NEPAL ECONOMIC FORUM

25TH ANNIVERSARY

nefport

KEY CONTRIBUTORS

ARNICO PANDAY
BASUDEB GUHA-KHASNOBIS
BASUDHA GURUNG
BIBEK DEBROY
C. RAJAMOHAN
CHANDAN SAPKOTA
GARETH PRICE
KUL CHANDRA GAUTAM
MALLIKA SHAKYA
PERSIS KHAMBATTA
RENAUD MEYER
SHANKAR SHARMA
SUJEEV SHAKYA
SWARNIM WAGLÉ

INDUSTRY INSIGHTS

BAIKUNTHA ARYAL
BEED MANAGEMENT
BIBHAKAR SHAKYA
DEV BHAKTA SHAKYA
DOLMA IMPACT FUND
DR. GOVINDA KC
DR. RAM KM SHRESTHA
GARETH WEIR
HIMESH DHUNGEL
KARMATH DANGOL
KENICHI YOKOYAMA
PRACHANDA MAN SHRESTHA
PURUSHOTTAM OJHA
SASHIN JOSHI
SHISIR KHANAL

DOCKING NEPAL'S ECONOMIC ANALYSIS

ISSUE 25 | JULY 2016

nefport ISSUE 25 | JULY 2016
DOCKING NEPAL'S ECONOMIC ANALYSIS

CONTENTS

July 2016 | ISSUE 25

NEPAL ECONOMIC FORUM

Issue 25: July 2016
Publisher: Nepal Economic Forum
Website:www.nepaleconomicforum.org

P.O Box 7025, Krishna Galli, Lalitpur – 3, Nepal
Phone: +977 1 554-8400
Email: info@nepaleconomicforum.org

Contributors:
Akshov Shakya
Chirag Man Kansakar
Krinisha Shrestha
Nishant Khanal
Raju Tuladhar
Rojesh Bhakta Shrestha
Shayasta Tuladhar
Shikshya Gyawali
Subrina Shrestha
Tejaswee Shrestha
Tejeshwi Nath Bhattarai
Zubin Rajbhandary

Design & Layout:
Ultimate Marketing Pvt. Ltd.
info@marketingultimate.com

This issue of nefport takes into account news updates from March15, 2016 – June15, 2016.

The USD conversion rate for this issue is NPR 107.13 to a dollar, the quarterly average for this issue.

EDITORIAL

With this issue of nefport, Nepal Economic Forum (NEF) marks its 25th issue anniversary. What began as an effort to fill the void of economic analysis has now become the go-to publication for anyone who seeks to read on the Nepal economy. In a country that has a tendency of being project oriented, we have made sustainability our hallmark. This has only been possible with the volunteering efforts of beeds who relentlessly track issues and write about them and a breed of fellows and interns who keep the research and writing flowing.

Milestones are always important and it is important to do something different to celebrate them. For this 25th issue, we have chosen Nepal 2030 as our theme. In a country where at times, even the Finance Minister is unable to see it through a budget year, myopia has been the name of the game. Short term has become the norm and the issue of economic visions relegated to rhetoric. We are very grateful that thought leaders in Nepal and people working in the region have contributed to this issue.

As part of our special issue we have insights from regional experts such as Bibek Debroy, C Raja Mohan Gareth Price and Persis Khambatta bringing in perspectives from South Asia.

We are also thankful to our advisory board members for their constant guidance and their contributions to this issue. They bring a diverse pairs of lenses on crystal gazing on contextualizing the discourse on Nepal 2030 with some prescriptive perspectives. Kul Chandra Gautam looks at the socio-political transition, Shankar Sharma uses the economic indicators and Basudha Gurung takes a bottom-up development narratives to Nepal 2030. Meanwhile, two of our advisors have helped us contextualize the future discourse on Nepal 2030. Mallika Shakya takes on the issue relating to the border economics - an important but an ignored issue and Arnico Panday delves into the world of black carbon and climate change.

Renaud Meyer and Basudeb Guha-Khasnobis from UNDP provide perspectives to Nepal's performance in the SDG towards making 2030 a development milestone. We also bring in published thoughts of Swarnim Wagle, former member of National Planning Commission and a thought leader passionate about Nepal 2030, to contextualize the discourse. Meanwhile, Chandan Sapkota, perhaps the lone independent economic analyst in Nepal, also provides his take on the macroeconomic essentials for realizing the goals set for 2030.

We are also thankful to our sectoral experts who have provided us with their outlook on 2030. Dev Bhakta Shakya on Agriculture, Himesh Dhungel on Energy, Kenichi Yokoyama on Infrastructure, Karmath Dangol on ICT, Shisir Khanal on Education, Dr. Govind KC and Dr. Ram Shrestha on Health, Prachanda Man Shrestha on Tourism, Purushottam Ojha on Trade, Baikuntha Aryal and Gareth Weir on Foreign Aid, Bibhakar Shakya on Migration and Sashin Joshi on Financial Markets. Meanwhile beed management and Dolma Impact Fund have provided institutional outlooks on Real Estate and Capital Markets respectively.

In this anniversary issue it is also important to recognize and acknowledge the support of The Asia Foundation (TAF), who funded the first two issues of nefport, giving NEF the impetus to make this a regular publication. We are also thankful to the Think Tank Fund under Open Society Foundation (OSF) for their support in the transition of NEF into a sustainable institution.

We are eager to receive your valuable feedback on how to make future issues of nefport more useful and user friendly. Please email us your suggestions at info@nepaleconomicforum.org.

Sujeev Shakya
Chair, Nepal Economic Forum

NEPAL FACTSHEET

Map Source: https://en.wikipedia.org/wiki/File:Un-nepal.png

KEY ECONOMIC INDICATORS

GDP	USD 19.77 billion	GDP Growth rate (%)	0.77
Rank	109		
GNI per capita (Atlas)	USD 730	Inflation (annual %)	10.2
Rank	192		
GNI (PPP)	USD 2,410	Agricultural growth rate (annual %)	1.3
Rank	184		
Gross Capital Formation (% of GDP	37%	Industrial growth rate (annual %)	-6.3
HDI	0.548	Service Sector growth rate (annual %)	2.7
Rank	145		

Sources:
Left Table - The World Bank; HDI figure from Human Development Reports of the UNDP,
Right Table - Economic Survey Fiscal Year 2015-16 - Ministry of Finance, May 2016

1

SOUTH ASIA
2030

SOUTH ASIA:
AGENDA FOR 2030

Bibek Debroy
Bibek Debroy is a Member of Niti Aayog India

As a term, South Asia needs to be defined. An obvious definition is based on SAARC (South Asian Association for Regional Cooperation) - Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, India, Pakistan and Sri Lanka. Though this is the obvious and a natural definition, there is great diversity within the region and this, at times, is forgotten. The population sizes of Bhutan or Maldives can hardly be compared with those of Bangladesh or India, and India's GDP can hardly be compared with that of any of the other countries. Meanwhile the priorities of Bhutan and Maldives cannot be compared with that of other countries and in some ways, Afghanistan is in a different category altogether. Ipso facto, though the title says South Asia, we primarily have in mind Bangladesh, Nepal, India, Pakistan and Sri Lanka. For these, whether we drag the timeline back to 1980 or whether we focus on the last few years, the growth trajectory hasn't been that bad, though it is relatively better for India and relatively worse for Nepal. However, there is an enormous backlog of poverty and deprivation within the region. This means that average real growth rates of 5.5% aren't good enough. It needs to be jacked up to 8% and more.

The reference to 2030 is obviously a reference to the sustainable development goals (SDGs) and related targets. Most such goals, targets and indicators (when developed) tend to be correlated with one another; for instance, reducing poverty isn't quite different from reducing hunger and providing sanitation. The template for any government is exceedingly simple:

- First, create an enabling environment for growth and entrepreneurship development, reducing the visible hand of unnecessary government intervention and allowing the invisible hand of the market to function, with appropriate regulation.
- Second, recognize that at such low levels of development, it is unrealistic and impossible for governments to try to do too many different things; governments will lack administrative and fiscal capacity. Therefore, focus on law and order, dispute resolution, roads, water, electricity, primary health and education. Ensuring these is the best way to ensure inclusion and equity. These are public goods one needs to focus on. In the process, excessively centralized governance structures must be decentralized and a distinction must be drawn between governments financing an activity and governments actually providing it. The former can co-exist with choice and competition, while the latter engenders inefficient monopolies.
- Third, in the interim, provide subsidies for those who truly deserve them and not indulge in across-the-board subsidization.

True, intra-SAARC trade is below its potential, which has been highlighted across several studies. However, inter-country trade is a function of cross-border movements of capital and labor. Therefore, unless there is a greater willingness to accept cross-border movements of capital and labor, trade cannot pick up.

In all of these, South Asia doesn't perform remarkably well and that is because these principles have been imperfectly grasped.

With regards to trade, it is a bit of a red herring. True, intra-SAARC trade is below its potential, which has been highlighted across several studies. However, inter-country trade is a function of cross-border movements of capital and labor. Therefore, unless there is a greater willingness to accept cross-border movements of capital and labor, trade cannot pick up. That apart, ostensible tariff reduction can always be circumvented through rules of origin, testing requirements and other forms of non-tariff barriers, even if one excludes the problem of negative lists in which certain entities are outside the purview of tariff reductions.

Since trade liberalization within SAARC has moved very slowly, there have been some sub-regional and bilateral agreements. Thankfully, these have now moved beyond goods and extended to services and transportation agreements. One of the most important initiatives has been the connectivity push through road, rail and water networks. These are early days, but we have the prospect of the Asian Highway and the Trans-Asian Railway, integrating South Asia with South-East Asia. But, within South Asia, these networks will have to be constructed by individual countries and resources found for them. Stated differently, trade or transportation agreements are at best an exogenous trigger. While the exogenous is a convenient red herring, the constraints are actually endogenous to countries and as mentioned earlier, involve redefining government and governance.

Despite commendable reductions in poverty since 1990, South Asia still has a poverty head count ratio of almost 15% (with a Purchasing Power Parity of USD 1.90 poverty line). Multi-dimensional measures of poverty show much higher levels of deprivation. Despite declines, there are very high levels of hunger and malnutrition. Similarly, growth also has a distributional angle, especially of the spatial variety as certain geographical areas are relatively difficult to access and deliver public goods to; these areas have been marginalized and bypassed. Progressing across these fronts is South Asia's agenda for 2030.

A CONNECTED SUBCONTINENT: SOUTH ASIA IN 2030

C. Raja Mohan

C. Raja Mohan is the Director of Carnegie India. He is also the foreign affairs columnist for The Indian Express and Visiting Research Professor at the Institute of South Asian Studies, Singapore.

A common image of the South Asian Subcontinent is that it is the least integrated part of the world. The lack of progress in regional integration under the aegis of South Asian Association for Regional Cooperation (SAARC) is widely lamented. The dominance of strategic pessimism in the Subcontinent may suggest that the situation is unlikely to change in any significant manner by 2030.

There are sound reasons indeed for this pessimism. The Great Partition of the Subcontinent had sundered apart spaces that were united, and coherent, for millennia. The inward economic orientation of India and its neighbors throughout the second half of the 20th century reinforced the political partition of the Subcontinent. Meanwhile, the persistence of the India-Pakistan conflict even 70 years after the Partition has cast a shadow over the main regional forum, SAARC.

Notwithstanding a strong negative inheritance, there is much room for strategic optimism about the future of the Subcontinent. By 2030, South Asia is bound to be a far more connected place within itself as well as the rest of the world, thanks to a number of new factors reshaping the region's economic and political geography.

The first is the fact that after the turn of the 1990s, most of the region has traded economic insularism of the past for economic globalisation. This very different condition, despite the slow pace of economic reforms, has begun to reorder the economic geography of the Subcontinent. The impact of this economic redirection is likely to be far more visible by 2030.

Second is the slow but certain rise of India, which has become the world's third largest economy in the world (by the Purchasing Power Parity measure). Although India has some distance to go in opening its markets to neighbors, Delhi's political approach can be seen to be evolving in favor of regional economic integration.

Third, beyond India, Bangladesh, Nepal, and Sri Lanka have all shown a new economic dynamism. This in turn has made the Subcontinent one of the fastest growing regions of the world during the 2010s. Barring Pakistan and Afghanistan, where the economic prospect is clouded by uncertainty, the rest of the region is likely to grow at an impressive pace in the coming years.

Fourth, China's rapid economic rise to the status of the second largest economy in the world is having a powerful impact on the Subcontinent. China has become the region's largest trading partner. China is also becoming a big investor in the region's infrastructure projects. Beijing's ambitious One Belt One Road (OBOR) project now involves a gigantic effort to connect China's economic space with that of the Subcontinent. The USD 46 billion economic corridor in Pakistan is one example. China's trans-frontier economic push in the north is being matched by a massive maritime economic activism in the South. Together they are certain to reorient the region's economic profile in the world.

Fifth, Japan, which has long been a major aid donor in South Asia has become a more consequential strategic economic actor in the region. Like the China's OBOR, Japan now has its own framework, the Partnership for Quality Infrastructure (PQI). Japan's support to the Mumbai-Delhi industrial and freight corridors, high speed railway system between Mumbai and Ahmedabad, the Bay of Bengal Industrial Growth Belt in Bangladesh are a few examples. Japan is also eager to develop connectivity between South and South East Asia. It is keen to extend current production networks in East Asia to the Subcontinent. Working with India and the United States, Japan is likely to emerge by 2030 as a critical external economic influence on the Subcontinent.

Six, the region has begun to find alternatives to the ineffective SAARC. Facing Pakistan's reluctance to economically integrate with India, Delhi has reconciled itself to a 'two-speed SAARC'. India's efforts are now focused on sub-regional mechanisms for regional integration. Wishing the Subcontinent, the BBIN framework involving Bangladesh, Bhutan, India and Nepal has become an attractive complement to the SAARC process.

Seventh, there is also growing interest in trans-regional cooperation. In the east, Bay of Bengal littoral offers an opportunity for India to connect with the regional markets in East Asia. In the west, India's engagement with Afghanistan and Iran has created the opening for India to circumvent Pakistan in future economic integration with inner Asia.

Eighth, the geo-economic transformation of the Subcontinent has been complemented by the growth in the region's geopolitical significance. In the second half of the 20th century, the region was considered marginal to the high politics of the Cold War. The Af-Pak region was the lone exception. Today almost every corner of the Subcontinent resonates with strategic potential. This is likely to take the region's strategy identity away from the vexed questions of India's north western marches. If Bangladesh has become a potential bridge to South East Asia, Bhutan and Nepal have a similar role between India and China, the world's second and third largest economies. To the South, Sri Lanka is rediscovering its central location in the Indian Ocean, as all major powers; China, US and Japan pay unprecedented attention to Colombo. Maldives, which straddles the vital sea lines of communication in the Indian Ocean, has now become a highly coveted piece of maritime real estate in the Indian Ocean.

> By 2030, South Asia is bound to be a far more connected place within itself as well as the rest of the world, thanks to a number of new factors reshaping the region's economic and political geography.

As other powers begin to devote quality time to engaging South Asian nations, big and small, Delhi has begun to come to terms with the unfolding strategic globalization of the Subcontinent. It has also begun to put some energy behind the foreign policy slogan of 'neighborhood first'. Although India has many problems with its neighbors, the economic geography of the Subcontinent remains in favor of India.

As Delhi recognizes that no region in the world today can be an exclusive sphere of influence for any power, plays to its natural economic strengths in the region, and accepts the possibilities for greater collaboration with other powers, it is likely to be more effective in securing its core regional interests in the region while accelerating the Subcontinent's integration with itself and the wider world.

ENVISIONING SOUTH ASIA IN 2030

Persis Khambatta

Persis Khambatta is the Senior Director for South Asia at the business consultancy BowerGroupAsia.

Many predictions have been made about the trajectory of Asia in the 21st Century. Expected to be the global engine of growth in coming decades, the Indo-Pacific is undergoing political, economic and competitive churn as governments attempt to respond to demands of inclusiveness, equality and access to opportunity from their citizens.

South Asia is no exception. While the sub-region is currently experiencing economic growth rates the envy of most other parts of the world, its governing institutions are under increasing pressure to respond to societal demands spurred in large part by a new global reality - the rapid dissemination of technology, communication and information.

Looking at the sub-region broadly, over the last decade there has been remarkable success with respect to increased literacy, life expectancy rates and income, increased access to education and lower rates of poverty. Yet there are a number of reasons that the region still faces significant social and security challenges; not the least of which include the dismal pace of economic development and connectivity, and because genuine opportunity is still out of reach for millions. South Asia's societies will continue to experience social flux as they integrate into the wider Asia-Pacific region and compete for investment from the broader global economy.

By 2030, however, much more can be done by policymakers to truly unleash the potential of the increasingly educated and upwardly mobile youth of South Asia. The next generation, approximately two thirds of the region's 1.8 billion citizens, will grow up in a fundamentally different world than those before it – reinforced by pervasive technology, increased access to information, better infrastructure and higher (but not yet high enough) incomes. Their aspirations are different and they are increasingly confident about competition, whether local or foreign.

Facing the Employment Challenge Head On

In order to face the challenge and capture the promise of this young demographic, the region's decision makers should update legal, educational and vocational frameworks for increased entrepreneurship and innovation. By 2030, South Asian economies should have taken their next step up the global value chain – though this entails a mammoth challenge, requiring 1 - 1.2 million jobs be created each month for the next two decades. South Asia's state-owned enterprises and traditional conglomerates will simply not be able to produce the kind of employment needed over the next 20 years. Startups, small business and entrepreneurs will be the next wave of growth.

According to the World Bank's Ease of Doing Business report, South Asia's countries rank poorly in terms of meeting the employment challenge they face. Leadership is badly needed at the local, provincial and state level to crack the code for success. Education systems that produce market-ready skills, tax codes that encourage small business, accessible capital from the banks and efficient bankruptcy/insolvency laws are needed to drive opportunity and economic growth. By 2030, young South Asians could contribute significantly to prosperity if provincial and national governments were to prioritize educational and vocational institutions and update legal frameworks to be friendly to entrepreneurs. Both would begin to provide the ecosystem needed for entrepreneurs to create and start new companies – connected to the global economy but localized to succeed in their unique context. A modern legal framework designed to spur start-ups should allow entrepreneurs to start companies, fail and start again until their ideas work.

> While the sub-region is currently experiencing economic growth rates the envy of most other parts of the world, its governing institutions are under increasing pressure to respond to societal demands spurred in large part by a new global reality - the rapid dissemination of technology, communication and information.

In India alone, 90% of the 500 million strong workforce is in the "informal" sector – a situation that inhibits not only the physical and financial safety of workers, but the overall growth of the economy. Perhaps in acknowledgement of the scale of the task, the Modi government recently launched a "Start Up India, Stand Up India" campaign to promote bank financing of start-ups across the country, including developing vital agricultural SMEs. India's parliament also recently passed a revamped bankruptcy and insolvency code, which it hopes will be one of the most efficient in the world. The clear emphasis on job creation initiatives outside the traditional state or conglomerate-led sector demonstrates much-needed leadership in this space, though implementation remains to be seen. And to further demonstrate seriousness about job creation by 2020 or even 2030, labor laws require further political consensus and vocational/skills training initiatives need more attention and emphasis.

An Opportunity Cost for Poor Regional Connectivity

South Asia is also the least economically integrated region of the world, with a dismal 5% of its overall trade as intra-regional trade. It is important that the region's entrepreneurs be able to connect with their peers and potential partners around South Asia, the rest of Asia and beyond. Non-tariff barriers, high levels of mistrust and poor infrastructure stymie the region's growth.

In addition to getting the domestic regulatory framework right, South Asia's governments should also be working towards taking advantage of regional trading blocs – both those led by the U.S. (the Trans Pacific Partnership) and China (RCEP or Regional Comprehensive Economic Partnership). China's One Belt One Road, and the BBIN grouping (a more informal initiative including Bangladesh, Bhutan, India, Nepal) also present opportunities for South Asia to connect with neighbors to boost trade and partnerships.

South Asia is at an important crossroads. By 2030, the rest of Asia will likely see tariff barriers shrink, and trade and prosperity further increase. Governments in Bangladesh, India, Nepal, Pakistan and Sri Lanka ought to use the policy tools available to them now to enable their next generation workforce to change the region's fate from being the least connected region of the world to a more responsive, equitable, inclusive one.

WORKING TOWARDS ECONOMIC INTEGRATION: LESSONS FROM EU

Gareth Price

Gareth Price is a Senior Research Fellow, Asia Programme at Chatham House, The Royal Institute of International Affairs

While the European Union may have an array of challenges at present, the formation of the EU in the aftermath of World War II has self-evidently transformed Western Europe after centuries of intermittent conflict. Open borders, free trade and a single market have served to increase prosperity and build people to people contacts.

South Asia at present looks a different place to Europe. Its two largest countries - India and Pakistan, stand at loggerheads, and tension between them has undermined broader regional integration, at least through the South Asian Association for Regional Cooperation. But 2030 is 14 years away. The origin of the European Union - the European Coal and Steel Community - was formed in 1951 at a time when Europe stood in ruins. And the Treaty of Rome came just seven years after that. Such progress must have seemed unlikely in 1945. For South Asian countries, the takeaway from the development of the EU should not be that integration will inevitably lead to a loss of control over their domestic affairs; it should be that greater collaboration can bring benefits across borders.

Discourse in South Asia regarding regional connectivity has changed over the last decade. From being something seen as economically desirable but politically far-fetched, some steps are being taken to seek benefits from working together. Bangladesh, Bhutan, India and Nepal have signed an agreement allowing road connectivity, and India and Bangladesh have signed a series of protocols allowing shipping connections, both bilaterally and allowing "mainland" India an alternative route to North East India.

Power, or shortages thereof, is an issue across South Asia. Some degree of power trading is in place between the same four countries. More could be done, but the trend is clearly towards more rather than less integration. And if there were to be a South Asian equivalent for the role coal and steel played in European integration, power trading may well be it.

Before India's partition, around three-quarters of goods made in what became Pakistan were sold in what became India. As of 2012, 2% of Pakistan's exports went to India. Yet even here, there are some positive signs. A bartering system has been established between Indian - and Pakistani -controlled Kashmir. A limited number of items are allowed for export - from the Indian side items such as fresh fruit, from Pakistan dried fruit. The system works on the basis of trust, and has created small, but influential, constituencies on both sides. The cross-border trade is now valued at around USD 120 million annually.

Along with tension between India and Pakistan, there are two other obvious differences between post-war Europe and South Asia. The first is that the countries of Western Europe faced a common enemy in the Soviet Union, encouraging them to come together. China plays a different role in South Asia. While India sees China as a threat, albeit concurrently as an economic opportunity, its neighbours have all, at times, "played the China card", seeking to encourage Chinese engagement to ameliorate India's influence.

> Power, or shortages thereof, is an issue across South Asia. Some degree of power trading is in place between the same four countries. More could be done, but the trend is clearly towards more rather than less integration. And if there were to be a South Asian equivalent for the role coal and steel played in European integration, power trading may well be it.

And this reflects the second difference - the fact that India is so much larger than its rivals. This differential has political and economic components. India's greater political power translates into concerns over Indian interference in the affairs of its smaller neighbours. While there have been times when such concerns have been justified, on other occasions India has been unfairly blamed to mask failings within its neighbours. And - as the progress between India and Bangladesh in the past couple of years has demonstrated - India now appears to accept that its own development requires stability in its neighbourhood. And this in turn requires India to be a more benevolent hegemon than a regional bully.

While the political differential can be surmounted, the economic differential is an equally; if not greater, impediment to integration. 56 Indian companies featured in the 2013 Forbes Global 2000 list, while only one Pakistani firm made the list.

Reasons for this lack of competitiveness are manifold. One of them is that Pakistan's economy is undermined by power shortages. Again, were various regional power projects - such as CASA-1000 or the Turkmenistan-Afghanistan-Pakistan-India gas pipeline - to actually come to fruition, greater integration would suddenly become much more feasible. Pakistan's painfully slow path towards granting India most-favoured nation trading status stems not from the politics but from the economics. A range of Pakistani companies are fearful that they would be unable to compete with their Indian counterparts.

In the past, political differences have served as an excuse for the lack of economic integration. Now, more voices in South Asia see the benefits of economic integration despite political differences. And if today's small steps appear marginal, they are important in demonstrating that closer cooperation can bring benefits to both sides. China's push for connectivity is also playing a role - thought leaders in India in particular are arguing that India should be drawing up its own framework to enhance trade and communication links rather than react to Chinese ideas.

South Asia in 2030 may well look much the same as South Asia today. But if there is a lesson from Europe, it is that transformational change is possible. What it requires is visionary leadership. And it needs this leadership to take steps in the broader good of the peoples of South Asia, frequently overcoming vested interests which benefit from the status quo. And today's small steps could lead the region to a different, happier and wealthier, place.

2

NEPAL
2030

NEPAL'S POLITICAL ECONOMY: VISION 2030

Kul Chandra Gautam

Kul Chandra Gautam is the former Assistant Secretary-General of the UN and Deputy Executive Director of UNICEF. He is also a member of the Advisory Board at Nepal Economic Forum.

With a new Constitution that embraces inclusive, pluralistic democracy, and a mixed market economy with egalitarian and socialistic aspirations, Nepal seems ready to embark on a path of rapid economic development. There is a chorus of political leaders saying our multiple political revolutions are now finally over and the time has come to focus on an economic revolution.

Surrounded by two of the world's largest and most vibrant economies, enjoying tremendous goodwill and support of the international community, and with its own abundant natural resources and spectacularly beautiful landscape that could make it the world's premier tourist destination, the stars seem fully aligned for Nepal's economic takeoff.

With such positive alignments and no domestic or external threat to its peace and security, Nepal ought to easily realize its vision of "graduating" from the status of Least Developed Country (LDC) by 2022, and join the rank of a middle-income country by 2030.

However, several formidable challenges stand in the way of realizing this vision. Foremost among these is a debilitating disease that has infected Nepal's body politic - the dominance of powerful cartels and syndicates.

In the guise of legitimate trade union activism and collective bargaining, syndicates and cartels of various interest groups brazenly flout the rule of law, make unreasonable demands from the government, discourage healthy competition and innovation, and act against the best interests of consumers and citizens.

Many of these syndicates operate as fraternal organizations of political parties and enjoy their protection and patronage. With the aim of extorting money and often using hyped up nationalistic or jingoistic slogans, they oppose and obstruct development projects. Thus, teachers' unions unite against any attempt to discipline non-performing teachers. Cartels of manpower agencies blatantly cheat poor migrant workers. Transport owners and taxi drivers demand the right to operate unsafe vehicles and resist entry into the market of better, safer, cheaper alternatives.

The worst and most corrupt of all such cartels are the unelected and unaccountable "all-party mechanisms" that replaced elected local governments nearly two decades ago. They collude to siphon off huge sums of local development funds for their pet projects, manipulating tenders, bribing inspectors and condoning shoddy work.

Even the elected coalition governments at the national level operate as cartels in allocation of budgets and contracts, and appointment of officials including ambassadors, judges, university professors and military officers on the basis of sharing of spoils, known as political bhāgbandā.

> Having experienced all kinds of political experiments with little tangible results, the youth of Nepal now demand and expect practical outcomes in terms of jobs, income and opportunity for further prosperity.

Such politicization of public institutions, including the civil service, distorts national priorities, subverts rational decision-making, exempts officials from accountability for results, and erodes people's faith in our institutions.

In its attempt to accommodate many competing ideologies, Nepal has concocted the fusion of the worst elements of the capitalist and socialist systems: crony capitalism instead of a more enlightened welfare capitalism, and party-based cartels and syndicates regulating public and private enterprises instead of democratically-functioning regulatory bodies. The consequence of this has been that shady politics always trumps over sound economics.

The experience of most other countries that have achieved rapid economic growth and sustained social progress indicates that the most important factors for their success have been a combination of good governance, rule of law, political and social stability, under a broadly democratic framework. At present, Nepal is sorely lacking many of these ingredients for success.

Nepal's new constitution has instituted a mixed proportional representation system in legislative bodies that makes it virtually impossible for any party to win a majority. With dozens of political parties and without any minimum threshold for representation in the parliament, even fringe parties can hold national politics hostage. Thus, Nepal seems doomed to have unstable coalition governments always struggling for their own survival, and unable to take bold decisions or to remain in power long enough to implement them.

A further complicating factor is the challenge of setting up federalism which is likely to be time consuming and expensive. There is a real risk that the political and economic power and perks historically concentrated in Kathmandu will simply be devolved to a handful of federal headquarters rather than to far flung villages and municipalities.

The hope for overcoming this pessimistic scenario lies in the fact that increasingly Nepal's younger generation is unlikely to accept or tolerate this state of affairs. In the past illiterate and innocent Nepalis were often swayed by revolutionary slogans and catchy promises of political demagogues. Having experienced all kinds of political experiments with little tangible results, the youth of Nepal now demand and expect practical outcomes in terms of jobs, income and opportunity for further prosperity.

In the past decade, identity politics dominated political discourse especially with regard to federalism. This discourse contributed to coming up with a more inclusive constitution with many progressive, affirmative actions in favor of historically marginalized groups. However, continuing exaggerated claims and demands in the name of identity are now becoming increasingly counter-productive, as they perpetuate political instability and economic stagnation that actually hurt the marginalized communities disproportionately.

Like young people all over the world, what motivates Nepali youth most is the maximization of prosperity for themselves and their children. As pragmatism for prosperity displaces the divisiveness of identity politics, I see Nepal turning a sharp corner in accelerating economic development and social progress.

I expect Nepal to reach a tipping point within the next decade when a new generation of Nepali youth exposed to the forces of globalization; because of the communications revolution, increased education, empowerment of women, and impact of massive labour migration, will take the reins of Nepal's politics and governance.

Within a decade I see Nepal enacting constitutional amendments to ensure more stable governments with fewer political parties, as in all mature democracies. I see there being a public revolt against anti-development cartels and syndicates, and forcing political parties to dismantle them.

The generation that will lead Nepal in 2030 will be driven by pragmatism rather than ideologies of the bygone era that consumed their parents and grand-parents. Harnessing the country's immense potential of hydropower, tourism, strategic geographic location, and its highly mobile and adaptable youthful population, I expect the 2030 generation to spearhead a rapid transformation of Nepal into the Himalayan Tiger of economic growth and social progress.

And once the Himalayan Tiger is unleashed, we can expect Nepal to become a dynamic hub of a resurgent South Asia, whose citizens will make their presence felt in the world's most influential A-list institutions as prominent academics, creative artists, innovators and businessmen, philanthropists, sports stars and other professionals.

NEPAL 2030: A MIDDLE INCOME DEVELOPING COUNTRY

Shankar Sharma

Shankar Sharma is the Team Leader at the Economic Policy Incubator, supported by Ministry of Finance and DFID. He is also a member of the Advisory Board at Nepal Economic Forum.

Largely perceived to be a developing nation, Nepal endeavors to attain certain growth benchmarks in the next 15 years or so. In this light, the present circumstances however project contrasting elements of growth, exhibiting major disparities. Looking at the last 10 - 15 years, Nepal's overall economic growth rate hovers around an average of 4%. Of late, this growth has faltered further, with estimates of rates as low as 0.77%, owing to economic shocks initially due to the earthquake and later by the supply chain disruption resulting from political agitations and blockade. This economic downturn has compounded on the already high disparity across various facets as well as incidence of poverty.

Under such circumstances, the economy has only been able to sustain primarily due to high inflow of remittances equivalent to 32% of the GDP; which are mostly geared towards consumption purposes leading to higher imports and thus higher government revenues from customs and value added tax. On the other hand, exports have not been encouraging as Export-to-GDP stands at a mere 3%. Similarly, for a country undertaking large infrastructural projects for development, the capability to utilize funds is dismal; with poor capital budget execution, foreign direct investment at just NPR 107.13 (USD 1) per capita and gross private fixed capital formation at 19% of GDP.

Given these conditions, the mission for 2030 would be to aim for inclusive growth in order to address the issue of disparity; which if unaddressed could bring conflict and obstruct growth itself. Keeping this in mind, the focus should be on two things i.e. size and speed at which growth occurs and balancing regional and ethnic discrepancies.

Firstly, the current 4% growth has to scale up to at least 8% in the course of 6 to 8 years. With demographic dividend favoring the country at present, it is crucial that the state fully utilize this window of opportunity in time. Otherwise, the country would be limited to just a subsistent economy, dependent on neighboring economies and unable to extract benefits of their prosperity. Simply depending on neighboring countries for imports and immigrants' income (especially unaccounted numbers of people leave the country for Indian for seeking jobs) would limit Nepal's growth levels no greater than current levels, while at the same time increasing instances of people leaving the country in search of foreign opportunities; since there would be no value addition to Nepal. Leveraging neighboring economy's prosperity into some form of value addition would immensely assist in fostering growth and opportunities.

NEPAL ECONOMIC FORUM

> Under such circumstances, the economy has only been able to sustain primarily due to high inflow of remittances equivalent to 32% of the GDP; which are mostly geared towards consumption purposes leading to higher imports and thus higher government revenues from customs and value added tax.

Secondly, Nepal needs to stride in capturing the competitive edge of regions, be it in tourism, hydropower or likewise, to ensure disparities across different regions are narrowed and opportunities created. Similarly, positive discrimination and targeted programs must be present to uplift certain sections of the population.

To achieve inclusive growth, shift in policies on three key areas could be noted in the years to come.

Forging competitiveness: Firstly, policies to supplement in forging competitiveness across potential sectors should gain prominence. For instance, in agriculture, production has predominantly been cereals-centric; with 82% of total arable land devoted to it, while High Value Crops (HVCs) only hold 18%. HVCs and medicinal and aromatic plants (MAPs) exhibit great potential for export as their demand appear to be rising at very fast. The situation, however, has begun to change as the government along with various development partners have initiated plans and programs to prioritize commercialization of HVCs. Nonetheless, to stimulate overall agricultural production, irrigation facilities should be made available all year round as well as adoption of contract farming to tackle the problem of labor shortage. Promotion of HVCs and MAPs deserves priority. Reducing skill mismatches,which is about 45% in the domestic market and significant among the total of overseas-bound youths, provides opportunities for skills and entrepreneurship development. A strategy could enhance the productive base of the economy considerably and help enhance opportunities for investment.

Harnessing export potential: With competitiveness, complimenting policies on exports would follow closely. Especially in hydropower, the potential for export is further boosted given the growing global emphasis on clean energy. Similarly, some areas of agriculture products, which have comparative advantages in Nepal, could be further promoted for exports. Nepal has potential to export products across the borders, especially to the Indian States bordering Nepal and integrate country's agriculture system in the value chain network with the companies working in India and beyond. In addition, Nepal has the high potential to expand IT outsourcing activities. Wages are rapidly rising in India and Nepal can take benefit from it. Tourism could be a force for inclusive growth, offering jobs for lower-skilled peopleand bringing economic benefits to areasof the country without many other sources of income. It could also be transformational if higher value products and services could be developed.

Leveraging regional economy: Given the growth and size of neighboring economy, Nepal should attract Indian and Chinese companies given that their market is expanding rapidly and their increased outward investment. There is also a possibility of relocation of industries from China and India. Nepal can become a strategic location for manufacturing components for multinational corporations. SMEs can benefit by linking with supply chains in India or worldwide including in Tibet. Regional supply chains will promote intra-regional trade. This could address the current trade deficit. Similarly, regional pockets having particular set of economic advantages, be it through innovative business networking especially exports or tourist attractions, should be able to derive gains out of these markets. Recently, the World Bank conducted a study on regional cooperation between Nepal, Bhutan, India, and Bangladesh. It found out that there is a huge potential for unrestricted electricity trade between countries; interconnection could save $226 billion over the years.

Potential growth for Nepal is estimated to be substantial. Moreover, regional production of carbon dioxide will be reduced by 8%. Therefore, Nepal should see hydropower as a major driver of growth.

However, in a place where political considerations far outweigh economic rationale which in-turn influences the kind of policies that are devised, various domestic reforms must be initiated. At the broader level, the government should strengthen its credibility such that it projects the perception of economic progress and reductions in disparity wherever due, and seek to build capacity of civil service as well as adopt rewards and punishment system for the civil servants. Similarly, the government must support competitive markets in that it keeps in check any elements of monopoly or oligopoly. Nonetheless, all in all the government must actually implement its priorities, evaluate outcomes and also enforce accountability. It is imperative that infrastructure bottleneck, mainly in electricity and transportation, are eliminated; since these are integral aspects of reducing costs and attracting investments to make the economy more competitive. Similarly, for a balanced development, discrepancies that arise in the economy, region, and ethnicities must be addressed through exploitation of regional comparative advantage and positive discrimination and education to the disadvantages groups of people. Likewise, although almost 50% of the municipalities have been clubbed within the purview of urban area, their governance still remains weak which needs to be strengthened by ensuring basic necessities such as drinking water, electricity, quality education and other public infrastructures along with supportive business environment. They could become the hub for development and drivers for the growth of hinterlands.

REDEFINING DEVELOPMENT IN NEPAL

Basudha Gurung

Basudha Gurung is a Development Practitioner formerly with FIAN Nepal, and the Organization Development Centre (ODC). She is also a member of the Advisory Board at Nepal Economic Forum.

A recurrent question that arises in the discourse on development in Nepal is whether we are at the stage of 'too many cooks spoil the broth', wherein we lack much needed leadership, vision and strategy to achieve the desired outcomes. The best way to find answers to such a question will be to evaluate the current state of affairs in this field, going by the proverb that 'proof of the pudding is in the eating'.

At present, there are many individuals and communities proclaiming that they have experienced development - a condition of sustained form of positive change permeating beyond the individual and affecting the functioning of his/her family and community at large. Development spawns societal level change - a transformation of socio-cultural, political, and economical structures and the power relations therein for marginalized and excluded groups to equally engage and decide the course of actions and redistribute the resources.

There are multiple and often conflicting views when it comes to operationalizing development. Questions like what kind of development is to be considered as real development, for whom are development plans drawn up, who decides and how long are such plans often arise creating rifts which become difficult to narrow down. Amid these challenges, can a perspective of 'universalism in development' evolve in Nepal?

Reflections on Development by 2030

What would the development situation of Nepal look like in 2030? Will it reflect a just society, instilled with non-discriminatory and equity based values that views diversity of people as a rich asset for nation building? Or is envisioning an "inclusive development" even farfetched? To realize the vision of a socially just Nepal requires unwavering and sustained commitment from both; the state as well as non-state actors, to create an enabling environment that would foster such development.

To demystify the complexity associated with the vision of redefined development by 2030 requires thorough reflection on part of all actors. The focus has to continue way beyond the development of traditional sectors; such as infrastructure development, towards creating enabling environment to reduce structural and systemic inequalities in our social, cultural, economic, and political systems in order to create a just and constructive society.

Development is a holistic process. In reality the benevolence and welfare perspective has to change. Marginalization and disparity - be it economic, social, cultural, political or geographical access has to be addressed holistically. Similarly, there has to be a departure from "pilot program or project based" focus; notwithstanding the scale of the development intervention, as simplifying the complexities involved in development to such aspects would directly undermine its

> Development is a holistic process. There is a felt need for moving away from viewing it as a form of welfare or charity. Similarly, there has to be a departure from "pilot program or project based" approach; notwithstanding the scale of the development intervention, as reducing development to such aspects would rob it of its true essence.

true essence. Broadly, development goals should be aligned with the vision of a society supported by a state structure that respects and reflects the human rights principles of participation, accountability, non-discrimination, transparency, human dignity, empowerment, and rule of law in a progressive manner.

It is also important to ensure that the principles of "Partnership for Effective Development Cooperation", BUSAN 2011 are practiced at all levels of state apparatus, and set as an important guiding factor for development. Non-state actors' contribution to development, notwithstanding the scale, has to be recognized and mainstreamed within concerned development goals and programs of state agencies. Community led partnerships for local development need to be taken to the next level - making effective use of different community level social structures ensuring ownership and accountability of the development activities and their results. Constant dialogue is central to ensuring desired development results gets charted out and agreed, with effective coordination and implementation mechanisms between the different development actors, state and non-state actors, and marginalized sections of population. It is due time to critically reflect on the role and support of external development partners, being part and parcel of the present development state in Nepal and employ alternative strategies to promote inclusive development in its true essence.

Evolution of a relationship characterized by trust between the general public and responsible people in the government system and structures that run the state machinery, at all different levels will be an essential ingredient to facilitate inclusive development. All organs of the governments, be it the legislative, executive or judiciary, need to be permeated by the principles and practices of accountability and non-discrimination in their functioning. A system of effective monitoring that holds the corrupt accountable has to be firmly set in place. The space for political insipidness, their narrow mindedness, interference with party politics and urge to gain control are all checked and balanced with strict accountability measures. A major overhaul in the bureaucracy - lean, effective, and sensitive to Gender Equality and Social Inclusion (GESI) in its functioning will be an important aspect of governance reforms by 2030.

- By 2030, the state apparatus' functioning should be competency and results oriented - led by visionary, action oriented and competent people at all levels. This will be integral in bringing about systemic, structural, and attitudinal change in the entire state machinery, which values and practices the provision of quality services to its citizens.
- By 2030 there has to be a drastic increase in investments by state on competency development of youth, broadening their scope to effectively engage in different processes of nation building, and to assume constructive roles - be it at local or national levels and

through state agencies or non-state actors.

- Development situation in 2030 needs to reflect increased self-sufficiency and self-reliance across major productive sectors in Nepal. Equitable access and effective use of productive and natural resources, with concurrent investments in rural and urban producers and subsequent benefit sharing is a must.
- Creating economic opportunities, options and effective means that engages the low income and low resource based sections of population to directly improve their livelihood situations and contribute to reduce socio-economic disparity has to be a key priority.
- Development situation of 2030 needs to reflect that the country clearly is embarking on the journey of social transformation and inclusive development.

Developing and harnessing capabilities

Ideating on the vision for redefining development in Nepal by 2030, the country should be clear about the capacities that need to be developed, essentially human development for all and employ multiple means for it. Referring to the OECD DAC 2005, capacity development constitutes of a complex interplay between capacities at individual, organizational, institutional and society level, the latter in terms of enabling environment. The country has to be equipped with an array of capacities to deal with the complexity of development, making best use of the 'people's potentials' and engage in solutions driven actions for inclusive development and to strive towards the goal of a socially just Nepal, by and beyond 2030.

As Nepal hopes to graduate beyond 'developmental tourism' to the realm of sustained positive changes, adopting the Sustainable Development Goals (SDGs) 2015, creating a prosperous and socially just society, these are some of the key issues, agendas, and goals that will need reflection and action by 2030.

CONTEXTUALIZING THE POLITICAL ECONOMY OF NEPAL'S BORDERS FOR ECONOMIC DEVELOPMENT

Mallika Shakya

Mallika Shakya is a professor at South Asian University, Research Fellow at Oxford University of London and a member of the Advisory Board at Nepal Economic Forum.

This note pledges for an alternative reading of borders while drawing on the anthropological readings on boundaries and nation. Borders may be political constructs, representing nation states' frontiers of contiguous territorial power but at times they also become the vehicles through which national economies are constructed.

It is important to consider that the contemporary concept of nation, seen all around the world, is largely influenced by the treaty of Westphalia signed among the European nations after decades of war. This awareness may offer us some space to think that the borders constructed in peace may be spared from this Westphalian influence. The "open-border" between Nepal and India is one such case. While the Sugauli treaty signed at the conclusion of the Anglo-Nepal war two hundred years ago set the current border between Nepal and India, the war was fought in the western Himalayan and not necessarily on the flat lands of Terai. It is unfortunate that the southern border has today become the site of distrust and political muscle-flexing that is associated with contestations over nationalism and its deficits.

The notion of national economy is related to this. The Anglo-Nepal wars were fought over grievances largely on the British side that Nepal was not allowing access to its market through the southern border. The earlier set of wars fought with Tibetan on the northern borders were not different: one major cause behind a series of Nepal-Tibet wars was Tibet's concern that Nepal was lapsing standards of purity in minting of Tibetan coins.

In the current times, the border check post in Birgunj has seen the thickest traffic of export, import and consumable goods for Nepal in the past several decades. In fact, the economies of Birgunj and Raxaul, the twin towns spread on both sides of this border, have drawn largely on trade. It thus came especially ironic that the blockade on this particular border point was the staunchest during the unofficial blockade imposed by India on Nepal following the disagreements on the new constitution written in 2015. Several articles and reports have been written on this, including a book written in Nepali, by Girish Giri (2016), which argues that smuggling was almost as big a part of the border protest as the blockade itself. It might still be worthwhile reflecting on the sociology of this particular episode of border blockade so as to understand the details of the making of this political and economic crisis. In doing so, I emphasize that capital-city perspectives must be differentiated from the local, borderland perspectives.

First of all, it is important to note that the sit-down protest on the Miteri bridge connecting the two border check posts came spontaneously from within Nepal. The participation was unprecedented, and people walked forth

> In the current times, the border check post in Birgunj has seen the thickest traffic of export, import and consumable goods for Nepal in the past several decades. In fact, the economies of Birgunj and Raxaul, the twin towns spread on both sides of this border, have drawn largely on trade.

in large numbers from the surrounding villages. This public grievance should not be seen as a sabotage of vengeance of the border people against their fellow compatriots but a legitimate grievance against the state's neglect of their identity.

Second, it is important to note that the alliance of parties calling for these protests have had a long list of grievances against the central state which practiced the hegemonic notion of nationalism which continued to exclude the symbols of the Madhesi population. They also had legitimate concerns that the past assurances provided to them by the Nepali state had been tossed aside in making of the new constitution promulgated in the second Constituent Assembly.

Third, the goodwill between the local populations living on both sides of the border – sometimes referred to as the 'relationship of bread and bride' (roti-beti rishta) was strong. This can be seen in the spontaneous donation drive that generated resources to offer logistical support including daily meals for tens of thousands of people participating in the border protest.

Fourth, India's role in enforcing the border blockade was implicit but deliberate. The souring of the Delhi-Kathmandu relationship, as reflected in the way India gave cold shoulder to the promulgation of the new constitution, reduced Indian goodwill for Nepal.

The result was unfortunate, not only for the relationship of the two countries who have otherwise maintained mutual respect and support but also for the common people living in the capitals and the border towns. Kathmandu saw acute shortage of daily essentials such as kerosene, cooking gas, petrol, medicines and general food supply. The trade slumped while the economics of smuggling took over. The bilateral relationship between the two countries reached the lowest level. The distrust among Nepalis became worse.

BLACK CARBON AND CLIMATE CHANGE IN SOUTH ASIA

Arnico Panday
Arnico Panday is an Atmospheric Scientist and a member of the Advisory Board at Nepal Economic Forum.

A changing climate greatly affects Nepal and the rest of South Asia. Changing precipitation patterns affect drinking water supplies and agricultural production. We have already seen our vulnerability to this during the past year's unusual rainfall patterns. Temperatures are, on average, increasing around the world; including in South Asia, but averages disguise the full picture. Warming has been fastest at high elevations, resulting in melting of snowfields and glaciers, and changing river water availability during the dry seasons. Even small increases in average temperatures can mean a large increase in heat waves or a large decrease in nights with temperatures below freezing. Even a slight increase in temperature allows mosquitoes and other pests to reach elevations they wouldn't otherwise, and can change which tree species dominate forests.

A large fraction of the climate change in South Asia is driven by the global increase in greenhouse gases such as carbon dioxide (CO_2), nine tenth of which are emitted outside of South Asia. Because CO_2 remains in the atmosphere for a century, and is well mixed, its impacts are not dependent upon where it is emitted -- so a molecule emitted in the United States affects us as much as a molecule emitted in India. Reducing the impacts of CO_2 requires global agreements and global attempts to reduce emissions. It also takes a long time to have an impact, since the CO¬2 already in the atmosphere will not come down for a very long time.

The story is quite different for the substance that globally is the second biggest contributor to climate change: Black carbon. Consisting of fine soot particles emitted by diesel engines, brick kilns, industries, cooking fires and open fires, black carbon absorbs incoming sunlight, warming the air but cooling the ground underneath by depriving it of direct sunlight. In South Asia it contributes to the warming of upper air layers and high mountain areas, and to the cooling of plains and valleys. It is a major ingredient of the haze that obscures our views of the mountains every spring. By depositing directly onto snow and ice surfaces and darkening them, black carbon accelerates the melting of the Himalayan cryosphere.

Compared to CO¬2, black carbon has a very short atmospheric life time of days to weeks. It deposits onto surfaces, or is washed out by rain, so it seldom travels more than a few thousand kilometers from its source. Most of the impact of black carbon within South Asia are from black carbon emitted within South Asia. Black carbon is classified as "short-lived climate pollutants" (SLCP), a class of air pollutants that impact climate, but that have a short atmospheric life time and go away quickly when their sources are turned off. Reducing SLCPs has other co-benefits beyond climate. Black carbon is a carcinogen. Switching from traditional wood stoves to cleaner cooking not only reduces black carbon's effects on climate but also reduces mortality. Black carbon is emitted during incomplete combustion, and essentially represents wasted fuel. Many of the measures to reduce black carbon emissions, from cleaner cooking, to cleaner brick production, to cleaner diesel vehicles, are cost effective and save fuel.

Black carbon is usually not emitted alone, but in combination with other particles of different chemical composition that are also products of incomplete combustion. Some of these may also be light absorbing, while others may reflect sunlight. The direct local climate impacts vary depending on the exact composition of what is emitted, but they all affect climate and visibility. Agricultural and forest fires tend to co-emit large amounts of white-ish organic carbon particles which attract water vapor and are quickly coated in a layer of water. This was the source of the extreme haze experienced in Nepal in March-April 2016.

Meanwhile over the past two decades the plains of northern South Asia have been experiencing a four-fold increase in frequency of winter fog. Instead of brief morning fog that burned off by late morning, there have been episodes of fog persisting for weeks and stretching from Lahore to Dhaka, impacting the lives of hundreds of millions in five countries. Scientists don't yet have a consensus about why the fog has increased, but we do know that it is a result of changing water availability to the atmosphere (winter irrigation and different crops) and increased smoke. We suspect that the smoke from garbage fires that the poorest people light to stay warm, along with the smoke from increased loads placed on thermal power plants by the richest people staying warm, maybe contributing to a change in fog microphysics that makes it more persistent over days. While it may take another year or two of research to have full answers about why the fog has increased, and thus what can be done to decrease it, the fog clearly shows that regional climate change in South Asia is much more complex than just an average increase in temperature.

CAN WE IGNITE NEPAL'S LATENT FORTUNES?

Swarnim Waglé
Swarnim Waglé is a former member of the National Planning Commission.

After decades of political experimentation, Nepal is finally at the cusp of a potential growth take-off. If it can swiftly settle simmering grievances over the new republican constitution issued in 2015, it could use a period of relative stability to project a clear roadmap to prosperity. What shall be its long-term sources of economic growth? How can it better exploit its advantages in clean energy, agriculture and tourism to emerge as a vibrant "zero-carbon" economy by mid-century? How can it ride the boom of its giant neighbors, China and India? Will it leverage, and eventually wean off high remittances? How can it augment its prowess in modern tradable services?

Nepal's underdevelopment to date mimics the paradox of an "irresistible force meeting an immovable object" where the compelling potentials of a uniquely attractive country lay under-utilized because of politico-institutional failure. It can no longer wait. The young republic has no choice but to ramp up its economic ambition if it is to match the tall political achievements of recent years and meet the rising aspirations of its 28 million people who are increasingly educated, politically conscious and globally connected.

Historically, the pace of economic change in Nepal has been sluggish. This past decade, we fell behind regional peers. Over the past 50 years, the decadal average growth rate hovered between 2 and 5%, grossly insufficient to deliver the kind of economic change we saw across East Asia. Going back 200 years, our long-run growth translated into little perceptible increment in average income. This is jarring when contrasted with countries that experienced a critical juncture followed by a growth take off. We fought for political critical junctures, but never saw an economic critical juncture. The promise of the 1990s was nipped in the bud by armed conflict.

With an average growth rate of 2% it takes about 35 years for national income to double; at 10%, output can increase 35-fold in 35 years. This is the beauty of compounding which makes human miracles possible. In 1978, China and Nepal had the same GDP per capita of around USD 200. Today, Nepal's per capita GDP has barely doubled while China's has grown 17-fold (in 2005 constant dollars). This is because China sustained very high rates of growth over the past three decades. Since the Second World War, only a small group of 13 "miracle" economies, including Japan, Malaysia, Korea and Taiwan, have witnessed sustained growth rates of 7% for a full 25 years. Following such a path is the kind of ambition we need if we also want Nepal to transform within a generation. We can no longer be content with simply projecting forward the trends of the immediate past.

We know what our strengths are and where our vulnerabilities lie. Our topography makes our access to world markets costly. Because of climate change, we confront an altered monsoon cycle, melting Himalayan glaciers, and a threatened biodiversity. But tourism and landscape marketing remain one of our anchors of prosperity, as long as we can protect them from air pollution and other sources of degradation. Despite being one of the most beautiful countries in the world, tourism receipts as a share of the economy in Nepal are lower than that in Haiti, and six times less than in Cambodia. This sector is vastly under-exploited as are our fertile Terai lands and agro-climates in the hills which can support a much more productive agriculture. To illustrate how we can make headway in tourism and agriculture, let me discuss the progress that is underway in the third sector of national promise: energy.

Third, there is now a realization that the structural weaknesses of Nepal Electricity Authority (NEA) have to be fixed. An NEA that is under-resourced will remain a chronic under-investor in generation, transmission and distribution of electricity. These services will be unbundled and delivered competitively.

Fourth, the distrust and the lack of cooperation from the civil society in building large dams and hydro-electric plants have weakened. This turnaround cost two decades. In 1995, the World Bank pulled out of Arun III, a billion dollar project to generate 402 MW. NGOs claimed that in lieu of Arun III, Nepal could generate more electricity at lower cost in less time. This never materialized.

> Nepal's underdevelopment to date mimics the paradox of an "irresistible force meeting an immovable object" where the compelling potentials of a uniquely attractive country lay under-utilized because of politico-institutional failure.

Nepal has the potential to meet all its energy needs through clean hydropower. Yet, we have so far exploited less than 800 MW (below 2% of what is economically viable). Since much of the electricity is from ROR (run-of-the-river), generation drops to around 400 MW in the winter when the demand is at least 1200 MW, implying severe power cuts that have hurt consumer welfare, stunted private sector competitiveness, and aggravated the trade deficit. However, all the factors that obstructed exploitation of water resources in the past have metamorphosed.

First, since 2002, only 92 MW of energy was generated and almost no transmission line built despite a looming energy crisis. This was largely because of civil unrest and political instability which is now expected to subside.

Second, although the private sector has been allowed to generate electricity since 1992, they still account for less than one-third of the total installed capacity. They are getting stronger with experience. Over the next three years, 42 independent power producers will add 628 MW of electricity (on top of the 560 MW expected from the public sector).

Fifth, the disadvantage of a small domestic market is being overcome with a landmark agreement with India on electric power trade, cross-border transmission interconnection and grid connectivity. Without Indian assurances to purchase surplus energy, Nepal had been unable to tempt large foreign investors.

These three sectors – energy, agriculture and tourism – carried along by ambitious but realistic policy decisions, will help move Nepal towards a "zero-carbon economy." We must expedite progress on all these fronts, but we also need additional sources of growth that are game-changing in nature.

The first game-changer is our spatial location. Historically, the UK took 150 years to double its per capita income (from USD 1200 to USD 2400 between 1700 and 1850), the US took 50 years (between 1820 and 1870); but both India and China have doubled their output per capita in 20 years. As has been noted by the Consultants, McKinsey & Co., at the time of industrial take-off in China and India, they had a population each of 1 billion people, unlike UK and the US which had less than 10 million people. What is happening right in our neighborhood, therefore, is a force much more powerful than the Industrial Revolution, and we have to strategize on taking advantage of regional growth poles and agglomeration, including latching on to value-chains and international production networks.

Just like the European Union began with the Paris Treaty of 1951 as a Steel and Coal Community, we in South Asia could anchor our regional integration around trade in energy. Half a billion consumers at Nepal's doorstep (in neighboring states of India and China, as well as Bangladesh) will be an asset. However, this fortune will take time to unravel. Nepal should continue to exploit the rich, mature markets of the West in the meantime.

The second game-changing avenue is to ramp up our prowess in modern services. A landlocked country, we need to be competent and competitive in sectors that help us link better with the world economy and negate our disadvantage in shipping-based trade. These sectors include telecom, aviation, energy and financial intermediation. Our long-term ambition should be to have not only the cheapest per unit cost in modern services, but also the most reliable so that new knowledge-based industries take root. We have already shown some promise in telecom, hospitality and banking; this year marks a turning point in the exploitation of our clean energy sources; and in aviation, a country as under-developed and landlocked like us, Ethiopia, has shown the way with an airline that serves 64 international destinations with 48 modern aircraft. Because of Ethiopian Airlines, an entire cut-flower industry grew from one firm in 2000 to about 100 firms a decade later contributing exports worth over USD 200 million and supporting the livelihoods of 250,000 people.

Competitive services are also our best hope for reviving our manufacturing sector, which has plunged to 6% of GDP from a peak of 10% in 1996. As the recent work of Dani Rodrik shows, manufacturing as a sector is quite special: it exhibits unconditional convergence in labor productivity, absorbs a large workforce, and caters to demand that is not constrained by a small domestic market. However, we also need to recognize that the patterns of trade and industrialization have themselves evolved in the 21st century. The new emphasis, for example, is on fragmented tasks rather than complete industries, on behind-the-border non-policy barriers, and in improving the competitiveness of individual firms that can become regional champions. To ease these shifts, we need to invest more in ensuring access to quality health care, in clean water and clean air, and of course, decent education.

What, then, is the vision for our life time? We can become a vibrant middle-income country by 2030, peopled by a majority of enterprise-friendly middle-class, with absolute poverty confined to single digits. The crux is that we need to mobilize an unprecedented volume of domestic and foreign investment by sending credible signs of sustained economic and governance reforms. As a foretaste, the budget of 2014 emphasized the pursuit of a fresh series of reforms through a large corpus of legislation; relaxing of the most binding infrastructural constraints; and the consolidation of social protection while firming up the foundation for inclusive growth by re-energizing agriculture. Of course, a government's budget of a single year is a pittance that cannot lift an economy in one go. But it sends signals and issues hope. A consensual agenda that propels us now to a higher, "Asian" trajectory of rapid growth is therefore urgent.

(This is a revised and expanded version of the author's article published in The Kathmandu Post on July 16, 2014)

NEPAL ECONOMIC VISION 2030: LEVERAGING PRIVATE SECTOR GROWTH AND INVESTMENTS

Sujeev Shakya

Sujeev Shakya is the Founder/Chairperson of Nepal Economic Forum. He is also CEO of beed management, and author of 'Unleashing Nepal – Past present and Future of the Economy'.

In the last decade, Nepal has witnessed many milestones. Popular uprisings around the country in 2006 led to the reinstatement of democracy and paved way for the Comprehensive Peace Accord (CPA) which ended the decade long Maoist insurgency, overthrew centuries old monarchy, and elected a Constituent Assembly which finally promulgated the new constitution in 2015 in its second attempt. Despite epoch defining political changes, on the economic front Nepal has been a non-performer with per capita income of just USD 730.

Economic models driven by politics and vote-bank appeasement policies have relegated pragmatism and prudence to the backburner. In Nepal, the private sector is not seen as a key engine for growth and merely receives lip service even as it creates jobs and entrepreneurial opportunities, develops human and physical infrastructures, and generates public revenues for the government. Political forces continue to promote the government's role in business and push the cause for cooperatives that can neither be scaled up nor regulated.

The political and economic liberalization of the early 1990s ushered in a new a shift in economic outlook. The reforms of this era paved way for creating an enabling environment for economic growth which was exemplified by impressive growth rates that the country had clocked at that time. However, progress was stymied midway as Maoist insurgency and political instability took center stage stunting average growth rates between 2-5%.

However, Nepal has made significant progress, especially in social service delivery.Poverty dramatically reduced and there have been significant reductions in child and maternal mortality over the years. Life expectancy has increased and primary schools now have close to 100% enrolment. Building upon these improvements and reinvigorating the economy will however require enormous investments both in human and physical infrastructures along with sustained periods of economic growth. The role of private sector in realizing a vision for 2030 is of paramount importance and deserves some much needed reflection.

NEPAL ECONOMIC VISION 2030

In a country where myopic policymaking has been endemic with short-lived governments unable to look beyond the gratification of immediate needs, lack of a clear vision for the nation and of confidence on subsequent governments to live up to their commitments, have left the people disoriented and frustrated. A vision statement therefore, can serve as a compass that can navigate the country through to the realization of its long overdue goals and aspirations.

The core vision for Nepal is to become a middle-income country by the year 2030, to alleviate poverty, and raise living standards

> Economic models driven by politics and vote-bank appeasement policies have relegated pragmatism and prudence to the backburner. In Nepal, the private sector is not seen as a key engine for growth and merely receives lip service even as it creates jobs and entrepreneurial opportunities, develops human and physical infrastructures, and generates public revenues for the government.

Figure A: Three pillared conceptual framework for Vision 2030[1]

GENERATING PROSPERITY

Identifing long term sources of economic growth in Nepal is an important factor to start with.

SHARING PROSPERITY

Determining institutions to ensure that the economic development gains are shared across the country and the socio-economic factor such as gender, regions, social groups and age groups.

SUSTAINING PROSPERITY

Protecting achievements till date is necessary in order to move forward in the future and in order to do this, there needs to be prior identification of emerging threats that will make the economy unstable.

of the people alongside fostering sustainable development and upholding social justice. The vision for 2030, which consolidates previous lessons learnt, and incorporates analysis of past development strategies, and reflects on future prospects will provide a unified direction to the country, mobilize people and resources to achieve a common goal, and orient the country towards faster socio-economic transformation by focusing on areas of maximum opportunities.

Conceptual Framework

The vision for 2030 will be guided in accordance to the principles of sustainability, competitiveness, and fairness. The three pillars which uphold these principles and serve as the conceptual framework of the vision - which is a part of the National Planning Commission (NPC)'s Draft Concept Note entitled ' Vision2030 for Nepal Towards a just and lasting prosperity'—are illustrated in Figure 1.

The Goalpost

In order to realize the core vision as stated above, large proportions of domestic and foreign investments will have to be mobilized and each major sector will have to undergo significant reforms so as to create an enabling environment for development in respective sectors. The country needs to grow at a rate of over 7-8% in the next two decades in order usher in prosperity for its people and ensure sustained economic growth in the long run. Figure 2 explains the conditions required for Nepal to become a middle income country by the year 2030.

Figure B: Conditions required for Nepal to become a middle income country by 2030

WITH A POPULATION OF **36.42 million**
(AT **1.6%** POPULATION GROWTH RATE), IN ORDER FOR NEPAL TO BECOME A MIDDLE INCOME COUNTRY WE WILL REQUIRE:

PER CAPITA INCOME OF
USD 2,500

GDP OF
USD 90 billion

REQUIRED GROWTH RATE
8.5%

INVESTMENT REQUIRED -
USD 7 - 8 BILLION

DOMESTIC INVESTMENTS AND GRANTS -
USD 2-3 BILLION

FOREIGN INVESTMENT -
USD 5 - 7 BILLION

Private Sector as an Engine for Growth

Private sector is one of the most important drivers of growth in any economy. It is driven by profit and is instrumental in wealth creation. A vibrant private sector is the engine of growth; generating jobs and creating increased opportunities for growth. In a country like Nepal, where the government is often restricted by financing and other limitations, the private sector can fill in the void by providing goods and services and generating much needed employment.

The private sector also has the potential to be an important force for good governance. Since a large and formal private sector will stand strongly in the favor of policy reform, it can help establish a virtuous circle of improving business climate, private sector growth, and governance reforms. A blend of greater competition, free interplay of market forces, and profit motive can lead to the best possible utilization of Nepal's natural and human resources.

Having said all this, however, the private sector in Nepal is not without problems. A combination of pre-requisite based, structural, and attitudinal challenges have created significant roadblocks in the path for the evolution of a vibrant private sector. Political instability, poor energy and transport infrastructure, and limited access to finance have played a major role in holding back the private sector's potentials. Whereas on the other hand, structural challenges like stymieing greater competition, creating and cementing entry barriers into various industries and businesses, promoting and perpetuating crony capitalism, retaining the non-separation of ownership and management, creating cartels and syndicates which engage in price fixation and create entry barriers, and excessive politicization within the private sector, have kept the private sector from attaining greater heights and being competitive at regional and global levels.

The narrow mindedness of the private sector which is insecure about its competitiveness and service delivery quality has meant that the government's attempt to liberalize and open up the economy post-1990 failed to gain momentum. Leveraging their political influence, the private sector in Nepal has tried its best to ensure that foreign businesses and by extension greater competition, stay at bay.

LESSONS FROM KENYA

Kenya has the largest and most diverse economy in East Africa and is currently growing at a rate of over 5% a year. The size of the economy is much bigger than that of Nepal, however the development challenges and the key constraints they face are similar.

Kenya had two main strategic objectives; to create a conducive business environment for private sector growth by easing constraints and to enhance the growth and competitiveness of private sector, especially the Micro, Small and Medium Enterprises (MSMEs). To achieve them, the following five-point strategies were identified:

Development Challenges	Key Constraints
Poverty	Taxes
Inequality	Poor Infrastructure
Social diversity	Access to Finance/Capital
Impacts of Climate change	Lack of skill in the labor market
Unstable Politics	Bureaucratic regulations
High level of corruption	Insecurity

1. Improvement in Kenya's business environment can be provided through the following:
   - Adequate and good quality infrastructure
   - Measures to handle crime and insecurity
   - Introduce anti-corruption measures
   - Reduction in legal, regulatory and administrative barriers
2. Implementation of the institutional transformation between the public and the private groups in order to have a better service delivery.
3. One of the key constraints to private sector in Nepal is the inability to exports goods and services and access to new markets. In Kenya, to address the same issue, the following policy measures were taken;
   - Finalization of trade and industrial development policy
   - Revitalization of trade facilitation
   - Expansion of access to trade finance
4. Enhancement of investment and skills in order to improve productivity and enterprises
5. Entrepreneurship development through better access to market and capital

Key Areas of Focus

In order to find a trajectory of sustained economic growth, it is important that a country identify its core competencies and focus on further developing them. Identifying and unleashing these sectors will bring in much needed prosperity and pave way for the country to move to the next level of economic development. For Nepal, there are four sectors which have the potential to help the country achieve the slated targets for 2030 viz., Hydropower, Agriculture, Tourism, and Services.

Hydropower: While Nepal's potential in developing hydropower had been identified a long time back., the country still reels under hours of power cuts - despite commercial feasibility to harness up to 42,000 MW of hydroelectricity. Total power generation at present is barely 1,000 MW. The unbundling of Nepal Electricity Authority (NEA), development of a trading platform, and continuous reforms in the sector are key to Nepal's hydropower development.

Agriculture: Moving a large number of people out of poverty would require significant progress in the agricultural sector. Given that this sector contributes more than one-third to the national economy and employs more than two-thirds of the population, better agriculture will transform into higher incomes and better livelihoods for millions across the country. Extensively expanding irrigation throughout the country, improving farm technologies, increasing access to finance for farmers including crop insurance, focusing on products over which Nepal can enjoy comparative advantage such as medicinal plants and their processing, etc. should be prioritized. Commercialization of agriculture and forest products while ensuring sustainability can have a direct positive impact on the livelihoods of the rural populace.

Tourism: Despite the country's known potential in tourism, it has not been able to capitalize on it adequately. The total contribution of travel and tourism to GDP was around 8.1% in 2015, supporting a total of around 918,500 jobs. Poor infrastructure, service delivery below global standards, and lack of investor friendly climate are some of the challenges which have held back the development of this sector. Improvements in these frontiers will help Nepal attract a large number of the prospective 50 and 100 million tourists that India and China will add to the global tourism industry by 2020. Similarly, as incomes rise, the number of internal tourists will also rise creating further scope for investments into this sector.

Services: With little competitive and comparative advantages in manufacturing, Nepal will have to continue to focus on the service industry both domestically and internationally. At present Nepal is witnessing an exodus of workers migrating out of the country. Better working conditions at home could attract them back to the country after having acquired skills and experience abroad, which could assist in human capital formation for Nepal's development. With half of the population under the age of 25, Nepal will have to capitalize on its demographic dividend, especially as workforce of developed countries age. Similarly, with rising consumption and urbanization, a large number of service sector jobs have been created. Increasing labor productivity and tackling labor related problems will be vital in ensuring that service sector fuels economic growth.

Structural Enablers

Given the number of constraints and challenges that plague the economy in general and the private sector in particular, coordinated reforms that will promote working conditions, improve income and productivity, create conducive environment for domestic and foreign investments, are necessary. This will require the country to make significant tax reforms along with increasing the tax net so as to widen the tax base. Leveraging technology to improve tax payments, using incentive on taxes; to encourage businesses to invest more and thereby employ more people, should be prioritized.

There is also a need for effective land reforms. Land revenue management requires a shift from land area paradigm to a land value paradigm. Improvements are long overdue in land record keeping and tracking. All land records and transactions have to be converted into electronic form, consolidating all data so that it can be monitored from a single government agency keeping a check on land mafia activities. Similarly, land needs to be zoned into agricultural, commercial, or residential purposes with proper guidelines.

As Nepal seeks to bridge investment gaps, leveraging capital markets will be imperative. An important aspect of capital market reform will be exploring and creating avenues for the participation of Foreign Institutional Investors (FII) in secondary market to begin with and later in primary market. Similarly, Nepali companies should be able to list outside Nepal. In order to do that, Nepali companies need to level up to global standards requiring companies to follow international regulations in terms of governance and disclosure. This will help firms in Nepal to not only be at the same level but also compare and contrast their positives and drawbacks easily. Keeping that in mind, insider trading and other violations of law should also be strictly dealt with to ensure that these practices are discouraged.

For creating conducive business environment, labor reforms are absolutely vital and Nepal will have to usher in a paradigm shift in labor management issues. Over a period of time, political affiliations of workers unions should be done away with along with the system of collective bargaining. Strong labor courts should be able to settle disputes between employer and employee handing out verdicts that can be strictly adhered to. Currently, companies spend very little on human resource development, therefore spending on human development needs to be accelerated through legal provisions. Further, a cultural transformation has to be brought about by companies leading the way that will demonstrate that better training and performance can always change the fate of a worker.

The political-business nexus has hindered reforms in the financial sector of Nepal. Laws are required to make financial institutions more transparent and make possible use of financial instruments like leasing, guarantees, venture capital funds, social enterprises funds, impact funds and private equity. With close to 100% mobile penetration and 40% internet penetration, it is important that e-commerce and electronic payment platforms be expanded and made more user friendly.

Access to resources

An important determinant of development is the level and ease of access to financial, technical, and human resources. In Nepal's financial system, informal financial mechanisms like borrowing from friends, family, local moneylenders, etc. still command a significant position as just 26% of the Nepali population hold a bank account and around 18% depend upon cooperatives and financial NGOs to avail deposit service. Similarly, a large volume of remittance comes into the country through informal means. Widening the net of formal financial services throughout the country will play a major role in pooling in and mobilizing financial resources for developmental activities. Similarly, access to technological resources like better information and communications technology as well as better human resource will be pivotal in Nepal's quest for attaining the goals set for 2030.

Key Recommendations

Our economy needs transformation and coordinated reforms and this requires a change in the mindset of people, from an individualistic approach to global ambitions. The reforms that are mentioned below are essential to ensure that the Nepali economy integrates with the global economy. The private sector needs to support policy institutions that are working towards building the right policy framework which includes institutional structures and legislations.

In order to realize the Economic Vision for 2030, private sector led growth is essential as is attracting global investments, and keeping up with global technologies and markets. These factors will also help Nepal realize its objective of graduating to a middle income country. In this regard, listed in Table 1 is a list of issues that need attention in order to attract global attention and push private sector led growth, apart from major reforms that the government needs to undertake.

Table A: Key issues needing attention for economic growth

1.	**GETTING CREDIT RATING FOR NEPAL** **Why:** Nepal has had difficulty in accessing global capital due to the lack of credit rating for the country. Currently, there are no global benchmarks based on which investors can decide whether to invest in Nepal or not. Further, the absence of credit rating impacts insurance adversely as there are no Nepal specific products available in the global insurance market. **How:** Get global credit rating agencies to rate Nepal on a perennial basis and provide recommendation framework for improvement of rating.
2.	**DISMANTLING CARTELS AND KEEPING PRIVATE SECTOR BODIES AWAY FROM REGULATORY ONES** **Why:** Cartels and syndicates that have unofficial affiliation to political parties have been the biggest stumbling block to reforms and attracting international investors and firms. For instance, an airline association member should not be sitting on the board of the regulating agency, as it would be a sheer conflict of interest. **How:** Make necessary legislative changes to eliminate conflict of interest and promote competition. Anti-competitive activities including cartels should be considered as a criminal offence and heavily penalized.
3	**INTEGRATING WITH GLOBAL MARKETS** **Why:** Nepali firms should be prepared to take on global competition therefore it is important for Nepali firms to bring in practices at par with global firms. These would include governance and human development practices as well as audit standards that are not just limited to financial audit.

4 **ALLOWING NEPALIS TO INVEST OUTSIDE NEPAL**

Why: Nepalis should be allowed to invest abroad and reap the benefits of growth in the region as well as other sunrise markets. These investments should however be regulated. Global examples suggest that countries that allowed free flow of capital, benefitted more than countries that restricted flow of capital

5. **LEVERAGING REGIONAL MARKETS AND CONSORTIUMS**

Why: Nepal is in a unique position that it is land-linked to China and India. With regional economic forums like BBIN, BIMSTEC being a reality, Nepal needs to leverage and negotiate favorable terms for trade and investments. For instance, an effective regional power grid and market will benefit the hydropower investments in Nepal.

6. **CREATE A FINANCIAL SERVICE COMMISSION OR AUTHORITY TO REGULATE NON-BANKING FINANCIAL INSTITUTIONS**

Why: Banks form only a section of financial sector lending or platform for access to finance. There has to be a regulatory body created that will regulate all non-banking and capital market related financial products and services. These could include Venture Funds, Equity Funds, Hedge Funds, Collective Investment Schemes, electronic transfer platforms, Guarantee and Leasing products and regulation of other financial instruments and structure.

7. **PROMOTION OF POLICY INSTITUTES, RESEARCH AND TRAINING CENTERS**

Why: Economic policy formulation in Nepal has never been structured. It is imperative that more formal sustainable institutions are created that will help in research, policy formulation as well as capacity building. However, the governance structure, audit and evaluation of such institutions should be made to follow global standards.

How: Government support, international community support and tax sops for companies providing money to such institutions.

8. **ALIGNING WITH GLOBAL PRACTICES**

Why: Over the years due to the political transition with short term governments, Nepal has tended to be inward looking rather than outward looking. It is imperative that Nepali business practices two global lines rather than taking an isolationist approach. For instance, usage of English language for documentation along with usage of global calendars will be important to make international investors at ease. Nepali as a language for global transactions has limited reach and appeal therefore; legislative as well as mindset changes are required.

How: Legislative and mindset changes

9. **EASE OF DOING BUSINESS**

Why: The Doing Business Index produced by the World Bank along with many other indexes like World Competitiveness Index provides international investors a perspective on the country's willingness to do business. It is imperative that Nepal develop a clear strategy and plan to improve its rankings. Rwanda in East Africa has a focused plan in improving its ratings and in just five years being able to position itself as the top five countries to do business with.

How: Legislative changes along with major overhaul of institutional framework.

10. **INSOLVENCY LAWS AND EXIT**

Why: In Nepal once a person starts a business, it is very difficult to shut down. It is imperative that along with easing of starting businesses, closing down businesses should be made easy too. While the laws relating to Insolvency exists, the practical implementation has been poor.

How: Remove impediments through legislative and institutional changes

11. **REGULATING DONOR ENGAGEMENT IN PROVIDING DIRECT OR INDIRECT SUBSIDY FOR BUSINESS**

Why: There are many institutions that are funded by bilateral and multilateral agencies that are indirectly or directly subsidizing firms. For instance, there are programs which fund private banks to open rural branches or which subsidize transportation costs of bringing produces to markets. While these may be done in good intent, Nepal's 25 year history has shown that the businesses cease to exist competitively once the subsidies and support are withdrawn.

How: Donor support should be limited to helping capacities and capabilities of firms but not directly or indirectly subsidizing to reduce expenses or increase income.

12. **POLICY CONSISTENCY**

Why: The biggest complaint from international investors has been the inconsistency in Nepal's legal and institutional framework. There are companies who have not been able to repatriate dividends. Recently, the Central bank issued a guideline for setting up ceilings for prior approval for hiring foreign consultants. These shake investor confidence and efforts should be made to ensure that there are policy consistencies and any changes to be made for better facilitation rather than restrictions.

How: Legislative framework that indemnifies parties above certain investment threshold levels on change of law provisions.

The article is based on the report prepared by the author for Asian Development Bank under TA 8261 NEP Support for Formulating an Economic Development Vision. The report was based on the initial framework prepared by the National Planning Commission coordinated by Dr Swarnim Wagle then Member of NPC. All contents for this article are based on the Draft Concept Note - Vision 2030 for Nepal Towards a just and lasting prosperity March 25, 2015.

3

MACROECONOMICS AND SUSTAINABLE DEVELOPMENT GOALS (SDGs) IN 2030

MACROECONOMICS IN 2030

Chandan Sapkota

Chandan Sapkota was the Former Economics Officer at Asian Development Bank, Nepal Resident Mission.

Although a bit late, the government is finally gearing up to formulate a long-term vision for economic development. The tentative targets for now are to graduate from the Least Developed Country (LDC) status by 2022 and to attain the slew of Sustainable Development Goals by 2030. However, a bold and time-bound economic development vision for the country should go beyond these goalposts that were contextualized on the basis of global targets. Nepal should aim to become a vibrant lower-middle income economy within the next two decades.

At the core, it essentially means increasing gross national income (GNI) per capita (World Bank's Atlas method) from existing USD 730 to about USD 4,125 (the threshold between lower-middle income and upper-middle income economy). In order to achieve such a goal, it is essential that the government draw up a list of strategic flagship projects in physical and social infrastructure sectors and execute them with an efficient and workable implementation arrangement that is in sharp departure from the current discouraging project implementation ecosystem.

Given an appropriate mix of macroeconomic strategy, financial arrangement, smart project execution and supportive institutions, a meaningful structural transformation is possible and the stated goals are achievable. This piece focuses on the macroeconomic aspect of marching on that path.

Macroeconomic essentials

A large amount of public and private investment is required to increase income per capita by almost six folds within two decades. The scale and scope of public investment would depend on revenue mobilization, rationalization of ballooning recurrent spending, and foreign aid. Meanwhile, private investment would depend on investor-friendly environment, including protection of investment and returns, supportive laws and policies, mechanisms for sharing of risk, returns and technology (such as public private partnerships), and maturity of the financial market, among others.

Overall, sound macroeconomic environment will be at the heart of financing for such large scale public and private investment. At around 21% of GDP, the gross fixed investment is lower than the average for low income countries. This needs to be over 30% of GDP to accelerate growth rate (beyond the contribution by exogenous factors such as monsoon and remittances), which will then boost income per capita, and employment generation, primarily through investment in productivity-enhancing physical and social infrastructure. Specifically, public fixed capital investment has to increase to about 10% of GDP over the next decade from the existing 4.5% of GDP.

On the financing part, a combination of rationalization of recurrent expenditure, higher domestic revenue, domestic borrowing, and higher grants as well as concessional and non-concessional loans are needed. At the current level and growth of recurrent expenditure, it will be challenging to cover it sustainably by tax revenue, whose growth rate has stagnated at around 15%. Hence, trimming wasteful recurrent spending in uncoordinated programs and projects should be a priority as a part of sound fiscal management to attain the long-term vision. Second, along with efforts to expand the tax base, the revenue administration will have to be made more efficient and responsive. The present revenue system is too dependent on taxes on remittance-financed imported goods and services. Third, domestic borrowing has to be managed judiciously keeping in mind the optimum market liquidity. Finally, foreign assistance needs to be better utilized by enhancing expenditure absorption capacity. These will partly cover the required resources for public sector investment.

Additionally, fiscal and monetary policies need to be synchronized to tame inflation so that it is not persistently and prohibitively high to discourage investment. At present, inflation is mostly a supply-side phenomenon although localized sectoral inflation (such as unnatural escalation of real estate and housing prices few years back) is mostly within the ambit of monetary authorities. More generally, monetary policy can support the vision by creating appropriate incentives to channel savings into infrastructure investment that typically pay-off in the long-term. Finally, external sector stability should not be much of an issue as long as the economy is gradually diversified and production is competitive in addition to a net positive transfers and sizable foreign exchange reserves.

Supportive environment

An investment-friendly environment is essential to increase domestic as well as foreign investment. While a slew of laws need updating, policies need rewriting to facilitate and simplify investment rules and approvals. In the meantime, drastic enhancement of capital spending absorption capacity is required to increase public spending in infrastructure, a lack of which is the most binding constraint to inclusive economic growth. Supportive institutions that can foster creative creation and creative destruction need to be promoted as opposed to the protection of business interests through syndicates and cartels. This is crucial for entrepreneurial spirit and to incentivize saving, investment and innovation. Inclusive political and economic institutions are vital to sustaining an equitable and rising income per capita. It is also important to change the course of out-migration for jobs and improved opportunities, and to enhance external sector competitiveness.

> Given an appropriate mix of macroeconomic strategy, financial arrangement, smart project execution and supportive institutions, a meaningful structural transformation is possible and the stated goals are achievable.

Structural transformation

A meaningful structural transformation underpins the pace and pattern of economic growth. Along with the decline of the agricultural sector, Nepal is seeing the rise of low value added, low productivity services sector activities. This structural shift is bypassing industrial sector growth (a sort of deindustrialization), which is vital for productive employment, sustained rise in income per capita, and high growth rate initially. Reversing this trend and revitalization of industrial sector along with promotion of high value added agriculture and services sector activities, with an employment centric strategy to absorb the surplus labor, should form the core of the structural transformation process, which will then lead to higher and inclusive economic growth.

With the right mix of reforms and policies, supportive institutions, enhancement of absorption capacity, and a sound macroeconomic environment to support such structural transformation, the likelihood of attaining the long-term vision is high.

AGENDA 2030 IN NEPAL: DELIVERING DEVELOPMENT TO PEOPLE'S DOORSTEPS

Renaud Meyer and Basudeb Guha-Khasnobis

Renaud Meyer (left) is the Country Director of UNDP Nepal

Basudeb Guha-Khasnobis (right) is the Senior Economist at UNDP Nepal

Within its development cohort, Nepal is one of the star performers with regards to achieving some of the key objectives of the Millennium Development Goals (MDGs) defined and adopted in 2000 to support countries make critical social progress for their people. As a result and despite a complex and challenging political situation during the first 15 years of the new millennium, Nepal's social indicators have shown positive improvements on significant issues such as education, family health, maternal mortality, and child health.

Building on the success of the MDGs, the global community has adopted in September 2015 a new series of development targets known as the Sustainable Developments Goals (SDGs) as part of the new Development Agenda 2030. And once again Nepal is taking the lead being one of the first countries in the world to come up with its own position paper with regards to the SDGs. If the SDGs are broader and more challenging, Nepal's commitment to them is a first essential step in the right direction to achieving them. Strong interdependence and deep interlinkage between the new goals and targets are the hallmark of the SDGs, and therefore, Nepal should be well-positioned to build on its MDG experience in localizing the SDGs in a way consistent with its sovereign development vision; partly articulated by the "Vision 2030" and also the 14th periodic plan.

Need for inclusive development

Employment oriented high and inclusive economic growth is central to achieving nearly all other dimensions of development. To this end, the current development plan documents the Government of Nepal's focus on realizing the full potential of a modernized agricultural sector; to be facilitated by the development of energy, road, air transport, information/communication, rural-urban and multi-lateral linkages – all to be supported by good governance in the form of effective and accountable public finance and clean, transparent and people friendly public service. This national vision is also critically important to achieving the SDGs which addresses all these dimensions of development.

One can hardly over-emphasize the need for inclusive development which is important in and of itself; and also as the foundation of a peaceful society. This is where the essence of "localization" of development targets lies: we know that the MDG targets were measured at the national level, masking wide disparities when disaggregated by region and socio-economic groups. This is not specific to Nepal, and was also observed in several other countries. Therefore and rightly so, the SDG Agenda 2030 places special emphasis on "leaving no one behind", urging national governments to take the SDGs as close to the people as possible by ensuring everybody knows about the

SDGs and incorporating them in sub-national plans. The federal model adopted for Nepal by its new constitution should support this and UNDP as a close development partner to the country working with all its national and development partners will fully support the government and other stakeholders implement the constitution, drawing on our rich knowledge base and global expertise built over the past 50 years.

women's economic empowerment still remains unattained. This is unambiguously confirmed by evidence in Nepal, showing women working more hours but earning less, unable to come out of vulnerable and informal occupations, and also unable to bring their small enterprises up to scale. One of the obstacles has been women's persistent lack of or limited access to certain key infrastructures such as energy, transport, technology and financial services. In part, this

> One can hardly over-emphasize the need for inclusive development which is important in and of itself; and also as the foundation of a peaceful society.

may be caused by the portion of overseas development assistance earmarked for gender equality in these sub-sectors within productive sectors. More research is needed on aid effectiveness to help achieve the last mile in women's economic empowerment. The political empowerment of women also requires additional attention. Nepal having elected a woman President, Speaker of Parliament and Chief Justice, are powerful elements of progress that need to translate inti conducive policies and results that allow more women at all levels across the whole country reach decision-making positions and make long lasting changes.

Nepal's vulnerabilities are a reality that cannot be changed, but it can certainly manage the risks to a significant extent with smart planning, including; through the activities of the National Reconstruction Authority, to rebuild in earthquake affected districts following a "Build Back Better" approach. Climate change, global economic and political crises are added sources of risk that can derail Nepal from its development path. Therefore, a resilient approach towards planning is essential: UNDP continues to strongly advocate for this approach across all our sectors and modalities of intervention. In addition to adopting scientific building standards (e.g., earthquake-proofing), resilience also hinges on the functioning of a sound state-owned social protection system, complemented by the provision of market-based instruments for risk mitigation including insurance for the poorest and most vulnerable sections of the population. There is a strong scope for public-private partnership here, with the UN system well-placed to facilitate the same.

Gender Equality

While Nepal has achieved most of the gender related goals under the MDGs, the bar has been raised considerably by SDG 5 and also its linkages with the goals related to health, education and inequality. It should be noted that globally-and Nepal is no exception, the "social" dimensions of gender equality; e.g., decline in maternal mortality rates, parity in school enrollment, have improved significantly. But,

Role of the private sector

Achieving the SDGs requires huge resources, and they have to come from a combination of sources, both domestic and foreign. The role of the private sector is being emphasized in various policy discourses. It will be useful to bear in mind that the private sector requires "incentives" to be a full financial partner in human development. For investors to come, Nepal needs political stability and predictability, as well as a stronger and improved legal environment for private investments and Foreign Direct Investment (FDI). Much of this has to do with the signaling of intent: timely local elections and the implementation of the Constitution can constitute such signals. Nepal can also consider trade-related incentives to attract FDI especially with a view to find a place in the exorable advent of global supply chains. Goods are no longer produced in a country – they are produced in the world. Almost every country including Nepal can create its own niche in these supply chains.

As UNDP, we also reiterate that the SDGs are firmly embedded in, or linked to, a number of human rights related conventions dating as far back as the 1940s, to which all countries are a signatory. The SDGs bring the development agenda to people's doorsteps, urging them to embrace Agenda 2030 as a basic human right and no less. Therefore, an SDG-based economic growth model will guarantee its sustainability, be risk-informed, and ensure that its dividends are equally shared, thereby strengthening social cohesion, from where Nepal can set in motion a positive and virtuous cycle for human development.

Last but not the least, partnership between the state, civil society, the business sector, youth, academia, donors and other development partners will be the key to success. It is UNDP's promise to the people of Nepal that it will expend every effort in supporting and forging partnerships in all these spheres in new and innovative ways to make sustainable development a tangible reality.

4

GENERAL

OVERVIEW

GENERAL OVERVIEW

POLITICAL OVERVIEW

More than three months after the end of the blockade, commitments to political settlement of contentious issues remains limited to rhetoric. On the other hand, power struggles within the coalition have started taking precedence over matters of national importance; such as solving constitution related issues or jump-starting the stalled economy. With the future of the present government itself under question, most political actors at present seem to be in a wait-and-watch mode.

Madhesi-Janajati agitations in the capital: While the six month long agitations in the Terai-Madhes region came to a halt following the end of the border blockade, Madhesi and indigenous forces formed an alliance to continue the agitations; this time in the capital. The Federal Alliance - made up of 29 political parties including the seven Madhesi parties from the United Democratic Madhesi Front (UDMF) - put forth a 26 point demand to the government and started its programs of protest from mid-May 2016 with rallies, demonstrations, picketing outside Singha Durbar and the Prime Minister's residence.[1] Unlike the protests in the Terai, those in the capital have been largely peaceful except for some minor scuffles.

However, rifts have been apparent within the Federal Alliance with some of the Madhes-based parties pushing to resume protests in the Terai-Madhes region; on account of protests in the capital not having the desired outcomes, as well as due to conflicting interests between Madhesi and other indigenous parties in regard to state demarcation.[2] The lack of a clear position within the alliance regarding demands and issues relating to provincial demarcation have been cited by some as the reason behind the alliance delaying talks with the government. The government and the agitating parties have not sat for talks since mid-February. Meanwhile, the Alliance has begun a hu ger-strike from June 7 in the capital to mount pressure on the government.

Coalition intact, for now: In early May, the Communist Party of Nepal-Unified Marxist Leninist (CPN-UML) led ruling coalition was on the verge of breaking up as erstwhile United Communist Party of Nepal - Maoist (UCPN-M); the key coalition partner, almost withdrew support to the incumbent government. The move, on UCPN (M)'s part, was inspired by Nepali Congress (NC)'s offer to lend support to a new government led by UCPN (M).

However, UCPN (M) which had already taken an official decision at party level to form a new government under its leadership backtracked on its earlier decision after a supposed agreement was reached between the Prime Minister and UCPN (M) chairman. The agreement is supposed to have ensured continuation of UCPN (M)'s support to the coalition with the understanding that UCPN (M) would lead the government after the budget.[3] However, following the tabling of the budget, political squabbles have re-emerged with the Maoists hinting the formation of a new government after the passage of the budget and PM Oli maintaining that there have been no agreements to change the government any time soon.

President's India visit cancelled and Ambassador recalled: Following closely on the heels of the political quagmire about government change which ended as abruptly as it began, President Bidhya Devi Bhandari's maiden trip as the President to India was cancelled as it failed to get a green signal from the cabinet. The Nepali side has cited lack of adequate preparations as the reason for the cancellation of the visit. However, news media has since been rife with speculations that the cancellation of the visit is a symbolic message of displeasure from Kathmandu to New Delhi owing to the latter's alleged involvement in the exercise to topple the current government. Another reason for the cancellation of the visit which has surfaced in the media is India's reluctance to make President Bhandari's visit a 'state visit'.[4]

Following the cancellation of the President's visit, Nepal's erstwhile ambassador to India, Deep Kumar

Upadhyay; appointed under NC quota during Sushil Koirala's premiership, was also recalled by the Oli administration. The former ambassador is learned to have expressed strong reservations about the cancellation of the President's trip. The government is understood to have recalled him based on charges relating to non-cooperation; the former ambassador's tour of Terai districts with India's ambassador to Nepal Ranjit Rae without informing the government being an example of such non-cooperation.[5] The move by the government has also been seen by many as the manifestation of the current administration's ire against the main opposition NC for attempting to topple the government.

Budget tabled: The budget for FY 2016-17 was tabled on May 28, 2016 in accordance with the new constitution's provision, which marks a departure from the previous convention of presenting it towards the end of the current fiscal year. The budget has been seen primarily as a CPN-UML manifesto rather than a country's annual fiscal plan. The perpetual challenges faced by subsequent governments in Nepal in regard to low spending capacity are quite well known. The budget for the current fiscal year had been anticipated to come up with concrete plans which seek to boost government's spending capacity effectively, especially because it is such a large budget in itself. However, such innovative plans and strategies are missing in the budget document. At a time when questions are being raised about the future of the present government, it will be interesting to see how well the government manages to implement the ambitious budget.

Maoist parties unite: Ten Maoist parties announced a merger in May 2016. The new party has been named Communist Party of Nepal - Maoist Centre (CPN-MC) and a 1,099-strong Central Committee has been formed.[6] Along with the jumbo central committee, the party will have a 225 and 85 member Politburo and Standing Committee respectively. Chairman of the erstwhile UCPN (M) Pushpa Kamal Dahal will continue to lead the newly formed party. Political commentators have opined that the merger of ten Maoist parties has been triggered largely by their apprehensions regarding the trial of war-era cases by regular courts. Chairman Dahal has claimed that the merger of Maoist parties would ensure that the transitional justice mechanism would work as per the Comprehensive Peace Accord (CPA).[7]

OUTLOOK

The future of the present government remains uncertain. While in early-May it was spared a collapse when the erstwhile UCPN (M) made a U-turn and decided to continue to support the current government, the supposed 'agreement' between the Prime Minister and Maoist leader to pave way for the latter to take reigns of the government post-budget is marred in obscurity. With the budget tabled already, it will be interesting to see how events pan out following passage of the budget from the parliament.

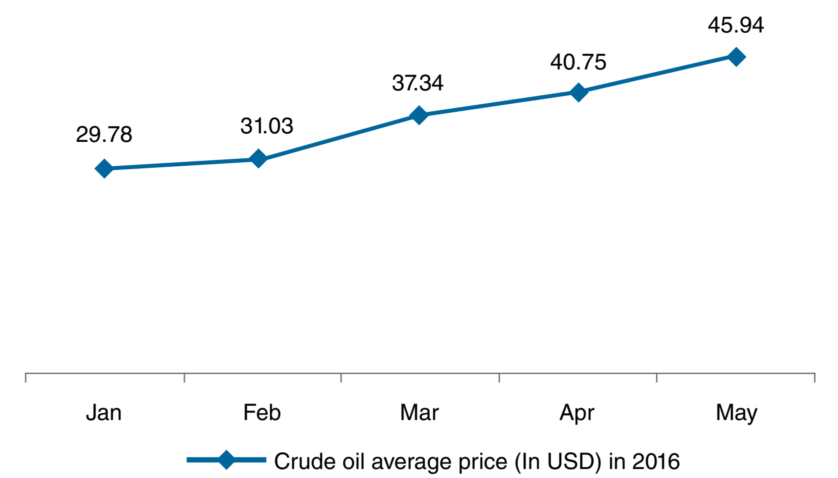
On the other hand, power squabbles within the coalition and lack of a concrete roadmap on the part of the agitating Federal Alliance has meant that resolution on contentious issues in the constitution and provincial demarcation have remained elusive. It is important that the government affirm its sincerity in solving pertinent issues and showcase it through appropriate actions in order to build an environment of trust and confidence. Similarly, the agitating forces need to come up with a clear roadmap on contentious issues and sit for talks with the government in order to find solutions to the challenges that have hamstrung the national economy and polarized the society.

GENERAL OVERVIEW

INTERNATIONAL ECONOMY

Economies worldwide gear for a shift in paradigm - Oil producers remain set on dictating own terms of production with OPEC's seemingly waning influence, UK stands at a major threshold, while China-India economic duel enlivens in Central Asia.

Figure 1: Monthly average prices of crude oil (Brent, WTI, and Dubai)



Source: World Bank Commodity Price Data (The Pink Sheet)

Oil prices on upward trend: Crude oil prices have been on a fairly increasing trajectory since mid-January 2016. At the start of the year, prices dropped significantly owing to a concoction of weak demand and increased supply. As of the first week of June 2016, crude oil prices nearly touched NPR 5356.5 (USD 50) per barrel; which is a growth of approximately 68% since January 2016. The rise has primarily been attributed to temporary supply slumps following production disruptions in Canada; due to wildfires, and Nigeria and Libya due to attacks on production centers and pipelines. In addition, reductions in United States oil production have further pushed the prices upwards.[8] The upward trend continued despite Organization of Petroleum Exporting Countries' (OPEC) indecision to freeze output, and thereby aiming to control prices.[9] However, the price rise is said to be temporary as Canada's production is expected to be in full capacity and Iran's disinclination to limit production further compounded by Saudi Arabia's decision to freeze production only if all OPEC members including Iran agree on limiting their production.[10]

OECD cautions against Brexit induced negative shock: With less than a month to the referendum, the Organization for Economic Co-operation and Development (OECD) points to rather grim consequences should 'Brexit' occur. In its latest economic outlook, OECD states that lower trade openness, ensuing from 'Brexit', could hamper UK's economic dynamism and productivity in the long term. UK's GDP could be 3% or more below what it otherwise would have been if it remained in the EU. Weaker UK economy and the potential new restrictions from EU could run the risk of lower net migration inflows further compounding on supply side challenges due to contractions in the labor force.[11] Those in favor of 'Brexit' have been backing their stance arguing that EU has held back UK with the imposition of too many rules and exorbitant annual membership fees; in addition to further assuming full control of immigration. Meanwhile those in favor of staying, point to the ease at which trade occurs with EU countries, which otherwise would cost more to both importers as well as exporters of UK. They also maintain the belief that the flow of immigrants assist in UK's economic growth, aiding in paying for public services.[12]

India-Iran sign Chabahar accord: On May 2016, India penned an agreement with Iran to build and operate the latter's south-eastern sea port of Chabahar.[13] India has pledged an investment of NPR 53.56 billion (USD 500 million) to develop the port's infrastructure, envisaging ease of accessibility to Iran's energy as well as expansion in the trading sphere of Indian goods and products; primarily to Afghanistan and Central Asia through Iran, bypassing land-routes through Pakistan.[14] A tri-lateral agreement between India, Iran and Afghanistan has also been signed to develop a transport and transit corridor among the three countries.[15]

While leaders of both the nations are hopeful about the agreements, the geopolitics surrounding the region has stiffened. Since China and Iran have been on good trading terms with transactions amounting to NPR 5.57 trillion (USD 52 billion), India's move to actively engage with Iran as well as Central Asia has been viewed by some as a potential cause for concern to China.[16] Meanwhile China and Pakistan have been working together to develop the latter's Gwador Port, through which the former expects to shorten its oil import route and open new trade links to Central and South Asia.

G7 summit held at Japan: Leaders of the seven advanced economies, comprising of Canada, France, Germany, Italy, Japan, United Kingdom, and the United States, converged in Japan for a two-day annual summit. Discussions during the May 2016 summit ranged from global economy and trade, foreign policy, and climate change and energy among others.[17] Other topics included counter-terrorism, cyber-security and maritime security. Talking at the summit, the Japanese Prime Minister expressed concern over global economic slowdown and emphasized the necessity of coming out with appropriate policy responses in order to avoid falling into a crisis.[18] One of the major talking points during the summit centered on the fiscal stimulus debate(whereby a government is expected to increase public spending or reduce taxation levels in an attempt to spur economic growth). However Germany and Britain strictly maintained preference on debt and deficit control measures over increased spending.[19] Towards the end of the summit, the G7 vowed to execute relevant policy mix, keeping global growth at the fore, whilst first considering their country's own circumstances.

OUTLOOK

The long term stability of oil prices at the 'new normal' level is good news for importers of oil like Nepal. This should help in managing the costs of fuel and other petroleum products on reconstruction activities to a certain extent, as well as contain inflationary pressures especially when budgetary spending and economic activities gathers steam. Meanwhile looking at the Asian continent, the economic supremacy dynamics between China and India should intensify in the near future, with India making serious strides towards economic growth.

5

MACROECONOMIC

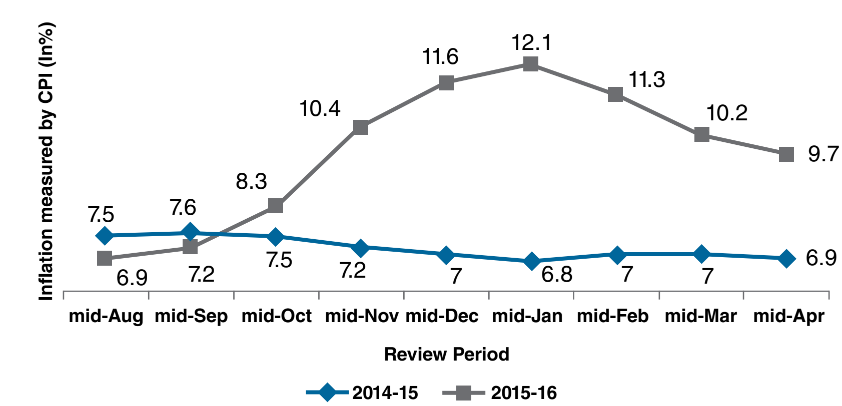
OVERVIEW

The economy has finally started showing signs of recovery after being strangled for several months. Since the end of the border blockade in early February, supplies have relatively normalized and inflation has come down after hitting a seven year high. While international trade is returning to its pre-blockade levels, exports have not been able to rebound as quickly as imports, and could mean a trade deficit that could expand significantly in the months to come. While the government's revenue collection has risen post-blockade, spending is still tardy. Meanwhile, proposal of an expansionary and distributive budget has spurred apprehensions about price rise and long term macroeconomic instability, rather than evoking any excitement.

Inflation levels: After hitting a seven year high of 12.1% in mid-January, inflation as measured by Consumer Price Inflation (CPI) has moderated in subsequent months. As of mid-April, it stood at 9.7% returning back to single digit after five months, as shown in Figure 2. As supply side constraints eased following the lifting of the blockade in the southern border points, pressure on prices has eased bringing relief to consumers. However, following the tabling of an expansionary and distributive budget, concerns have risen about a likely rise in inflation in the next fiscal and the potential challenges of meeting the inflation target of 7.5% set by the annual budget for FY 2016-17.

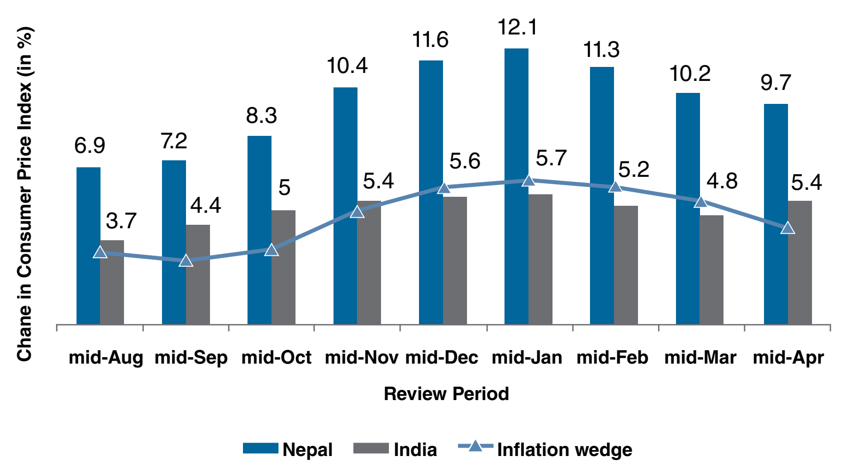
Inflation wedge between Nepal and India: Following the easing of inflationary pressures in Nepal post-January, there has been a drop in the inflation wedge, measured as the difference between the year-on-year change in Consumer Price Index (CPI) of Nepal and India as shown in Figure 3. While the inflation wedge

Figure 2: Year-on-year inflation measured by Consumer Price Index (CPI) for nine months of FY 2014-15 and 2015-16



Source: Current Macroeconomic Situation of Nepal (months one to nine for FY 2014-15 and 2015-16), Nepal Rastra Bank

Figure 3: Year-on-year percentage change in CPI in Nepal and India and the inflation wedge in the corresponding period for FY 2015-16 for FY 2015-16



Source: Current Macroeconomic Situation of Nepal (months one to nine for 2015-16), Nepal Rastra Bank

between Nepal and India has gone down in the recent months, it is yet to return to pre-blockade levels.

As shown in Figure 4, the inflation wedge in the same period in the last fiscal year had been significantly narrower. In FY 2016-17, even if the inflation rate in India remains relatively stable, the wedge can be expected to widen as higher government spending and increased demand for goods and services related to reconstruction exert upward pressure on prices at home.

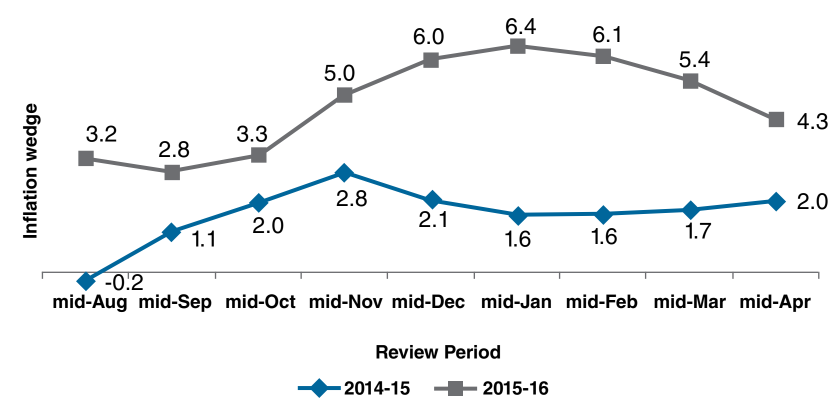
Import-Export and Trade deficit: For four and a half months, Nepal's international trade was hamstrung as border blockade resulted in sharp dips in both imports and exports. Merchandise imports fell by as much as 36.8% during the height of the blockade, compared to the same period in the previous year as shown in Figure 5. Similarly, merchandize exports dipped by 29.1% in November and December 2015 as shown in Figure 6. The international trade situation improved marginally in December, as cargoes were re-routed through border points having lesser restrictions than at Birgunj-Raxaul border.

Merchandize imports and exports witnessed improvements after the blockade was lifted in early-February 2016, with imports returning back to pre-blockade levels faster than exports. By mid-April 2016, merchandize imports had improved to -9.9% growth compared to the same period in the previous year, whereas merchandize exports struggled to rebound quickly witnessing -23.4% growth compared to the same period in the previous year.

During the blockade, when imports were severely curtailed, the country's otherwise ballooning trade deficit experienced significant contractions. But given Nepal's large imports and meagre exports, the magnitude of contractions in trade deficit has decreased as supplies have normalized. While it had contracted by 37.8% in mid-November 2015, by mid-April 2016, the magnitude of contraction had gone down to just -8.2%. In the coming months, trade deficit is expected to return to its previously expansionary trend. If exports fail to rebound quickly even as supplies normalize, the resultant expansion in trade deficit might be even higher than pre-blockade levels.

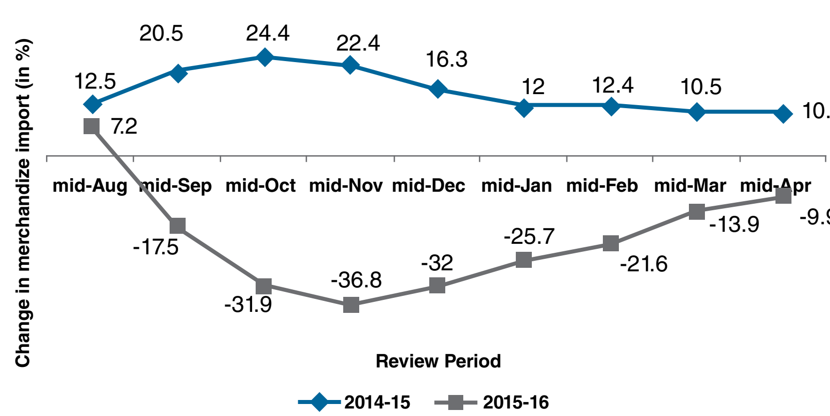
Government Revenue: As of mid-April 2016, total revenues collected by the government stood at NPR 290.19 billion (USD 2.70 billion) which is only 61.1% of the government's revenue target of NPR 475 billion (USD 4.42 billion). The slowdown in government revenue collection in the past several months is due to the decrease in customs and

Figure 4: Year-on-year change in inflation wedge (based on CPI) between Nepal and India in FY 2014-15 and FY 2015-16



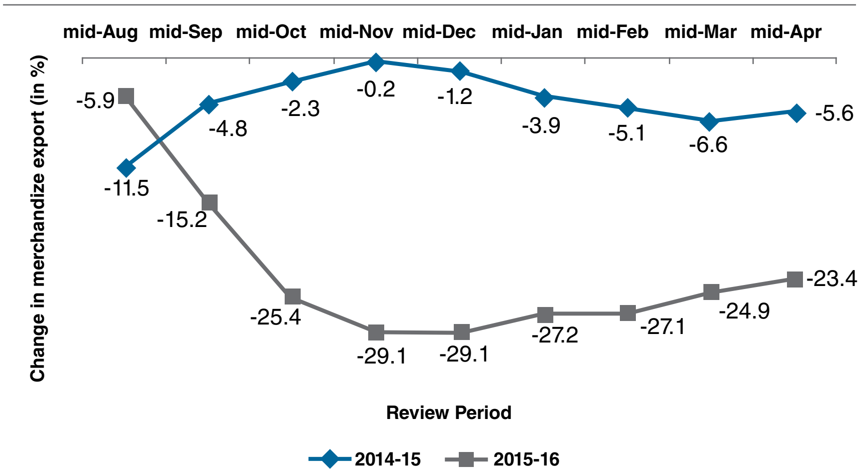
Source: Current Macroeconomic Situation of Nepal (Based on nine months' data of 2015-16), Nepal Rastra Bank

Figure 5: Year-on-year percentage change in merchandize imports in review periods in FYs 2014-15 and 2015-16



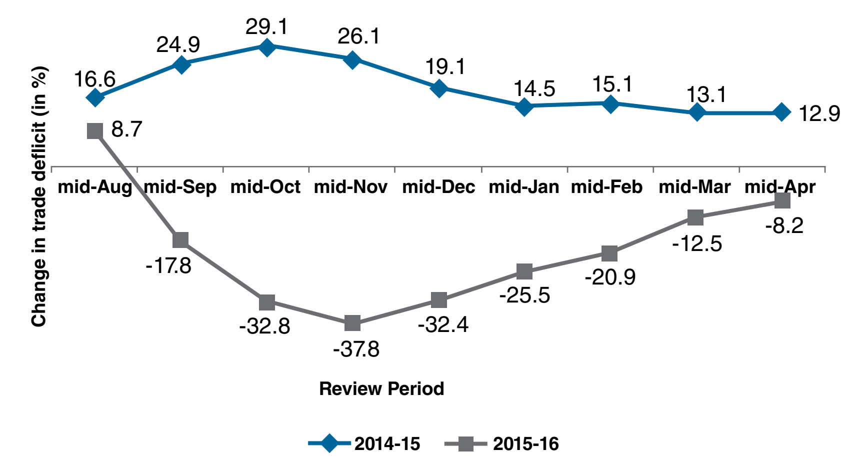
Source: Current Macroeconomic Situation of Nepal (Based on nine months' data of 2015-16), Nepal Rastra Bank

Figure 6: Year-on-year percentage change in merchandize exports in review periods in FYs 2014-15 and 2015-16



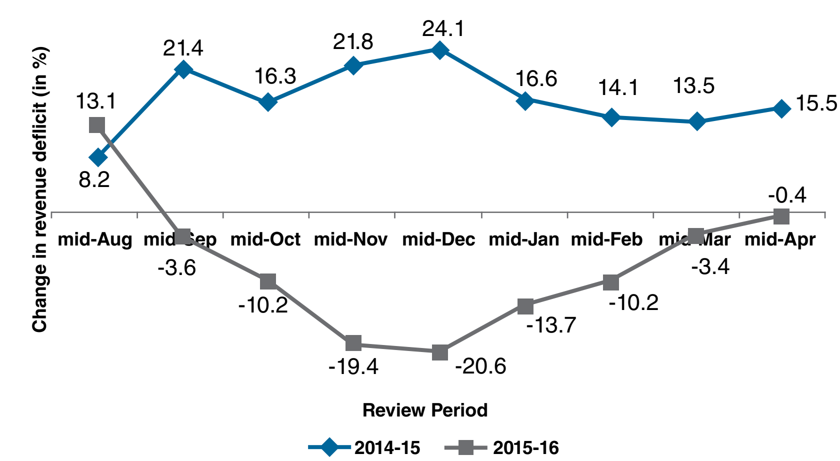
Source: Current Macroeconomic Situation of Nepal (Based on nine months' data of 2015-16), Nepal Rastra Bank

Figure 7: Year-on-year percentage change in trade deficit in the nine months of FYs 2014-15 and 2015-16



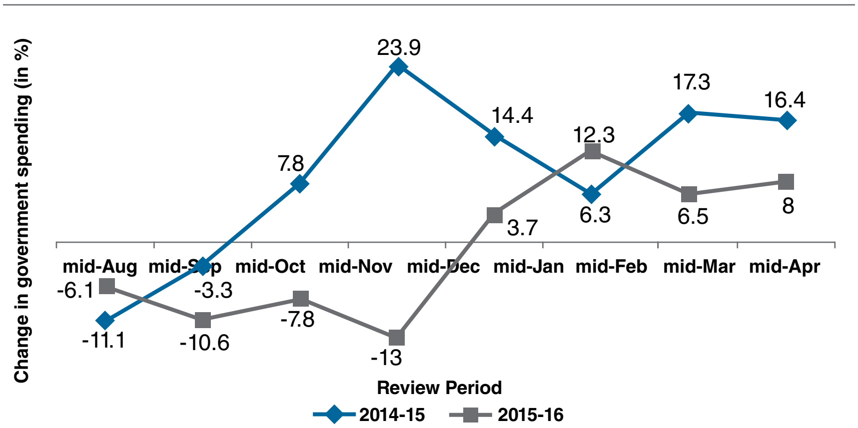
Source: Current Macroeconomic Situation of Nepal (Based on nine months' data of 2015-16), Nepal Rastra Bank

Figure 8: Year-on-Year percentage change in revenue collection during the review periods for FY 2014-15 and 2015-16



Source: Current Macroeconomic Situation of Nepal (Based on nine months' data of 2015-16), Nepal Rastra Bank

Figure 9: Year-on-year percentage change in government expenditure during the review period for FY 2014-15 and 2015-16

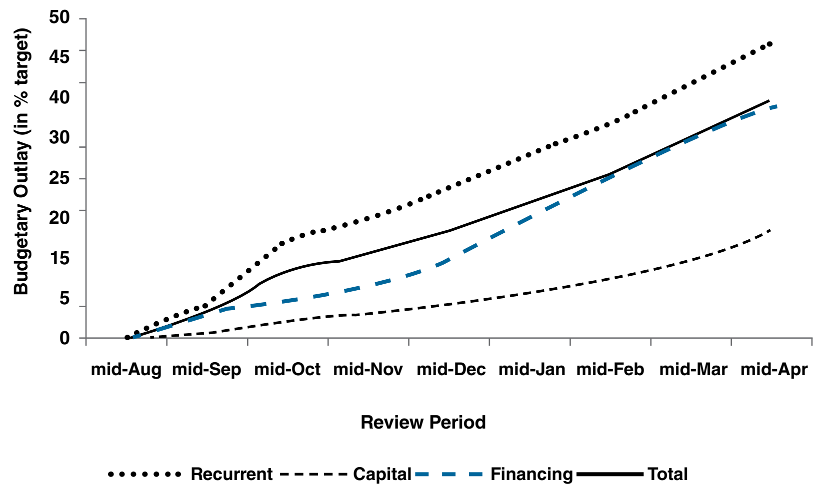


Source: Current Macroeconomic Situation of Nepal (Based on nine months' data of 2015-16), Nepal Rastra Bank

VAT revenue. Figure 8 contrasts the change in revenue collection during the review period in FY 2014-15 and 2015-16. Since the onset of the blockade in September, government revenues tumbled significantly. In mid-December 2015 alone, it dropped by a staggering 20.6% compared to the same period last fiscal year. Revenue collection figures have started improving since mid-January, as cargoes were re-routed through other custom points, and by mid-May it is expected to grow positively. However, it is unlikely that the government's revenue target will be met this year.

Government Spending: Low spending capacity has been a persistent challenge in Nepal's fiscal management. In FY 2015-16, government expenditure was dismal as the fuel crisis spawned by the border blockade hamstrung development activities. As of mid-April 2016, total government expenditure reached NPR 286.5 billion (USD 2.67 billion) which is just around 35% of the total targeted expenditure of NPR 819.4 billion (USD 7.64 billion). Capital spending has been sluggish even two months after the lifting of the border blockade. During the same period, only 15.5% of the targeted capital expenditure had been mobilized. Figure 9 shows that from mid-October to mid-December 2015, government spending grew negatively compared to the previous fiscal year and that can be attributed to the fuel crisis spawned by the border blockade. However, government spending has not been encouraging post the border blockade either. Figure 10 tracks the monthly budgetary outlay in terms of percentage of the target achieved for government spending.

Figure 10: Budgetary outlay trend over the nine months of FY 2015-16

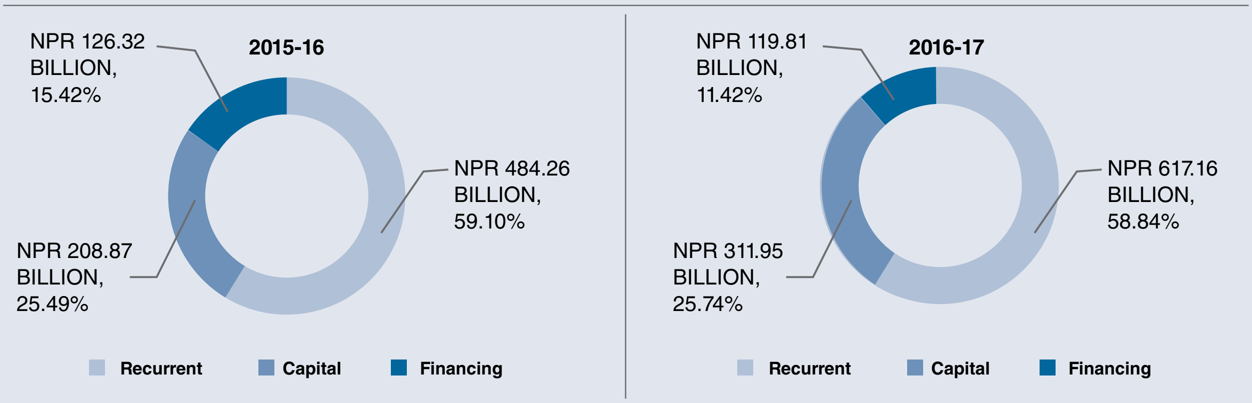


Source: Ministry Wise Budget Expenditure Status for various months, Financial Comptroller General Office

BUDGET 2016-17 HIGHLIGHTS: FISCAL POLICY

The finance minister presented an expansionary budget of NPR 1048.92 billion (USD 9.79 billion) on May 28, 2015 in accordance to the new constitution's provision to present the budget on 15 Jestha every year. The proposed budget is 28% larger than the budget estimate for the current fiscal year and 49.6% higher than the revised estimates for the current fiscal year. It has targeted GDP growth of 6.5% and aims to contain inflation within 7.5%. While the proposed budget has accommodated plenty of slogans and programs, public confidence on the government's ability to implement the plans drawn up is quite low owing to poor budgetary outlay in FY 2015-16, especially with regards to capital expenditure. The budget, which is distributive in nature, has also set ambitious targets for budgetary allocation and source of finance which are presented in Figure 11 and Table 1 in comparison with the budget for FY 2015-16.

Figure 11: Budgetary Allocation comparison in FYs 2015-16 and 2016-17



Source: Budget Speech for FYs 2015-16 and 2-16-17, Ministry of Finance

Table 1: Source of finance for Budgetary Allocation of FY 2016-17

Source of Finance	2015-16 (in NPR billion)	2016-17 (in NPR billion)	% change
Revenue mobilization	475	565.9	19.13
Foreign grants	110.92	106.9	-3.62
Principal repayment	2	10	400

Source: Budget Speech for FYs 2015-16 and 2-16-17, Ministry of Finance

OUTLOOK

As supply-side strains eased, price rise has started moderating. However, with large government spending on the cards for the next fiscal year, especially with the significant distributive component in recurrent spending, as well as the projected drop in some major cereal crops, it is likely to be a challenge for Nepal Rastra Bank (NRB) to contain inflation within the target of 7.5% as proposed in the budget for 2016-17.

Trade deficit which had been contracting in the last few months is expected to return to expanding as supplies normalize completely. Since exports have not recovered as quickly as imports, the resultant expansion in trade deficit is likely to be significant. This also indicates that while in the short-term blockade resulted in significant supply-side crunch, in the medium and long term, it might have stymied Nepal's export competitiveness. The international trade trends in the upcoming months should therefore merit more attention and analyses.

6

SECTORAL

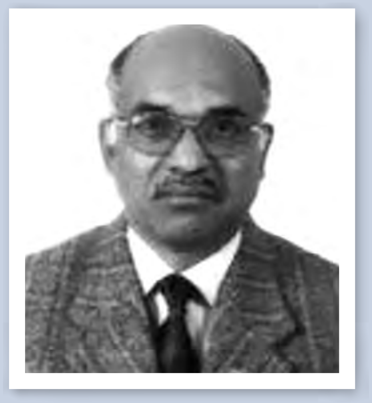
REVIEW

NEPAL ECONOMIC FORUM

INDUSTRY INSIGHTS

AGRICULTURE

NEPAL'S AGRICULTURAL TRANSFORMATION by 2030 and Wishful Thinking



Dev Bhakta Shakya
Project Coordinator, Policy Reform Initiative Project – USAID/International Food Policy Research Institute (IFPRI)

A very low growth rate in the agricultural GDP and a declining share of agricultural output depict slow transformation in the agriculture sector in Nepal. Saturation of arable and productive land, low growth in yield, low level of technology and input uses, poor investment and capital formation, increased labor outmigration, inadequate policy support and climate change have all attributed to this situation; turning Nepal into a net food importing country.

However, to pull out a large number of people from poverty and to usher in economic transformation, it is imperative that the country go through successive phases of agricultural transformation. In the years to come, the Constitution of Nepal, and longer term strategies like Agriculture Development Strategy 2015-2035 (ADS) and Sustainable Development Goals 2016-2030 (SDGs) will be the driving instruments behind this transformation. Achieving the goals and targets set by ADS and SDGs will however require forming necessary policies, reforming administrative and legal procedures, and arranging necessary investments by mobilizing public, private and development partner resources.

The role of agriculture has been rapidly changing worldwide due to globalization, integrated value chains, rapid technological and institutional innovations, and environmental constraints. In such contexts, Nepal should make a structural shift to recognize agriculture's multiple functions for development. This will require shifting the political economy to overcome anti-commercial agriculture policy biases, strengthening governance for agriculture, and identifying and setting priorities to Nepal's conditions.

The prime focus of the government at this stage is to develop competitiveness of smallholder farmers to enter into markets, generation of skilled labor in agriculture and to some extent establish effective value chains. The government's current rationale for subsidies to farmers groups, community based organizations, cooperatives and promotional polices should also be extended towards supporting private sector agribusiness operators and other value chain operators.

Qualitative changes are also required in agriculture. Massive capital investments will be required for commercialization or modernization of agriculture along with increasing investments for effective research and development, technology transfer, human resource development, and transport infrastructure. High Value Crops and agricultural products with comparative as well as competitive advantages should be identified and promoted in clusters for attaining economies of scale.

The Federal Constitution has significant implications for agricultural governance, however it is still a big challenge at the political and bureaucratic levels to agree on the most suitable modality; which will allow implementation of the ADS and Vision 2030 - considered as roadmaps for agricultural transformation and sustainable development in Nepal. By quickly addressing the risks and overcoming challenges mentioned above, Nepal could make immense progress towards agricultural transformation.

Introduction

The agriculture sector is expected to grow by only 1.3% in the coming fiscal. Agriculture contributes nearly one third of the country's GDP and is the primary source of income for two third of the population. The prolonged drought faced by the western region of the country has resulted in food insecurity as majority of the arable land is dependent upon rainfall for irrigation. However, various programs have been initiated to make the country self-sufficient in agriculture sector.

Drought hits Karnali region: There was a steep decline in rice production in Karnali region as the area faced the worst drought in the last four decades. This has halved crop production in Humla, Dolpa, Mugu, Kalikot and Jumla. Few places of Bajura district that share borders with Karnali region have also faced similar crisis situation. In order to dispatch food to these places, government had allocated NPR 107.9 million (USD 1 million) out of which NPR 102.3 million (USD 0.95 million) was for Karnali and NPR 5.6 million (USD 52,273) was for Bajura. To abate the ongoing food crisis situation, Nepal Food Corporation (NFC) has sought for additional grants from the government to supply food to these areas.[21]

Likewise, the prolonged drought this year also had severe effects on agriculture in the far-western region of the country. Around 60-80% of the winter crops cultivated in over 50,000 hectares of land was damaged amounting to NPR 1.46 billion (USD 13.62 million) worth losses in the current fiscal year. Baitadi district was hit hardest by the drought which damaged crops worth NPR 459.4 million (USD 4.288 million). Damage in Doti has been reported to be around NPR 233.25 million (USD 2.17 million).[22]

Rise in per capita expenditure on agriculture: Nepal's per capita expenditure in agriculture has increased over the years. According to Global Food Policy Report 2016, unveiled by International Food Policy Research Institute (IFPRI), a single Nepali citizen spends USD 32.94 (NPR 3,528.86) per year on agriculture production as per data of 2013, which was USD 18.48 (NPR 1,979.76) in 1995. This shows an increment of nearly 80% over the period of 18 years although the country has not been able to increase its agriculture productivity in the same ratio.

The country's total expenditure on Agriculture Gross Domestic Product is only 5.29 % which ranks it in sixth position among South Asian countries. In terms of per capita spending in agriculture, Nepal ranks fifth among South Asian counterparts as shown in the table below.[23]

Agriculture Development Strategy to be implemented: The Agriculture Development Strategy (ADS) - a 20 year vision document will be implemented by the Ministry of Agricultural Development (MoAD) from FY 2016-17. Under this strategy, there are four flagship programs i.e. value chain development of agriculture products, food and nutrition security, agriculture service extension, and agriculture research and technology. The main objective of this strategy is to make the country self-reliant on the specified products within two to three years for which government plans to implement following activity:[24]

- Expand mission program of crops (paddy), vegetables, maize, lentils and fish.
- Prioritize the value addition of agriculture products like tea, cardamom, coffee and ginger for export.
- Establish seven mega agriculture marts in seven provinces with the aim of promoting the market of agricultural products.
- Promote private sector and cooperatives to develop

Table 2: Per capita agricultural expenditure and Ratio of agricultural expenditure to agricultural GDP of SAARC countries

	Per capita agricultural expenditure (2005 Purchasing Power Parity Dollars)			Ratio of agricultural expenditure to agricultural GDP (%)		
South Asian Countries	1980	1995	2013	1980	1995	2013
Afghanistan			19.78			4.4
Bangladesh	8.63	7.33	32.81	2.74	2.53	8.21
Bhutan	86.48	195.40	293.62	19.53	23.98	26.63
India	10.11	14.60	45.72	2.62	3.13	5.87
Maldives	23.72	147.96	30.09	6.99	46.24	7.17
Nepal	19.04	18.48	32.94	3.93	3.96	5.29
Pakistan	6.20	2.49	16.57	0.98	0.31	1.59
Sri Lanka	49.74	54.46	62.14	9.44	8.69	7.1

Source: Global Food Policy Report, 2016 by IFPRI warehouse facility for agriculture products with cold storage facility under the modality of agricultural marts.

- Increase the import of chemical fertilizers to 310,000 tons which is 270,000 tons this fiscal year against the demand of around 400,000 tons. The government has been extending subsidy of 59.18% on urea, 30.29% on DAP and 45.13% potash to farmers.
- Provide grant of NPR 10 (USD 0.09) per kg on organic fertilizers for encouraging organic farming.

Plan to expand spring paddy acreage: With the aim to make the country self-reliant in food grain, the government has started efforts to increase cultivated land area of spring paddy (Chaite Dhan) by 200,000 hectares. Currently, spring paddy is only planted in 112,000 hectares while 1.42 million hectares of land is deemed suitable for spring paddy. The productivity of spring paddy is 4 tons per hectare while that of regular paddy is 3.17 tons per hectare. Despite the higher productivity, farmers do not prefer spring paddy as the grains are larger. The annual production of paddy was 4.5 million tons last year while the deficit stood at 1.2 million tons. Given that spring paddy has higher productivity, increasing acreage of this crop could contribute greatly in narrowing down the deficit in paddy production.[25]

Jumla's apple crops gets insurance for the first time: For the first time, apple crops in Jumla have been insured allowing the farmers to receive compensation in case the harvest fails due to bad weather. This program was launched under the plan of Weather Index Insurance designed to protect the farmers. As apple farming is dependent heavily on the amount of rainfall, the erratic rains in previous seasons had resulted in severe drop in output. The current insurance policy will cover both low rainfall as well as the damage to crops by hailstorm.[26]

Rise in orange cultivation in Arghakhanchi: According to District Agriculture Development Office (DADO), the farmers in Arghakhanchi produced 5,380 tons of oranges worth NRP 130 million (USD 1.21 million) which was cultivated in 704 hectares of land. However, the farmers were able to send only 40 % of the produce to the markets outside the district on account of fuel shortages. Previously, 60% of the production would be sent to external markets. According to DADO, farmers are getting attracted towards orange cultivation due to technical knowledge, subsidy and other saplings provided by it to the farmers.[27]

BUDGET 2016-17 HIGHLIGHTS: AGRICULTURE

Budget 2016-17 has allocated NPR 35.86 billion (USD 0.33 billion) which is a 57% rise from the last fiscal year. The budget has incorporated various ambitious plans for agriculture sector and aims to promote agriculture productivity by developing agricultural technology. Following are the highlights that have been provisioned by the budget 2016-17:

- The Prime Minister Agricultural Modernization Project is to be initiated in order to increase agricultural production and productivity growth. For this NPR 5.78 billion (USD 53.95 million) has been allocated. The project aims to make the country self-reliant in wheat and vegetables within the coming year, rice and potato within the next two years, in maize and fish within the next three years, in banana, papaya and litchi within the next four years and in kiwi, apple, orange, junar and mango within the next decade.
- Identification of specialized agricultural production areas have been planned. Such identification will be done on the basis of crop production capacity and fertility of agricultural land which will be classified into pockets, blocks, zones and super zones.
- 50% capital subsidy provision has been made for the purchase of agricultural equipment and tools in block and pocket areas and 85% capital subsidy has been provisioned for construction of agriculture collection center, Haat Bazar centers, primary processing centers, warehouses/godowns and business training centers.
- Interest subsidy on agriculture and livestock credit has been raised by 5% while the threshold of NPR 10 million (USD 93,345) for agriculture credit under interest subsidy has been removed
- 50% capital grants provision for construction of culture laboratory for crops like banana, potato and construction of fish pond has been made.

OUTLOOK

The slump in staple and winter crops due to prolonged drought and dependency on rainfall for irrigation has been a persistent problem. Along with this, the lingering impact of the blockade till the winter plantation season has further decelerated growth in this sector. However, various programs, that have been announced such as the implementation of Agriculture Development Strategy, expansion of production of spring paddy, Weather Index Insurance and other ambitious programs and incentives announced in the budget for FY 2016-17 geared at increasing agricultural productivity and making the country self-reliant, is expected to yield positive results in the days to come so long as implementation hiccups don't stymie progress.

INDUSTRY INSIGHTS

ENERGY

NEPAL'S POWER SECTOR IN 2030

Himesh Dhungel
Country Director, Nepal, Millennium Challenge Corporation

The Nepali power sector has been beset by challenges since the early 1990s; initially with the unfinished reform begun by the Electricity Act, 1992 which created an ineffective hydro-project licensing regime. Beginning 1996, the demand of electricity started to increase in an unprecedented trend as people migrated into Kathmandu. Political instability, slow decision-making and a breakdown of corporate governance slumped investment, resulting in up to 18 hours daily power outages. In response to power shortages, public and private sectors have responded by investing in generation and transmission projects. But instead of just responding to crises, Nepal has the potential to leapfrog into an electric economy by 2030 if a few basic sector reforms are initiated and programs already on paper are implemented.

First, given its hydrology, Nepal needs to have the physical and institutional infrastructure to allow electricity trade which should help optimize domestic power sector investment. This requires two or more cross border transmission connections and an independent trading company. Second, the power system needs to have an open access transmission network whereby private developers have non-discriminatory access to the grid. Third, a progressive power market structure will require an independent regulator. Fourth, existing energy sector laws need to be amended or new laws passed for the sector transformation to continue. These reforms are necessary to lay the foundation for the transformation of the Nepali economy into an electric economy, where electricity could displace imported cooking gas and transportation fuel, saving approximately USD 1 billion a year. One could even envision a scenario where surplus electricity is used to convert the abundantly available water into hydrogen, creating a fuel-cell based transportation system and a hydrogen economy. All this requires a strong commitment and a laser-focused execution of the vision.

Introduction

After nearly a five month blockade which essentially induced an energy crisis, discourses on harnessing domestically available potential energy resources have resurfaced. In this regard, the government has ventured into seeking support of neighboring countries for strategically linking up to develop power infrastructure of Nepal and to assist each other in the times of need. Similarly, attempts have been made to attract foreign investors, devise plans to efficiently manage the institutional capacity of Nepal Electricity Authority, and explore solar energy. Looking at the larger picture, the budget for FY 2016-17 has set ambitious targets for energy generation, the success of which hinges on effective implementation.

Bilateral energy bank on the cards: Nepal proposed the concept of forming a joint energy bank to India in an attempt to manage the persistent power shortages. The concept was presented at the India-Nepal Joint Standing Committee meeting held in May 2016, which is a bilateral mechanism on water resources, power and irrigation projects. As per the energy bank concept, Nepal would export power to India during times when Nepal's power production exceeds domestic consumption; while, required electricity would be imported from India during times of shortages.[28]

As of FY 2014-15, Nepal's total installed capacity stood at 782.4MW whereas the peak load was 1291.8 MW. Moreover, 585MW load was shed with as much as 224.41MW imports from India.[29] Given these figures, the proposal of a joint energy bank seems like a long term strategy, with over 1044MW under construction at present. However, although there are doubts of whether Nepal can achieve excess production in the near future especially given subpar project execution and implementation, Nepali officials believe that the ultimate fate of the proposal depends on the willingness of India. Meanwhile, despite agreeing with the concept, the Indian officials maintained that clearance will need to be obtained on legal matters, especially concerning a number of regulatory provisions, if headway is to be made on implementation.[30]

Nepal Power Investment Summit held: In a bid to attract investments into Nepal's energy sector, Energy Development Council (EDC) partnered with Ministry of Education (MoE) and Investment Board of Nepal (IBN) to organize a four-day power summit from May 31, 2016 to June 3, 2016. With the theme 'Nepal – the future battery of South Asia', the summit brought together more than 200 participants comprising of investors, contractors, consultants, speakers and government personnel, from all over the world including Asia, Europe and the Americas.[31] Moreover, the summit featured a mix of various events including conference, exhibitions, project investment seminar, and business trade mission aimed at creating multiple platforms for knowledge sharing and identifying prospective business opportunities.[32]

The summit further recognized that Nepal requires an investment of more than NPR 2 trillion (USD 20 billion) to develop 10,000MW in the next 10 years. Similarly, the government assured commitments of conducting reforms including setting up of a coordination committee to simplify administrative procedures, provide incentive of NPR 5 million (USD46, 676) per MW for projects aimed at domestic supply along with tax exemptions, and constantly monitoring policy reforms and implementation.[33] However, although expressing interest, the investors remained skeptical about the government's commitments, citing hurdles such as difficulties in obtaining necessary approvals and permits, lack of adequate background information on projects, along with lengthy processes and frequent turnovers of government officials.

NEA to be split into three parts: Ministry of Energy is preparing to split Nepal Electricity Authority (NEA), the public enterprise solely responsible for generation, transmission and distribution of electricity, into three separate companies. Given the mixed role of NEA, this decision is aimed at restructuring and streamlining operations of generation, transmission and trade to function in parallels with NEA. Within the three companies, the Grid Development Company is set to be responsible for development of transmission lines, Electricity Generation Company for expansion of electricity production, and Electricity Trading Company for procurement and electricity sale within and outside the country. The trading company would also be responsible for importing power in case of deficit and exporting power in case of surplus and hence would ideally want a strategic partner.[34] The companies are expected to be established by the end of 2016, which would involve amending the current NEA act as well as selecting required personnel from the existing NEA human resource, among others. This could be considered as a much needed reform meant to streamline operations and relieve NEA's burdensome responsibilities.[35] However, it is imperative that the creation of the new institutions, and by extension new officials and authorization procedure, does not impede upon the approval processes for current and upcoming hydropower projects.

BudhiGandaki Hydropower, the progress so far: BudhiGandaki Hydropower Project (BGHP) is a projected 1200MW capacity project spanning across central and western development regions. As opposed to most other hydro projects which are run-of-the-river type, BGHP is a storage type project and power generation during dry seasons will not dip as much compared to run-of-the-river type projects. This project was identified during the late 70's with a follow up prefeasibility in 1984.

As of late, procurement of necessary land and other assets, and construction of buildings and roads have been reported by the development committee. However, most planned activities are yet to be implemented with the project still in the reporting phase.[36] The project is estimated to cost NPR 250 billion (USD 2.33 billion). Of the total allocated budget of NPR 3.37billion (USD 31.5 million) in FY 2015-16, only a meager 2.8% or NPR 94.54 million (USD 1.35 million) had been spent as of mid-May.[37]

In order to acquire necessary funding to expedite the construction work, the government has announced in the budget for FY 2016-17 that NPR 5 (USD 0.05) per liter will be levied as infrastructure tax on petroleum products' imports at customs. Moreover, an additional budget of NPR 7 billion (USD 65.34 million) will also be made available in FY 2016-17. Similarly, a separate office with full authority will be established to carry out the administrative works including distribution of compensation. Despite these provisions, experts have raised issues about the financial viability for investors given the high investment requirements. While some politicians and economists believe domestic funding is the way to go, others have raised doubts on the willingness of institutions and individuals to invest unless the project can ascertain attractive returns.[38]

Exploring the alternatives: As per the Energy Crisis Prevention and Electricity Development Decade Action Plan 2016, as much as 100MW of electricity is expected to be generated in the first year of the plan through harnessing solar as well as wind power, with further objectives to double the capacity in the coming years.[39] Currently, only 100KW of energy is produced through solar plants, while the largest chunk is generated through hydropower.[40] Given this skewed production pattern, the government aims to diversify energy mix and provide incentives to revitalize solar energy industry.

The government, in partnership with international donors, has come out with a subsidy program especially on financing required for installing solar power. However, given that the government has issued legal provisions on the mandatory requirement of having solar powered energy supply for a certain percentage of the power consumption depending on the type

BUDGET 2016-17 HIGHLIGHTS: ENERGY

In the budget speech for FY 2016-17, provisions have been made to tackle the current energy crisis prevalent in the country. The budget stated that projects on hydropower generation, transmission and distribution will be implemented with a clear agenda for reducing load-shedding substantially within the next year, eliminating load-shedding in the coming two years, becoming self-reliant in electricity within three years during monsoon, and exporting electricity within ten years.[42] Most importantly, budget has also been allocated to the Energy Crisis Prevention and Electricity Development Decade Action Plan 2016, which aims to add 839MW of electricity in the next one year during the dry season and a further 1339MW during the wet season in the next two years.[43]

As always, commitments have been made on accelerating construction of hydropower projects. In this regards, the budget announced a new program titled 'Electricity for all Households, Share for All People' as a mechanism to attract the public towards investing in hydropower. Provisions have also been made for Clean Energy Development, with the budget proposing an infrastructure tax to be levied at the rate of NPR 5 (USD 0.046) per liter at custom points in the import of petrol, diesel and aviation fuel imported by Nepal Oil Corporation to help finance BudhiGandaki Hydropower Project.[44]

On foreign investment front, the government provisioned for adoption Engineering, Procurement, Construction and Financing model which essentially provides greater flexibility for international companies to build the projects as they see fit. This model could likely trim down bureaucratic hassles, making investment procedures much more simplified and accessible. As per the budget, foreign investors will encouraged to build Tamakoshi III and Lower Arun Hydro using this model. Similarly, projects planned to be developed in partnership with India and China has been given special attention with statements to facilitate and provide assistance where necessary. The budget also put forth the idea of developing the KarnaliChisapani Multipurpose project with a capacity of more than 10,000MW through trilateral cooperation between Nepal, India, and China.

However, despite government's aims, commitments, and provisions for this sector, the perennial problem so far has always been on implementation. For instance, more than two dozen projects still await the subsidies announced in the previous budget.[45] Therefore, for the stakeholders, enough reasons exist to view the budget's provisions through crude skepticism.

of establishment, the subsidy scheme runs the risk of becoming incapable of providing what was promised or turning highly unsustainable. To prevent such occurrences, some suggest that the subsidy scheme should be scaled down over time. Moreover, the customers also need assurances that the solar installations would last for long term which would require efficient monitoring and after sales service by the service providers.[41]

OUTLOOK

Energy emergency issues have been incorporated into the budget, which is a positive sign. However, the action plan is yet to tabled, and approved, at the parliament. This signals warning signs as delays in reforming legislation would imply delays in effectively expediting projects. Therefore, even though the government has conducted necessary assessments to identify issues in the sector, the threat of resolutions being limited to paper still remains. This threat can further be extrapolated to the larger picture where, though grand promises of development have been made, the extent to which they hold true is ambiguous given the government's poor track record on implementation aspects. As such, the initiatives taken to draw bi-lateral cooperation plans, and programs to fetch foreign investors and subsidize solar power or any other initiatives for that matter, is likely to hit a snag.

INDUSTRY INSIGHTS

INFRASTRUCTURE

NEPAL'S INFRASTRUCTURE 2030 –
What's Achievable and How?

Kenichi Yokoyama
Country Director, Asian Development Bank (ADB) Nepal Resident Mission

In envisioning Nepal's infrastructure 2030, we may first think what is achievable. Assuming per capita GDP reaching $1,800 and public capital spending growing from 5% of GDP (now) to 10%, Nepal will have $55 billion invested in infrastructure by 2030. With this, Nepal can have 10,000 MW generation, and modern transmission and distribution systems (costing $25 billion but 50% plus can be privately funded). For transport, major highways will be upgraded to four lanes, Fast Track expressway competed, strategic and local roads connecting all VDCs black-topped, and modern international airports built and open (costing $20 billion). We may also envision trilateral collaboration started building trans-Himalaya-India railways and expressways. The rest of fund can largely address Nepal's lagged urban infrastructure, to provide regular (24/7) water supply, sanitation, solid-waste management, urban roads, and quality transport services. Irrigation is also expanded with ground water lifted through abundant power supply in Terai, and gravity or lift systems for the rest. Such infrastructure can fully unleash Nepal's development potentials of competitive industries, while converting people's lives clean energy-based, including transport, cooking, heating, etc., moving towards clean, green, zero-carbon emission society.

But any vision is meaningful only if implemented. How then? For this, the country needs to expedite sector investment planning and project (DPR) proposal preparation. Investable proposals are direly lacking now. For example, municipalities should have long-term urban development plans to cater to the growing population and industries in the next 30-50 years. In the meantime, Nepal needs to revamp the systems and capacity constraints impeding timely and quality project implementation, including procurement (by streamlining using ICT), contract management (by strengthening disciplines and building capacities), interagency coordination (for faster statutory clearance), and enabling environment for private infrastructure investments. Therefore, establishing institutional systems and capacities to plan, prepare, and implement all the envisaged infrastructure with sound governance and accountability mechanism is also a crucial element of Infrastructure 2030. ADB and its staff are glad to dedicate our financial and human resources to help achieve these important goals.

Introduction

The development of Infrastructure is a major determinant of economic growth for developing countries like Nepal. It has been witnessed that the combination of infrastructure development along with investment in human capital has resulted in increased economic output thereby increasing per capita incomes. The ambitious fiscal budget 2016-17 is set to address the numerous infrastructure issues in Nepal. The capital expenditure has been increased to NPR 311.8 billion (USD 2.91 billion).

Pokhara to get regional international airport: In April 2016, Prime Minister of Nepal, K P Oli, laid the foundation stone of international airport in Pokhara. The Government of China has extended its technical and other support to the airport project. 25% of the construction cost of the airport will be provided as grant from the Chinese government, while the remaining 75% will be in the form of a soft loans. The Pokhara International Airport project is one of the national priority projects of Nepal which is expected to be completed within four years. As per the agreement between China and Nepal in March 2016, The Exim Bank of China will provide assistance of NPR 22 billion (USD 21 million) in loan.[46]

Cable contraptions to be replaced by suspension bridges by mid-2018: Ministry of Federal Affairs and Local Development is working to replace all cable contraptions with suspension bridges across Nepal by mid July 2018. Statistics indicate there are around 350 cable contraptions in Nepal. For now, the government is working to replace 155 cable contraptions where it is viable and necessary. Till date, three suspension bridges have been completed, while 20 more are in the process of being completed.[47]

Disabled friendly building codes needed: A research[48] report by Social Science Baha suggests that Nepal needs to implement disable friendly building codes for post-earthquake reconstruction. The report has suggested the government to incorporate the universal design to post reconstruction works to facilitate its 1.4 % of disabled population; which is likely to have increased after the earthquake.[49]

Postal Highway lacks budget. The 1,792.42 kilometer long highway that is being built in southern part of Nepal with the help of India is currently stalled on account of lack of budget and proper planning. The first phase, 33% of total length of the highway, was to be constructed under India's supervision. It is estimated that NPR 13.68 billion (USD 127.6 million) is required to complete the first phase alone. As per the agreement signed in February 20, 2016 India pledged to provide NPR 8 billion (USD 7 million).[50] The second phase, which is 66% of the highway length, is yet to be initiated.

Melamchi project to be completed in 16 months. The most awaited Melamchi water project is likely to be complete by 2018. The Melamchi Water Supply Project will divert water from the Melamchi River in Sindhupalchowk district to the Kathmandu Valley through 28 kilometers of tunnel. Fiscal budget of year 2016-17 has allocated NPR 5.98 billion (USD 6 million) for the completion of this project.[51] Once the project is complete, the Kathmandu Valley will get 170 million liters of water per day.

Government to build Massive transport infrastructures: Government of Nepal has launched the five year strategic plan to build roads and railways. The Government has planned to invest NPR 816 billion (USD 7.61 billion) in road and railways. Major highlights of the plan include:-

- Build Dharan-Chatara-Gaighat-Katari-Hetauda Road (318 km)
- Upgrade Mugling-Pokhara (100 Km) section of Prithvi Highway into a four-lane road in 3 years
- Upgrade Kohalpur-Surkhet Road (85 km) and Butwal-Pokhara Road (157 km) into two-land roads in the next three years
- The Galchhi-Rasuwagadhi (82 km) section of Thori-Galcchi-Rasuwagadhi (188km) to be upgraded to two-lanes in two years
- Build the Thori-Bhandara road in five years
- Build Bhittamod-Dhalkebar-Sindhuli-Dolakha-Lamabagar-Lapcha (310 km) and Birgunj-Kathmandu-Kodari in the next five years
- In the next five years open tracks of Jamuniya-Nepalgunj-Khulali-Simikot-Hilsa (143 km) Upgradation of Ring Road and Suryabinayak-Dhulikhel Road into four-lanes in the next five years
- Plans to strengthen roads in urban centers, and manage road network and mass transportation considering the need of the Kathmandu Valley[52]

BUDGET 2016-17 HIGHLIGHTS: INFRASTRUCTURE[53]

- Government to establish National infrastructure Policy Research Academy to study, research and recommend on the infrastructure policy
- Levy infrastructure tax at the rate of NPR 5 per liter at the custom point in the import of petrol, diesel and aviation fuel by Nepal Oil Corporation without creating additional burden to the consumers
- Construction work of the Gautam Buddha International Airport will be expedited and operation of the same to start from Mid-January 2018
- Construction work of Pokhara Regional International Airport to be completed in four years
- Increased the budget of Constituency Infrastructure Development special program to NPR 30 million (USD 0.28 million).
- Allocated NPR 1.50 billion (USD 14 million) to complete the land acquisition and fencing work of the International Airport in Nijgadh in the coming fiscal year.
- Allocated budget for the construction of physical infrastructure in the modern cities as stipulated 10 places of the Pushpa Lal (Mid-Hills) Highway.
- Infrastructure construction work will be initiated through preparing the master plan, to develop Walling, Lumbini and Dadeldhura, including 10 cities as modern and prosperous smart cities.
- Infrastructure Development Bank will be established with public private partnership to increase the investment in infrastructure sector.

OUTLOOK

The budget 2016-17 lays emphasis on infrastructure development which is aimed at bringing about economic development. However, looking at past performances the biggest challenge is being able to spend the budget it appropriates for various mega infrastructure projects. It is important that adequate measures should be undertaken to first resolve under spending so as to ensure national priority projects spend at least 50% of the allocated budget in the first six months of the fiscal year and the next 40% by the end of the fiscal year.

NEPAL ECONOMIC FORUM

INDUSTRY INSIGHTS

INFORMATION AND COMMUNICATION TECHNOLOGY

TRANSFORMATION OF
The ICT Sector by 2030

Karmath Dangol
VP Engineering, Cloud Factory

Nepal is at the nascent stage of an ICT revolution - with very high mobile penetration which is going to play a key role by 2030. ICT will touch each and every Nepali, city dwellers as well as poor farmer in the village by 2030. Internet of things (IOT) will play a key role in transformation as every Nepali will have access to Internet via mobile phone; internet will be fast, reliable and readily accessible, and IOT and few smart cities will be a reality. "Talent is distributed equally but not opportunity" but by 2030 ICT will enable every Nepali to grab the local/global opportunities. Three major areas where ICT will play a vital role in transforming Nepal are

Education: Education will be supplemented with national and international online materials. One example is academicearth.org which offers free courses from top universities like Harvard University, Stanford University, MIT etc. With rapid advancement on ICT, students will not only need to learn but need to learn how to learn. They will have to constantly learn new technology just to survive. With this, gaining knowledge will be more important than having a degree.

Work: Distributed and Crowdsourcing will be the norm, hiring globally on-demand workers will be the new way of getting work done. Companies will hire wherever they can find talent. Nepal can take full advantage of this as we have a number of educated and talented people who will be producing products which can be delivered using ICT and without physical port. Companies like CloudFactory already have 2,200+ cloudworkers (workers working from home to digitize data) in Nepal.

Banking: Hard cash, ATM, physical bank will be the thing of the past. Just like m-Pesa (Kenya) and bKash (Bangladesh) we believe local companies like iPay and eSewa will practically reach every Nepali and provide banking and payment services directly from their mobile phone. This will allow everyone to buy/sell what they have/need and earn/pay using their mobile. Mobile banking will play a vital role in reducing corruption and increase accountability by the means of digital trail.

All in all, poor people will enter the digital age which will lead to financially independence, and as a result they will be able to contribute to Nepal's economic growth.

Introduction

The ICT sector of Nepal has shown some positive signs of development in the last few months. Telecom providers have been constantly trying to expand and improve the network and connectivity in the remote and in areas where there was no reach earlier. The largest takeover deal in Nepal's history which saw Axiata acquire stakes of TeliaSonera in Ncell also got completed in the last quarter.

IMEI registrations of phones' become mandatory: The government has made mobile phone registration mandatory from April in order to meet national and consumer security requirements, make counterfeit handsets inoperable, enable tracking of mobile handsets, and control thriving grey market of mobile phones.[54] All importers are required to register International Mobile Equipment Identity (IMEI) number or Electronic Serial Number (ESN) or Mobile Equipment Identifier (MEID) of every handset with Nepal Telecommunications Authority (NTA). They are also required to register mobile phones, which are already in use, within six months. However, this plan may face delays as it requires telecom service providers to upgrade their data storage systems.[55] Also, the telecom operators have claimed that they are still unclear about NTA's instruction and the kind of data repository systems it has instructed to create. In one and a half months, NTA was able register IMEI numbers of around 500,000 imported handsets.[56]

TeliaSonera completes deal with Axiata: By far the largest takeover deal in Nepal happened in April when Axiata, a Malaysia based telecom company, successfully acquired 60.4% stake in Ncell for NPR 109.86 billion (USD 1.03 billion).[57] Axiata acquired stakes in Ncell from TeliaSonera as per the conditional sale and purchase agreement signed on December 2015. Initially, Axiata had announced its plans to acquire 80% of Ncell, including the stake of SEA Telecom Investments, Kazakhstan based Visor. However, it is still not known whether Axiata acquired SEA Telecom's share as Axiata has not made any statement on the deal.

Ncell pays NPR 9.9 billion in tax: Ncell has paid NPR 9.9 billion (USD 92.41 million) as a part of the capital gains tax. It was asked to pay 15% of the total gains involved when TeliaSonera sold its share of the off-shore company Reynolds Holdings Limited. Even though the tax burden on buyout deals does not fall on buyer's shoulders, the new Ncell owner decided to bear the responsibility to quash rumors of non-payment and avoid the threat of boycott. However, the government on June 3, 2016 issued an instruction to the Ministry of Finance to seek the remaining capital gains tax payment from Ncell.

Ncell pays tax, royalty and fees: Ncell Pvt Ltd issued a press release on May 11, 2016 to announce that till date the company has contributed approximately NPR 129 billion (USD 1.2 billion) to the national treasury, in the form of fees, royalty and taxes. Ncell is the largest tax payer in the country. It paid more than NPR 28.6 billion (USD 266 million) to the government as tax, royalty and fees in FY 2071-72 (2014-15) alone.[58] In May 2016, Ncell announced its largest ever capital expenditure of NPR 12 billion (USD 120 million) for the remaining months of 2016 with the goal of expanding 3G service in rural and remote areas and improve quality in areas where it is already present. With this move, it is likely that Ncell will remain the highest tax payer in the coming years as well.

Landline numbers set to be 10 digits: Nepal Telecommunications Authority (NTA) plans to change all landline numbers into mobile and SMS system and remodel the services to bring them at par with the international standards.[59] Study to revamp the landline telephone numbers is currently undergoing.

Laying of optical fiber at Nepal-China border complete: According to Nepal Telecom, it has completed the project to lay optical fiber at the Nepal-China border to boost interconnection with China Telecom.[60] The fiber was laid from Kathmandu to the border point in Rasuwagadhi. All-Dielectric Self-Supporting (ADSS) was deployed as it allows fiber to be deployed without the use of a support or messenger wire which helps cut down deployment costs. The equipment for inter-connectivity has already been installed. Nepal Telecom had planned to finish trial for direct traffic exchange among Nepal, China and India within May 2016.

Smart Telecom working on mobile network expansion: The third largest telecom operator in the country, Smart Telecom, is expanding its mobile network to all parts of the country. The company which initially started as a rural telecom licensee is already providing services to 34 districts. It is currently working to add more towers in Kathmandu, Pokhara, Nepalgunj, Birgunj and Chitwan.[61]

Nepal Telecom upgrading network in Western Nepal: Nepal Telecom is currently upgrading its current network in the western parts of the country like Butwal, Bhairahawa and Pokhara. It is replacing the old 2G ZTE BTS with Huawei BTS which will enable the customers to experience good voice quality at 2G and higher 2G data speeds.[62]

BUDGET 2016-17 HIGHLIGHTS: INFORMATION AND COMMUNICATIONS TECHNOLOGY

Following are the highlights of the budget for the ICT sector:

- Internet service to be provided free of cost in community campuses, community higher secondary and secondary schools and primary health centers through the microwave transmission service utilizing the Rural Telecommunication Development Fund (RTDF)
- Implementation status of Right to Information and content related to Right to Information published through the mass communication media will be audited by National Information Commission
- Policy, legal, and organizational reform will be initiated in Nepal Television, Radio Nepal and Gorkhapatra Corporation to make them professional and self-sustained.
- 4-G service to be commenced in Kathmandu Valley and sub-Metropolitans. High -speed internet service will be provided in 72 district headquarters expanding the optical fiber reach along the Mid- Hill Highway and Postal Highway. Internet service will be provided through microwave transmission service in remote areas where extending optical fiber reach is difficult.

OUTLOOK

The budget for FY 2016-17 has accorded higher importance to the development of the ICT infrastructure sector in the country. It has made provisions such as providing free internet services to be provided in the educational institutes and subsidizing the installing of ICT infrastructure in community schools. If all the provisions in the budget related to ICT are implemented effectively, the country will definitely make progress in the ICT development index, where it currently stands at the 136th position out of 167 countries.

REAL ESTATE IN 2030

consult | manage | advise

beed management pvt. ltd.

Global studies indicate rapid urbanization and mushrooming of urban canters along with migration from villages to cities. With increased road connectivity the tendency of inaccessible areas, to areas with better access to social services like health, education and economic opportunities. Nepal will have close to 33 million people with demographics skewed towards the young. 70% of the population will be under 30 years of age which means increased mobility towards urban centers. While technology will make remote working easier, people will still like to gravitate towards cities.

The Nepali attachment towards ownership of land is expected to not go under any transformation. Which means the pressure on smaller parcels of land remain. With road connectivity more parcels of land will be available for residential and commercial purposes. Despite the increased supply, the demand will keep pushing prime real estate prices up as people will move to suburban areas away from the city center. The pricing will continue to be determined based on city center prices that will remain high due to short supply of space and high competition for prime assets.

In case Nepal will transform with increased economic activities towards an entrepreneurial culture away from rent seeking culture, the trends of investment in non-productive assets like land may reduce to a certain extent, but given the limited inventory of land, it may not impact the pricing to a large extent. Construction industry will be one of the biggest growth areas.

The government including its army holds the largest inventory of land and it will depend on how government decides to unlock the value of its land. Further, the opening up of the sector for foreign investors and developers will also have impact on the sector. The emerging discourse around climate change, ecological balance and living trends will also have an impact on the sector.

Introduction

Although the real estate sector is one of the most globally recognized and productive sectors, the real estate sector in Nepal has been categorized as an unproductive sector. Real estate in Nepal is understood as just housing and apartment complexes whereas the sector comprises four sub sectors i.e. housing, retail, hospitality and commercial which roughly generate over 300,000 employment opportunities.

District land office to go online. Land revenue office in Chitwan has launched online services including transfer ownership, land registration blocking and release of land. It is the 7th office to provide online services. Information regarding purchase and sale of land will be online; this will help on minimizing the fraudulent use of land.[1]

Blue prints to be digitized. Blue prints of all the buildings that have been approved in the last 10 years in Kathmandu Metropolitan city are getting digitized in order to make applications for and issuance of building constructing permits online. All the related hardcopy data will be replaced by the digital copies. This is expected to make the office work easier and reduce the time and cost of data storage.[2]

Informal Building expansion making Kathmandu riskier. According to the report by the World Bank[3], earthquake risk, i.e. the proportion of buildings that collapse in an earthquake, in Kathmandu will increase by 50 % by 2045. This risk has increased with climate change and rising number of people in the urban area. The report calls for a new approach to assess such disaster risks.

BUDGET 2016-17 HIGHLIGHTS: REAL ESTATE

- NPR 0.3 million (USD 2,800) to be provided as interest free loans for the construction of houses to the earthquake victims on collective bailment.
- Allocated NPR 1.72 billion (USD 16 million) for Housing for People Program. This program will construct houses of families of the Dalits, Deprived, Muslim, Chepang, Raute,Gandharba, Badi, Bankaria, Surel, Thami including the poor and endangered communities.

OUTLOOK

Excess liquidity and low economic activities have encouraged banks and financial institutions to provide home loans at rates as low as 6.5%, increasing affordability for buyers. However, the stigma of April 25th 2015 earthquake is still attached with purchasing apartment in high rise apartment complexes. Developers claim the housing market is yet to witness a significant increase in demand for apartment complexes after the earthquake.

INDUSTRY INSIGHTS

EDUCATION

EDUCATION IN 2030

Shisir Khanal
Co –Founder and CEO, Teach for Nepal

In just over two decades, Nepal has made significant strides in improving access to education. The new constitution of Nepal has guaranteed right to universal free school education. Furthermore, the management of education system is distributed among local, state and central governments, wherein school-level education will come under the purview of the local government.

Therefore, by 2030, we can expect further expansion of access to basic and secondary education as well as higher education. We will achieve universal adult literacy and percentage of population with at least secondary education will expand dramatically. School dropout rate for grade 1-10 is likely be halved from the current 70% by then.

However, there is a need for greater efforts to improve quality of education in public schools, where around 85% of students throughout the country are enrolled.

The Sustainable Development Goal (SDG 4) adopted by United Nations which puts quality and equity at the core with commitment to "Ensure inclusive and equitable quality education and lifelong learning opportunities for all" should be the guiding framework for developing and furthering education plans and policies in the country. Similarly, School Sector Development Program (SSDP) currently being finalized by the Ministry of Education also takes quality at heart. Furthermore, the new Education Act passed by the Parliament will allow for some restructuring and improvement in education sector which has been on hold for several years. Therefore, improvements will be seen in public school education. However, most of the innovations are likely to come from non-government sector (NGOs and Private), especially as the government will be preoccupied for the bulk of next 15 years with creating new structures, systems, and processes regarding education governance and management to fit the new federal structure.

Once federal restructuring is completed, unburdened by behemoth organizational structures, school and university systems will be more agile and responsive to local needs. Institutions like Tribhuvan University can focus on being world class Research University at national level. Similarly, state run universities as well as open universities can expand affordable university education to people closer to them, thus reducing barrier to entry. By 2030, education sector of Nepal will have witnessed important reforms which will be instrumental in achieving the goal of graduating to middle income country status by that year.

Introduction

The education sector in Nepal has seen a quite a number of restructuring steps in the last quarter. Private schools have faced constant scrutiny with the Ministry of Education (MoE) inspecting educational institutes on one end and the Private School Directive determining the profit of private schools at the other end. After six long years, the Education (Eighth Amendment) Bill- 2072 was also finally passed by the Parliament.

US Embassy reduces burden for student visa applicants: Starting from June 1, 2016 applicants for tourist and student visas to US, will only need a few documents such as current passport, any prior passports, DS-160 confirmation page, application fee payment receipt, photos, - I-20 (for student visa applicants), and transcripts (for student visa applicants).[63] Applicants will no longer need bank statements, land titles, letters of invitation, or any similar documents. The Embassy has maintained that this has been done to protect applicants from potential scams as well as save them money and time.

Public schools lag behind as private sector shines: Private schools in the country have claimed that they made an investment of more than NPR 120 million (USD 1.12 million) in the school level education. This investment is allegedly increasing by 10% every year.[64] The number of private schools is on the rise, but on the other hand the number of public schools has started to decrease; some of them have either merged while others are shutting down due to inadequate number of students.

Ministry of Education starts monitoring schools: Ministry of Education (MoE) has started monitoring private schools after receiving complaints of the latter charging exorbitant fees from students. The monitoring team also includes representatives of student unions and joint-secretaries of MoE. The teams will be monitoring fee structure, scholarship distribution and others. If they are found to not complying with the education rules and regulation, action will be taken against such schools.[65] The special category schools will be monitored separately.

In March 2016,[66] MoE endorsed the Private Schools Directive (PSD) with the aim of regulating tuition fees in private school. This includes provision requiring every school to get their fee approved by two-third majority of an assembly made up of the guardians of the students.[67] Fee structures which are not approved by guardians will not be endorsed by the government authority, and schools will be required to receive an endorsement of the fee structure from the District Education Office a month before the start of admissions. Furthermore, the directive also enforces that the salary of private schools teachers should be on par with government standard, admission fees should not be more than a month of tuition and that the fees are publicly printed for all concerned through a citizen charter. The breakdown of five categories of expenses as suggested by the PSD is as follows:

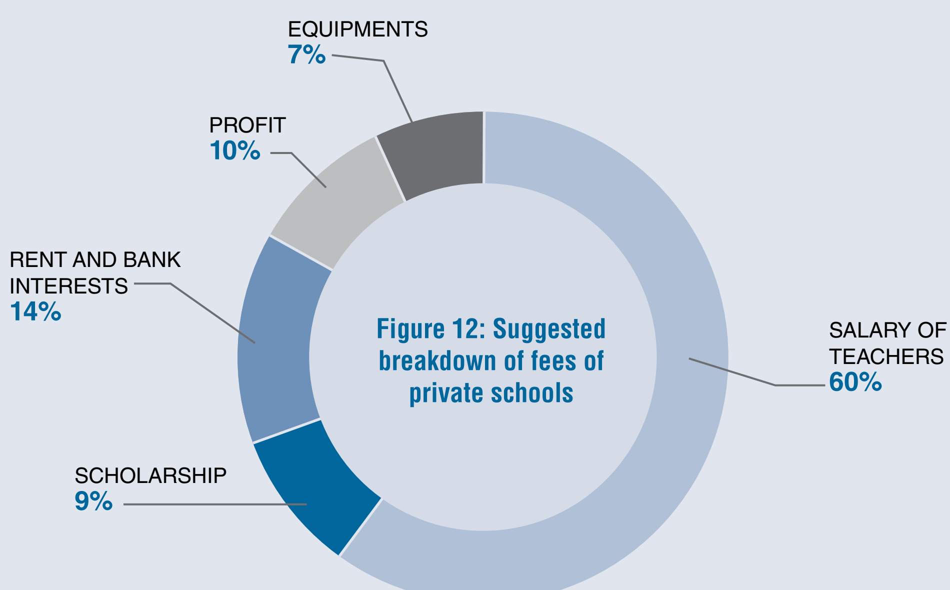


Figure 12: Suggested breakdown of fees of private schools

Source: Kathmandu Post

Schools which do not meet the given criteria of the directive within three years will either have to close down or opt to merge with other public/private schools. This directive was made applicable since mid-April.

Government launches school reconstruction: Emergency School Reconstruction Project (ESRP) funded by Japan International Cooperation Agency (JICA) commenced on the third week of May 2016.[68] The estimated cost of the project is 16,522 million Japanese Yen (approximately USD 132 million), of which JICA will finance 14,000 million Japanese yen (approximately USD 115.3 million). It aims to rebuild and retrofit schools and its related facilities in the districts affected by earthquake. Fourteen districts will be covered under this program. In the first batch, 84 out of the 120 schools which were assessed have been identified for reconstruction in six districts.

Budget announces school reform program: The annual budget of the country has announced to start the implementation of School Sector Development Programme (SSDP) from the upcoming fiscal year. The MoE is still working out the details of the program, and adequate funding for the multi-billion dollar project from donors has still not been secured. The annual budget allocated NPR 26.25 billion (USD 245 million) for the program, scheduling its implementation from mid-July. The draft policy is an extension of the School Sector Reform Programme (SSRP), which concludes in the current fiscal year, without accomplishing a majority of the objectives, like school restructuring and decreasing gender disparity, set during its implementation in 2009. Of the USD 1.2 trillion (NPR 120 trillion) required for SSDP, 20% (NPR 240 billion) is expected from international donors. Till date only NPR 3 billion (USD 9 million) has been pledged by the donors.[69]

Parliament endorses the Education Act: The Legislature-Parliament has unanimously passed the Education (Eighth Amendment) Bill- 2072 BS, which was started some six years ago, in June 2016. The few important proposed changes by the freshly passed act are as follows:

a) Categorizing school education into two levels: basic education (Grade I to VIII) and secondary education (Grade IX to XII) instead of the current four levels in school education.
b) Scrapping School Leaving Certificate (SLC) examinations.
c) Transforming Higher Secondary Education Board (HSEB), which regulates higher secondary schools across the country, into National Education Board (NEB), which would conduct national-level school termination examinations.

BUDGET 2016-17 HIGHLIGHTS: EDUCATION

Government has allocated NPR 26.25 billion (USD 245 million) in the budget for fiscal year 2016/17 with the aim of improving children's access to quality education. Following are the key highlights of the budget 2016-17 in the education sector:

- As per the provisions of the new constitution, basic education will be made free and compulsory, while secondary education will be made free and compulsory gradually
- Streamlining and promotion of education systems like Gurukuls, Monasteries, and Madarasas
- Excess teachers at the primary level to be adjusted into 6 to 8 grades, based on mapping and redistribution of teacher's position. Higher number of English, Math, Science and Technical Subject teachers to be hired in community schools.
- Subsidy to be provided for installing Information and Communication Technology (ICT) infrastructure in each community school. Expansion of plans of setting up of ICT laboratory, use of Smart Boards and interactive Electronic Teaching Learning System in all school levels.
- Developing an educational system to meet the national demand of medium and high level technical manpower after basic education.
- A campaign of quality improvement program will be implemented in order to remove differences in quality of teaching and learning at community and institutional schools and rural and urban area's schools. English to be the teaching and learning medium of community schools to be gradually
- Making school management committee, principal and teachers accountable in all the stages of teaching and learning via social audit.
- Concluding time-bound management contract with private schools and colleges for operation and management of community schools and colleges.
- Initiating works for the establishment of Medical College in Bardibas, Butwal and Surkhet in line with the concept of One State One Medical College. Each province to have Poly technique institute.
- Improving the educational quality via academic reform in universities. Concluding the performance contract with Lecturers and Professors of the Universities.
- Development of infrastructure of mid-western and far-western universities.
- For students willing to pursue higher education equivalent to Bachelor's Degree or above, arrangement to avail interest-free loan in collateral of academic certificate will be made.

Experts in this sector believe that this act could be the milestone in revamping the education sector of the country.[70] It is believed that the bill largely addresses the problems in the sector.

Open University Bill endorsed by the House Panel: The Open University Bill, 2015 has been endorsed by the Parliamentary Committee on Women, Children, Senior Citizens and Social Welfare. This has given way for establishment of open universities in the country. Experts have claimed that the bill is progressive and apolitical experts would be appointed in various posts in the open universities to end the current practice of making political appointments. The establishment of open universities was proposed with a vision for an institutional solution to narrowing down the existing knowledge and education gaps and in providing internationally accredited degrees in Nepal.

OUTLOOK

The budget for FY 2016-17 has identified education sector as one of the priority areas for development. Only 11.6% of the budget has been allocated for the sector for the next year despite the commitments made by the state to allocate 20% of the budget in the sector at international forums. Also, the budget has identified multiple progressive steps to provide easy and quality education to students all over the country. With the Education Bill being passed this year, the education sector is in for quite some restructuring in the coming years.

HEALTH

HEALTH IN 2030

Dr. Govinda KC
Senior Orthopedic Surgeon at Tribhuvan University Teaching Hospital

Nepal's health sector is at crossroads now with the future looking cloudy at best. With public hospitals mostly in sorry state due to rampant political interference and mismanagement, the health sector is now dominated by exorbitantly costly private hospitals catering to the bulk of a largely destitute populace. With failure to teach evidence-based medicine at medical schools and to adopt a culture of healthy research among practitioners, we have been left behind even among sour South Asian neighbors. The blatant and anarchic commercialization of medical education is compromising quality of health care services in general.

If the reforms that we have long been pressing for are implemented - ending chaos in medical education through legislation, ending political interference in regulatory bodies leaving them to competent and professional people, ensuring judicious geographic distribution of health facilities and medical schools even to remote areas, ensuring entry of qualified but poor students to the field, adopting latest approaches of teaching-learning in medical schools and ending the culture of impunity in medical education and health sector among others - much will change by 2030.

With the reforms, both the scope and quality of health care will improve. Simultaneously though, it would threaten the interest of various players enjoying the dividend of the current chaos - unscrupulous medical school owners providing subpar education, party cadres enriching their parties by siphoning off illicit money from regulatory bodies, political parties surviving on patronage and nepotism and so on.

Implementing those reforms is going to be a tough job but if we want to see any betterment even by 2030, these reforms are mandatory. With them, it will be possible to carry secondary and tertiary services to all districts and primary care to villages. The capital can then innovate and have pioneering hospitals intent on retaining patients who now fly abroad for treatment instead of engaging on smuggling of patients from government hospitals to private ones.

INDUSTRY INSIGHTS

HEALTH

NEPALESE HEALTH CARE SECTOR BY 2030:
Forces That Will Shape The Future

Dr. Ram KM Shrestha
Vice-Chancellor, Kathmandu University

The growth of health sector in Nepal over the past two decades have surpassed previous growths over a similar duration. Government commitment of access to health care, the emergence of private sector and the expansion of educational initiatives in health sciences have fueled this progress and will continue to do so in coming decades.

Concurrently, it is of paramount importance that the concerns of quality, equity and access should dominate the discourse on health. It is also equally important to develop policies and programs that can harness the hitherto untapped resources of diaspora community, utilization of the information-technology sector, and innovations in the modalities of partnerships and collaboration between different stakeholders. I firmly believe that the future will see more evidence-based policies and practices. Furthermore, rigorous research will be an integral part of the health sector and system.

The general approach to health services that have conventionally been focused in the areas of infectious diseases, maternal and child health will also see a major shift because the burden of diseases are changing dramatically. Non-communicable diseases like cardiovascular diseases, cancer, diabetes, mental health, etc., will emerge as the leading disease problems. The existing manpower and the system is not capable of handling this emerging epidemic under current scenario. If we can redesign the health systems and innovate in the approaches to deal with these diseases by including inherent components of prevention, evidence-based management, and integrated follow-up, then Nepal can really shine in the international platform just as it did in the progress Concerning Millennium Development Goals.

Such an initiative needs a paradigm shift in the way health systems are structured. Broader involvement of other development sectors, e.g., media and communication, trade and commerce, education, environment, is indispensable in this pursuit. Ensuring such multi-sectoral involvement for dealing with emerging challenges will need renewed emphasis on the science of implementation in teaching and training. This will be the major difference to the current pedagogical realm that puts little emphasis on implementation efforts. I am optimistic that the new generation will be aware about these contemporary opportunities and challenges and will be capable of steering the future towards the right direction.

Introduction

According to the Development Cooperation Report (DCR) 2016, the health sector was the largest single recipient of Official Development Assistance (ODA) in FY 2015-16, receiving a total of NPR 19 billion (USD 177.74 million) of aid. While Nepal has been able to make significant strides in its health related targets in the MDGs, it is still lagging behind in comparison to other low income countries. Meanwhile 5% of total budget has been allocated to the health sector in the current year.

Bajura faces shortage in medicines: Health facilities in Bajura have been facing a shortage in medicines since mid-April with around 20-25 types of drugs yet to reach health stations compelling health institutions to buy medicines from private drug stores. The government provides 70 different types of drugs to the District Health Office (DHO) of Bajura; 58 to primary health centers and 42 to health posts. Medicines worth NPR 8 million (USD 74,765) are provided free of cost to the district by the government annually. However, the demand for drugs is worth at least NPR 15 million (USD 140,016).[71]

Increased respiratory problems among children. According to medical facilities, the elevated air pollution levels within the Kathmandu Valley has resulted in increased cases of respiratory problems among children. The pollution levels in Kathmandu are said to be above the international limits according to the World Health Organization (WHO). Preliminary records from children's hospital indicate a twofold rise in respiratory problems among children, ranging from throat infection to asthma and other illnesses.[72] While children are vulnerable to many infections, increased exposure to dust particles and other particulate matter (PM) exacerbate such vulnerabilities. A report by the Nepal Health Research Council (NHRC) states that where the national standard for PM 2.5 is 20 micro grams per cubic centimeter, whereas the levels were found to be 28 micro grams per cubic meter.[73]

Health Profession Education Act draft ready: With an aim to improve the quality of medical education, the Health Profession Education Commission (HPEC) submitted the final draft of the Health Profession Education Act to the government. The act aims to regulate medical education, and restricts opening of any new medical, dental or nursing colleges in Kathmandu Valley for 10 years. Outside the valley, opening of new medical colleges will only be

BUDGET 2016-17 HIGHLIGHTS: HEALTH

The budget for the FY 2016-17 has increased the allocation for the health sector to NPR 40.56 billion (USD 378.6 million), a 24% rise from the previous year. However the total share of health in this budget is only 3.8%, less than last year's share.[77]

Key budget provisions in the health sector budget have been highlighted below[78]

i. Phase wise implementation of the 'National Health Insurance Scheme' targeting the provision of medical treatments to all Nepali citizens. An allocation of NPR 2.5 billion (USD 23.33 million) has been made for the project; which will be expanded across 25 districts in the coming fiscal year.

ii. Development of Bir Hospital as an international standard hospital equipped with the latest infrastructure and equipment in at least 500 *ropanis*[79] of land. Construction work on the project is expected to start in the coming fiscal year following site identification and preparation of a master plan.

iii. Establishment of modern health laboratory and renal treatment center at Tinkuneand Sallaghari in Kathmandu and in Bhaktapur.

iv. Expansion of comprehensive emergency obstetric and neonatal services in all 75 districts; for free and safe services to females. The "SunaulaHazar Din" program will also be implemented to ensure nutrition of mother and child.

v. Dress allowance to female community volunteers has been increased by NPR 1,500 (USD 14) in addition to arrangements for health insurance.

vi. Free immunization services against 11 types of diseases will be provided to 700,000 children.

vii. Good Manufacturing Practice (GMP) will be followed to improve quality of Ayurvedic medicine.

viii. NPR 1 billion (USD 9.33 million) has been allocated to provide subsidies to poor citizen for free treatment against eight types of diseases. For instance dialysis services have been made free until kidney transplantation. Meanwhile services for identification and treatment against Sickle Cell Anemia have also been expanded.

ix. To support the "One Village One Doctor" program, scholarships for MBBS study will be provided to students who have passed their entrance exam from their respective villages. Scholarship recipient students will be required to serve in their own villages for five years after completion of their studies.

x. Treatment of cancer, heart, kidney and liver diseases in government hospitals will be made free of cost for the citizens below poverty line.

xi. Specialist doctors who obtain MD or MS Degree under government scholarships will be required to compulsorily serve in the remote areas for a specified period. NPR 450 million (USD 4.2 million) has been allocated for this purpose.

xii. Provision of additional services for diagnosis and treatment of cancer has been planned

xiii. Development of a robust system for monitoring of service delivery, quality of medicine and maintenance of code of conduct of health workers is to be put in place. A Public Health Bill will be tabled to Legislature-Parliament for regulation of quality of public, private and community health services.

xiv. The budget has also made provision for extending a 50% discount for journalists incurring medical expenses at government hospitals.

allowed in areas deemed appropriate by the government. The act also puts in place certain guidelines for medical students such as the mandatory completion of the national Common Entrance Examination. The act will be guided by Accreditation and Standard; Planning and Coordination; Innovation and Research; Examination and Post Graduate Education Board.[74]

MoH seeks to transfer unspent health budget on severance pay: While health facilities across the country are deprived of essential medicines, the Ministry of Health (MoH) which has managed to procure only 6% of the required medicines of the total demanded from governmental health services in the ongoing fiscal year, is seeking to transfer the unspent budget to pay employees opting for voluntary retirement. While NPR 1.705 billion (USD 182 billion) had been allocated to ensure availability of free and essential medical supplies across the country, lengthy processes in procurement have been cited as the key reason behind the unavailability of medicines.[75]

WHO recommends strengthening emergency preparedness: The World Health Organization (WHO) has called for strengthening emergency preparedness and response capacity on an ongoing basis. Health sector partners have recommended the development of stronger policies to not only ensure the implementation of disaster risk reduction measures but also capacity building at all levels; beyond the national capital, in responding to such emergencies. Robust emergency response plans should be in place at all levels and should be tested periodically for their effectiveness.With as many as 80% of health facilities in affected districts damaged during the earthquake; and subsequent reconstruction efforts, there is a significant opportunity to put more risk reduction mechanisms in place.[76]

OUTLOOK

While the current budget makes several provisions for infrastructure development in the health sector, development in these areas still remain questionable due to the historic low capital spending in Nepal. While health has always remained a priority in terms of development assistance as well as the national budget, the allocated amount still remains severely underspent despite a large proportion of the population not having access to proper health care. It is therefore essential to work towards greater efficiency in budget spending in the sector.

TOURISM IN 2030

Prachanda Man Shrestha
Former CEO, Nepal Tourism Board

Travel and tourism has become a universal activity in contemporary society. The volume, pattern, style and motivations of travel and tourism has evolved greatly and is changing dynamically with the number of international tourists' crossing the billion mark in the year 2012. The United Nations' World Tourism Organization (UNWTO) estimates suggest that the number will reach 1.8 billion by the year 2030.

The trend in realization of tourism is seen in the synchronization of pull and push efforts of players engaged in the following three areas:

- Changing features of the market composed of customers' desire, needs and wishes as tourist with socio economic evolution.
- Innovation, creativeness, and capacity enhancement among the service suppliers as industry players in the destination.
- Development of efficient, reliable and affordable means of connectivity as transport and communication infrastructures.

The pattern of generating market is seen to be shifting to Asia from the Western world. High growth in volume can be expected in the coming decade due to the economic prosperity of the Asian countries dominated by China and India. However, by 2030, this market will be seeking more comfort and facilities and will not prefer to venture into the unbeaten path. Similarly, adventure products will have to be softened with good internet and wireless connections and personalized services as the affluence effect among Asian countries is getting stronger.

The holiday leisure segment comprises of 50% of Nepal's tourism sector at present. Unless the country substantially improves the quality of services and infrastructure and enhances perceptions on safety and security, it will not be possible to achieve substantial growth. However, given the historical growth rate of low-end visitors from booming markets supported by pilgrimage, this can be expected to grow in the coming decade. Nepal's niche motivation of nature based adventure can be expected to remain stable with 5-7% average annual growth from conventional traditional market of West Europe, North America, Japan and Australia.

However, Nepal's tourism will be greatly dependent on the operation of the second international airport which can substantially change the intensity and dimension; as 75% of arrivals to Nepal is dependent on air connectivity. In the next decade, the travel industry may be more comfortable in internal tourism due to lower risk and higher return and growing domestic prosperity. Tourism industry will have to diversify from the international to domestic segment of clients.

Considering the capacity building of state enterprise and industry enterprise in relation to developing, improving, reforming and enhancing infrastructures, service delivery, novelty/innovation in products and marketing, Nepali tourism industry may have to be satisfied with below the regional average growth rate by the year 2030.

Introduction

Nepal's tourism industry is hoping to make a rebound after a series of unfortunate events following the earthquake and the border blockade in 2015. Although reconstruction efforts of the monuments destroyed in the earthquake is taking place at snail pace, Nepal still has an abundance of natural and cultural heritage to offer to its visitors. With the safety audits of Annapurna and Everest trekking trails which deemed these regions safe for trekking and with the ongoing efforts to reopen Langtangand Manaslu trekking routes, there appears to be a glimmer of hope for the tourism industry to bounce back.[80]

Promotional campaign for domestic tourism: The Nepali year of 2073 has been declared as GhumphirBarsa (Travel Year) with the aim of promoting domestic tourism. This initiative of Nepal Tourism Board (NTB) is a part of its preparation to organize International Tourism Year 2017. A budget of NPR 2 million (USD 18,668) has been assigned for the promotion of the campaign. Private sector will be encouraged to create packages for the domestic travelers, with schemes and incentives being offered to promote new destination.[81]

New campaign to encourage tourist inflow: 'AthitiDewoBhawa' (The guest is equivalent of God)is a new campaign initiated by Ministry of Culture Tourism and Civil Aviation (MoCTCA), Nepal Tourism Board (NTB), and Non-Resident Nepali Association (NRNA) to attract tourists to Nepal. This promotional campaign agreement has been signed between NRNA and NTB setting the main objective as attracting tourists to Nepal from all over the world. The project not only aims to draw international tourist, but also aims to encourage the flow of domestic tourist.[82]

First successful mountain summiting: Post earthquake of 2015 and the deadly avalanche of 2014 in Mt. Annapurna, Nepal recorded the first successful summiting with 30 mountaineers climbing Mt. Annapurna in May 2016. This is expected to send positive messages to the mountaineering community and offer respite to Nepal's mountaineering business[83] which had been adversely affected after unfortunate events of avalanches and earthquakes.

SAARC to promote rural tourism: The South Asian Association for Regional Cooperation (SAARC) member nations are looking towards promoting rural tourism with the aim of alleviating poverty in the rural areas, while also contributing towards the social economic development of the country. Rural tourism has a lot of potential in SAARC nations as they are rich in natural and cultural heritages. New tourism products can be developed blending in elements of natural and other activities to attract tourists from all over the world. The visa process will also be liberalized among the member nations so as to jointly promote rural tourism and encourage tourists. This would also provide impetus to strengthening people to people relations in the region and help in expanding bilateral support for tourism development.[84]

Lumbini included in India's trans-national tourist route: The Government of India has introduced its first trans-national tourist route, which includes Lumbini in Nepal. The proposed itinerary includes Bodh Gaya, Vaishali, Rajgir and Kushinagar in Bihar, Sarnath, and Shravasti in Uttar Pradesh, along with the birthplace of Buddha- Lumbini, and Kapilavastu in Nepal. The product is targeted towards international tourists, which will help in generating employment and revenue in the region. Nepal will now have to conduct a tourism impact study on whether it will be beneficial to increase tourist inflow and length of stay in Lumbini resultant of this new tourist route.[85]

Dip in Bhaktapur's tourism revenue: Bhaktapur Municipality collected a revenue of NPR 91 million (USD 849,435) as its tourism revenue in 2015 against NPR 300 million (USD 2.8 million) in 2014. The devastating earthquake had destroyed the monuments and temples of the historic city and in addition, the protracted border blockade also adversely affected the inflow of tourist. Due to the dip in revenue, reconstruction works have been hampered. Ninety percent of the municipality's revenue is generated from tourism. Since the earthquake, only 77,380 tourists have visited Bhaktapur of which 53,314 were from China and SAARC nations.[86]

Tapping Chinese Market: A recent forecast made by Pacific Asia Travel Association (PATA) stated that there will be a 23% increase in Chinese outbound travelers to Asia-Pacific destinations by 2020. Chinese tourists are therefore are likely to out-run the outbound travelers from US and Europe. It is also estimated that their expenditure will increase from NPR 16.82 trillion (USD 157 billion) in 2015 to more than NPR 24.64 trillion (USD 230 billion) by 2020. The prediction was made based on the historic expenditure pattern of Chinese tourists in Asia- Pacific. According to the Nepal Tourism Board (NTB), 16% of the tourists visiting Nepal are Chinese. Nepal can tap into this trend and create packages and promotional material targeted to Chinese tourists. Stakeholders have suggested additional flight connectivity between the two countries as an important step to attract more Chinese tourists. Meanwhile, Pokhara is already taking multiple steps to woo more Chinese tourists by printing brochures on Pokhara in

Chinese language and training tour guides and hotel staffs in Chinese language to overcome the language barrier.[87]

Hot springs as a potential tourism product: Hot springs can be an important tourist attraction in Nepal, drawing potentially large number of foreign tourists. The global market size of thermal and mineral spring is NPR 5.36 trillion (USD 50 billion) and countries like Japan, China, Iceland, Austria and the Czech Republic have been investing on resorts and health spas near hot springs. Nepal has a number of hot water springs, extending from Humla in the west to Taplejung in the east, but these hot springs, mostly untapped and underdeveloped, have not been sold as a high end product thus far. In recent times, health tourism has been evolving with natural remedies gaining popularity. Thenatural minerals in hot springs are known to be remedy for joint pains, gastritis, and skin diseases and can hence be a value added product in Nepal's tourism market. The government and the private sector should strategize towards developing these hot springs to attract more tourists to Nepal.[88]

Foreign investment in the hospitality sector: In the recent years, Nepali hospitality sector has seen a number of international luxury hospitality brands collaborating with local investors and entering the market. Taj Hotels Resorts and Palaces, InterContinental Hotels Group, Marriott, Aloft, Starwood Hotels and Resort, and Sheraton are some of the international brands entering into Nepal's hospitality sector. The entry of these global brands will raise the bar in the hospitality industry of Nepal and will add value to the tourism industry, which in turn can lead to potentially healthy growth in the tourism sector.[89]

Increasing tourists' spending in Pokhara: A study conducted by the Pokhara Tourism Council has found that international tourists spend a maximum of NPR 5,356 (USD 50) per day in Pokhara. Due to the lack of new products and services, tourists are not able to extend the length of their stay for more than 5 days in the lake city, as per the study. There is a need to tap tourism potentials in and around the city, in order to increase tourist spending and involve tourists in various activities. Local entrepreneurs have suggested building a zoo, finding new hiking, cycling, and horse-riding riding trials as well as creating a footpath around the famous Fewa Lake as options.[90]

BUDGET 2016-17 HIGHLIGHTS: TOURISM

Following are some of the highlights of Budget 2016/17 for tourism sector:

- Construction work for Lumbini Development Master Plan is planned to be completed within two years.
- Narayanhiti Palace will be developed into a Historical Museum.
- Tharu museum construction in Bardia and Ranatharu museum construction in Kanchanpur is on cards to preserve Tharu culture and traditions.
- To facilitate rescue missions during disaster situations, the government has planned to build helipads in each Village Development Committee and Municipality.
- The budget has planned to identify new tourism destinations and improving existing hiking routes.
- The government has planned to mark 2018 as Nepal Visit Year and 2017 as Internal Visit Year.

OUTLOOK

With the tourism sector gradually taking a positive turn, it is time for stakeholders to consolidate efforts to ensure quick recovery and sustainable growth of the sector. Tourist arrival numbers are going up, while trekking and mountaineering activities have also started to rebound. Building on this trend, it is crucial to ensure that visitors have a good in-country experience so that the country can leverage on word of mouth promotion.

Given the coverage gained by the devastation of the earthquake, the word of mouth promotion from people who have visited the country post-earthquake will gain higher validation. Along with the creation of high end tourism products, focus should also be upon the development of basic tourism infrastructure such as information board, signage, proper toilets, etc. to ensure that the tourists have a good experience in the country. Only relying on the natural and cultural heritage without according due importance to basic amenities will substantially impact the sustainable growth of the sector.

INDUSTRY INSIGHTS

TRADE AND DEBT

NEPAL AS A PART OF SOUTH ASIAN COMMON MARKET

And Land Bridge Between Two Large Economies

Purushottam Ojha

Former Secretary, Ministry of Commerce and Supplies

The economic and trade integration process in South Asia is moving at a very slow pace as there are many roadblocks in the way of integrating transport, communication, trade and related infrastructures. The economic cooperation framework of SAARC was based on the pledges of its leaders to make South Asia an economic union by 2020 encompassing the stages of preferential trade agreement to free trade area, customs union, and common market. But, the implementation of free trade area agreement over the last ten years has seen tepid growth since countries are still negotiating over the large number of sensitive lists - an obstruction to free trade - and are mired in the maze of non-tariff barriers. In view of slow pace of economic integration, the member countries are now aiming at achieving deeper integration by 2030 which of course coincides with the deadline of sustainable development goals (SDGs). It is likely that South Asia will emerge as the common market by the time, only by realigning the current course of action on economic integration.

The pivot of international trade is shifting to Asia. Nepal is well positioned and remains at a strategic location between the two larger and fast growing economies of the continent. Both India and China are emerging as the manufacturing hub of the world. Increased connectivity between these two economies provides opportunity for Nepal to grow and develop its services industry and participate in the value chain of manufacturing. The land and maritime silk routes connecting Central Asia, Europe and South and South East Asia and establishment of Asian Infrastructure Investment Bank (AIIB) under the Chinese initiative will provide greater connectivity in the region. Nepal can become a land bridge between India and China, and leverage on the extensive transport infrastructure of the two economies. Indeed, the populous states of India like West Bengal, Bihar and UP could be connected to Tibet and Sichuan province of China through Nepali territory. Nepal should capitalize on this opportunity to improve its economic scenario and to attain the goal of becoming a middle income country by 2030.

Introduction

The end of the blockade and the subsequent resumption in the flow of goods along with the opening of new trade route with China has seen import and export picking up in the latter part of the fiscal year. This however, is still a decline in comparison to the last fiscal. The slowing down of trade is bound to slow down the growth of the economy and will also put upward pressure on prices

Foreign trade scenario: Table 3 below shows the foreign trade scenario of Nepal in the nine months of the current fiscal year. Continuing the past trend, export dipped by 23.4% amounting to NPR 49.24 billion (USD 459 million), against 5.6% dip during the same review period previous year. Exports to India, China and other countries have decreased by 33.4%, 41.3% and 1.5% respectively.

Total import figures also fell in the nine months of the current FY by 9.9% amounting to NPR 519.9 billion (USD 4.85 billion) compared to 10.5% growth during the same review period last year. Imports from India have decreased by 14.3%, while imports from China increased by 2.8% and that from other countries decreased by 5.5%. Since supply side constraints are easing post-blockade, the imports figure is likely to increase further.

Top imports and exports: Nepal's trade direction is greatly influenced by the change in the volume of import of petroleum. During the nine of the current FY, import of petroleum products fell by 52.8% amounting to NPR 40.22 billion (USD 375 million) compared to the last review year NPR 85.1 billion (USD 794.36 million). Iron & Steel products are the top imported products with goods worth NPR 51.7 billion (USD 482.59 million) imported during the review period. Imports of commodities like silver dropped by 77% amounting to NPR 5.2 billion (USD 48.54 million) against NPR 22.7 billion (USD 211.89 million) during the same review period last fiscal. While import of majority of the commodity has fallen, the import of crude soya-bean oil increased by 259%, amounting to NPR 9.52 billion (USD 88.86 million).

On the export front, the export of Iron and Steel products fell by 59.9% to NPR 3.5 billion (USD 32.67 million). This can be attributed to the ongoing post-earthquake reconstruction work in the country which has spiked up demand for construction material. The export of lentils also fell to NPR 609 million (USD 5.68 million) registering a decline of 42%. Export of commodities like essential oils and cardamom has increased to 43.3% and 38.5% respectively during the review period.

Trade deficit: During the nine months of the current fiscal, the total trade deficit decreased by 8.2% amounting to NPR 470.73 billion (USD 4.39 billion) against the expansion of 12.9% during the same period last fiscal. As supply-side strains induced by the blockade ease out completely, trade deficit will return to its previously expanding trend in the coming months.

BOP surplus: The country recorded a significant rise in BOP surplus of NPR 49.90 billion (USD 465.78 million) in the first nine months of current fiscal, compared to the surplus of NPR 163.81 billion (USD 1.52 billion) during the same review period last fiscal. The current account also registered a surplus of NPR 157.52 billion as compared to the surplus of NPR 13.82 billion (USD 1.28 billion) during the same review period last fiscal.

Rise in External Debt: As of the end of second quarter of the current FY, Nepal government's total debt amounted to NPR 560.17 billion (USD 5.22 billion) which is comprised of 67% external debt and 33% of internal debt. Since, Nepal receives foreign loans in USD, the rise in external debt by 9% in the second quarter for the current FY can be mainly attributed to the rise in exchange rate. By the end of the second quarter of the current FY, the government received external loans amounting to NPR 22.66 billion (USD 214.5 million) of which 97% is from multilateral donors and the remaining 3% is from bilateral donors. The government repaid a total of NPR 28.53 billion (USD 266.3 million) debt of which NPR 10.24 billion (USD 95.58 million) was for the repayment of external debt. The total interest paid, by the end of second quarter of current FY, to the external creditors was NPR 159 billion (USD 1.48 billion).[91]

Nepal trade integration strategy revised: The Government of Nepal has revised the Nepal Trade Integration Strategy (NTIS) since the old plan did not suit the current market realities. The list of products and services has been reduced from 19 to 12. Service and products with high export potential have been included, while the poor performing commodities have been discarded from the list. Services such as health, education, engineering, and hydroelectricity have been removed and in terms of goods lentils, honey, noodles, handmade paper, silver jewelry, and iron and steel have been taken off the list. The items added to the list are large cardamom, ginger, tea, herbs, fabrics, textile, yarn and rope, leather, footwear, chyangra pashmina, and knotted carpets. There are 3 new services included in the list—skilled and semi-skilled professionals, information technology and business process outsourcing, and tourism.[92]

Surge in rice and paddy imports: The import of rice and paddy from India has increased to NPR 13.43 billion (USD 125 million) during the eight months of the current FY against NPR 9.91 billion (USD 92.5 million) at same time last year. Lack of resources in terms of manpower, input (seeds and fertilizer) and inadequate irrigation facilities have resulted in the decline of production and thereby the rise in imports. In addition to poor monsoon, paddy production was impacted by the blockade. Shortage of diesel and exorbitant rates commanded for it by the black-market affected ground-water irrigation. The blockade also resulted in crippling shortage of chemical fertilizers. Even though the border blockade led to a drop in import of other commodities, the import of rice continued to increase. As per the Central Bureau of Statistics (CBS), there has also been an increase in the import of other agricultural products like fruits and vegetables, but it has not affected the current market rates.[93]

Cargo transport from China via rail: In a strategic move, China sent cargo via train route from Lanzhou, capital city of Gansu Province. As Nepal does not have train tracks in the northern border, the journey includes 2,431 km of rail transport till Shigatse and 564 km of road transport to Kyirong where after it will take another 160km of road transport to reach Kathmandu. Opening of this route is believed to reduce Nepal's dependence on import from India. The combined transport takes 35 days fewer than the traditional ocean transport with the consignment reaching Kathmandu in 10 days from Lanzhou. This new train can potentially be connected directly to Nepal. This can help to attract more investment into Nepal, thereby enhancing its business climate and drawing in more tourists.[94]

Table 3: Foreign Trade Statistics for the first nine months of FY 2015/16 (in millions)

In NPR millions	2013-14	2014-15R	2015-16P	Percent Change	
				2014-15	2015-16
TOTAL EXPORTS	68121.03	64277.7	49238.04	(5.6)	(23.4)
To India	45340.2	41605.4	27722.0	(8.2)	(33.4)
To China	1873.3	2025.6	1188.8	8.1	(41.3)
To Other Countries	20907.5	20646.7	20327.2	(1.2)	(1.5)
TOTAL IMPORTS	522185.1	577106.1	519971.1	10.5	(9.9)
From India	348704.7	364757.9	312721.8	4.6	(14.3)
From China	52760.2	80153.2	82378.7	51.9	2.8
From Other Countries	120720.2	132195.0	124870.6	9.5	(5.5)
TOTAL TRADE BALANCE	(454064.1)	(512828.4)	(470733.1)	12.9	(8.2)
With India	(303364.5)	(323152.5)	(284999.8)	6.5	(11.8)
With China	(50886.9)	(78127.5)	(81189.9)	53.5	3.9
With Other Countries	(99812.7)	(111548.3)	(104543.4)	11.8	(6.3)
TOTAL FOREIGN TRADE	59030.1	641383.8	569209.1	8.7	(11.3)
With India	394044.9	406363.3	340443.8	3.1	(16.2)
With China	54633.5	82178.8	83567.5	50.4	1.7
With Other Countries	141627.7	152841.7	145197.8	7.9	(5.0)

Based on customs data R=Revised / P=Provisional

Source: Current Macroeconomic Situation of Nepal (Based on six months data of 2015/16), Nepal Rastra Bank

Hassle for Nepali tea traders: India's Central Food Laboratory has issued new provision on quality test certification and pesticides check. Exporters will now have to undergo quality test certification from an Indian laboratory each time they dispatch tea to India. This has created hassle for Nepali tea exporters as the cost for quality check is around NPR 70,000 (USD 653). Previously, Nepali traders obtained quality check certificate which was valid for six months and were allowed to make multiple shipment. However, now it has created burden for small factories that export only around 1-2 tonnes at a time. In addition, Nepali tea farms usually use pesticides to protect their products, but the strict pesticides regime adopted by the developed countries has raised concerns for the Nepali tea producers.[95]

MoU signed between Nepal and Bangladesh to facilitate trade: Nepal and Bangladesh have officially signed a Memorandum of Understanding (MoU) to remove Technical Barriers to Trade (TBT) so as to increase trade between the two countries. Both the countries have made a list of products eligible for preferential market access wherein Nepal will provide preferential treatment to 50 Bangladeshi goods while Bangladesh will do the same for 108 Nepali goods. Along with this, the two counties have agreed to improve infrastructure development and land customs for the smooth flow of trade. The commerce secretary-level talks concluded in Dhaka, also included a bilateral agreement to bring the Singhabad (India) - Rohanpur (Bangladesh) rail transit facility into operation, this is expected to further facilitate bilateral trade.[96]

Handicraft sales drop: The Federation of Handicraft Association exports more than 40 products to over 80 countries all over the world. Handicraft industry contributes 6% to Nepal's GDP and generates NPR 12-13 billion (USD 112-121 million) through exports as well as sales in the local market. But there has been a dip in the exports of handicrafts by 11% compared to the figures from the last six months. The challenges faced by the sector owes to the prolonged economic blockade because of which raw materials were not easily available. Also the export procedure for these products is very rigid; the exporters have to produce nine different documents and it takes around 41 days for clearance of goods. The issue of access to finance for the small scale industries and the lack of skilled manpower to provide continuation to the highly labour intensive and skill based handicraft industry is the major challenge threatening the sustainability of the sector.[97]

BUDGET 2016-17 HIGHLIGHTS: TRADE AND DEBT

Following are the highlights for International Trade in Budget 2016-17

- Nepali exports to be promoted and branded as Himalayan unique product
- Special budget allocated for development of highly exported products.
- Integrated Check Post of Birgunj will come into operation and to make transit easier and cost effective
- Business information portal will be set up to avail information in relation to export.
- A comprehensive feasibility study on the dry port at Dodhara-Chandani to be conducted.

OUTLOOK

It is high time that Nepal adopted market oriented reforms to improve its trade scenario and economic position. The trend of rising imports and poor export performance has continued for many years, yet corrective and effective measures have not been implemented to turn the situation around. Given the low manufacturing base of the country, the portfolio of export items in itself is small. The decline in the exports is ringing alarm bells with regards to the health of the economy. Nepal's high trade dependence on India and the high vulnerability to external shocks such as the recent blockade should be considered while strategizing and developing the country's economic policy such that the country can avoid further slump in economic growth and attain healthy and sustainable growth.

NEPAL ECONOMIC FORUM

INDUSTRY INSIGHTS

FOREIGN AID

FOREIGN AID IN 2030

Baikuntha Aryal
Joint Secretary, International Economic Cooperation Coordination Division (IECCD), Ministry of Finance

Nepal being a least developed country, has various challenges ranging from social and economic to infrastructural ones, therefore amidst limited internal resources foreign aid is essential to enhance such shortfalls. While increased foreign aid in the annual budgets have become an annual trend, absorptive capacity remains relatively low at just 57% on average over the last six years. The low expenditure of committed aid has created pressure on domestic sources and questions raised about our capacity and performance, which could deter development partners to divert funds or discontinue commitments. Therefore, for minimized gap between commitment and disbursement of foreign aid, it is essential to first strengthen our implementation and fund utilization capacities.

Foreign aid is utilized according to the government's priority with the use of grants, loans and thresholds defined in the Development Cooperation Policy 2014. In keeping with the policy, the government currently intends to increase investments in capital formation and productivity enhancement programs which will aid in boosting productivity and generate additional economic activities. As higher internal borrowing by the government could adversely affect the private sectors access to capital, the government intends to mobilize higher foreign grants rather than raising too much internal loans.

While the government's reliance on foreign aid was quite high until a few years back, it has remained below 30% in recent years. This is an indication that Nepal's capacity to increase internal sources has increased. Despite relatively strong revenue base, foreign aid is still needed for capital expenditure. However, the government intends to gradually work towards a self-reliant economy by enhancing internal capacities and effectively mobilizing development cooperation. If the country continues to rigorously keep to its goals, gradually by 2030 Nepal will be keeping foreign aid as low as under 20% in its total expenditure.

INDUSTRY INSIGHTS

FOREIGN AID

TRANSFORMATION IN THE Development Sector by 2030?

Gareth Weir
Economic Development Team Lead, Department for International Development

Development partners share the stated vision of the Government of Nepal which is to achieve all the Global Goals and emerge as an inclusive, equitable, and prosperous middle-income country (MIC) by 2030. In the process of becoming a MIC, we hope Nepal is able to establish robust mechanisms to be able to exit from poverty, using its own resources, within an acceptable timeline and with a low risk of failure and reversal.

With such an ambition, the development sector should flex to respond to the quality of Nepal's development trajectory out of poverty informed by critical diagnosis of the bottlenecks. Within this evolution, I suggest a number of potential emerging themes:

1. There will be a move from aid to finance development outcomes directly (typically through projects), to more of a focus on demand side technical assistance sharing evidence on global evidence on what works to unlock specific constraints within the social, economic and institutional building blocks of development.
2. Overseas Development Assistance (ODA) will become an even smaller share of finance flows. Globally, Foreign Direct Investment, private debt and equity and remittance financial flows to developing countries dwarf ODA. As such, aid in Nepal should aim to more systematically leverage other development finance resources.
3. This transition will not be linear, especially given the risks of natural disasters and a changing climate which can undermine and even reverse development. Ensuring Nepal is able to safeguard its progress through adapting to the impacts of climate change and strengthening resilience to disasters will remain a priority.
4. Technology and digitization have transformed our world over the last few decades and will continue to do so in the development sector. I expect potentially transformative innovations in the delivery of services / programs, data collection, tracking and monitoring and communications.

Introduction

While the government has been trying to improve aid transparency and donor spending through its budgetary channels, the Development Cooperation Report 2016 indicates that the spending of donors off the national budget is on the rise with an increase of 17% in the last fiscal year.

Development Cooperation Report for FY 2014-15 released: The Development Cooperation Report (DCR) for FY 2014-15; which assess all aid information and provides a comprehensive analysis on the use and trend of development assistance in the country, was released in March 2016. According to the DCR overall Official Development Assistance (ODA) was relatively constant with aid disbursement at NPR 121 billion (USD 1.13 billion) with the ODA component at NPR 109.35 billion (USD 1.02 billion); i.e. 90%. Among multilaterals, the World Bank remained the top contributor in terms of disbursed ODA (USD 188.12 million) followed by Asian Development Bank (USD 147.89 million). Meanwhile the United Kingdom (UK) remained the top bilateral (USD 168.07 million), followed by the United Stated (USD 132.37 million). A review of ODA trends over the last five years indicate that disbursements have decreased from the levels in FY 2010-11.

In terms of the sector receiving the highest ODA, the health sector replaced the education sector in FY 2014-15 NPR 19 billion (USD 177.74 million). While district level activities accounted for 67% of total ODA disbursements, the Central Development Region continued to receive the highest level of ODA. Meanwhile of the total ODA disbursed only 65% was disbursed via the on budget mechanism, declining from 71% in the previous year.[98]

EU to provide humanitarian aid: The European Union (EU) will be providing NPR 660.7 million (USD 6.17 million) in 2016 as continued humanitarian support to victims of the earthquake. The aid will be used to respond to humanitarian needs, focusing on providing better shelters as well as enhancing disaster preparedness capacities of most vulnerable communities in quake-affected areas. The aid is expected to benefit 290,000 people across nine hardest-hit districts. The aid will be channeled through the European Commission's Humanitarian Aid and Civil Protection department.[99]

Government sights grant and loan mobilization pacts for ICNR pledges: The Government of Nepal (GoN) has signed grant and mobilization pacts worth NPR 195 billion (USD 1.82 billion) with several development partners for post-earthquake reconstruction work from the amount pledged in last year's International Conference for Nepal Reconstruction (ICNR). According to the International Economic Cooperation Coordination Division (IECCD) under the Ministry of Finance, the government has signed agreements for cooperation with 11 donors to mobilize grant worth NPR 115.7 billion (USD 1.08 billion) and soft loan worth NPR 81.86 billion (USD 764.13 million). The government has also obtained NPR 5.35 billion (USD 50 million) from the International Monetary Fund (IMF), and signed grant and loan mobilization agreements with bilateral development partners as well.[100]

Technical donor assistance on the rise: According to the Office of the Auditor General (OAG), there has been increase in the level of technical assistance (TA) by donor agencies with every passing year. In FY 2014-15 alone, a total of NPR 25.67 billion (USD 234 million) was spent as technical assistance, with countries such as Kuwait and Korea providing all its aid in TA, and countries like Australia and Germany providing more than 50% in TA for FY 2014-15. While the amount in this category is often used to finance trainings of government officials and consultants in foreign countries, effectiveness of spending has come into question as the amount is said to be spent on paying salaries of foreign consultants and purchase of luxury vehicles. Additionally such spending is generally not recorded in the government's financial reporting. While the OAG has directed the government to bring such spending under the annual budget many times, it is yet to be done.[101]

Foreign aid commitments fall by 30%: Foreign aid commitments in the current fiscal year have fallen by 30%, with the failure to identify new development projects cited as the key reason behind this. Foreign aid commitments have fallen down to NPR 182.75 billion (USD 1.70 billion) in the nine months of the current fiscal year compared to NPR 260.56 billion (USD 2.43 billion) in the same period last fiscal year. Unless new projects are identified, aid commitment is unlikely to increase. The biggest donor as of now is the World Bank, with commitments of NPR 40.07 billion (USD 374 million) in aid with NPR 32.89 billion (USD 307 million) in loans and the rest in grants, followed by India which has pledged NPR 33 billion (USD 308 million) and Asian Development Bank (ADB) at NPR 21.11 billion (USD 197 million) in loans and grants.[102]

USAID supports five new development programs: The US Agency for

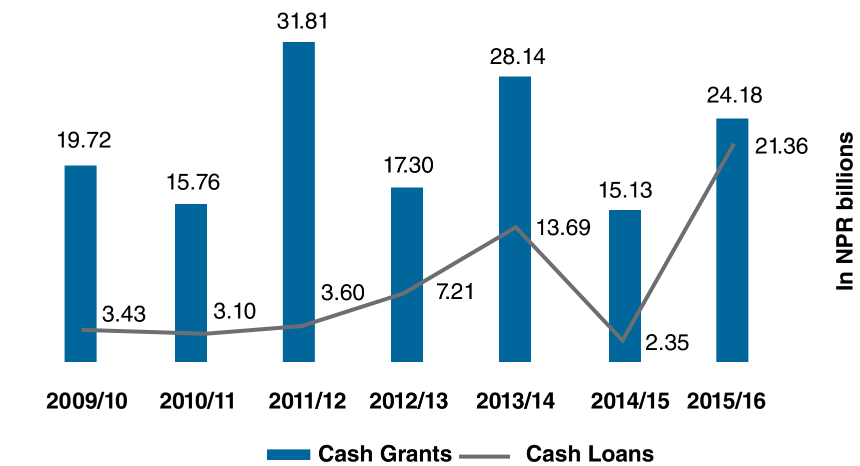
International Development (USAID) will be providing a total of NPR 13 billion (USD 121 million) for five new development programs.

1. Hellen Keller International - NPR 6.75 billion (USD 63 million) for the five year Suuhara II program which aims at improving nutrition in 40 districts through education, water sanitation, hygiene improvements and access to health services.
2. International Maize and Wheat Improvement Center - NPR 1.6 billion (USD 15 million) for the Feed the Future Seed and Fertilizer Project, which aims at helping farmers get access to better seeds and fertilizers in 25 districts.
3. International Water Management Institute - NPR 268 million (USD 2.5 million) for the Sustainable, Just and Productive Water Resources Development in Western Nepal, program. The three year project will support communities in the Karnali and Mahakali river basins to manage rivers and lakes in sustainable ways that benefit the entire community.
4. FHI360 - NPR 1.6 billion (USD 15 million) for the Civil Society: Mutual Accountability Project. The five-year project aims at strengthening the ability of civil society organizations' to advocate for government effectiveness and accountability.
5. DAI Global - NPR 2.68 billion (USD 25 million) for the Program for Aquatic Natural Resources Improvement (PANI). The five-year project will help communities benefit economically from rivers and lakes and conserve local fish and other wildlife.[103]

USAID will also be providing NPR 203.55 million (USD 1.9 million) to rebuild the seismic proof Barabise Primary Health Care Center (PHCC). The project will be implemented by the U.S. Army Corps of Engineers (USACE). Under the project existing structures will be demolished, reconstructed, and fully equipped according to Ministry of Health standards. The Barabise PHCC has been identified as a high priority site for reconstruction based on the facility's large catchment area. The PHCC will provide a full range of health care services, such as maternal and child health, to an estimated 112,000 people, serving about 4,000 patients per month, once rebuilt.[104]

Nepal Energy Crisis Prevention and Electricity Development Decade: TheAsian Development Bank (ADB) along with other development partners has pledged an assistance of NPR 200 billion (USD 1.87 billion); to be mobilized over the five to seven years, to the Government of Nepal (GoN) for the implementation of the action plan for the National Energy Crisis Prevention and Electricity Development Decade. This initiative has been undertaken by ADB to harmonize donor's money in the energy sector for implementation of the action plan. The action plan incorporates all essential ingredients, including institutional actions, legal

Figure 13: Comparison of Foreign Cash Grants and Loans in the first nine months over the past seven fiscal years



Source: Current Macroeconomic and Financial Situation (Based on nine months' data) of past seven fiscal years), Nepal Rastra Bank

BUDGET 2016-17 HIGHLIGHTS: FOREIGN AID[106]

Following are the highlights for International Trade in Budget 2016-17

- Nepali exports to be promoted and branded as Himalayan unique product
- Special budget allocated for development of highly exported products.
- Integrated Check Post of Birgunj will come into operation and to make transit easier and cost effective
- Business information portal will be set up to avail information in relation to export.
- A comprehensive feasibility study on the dry port at Dodhara-Chandani to be conducted.

environment improvement as well as investment proposals. The project aims at developing 10,000 MW of hydroelectricity within the next 10 years.[105]

Increased cash loans in recent years: A review of cash loans and grants indicate an inconsistent pattern; particularly cash loans which has seen a fluctuating pattern over the last three years with a sharp drop in FY 2014-15 followed by a sharper incline in FY 2015-16 - with the amount of loans almost equaling the amount in grants; a first in the history of foreign aid.

OUTLOOK

Nepal's portfolio performance has been relatively weak when compared to its South Asian counterparts due to the lengthy procurement processes, weak management capacity and poor performance of consultants and contractors, leading to slow project implementation with low disbursements. This has resulted in multiple extensions in loans and grants which has subsequently impacted long term development of the country.

INDUSTRY INSIGHTS

REMITTANCE

MIGRATION AND REMITTANCE IN 2030

Bibhakar Shakya, Ph.D.
Senior Distinguished Fellow, Nepal Economic Forum

Migration and remittances have become critical socio-economic forces in Nepal over the last ten years. Remittance as percentage of GDP today has moved up significantly close to the total contribution by agricultural sector to the GDP—currently accounting for almost 30% of the national economy.

Recognizing this compelling contribution to the economy and addressing ongoing challenges related to labour and human rights violations, the Government of Nepal has initiated important laws, provisions, and mechanisms to promote and assist migrant workers. However, lacking necessary infrastructure and being understaffed, the government has not been able to execute and implement laws and mechanisms relating to the facilitation of migration for outbound workers and for their welfare. In coming years, Nepal will need to make a significant policy leap, including bilateral agreements with the job offering countries. Foreign Employment Services will have to be expanded, improved, made easily accessible, and decentralized to ensure country-wide access thereby making the working system efficient, effective, and transparent for all migrant workers.

The majority of Nepali migrant workers are unskilled and uneducated, thus unable to understand the job contracts, rules, and their own rights which make them vulnerable to exploitation by manpower companies at home and employers in host countries. The focus should therefore be on prioritizing investments in human capital. Educated and skilled workers also command three to fourfold higher salary than unskilled workers.

Prioritization of and investments on vocational schools and training centers with the goal of providing various technical skills to meet foreign job demands are imperative. By investing in skilled and knowledge-based economy, Nepal will be able to create much-needed jobs at home as well. By 2030, the majority of migrant workers should be skilled/educated, which will make them less vulnerable to exploitation, and help them earn significantly higher incomes. This will provide enormous social and economic benefits to the migrant workers, their families, and the overall economy.

Introduction

There has been a marked decline in the number of Nepalese going abroad for foreign employment and in the growth rate of remittance inflow, which is not a good indicator given the fact that economy is highly dependent on remittance for foreign exchange and to maintain positive balance of payments. Such decline can be largely attributed to lower outbound migrant workers and government policy of free visa, free tickets against which overseas employment companies in Nepal had halted their operations as protest. Post-earthquake, many potential migrants may have given up their foreign employment aspiration on expectation of higher job availability owing to reconstruction.

Continuous decline in growth rate: In the nine months of the FY 2015-16, workers' remittance grew by 13% amounting to NPR 481.19 billion (USD 4.50 billion) compared to 7.1% growth in the corresponding period of the previous year. However, between mid-December and mid-April, the growth rate of remittance flow has dropped from 26% to 12.7% as show in Figure 14.

This drop has been recorded on account of decline in the departure of migrant workers, especially to Middle East and Malaysia, and the rise in the number of returnees from abroad. As per the statistics of Department of Foreign Employment (DOFE) and as shown in Figure 15, the number of workers going abroad for employment has declined by 25.2% to 311,850 in the nine months of the current fiscal year as compared to the corresponding period of the previous year. Such plunge has been noticed after Government of Nepal announced "Free Visa, Free Ticket" scheme in June 2015, under which migrant workers cannot be charged for visa processing and air tickets to the host country. Meanwhile, in the same period the demand for Nepali workers jumped three-folds which implies that the drop in departure was not due to slump in job opportunities. Sector experts have also opined that many new workers might have given up plans to go abroad after the earthquakes, with expectations of higher job availability owing to reconstruction.[107]

Foreign Employment agencies on indefinite halt, government not to backtrack on its decision: Foreign employment agencies had declared a halt to their operation for an indefinite period from the last week of March protesting the maximum chargeable fee set by the government under the policy 'Free Visa, Free Ticket'. Foreign employment agencies have stood firmly against the government's move of setting the maximum fee chargeable to the migrant workers deeming it impractical.

Figure 14: Remittance growth in last five months of 2015-16

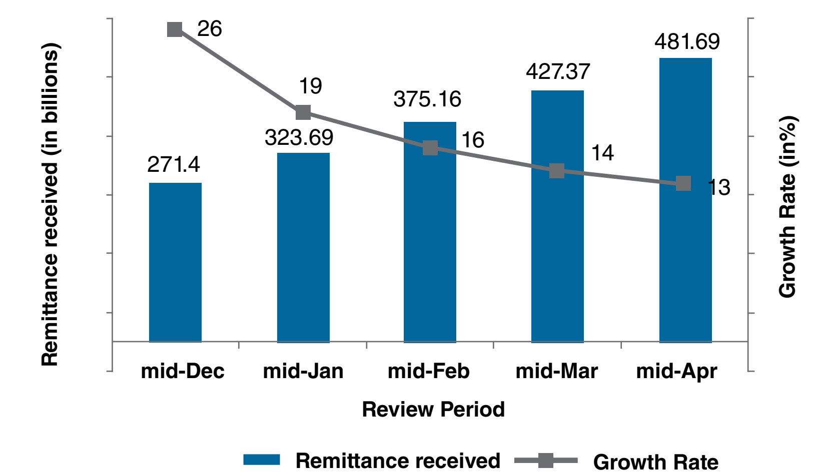
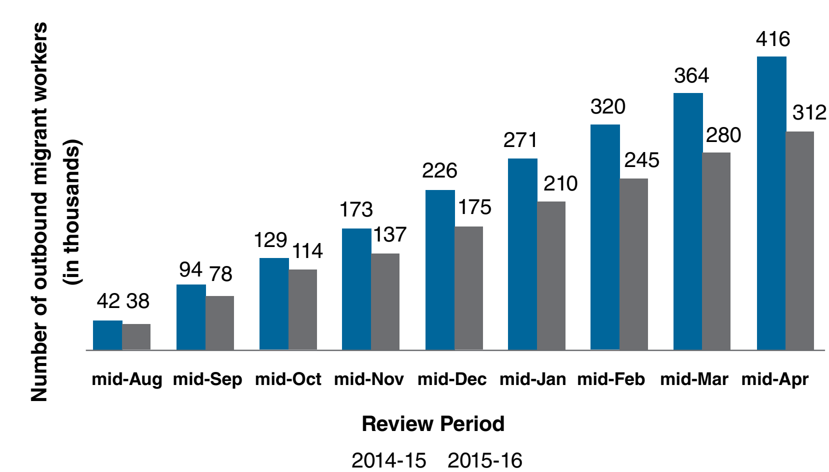


Figure 15: Comparison of the number of outbound migrant workers in the nine months of fiscal years 2014-15 and 2015-16



Under 'Free visa, Free Ticket Policy', potential migrants have to pay no more than NPR 20,000 (USD 186.68) as processing fees, and the employer bears the cost of tickets and visa. Such regulation is applicable to Malaysia, Qatar, Saudi Arabia, UAE, Kuwait, Bahrain and Oman. This move by the government has received severe pushback from recruitment agencies and Nepal Association of Foreign Employment Agencies (NAFEA). NAFEA is of the view that the government should follow international practice and should allow foreign employment agencies to charge at least one-month salary of migrant workers.[108] However, the government has clarified that it will not reverse its decision.[109]

Government plans to bring remittance through legal channels and utilize it productively: Though remittance accounts for almost one-thirds of the country's GDP, this has not been utilized productively for long term economic development of the county. This concern has also surfaced in the government's policies and programmes for FY 2016-17. Accordingly, the government has planned to implement programs like 'Hydroelectricity with Investment of People' by channelizing remittances to finance specified projects. The government also plans to initiate the process of issuing certificates by testing skills of workers who have returned from the foreign employment by engaging agencies such as the Council for Technical Education and Vocational Training (CTEVT).

Meanwhile, it is learnt that preparations to sign labour contract with Saudi Arabia is in the final stage and talks regarding bilateral labour agreements with Lebanon, Jordan, and Malaysia have been largely positive. These agreements are anticipated to make the foreign employment sector efficient and transparent. The government is in talks with the respective countries and with the banking sector to ensure the transfer of remittance through legal channels as currently only 40% of the remittance received is through legal mechanisms.[3]

BUDGET 2016-17 HIGHLIGHT: REMITTANCE

In order to encourage transfer of remittance through formal channels, the budget for FY 2016-17 has provisioned to provide 25% exemption on the registration charge associated with purchase of land and houses, if evidence of receipt of remittance through banking channel is presented. Furthermore, the government has expressed its commitment to channelizing such incomes into projects initiated by the government. The budget has also provisioned for initiating registration and arranging to test skills and capabilities and providing certificate to the workers who return from the foreign employment.

OUTLOOK

Going by the growth trend of remittance, the outlook seems to be moderate without significant expectation of growth in the near term which is likely to put pressure on the country's balance of payment and domestic liquidity. Healthy demand of migrant workers, government's conscious efforts to channelize the remittance into productive sectors, and efforts to bring in remittances through formal channels could play an important role in reversing the current declining momentum.

The ongoing lurch in the global oil prices may possibly prompt the host countries to adopt cost cutting measures that could hit remittance inflow. The government therefore has to develop and implement right strategies for effective utilization of remittance, and it is high time to start devising and implementing plans to check the economy's excessive dependence on remittances.

7

MARKET

REVIEW

FINANCIAL MARKET

FINANCIAL MARKETS IN 2030

Sashin Joshi
CEO, Nabil Bank

Forecasting the potential of any sector in Nepal is relatively challenging given the low policy predictability and continuing political fluidity. For the financial sector to take off it is essential to have an enabling environment in terms of a strong policy and legal framework governing the sector, as well as a sizeable and sustainable economic growth. If our Gross Domestic Product (GDP) grows at 6-7% a year which, I believe is within our grasp, the size of our GDP will grow to 2.5 times the current level to approximately USD 50 billion which will be a sizeable economy. For this to occur, certain reforms must be put in place especially in regard to the company act, bankruptcy and insolvency laws, property rights as well as laws regulating foreign direct investment (FDI), capital market, foreign exchange, public private partnership, secured transactions and labor. It is also essential to establish accountability in government and bureaucracy; and ensure rule of law as well as enforcement.

Since the current banking landscape is highly unsustainable due to the presence of a large number of small banking and financial institutions (BFIs), going forward one can expect significant consolidation in this sector to a smaller number of large banks (approximately 20) which will be in a stronger position in terms of financial strength and capability.

Likewise, one can expect more people to invest in financial assets, rather than the current trend of investing in physical assets such as gold and land. We can also expect to move from traditional brick and mortar branches to more digital and innovative e-banking models. While Nepal has been a bit behind in adapting to the potential of digitization, the banking sector in Nepal is at the forefront of this digitization relative to other industries.

By 2030, the banking sector will potentially be more professionally managed with adherence to better corporate governance than currently where certain business families tend to control banks. More diverse and institutional shareholding should be encouraged; moving away from the view that bank owners need to sit on the board. Subsequently provision for more professional and full time executive directors should be introduced which is a regular practice internationally. In terms of business growth, besides traditional banking services, there is also significant opportunity for involvement in investment banking and partnerships supporting private equity.

However, for all of the envisioned things to happen it is essential for the above mentioned changes in reforms be put in motion. This will lead to an improvement in the general business climate leading to increased interest from international banks in entering the Nepali market; which holds the potential of scaling up of resources, transfer of technology, introduction of new products & services and up skilling local talent. It could also lead to increased capability in terms of getting into infrastructure financing, cash flow based lending and greater access to finance.

Introduction

Despite the odds, commercial banks- the leading provider of banking services saw its profit surged by approximately 16% while its credit portfolio increased by 20% at the end of third quarter of the current fiscal year.

Deposit and credit mobilization: The first nine months' macroeconomic and financial situation report of FY 2015-16 published by the Nepal Rastra Bank (NRB) depicts that the deposit collection of Banks and Financial Institutions (BFIs) increased by 12.1%. The growth in the corresponding review period last fiscal was 9.6 %. The deposit mobilization of commercial banks increased by 11.8%, whereas development banks and finance companies showed an increment of 7.6% and 2.8% respectively. On year-over-year basis, deposits of BFIs expanded by 22.8% in mid-April 2016.

Credit to the private sector extended by BFIs increased by 14.4% compared to a growth of 14.6% during the same period last fiscal. Credit mobilization of commercial banks increased by 15.7%, whereas mobilization by development banks and finance companies increased by 9.6% and 6.9% respectively. On year-over-year basis, credit to the private sector by BFIs expanded by 19.7% in mid-April 2016. Of the total outstanding credit of BFIs, 61.3% is against the collateral of land and building and 13.1% against the collateral of current assets such as agricultural and non-agricultural products.

Liquidity management: The weighted average 91-day Treasury bill rate during the review period has increased to 1.1% from 0.69% a year ago. Similarly, weighted average interbank transaction rate of commercial banks has increased to 1.59% from 0.64% a year ago.

In order to control excess liquidity in the banking system, NRB mopped up liquidity of NPR 471.64 billion (USD 4.4 billion) on turnover basis through deposit collection auctions, NPR 297.50 billion (USD 2.77 billion) through reverse repo auction, NPR 165.04 billion (USD 1.54 billion) through outright sale auction, and NPR 9.10 billion (USD 84.94 million) on a cumulative basis.

NRB further injected net liquidity of NPR 349.66 billion (USD 3.26 billion) through the net purchase of USD 3.30 billion from foreign exchange market (commercial banks), while net liquidity of NPR 244.52 billion was injected through the net purchase of USD 2.54 billion in the corresponding period of the previous year. Likewise, NRB purchased Indian currency equivalent to NPR 268.39 billion through the sale of USD 2.48 billion and Euro 60 million in the review period.

Foreign exchange: The gross foreign exchange reserves stood at NPR 1 trillion (USD 9.40 billion) in the first nine months of the current fiscal year, an increase of 22.3% as compared

BUDGET 2016-17 HIGHLIGHTS: FINANCIAL MARKET

Banking

- Financial Sector Development Strategy will be implemented to improve financial sector reform programs.
- Nepal Rastra Bank Act Amendment Bill, Bank and Financial Institution related Bill, Deposit and Credit Guarantee Bill, Employees Provident Fund Act Amendment Bill and Banking Crime Act Amendment Bill, which are under consideration in the Legislature-Parliament, will be passed and implemented.
- Amendment Bills of Foreign Exchange Regulation Act and Citizen Investment Fund Act, related Bills will be submitted in the Legislature-Parliament.
- Infrastructure Development Bank will be established with public private partnership so as to increase the investment in infrastructure sector.
- To encourage transfer of remittances via formal channels, the government has provisioned to provide 25% exemption on the registration charge on purchase of land and houses, if the evidence of remittance received through the banking channel is presented.
- The concessional loan provided by Rural Self Reliance Fund, Poverty Alleviation Fund and Youth and Small Business Self Employment Fund will be continued. The implementation of concessional agriculture loan program focused on youth and small Business will be made mandatory to the bank and financial institutions.

Insurance

- Introduced a provision for phase wise implementation of "National Health Insurance Plan" with a view to provide medical services to deprived and poor people. This plan will be expanded across 25 districts in the coming fiscal year with NPR 2.5 billion (USD 23.33 million) allocated for this.
- Insurance companies will be encouraged to expand their access in the rural sector.
- A provision will be made to insure government property, cultural and archaeological heritages. Similarly, a provision will also be made to insure private houses.
- A compulsory provision has been made for the insurance companies to dedicate minimum 5 percent of their insurance services to micro insurance.
- Under the vehicle insurance, insurance of passengers travelling in public vehicles will be mandated.
- Insurance Act amendment bill will be submitted in the Legislature-Parliament.
- Reduce the risk of crop production and storage, production base agriculture insurance program to be introduced and expanded.

to NPR 824.06 billion (USD 7.69 billion) at the end of last fiscal year 2014-15.

Development on Banks And Financial Institutions Act (BAFIA): The parliamentary Finance Committee (PFC) has endorsed the draft Banks and Financial Institutions Act (BAFIA) and has forwarded the same to the parliament for final approval. The key highlights of the endorsed bill are as follows[110];

- The Chief Executive Officer of the BFIs will only be able to serve two terms of five years each however, similar provision is not in place for Chairperson or Board of Directors (BOD).
- Promoter of BFIs will not be able to hold any position in management.
- People involved in misappropriation and embezzlement of funds could face imprisonment for six to twelve years.
- BFIs will be able to allocate only 0.5% of shares to their employees during the Initial Public Offering (IPO), currently BFIs can allocate 5% of shares to their employees.
- BFIs which have completed seven years of operation would be allowed to convert all promoter shares into ordinary shares upon approval of the central bank if such changes do not disrupt the capital market, the banking sector and the entire financial sector.

Taskforce formed to study mfis interest rates: The government has formed a taskforce to study the interest rate structure of 'D'class Micro Finance institutions (MFIs) licensed by the central bank. The sector is often questioned on the higher interest rate it charges to its clients. The taskforce has been asked to recommend how to make micro-credit program easier and what reforms are needed in the existing system[111]. Apart from its members, MFIs do not collect deposits from the general public thus mobilizing credit which it collects from various BFIs in the form of loan. BFIs usually allocate funds to MFIs that they need to invest under the deprived sector lending program.

Weather Index-Based crop insurance schemes initiated by IB: The Insurance Board (IB) is in the process to allow weather index-based crop insurance policies to provide protection to cultivators to cover the losses inflicted by adverse weather conditions, such as deficit or excess rainfall. The IB has planned to allow insurers to sell the policies upon collecting 7% of the sum insured as premium per year and additional 1% premium if policyholders want protection against hailstorm as well.

The IB had previously allowed insures to sell crop insurance product to all types of farmers, including commercial but this scheme only covers input cost like compensation for purchasing seedlings, fertilizers and other inputs, including labor. However, this Weather index-based crop insurance schemes will extend compensation based on projected yield of crops i.e. if crops die early, policyholder will be paid based on income that they would generate upon selling the final product.[112]

3RD quarter performance analysis: Due to excess liquidity, commercial banks were able to increase its deposit base by 23.3% while despite supply disruptions and the slowdown of economic activities. Loans and Advances increased by 19.6 % as compared to same quarter of the previous fiscal year. Likewise, the operating profit margin of commercial banks grew by 38.5% whereas the net profit margin grew by 16% as compared to the same period last fiscal. The average Non Performing Loan (NPL) of banks have slightly gone down to 1.98% from 2.26% during the same period last fiscal.

Moreover, the overall cost of fund of commercial banks decreased to 3.6% from 4.3% during the period. Likewise, the average base rate of commercial banks stood at 6.4% during the year, the highest being 11.5% of Agriculture Development Bank and the lowest being 4% of Standard Chartered Bank.

TABLE 4: 3RD QUARTER RESULTS OF COMMERCIAL BANKS-UNAUDITED FY 2015-16 (FIGURES IN NPR IN TEN MILLION)

			DEPOSIT			LOANS AND ADVANCES			OPERATING PROFIT			NET PROFIT			NPL (%)		COST OF FUND (LCY)			BASE RATE (%)
Bank	Paid-up Capital	Reserve & Surplus	FY 15/16	FY 14/15	% Change	FY 15/16	FY 14/15	% Change	FY 15/16	FY 14/15	% Change	FY 15/16	FY 14/15	% Change	FY 15/16	FY 14/15	FY 15/16	FY 14/15	% Change	FY 15/16
			3 QTR	3 QTR		3 QTR	3 QTR		3 QTR	3 QTR		3 QTR	3 QTR		3 QTR	3 QTR	3 QTR	3 QTR		3 QTR
Nabil Bank	475.6	678.3	11,331.6	9,129.2	24.1	7,073.8	6,630.6	6.7	303.2	250.0	21.3	205.2	161.9	26.7	1.49	2.05	2.2	3.2	(1.0)	4.0
Nepal Investment Bank	725.3	983.7	11,263.7	8,116.8	38.8	8,437.4	6,614.9	27.6	243.5	183.4	32.7	183.2	152.8	19.9	0.78	1.28	2.7	3.7	(1.0)	4.8
Standard Chartered Bank	224.8	460.7	5,812.4	5,139.8	13.1	2,969.6	3,079.8	(3.6)	131.9	132.8	(0.7)	90.7	95.8	(5.3)	0.29	0.18	1.5	1.9	(0.4)	4.6
Himalayan Bank	449.9	377.9	8,087.8	6,830.7	18.4	6,528.8	5,550.1	17.6	205.6	138.6	48.3	131.9	90.2	46.3	2.98	2.02	2.3	3.4	(1.1)	5.5
Nepal SBI Bank	388.4	305.8	6,341.7	5,477.4	15.8	4,620.5	3,975.0	16.2	143.2	122.8	16.7	95.0	82.8	14.8	0.14	0.18	2.6	3.2	(0.6)	5.6
Nepal Bangladesh Bank	303.9	255.3	3,582.0	2,957.8	21.1	3,138.8	2,533.0	23.9	76.6	63.1	21.5	70.0	51.3	36.5	1.63	1.93	4.3	4.5	(0.2)	7.1
Everest Bank	274.3	535.7	7,918.8	7,105.7	11.4	5,918.3	5,649.5	4.8	188.1	184.4	2.0	120.9	119.4	1.3	0.63	0.63	2.0	3.3	(1.3)	4.7
Bank of Kathmandu	267.1	167.7	4,072.0	3,786.1	7.6	3,485.5	3,290.1	5.9	74.3	74.5	(0.3)	48.4	48.0	0.6	3.76	1.08	4.0	4.0	-	6.3
NCC Bank	235.3	98.1	2,741.7	2,404.4	14.0	2,319.6	2,004.8	15.7	35.5	36.8	(3.5)	37.4	32.2	15.9	1.63	2.40	4.3	4.8	(0.6)	7.4
NIC Asia Bank	369.5	256.3	6,414.6	4,923.5	30.3	5,249.8	4,176.4	25.7	92.7	76.2	21.6	76.0	57.5	32.1	1.11	2.14	4.6	5.0	(0.5)	6.3
Lumbini Bank	200.1	116.9	2,294.3	1,865.0	23.0	2,035.7	1,675.6	21.5	32.7	30.5	7.2	27.8	24.7	12.6	0.92	1.02	4.2	5.1	(0.8)	6.5
Machhapuchchhre Bank	333.2	213.4	4,843.9	4,152.9	16.6	4,081.7	3,509.9	16.3	86.7	54.6	58.9	62.4	44.0	41.8	0.55	1.76	3.9	4.7	(0.8)	5.9
Kumari Bank	269.9	100.3	3,482.2	3,122.4	11.5	2,869.6	2,669.9	7.5	43.8	31.6	38.7	35.5	25.1	41.2	2.03	3.98	4.5	4.9	(0.4)	6.8
Laxmi Bank	303.9	177.1	4,371.1	3,646.8	19.9	3,668.0	2,997.7	22.4	61.6	33.9	81.8	44.0	24.0	83.4	1.28	1.33	3.9	4.5	(0.5)	6.7
Siddhartha Bank	243.7	209.4	5,335.4	4,185.6	27.5	4,466.5	3,497.4	27.7	95.5	81.1	17.7	78.6	54.6	44.0	1.16	2.30	3.9	4.7	(0.7)	6.8
Global IME Bank	616.4	219.2	6,740.6	5,773.7	16.7	5,734.2	4,994.0	14.8	135.4	103.2	31.2	103.2	81.0	27.5	1.93	2.55	2.9	4.2	(1.2)	6.0
Citizens Bank International	306.5	139.9	4,437.4	3,480.0	27.5	3,784.3	2,874.1	31.7	75.9	56.7	33.7	72.5	45.8	58.3	1.78	1.79	4.0	4.7	(0.8)	6.4
Prime Commercial Bank	370.5	133.7	4,627.9	3,816.0	21.3	3,707.1	3,113.8	19.1	86.5	70.1	23.4	71.0	55.3	28.2	1.59	2.85	4.2	4.6	(0.4)	6.9
Sunrise Bank	333.6	101.9	4,128.3	2,984.3	38.3	3,377.4	2,446.4	38.1	64.7	30.9	109.5	58.8	33.7	74.5	2.28	3.77	4.7	4.7	(0.0)	6.9
NMB Bank*	415.5	237.2	5,745.4	3,343.6	71.8	4,845.5	2,658.7	82.2	86.7	58.5	48.4	77.1	40.1	92.5	1.70	0.47	4.1	4.3	(0.2)	6.5
Prabhu Bank	524.0	(17.8)	5,454.2	3,657.1	49.1	4,435.7	2,867.8	54.7	52.6	(8.4)	(730.3)	75.8	69.4	9.1	10.04	10.78	3.6	4.2	(0.6)	6.0
Janata Bank Nepal	206.0	52.4	2,290.0	2,154.7	6.3	1,961.3	1,884.6	4.1	30.2	8.3	264.3	22.7	13.5	68.4	1.23	1.09	4.6	5.2	(0.5)	7.0
Mega Bank	287.1	52.7	2,606.5	2,124.0	22.7	2,190.6	1,800.8	21.6	46.0	42.7	7.6	32.3	26.7	20.9	1.25	1.64	3.8	4.1	(0.3)	6.7
Civil Bank	308.3	39.8	2,822.1	2,595.3	8.7	2,408.7	2,228.6	8.1	21.1	16.7	26.9	20.0	19.1	5.0	2.17	2.33	5.5	5.8	(0.4)	7.7
Century Commercial Bank	284.1	38.2	2,600.6	2,342.6	11.0	2,282.7	2,007.4	13.7	34.5	20.9	64.9	23.2	16.3	42.6	0.90	0.53	3.8	5.5	(1.6)	6.9
Sanima Bank	306.0	104.1	4,344.2	3,225.9	34.7	3,647.0	2,755.6	32.3	102.8	65.9	56.0	67.0	42.3	58.4	0.12	0.10	3.9	5.0	(1.1)	5.6
Sanima Bank	306.03	77.84	3,909.63	3,014.74	29.68	3,329.07	2,589.35	28.57	62.71	43.24	45.02	40.80	27.82	46.68	0.05	0.04	4.18	4.93	(0.75)	6.19
Public Sector Banks	-	-	-	-		-	-		-	-							-	-	-	-
Nepal Bank	646.5	(94.9)	8,263.1	6,869.7	20.3	5,982.0	4,958.4	20.6	122.2	(3.1)	(4,002.9)	164.3	36.0	356.3	3.67	4.48	2.1	3.3	(1.2)	6.3
Rastriya Banijya Bank	858.9	(29.4)	13,007.7	10,399.4	25.1	7,929.0	6,977.8	13.6	146.1	81.1	80.1	162.0	406.1	(60.1)	3.52	3.53	1.9	2.3	(0.4)	5.4
Agriculture Dev. Bank	1,037.4	986.1	8,351.4	6,880.6	21.4	7,427.6	6,421.9	15.7	68.5	47.6	44.0	121.3	101.1	20.0	4.89	5.41	4.7	5.1	(0.5)	11.5
Total	**11,565.7**	**6,899.9**	**163,312.3**	**132,491.1**	**23.3**	**126,576.7**	**105,844.3**	**19.6**	**2,887.9**	**2,085.2**	**38.5**	**2,378.0**	**2,050.6**	**16.0**	**1.98**	**2.26**	**3.6**	**4.3**	**(0.7)**	**6.4**

OUTLOOK

The BFIs including insurance companies have published a sound third quarterly results amidst the dwindling economic performance. The special directive of the central bank had allowed BFIs to continue deferred loans as pass loans until mid-April 2016 and exemption from penalty from such loans along with rescheduling and restructuring of loan up to one year for one time. The actual performance of BFIs might be weaker than currently published as the current provision has kept hold of the problem. Similarly, aggressive lending by the BFIs in the recent months could also be other reason for the surge in the profitability of BFIs[113].

All the major indicators such as BOP position, foreign exchange reserves, inter banking exchange rates and liquidity measures clearly indicate that there is abundant of liquidity in the banking system. Moreover, due to the tendency of the government to accelerate spending during the last quarter of the fiscal year, banks are hoarded with additional deposits. Moreover, BFIs tend to lend less during the last quarter and first quarter of the following fiscal year, such structural problem may further ignite the situation[114]. The above facts indicate that the liquidity seen in the banking system is likely to continue until the end of the first quarter of the upcoming fiscal year 2016-17.

To ensure excess liquidity in the banking channel is not diverted towards unproductive sector such as real estate, stock market amongst others coupled with risk of capital flight, NRB should expedite its efforts to drain excess liquidity in a timely manner by extensively utilizing available open market operation instruments along with introducing new instruments to mop up liquidity. On the flip side, as the number of outbound migrant workers have significantly declined this fiscal year along with rising imports, one cannot deny that banking system might witness liquidity crunch in near future if the rate of inward remittances continue to go down.

As the fiscal policy intends to endorse key acts related to the financial sector pending at the legislature parliament during the upcoming fiscal year, timely approval of such bills is essential to create enabling environment to expedite economic growth. Moreover, as the monetary policy is due soon, the central bank is likely to present mixed monetary policy with the aim to support the fiscal policy plans.

INDUSTRY INSIGHTS

CAPITAL MARKET

TRANSFORMATION OF THE VENTURE CAPITAL AND **Private Equity Sector by 2030**

Dolma Impact Fund

Global Private Equity fund managers are estimated to have USD 1.2 trillion available to invest. With Nepal's need for capital investment in infrastructure and corporate growth, attracting Private Equity (PE) will be a critical factor if Nepal is to reach its developing target by 2030.

The growth of Nepal's private equity sector offers a significant upside: as a means of fostering economic development and poverty reduction, private equity presents a scenario in which - unlike in the aid sector – both financial and social/environmental returns are simultaneously realized. Additionally, it promotes private sector development, particularly among small and medium enterprises, which ultimately means more sustained growth and development in Nepal and decreased dependence on imported products and services. Importantly, PE funds that bring in responsible capital help to enhance good corporate governance and environmental health and safety measures in private sector organizations.

Looking to 2030, we expect the PE/VC sector to become more regulated, as indicated by Finance Minister BishnuPoudel's reference to forthcoming private equity legislation in his recent budget speech; this follows from favorable policy changes, such as automatic route of FDI approval and liberalization of stock market restrictions for institutional investors. As the private equity sector matures, we expect the national insurance and pension funds to start their own private equity investment funds and also to see increased specialization as more sector-focused funds emerge.

Overall, we expect the sector to grow organically as commercial investors, looking to the investment track record set by development financial institutions and other early investors, are attracted to Nepal's less risky, but still relatively high-return, investment climate. In the future, we could expect over 50% of Foreign Direct Investment (FDI) to enter the country in the form of private equity, hopefully substantially reducing Nepal's need for foreign aid.

Secondary market performance: While the economy is forecasted to grow by a mere 0.77% during the fiscal year, the sole secondary market (NEPSE Index) has already gone up by a staggering 61% since the beginning of the fiscal year indicating unprecedentedgrowth.

Nepse crosses 1,500 mark: The Nepal Stock Exchange (NEPSE) benchmark index (+16.65%) went up by whopping 218.6 points during the review period (15 March-7 June 2016) to settle at a new high of 1531.5 points. At the end of first nine months of the current fiscal year, the total market capitalization has increased by whopping 53.8% to NPR 14.96 trillion (USD 140 billion) as compared to the same period in the previous FY 2014-15.

As shown in Table 5, during the review period, all sub-indices except for the others sub-index (-5.0%) ended in the green zone. The Insurance sub-index (+29.25%) was the highest gainer during the review period as the share prices of non-life insurance companies surged in anticipation of a favourable policy provision. Similarly, all the sub-sectors representing the banking sector; commercial banking (+19.65%), development banking; which also includes micro-finance institutions (10.79%) and finance (8.90%) sub-sectors continue to gain value during the period. Likewise, Hotels (+13.83%) sub sector posted an impressive growth as investors were optimistic about the performance of key hotels. Meanwhile, the Hydropower sub-index (+5.31%) also continued with its upward steam.

KEY DEVELOPMENTS

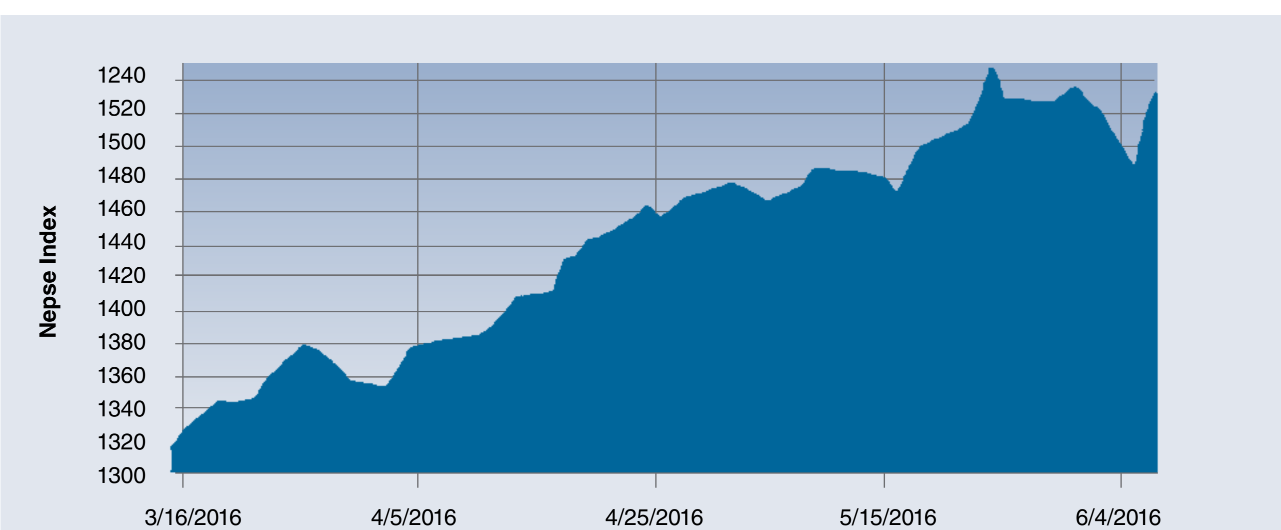
Some of the key developments in the capital market during the review period are highlighted below:

Credit Ratings Requirement eased: Upon request of the central bank, Securities Board of Nepal (SEBON) is temporarily allowing BFIs to float right shares without credit ratings. In order to meet the capital increment

Table 5: Sector-wise performance of the sub-indices

Indicators	15-MAR-16	7-JUN-16	% change
Nepse Index	**1,312.9**	**1,531.5**	**16.65%**
Commercial Bank Index	1,183.9	1,426.6	19.65%
Development Bank Index	1,360.8	1,507.6	10.79%
Finance Index	667.5	726.8	8.90%
Insurance Index	5,935.7	7,671.7	29.25%
Hydropower Index	2,316.4	2,439.4	5.31%
Manufacturing & Processing Index	1,998.8	2,313.9	15.77%
Hotel Index	1,740.3	1,980.9	13.83%
Other Index	822.4	781.3	-5.00%

Figure 16: NEPSE Index performance



Source: NEPSE

as stipulated by central bank, BFIs are working towards the announcement of right share issues. BFIs need to increase their paid up capital by the end of FY 2016-17.

Some of the conditions to issue rights shares without credit ratings are as follows[115];

- BFIs in operation for the past 5 years and in profit for the past 3 consecutive years.
- Right shares should be issued in face value.
- Net worth per share should be higher than NPR 100.
- The market value of shares should be higher than the face value.
- Non-Performing Loan (NPL) of the Institution should be under the limit set by the central bank.

BUDGET 2016-17 HIGHLIGHTS: CAPITAL MARKET

- To encourage listings in the stock market, 15% tax rebate will be provided on the income of production based companies for industries and businesses who have been established under a public company.
- A project specific debenture issuance provision will be implemented through utilizing the financial resources available in Employees Provident Fund, Citizen Investment Fund, Deposit and Credit Guarantee Fund and the Insurance sector.
- Commodity Market Bill will be submitted in the legislature parliament.
- Policies and legal arrangement related to operation and use of Private Equity will be formulated.

Primary Market:

During the review period, the primary market witnessed the issuance of three Initial Public Offerings (IPO's). All the offerings received overwhelming response from the market as these offerings were oversubscribed by multiple folds.

- Khanikhola Hydropower had issued 931, 429 unit shares at face value of NPR 100 per unit. The offering received applications from over 135,000 investors and was oversubscribed by over 73 times. ICRA Nepal (credit rating Company) had assigned 'Grade 4+' rating to the primary offering indicating below average fundamentals
- Ngadi Group Power IPO worth NPR 146.06 million (USD 1.3 million) was oversubscribed by over 200 times. ICRA Nepal had assigned 'Grade 4+' rating to the primary offering indicating below average fundamentals.
- Green Development Bank IPO worth NPR 45 million (USD 420 thousand) was oversubscribed by over 93 times. The development bank has also been assigned "IPO Grade 4+" indicating below average fundamentals by ICRA Nepal.

OUTLOOK

Even though the NEPSE index has been breaking new records every day, the current situation of the market is highly fragile as the NEPSE index is going against the economic indicators. The opposite behavior of NEPSE and Nepal's economic indicators indicates that our stock market is highly unrepresentative of the structure of the economy and is also immature. The government's move to encourage production based companies to be listed in the secondary market is a welcome step as the real sector is weakly represented in the stock market. Currently almost 84% of the listed companies belong to the financial sector (compelled to be listed by regulation) which only account for 5% of GDP.

One of the key reasons behind the current surge has been the availability of easy financing (margin lending) at lower rates to purchase shares. As per NRB, BFIs have extended margin lending worth NPR 34.77 billion (USD 324 million) as on Mid-April 2016, which is 2.2% of their total loan exposure. Even though the size of margin lending is not significant, it cannot be denied that BFIs with higher exposure are in high risk in the event of a market downtrend.

Despite SEBON's statement urging investors to invest cautiously, investors remain eager to park their funds in the market to reap immediate benefits; undertaking enormous risks rather than worrying about the high Price Earning (PE) ratios of the listed securities. Investor behavior depicts the fact that investors' confidence is high amidst limited avenues for investment. Moreover, as the monetary policy for the new fiscal year unfolds soon, the future path of the index could depend on its provisions, as the market has a tendency to fluctuate on rumors and speculations regarding pending changes in government policies.

NEPAL ECONOMIC FORUM

NEF FELLOWSHIP - EXPERIENCES

Akshov Shakya

I joined NEF fairly fresh out of the academic lot. Having finished my undergraduate studies, the NEF fellowship program was my first real exposure to work-life, and even then right off the bat you could tell that NEF's approach to work ethics differed from the norm. With an open strata-less ecosystem I found NEF accommodative of fellows taking the lead and essentially garnering responsibility. Apart from the actual work that you engage in, you tend to pick up certain elements from the social environment and I think that's where the organization really sets a mark on you. For me, if I were to condense my experiences to one overarching element, the environment has fostered my articulative abilities, not just words but also interactions and expressions; and not just with others but also with myself.

Kashu Dhakhwa

The NEF Fellowship at Nepal Economic Forum gave me a positive transformation with exposure across various sectors of the Nepali economy through research. One year at NEF not only let me polish my research skills but also gave me freedom to choose the kind of work I was interested in within the framework of the organization. Lastly, to be able to experience a work culture that was naturally adaptable and had a strong professional value was a big positive for me.

Tejeshwi Bhattarai

Despite the growing consensus that a lot of challenges facing the country can be addressed by economic prosperity, economic priorities have often been obscured by clouds of political uncertainties with economic development limited to manifestos alone. Under such circumstances, it is vital that think-tanks and policy research institutes take the lead in constantly bringing economic priorities to the fore and highlighting the need for better policies and reforms through intensive research and analysis, and Nepal Economic Forum (NEF) has been a pioneer in this regard. Being able to contribute to enriching the discourse on Nepal's economic development during my fellowship at NEF has been a sheer privilege. The NEF fellowship program provides a perfect platform for young people seeking avenues to explore and enrich the realm of economic policymaking in Nepal and aspiring to launch a career in public policy.

ENDNOTES

1. "Update: SanghiyaGathabandhan picket outside PM's residence, clash with police (photo and video), The Kathmandu Post, March 17, 2016, http://kathmandupost.ekantipur.com/news/2016-05-17/sanghiya-gathbandhan-pickets-pms-residence.html

2. Roshan Sedhai, "Risk of implosion as discord surfaces in Madhesi-Morcha", The Kathmandu Post, May 22, 2016, http://kathmandupost.ekantipur.com/news/2016-05-22/risk-of-implosion-as-discord-surfaces-in-madhesi-morcha.html

3. Kamal Dev Bhattarai, "What forced UPCN (Maoist) to backtrack on its earlier decision?", The Kathmandu Post, May 6, 2016, http://kathmandupost.ekantipur.com/news/2016-05-06/what-forced-ucpn-maoist-to-backtrack-on-its-earlier-decision.html

4. "Prez India visit cancelled for 'lack of preparations', The Kathmandu Post, May 8, 2016, http://kathmandupost.ekantipur.com/news/2016-05-08/prez-india-visit-cancelled-for-lack-of-preparations.html

5. "Govt recalls Nepal's Ambassador to India Upadhyay", The Kathmandu Post, May 6, 2016, http://kathmandupost.ekantipur.com/news/2016-05-06/govt-recalls-nepals-ambassador-to-india-upadhyay.html

6. Roshan Sedhai, "Maoist Centre forms 1,099-member CC", The Kathmandu Post, June 3, 2016, http://kathmandupost.ekantipur.com/printedition/news/2016-06-03/maoist-centre-forms-1099-member-cc.html

7. Tika R Pradhan, "Several Maoist parties unite to form CPN Maoist Centre", May 20, 2016, https://thehimalayantimes.com/nepal/several-maoist-parties-unite-form-cpn-maoist-centre/

8. Angela Monaghan and Terry Macalister, "Oil price rises above $50 a barrel", The Guardian, May 26, 2016, https://www.theguardian.com/business/2016/may/26/oil-price-rises-above-50-dollars-barrel

9. "Oil meeting aiming to cap output ends without agreement", BBC, April 18, 2016, http://www.bbc.com/news/business-36066256

10. Aditya Gandhi, "Relax! Crude oil prices unlikely to go through the $60 roof anytime soon", The Economic Times, June 3, 2016, http://economictimes.indiatimes.com/articleshow/52549419.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

11. "OECD warns of Brexit 'negative shock'", BBC, June 1, 2016, http://www.bbc.com/news/business-36423859

12. Brian Wheeler and Alex Hunt, "The UK's EU referendum: All you need to know", BBC, June 2, 2016, http://www.bbc.com/news/uk-politics-32810887

13. RayhanChouglay, "The Chabahar port deal: India boosts ties with Iran as regional tensions rise", Global Risk Insights, June 6, 2016, http://globalriskinsights.com/2016/06/india-ties-iran-regional-tensions/

14. "India and Iran sign 'historic' Chabahar port deal", BBC, May 23, 2016, http://www.bbc.com/news/world-asia-india-36356163

15. Saheli Roy Choudhary, "Why India's spending $500M to develop a port in Iran", CNBC, May 23, 2016, http://www.cnbc.com/2016/05/23/modi-news-india-to-invest-500-million-in-the-port-of-chabahar-as-part-of-trilateral-cooperation-with-iran-afghanistan.html

16. ShailajaNeelakantan, "Beijing at it again, now says India-Iran Chabahar deal will help China", Times of India, May 29, 2016, http://timesofindia.indiatimes.com/india/Beijing-at-it-again-now-says-India-Iran-Chabahar-deal-will-help-China/articleshow/52489765.cms

17. "Main Agenda for the G7 Ise-Shima Summit", Government of Japan, http://www.japan.go.jp/g7/summit/agenda/index.html

18. TetsushiKajimoto, "G7 vows growth efforts as Japan's Abe warns of global crisis", Reuters, May 27, 2016, http://www.reuters.com/article/us-g7-summit-idUSKCN0YI03R

19. Thomas Walkom, "In spite of Justin Trudeau, G7 Japan summit gets failing economic grade: Walkom", The Star, June 1, 2016, https://www.thestar.com/opinion/commentary/2016/06/01/in-spite-of-justin-trudeau-g7-japan-summit-gets-failing-economic-grade-walkom.html

20. " Traders scramble to deliver food in drought-hot Karnali", March 27, 2016, The Kathmandu Post, http://kathmandupost.ekantipur.com/news/2016-03-27/traders-scramble-to-deliver-food-to-drought-hit-karnali.html

21. "NFC seeks additional money to supply food to drought-hit districts, March 26, 2016. The Kathmandu post, http://kathmandupost.ekantipur.com/news/2016-05-26/nfc-seeks-additional-money-to-supply-food-to-drought-hit-districts.html

22. "Prolonged drought takes toll on crops", may 8,2016, The Himalayan times, https://thehimalayantimes.com/nepal/prolonged-drought-takes-toll-crops/

23. Increment in per capita spending on agro", May 27th 2016, The Himalayan Times, https://thehimalayantimes.com/business/per-capita-spending-on-agro-on-rise/

24. "Four ADS flagship programs to be implemented by the MOAD", May 20th 2016, The Himalayan Times, https://thehimalayantimes.com/business/moad-launch-four-flagship-programmes/

25. "Spring paddy acreage to be expanded by 200k hectares", May 12th 2016, The Kathmandu Post, http://kathmandupost.ekantipur.com/news/2016-05-12/spring-paddy-acreage-to-be-expanded-by-200k-hectares.html

26. "Apple Crop Insurance launched in Jumla", 6th May, 2016, The Kathmandu Post, http://kathmandupost.ekantipur.com/printedition/news/2016-05-06/apple-crop-insurance-launched-in-jumla.html

27. "Arghakhanchi produces oranges worth 130m", May 24th 2016, The Kathmandu Post, http://kathmandupost.ekantipur.com/news/2016-03-24/arghakhanchi-produces-oranges-worth-rs130m.html

28. "Nepal India plan energy bank", The Tribune, May 29, 2016, accessed, 6th June, 2016,http://www.tribuneindia.com/news/nation/nepal-india-plan-energy-bank/243682.html

29. "A Year in Review 2014/15", Nepal Electricity Authority, http://www.nea.org.np/images/supportive_docs/year-review-2014-15.pdf

30. Kama Devi Bhattarai, "Nepal formally proposes setting up energy bank", The Kathmandu Post, accessed 5th June 2016, http://kathmandupost.ekantipur.com/printedition/news/2016-05-28/nepal-formally-proposes-setting-up-energy-bank.html

31. "Nepal requires $20bn to develop 10,000MW in next 10 years", The Himalayan Times, June 1st 2016, accessed June 5th 2016, https://thehimalayantimes.com/business/nepal-requires-20bn-develop-10000-mw-next-10-years/

32. "Nepal Power Investment Summit 2016", Energy Development Council, http://edcnepal.org/nepal-power-investment-summit-2016-2/

33. Om Astha Rai, "Power summit", Nepali Times, May 31st, 2016, http://www.nepalitimes.com/blogs/thebrief/2016/05/31/power-summit/

34. BibekSubedi, "Energy Ministry working to form 3 new power cos", The Kathmandu Post, 31st May 2016, accessed on 5th June 2016,http://kathmandupost.ekantipur.com/news/2016-05-31/energy-ministry-working-to-form-3-new-power-cos.html

35. Saroj Dhakal, "Reform Nepal Electricity Authority", The Kathmandu Post, May 12, 2013, http://www.nepalenergyforum.com/reform-nepal-electricity-authority/

36. "Monthly progress report", Budhigandaki Hydroelectric Project Development Committee, May 13, 2016, http://www.bghep.gov.np/pdf/Progress-Report-2073-Baisakh.pdf

37. BibekSubedi, "Study to be done for re-regulating dam", The Kathmandu Post, May 24th 2016, accessed June 5th 2016, http://kathmandupost.ekantipur.com/news/2016-05-24/study-to-be-done-for-re-regulating-dam.html

38. Raju Shrestha, BidurGautam and Dharam Raj Sharma, "Energy and Synergy", The Kathmandu Post, June 5, 2016, http://kathmandupost.ekantipur.com/news/2016-06-05/energy-and-synergy.html

39. "Power crisis, by government lights, to end" The Kathmandu Post, February 19,2016, accessed June 6, 2016, http://kathmandupost.ekantipur.com/printedition/news/2016-02-19/power-crisis-by-govt-lights-to-end.html

40. "A Year in Review 2014/15", Nepal Electricity Authority, http://www.nea.org.np/images/supportive_docs/year-review-2014-15.pdf

41. AvishekMalla, "Kick starting solar power in Nepal", Nepali Times, June 2, 2016, accessed June 6, 2016, http://nepalitimes.com/article/nation/kickstarting-solar-power-in-nepal,3053

42. Budget Speech for the fiscal year 2016/17"Government of Nepal, June 1st 2016, accessed on 6th June 2016,

    http://mof.gov.np/uploads/document/file/Budget_Speech_2016_20160601114100_20160602035439_20160602052342.pdf

43. "Power crisis, by government lights, to end" The Kathmandu Post, February 19th 2016, accessed 6th June 2016, http://kathmandupost.ekantipur.com/printedition/news/2016-02-19/power-crisis-by-govt-lights-to-end.html

44. Budget Speech for the fiscal year 2016/17" Government of Nepal, June 1, 2016, accessed

    6th June 2016, http://mof.gov.np/uploads/document/file/Budget_Speech_2016_20160601114100_20160602035439_20160602052342.pdf

45. "Hydro projects still await incentives announced in past budgets", Republica, May 25th 2016, accessed 6th June 2016, http://myrepublica.com/economy/story/42984/hydro-projects-still-await-incentives-announced-in-past-budgets.html

46. "Oli lays foundation stone of Pokhara international airport", The Himalayan Times, April 14,2016, https://thehimalayantimes.com/nepal/oli-lays-foundation-stone-pokhara-international-airport/

47. "Govt all set to phase out cable contraptions" The Himalayan Times, May 26,2016, http://thehimalayantimes.com/kathmandu/govt-set-phase-cable-contraptions/

48. Austin Lord, et.al Disaster, Disability, & Difference , UNDP,May2016 retrived from http://reliefweb.int/report/nepal/disaster-disability-and-difference-study-challenges-faced-persons-disabilities-pwds

49. "Nepal needs disability-friendly building code, suggests study", The Himalayan Times,May25,2016 http://thehimalayantimes.com/nepal/nepal-needs-disability-friendly-building-code-suggests-study/

50. "Hulaki Highway construction hit by budget crunch", Republica, May 18,2016, http://myrepublica.com/society/story/42619/hulaki-highway-construction-hit-by-budget-crunch.html

51. "Melamchi project to be completed in 16 months",The Himalayan Times,May 16,2016, http://thehimalayantimes.com/kathmandu/melamchi-project-completed-16-months/

52. "Govt unveils ambitious plan to build roads, railways", Republica, April 17,2016, http://myrepublica.com/society/story/40686/govt-unveils-ambitious-plan-to-build-roads-railways.html

53. Budget Speech of Fiscal Year 2016/17" http://www.mof.gov.np/uploads/document/file/Budget_Speech_final_2016_20160602105902.pdf

54. Govt makes phones' IMEI registration mandatory from Wednesday, April 11, 2016, Republica, http://myrepublica.com/economy/story/40362/govt-makes-imei-registration-mandatory.html#sthash.bkAIqKDk.dpuf,

55. NTA's IMEI registration plan set to face delays, May 8, 2016, The Kathmandu Post, http://kathmandupost.ekantipur.com/printedition/news/2016-05-08/ntas-imei-registration-plan-set-to-face-delays.html

56. More than 500,000 phones registered in one and half months, May 23, 2016, Republica, http://myrepublica.com/economy/story/42892/more-than-500-000-phones-registered-in-one-and-half-months.html

57. TeliaSonera sells Ncell stake for Rs 109 bn, April 12, 2016, The Himalayan Times, https://thehimalayantimes.com/business/teliasonera-sells-ncell-stake-rs-109-bn/

58. Ncell contributes NPR 129 billion to government treasury, May 11, 2016, Ncell, https://www.ncell.com.np/NewsDetails?wmnl11gvvjSZ4z5fd-4w3O/d3LbWoMEkkT45tLIkOxxc=

59. All landline numbers to be 10 digit, April 11, 2016, Setopati, http://m.setopati.net/news/13142/

60. Nepal Telecom lays fiber to Nepal-China border, May 16, 2016, Telecom Asia http://www.telecomasia.net/content/nepal-telecom-lays-fiber-nepal-china-border

61. Smart Telecom expanding their mobile network, May 28, 2016, Nepali Telicom, http://www.nepalitelecom.com/2016/05/smart-telecom-expanding-their-mobile.html

62. NT upgrading mobile network in Western region, March 31, 2016, Nepali Telecom, http://www.nepalitelecom.com/2016/03/nt-upgrading-mobile-network-in-western.html

63. "Change to Tourist and Student Visa Processing", Embassy of United States

64. Private sector leads school education, March 18, 2016, Kantipur, http://kathmandupost.ekantipur.com/news/2016-03-18/private-sector-leads-school-education.html

65. School monitoring continues, May 10, 2016, the Himalayan Times, http://thehimalayantimes.com/kathmandu/school-monitoring-continues/

66. Profit determinant of pvt school fees, March 26, 2016, Kathmandu Post, http://kathmandupost.ekantipur.com/news/2016-03-26/profit-determinant-of-pvt-school-fees.html

67. Scientific system key to resolving fee dispute, March 18, 2016, Kathmandu Post, http://bit.ly/1VhVWbLhttp://kathmandupost.ekantipur.com/news/2016-03-18/scientific-system-key-to-resolving-fee-dispute.html

68. Govt launching school reconstruction today, May 19, 2016, The Himalayan Times, http://thehimalayantimes.com/kathmandu/govt-launching-school-reconstruction-today/

69. Rs 1.2t school plan announced with little cash, May 30, 2016, The Kathmandu Post

    http://kathmandupost.ekantipur.com/news/2016-05-30/rs-12t-school-plan-announced-with-little-cash.html

70. House panel endorses open university bill, June 2, 2016, The Himalayan Times, https://thehimalayantimes.com/kathmandu/house-panel-endorses-open-university-bill/

71. "Bajura reeling under medicine shortage", The Himalayan Times,June 01, 2016,http://thehimalayantimes.com/nepal/bajura-reeling-medicine-shortage/

72. " Pollution Index Rate",

http://www.numbeo.com/pollution/rankings_current.jsp

73. "Respiratory problems among kids 'on rise' ", The Kathmandu Post, May 31,2016,

http://kathmandupost.ekantipur.com/printedition/news/2016-05-31/respiratory-problems-among-kids-on-rise.html

74. "Health Profession Education Act final draft ready", The Kathmandu Post, May 2, 2016, http://kathmandupost.ekantipur.com/printedition/news/2016-05-02/health-profession-education-act-final-draft-ready.html

75. "Health facilities across country lack essential medicines", Republica, April 27, 2016, http://myrepublica.com/society/story/41300/health-facilities-across-country-lack-essential-medicines.html#sthash.sL0KcwWN.dpuf

76. "WHO calls for better emergency preparedness", The Himalayan Times, April 22, 2016,http://thehimalayantimes.com/kathmandu/calls-better-emergency-preparedness/

77. "Budget for health sector up", The Kathmandu Post, May 29,2016,http://kathmandupost.ekantipur.com/news/2016-05-29/budget-for-health-sector-up.html

78. "Budget Speech of Fiscal Year 2016/17", http://www.mof.gov.np/uploads/document/file/Budget_Speech_2016_20160601114100_20160602035439.pdf

79. 254,270 square meters

80. "Tourism industry bounces back" April 24th, 2016, The Kathmandu Posthttp://kathmandupost.ekantipur.com/news/2016-04-24/tourism-industry-bounces-back.html

81. "NTB announces 2073 as 'GhumphirBarsa', April 12th 2016, The Kathmandu Post, http://kathmandupost.ekantipur.com/news/2016-04-12/ntb-announces-2073-as-ghumphir-barsa-20160412085104.html

82. "MoCTCA, NTB, NRNA join hands for tourism promotion" May 18th, 2016, My Republica, http://myrepublica.com/economy/story/42592/moctca-ntb-nrna-join-hands-for-tourism-promotion.html

83. "Nepal records first successful mountain summit of the year", May 02nd 2016, Republica, http://www.myrepublica.com/feature-article/story/41556/nepal-records-first-successful-mountain-summit-of-the-year.html

84. "Promoting rural tourism key to alleviating poverty" June 02nd, 2016, The Himalayan Times, http://thehimalayantimes.com/business/promoting-rural-tourism-key-alleviating-poverty/

85. "Trans-national route from India to Nepal on the anvil" June 01st, 2016, Kathmandu Posts, http://kathmandupost.ekantipur.com/printedition/news/2016-06-01/trans-national-route-from-india-to-nepal-on-the-anvil.html

86. "Bhaktapur Municipality suffers NPR 209m loss" May 17th, 2016, Kathmandu Post, http://kathmandupost.ekantipur.com/printedition/news/2016-05-17/bhaktapur-municipality-suffers-rs209m-loss.html

87. "Chinese market crucial to revive tourism: Entrepreneurs" May 14th, 2016, The Himalayan Times, http://thehimalayantimes.com/business/chinese-market-crucial-revive-nepal-tourism-entrepreneurs/

88. "Getting tourism out of hot water" May 13th, 2016, Nepali Times, http://nepalitimes.com/article/nation/getting-tourism-out-of-hot-waters-nepal,3030

89. "Boom times revisit hotel sector" April 29th, 2016, Kathmandu Post, http://kathmandupost.ekantipur.com/printedition/news/2016-04-29/boom-times-revisit-hotel-sector.html

90. "Foreign tourists spend $50 a day in Pokhara: Study" April 06th, 2016, My Republica, http://myrepublica.com/economy/story/39969/foreign-tourists-spend-50-a-day-in-pokhara-study.html

91. "Quarterly Debt Position of Government of Nepal- 2nd Quarter 2015/16" March 15th, 2016, Financial Comptroller General's Office (FCGO), http://www.fcgo.gov.np/wp-content/uploads/second-quater-report-final.pdf

92. "List of goods, services with export potential cut to 12" May 17th, 2016, Kathmandu Post, http://kathmandupost.ekantipur.com/printedition/news/2016-05-17/list-of-goods-services-with-export-potential-cut-to-12.html

93. "Rice imports from India jump to Rs13.43 billion" April, 24th, 2016, The Kathmandu Post, http://kathmandupost.ekantipur.com/printedition/news/2016-04-24/rice-imports-from-india-jump-to-rs1343-billion.html

94. http://kathmandupost.ekantipur.com/news/2016-05-19/imported-goods-from-china-arrive-in-kyirong.html

95. "Tea producers complain about extra paperwork for exports" June, 02nd, 2016, The Kathmandu Post. http://kathmandupost.ekantipur.com/printedition/news/2016-06-02/tea-producers-complain-about-extra-paperwork-for-exports.html

96. "Nepal, Bangladesh agree to remove TBT" May 11th, 2016, The Himalayan Times, http://thehimalayantimes.com/business/nepal-bangladesh-agree-remove-tbt/

97. "Hassles in Handicraft" June 05th, 2016, The Himalayan Times Perspectives, http://thehimalayantimes.com/Details.aspx?id=9765&boxid=23153283&dat=6%2f5%2f2016

98. "Development Cooperation Report – Fiscal Year 2014-15", Ministry of Finance, March 2016, http://mof.gov.np/ieccd/newsbook/20160424154147.pdf

99. Press Release, "EC releases € 5.5 million in continued support to earthquake victims in Nepal", European Union, May 18, 2016, http://www.eeas.europa.eu/delegations/nepal/documents/press_corner/2016.05.18_en.pdf

100. "Government signs grant, loan mobilization pacts worth &1.82 bn", The Himalayan Times, May 19, 2016, http://thehimalayantimes.com/business/government-signs-grant-loan-mobilisation-pacts-worth-1-82bn/

101. "Volume of technical assistance by donors growing", Republica, April 26, 2015, http://myrepublica.com/economy/story/41251/volume-of-technical-assistance-by-donors-growing.html

102. "Foreign aid commitment down nearly 30%", The Himalayan Times, April 19, 2016, http://thehimalayantimes.com/business/foreign-aid-commitment-nearly-30-per-cent/

103. Press Release,"US government awards NGO's $121 million in development programs", USAID, April 15, 2016,https://www.usaid.gov/nepal/press-releases/apr-15-2016-us-government-awards-ngos-121-million-new-development-programs

104. Press Release, "US government unveils plans for Bahrabise health center reconstruction", USAID, April 18, 2016, https://www.usaid.gov/nepal/press-releases/apr-18-2016-us-government-unveils-plans-bahrabise-health-center

105. "Development partners vow to extend Rs. 200 billion", The Himalayan Times, March 31, 2016

http://thehimalayantimes.com/business/development-partners-vow-to-extend-rs-200-billion/

106. Budget Speech of Fiscal Year 2016/17" http://www.mof.gov.np/uploads/document/file/Budget_Speech_final_2016_20160602105902.pdf

107. "Remittance growth rate falls for 5 months straight", May 19, 2016, The Kathmandu Post, http://kathmandupost.ekantipur.com/printedition/news/2016-05-19/remittance-growth-rate-falls-for-5-mths-straight.html

108. "NAFEA demands abolition of free visa, fee ticket system", March 25,2016, Republica, http://myrepublica.com/society/story/39374/nafea-demands-abolition-of-free-visa-free-ticket-system.html

109. "Minister vows not to backtrack from visa ticket decision", May 19,2016, The Himalayan Times, https://thehimalayantimes.com/business/minister-vows-not-backtrack-free-visa-ticket-decision/

110. "Finance committee endorses bill on Banks and Financial Institutions", May 26, 2016, The Kathmandu Post, http://kathmandupost.ekantipur.com/news/2016-05-26/finance-committee-endorses-bill-on-banks-and-financial-institutions-act.html

111. "Taskforce to study MFI interest rates", April 4, 2016, The Kathmandu Post, http://kathmandupost.ekantipur.com/printedition/news/2016-04-21/taskforce-to-study-mfi-interest-rates.html

112. "IB to allow weather index-bases crop insurance schemes", June 4, 2016, The Kathmandu Post, https://thehimalayantimes.com/business/ib-to-allow-weather-index-based-crop-insurance-schemes/

113. "Banks weather quake, blockade to record profits", May 15, 2016, The Kathmandu Post, http://kathmandupost.ekantipur.com/printedition/news/2016-05-15/banks-weather-quake-blockade-to-record-profits.html

114. "Banks once again flushed with excess liquidity", May 5, 2016, The Kathmandu Post, http://kathmandupost.ekantipur.com/printedition/news/2016-05-05/banks-once-again-flushed-with-excess-liquidity.html

115. Securities Board of Nepal (SEBON), www.sebon.gov

NEF PROFILE

Nepal Economic Forum (NEF) is a premier private-sector led economic policy and research organization that seeks to re-define the economic development discourse in Nepal. Established in 2009 as a not-for-profit organization under the beed (www.beed.com.np) umbrella, NEF is a thought center that is working to create positive transformations in policy reforms. NEF stands out in being able to make significant strides to bring the private sector perspective and engage with both the public and private sectors in the development discourse. NEF is currently a recipient of the Open Society Foundations' Think Tank Fund.

NEPAL
ECONOMIC
FORUM

NEF works in partnership with many Nepali and international institutions in its quest to mainstream the discourse on the Nepali economy, which has not been given the necessary space it deserves.

NEF has partnered with the Himalayan Consensus Institute (HCI) to facilitate the development of alternative development paradigms and successfully held the first Himalayan Consensus Summit 2016 in March 2016.

NEF BROADLY WORKS UNDER THREE AREAS:

BPRC

The Business Policy Research Center (BPRC) engages in research, dialogue and dissemination relating to pertinent economic policy issues. BPRC has been producing nefport, a quarterly economic analysis publication, nefsearch, a periodic research publication and conducting neftalk, a platform for policy discourse.

PPCP

Through the Center for Public, Private and Community Partnerships (PPCP), the partnerships discourse is further elaborated through addition of the community dimension to existing models of public private partnerships. Apart from standalone interventions, the PPCP perspective is integrated in the work that NEF and beed initiate.

beed
consult | manage | advise

NEF operates in the domain of Development Consulting through its devCon division. It works with a variety of bilateral, multilateral, national and international NGOs in the areas of policy research, economic analysis, value chain analysis, enterprise development, sectoral studies and public private dialogue.

We are striving to ensure financial sustainability for NEF to complement the support it currently gets from beed management. If you are interested to support NEF, please do get in touch with sujeev.shakya@beed.com.np or shayasta.tuladhar@beed.com.np

NEPAL
ECONOMIC
FORUM

P.O.Box 7025, Krishna Galli, Lalitpur - 3, Nepal | Phone: +977 1 5548400
info@nepaleconomicforum.org | www.nepaleconomicforum.org