LDCs.

Country-specific impacts of the EIF intervention in graduating LDCs include Cambodia, having increased its rice exports by 150%, Zambia having increased regional and international honey exports by over six-fold, and Lao PDR having recorded a 50% productivity increase for rice. In Bhutan, through machine grading and online auctioning of potatoes, farmers were able to earn USD 420 in additional income per truckload.

> “Although some providers of ISMs continue to extend support to graduating countries even after their graduation, there is a wide variation in the type, magnitude, duration, and more importantly, predictability of support.”

Although some providers of ISMs continue to extend support to graduating countries even after their graduation, there is a wide variation in the type, magnitude, duration, and more importantly, predictability of support. The Doha Programme of Action for the LDCs[15] accordingly makes a call for the “extension of ISMs to graduating and graduated least developed countries to make graduation sustainable and irreversible”. The EIF has been a trailblazer in this respect, as it has been providing, right from its inception, support to the LDCs five years after their graduation. [16]

The EIF has contributed to incentivizing graduation due to the predictability in the continuity of its support, which is free from political manoeuvring and devoid of any social, economic, or governance-related conditionalities. More importantly, the EIF has modulated its support to the LDCs taking into account graduation considerations to ensure a smooth transition. Examples of graduation-focused ISMs from the EIF can be divided into global/regional and country-specific.

Global/Regional

Since the LDCs view trade preferences as the single major ISM, the EIF and the World Trade Organization joined hands to conduct an evidenced-based analytical work entitled “Trade Impacts of LDC Graduation”,[17] which could be utilized by the LDCs to design and sequence their policy reforms to remain competitive when they graduate.

Realizing the need for graduated countries to mobilize private investment in general, and foreign direct investment (FDI) in particular, the EIF teamed up with the World Association of Investment Promotion Agencies to provide capacity-building training[18] to governments and the private sector in eight graduating countries. Later, 12 other LDCs joined the initiative.

Thirdly, to help graduating countries reduce trade costs, the EIF partnered with the United Nations Economic and Social Commission for Asia and the Pacific to support cross-border paperless trade initiatives[19] in four Asian graduating countries.

Finally, given the significance of digital transformation and the priority attached by the graduating countries to speedy digitalization, two-thirds of the support provided for conducting eTrade Readiness Assessments[20] went to graduating LDCs, including Bhutan, Cambodia, Nepal, Myanmar, Senegal, Solomon Islands, and Vanuatu.

Country-specific

The EIF's flagship analytical work – the Diagnostic Trade Integration Study (DTIS), which provides the foundation that guides the EIF's intervention on the ground, now covers the graduation dimension. Most of the recent studies or their updates either include graduation as a cross-cutting issue or as a chapter. Examples of recently concluded DITSs that included the graduation aspect are Cambodia, Bhutan, and Lao PDR. The ongoing DTIS in Bangladesh covers graduation even more explicitly.

Additionally, two specific supports were extended to Vanuatu in the recent past. First, trade mainstreaming support provided to Vanuatu was utilized to develop a sustainable graduation strategy in the country's run-up to graduation. Second, a pilot project was launched in Vanuatu to integrate the customs clearance system with that of the postal system to speed up trade in parcels, thereby helping to reduce the trade costs of e-commerce transactions.

The Path Towards Sustainable Graduation

In November 2020, the LDCs submitted a Draft Ministerial Decision[21] to continue providing them special and differential treatment, including trade preferences for 12 years after their graduation. However, what is equally important is to ensure that the LDCs can reduce their trade costs in the long run, as preferences would eventually be phased out. Such support should ideally be in the form of AfT to build productive capacity by investing in infrastructure (both physical and digital), human capital, and technology, among other things. Similarly, trade costs can be reduced through improved trade facilitation and by upgrading facilities to comply with sanitary, phytosanitary, and technical standards.

In the areas of trade facilitation, the example of Vanuatu is particularly instructive; where the Vanuatu Electronic Single Window project was implemented by the United Nations Conference on Trade and Development, with the financial contribution of the EIF, the Government of Australia, and the Government of Vanuatu, resulted in a reduction in processing time from four to six days to less than 10 minutes.[22] This could potentially translate into a non-trivial saving in trade cost if we take David Hummel's work,[23] which posits that each day saved in shipping time is equivalent to saving 0.8% of the ad valorem tariff, as a basis.

Similarly, the implementation of cross-border paperless trade can help these countries reduce their trade costs substantially and achieve trade gains, as shown in table 10 below for the Asian graduating LDCs.

Table 10 Gains from full implementation of cross-border paperless trade in Asian graduating LDCs

Country	Export time/cost reduction (%)	Import time/cost reduction (%)	Export gain (%)	Import gain (%)
Bangladesh	-29	-29	10	10
Bhutan	-286	-291	34	34
Cambodia	-131	-133	33	34
Lao PDR	-44	-44	15	16
Myanmar	-57	-58	20	20
Nepal	-80	-81	28	28
Timor Leste	-44	-45	15	16

Source: *UNESCAP, 2014*[24]

Finally, capacity building in at least three key areas would be critical for the graduating countries to make their progress irreversible. First, even when zero tariff preferences are phased out, helping them access relatively generous European Union (EU) preferences under GSP+ can contribute to continued access to the EU market.

Second, facilitating preferential trade negotiations with major exporting markets[25] and helping them take advantage of regional markets could contribute to expanding their exports, both at intensive and extensive margins.

Thirdly, helping graduating countries mobilize alternate sources of finance to make up for the loss of traditional official development assistance would be extremely helpful. These could include shoring up domestic revenues, South-South concessional finance, FDI, and innovative sources of finance, such as blended finance and impact investment. [26]

By Bishnu Raj Upreti

Executive Chairman
Policy Research Institute (PRI)

The Public Policy Paradox

> One of the major concerns of the public sector is the poor performance and inconsistencies of 'public policies' in Nepal.

There are numerous public sector concerns in Nepal and therefore it is not feasible to fairly discuss them in this brief paper. Hence, I have picked only one major concern, i.e., 'public policy. One of the major concerns of the public sector is the poor performance and inconsistencies of 'public policies' in Nepal. All ministries have formulated different policies to effectively deliver their mandates.

For this paper, I am defining public policy as a set of broad vision and framework with contents, institutional arrangements, regulatory provisions, resources (human, financial, and physical), and operational procedures as decision tools to fetch government mandates that strengthen state people relations, protect national interests and serves its people.

Hence, in this paper, I am examining the existing public policies formulated and implemented by different ministries and agencies of government. Ever since I took the responsibility of the government think tank, Policy Research Institute (PRI), one of the primary initiatives I undertook was to examine the effectiveness of public policies in Nepal. In this process, we have organized more than seven dozen 'public policy dialogues' on different issues and concerns with key stakeholders; reviewed the content and structures of thirty-seven public policies, and discussed with policymakers (ministers, secretaries, and joint secretaries) and law makers, implementing agencies and reviewed research papers and policy documents. The results of these exercises are synthesized here in this paper. A major finding from the study is – the public policies of Nepal are vague, inconsistent, bureaucratic, top-down, and therefore not effective. Synthesis of interrelated and complementary reasons for ineffective public policies of Nepal are presented below:

1. Policies are formulated without research and/or evidence – One of the principles of public policy making is to use the pieces of evidence and findings of the research. However, this practice is almost absent in public policy formulation in Nepal. Understanding existing laws, regulations, and policies, existing support or challenges in public policy implementation, institutional arrangements, and resources (human, physical and financial) are essential to identify to implement policies. Implementation of policies is weak because these factors are not researched properly during the policy-making process. Once the policy is promulgated without proper assessment, implementation is not possible. This is the fate of most policies in Nepal.

2. There is no engagement of elected political leadership in formulating public policy – The process of formulating public policies is entirely dependent on the bureaucracy but they are not accountable to the public. Since the accountability of the bureaucrats is low when it comes to policy formulation, the practicality of the policy and its implementation ability takes a backseat. Frequent transfer of officials responsible for implementing policy is another reason for the ineffective policy.

3. No interaction between law-making and policy-making exists – Laws are made by parliamentarians and policies are made by bureaucrats. These decisions and process of establishing laws and policies by

these separate groups are normally done in isolation and therefore lacks interactions, integration, and mutual enforcement. This lack of coordination ultimately leads to policy failure.

4. Inappropriate and or incomplete policy-making process - Consultations with key stakeholders and the general public would help in identifying and prioritizing issues, however, a lack of this ends up in no support from the general public. It becomes unrealistic to expect public support in matters of public policy, especially if the general public is not meaningfully involved in the policy formulation process.

5. Due to a poor or complete lack of understanding of the opinion of the general public by policymakers, the process of policymaking is distorted and poses a structural flaw in the process - In absence of systematic engagement among key stakeholders during the policymaking process results in an incomplete policy-making process. Consultations among key stakeholders help in identifying and prioritizing issues, however, a lack of this weakens the policy as there is no accountability and ownership.

6. Policy contradiction between the government agencies exists - Many policies introduced by different ministries are contradictory to each other or they do not complement or support one another.

7. Lack of coordination and collaboration between different ministries and agencies - Very often, policies are far beyond the scope of a particular ministry and expect support from different ministries that do not always cooperate. For example, the National Agriculture Policy is directly integrated with 11 ministries, 23 policies, and 36 laws. Similar is the situation with national urban policy, and water and sanitation policy, which are directly related to all issues concerning the population of the whole country. When a single ministry promulgates and administers a certain policy which is often without ensuring cooperation with other ministries and other key actors, policy failure becomes much more obvious.

8. No provision of compulsory review and monitoring of policies at regular intervals and during certain years prevents improvements and course corrections. The lack of these leads to non-functional policy.

9. More often than not, policies are full of poor structures and sweeping generalized statements which are not difficult to implement and measure as they lack specific details regarding timelines and data.

If we want to make policies effective and serve their purpose, it is urgent to adopt proper policy formulation processes, contents, and frameworks that can be complemented by implementation and monitoring provisions. PRI has developed three guidelines for – a) public policy-making process, b) public policy structures and content frameworks, and c) public policy assessments. Proper implementation of these guidelines can change public policy discourses and enhance the effectiveness of public policies in Nepal. A well-laid-out policy can support the process of Nepal's economic development and its vision to graduate from being a Least Developed Country by 2030. [27] [28] [29] [30]

“If we want to make policies effective and serve their purpose, it is urgent to adopt proper policy formulation processes, contents, and frameworks that can be complemented by implementation and monitoring provisions.”

Views from the Region

Lessons from Bangladesh: The Rise of South Asia's Third Largest to Stardom

By Syed Munir Khasru

Chairman, Institute for Policy, Advocacy and Governance (IPAG)

Macroeconomic Stability

Bangladesh rose from its status as one of the poorest nations at the time of its independence in 1971 and attained lower-middle-income status in 2015. The country is on its way to moving from the Least Developed Category (LDC) list in 2026.[31] Bangladesh's economy has maintained macroeconomic stability over the past two decades and significantly increased its gross domestic output (GDP).[32] The economy became worth USD 355 billion in 2020 – expanding by over 6% annually for the last 15 years.[33] In 2021, Bangladesh's GDP growth was 6.9%[34] and in the pandemic year 2020, it stood highest at 3.5%, over the average South Asian GDP growth which was at -6.58%. Between 2010-2018, the industry contributed a significant share of GDP, more than agriculture, and increased from less than a third to more than five times. Manufacturing-based GDP grew 8.6% between 2011-2019.[35] High foreign remittance which stands at USD 22 billion is also a great contributor to the economy. [36]

It is noteworthy how Bangladesh rode the pandemic crisis and withstood fiscal pressures of the pandemic while navigating the Rohingya crisis and revenue shortfalls. Bloomberg ranked Bangladesh 24th out of the 53 world economies worth above USD 200 billion in its COVID-19 resilience ranking.[37]

Export-driven Growth

In the past five decades, Bangladesh's economy grew 271 times over. Good fiscal and budgetary management has resulted in a budget deficit below 5% of GDP. The growth of Export-Oriented Industrialization (EOI) economic policy is a cornerstone of the economy's growth.[38] In the financial year 2021-22, Bangladesh's annual merchandise export was USD 52.08 billion, crossing the USD 50 billion benchmark for the first time, beating its target of USD 43.5 billion by 19.63%. In service export, the figure stood at USD 38.75 billion.[39] Between 2005-06 to 2020-22, Bangladesh's export earnings quadrupled.[40] Bangladesh's economic strategy of EOI has made it the second-largest apparel exporter in the world.[41] Affordable skilled and semi-skilled labour is the driving force behind the success of labour-intensive industries like clothing.

Astute Economic Diplomacy

Foreign investment, trade and export diversity, employment at home and abroad, technology transfer, and quality services to the Bangladeshi diaspora are key to Bangladesh's economic diplomacy.[42] Bangladesh actively seeks foreign investments in agribusiness, the clothing sector, leather goods, light manufacturing, power and energy, ICT, etc.[43] Attracting FDI is crucial for Bangladesh. According to the World Investment Report 2021, Bangladesh was the second most favoured country in the subcontinent, following India. Bangladesh saw an investment hike of 13% from the pandemic year, bagging USD 2.9 billion, according to a UNCTAD[44] report. Bangladesh is in the process of developing 100 Special Economic Zones (SEZs) and 28 High-Tech Parks to boost industry, employment, production, and export. Mega Projects have been implemented strategically.[45] ADB has committed USD 143 million in trade facilitation to Bangladesh,[46] and the World Bank will provide IDA loans worth USD 18 billion to Bangladesh in the next five years. In addition, IFC will finance private sector development and MIGA in energy and manufacturing.[47] Textile and RMG exports are highly valuable for

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>
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Bangladesh, and its efforts in attracting foreign buyers have significantly boosted the sector. Further, Bangladesh has been trying to strike bilateral agreements[48] and conducting feasibility studies for the same, to improve its international trade ecosystem.[49]

Socio-economic Indicators

Bangladesh's inclusive nature of economic growth is reflected in its improved education and healthcare systems. Improving fiscal deficit, trade balance, employment, public debt, etc. are noteworthy[50] and over the years, Bangladesh has curbed illiteracy, hunger, and malnutrition through concerted efforts. Investments in education and empowerment have aided in improving education and reducing cases of early marriage. The introduction of tuition fee waivers and stipends has helped improve the situation of girls' secondary education from 39% in 1998 to 67% in 2017.[51] In 2019, the fertility rate stood at 2.01 children per woman, which is a significant improvement for the country.[52] As highlighted, health systems have improved and brought a change in the infant mortality rate which stands at 22.6 deaths per 1,000 live births, which is a 4.47% decline from 2021.[53]

Women's Empowerment

The government implemented several education initiatives such as free schoolbooks to be distributed at the primary level, free girls' education up to college, stipends, food for the education programme, and cash-transfer for poor households that were successful in bringing female students into the classroom. Effective family planning programmes, and community and mobile clinics have helped communities understand family and resource allocation within a household which has led to a declining trend in births. Similarly, improved healthcare access and outreach campaigns helped reduce maternal mortality. Expanded immunisation, improved water access and sanitation, and provision of supplements created a conducive and safe ecosystem for rural women. Apart from these, the government has promoted the full participation of women in all walks of life. Various laws were amended to safeguard the interests of women – giving rise to gender-sensitive policies. Gender responsiveness has been a key element in long-term national policies. Additionally, the government also worked in appropriating laws to tackle child marriage, violence against women, trafficking, etc.

The introduction of a quota system in parliament and other constitutional bodies which enabled the reservation of seats for women has generated positive results. The government's investments in building women-friendly infrastructure, skill-based education, and training, and improving access to information have resulted in the women workforce occupying 35% by 2021.[54] [55] [56] The success of the RMG sector with women occupying 80%[57] of the workforce has resulted in the improved social mobility of women. The World Economic Forum Gender Gap Report 2022, assessed 146 countries and ranked Bangladesh at 71 – the top in South Asia. [58]

The NGO Factor

There are effective government-NGO collaborations for women's development in Bangladesh. The collaboration runs health and nutrition programmes, manages girls' stipends, social security and micro-credit for poverty reduction with several safety-net programmes like the Vulnerable Group Development Programme, Allowances Programme for Widowed, Community Nutrition Programme, etc. for poor women.[59]

Apart from programmes targeting poor rural women as beneficiaries, NGOs have made a significant contribution to the growth of Bangladesh's economy in many ways, these include; humanitarian work and structural development of the organisation for the rural poor, employment generation, organising groups, and improving participation for empowerment schemes. In addition, provisions of micro-credit, creating facilities for the poor to enjoy government-owned 'khas' fallow land and properties, innovating appropriate technology for small and seasonal farmers, health, nutrition and hygiene, and relief and rehabilitation have brought about notable changes.[60]

The Road Ahead

Bangladesh has achieved substantial social and economic growth over the past decades. While the private sector has gained significantly, it must contribute to the economy. Boosting public sectors, such as education will ensure balanced growth and further aid in developing a healthy workforce. Furthermore, Public Private Partnerships and collaborations are a good approach to Bangladesh's growth.[61] It is crucial to note the contribution of the civil society that acts as a buffer to government action, which has been an integral part of the socio-economic growth. This collaboration continues to foster growth, that reflects significantly on social indicators. Further, sustained growth in areas such as ICT and responsible digitalisation is crucial for Bangladesh's digital future. Bangladesh is on track to achieve its Vision 2041, and other milestones paved within its provisions under a middle-income status. The nation's sound economic policies and diplomacy, along with the resilience it has showcased in uncertain times such as climate events, global pandemics, recession, etc. are compelling arguments for why Bangladesh holds a bright future.

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By Mustafizur Rahman

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Bangladesh's Upcoming LDC Graduation: Coping with Anticipated Challenges

Context and Backdrop

With the adoption of the UN General Assembly resolution of 24 November 2021, Bangladesh, along with Nepal and Lao People's Democratic Republic, has been set on track to graduate from the LDCs in 2026. Another LDC in South Asia, Bhutan, is scheduled to graduate even earlier, in 2023. For Bangladesh, without a doubt, graduation is an important milestone in its post-independence development journey; after five decades as an LDC, it will be leaving the group and embarking on a new lap of a journey in the third decade of the 21st century. Among the 16 LDCs which are slated for graduation, Bangladesh is the only one -that has been eligible in terms of all three graduation criteria. This reflects the impressive success of the Bangladesh economy in fulfilling the various socio-economic indicators captured in the three LDC graduation criteria. Bangladesh has been among the very few LDCs which was able to take significant advantage of the international support measures (ISMs) that have been put in place to favour the LDCs. Consequently, addressing the losses of these ISMs emerging from graduation is also relatively more challenging for Bangladesh. The task before the country is to build on its formidable strengths to be able to move towards sustainable graduation.

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The Challenges of Graduation

There are several considerations that all graduating LDCs ought to take into cognizance. It needs to be recognized that the graduation criteria do not capture many of the underlying structural weaknesses afflicting the LDCs – weak industrial base, low skill endowment, low productivity of capital and labour, low penetration of digital economy, and 4IR along with many others. As is the case, Bangladesh and the other graduating LDCs are to make this transition under the long shadow of the pandemic which has exacerbated the already existing vulnerabilities. It is important to note, that the graduation criteria are fixed as average numbers which conceal a large degree of inequalities across the various indicators of graduation. The challenge here is two-fold – to make graduation both sustainable and inclusive. It will also be pertinent to recall here that the thresholds for two of the three graduation criteria – Human Assets Index (HAI) and Environmental Vulnerability Index (EVI) – were fixed at 66 and above and 32 and below, respectively, in 2012. Indeed, this is a major reason why so many LDCs have become eligible to graduate in one go (previously the thresholds for these two indices were moving numbers).

As may be noted, there are 189 special and differential treatment (S&DT) provisions in the 16 Key WTO agreements for developing countries and LDCs, 25 of these are LDC-specific. The benefits accruing from the LDC-specific S&DT provisions will no longer be available to an LDC once it graduates from the group.

The challenges facing Bangladesh given the upcoming LDC graduation are manifold. The loss of ISMs will have implications for Bangladesh concerning both the domestic policy space and the global policy space. – in areas of compliance requirements as regards various WTO Agreements and disciplines (more stringent), policy flexibility (less policy space requiring reforms), market access (significant preference erosion), and dealings with international partners (less based on non-reciprocity and more based on reciprocity).

For Bangladesh, the loss of ISMs will be most acutely felt in the form of loss of preferential market access for its products under the various GSP schemes notified to the WTO. As is well-known, more than four-fifths of Bangladesh's export earnings come from readymade garments (RMG). Given that the most favoured nation (MFN) tariffs tend to be high on textiles and garments (e.g., MFN tariffs on garments items are about 12.0% in the EU), loss of preferential market access will have a significant impact on the export competitiveness of Bangladesh's RMG products. According to estimates carried out by the WTO Secretariat, of the likely reduction in exports because of the loss of preferential market access, for all graduating LDCs, the share of Bangladesh's potential export loss alone could account for about 90%.

Bangladesh has been able to take prominent advantage of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) waiver for pharmaceuticals – the country has a strong pharmaceutical industry. It has benefitted from flexibilities enjoyed by LDCs regarding subsidies, and trade and tariff policies. It has also reaped benefits from the financial support and aid for trade earmarked for the LDCs. These LDC-specific ISMs will no longer be available upon graduation.

For Bangladesh, an additional challenge is associated with its middle-income graduation – the country has made the transition from low income to lower middle-income country status, according to the World Bank criteria, in 2015. This will entail the rising cost of borrowing underpinned by a shift from predominantly concessional loans to mostly non-concessional borrowings.

As was noted, the dice have been cast, and now is the time to take the necessary preparations to enable Bangladesh to graduate out of the LDC group with momentum and make graduation sustainable.

Addressing the Challenges of LDC Graduation

As far as Bangladesh is concerned, there is a growing recognition that LDC graduation whilst opening new opportunities will also entail formidable challenges for the country.

Bangladesh is expecting that its credit rating will improve due to graduation, which will help the country's position when the country proposed to raise funds from

> **“Bangladesh will need to make adequate preparations to access the potential of emerging opportunities in the global market, more particularly, in the markets of neighbourhood regions.”**

international financial markets. The country is also hoping that the new image and branding, as a non-LDC developing country will help attract more FDI to the country.

The Government of Bangladesh (GoB) has taken many steps in anticipation of graduation. The 8th Five-Year Plan (2021-2025) has been designed to cater to the needs of smooth graduation and graduation with momentum. A high-level committee has been set up under the aegis of the Prime Minister's Office to devise appropriate strategies to meet the demands of a sustainable LDC graduation. Seven sub-committees have been set up under this aegis along with major stakeholders. These have been tasked to put forward recommendations. However, the key challenge here is to be able to take concrete steps to realize the plans, policies, and strategies.

Bangladesh will need to take adequate preparations to access the potential of emerging opportunities in the global market, more particularly, in the markets of neighbourhood regions. Traditionally, Bangladesh's trade relations, particularly exports, have been primarily focused on North American and the EU markets. Regional markets of South Asia, East Asia, and ASEAN account for only about 12% of the country's export. The development of value chains and production networks with countries in the region will be crucial going forward, both for product diversification and market diversification. For this to happen, Bangladesh will need to put in place logistics and trade facilitation measures, establish a single window at the border, ensure harmonization and standardization of customs systems, procedures, and interoperability of systems and sign mutual recognition agreements. The technology embeddedness of its exports will need to be raised.

Indeed, Bangladesh will need to make a crucial transition from preferential market access-driven competitiveness to skills and productivity-driven competitiveness. For this, triangulation of investment, transport, and trade connectivity will be the key.

Bangladesh will have to bear the brunt of the rising cost of borrowings, arising from the middle-income transition at a time when the country will have to go for increasing amounts of debt to meet the demands of investing in public infrastructure and sustainable graduation. Middle-income graduation will call for more effective use of foreign funds and appropriate selection of projects, by ensuring good value for money, so that the rates of return on investment remain high.

It may be recalled that a proposal was floated at the WTO by the LDCs for a transition period which would have allowed the LDCs to enjoy the LDC-specific ISMs following their graduation, for a specific period. This was proposed as a support measure toward sustainable graduation. Indeed, the LDCs have been calling for a new set of ISMs in support of the graduating LDCs. However, regrettably, this proposal failed to get the necessary traction at the recently held 12th WTO Ministerial Conference (June 2022) in Geneva. Nonetheless, graduating LDCs will need to pursue this agenda in all earnest. Bangladesh, as a leading LDC, must be proactively engaged in this effort, particularly in the run-up to the WTO-MC13 which is to be held in about two years. As may be recalled, the EU has indicated that it will extend the LDC-specific GSP scheme (the everything but arms initiative - EBA) for an additional 3 years beyond the graduation timeline. Graduating LDCs should explore whether other developed and developing countries are agreeable to supporting the graduating LDCs through this type of extension of timelines for preferential market access schemes.

There is a heightened need to strengthen domestic institutional capacities to deal with the stringent compliance requirements following graduation in labour, gender, environment, human rights, and governance-related areas. Such demands are set to rise when Bangladesh graduates from a non-LDC developing country.

Bangladesh will need to strengthen its negotiating capacities since as part of its graduation strategy it will need to start discussions to sign free trade agreements (FTAs) and comprehensive economic partnership agreements (CEPAs) with neighbouring countries and regional groupings. Negotiations will require evidence-based, rigorous research to identify the offensive and defensive interests of Bangladesh and prepare the offer lists and request lists for preferential treatment. Capacity building in relevant areas will be critically important – since, as is said, in such discussions countries do not get what they deserve but what they negotiate.

Concluding Remarks

Bangladesh's LDC graduation is widely seen in the country as a recognition of its impressive achievements over the years in terms of key socio-economic indicators. In going forward, the country will have to undertake the necessary homework to prepare for sustainable graduation. Three identities will need to inform Bangladesh's actions and initiatives in this backdrop – (i) as an LDC, by making the best use of the ISMs that will continue to be available till the graduation timeline; (ii) as a graduating LDC, by pursuing the cause of a time-bound new set of ISMs for countries which are slated for graduation; and (iii) as a future (non-LDC) developing country, by undertaking the necessary preparations because of the journey that lie ahead following graduation out of the group of LDCs.

By Hernaikh Singh

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Beyond Graduation: Leveraging the Potential of Regional Cooperation

> “To secure a sustainable transition from the LDC category, Nepal needs to devise a strategy to ensure a sustainable transition.”

Introduction

In November 2021, the United Nations General Assembly (UNGA) adopted a resolution to graduate Nepal from the Least Developed Country (LDC) category to a developing country by 2026.[62] While graduation becomes effective three years after the UNGA's approval, Nepal has been given five years – the extra years being granted because of the devastating effects of the COVID-19 pandemic.

Impact of Graduation

Currently, Nepal enjoys preferential tariffs under the LDC scheme, which is one of the main contributors to development in the country. Following its graduation, Nepal stands to lose about 4.3% of exports due to the removal of preferential tariffs.[63] Additionally, it could find it difficult to diversify its products which are likely to face higher tariffs and less flexible rules of origin.

Nepal is likely to witness an increase of one percent to two percent in tariffs, depending on the sectors. Sectors that deal in items such as vegetable items and cereal products could face the largest increase, with 27 percentage points and 25 percentage points in average applied tariffs, respectively. Furthermore, a change in tariffs will significantly impact Nepal's textile industry and its textile exports to countries like China, Turkey, and the European Union (EU). The loss of preferential treatments will subsequently hamper the prospects of Nepal's trade diversification.[64]

Kathmandu will lose preferential market access available under the EU's Everything But Arms scheme and concessions granted under the Generalized System of Preference. Among preference-giving countries and regions, the United States, and the EU account for 11.2% and 10.45% of Nepal's exports, respectively. The LDC graduation could result in the loss of around 3.7% of exports to these countries.

As a member of the World Trade Organization (WTO) and an LDC, Nepal receives flexibility in applying many of the WTO's rules. These flexibilities will cease to exist after the country's graduation.

Regional Cooperation – The Way Forward

To secure a sustainable transition from the LDC category, Nepal needs to devise a strategy to ensure a sustainable transition. The COVID-19 outbreak has bought Kathmandu some time, but not much. An important strategy for Nepal is to leverage the potential of regional cooperation.

Foreign Direct Investment (FDI) currently stands at a dismal one percent of Nepal's gross domestic product. There is immense potential in sectors such as hydroelectricity generation and distribution, tourism development, and agribusiness, among others. If developed well, the tourism sector offers an important source of job creation. The availability of fertile land and abundant water resources provide tremendous opportunities for agribusiness development. Nepal also has immense hydropower potential. Currently, it is estimated that less than two percent of this economically viable potential is being exploited. Kathmandu possesses significant potential in attracting investments from South Asia and beyond if it can provide for a stable political environment and a congenial investment climate.

The Himalayan nation of Nepal is strategically located between two Asian giants – China and India. China is the second largest global economy while India is the sixth largest economy in the world. Nepal can increase its trade, particularly, exports to these two markets. Currently, Nepal's exports to both these countries are much less than the country's actual potential. The two countries are fully aware of Nepal's geostrategic importance and regularly compete for Kathmandu's attention. Therefore, Nepal's political deftness defines the present and will establish the future of Nepal's economic ties with Beijing and New Delhi.

Nepal and China have agreed to finalize a bilateral free trade agreement. This provides an important opportunity for Nepal to enhance its exports to China and attract investments. Currently, Nepal sends only 2% of its total exports to the Chinese market. However, there is enormous potential in this respect.

The COVID-19 pandemic highlighted the vulnerability of the state through the perpetual disruptions in the supply chain that unfolded over the past few years. Nepal has the potential to integrate itself into regional supply chains, however, first, the country must enhance its infrastructure and connectivity. Nepal could increase trade integration with Beijing and New Delhi through technical assistance as well as assistance in developing bilateral and regional infrastructure to facilitate trade.

Nepal is a member of several regional and sub-regional arrangements. While some associations like the South Asian Free Trade Agreement and the South Asian Association for Regional Cooperation Agreement on Trade in Services offer little to no value at this point, Nepal should capitalize on other active initiatives like the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation and Bangladesh, Bhutan, India, and Nepal (BBIN) initiative. Currently, the BBIN members are working on promoting regional connectivity through land transportation. Such initiatives will open wider doors for Nepal in terms of accessibility to regional markets and in particular, Bangladesh, which is one of the fastest growing economies in South Asia – it is set to expand from US$300 billion to US$500 billion by 2025. [65]

> **"The route to LDC graduation and the preceding years will certainly test Nepal's resolve. It's critical to realize that regional cooperation offers an important opportunity for the country's development in the post-graduation era."**

Conclusion

The route to LDC graduation and the preceding years will certainly test Nepal's resolve. It's critical to realize that regional cooperation offers an important opportunity for the country's development in the post-graduation era. However, it needs to tackle the inherent domestic issues as well as regional and global implications that accompany it. While this is easier said than done, the rewards for being able to do so are immense.

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"Upon graduation, Nepal will lose certain special benefits that come with the LDC status, such as preferential market access for goods and services, flexibility in the implementation of the rules of the World Trade Organisation (WTO), international development measures, and special finance."

Nepal's Graduation Challenges and Way Forward

Nepal, having fulfilled two of the three criteria for graduation in two subsequent triennial reviews, has been endorsed by the United Nations (UN) General Assembly for graduation from the LDC category with a five-year preparatory period taking note of the recommendations made by the UN Committee for Development Policy (CDP) and the UN Economic and Social Council (ECOSOC).[66] Accordingly, Nepal is poised to graduate from the LDC group in 2026. Graduation would indeed be a major milestone in the history of Nepal. This transition would not only boost Nepal's image on the world stage but also provide a better credit rating for the country. However, the path after graduation is not easy and accompanied by significant challenges in ensuring sustainable and irreversible graduation.[67]

According to the United Nations Conference on Trade and Development (UNCTAD), many LDCs are likely to face two major challenges beyond graduation: a risk of reversion to the LDC status and the middle-income trap.[68] Every graduation is accompanied by the risk of reversion, mainly due to exogenous shocks such as the COVID-19 pandemic, climate-induced disasters, and trade shocks which are the major threats to the economy of Nepal as well. Likewise, Nepal presents a unique case as it is the first country to graduate from the LDC category without meeting the Gross National Income (GNI) criterion. The GNI per capita income of Nepal was USD 745 against the graduation threshold of USD 1,230 in the 2021 triennial review.[69] Meanwhile, Nepal is graduating by meeting the threshold for other two criteria: Human Asset Index (HAI) and Economic Vulnerability Index (EVI). Consequently, it faces an uphill task in having sustained economic growth to progress from a currently lower-middle income country to a high-income country, due to the persistence of structural vulnerabilities, infrastructural gap, and low levels of human capital, among many other problems.

There are several economic implications of graduation. Upon graduation, Nepal will lose certain special benefits that come with the LDC status, such as preferential market access for goods and services, flexibility in the implementation of the rules of the World Trade Organisation (WTO), international development measures, and special finance. Although Nepal would be eligible for the Generalised Scheme of Preferences (GSP) that is available to developing countries, it is much less generous than the duty-free, quota-free (DFQF) market access provided by most advanced economies to LDCs. For example, exports from Nepal to the European Union countries would face around a 5% increase in tariff on average under GSP which would adversely impact mainly the garment, textile, and carpet industry.[70] A study shows that Nepal could lose 4.3% of exports because of tariff changes when it graduates from LDC status in 2026, the major reasons being the loss of preferential market access and stricter rules of origin (RoO) in the EU, Turkey, and the United Kingdom (UK).[71] Further, the government will have some additional restrictions in its policy space as it will be required to do away with export subsidies, especially in agricultural goods, after graduation. Nepal is, thus, likely to face competitive pressure on export products on withdrawal of international support measures after graduation.

Garnering the financial resources required to finance the necessary investment to put the LDCs on a rapid growth path remains a key challenge

> **The coming years will be a defining period for Nepal with both opportunities and challenges as it navigates from an LDC into a developing country toward becoming a middle-income country.**

for implementing the Doha Programme of Action (DPoA), a dedicated ten-year programme of action adopted by the UN to provide differential treatment to the LDCs, which has a close alignment with the Sustainable Development Goals (SDGs). The fiscal constraint of LDCs has been worsened by the COVID-19 pandemic, primarily due to their undiversified export source that was impacted by global supply chain disruption and travel restrictions during the pandemic. Graduation is further likely to exacerbate the financing challenges as graduating LDCs will lose access to certain funding schemes. For example, Nepal, upon graduation, will no longer be able to receive new funding under the Least Developed Countries Fund (LDCF) which is targeted toward addressing the immediate needs concerning adaptation to climate change.[72] Likewise, Nepal will lose access to Aid for Trade (AfT) under the Enhanced Integrated Framework (EIF) and UN Capital Development Fund (UNCDF) after five years following graduation.[73] Also, once a country graduates from the Least Developed Countries (LDC) category, the minimum grant element of Official Development Assistance (ODA) loans decreases unless it remains classified as a low-income country (LIC);[74] however, Nepal has also recently climbed up to become a 'lower-middle-income country (LMIC)'[75] due to which the lending conditions are becoming comparatively more stringent.

Hence, the coming years will be a defining period for Nepal with both opportunities and challenges as it navigates from an LDC into a developing country toward becoming a middle-income country. As a result, a smooth, non-reversible, inclusive, resilient, and sustainable transition is crucial for a graduating LDC. The concept of smooth transition embodies the principle that LDC-specific support should be phased out gradually and predictably following graduation, so as not to disrupt the development process of the graduating country, under General Assembly resolutions 59/209, 66/213, and 67/221.

The Government of Nepal needs to take a lead role in making graduation smooth and sustainable by preparing a transition strategy accompanied by a graduation strategy, and also strengthening and activating the LDC Steering Committee recently formed under the National Planning Commission. The country needs to build its productive capacity, expand its export base, diversify its economy, and make serious efforts toward poverty alleviation to sustain its graduation in the long run. It is equally important to take along the private sector, civil society, and international community while it pursues the agenda of sustainable graduation.

Furthermore, Nepal needs to learn from the graduation experience of the graduated former LDCs. For example, Botswana, Cape Verde, and the Maldives had a slowdown in their economic growth during the post-graduation period.[76] However, the Maldives could later maintain stability in their exports post-graduation due to the joint promotional activities of their major export product, i.e., fish, by the private sector and the government.[77] Similarly, Cape Verde undertook good planning before graduation and was able to successfully negotiate with the EU for an additional two-year grace period for the 'Everything But Arms (EBA)' arrangement and some additional transition period deals with major trade partners like China.[78] Similarly, Nepal can also negotiate to gain access to the Generalised System of Preferences Plus (GSP+), giving it dedicated preferential tariff rates which are much less than the GSP tariff rates. One of the important conditions to have access to GSP+ is the ratification of 27 conventions on human and labour rights, environment, and governance out of which Nepal has already ratified 26.

Furthermore, development and trading partners, including the United Nations system, should continue to support the implementation of the transition strategy and avoid any abrupt reductions in financial and technical assistance, and should consider extending trade preferences to the graduated country, on a bilateral basis.[79] Development partners should also provide more finance and continue to ensure that more finances are in the form of grants rather than loans, and the interest rates for loans should be kept as low as possible. They should provide more finance to help LDCs adapt to climate change and better manage their disaster risk while considering new approaches that would make these funds easier to access. Similarly, the international community must phase out the LDC-specific support measures, keeping in mind that the graduated countries would not have built the productive capacity to have sustained development. In addition, the WTO should extend the existing special and differential treatment and exemptions available to LDCs for a period appropriate to the development situation. Equally important is for Nepal to build its diplomatic capital to negotiate with UN agencies, multilateral and regional trading bodies, and other international community, seeking appropriate support for sustainable graduation.

Perspectives from the Development Partners

By Arnaud Cauchois

Country Director,
Nepal Resident Mission, ADB

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For graduation to become sustainable, Nepal needs to achieve inclusive and high economic growth by increasing the productivity and competitiveness of the economy.

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Perspectives on Nepal's LDC graduation: Building Capacity and Productivity

Nepal is scheduled to graduate from the least developed country (LDC) category in 2026. This is an important milestone in the country's development path and reflects the progress made in the past decades despite many challenges – political changes, natural disasters, and the coronavirus disease (COVID-19) pandemic. For graduation to become sustainable, Nepal needs to achieve inclusive and high economic growth by increasing the productivity and competitiveness of the economy. This is important as shown by the recent trends in the country's external balance of payments. It is also important as many of the preferential measures that Nepal enjoys will expire with graduation.

Being an LDC, Nepal currently enjoys the World Trade Organization's provisions like special and differential treatment, service waiver, and duty-free and quota-free market access under the Generalized System of Preference schemes. Once Nepal graduates from the LDC category, market access conditions for exports will become more challenging as benefits under the Generalized System of Preference for LDCs will either discontinue or be less generous on par with other developing countries.[80] Once graduated, Nepal will face stringent rules of origin, increased requirement of value addition, and reduced preference margin.[81] Moreover, Nepal's export items particularly apparel, carpets, and pashmina will face large tariff increases. [82]

Relatedly, policy options for Nepal will get restricted, particularly for export promotion through export subsidies. Presently, the government provides a cash incentive scheme (3% to 5% of export value) for exportable items both industrial and agricultural contingent on 30–50% value addition.[83] For instance, agricultural products such as turmeric, vegetables, flowers, cardamom, ginger, and related products are entitled to subsidies if exported to non-Indian destination countries.[84] Such export-related subsidies will have to be terminated in the post-graduation phase.[85] The other erosion of policy space is the World Trade Organization's agreement on trade-related intellectual property rights that covers copyright, trademarks, geographical indications, industrial designs, and others. LDCs have been exempted from this agreement until 1 July 2021, and for pharmaceuticals, the transition period is until 1 January 2033 or the graduation date, whichever is earlier. After graduation, Nepal will lose its access to a specific transition period for pharmaceuticals, affecting its ability to produce and import a generic version of patented medicines.[86] Nepal may also lose access to LDC-specific technical assistance and capacity-building programs through aid-for-trade and Enhanced Integrated Fund. [87]

Considering such imminent losses, Nepal, therefore, needs to revitalize its manufacturing and services sectors, and strong export performance to achieve high-income growth and thrive without the benefits that LDCs are provided by the international trading system. Nepal has an extended preparatory period of four to five years to prepare itself for graduation, while simultaneously planning and implementing policies to reverse the economic damage caused by the COVID-19 pandemic. Nepal The country should also review its current industrial policy, 2011, and trade policy, 2015 to provide the right incentives for efficient domestic production and exports and facilitate industrial growth in the country. Furthermore, it should also focus on improving trade-related infrastructure to enhance supply chain management. Once Nepal graduates from the LDC status, this will signal to the world about Nepal's reduced exposure to structural vulnerabilities, which may help boost inflows of foreign direct investment. The graduation to a developing country grouping will enhance Nepal's credibility and boost the confidence of the private sector. It could improve Nepal's sovereign credit rating and access to commercial loans. For a smooth transition to a developing country grouping in 2026, Nepal should prepare itself by establishing a coordination mechanism, with a detailed graduation plan and strategy. The country should strengthen its productive capacity, improve its competitiveness, and diversify its exports. The focus should be on enhancing the competitive capacity of goods and services with comparative advantages. Lack of collection and processing centers, certification, and product standardization issues have held back the export potential of certain niche agro-products such as tea, coffee, ginger, and large cardamom. Quality and product standard issues, and limited production scale have affected the export potential of select products such as pashmina and woollen carpets. Apart from these commodities, Nepal should focus on the export promotion of IT services, tourism, and hydropower. ADB's support in the energy sector has helped improve the availability, reliability, and sustainability of hydroelectricity, and facilitated its cross-border trade. ADB's support in the development of sustainable and resilient transport infrastructure, logistics, and trade facilitation will help reduce trade and distribution costs for firms; provide people easier access to markets, social and government services, and greater employment opportunities.

ADB, guided by its plan, Nepal: Country Partnership Strategy (2020–2024), will continue to lend its support through sovereign and non-sovereign operations in key areas,[88] thereby facilitating Nepal's transition to developing country status. The Nepal country partnership strategy, (2020–2024) has three objectives – (i) improved infrastructure for private sector-led growth, (ii) improved access to devolved services, and (iii) environmental sustainability and resilience. Under improved infrastructure for private sector-led growth, ADB's support is mainly for renewable energy, road and air transport, logistics, and trade facilitation to strengthen domestic, regional, and international connectivity; reduce the costs of production and trade for businesses, and attract private investment. Improved access to devolved services entails assistance for (i) the development of cities and urban municipalities, (ii) quality education and employment-oriented skills development, and (iii) increased agricultural productivity and commercialization to augment rural incomes. These initiatives are targeted to benefit women and disadvantaged social groups. ADB will support integrated water resource management, and formulation and implementation of policies and plans for stronger resilience and environmental sustainability. ADB will assist with policy reforms for devolved service delivery, including subnational public financial management, and sector reforms in agriculture, air transport, and water supply. ADB will emphasize knowledge solutions and the development of institutional capacity, especially at subnational levels. [89]

> **“For a smooth transition to a developing country grouping in 2026, Nepal should prepare itself by establishing a coordination mechanism, with a detailed graduation plan and strategy.”**

By Faris Hadad-Zervos

Country Director for the Maldives, Nepal, and Sri Lanka, The World Bank

> “Nepal’s economy has also weathered frequent shocks - be it the 2015 earthquake, the six-month-long trade disruption between India, the COVID-19 pandemic, and the recent spike in global commodity prices. These instances have transformed Nepal’s landscape and outlook.”

Nepali Economy in Transition

It is an achievement for Nepal to be identified by the UN General Assembly for graduating from the Least Developed Country (LDC) category in 2026. The graduation recognizes Nepal's steady progress to date with per capita GDP increasing by an average of 3.1% every year since 2000 and the welfare of the population consistently improving with every passing year. Key achievements – as documented by the World Bank's recent poverty assessment include progress in improving access to sanitation, electricity, health services, and education.[90] These developments have been instrumental in increasing literacy, narrowing gender gaps in education, reducing infant mortality, and increasing life expectancy. Nepal's economy has also weathered frequent shocks - be it the 2015 earthquake, the six-month-long trade disruption between India, the COVID-19 pandemic, and the recent spike in global commodity prices. These instances have transformed Nepal's landscape and outlook.

Graduation from LDC status is noteworthy but may be unlikely to substantially affect Nepal as it has not exploited the spectrum of benefits offered. It is not only Nepal that is missing out on the benefits of intraregional trade. For decades, the South Asia region has registered the lowest contribution of intraregional trade to GDP when compared to other regions in the world, averaging less than 1% of regional GDP. [91]

LDC status enables countries to trade goods and services at concessionary terms. These benefits are designed to pave a path for developing economies to accelerate export-led growth, which Nepal has not benefited from and continues to remain a priority moving forward. Indeed, as shown in the World Bank's April 2021 Nepal Development Update, the share of exports in GDP has fallen from an average of 20% of GDP between 1990 to 2000 to only 8% between 2010 to 2021.[92] At the same time, over 78% of Nepal's exports are destined for India. These exports were not able to benefit from LDC concessions as they are governed by the South Asian Free Trade Area (SAFTA) agreement and the India-Nepal bilateral trade treaty. These treaties also apply to power trade, which is a significant driver of export for Nepal.

Looking forward, to ensuring that Nepal can reap the fruits of trade and leverage its strategic location, the country needs to rethink its current model. Nepal has not benefited from export-led growth because its remittance-based growth model has shifted much of the country's productive capacity abroad. To date, Nepal has followed a remittance and consumption-based growth model – with limited domestic production and job opportunities. In the current model, many Nepalis have sought livelihoods abroad and sent back remittances that finance the consumption of mostly imported products and domestic services. While this model has served the country well in reducing poverty, it is unclear to what extent it will be sufficient to sustain growth moving forward. The doubt in the model arises because a remittance-based growth model works well in the short-run, however, risks undermining domestic productivity. For instance, it can put upward pressure on the real exchange rate, thereby undermining export competitiveness and reducing the relative price of imported products.

In the medium run, Nepal would benefit from policies that encourage domestic productivity growth and the transition to an export-led economy. This is something the government and development partners are aligned on as the endgame. Such a transition would increase Nepal's economic resilience by bringing in foreign currency and could boost domestic job creation, especially in higher value-added activities.

We recommend six priorities to facilitate such a transition. The first is adapting and transforming the tourism sector to meet the changing demands of tourists in a post-COVID world. It is crucial to improve the conservation and resilience of infrastructure with strategic planning, so Nepal can develop a nature-based and environmentally sustainable tourism sector. The second is simplifying and streamlining processes for bringing in foreign direct investment (FDI) into the country because such investments also bring in technical know-how. These efforts should be accompanied by active economic diplomacy to attract FDI for maximum impact. The third is modernizing export promotion through digitization, process and regulatory simplification, skills development, and export incentives. The fourth is reducing trade costs through upgraded infrastructure and streamlined procedures at the border. To support the export of agricultural products, the fifth area is improving phytosanitary infrastructure to raise the standards and enhance the safety of exports. Finally, a robust policy framework for digital trade and e-commerce will be critical. This policy framework would encompass efficient domestic and cross-border digital payment systems and align consumer protection and data privacy regulations with international good practices.

The World Bank commends Nepal for its continued development progress. The highest aspiration of a country is to attain a level of prosperity for its citizens that provides them with the freedom to live, work, and achieve their sense of self-fulfilment with minimal barriers. LDC graduation is one step forward in this long journey for all Nepalis. We are all united with Nepal on the goal of invoking a Green, Resilient, and Inclusive Development (GRID) agenda to ensure prosperity that endures for generations to come.

“For a smooth transition to a developing country grouping in 2026, Nepal should prepare itself by establishing a coordination mechanism, with a detailed graduation plan and strategy.”

By Heidi Tavakoli

Deputy Development Director,
British Embassy Kathmandu

Pippa Bird

Development Director,
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What does LDC Graduation Mean for Official Development Assistance?

Nepal's dual transition to Lower Middle-Income Country (LMIC) status and Least Developed Country (LDC) graduation is a big moment. Nepal can be proud of the immense progress that the post-war democratic order has presided over. The country has also proved remarkably resilient to devastating crises, such as the 2015 Earthquakes and the COVID-19 pandemic. The UK is proud to have been a long-term partner and friend on this journey.

What we would like to do in this article, is describe how donors think about what LDC graduation means for the funds that countries like the UK give as official development assistance (ODA). Various bilateral donors have different approaches to engaging with LDC countries. Set out below are the anticipated changes to ODA for Nepal informed by international experience.

In terms of the volume of ODA to Nepal, we expect it to remain stable in the short term with priorities and delivery instruments shifting. We don't see LDC graduation as a cliff edge, where ODA will suddenly stop. Most International Financial Institutions and bilateral agencies make allocation choices determined by criteria other than LDC status. While LDC graduation may have important implications for trade; GNI per capita, and Nepal's status as a Lower Middle-Income Country may be more influential on ODA decisions. It is expected that as GDP per capita rises, ODA will reduce in absolute terms, and the proportion of the budget that is ODA-sourced will also fall. This is a gradual process and has already started to take place in Nepal, as the Government of Nepal is aware. Nepal's Statement on LDC Graduation for the 2021 Triennial Review, notes that ODA as a proportion of the government's budget has decreased from 15.1% in FY 2015/16 to 11.2% in FY 2019/20.

What we do see shifting, is the aid instruments and the objectives of ODA. As Nepal graduates, we will continue to observe a shift away from grants toward loan and equity finance. As a lower middle-income country, with sound and stable macro-economic management, Nepal will be able to borrow from International Financial Institutions in a way that many LDCs cannot. As an increasingly large economy, the proportion of the budget of any one sector that traditional grant-based ODA contributes to will diminish.

Due to this, ODA to Nepal will change with donors no longer willing to pay for the delivery of core government functions. We will see a shift away from direct financial aid where donors transfer funds for core service delivery, towards a focus on the development of Nepali capability, systems strengthening, and technical assistance. We will see a more integrated approach using non-aid instruments like trade, investment, loans, the use of science and technology, and the use of ODA to leverage private sector funds.

In 2026, when Nepal formally graduates from LDC status, the Government of Nepal will be the implementer of development, and the transition focus will therefore be on strong public service delivery. The transition to federal governance structures and having the systems in place to deliver for the people of Nepal will further facilitate graduation. ODA will still be available and important, but it will complement rather than provide grant funding for government delivery. Our objectives as donors will be to help the government innovate and improve its work.

We know that development is rarely simple and linear. Nepal is, and will remain, vulnerable to shocks, and many people in Nepal will remain vulnerable to moving back into poverty. There are three main implications for ODA ¬- First, ODA will have a long tail, donors will remain important partners, they and need to be ready to support countries and people in crises. Second, we need to continue to build the capacity of the Government of Nepal to manage risk and manage crises, building a strong, capable, and inclusive state that can protect its people from climate-related, political, and economic shocks. Finally, building a state that works for the poorest and most vulnerable in Nepal will be a critical part of making LDC graduation successful and sustainable.

This expected trajectory is in line with the UK's approach. The 'UK's offer' is to continue our long, positive relationship with Nepal, with a more integrated approach that sees traditional bilateral grant aid complemented by support to scale-up trade, investment, and science and technology to support Nepal's sustainable development.

“In 2026, when Nepal formally graduates from LDC status, the Government of Nepal will be the implementer of development, and the transition focus will therefore be on strong public service delivery.”

“Building a state that works for the poorest and most vulnerable in Nepal will be a critical part of making LDC graduation successful and sustainable.”

By Jason Seuc

Director at Economic Growth Office, USAID Nepal

The Graduation Roadmap - Building Nepal's Trade Capacity and External Competitiveness

> Nepal is at the cusp of ushering in a new era of economic and social prosperity – its graduation from a Least Developed Country (LDC) to a middle-income country in 2026 will catalyze this transformation.

While Nepal faces complex development and economic challenges and continues to weather global and local shocks, it is a country of opportunities. Nepal is best known for its incomparable natural beauty and rich culture, but its hard-working, talented, and entrepreneurial people are its greatest asset. In recent years, Nepal has made notable economic and social progress despite confronting adversities such as political transitions, natural disasters, a difficult investment climate, entrenched social inequities, and limited market opportunities that hinder growth and investment. Despite this, Nepal is at the cusp of ushering in a new era of economic and social prosperity – its graduation from a Least Developed Country (LDC) to a middle-income country in 2026 will catalyze this transformation.

As Nepal transitions to middle-income country status, it will be presented with many new opportunities – with the promise of increased foreign direct investment (FDI) as the most tantalizing and elusive prospect. However, the country may encounter apprehension from global investors, including bilateral partners, since Nepal will lose the special access and facilities available to it as an LDC. As an LDC, countries have benefits that act as safeguarding measures and allow preferential market access to different destinations. The International Trade Center has estimated that Nepal will lose an equivalent of USD 59 million in exports after LDC graduation. With concerted efforts, this loss can be offset by the gains that Nepal would make as a middle-income country, especially as it has not fully utilized its preferential market access.

To fully capitalize on its middle-income status and offset these predicted losses, Nepal will need to take bold steps to remove barriers that cripple its growth. The country must effectively implement policies that improve its investment and business-enabling environment. It must also significantly upgrade the quality of its products and services to comply with international standards and equip its workforce with the appropriate skills and knowledge to meet market demand. In addition, there is an urgent need to improve efficiencies in business approval and registration processes as well as to overcome sanitary-phytosanitary and technical barriers to trade that can allow Nepal to optimally utilize available resources and increase its competitiveness in the global market. By focusing on niche products and services that have comparative and competitive advantages, Nepal can maximize the added value to its productive sectors, including the agriculture sector. To advance a vibrant private sector, Nepal must unlock opportunities to leverage finance and technology for greater development impact. Incentivizing financial institutions, business development service providers, and other enterprise-support organizations can help increase the availability and diversity of their products and services. These initiatives will help lay the foundation for smooth graduation to middle-income country status.

Nepal's agriculture, tourism, and digital services sectors have significant potential to become major sources of growth and development. With this understanding, the United States Agency for International Development (USAID) launched the USAID Trade and Competitiveness activity. This five-year USD 18.9 million activity will increase the Nepali private sector's competitiveness in targeted domestic and global value chains – strengthening enterprises engaged in agro-processing, digital services, and tourism. USAID will also support the private sector to recover from the impacts of COVID-19 and the war in Ukraine. Through this activity, USAID will improve access to market-based services, increase productivity, and improve Nepal's investment climate and business-enabling environment.

Since 2011, USAID's successful investments in agriculture illustrate Nepal's great potential. Advancing the U.S. Government's Feed the Future initiative, USAID's KISAN II and Nepal Seed and Fertilizer activities work with the private sector to build market systems that increase the productivity and competitiveness of high-priority commodities like rice, maize, goat, lentils, seed, fertilizer, and vegetables. By providing technical assistance to farmers and private firms, USAID has helped farming communities and agribusinesses to increase farm sales by more than 400% in just four years – including supporting over USD 250 million in sales in 2021 alone–reducing poverty, hunger, and malnutrition.

These achievements show that even small investments can help Nepali firms become more competitive and integrated into global value chains. With better access to global markets, firms can attract additional investment that creates new jobs and opens doors to important economic and social opportunities for a new generation of innovative women, youth, and marginalized groups.

This year, as the United States and Nepal commemorate 75 years of friendship, USAID in partnership with the Government of Nepal will continue to support and implement activities that accelerate private sector investment and development. USAID will continue to build capacity for trade and competitiveness, and help make Nepal a more prosperous, inclusive, and self-reliant nation as it approaches middle-income status.

> “Nepal must unlock opportunities to leverage finance and technology for greater development impact.”

This is USAID's contribution to Nepal Economic Forum's 50th Nefport Edition: "LDC Graduation and Beyond"

By Teresa Daban Sanchez
IMF Resident Representative to Nepal

Nepal and the International Monetary Fund: The Extended Credit Facility

In this piece, the new IMF Resident Representative, Ms. Teresa Daban Sanchez, tells us about the scope of the IMF-supported program and her goals as IMF Resident Representative to Nepal.

> "Nepal is a country in the middle of an exciting transition from low-income to middle-income status, with great growth potential and interesting macroeconomic challenges."

1. How would you define your mission statement as Resident Representative of IMF to Nepal?

Nepal and the IMF have a long and fruitful relationship. My main goals are to strengthen this relationship even further by providing the Nepali authorities with strong and timely support to implement the IMF-supported program. One of my main goals is to ensure that our collaborative efforts with the Government of Nepal are well communicated and effective. This is particularly important given the reduced visibility of the IMF and Nepal relationship in recent years. Due to COVID-19, our headquarters-based team was not able to visit Nepal, most of the discussions were conducted through virtual means, while a full-fledged local IMF office did not exist. Now, all of this is changing with IMF missions resuming trips to Nepal and the IMF appointing a full-time IMF Resident Representative based in Nepal.

2. What are the key highlights of the IMF's assistance to Nepal in recent years?

Before COVID-19, IMF support mostly materialized as policy advice during the annual Article IV Consultations, which provided a comprehensive assessment of macroeconomic conditions and policy recommendations from a medium-term perspective. In addition, Nepal enjoyed technical assistance provided by the Fund, either directly from our headquarters in Washington DC, or by the South Asia Regional Training and Technical Assistance Center (SARTTAC) in Delhi. During the early years of COVID-19, IMF's support was expanded to include funding aimed at addressing the urgent concern with the balance of payments and the needs of the budget aggravated by COVID-19. This included USD 214 million in emergency financing, USD 14 million in grants, and another USD 214 million as part of the 2021 General Allocation of Special Drawing Rights. In January 2022, this support culminated and received approval for a 38-month Extended Credit Facility (ECF) of about USD 400 million.

3. What are the main goals and reforms of the IMF's Extended Credit Facility (ECF)?

The IMF's ECF has three main goals. First, mitigating the COVID-19 impacts by allocating funds in the budget for health, social assistance, and job support, while enhancing fiscal transparency and governance.

Second, preserving macroeconomic and financial stability by maintaining a prudent fiscal stance, preserving reserve adequacy, and strengthening financial sector stability. Third, supporting a reform agenda that leads to sustained growth and poverty reduction over the medium term. The reforms envisaged under the ECF could be grouped as followed – first, those aimed at strengthening fiscal transparency and governance by expanding fiscal reporting (e.g., COVID-19-related spending programs, extra-budgetary funds), bringing Nepal Rastra Bank (NRB)'s legal framework in line with best international practices, and improving transparency of tax and customs exemptions, among others. Second, reforms aimed at improving Nepal's fiscal sustainability and management by building a register of risks that could affect Nepal's budget position as well as improving the government's cash-flow forecasting. Third, actions aimed at reaching an equitable and sustainable growth path, by improving the efficiency and execution of public investment and by formulating a Poverty Reduction and Growth Strategy. Finally, reforms aimed at strengthening financial sector regulation and banking supervision by upgrading asset quality regulations, among other measures.

4. How will IMF's ECF be monitored and implemented?

The implementation and monitoring of the ECF will be undertaken through bi-annual reviews. A review includes discussions with the entire IMF team responsible for Nepal. Reviews entail the verification of certain performance criteria, i.e., numerical targets of key variables to be achieved through pre-determined dates (e.g., fiscal deficit, level of international reserves). This is complemented with a few indicative targets, i.e., numerical targets aimed at assessing the quality of policies (e.g., monitoring the execution of social programs such as the child allowance). Finally, reviews also entail the verification of structural benchmarks, such as drafting pieces of legislation or regulations, by a certain time frame.

5. How are the global developments and in particular the war in Ukraine affecting the implementation of the ECF?

From the start of the program, in January 2022, economic developments were broadly in line with what was anticipated. Against the background of declining COVID-19 cases and a very successful public vaccination campaign, economic activity has been strengthening through the reopening of the economy, rapid credit growth, a gradual recovery in tourism, and sustained remittances. Inflation has, however, increased and imports have continued to rise rapidly with existing imbalances worsened by the impact of the war in Ukraine. The war has impacted commodity prices, raising the cost of oil imports in particular. Although they currently remain adequate, international reserves have declined more than anticipated ever since the ECF was approved. On the positive side, the authorities are determined to take corrective measures to arrest these challenges. Moreover, fiscal policy has been less expansionary than originally envisaged in FY2022, and the Nepal Rastra Bank (NRB) has implemented two rounds of interest rate hikes and monetary tightening in February 2022 and in July 2022.

6. Where do we stand now with the implementation of the ECF?

Since the ECF approval, the IMF team and the Nepali authorities have made good progress toward completing the first review. We held an engaging mission back in May 2022, in which we acknowledged the strengthening of economic activity, yet expressed concerns the impact of the Ukraine war remained significant. We advised the government to continue tightening monetary policy (consistent with the NRB's action in July 2022) and to align the implementation of the FY 2023 budget with the fiscal path laid out in the ECF. This approach is expected to address decreasing international reserves without the need to resort to importing restrictions that could further magnify inflation and hamper economic growth. As of today, we are engaging and working with the Nepali authorities to complete the first review.

7. Any further message for our readers?

I am very grateful to the Nepali authorities for their hospitality and for allowing me to work as the IMF Resident Representative to Nepal. Nepal is a country in the middle of an exciting transition from low-income to middle-income status, with great growth potential and interesting macroeconomic challenges. Moreover, it is a country with a very appealing history and cultural heritage. This will be a demanding assignment, but also a rewarding one from both a personal and professional viewpoint.

Prospects of Graduation

By Mohan Das Manandhar

Chairperson, Niti Foundation

Prospective Plan for Transformed Nepal: Making Vision 2030 a Reality

> Over the past years, Nepal has transformed in various areas of economic and political significance while gaining social equity and justice by investing in improving accessibility to many basic rights.

The 2015 Constitution of Nepal, envisions an equal, prosperous, and just society for all its citizens. In line with this vision, the country successfully adopted a federal political structure comprising 7 federal and 753 local governments. The Constitution of Nepal 2015 defines Nepal's goal to achieve prosperity and social justice for its sovereign citizens, and the federal political system allows collaboration among the private sector, cooperatives, and civil society that create opportunities for Nepal prosperous.

The vision 2030 of a federal, democratic, inclusive republic Nepal envisions the Nepali economy to grow double to USD 90 billion by 2030. To achieve this, the Government of Nepal has projected the Nepali economy to grow at 9-10% per annum which shall propel the per capita income to increase to nearly USD 2,500.

With such growth prospects, Nepal's future seems on the path to achieving the economic dimension that would facilitate Nepal's graduation from the least developed country status to a middle-income developing country by the year 2026. UN Committee on Development Policy (CDP) upon reviewing Nepal's performance in the human assets (HAI) and economic vulnerability (EVI) index recommended the country to be graduated from the LDC category in February 2021.

During the transition period, it is essential to reflect on all the major achievements that Nepal has concurred with. Over the past years, Nepal has transformed in various areas of economic and political significance while gaining social equity and justice by investing in improving accessibility to many basic rights. The country has also made concerted efforts to promote an inclusive framework that facilitates access to opportunities and built capacities of excluded and marginalised communities. Many policies introduced have managed to bring about prominent changes in Nepali society and provided social protection to the vulnerable and poor. With such achievements in place, Nepal is on track in many aspects and should now place its focus on inclusive economic growth for economic gain, making Nepal a prosperous nation.

Likewise, Nepal has also progressed in different infrastructural and social aspects. Access to health and education has expanded nationwide and has achieved crucial milestones which have contributed to improvements in human capital. For instance, as per the Economic Survey 2021/22, the enrolment rate of students in primary (Classes 1 to 5), secondary (Classes 6 to 8), and higher secondary (Classes 9 to 12) levels stands at 96.9%, 95.1%, and 54.3%, respectively. On the economic side, connectivity infrastructure has expanded and reached every nook and corner of the country. The rapidly expanding networks and connectivity through improved local roads and regional highways, mobile networks with reduced tariffs, and transmission line corridors across the length and breadth of the country have managed to globalise Nepal's expanse. While innovations and improvements have been noteworthy, further investments in improving strategic highways and the national grid are warranted to further Nepal's

> **Federalization in Nepal has established provincial and local governments that have improved the implementation process at the local levels.**

reach in the region and beyond.

Federalization in Nepal has established provincial and local governments that have improved the implementation process at the local levels. With the power to strategize in their territories, these local bodies should leverage the opportunity to collaborate with donors, development partners, and investors to contribute to improvements of the provincial and local governments for economic progress. These governments have the autonomy to prepare their budgets as well as plans and policies, which holds them accountable and responsible for their actions. For this reason, capacitating these bodies become extremely crucial in today's scenario.

Moving on, as much as Nepal has witnessed improvements in certain areas, one of the major fissures remains on the front balance of payment and trade balance. Currently, the balance of payment is the major challenge disrupting the Nepali economy. The annual data for FY 2021/22, reveals that the balance of payment deficit stands at NPR 255.26 billion in comparison to a surplus of NPR 1.23 billion in FY 2020/21, suggesting the Nepali economy's dwindling position. While the country was already experiencing a weakening economy, the deficit was further exacerbated by the rising cost of fossil fuels imported from India. The slumping nature of the market owing to rising prices can only be arrested by switching to renewable energy at both the household and macro level while also exporting electricity to India. Working on such alternatives should be the priority of the government hereon.

In addition, the country should also focus on restructuring the economy to production-based activities. There are three areas – Electricity trade (national level); local economy aggregation (local level); and regional markets and urbanization (provincial level) that need to be kept at the core to achieve the target of vision 2030.

1) Electricity Trade: The private sector's investment is huge with nearly 3000 MW currently under different phases of development. By 2026, Nepal will have around 7,000 MW of installed capacity and 10,000 MW by 2030, a majority of which will be sourced through private sector investments. The investment in electricity generation serves a dual purpose – a) to support domestic economic activities by increasing productivity, supporting digitalization, and curbing economy-environment trade-off by adopting green technologies that replace fossil fuels (like electronic household appliances, and electric vehicles). b) by exporting to regional markets (in India and Bangladesh). The infrastructure for electricity production – hydropower and other renewable sources such as solar and wind has the potential to raise the economic growth by 3-4% per annum when all public and private projects come into operation. The federal government shall take lead on this.

2) Developing Urbanization and Regional Market: The second driver of growth is urbanization and the development of the regional market at the provincial level. Investment in urbanization has the potential to drive regional growth at the provincial level, aggregating local economies and providing public goods and services (like specialised medical care and quality education). The provincial government could potentially invest in developing regional markets and urban centres across the newly constructed mid-hill highways. The provinces need to strengthen institutional and investment capacity. While they gradually increase their budgets and Nepal graduates from being a least developed country, the donors can provide technical and financial assistance to the provinces for these purposes. At present, provinces have around USD 2 billion (NPR 200 billion) of resources, with a 40-50% for capital investment. This capacity (budget) needs to increase going forwards. In addition, encouraging investment opportunities within provinces for large irrigation projects, sizeable specialised health centres, and land development support projects would create thriving ecosystems among small municipalities to transform into urban municipalities.

3) Promoting Local Economy: Under federalism, local governments are responsible for creating, preserving, promoting, and strengthening the local economy. In the last five years, the local governments have invested in service infrastructure (health, education, and access roads) and social protection. The new leadership in local government is keen on investing in economic infrastructure and market institutions to promote the local economy. This includes the commercialisation of subsistence agriculture and livestock practices – by providing inputs, and more importantly, by connecting the produces to market (not necessarily by buying them with taxpayers' money) while many of the local agriculture produce medicinal herbs.

In sum, there needs to be a systematic approach to achieve economic growth in the coming five years and lay a foundation for a post-graduation Nepal. Priority should be on creating synchronization between the federal, provincial, and local government priorities for economic gain to achieve vision 2030.

By Paras Kharel

Executive Director, South Asia Watch on Trade, Economics and Environment (SAWTEE)

Resource Mobilization Issues for Sustainable LDC Graduation

Nepal aspires to become an upper-middle-income country by 2030. If this aim, expressed in the current development plan, is about raising living standards, and not simply increasing nominal income through inflation, it implies a real gross national income per capita growth of at least 13% per annum during 2020-2030. Nepal's Sustainable Development Goals (SDGs) for the period 2016-2030 are also ambitious. The financing gap in SDG investment requirements is about 13% of the GDP. The government sees foreign aid as a chief source of funding for the SDG financing gap in the public sector.

Nepal is the only country among the dozen other least developed countries (LDCs) on track and moving towards graduation, leaving the LDC status without meeting the income threshold. This raises concerns about the sustainability of the impending graduation, slated for 2026. Loss of LDC-specific trade preferences as a result of graduation is the biggest cause for concern. The graduation shock is estimated to cause Nepal's merchandise exports to fall by 2.5-4%. As the prospect of tapping the country's export potential is partly predicated on preferential tariffs, graduation implies much higher export losses than predicted by the standard modelling exercises. Subsequently, this emphasizes the urgency of tackling productive capacity and supply-side constraints. The resulting resource needs could be in addition to those projected for achieving the SDGs.

The increased expenditure demands of post-earthquake reconstruction and federalism have spurred the government to borrow more. In five years to 2020/21, total public debt increased by 148%, reaching 40.5% of the GDP. The outstanding public debt-to-GDP ratio has exceeded not just the periodic targets of the SDGs but also the final 2030 target of 35%. Expenditure efficiency has considerable potential to generate or maintain fiscal space. In contrast, the government in its roadmap for the SDGs does not attach much importance to it. It cautions about the need to weigh expenditure efficiency against redistribution priorities. However, the 2019 report of the Public Expenditure Review Commission and the annual reports of the Auditor General, provide evidence of a huge scope for expenditure reduction.

Nepal's revenue-to-GDP ratio is the highest in South Asia; it was at 21.5% in 2018/19, just before the outbreak of COVID-19 took place. This headline figure masks the dependence of revenue on import trade (which is 50%). Revenue raised from internal economic activities is from a narrow base. With income tax accounting for about a quarter of tax revenue, revenue is largely based on indirect taxes. The implementation of VAT, a key instrument for revenue mobilization emphasized by the government, has been weak – with a limited base and a high degree of noncompliance. The government faces the challenge of balancing competing considerations in revenue policy – mobilizing revenue to meet the immediate pressure of increased expenditures and incentivizing and stimulating the domestic industry. The 2021 report of the Revenue Advisory Committee of the government, expresses concern about trade liberalization leading to revenue loss and adversely impacting the domestic industry.

Upon graduation, Nepal is likely to come under increased pressure to liberalize trade, which could further stress revenue mobilization. The pressure to collect revenue appears to have sowed ideas of revenue measures without taking into account the rules of international trade. The Revenue Advisory Committee recommends expanding the excise duty base and introducing multiple rates of VAT to protect domestic industry and offset the revenue loss from tariff reductions. This implies that excise duty and VAT are and can be imposed differently across imports and domestic production, which does not align with the World Trade Organization rules.

Graduation from LDC status is unlikely to affect most current sources of foreign aid. Aid from top multilateral financial institutions is based on income level and debt sustainability rather than LDC status. Moreover, strategic and political considerations drive bilateral aid. There is scope to access bilateral loans on concessional terms, given the declining share of grants in bilateral aid.

In Nepal, remittances play a critical role in achieving many of the SDGs. SDG target 17.3 is to increase remittances as a percentage of GDP from 29.1 percent in 2015 to 35 percent in 2030. The government targeting an increase in the remittance-to-GDP ratio by 6% points in 15 years underlines the importance it attaches to remittances and its belief that nominal GDP will grow much slower than remittances during this period – unless the argument is that the targeted increase in remittances as a proportion of GDP will occur simply by formalizing informal remittance inflows.

Some speculate that LDC graduation could have a beneficial impact on foreign direct investment (FDI) by sending a positive signal to rating agencies and foreign investors. Without addressing existing constraints to attracting FDI – from policy, institutional, managerial and procedural constraints to infrastructural constraints – LDC graduation alone is unlikely to have a notable impact on FDI inflows.

“Loss of LDC-specific trade preferences as a result of graduation is the biggest cause for concern. The graduation shock is estimated to cause Nepal’s merchandise exports to fall by 2.5-4%.”

This article draws on the author’s research papers: Resource mobilization for sustainable LDC graduation of Nepal in the context of emerging challenges to development financing (ESCAP); Nepal’s elusive quest for export success meets LDC graduation (SAWTEE).

By Prativa Pandey

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> It is both important and urgent for Nepali pharmaceutical industries to have a comprehensive plan to mitigate the loss of flexibilities and special preference after LDC graduation.
>
> Nepal should become a member of organizations like the International Center for Genetic Engineering and Biotechnology (ICGEB), to benefit from their highly subsidized technology transfer provision to support developing countries.

Impact of Graduation on Nepal's Pharmaceutical Industry

Nepal's pharmaceutical industry has come a long way since the establishment of its first company in 1971. The industry continued to expand throughout the 1980s and 1990s, and in the last two decades saw tremendous growth in terms of industrial expansion in pharmaceutical manufacturing.[93] Currently, with 62 fully operational companies,[94] the pharma industry is producing medicines worth NPR 22 billion (USD 174.4 million) annually, thereby satisfying 50% of the total domestic demand for pharma products. [95]

The recent surge in growth of the pharmaceutical industry can be credited to Nepal gaining access to special treatment under the World Trade Organization (WTO). Per the flexibilities for LDCs provided under the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), pharmaceutical companies in Nepal can currently produce patented medicines and pharmaceutical products without providing patent rights and paying royalty to the innovators. Nepal will lose this flexibility either after the transition period (valid until 1 January 2033) or upon its Least Developed Country (LDC) graduation, whichever is earlier.

The flexibility granted by TRIPS has contributed to an increase in the production of generic drugs i.e., pharmaceutical drugs that contain the same chemical substance as drugs that were originally protected by patents. The market demand for generic drugs is high in developing countries and has dramatically grown across the globe due to low prices and increased quality, thus leading to an increase in the share of generic drugs in the total market share. However, most of these generic drugs produced in Nepal are patent-expired drugs. Pharmaceutical industries in Nepal have not fully utilized the privileges provided by the TRIPS treaty to manufacture drugs that are patent protected, transfer cutting-edge technologies and produce biosimilars that are in high demand like insulin, antibodies, enzymes, etc. Most of these innovative pharmaceutical products are being manufactured in India and Bangladesh and imported to Nepal. Therefore, it is both important and urgent for Nepali pharmaceutical industries to have a comprehensive plan to mitigate the loss of flexibilities and special preference after LDC graduation.

The Immediate and Long-term Impact Upon Loss of TRIPs Flexibilities

As Nepal will lose LDC status in 2026, the domestic pharmaceutical industry will stop enjoying patent waivers seven years before the expiry of the stipulated transition period which was originally scheduled for 2023.[96] Since off-patent medicine accounts for the major source of revenue for the industry, the impact of LDC graduation on the pharmaceutical industry in terms of revenue in short term is expected to be limited as the industry has not fully utilized the benefits of the TRIPS-related flexibilities. However, Nepal's pharmaceutical industries will lose an opportunity to grow in the innovation sphere as the cost for technology transfer and innovation will also drastically increase with the loss of TRIPs flexibilities along with having to comply with compulsory licensing. Innovation is particularly important in the knowledge economy as the entire pharmaceutical industry globally is shifting towards knowledge-based and computational domains looking to create innovative products. Losing an innovative edge will certainly impact the long-term growth of Nepal's pharmaceutical companies both in terms of revenue and innovation pushing us backwards by decades and making the country even more reliant on other countries for our pharmaceutical needs.

Although the immediate impact of LDC graduation on pharmaceuticals is expected to be minor for manufacturers, the consumers of generic medicines will be paying a big price. The price of generic medicine is expected to increase due to licensing requirements under TRIPS. In a country where a high proportion of medical expenses comes out-of-pocket, an increase in the price of essential drugs will add pressure on patients and the entire healthcare ecosystem.

Further, Nepal will lose its access to the WHO global alliance on vaccines called GAVI (Global Alliance on Vaccine and Immunization). GAVI subsidizes all 11 WHO-recommended child vaccines in Nepal, so losing access to GAVI may lead to a worsening situation of child health outcomes. Therefore, an increase in price for essential generic drugs along with limited access to the important vaccine will reverse the gains achieved in the health outcome of Nepal and further hinder the achievability of SDG targets.

Innovation and Investment in the Domestic Pharmaceutical Ecosystem

Major changes in the myopic vision of the pharmaceutical manufacturers and the related-national IP, industrial, and STI policies are necessary to ensure a sustainable and thriving pharmaceutical industry in Nepal, where consumers' access to essential medicines is not compromised. Nepal has not been able to fully utilize and benefit from the flexibilities granted to LDC due to the poor domestic ecosystem for science, technology and innovation (STI), which has limited technical capacity of the industry. The establishment of Research and Development (R&D) units should be encouraged in pharmaceutical companies to enhance their in-house drug design and development capacity and technology transfer portfolio. Inadequate R&D efforts and a lack of industrial incentives for innovation have lowered the appetite for innovation in the industry. Lacking R&D and international quality assurance protocols have also constrained the scientific exploration of medicines based on traditional and indigenous knowledge to manufacture medicinal products. Additionally, unfriendly and lengthy technology transfer policies and regulations have limited the development of the domestic pharmaceutical industry.

Nepal has failed to attract substantial Foreign Direct Investment (FDI) in the pharmaceutical industry. Despite enacting the Foreign Investment and Technology Transfer Act – 2019 (FITTA), the flow of FDI in the pharmaceutical industry has been limited. FITTA has a provision which allows for the direct establishment of industry in Nepal and has a safeguard mechanism to promote technology transfer in Nepal. However, due to the ineffective implementation of the policy by the government, the risk and uncertainty for foreign investors persist in Nepal.

Additionally, due to shortcomings in policies related to foreign investment and Intellectual Property Right (IPR), there has been an inadequate flow of foreign technology in Nepal. Despite having huge potential in the production of herbal medicine, the failure to protect and safeguard free-rider risk on the invention of a foreign company have made foreign companies reluctant to transfer their freshly discovered technology to Nepal. Due to inadequate investment in R&D and poor FDI inflows, the domestic industry is still dependent on the production of off-patents and generic medicine. These medicines lack in quality and efficacy as compared to what is offered by neighboring countries– India and Bangladesh – thus, limiting the competitiveness of the domestic pharmaceutical industry in the international market. Recent progress in the production of generic medicine are positive signs but is not enough to achieve self-sufficiency in medicine and vaccines. The ecosystem for innovation and technology transfer should be enhanced to unlock the full potential of the industry and benefit from exports to the international market in the long term. Additionally, the quality of many medicines manufactured in Nepal do not meet international standards as prescribed by the WHO and international drug regulations. Only a handful (single digit) of pharmaceutical companies have obtained the Good Manufacturing Practice (GMP) certificate awarded by the WHO, which is a basic form of certification. The industry as a whole needs to obtain various ISO certifications and WHO-certified GMP to gain trust in the international market and leap frog. Due to the inability to adhere to global standards, Nepal has not been able to export pharmaceutical products to international markets. Stricter standardization and certification initiatives, laboratories and regulations should be devised to ensure the availability of high-quality drugs in the market. Nepal should become a member of organizations like the International Center for Genetic Engineering and Biotechnology (ICGEB), to benefit from their highly subsidized technology transfer provision to support developing countries. In addition, Nepal is one of the very few South-Asian countries that are not a member of ICGEB. Bangladesh, India and Sri Lanka have been tremendously benefitting through tech transfer in the biopharmaceutical sector from becoming member states of ICGEB. One of the leading pharmaceutical companies in India is collaborating with ICGEB to explore traditional medicinal plants-based medicine through Ayurveda and bioassay guided approach, to perform clinical trials on them.[97] The law related to emerging pharmaceutical technologies and technology transfer should be prioritized and expedited to promote the accessibility and affordability of innovative healthcare-related technologies and products in Nepal.

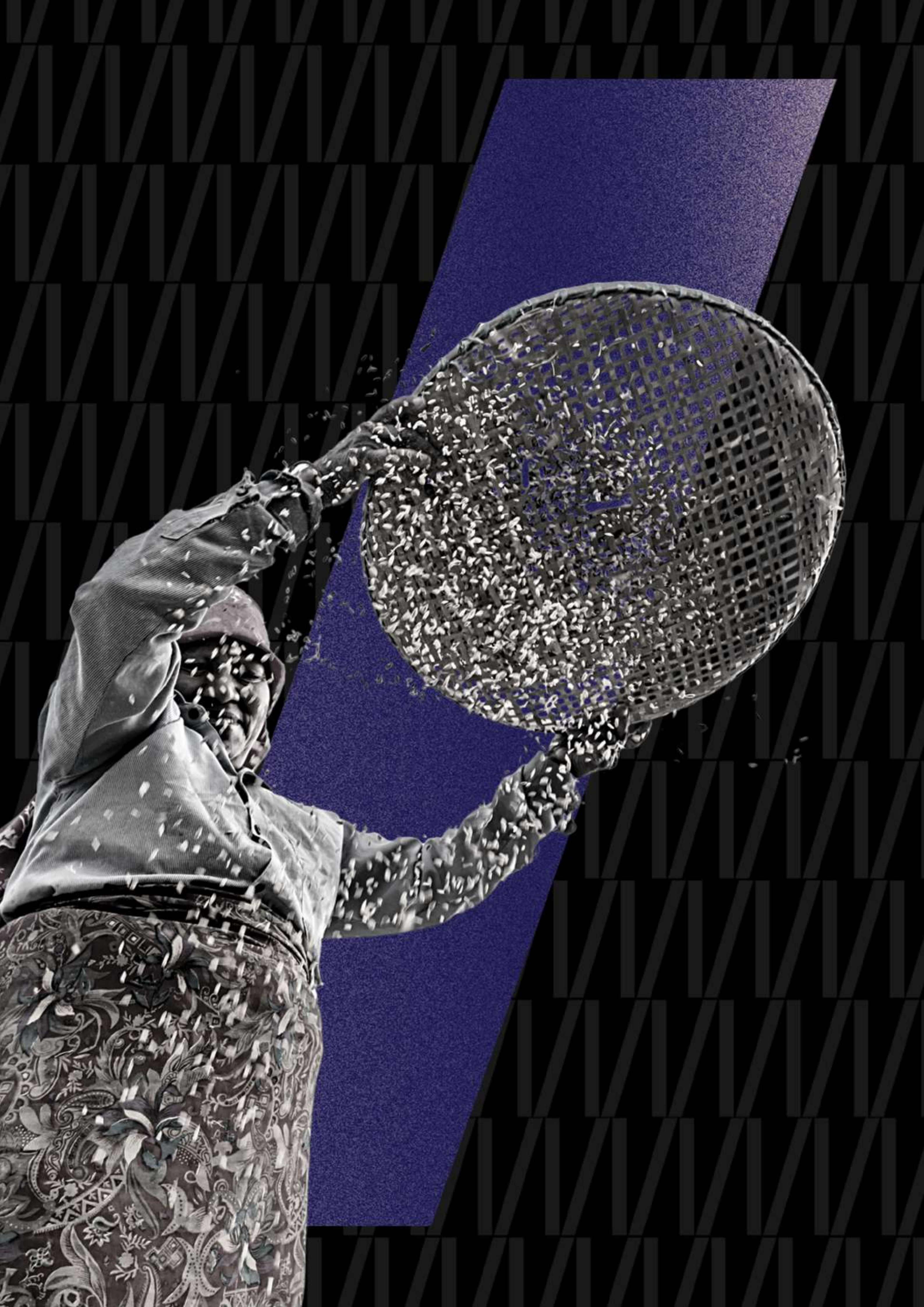
Outlook

In today's knowledge-based economy, the importance of intellectual property is increasing and knowledge-based resources are considered a sustainable source for growth and development. The Nepali pharmaceutical industry lacks the preparedness required for sustainable graduation from LDC. For the industry to emerge resilient after graduation, the government should prepare a comprehensive plan to promote the R&D capacity of pharmaceutical industries and promote tech transfer. It is necessary to ease regulatory hurdles for emerging and promising medical/pharmaceutical technologies to ensure constant innovation in the field.

Given the positive spillover effect of R&D and the strategic importance of the pharmaceutical industry, enabling an environment for research is the need of the hour. The government should take initiative by allocating sufficient resources to encourage the private sector to engage in R&D. This can be implemented through Public-Private-Partnerships or by providing subsidies or tax concessions to firms conducting R&D. Similarly, to attract FDIs and technology transfers, adequate policies related to IP and foreign investments should be formulated and implemented effectively.

To facilitate export of pharmaceutical products from Nepal, emphasis should be given to compliance with international standards and regulations. International partnerships and collaborations with related industries and researchers should also be incentivized. Ecosystem level strengthening is very important for the growth of the pharmaceutical industry as well as to retain and attract talented human resources in Nepal.

Nepal should create a comprehensive plan to prepare the pharmaceutical sector of Nepal for LDC graduation after intensive consultation with the relevant experts and stakeholders. Then, Nepal can negotiate the terms for the transition period and propose a relaxation of TRIPS-related provisions based on that comprehensive plan. Just proposing an extension of flexibilities without a plan will not be enough for the sustainable growth of Nepal's pharmaceutical sector. Policies and plans that focus on capacity building by stimulating innovation and attracting foreign investment will offer a long-term solution for the development of the pharmaceutical industry in Nepal.



By Suman Basnet

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"A country's long-term strategic energy plan should ensure that its energy supply is adequate, reliable, affordable, secure, and sustainable for its development needs."

Achieving Graduation with Effective Energy Planning in Nepal

Strategic planning has been succinctly defined as a "blueprint for the future". Therefore, a nation's strategic plan for energy should be a blueprint for the future of energy in that nation. The most recent government document that comes closest to being Nepal's energy strategy plan is the 2018 White Paper of the Ministry of Energy, Water Resources and Irrigation.[98] This article analyzes the robustness of the White Paper as Nepal's energy strategic plan and compares how this has been reflected in the proposed Electricity Bill currently in the Upper House of the Federal Parliament.[99]

A country's long-term strategic energy plan should ensure that its energy supply is adequate, reliable, affordable, secure, and sustainable for its development needs.[100] The White Paper aims to serve as a roadmap for sustainable, reliable, affordable, quality clean energy for energy security and independence. This is also reflected in the Electricity Bill, which aims to facilitate the development and promotion of electricity generation, transmission, distribution, and trade for reliable, quality, safe, and affordable electricity supply.

The strategic plan usually draws on existing government policies to establish the country's strategic objectives.[101] Both the White Paper and the Electricity Bill draw upon the Constitution for strategic guidance. Furthermore, the White Paper refers to numerous other legislation.

A strategic plan needs to define the environment in which it operates, and the associated risks.[102] The White Paper does this quite comprehensively. It acknowledges the environmental degradation caused by the use of traditional and fossil fuels, low water use for socio-economic activities, geo-political issues for electricity trade and water resources sharing, problems regarding the division of responsibilities between three tiers of government, the dominance of run-of-river hydropower projects, delays due to issuing licenses, permits, etc. In addition, contractor under-performance and challenges associated with developing storage projects also pose threat to the environment. The paper also highlights issues related to data management, infrastructure development, market, investment, and land acquisition. It accepts the insufficient policy framework for energy efficiency and the need for more innovation and infrastructure strengthening to augment electricity use.

On the other hand, the Electricity Bill only acknowledges the need to address the roles and responsibilities of three tiers of government for electricity development, problems created by project licensing without competition, and the need to address policy gaps in the electricity trade.

An energy strategic plan should cover major energy development aspects. They include public-private partnerships (PPPs), competitive market development and private sector promotion, energy export, incorporation of all levels of governments, capacity development, research and development, innovations, resilience, enhanced use of renewable energy, and increased efficiency in energy consumption.[103]

The White Paper covers many of these aspects. It emphasizes public, private, and community investment in energy projects and PPP for sustainable development of energy projects, especially in project construction. It highlights the promotion of foreign and domestic investment in electricity generation and use. The paper highlights the need to streamline the license approval process. It mentions the need to attract domestic and international funds for renewable energy (RE) development and a hedging fund to address foreign currency exchange risk. It underlines the need to have a robust electricity market with multiple buyers and sellers. The Paper further highlights the need for electricity trade with India, Bangladesh, and China, with a robust transmission interconnection. The White Paper mentions that there should be one mega project in each province and that projects with shares of both provincial and local governments should be promoted. Though in passing, the need for human resources development is also mentioned in the paper. The Paper incorporates the development of quite a few innovations. It includes smart meters, smart grid, smart street lighting, pumped storage hydropower projects, back-to-back DC inter-country connections, online payments, and e-governance.

The White Paper extensively explores many areas and addresses demand-side energy management. It mentions building an extensive electric vehicle charging station network and promoting electric cooking in each household. It emphasizes providing reliable electricity to special economic zones to promote electricity-intensive industries. Moreover, it mentions the huge electricity savings from energy efficiency measures and acknowledges the need for pricing reform to encourage more electricity use.

In addition, the White Paper emphasizes the need for energy projects to benefit Nepali citizens by providing them with investment opportunities. It talks about equity in energy for social justice, emphasizing that there should be electricity for all. It also mentions gender equality and social inclusion in energy development. For enhanced energy security, the White Paper sets ambitious targets for electricity generation in Nepal and presents an electricity generation mix of storage, peaking run-of-river, and run-of-river hydropower projects. The plan further highlights that this should be complemented by non-hydro renewable electricity generation and mentions that each house should be an energy house through the installation of rooftop solar with net metering. The Paper proposes to develop 100-500 kW solar projects by each local government through the Challenge Fund for a total of 200 MW of solar electricity generation for irrigation, drinking water, streetlights, and sale to the grid. The White Paper also emphasizes the need for good governance, accountability, and transparency, and the corporate reform of the Nepal Electricity Authority.

The Electricity Bill focuses largely on the licensing aspect of energy governance. This includes licensing for generation, transmission, distribution, trade, and customer service. It adopts the principle of electricity development license through competition, which is progressive compared to the past "first come first serve" principle of license allocation. However, there is a provision for hydropower development through direct agreement in certain cases like captive projects which are waived from needing licenses. The Bill promotes multipurpose and storage projects and has provisions for domestic and international electricity trade. It stipulates benefit-sharing between projects in a basin and the right of way for transmission lines. It also establishes a national grid operator and an associated national load dispatch centre with provisions for open access to grid and wheeling charges, royalty, and electricity tariff reforms. The Bill emphasizes safety and sets provisions for land acquisition, resettlement and rehabilitation, environmental conservation, and local benefit sharing in the form of employment and shares. It has a provision to declare national priority projects, stipulates that projects will not be nationalized, and promotes energy-efficient equipment use.

An effective energy strategic plan needs to cut across sectors instead of being sector-focused.[104] The White Paper links energy with irrigation, modernization and industrialization, flood control, drinking water, irrigation, tourism, environmental services, and water transport. The Paper emphasizes that projects need to be well thought-out and resilient to disasters. It highlights the need for a national integrated water resources policy and integrated basin development. Therefore, there is a need for Nepal to transition away from unsustainable to sustainable energy consumption. It can be achieved by promoting energy-efficient technologies with a critical focus on the waste-to-energy concept for a resilient energy outlook for Nepal.

However, such linkages are notably absent from the Electricity Bill.

A strategic plan should acknowledge that an energy system has multiple dimensions and serves as a socio-technical system wherein social, environmental, and economic aspects tie in with technology. This makes the transition of the energy system a complex task that requires coordination between institutions and sectors.[105] Both the White Paper and the Electricity Bill fall short in this matter. The White Paper does attempt to link energy development with the wider aspects of national development. However, the Electricity Bill is very technical and restricted to the electricity sector.

A strategic plan should also try to sell the future.[106] The

White Paper tries this by linking energy development to attaining the "Prosperous Nepal, Happy Nepali" vision of the government. The Electricity Bill does not bring forth any future vision.

A strategic plan needs to be developed through widespread stakeholder consultation.[107] Even though this is not evident in both the White Paper and the Electricity Bill, the former claims that it has been formulated to address people's expectations of the energy, water resources, and irrigation sectors.

The White Paper, however, fails in being "short and sweet", another hallmark of a good strategic plan.[108] In summary, the White Paper is a much more comprehensive roadmap for expedited and sustainable development of the energy sector in Nepal. Many factors are either absent or not treated as comprehensively in the Electricity Bill.

A UK Parliament paper defines a White Paper as being a government policy document that sets out proposals for future legislation.[109] However, the Electricity Bill does not reflect the comprehensive treatment of the sector that the White Paper has achieved in doing. Therefore, there is still time for the executive and legislative branches of government to seriously review the Electricity Bill and incorporate many of the forward-looking proposals in the White Paper, before it is finally passed into law.

> **There is a need for Nepal to transition away from unsustainable to sustainable energy consumption. It can be achieved by promoting energy-efficient technologies with a critical focus on the waste-to-energy concept for a resilient energy outlook for Nepal.**

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Beyond Graduation

By Kul Chandra Gautam

Advisory Board Member at Nepal Economic Forum

> Nepal today enjoys all the prerequisites for rapid progress in practically all the nationally relevant 17 SDGs, except one – Good Governance (SDG #16).

Making Progress on Sustainable Development

Nepal has the potential to meet most of the sustainable development goals (SDGs) by 2030 but attaining and sustaining them over the long haul will be a huge challenge. It will be contingent on making significant progress on #SDG16-ensuring good governance, robust rule of law, and strong accountability.

As documented in this special 50th edition of Nefport, during the period 1990-2015, Nepal made significant progress in human development and was lauded for achieving most of the Millennium Development Goals. Building on those accomplishments, Nepal envisions itself fully graduating from the status of a Least Developed Country (LDC) by 2026 and becoming a middle-income country by 2030.

The "Nepal Sustainable Development Goals - Status and Roadmap: 2016-2030" promulgated in 2017 by the National Planning Commission under the stewardship of its Vice Chairman, Swarnim Waglé, presents the baseline of where the country stood as Nepal-specific SDGs were launched, and where it aspires to reach by 2030.

Despite sluggish economic growth and infrastructure development, greatly hampered by a decade-long Maoist insurgency (1996-2006), a decade of political paralysis that followed, and a devastating earthquake in 2015, Nepal halved the proportion of people living in absolute poverty from 49% in 1992 to 23% in 2015, and its multidimensional poverty rate has now further declined to just over 17%.

Nepal's impressive progress in such human development indicators as a reduction in child and maternal mortality was recognized and honoured as exemplary by the United Nations. Primary school enrolment exceeded 96% with improvements in gender parity. Average life expectancy at birth crossed 70 years. Access to clean drinking water and electricity has also been impressive.

While huge gaps remain in the quality of services, many of Nepal's non-income indicators of progress compare quite favourably with other countries in the region. Nepal is thus poised to pursue its country-specific SDGs by 2030 with much optimism.

Nepal today enjoys all the prerequisites for rapid progress in practically all the nationally relevant 17 SDGs, except one – Good Governance (SDG #16).

Nepal is exceptionally well-endowed with great ecological diversity, tremendous water resources, and a strategic location between two of the world's largest and fastest growing economies – China and India. It enjoys the goodwill and generous support of many donors and international organizations.

Having gone through multiple political revolutions, Nepal today is a vibrant democracy. It is now yearning to shift its focus from excessive preoccupation with politics and ideology to genuine socio-economic development in a pragmatic manner.

With its increasingly educated, digitally savvy, highly mobile, and adaptable young people, many with international education and working experience abroad, Nepal now has the human capital needed to drive rapid development. With the world's most majestic mountains and rich cultural heritage, it has great tourism potential. With abundant renewable energy from solar and hydropower, it can be a pioneer in sustainable development.

What is most urgently needed and currently lacking to reduce the huge gap between Nepal's considerable potential versus relatively poor performance in achieving the SDGs, is good governance and a strong rule of law.

As Nepal graduates from the category of LDC, it will no longer be eligible for generous foreign aid or highly concessional terms of trade. It will need to compete with other LMICs to attract more ODA as well as foreign investment. Good governance and robust rule of law will be a sine qua non to ensure public confidence in government services, incentivize the private sector and attract foreign direct investment in priority sectors.

This is where the importance of SDG-16 comes in. It calls for building a just, peaceful, and inclusive society with effective and accountable institutions at all levels. Some of the key targets of SDG-16 include:

/ Ensuring the rule of law, non-discriminatory policies, and equal access to justice for all.

/ Substantially reducing corruption and bribery in all their forms.

/ Developing effective, accountable, and transparent institutions at all levels.

The importance of these components of SDG-16 was recognized in "Nepal Sustainable Development Goals - Status and Roadmap: 2016-2030". Acknowledging that despite being a progressive democracy, Nepal has a long way to go in practising elements of good governance and rule of law, it set specific quantitative targets to enhance transparency, accountability, and control of corruption.

Whereas Nepal has set up a pretty good monitoring system for measuring progress toward key targets of most of the SDGs, I am not aware of any serious efforts to monitor progress and take corrective actions to reach the targets relating to good governance, accountability, and control of corruption.

Nepal's supposedly independent counter-corruption Commission for the Investigation of Abuse of Authority (CIAA) is itself mired in corruption. It is accused of focusing its efforts on entrapping junior civil servants for petty corruption while letting scot-free high-level officials known to engage in big-time corruption in cahoots with all kinds of cartels and syndicates. Indeed, not long ago, the CIAA was led by one of Nepal's most notoriously corrupt senior officials, and several of its commissioners have been indicted for corruption.

A high-level constitutional body, the Office of the Auditor General (OAGN), routinely issues annual reports documenting the massive misappropriation of funds by various ministries and departments at different levels of government. But rarely is any action taken to hold senior officials accountable for such malfeasance.

The National Human Rights Commission (NHRC) often makes recommendations on matters involving the gross violation of human rights on a large scale. Among these, two areas that have attracted international attention are discrimination based on gender in granting citizenship to millions of people, and denial of transitional justice for thousands of victims of conflict.

While officials complain about not having enough resources to fund development projects, many government departments are unable to utilize the budgets allocated to them. To make matters worse, up to a third of the annual budget is spent in a rush and haphazard manner in the last month of the fiscal year. Often massive reallocation of funds is made from one budget line to a completely different budget line in the last weeks or months before the end of the fiscal year.

It is rare for large infrastructure projects (including those dubbed as projects of "national pride") to be completed on time or within budget. Yet hardly anybody is held accountable for such failure. Frequent changes of ministers as well as unscheduled and often arbitrary transfers of senior civil servants make it difficult for anybody to be held accountable.

External donors to Nepal often complain that even technical staff trained at considerable expense in certain specialities are often arbitrarily transferred to posts unrelated to their expertise, thus making an investment in capacity building ineffective.

Poor governance and corruption are not unique to Nepal, nor are they a recent phenomenon. What is unique and unprecedented is their increasing scale, trend, and rampant impunity. Fortunately, Nepal has a free and vigilant media that exposes cases of poor governance and corruption. However, the sad thing is that even when corruption is exposed, there is often shameless impunity.

We have seen many countries that made great progress at a certain stage of their history, but whose progress unravelled because of poor governance. Sri Lanka, once a star performer in South Asia, presents a stark recent example. Other examples include Argentina and Venezuela in Latin America, Lebanon in the Middle East, and Zimbabwe in Africa which was once among the most prosperous countries in their regions but was unable to sustain their progress because of poor governance.

Contrary to popular perception, I am not worried about Nepal not having enough money, manpower, or international support for its development efforts. Those are not our real constraints. What is likely to hold back Nepal's progress in achieving and sustaining the SDGs is poor governance, weak rule of law, and a culture of impunity.

These cannot be easily remedied by progressive legislation or a plethora of rules and regulations, which are already plentiful in Nepal. It will require inculcating the values of respect for the norms of good governance and accountability starting with children at a very young age in our families, schools, places of worship, and other community institutions. At the political level, it will require a drastic reform in the election campaign financing system which is often at the root of corruption in many multiparty democracies.

I do not doubt that the people of Nepal will continue to make progress in many sectors of development despite poor governance and corruption. What is worrying is the fragility of such development. Given its population make-up, the next two decades offer Nepal its optimum demographic window of opportunity. I cherish the hope that there will be a generational transition in Nepal's politics and governance starting with the forthcoming elections in 2022 that will pave the ground for Nepal to benefit from the demographic dividend for sustainable development.

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NEF Profile

NEPAL ECONOMIC FORUM

Nepal Economic Forum (NEF) is a premier private sector-led economic policy and research organization that seeks to redefine the economic development discourse in Nepal. Founded in 2009 as a not-for-profit organization under the beed (www.beed.global) umbrella, NEF is a thought center that strives to positively transform Nepal's economic and development policies by strengthening the Nepali economy through various activities to promote an efficient and inclusive private sector. NEF has been featured in the list of Top Think Tanks in Southeast Asia and the Pacific in the Global Go-To Think Tank Index Reports 2016 through 2021.

NEF BROADLY WORKS UNDER THE FOLLOWING AREAS:

Business Policy Research Center (BPRC) consolidates NEF's activities into a hub that takes a holistic approach to the issues; generates dialogue between the public and private sectors on economic growth concerns, and acts as a platform for information dissemination.

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- Nefport, Quarterly-Economic Publication
- Weekly Economic Update
- Neftake-periodic blogs
- Did You Know
- Neftalk

Himalayan Circular Economy Forum (HICEF)

HiCEF is a platform to ideate research, initiate policy dialogues and disseminate information relating to the circular economy and the Himalayas.

Center for Digital Transformation

Center for Digital Transformation is an incubation program that addresses cross-cutting themes related to digital adoption and revolution in emerging and frontier markets of Asia and Africa.

Global Nepali Network

Global Nepali Network is a platform to connect Nepalis around the world regardless of their citizenship.

Renewable Energy Center

Renewable Energy Center is an incubation program that engages multiple stakeholders to articulate discourse that will shape national-level energy policies.

Nepal and the World

Nepal and the World (NAW) will study Nepal's foreign policy and diplomacy.

Center for Private Sector Development

The Center for Private Sector Development (CPSD) will focus on private sector-led development by supporting the growth of small and medium enterprises.

NEPAL
ECONOMIC
FORUM

Nepal Economic Forum has been engaged in the discourse of federalism in Nepal since 2009. NEF has engaged in multiple policy discourses, conducted assessments and produced publications on Doing Business in Nepal against the backdrop of federalism. Hence, through the Doing Business in Federated Nepal (DBFN) vertical, NEF shall continue to engage itself in fostering a conducive business environment in the federated structure, supporting local businesses and empowering local bodies in governance. For this, NEF intends to open national chapters in each of the seven provinces of Nepal to promote localized efforts.

beed
devCon

NEF operates in domain of Development Consulting (devCon) in conjunction with beed management. It works with a variety of bilateral, multilateral, national and international institutions in the areas of policy research, economic analysis, value chain analysis, enterprise development, sectorial studies and public private dialogue.

We are striving to ensure financial sustainability for NEF to complement the support it currently receives from beed management and the Open Society Foundations. If you are interested to support NEF, please do get in touch with info@nepaleconomicforum.org

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