



NEPAL  
ECONOMIC  
FORUM

# nefport

A SPECIAL ISSUE ON  
**MIGRATION AND REMITTANCE**  
SOCIO ECONOMIC PERSPECTIVES & FUTURE UNCERTAINTIES

**DOCKING NEPAL'S ECONOMIC ANALYSIS**

**MIGRATION SPECIAL**  
ISSUE 27 | JANUARY 2017



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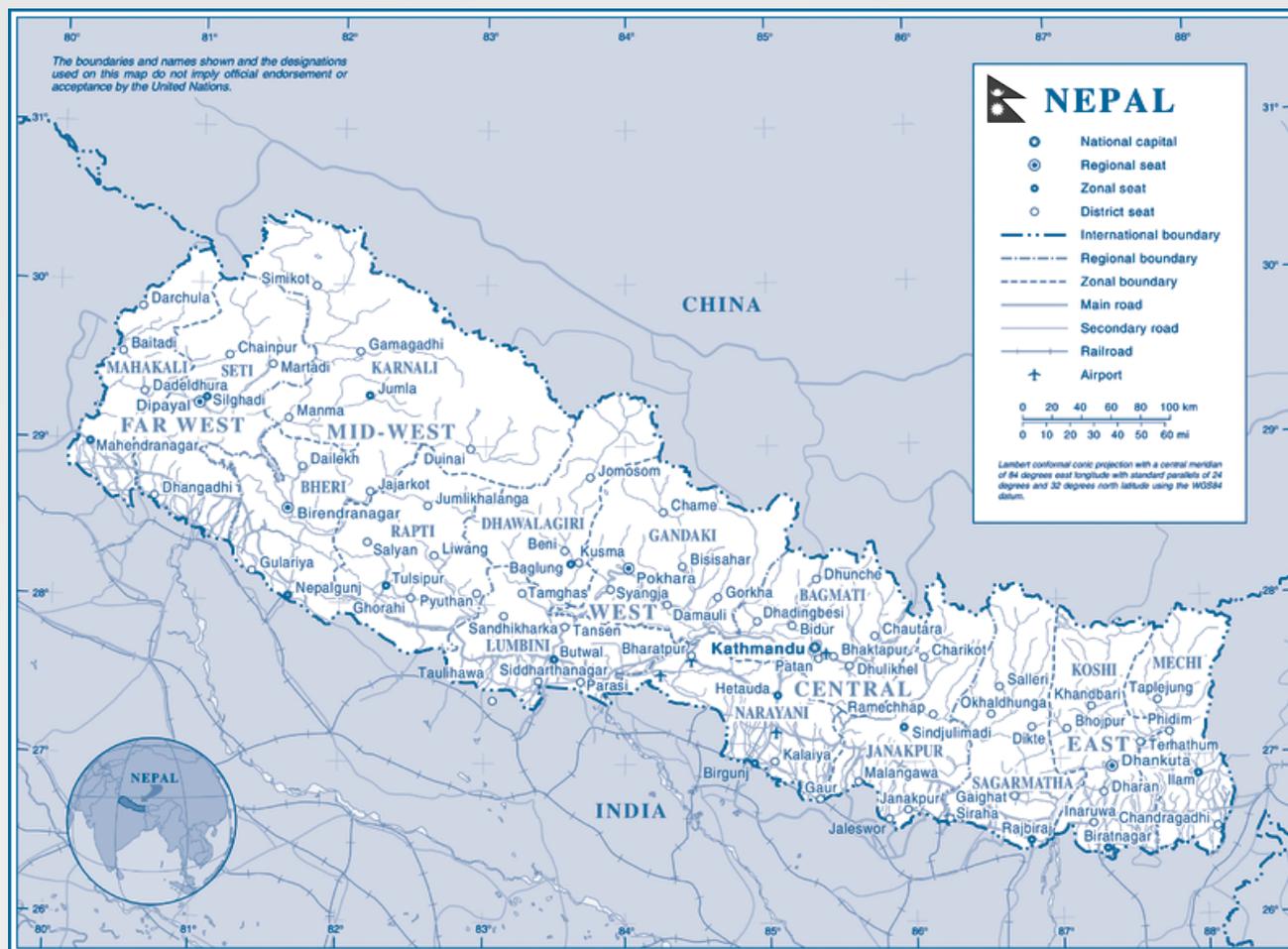
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# NEPAL FACTSHEET



## KEY ECONOMIC INDICATORS

GDP	USD 21.15 billion	GDP Growth rate (%)	0.77
Rank	106	Inflation (annual %)	10.2
GNI per capita (Atlas)	USD 730	Agricultural growth rate (annual %)	1.3
Rank	192	Industrial growth rate (annual %)	-6.3
GNI (PPP)	USD 2,410	Service Sector growth rate (annual %)	2.7
Rank	184		
Gross Capital Formation (% of GDP)	37%		
HDI	0.548		
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



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

**Contributors:**

Anura Shrestha  
Eveen Shakya  
Krinisha Shrestha  
Raju Tuladhar  
Rojesh Bhakta Shrestha  
Salina Sharma  
Shayasta Tuladhar  
Shikshya Gyawali  
Sijan Thapa  
Sneha Shakya  
Subrina Shrestha  
Tejaswee Shrestha  
Zubin Rajbhandary

**Design & Layout:**

Ultimate Marketing (P.) Ltd.  
[info@marketingultimate.com](mailto:info@marketingultimate.com)

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# EDITORIAL

We are very happy to present the 27th issue of nefport with a special section on migration. Since there is little perspective on the demand side of migrant workers, an effort has been made to provide perspectives on the future of migration and remittances given the global trends, geopolitics and dampening of economic activities in the target markets. We would like to thank Dr. Bibhakar Shakya, Senior Distinguished Fellow for his guidance and support in putting this section together.

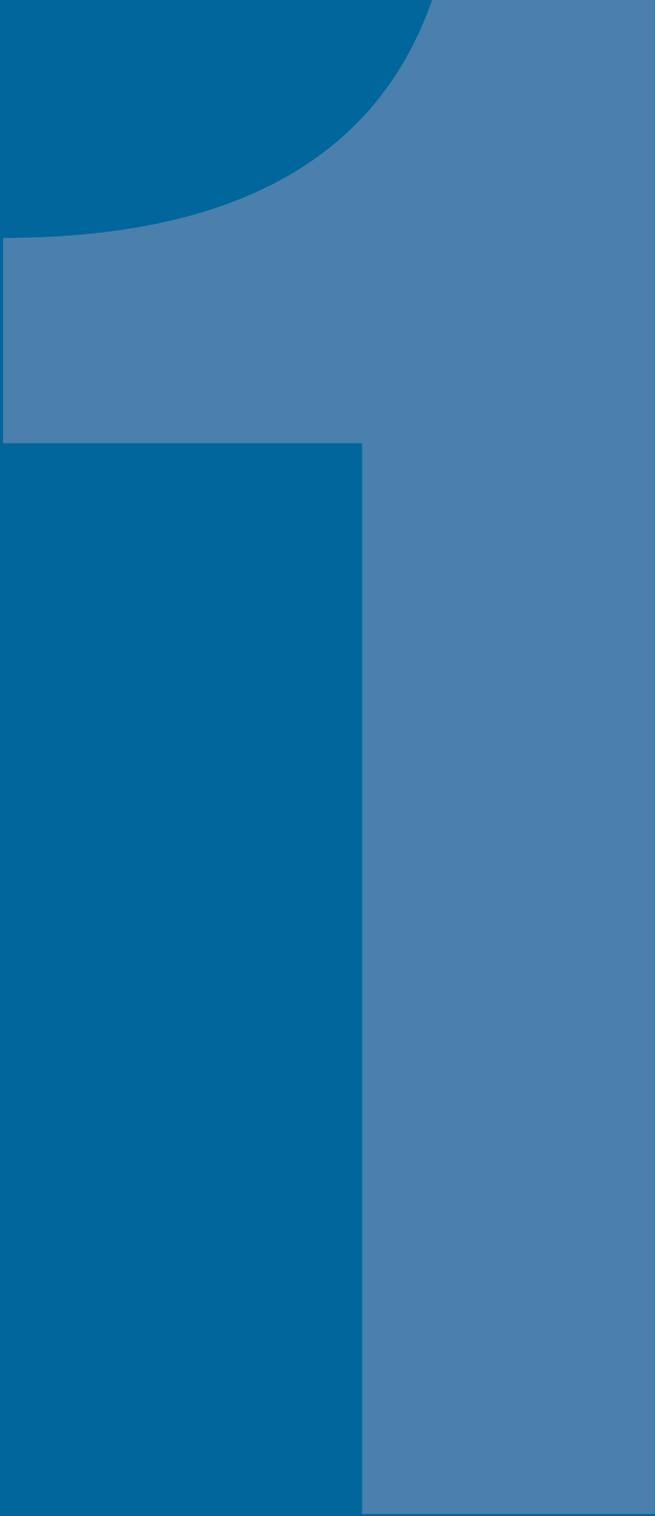
For Nepal the last quarter of the Gregorian calendar year is not only chock full of long holiday breaks, but also a time of hectic economic activity, as festival spending peaks and harvesting of rice provides the much needed income in rural areas. Meanwhile the impact of events in the Indian Economy is always visible in Nepal as the demonetization of INR 500 and INR 1000 notes in India had an impact in Nepal especially in the border regions where economic activities are dominated by cross border trade; mostly informal and based on cash transactions.

The continued transition of the Nepali government has a myriad impact on bureaucracy making decision making a big challenge. Therefore project spending has been impacted and there has not been much movement towards rebuilding and reconstruction post-earthquake. Foreign aid utilization remains dismal and the fact that the government will definitely change after the first quarter of 2017 makes all focus myopic and short term. The public space of discourse is filled by allegations and revelations of decisions that are made by the government favouring certain interest groups leveraging their short tenure. While a lot of activities on enactment of new laws are discussed in the media, there is yet to be a substantial indication of laws being enacted by the parliament.

As always, we remain 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](mailto:info@nepaleconomicforum.org).

**Sujeev Shakya**  
Chair, Nepal Economic Forum





GENERAL  
**OVERVIEW**

# GENERAL OVERVIEW

## POLITICAL OVERVIEW

Years of political instability and the accompanying short-term coalition governments have resulted in the formation of a weak state. On the other hand, fringe parties continue to get away with implementing nation-wide strikes putting the safety of citizens at risk due to lack of or weakly implemented security mechanisms. Meanwhile lack of strong political will has resulted in a prolonged delay in amendment of the constitution with the possibility of conducting local, provincial and central level elections within the given deadline looking bleaker by the day.

**Merger of RPP-N and RPP:** Following several efforts the two right-wing parties –Rastriya Prajantatra Party – Nepal (RPP-N) and the Rastriya Prajatantra Party (RPP) – will be finally merging to form the Rastriya Prajatantra Party. RPP-N and RPP are the fourth and seventh largest parties respectively in the Parliament. Out of the total 595 lawmakers in the Parliament, the merged entity will have 37 lawmakers. Pashupati Shumsher Rana has been appointed the national chairman while Kamal Thapa has been appointed as the Chairman. RPP-Nepal and RPP will have 150 members each in the Central Working Committee.<sup>1</sup>

**Consensus in constitution amendment hits a snag:** The Congress-Maoist coalition Government has registered a seven point bill at the Parliament Secretariat to amend to constitutional provisions related to citizenship,

provincial borders and proportional representation. The bill has proposed the revision of the boundaries of two provinces by keeping the region east of Bardaghat in Nawalparasi district and the eastern part of Rukum district in Province No 4 and the region west of Bardaghat in Nawalparasi, Rupandehi, Kaplivastu, Dang, Banke and Bardiya districts in Province No. 5.

The main opposition Communist Party of Nepal (Unified Marxist Leninist) CPN-UML has been opposing the amendment. Moreover, the constitution amendment has once again hit a snag as the Federal Alliance has refused to accept the Constitution amendment bill as it does not address the issue of class, gender, linguistic, cultural, religious and regional discrimination.<sup>2</sup>

**Activities of the Parliament to be systematized:** Following a meeting

between the Speaker of the House and key people of political parties, chairpersons of parliamentary committees and authorities of the Legislature-Parliament Secretariat, efforts are currently underway within the parliament to systemize activities of the House. Top priority will be given to election bills and other bills related to implementation of the new constitution under the new system. Currently there are three election-related bills under consideration in the Parliament. In order to ensure systematization and coordination in arranging meetings, committee meetings will be held before 1:00 pm and full house meetings will be held after 1:00 pm. Similarly, question answer sessions with the prime minister will be held on the second Sunday of the month, whereas meetings with ministers will be held on second Wednesday and Friday every month.<sup>3</sup>

**Parliament endorses bill to increase basic salary of lawmakers:**

A bill to increase the basic salary, perks and facility of speakers and lawmakers has been endorsed by the Parliament through a fast-track process. Seven amendments were proposed by various political parties on 52 clauses of the bill. With the implementation of this bill, the basic salary of the lawmakers will increase from NPR 44,180 (USD 412) to NPR 55,230 (USD 516). The lawmakers will draw a minimum monthly salary of NPR 80,000 (USD 745) excluding transport allowance and meeting allowance. The endorsement of this bill has been exceptionally fast, compared to that of other bills. Earlier,

the parliament would forward bills to respective parliamentary panels to make suggestions on amendment proposals, however in this case the clause-wise deliberation as well as endorsement of the bill occurred in a single sitting.<sup>4</sup>

**Election Commission related bills being tabled:**

Three bills have been tabled in the parliament namely - Bill to Amend and Integrate Laws related to the Election Commission, Bill Related to Voters' List and Bill to Amend and Integrate Laws Related to Political Parties. Out of the nine bills that require amendment to hold elections at three levels– local, provincial and

central, only six have been tabled with only three bills currently in discus in the parliament.<sup>5</sup> All three levels of elections need to be completed by January 21, 2018 as per the constitutional deadline. In order to ensure timely and fair elections, the Election Commission (EC) has sought the authority to fix the election date in the new Election Commission Act. However, the bill on Works, Duty and Rights of the Election Commission tabled in the Parliament has removed the provision for the EC to fix the election dates. Amendment proposals have been tabled by 27 lawmakers to grant the EC authority to fix the election date.<sup>6</sup>

## “ OUTLOOK

The gentlemen's agreement between key political parties will entail the change of power in March 2017, with Sher Bahadur Deuba of Nepali Congress likely taking over the prime minister's office. The dwindling public confidence and infighting of political parties can further stifle country's journey towards stability. Replicating the fast track endorsement of the bill pertaining to the salary of the lawmakers, the election commission bills should also be endorsed at the earliest to make way for the elections. There is now tremendous pressure on the political parties to carry out the election before the constitutional deadline, if they are the restore public confidence and subdue the growing public resentment.

# GENERAL OVERVIEW

## INTERNATIONAL ECONOMY

Last quarter marked some significant changes in several economies around the world. Two events that dominated the global news sphere the most are the election of Donald J. Trump as United States of America (USA)'s 45th president and demonetization of INR 500 and INR 1000 notes by Indian Prime Minister Narendra Modi. Additionally, India and Pakistan failed to rise above their bilateral issues that eventually led to cancellation of the regional South Asian Association for Regional Cooperation (SAARC) summit.

**USA elects its 45th president:** On November 8, the United States of America (USA) elected Donald J. Trump as its 45th president. A total of 270 electoral votes were required for a presidential-nominee to win. Trump, the Republican party nominee, managed to get 290 electoral votes beating his Democratic counterpart, Hillary Clinton.<sup>10</sup>

Trump rose to power with his often-radical ideas such as deporting millions of undocumented immigrants from USA who he blamed for the country's unemployment, withdrawal from Trans-Pacific Partnership deals and adopting protectionist measures, renegotiating or breaking away from North American Free Trade Agreement (NAFTA), repealing Obamacare and pledging to keep the notorious Guantanamo Bay prison open for fight against terrorism

among others. Nevertheless, the policy measures that can actually be expected during Trump's presidency tenure is fiscal stimulus through spending on infrastructure. This is also in tandem with his plan of creating jobs in the economy especially in the construction, steel, and manufacturing sectors. Moreover, he also plans to cut down taxes for individuals and corporations both.

Much speculations have been taking place regarding policy implications since Donald Trump's win. Various economists including Paul Krugman had predicted the world market to tumble post-Trump's victory; however, it has remained calm. In fact, the dollar has been appreciating while the currencies of emerging economies are plunging since the elections.<sup>11</sup> Therefore, when Donald J. Trump officially takes office in January 2017,

markets in the USA and around the world will be quite a spectacle to watch.

**BRICS summit held:** The eighth BRICS (association of five major emerging economies - Brazil, Russia, India, China and South Africa) summit was held from October 15-16 under the theme 'Building Responsive, Inclusive and Collective Solutions' in Goa, India where leaders from the five member nations, Brazil, Russia, India, China and South Africa, attended to discuss various pertinent issues.

The five emerging economies face similar challenges today in terms of overcoming poverty, reviving the economy and protecting the environment. During the summit, the leaders of the respective nations tried to address these issues. Moreover, the

## MODI'S DEMONETIZATION MOVE HITS PEOPLE LIVING ON THE MARGIN OF SUBSISTENCE THE HARDEST

On November 8, when everybody was following the 45th USA-presidential elections, Indian Prime Minister Narendra Modi pulled off a bold move announcing that on the stroke of midnight of 8 November 2016, all INR 500 and INR 1000 rupee notes in circulation – which comprised 85% of the total value of cash – would become invalid.<sup>7</sup> The central government justified the move as the biggest crackdown on 'black money' and counterfeit currency. Citizens of the country were given a deadline of December 30, 2016 to exchange old notes with the newly minted INR 500 and INR 2,000 notes.

In hindsight, the move however has proved to be a harbinger of utter chaos and disorder, especially for people living on the margin of subsistence. First, post-announcement people have had to spend several hours and even days, in long queues at ATMs and banks. Secondly, liquidity crisis in the informal sector meant people who sustained on cash on daily basis have had to manage without cash. Moreover, as employers in small factories and construction sites did not have cash to make payment, workers faced layoff. Some news stories have even linked several deaths to this move of demonetization.<sup>8</sup>

This is not the first time that demonetization was announced in the Indian economy. One such episode of withdrawal of currency notes happened during Morarji Desai's tenure in 1978.<sup>9</sup> However, it did not end the scourge of black money as intended.

group released official statement called the 'Goa Declaration'<sup>12</sup> wherein they focused on the United Nations' 2030 agenda for Sustainable Development as well as the G20 Action Plan adopted during the Hangzhou Summit in October.<sup>13</sup> The member countries also welcomed the Paris Agreement on climate change.

The key takeaways of the eighth BRICS summit are the agreement over the importance of Bay of Bengal Initiative for Multi-Sectoral Technical and

Economic Cooperation (BIMSTEC), intra-BRICS trade commitment, idea of an energy cooperation agency by Russian Prime Minister Vladimir Putin and unanimity in fight against terrorism among others. Indian Prime Minister Narendra Modi made a special plea to fight global terrorism especially after the Uri terrorist attack event.

**South Asia Association for Regional Cooperation (SAARC) summit 2016 postponed sine die:** The 19th South Asian Association for Regional

Cooperation (SAARC) summit scheduled to be held in Islamabad, Pakistan on November 9-10, 2016 was postponed due to heightening tension between two member states, India and Pakistan. Following the Uri terrorist attack, India announced that Prime Minister Narendra Modi would not be travelling to Islamabad for the regional summit.<sup>14</sup> Subsequently, three other member nations – Bhutan, Bangladesh and Afghanistan – also decided to pull out of the summit expressing their concern about the

cross-border terrorist attacks.<sup>15</sup> Current chair of SAARC, Nepal then released a statement saying that it regretted that the regional environment was not conducive to host the 19th SAARC summit. Prior to this, due to similar bilateral and contentious issues, SAARC summits had already witnessed five postponements and several venue changes. In fact, since 1985 only eighteen summits have taken place when it should be taking place every year.

**China Pakistan Economic Corridor (CPEC) goes live:** The China Pakistan Economic Corridor (CPEC), a 3,000-kilometer trade route that links Xinjiang, China and Balochistan, Pakistan, has finally gone live with the opening of Southwestern Pakistani Gwadar port.<sup>16</sup> The CPEC is a NPR 4,928 billion (USD 46 billion) investment project from China under which there will be construction of road, railways, communication networks and power projects along the route

linking the two countries. The primary objective of the project is to facilitate trade between not only these two countries but to connect them with other international markets as well. Moreover, the Gwadar port lies at a vantage point with an easy access to three commercially important regions – Middle East, Central Asia and South Asia. CPEC is a part of a larger development strategy and framework of China, One Belt One Road, to connect China with the rest of Eurasia.

## “ OUTLOOK

Modi's demonetization move may have been implemented with good intentions but it continues to affect the lives of people of lowermost strata in the society who are cash-dependent to sustain their daily lives. Moreover, only time can tell if such a move will be able to restrain tax evasion and recoup illegal income as claimed by the centre because only a small fraction of the total unaccounted money is held as currency notes while most are stashed abroad in Swiss banks or invested elsewhere.

Similarly, when the 45th presidential- elect Trump officially takes the White House office in January 2017, the world will be at the edge of the seat to see if he can pull off the policies and moves he promised to his voters. If he manages to do so, it will affect markets of not only USA but around the globe. Furthermore, assessing the currency movement post-election, businesses does seem to have faith in Trump despite his shocking and often-controversial social and political stances.



MACROECONOMIC  
**OVERVIEW**

# MACROECONOMIC OVERVIEW

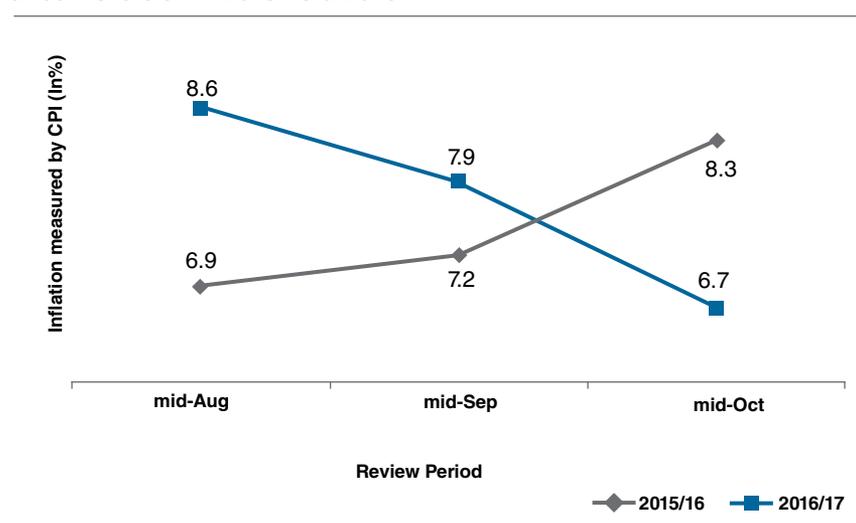
With the first quarter of FY 2016/17 over, there are encouraging signs that the country is recovering from the economic hardships of the border blockade and earthquake. Inflation levels have receded to a record low while government revenue collection is on a rise. Meanwhile government expenditure is expected to rise as the year continues. While all this bodes well for the economy, the country's trade deficit creates a major cause for concern.

**Inflation:** Inflation, measured by the Consumer Price Index (CPI), declined to an eight-year low at 6.7% in October, as shown in Figure 1. This was on account of sluggish growth in food prices. Inflation last stood at this level in February 2008. Since then, consumer prices soared to reach a record high of 12.1% in January 2016 after the imposition of trade blockade by India in Nepal which hampered supply of goods into the country. Moreover, as supply side constraints are the primary reasons behind the general increase in prices in Nepal, the end of the blockade helped ease inflationary pressures in the country.

Another reason for the decline in inflation rates in the first three quarters of FY 2015/16 is the slow growth in prices in India. As Nepal imports more than 65% of goods from India, a price surge or plunge in the Southern neighbour has ripple effects in Nepal as well. Therefore, when India adopted inflation targeting under its monetary policy framework, it helped Nepal curb inflation as well.

**Inflation wedge between India and Nepal:** Inflation wedge, measured as the year-on-year change in CPI of India and Nepal, has been on a decline since the start of FY 2016/17

**Figure 1: Year on Year inflation measured by Consumer Price Index (CPI) for three months of FY 2015-16 & 2016-17**



Source: Current Macroeconomic Situation of Nepal (Based on the three month data of 2016/17), Nepal Rastra Bank

as shown in Figure 2. Inflation wedge between the two countries decreased to 2.5% in October 2016/17, its lowest since July 2015/16, as shown in Figure 3. Over the same period last year, the inflation wedge stood at 3.3%.

This declining trend in inflation wedge shows that the effects of the trade blockade imposed by India has started to wane. During the time of the blockade, movement of cargo vehicles had stalled; completely halting import of goods, thereby raising prices. Black markets for essential goods were also

rampant during this period, further leading to a build-up in inflationary pressure.

**Import-Export and Trade Deficit:** Merchandize imports have improved drastically after the lifting of the blockade. It has increased by 69.1%, amounting to NPR 220.68 billion (USD 2.06 billion), as shown in Figure 4. During the same period in the previous year, merchandize imports had deteriorated to -31.9%. This was on account of the effects of the blockade. The dramatic rise in imports during the first quarter of

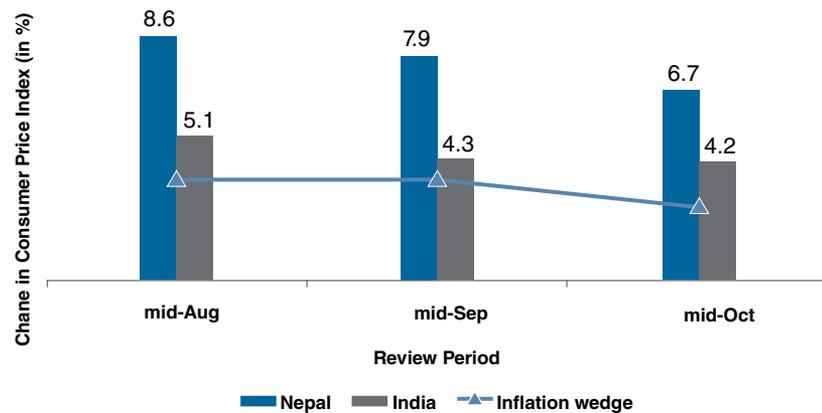
FY 2016/17 can be attributed to the increase in imports of construction materials required to carry out reconstruction work after the earthquake. Reconstruction efforts have slowly started to gain momentum in the country and as a result, demand for construction materials have also gone up.

In contrast, merchandize exports have not been able to grow at the same rate as imports, with merchandize exports increasing only by 12.1% to NPR 18.93 billion (USD 176.7 million) in mid-October, as shown in Figure 5. As a result of the major discrepancy between imports and exports, the country's total trade deficit in the first three months of FY 2016-17 expanded by 77.5% to a shocking NPR 201.75 billion (USD 1.88 billion) compared to a contraction of 32.8% in the same period of the previous year. This is represented in Figure 6. Again, the tendency of Nepal to import a majority of goods from India is seen as the main reason for the widening of the trade gap.

**Government Revenue:** Government revenue collection increased by 66.7% amounting to NPR 126.12 billion (USD1.18 billion) against a drop of 10.2% in the corresponding period of the previous year as shown in Figure 7. Higher growth rate of major tax avenues such as value added tax (VAT), customs and excise tax contributed to the overall rise in revenue collection.

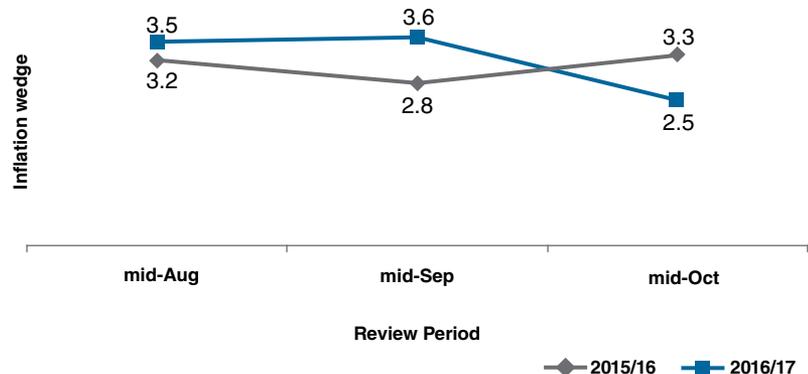
As shown in Figure 7, revenue collection had contracted by 10.2% in the same period last year. This drop pertained directly from the blockade, which led to a drop in tax collections. The lifting of the blockade has led to an increase in tax collection in border points and therefore, a rise in government revenue can be seen. The

**Figure 2: Year-on-year percentage change in CPI in Nepal and India and the inflation wedge in the corresponding period for FY 2016-17**



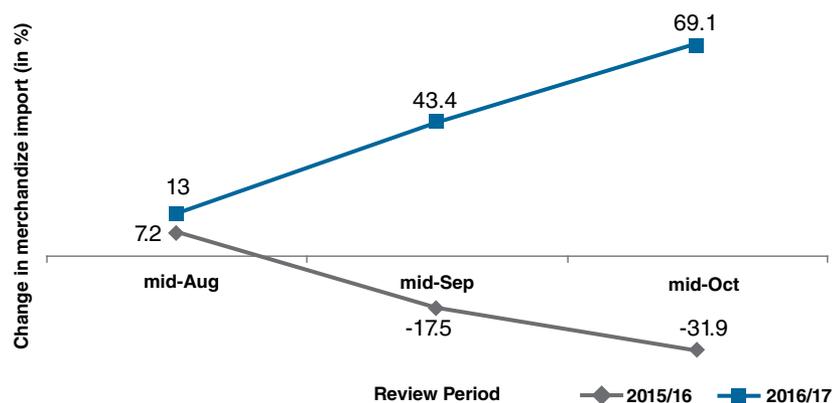
Source: Current Macroeconomic Situation of Nepal (Based on the three month data of 2016/17), Nepal Rastra Bank

**Figure 3: Year-on-year change in inflation wedge (based on CPI) between Nepal and India in FY 2015-16 and FY 2016-17**



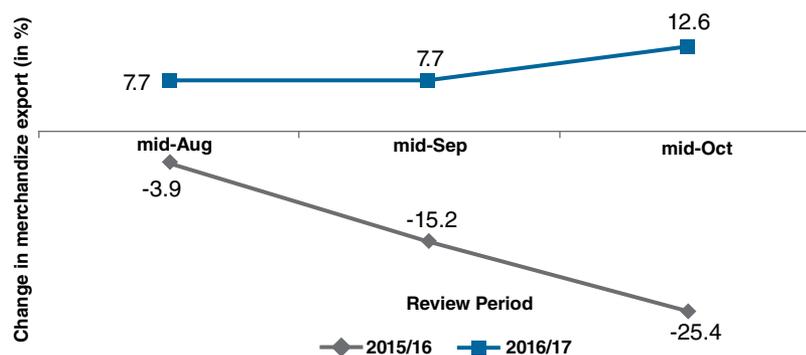
Source: Current Macroeconomic Situation of Nepal (Based on the three month data of 2016/17), Nepal Rastra Bank

**Figure 4: Year-on-year percentage change in merchandize imports in review periods in FY 2015-16 and 2016-17**



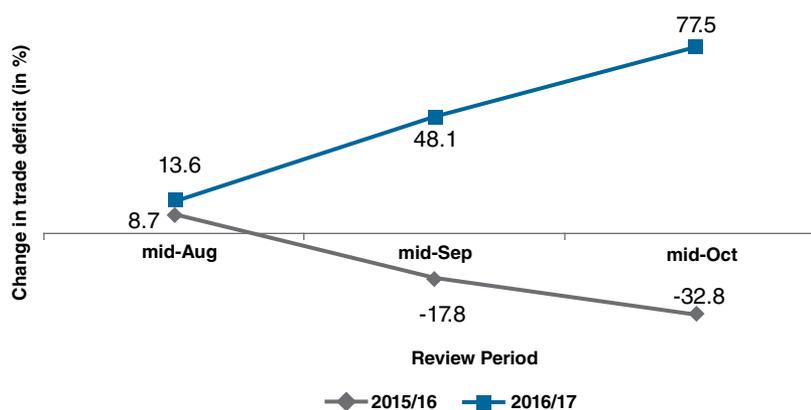
Source: Current Macroeconomic Situation of Nepal (Based on the three month data of 2016/17), Nepal Rastra Bank

**Figure 5: Year-on-year percentage change in merchandize exports in review periods in FY 2015-16 and 2016-17**



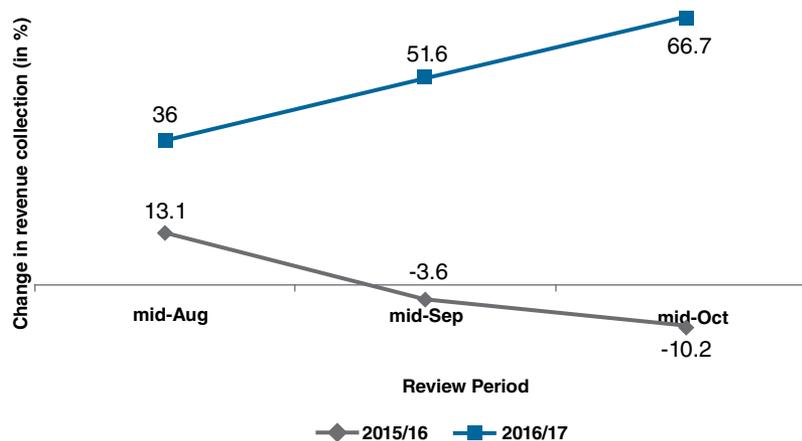
Source: Current Macroeconomic Situation of Nepal (Based on the three month data of 2016/17), Nepal Rastra Bank

**Figure 6: Year-on-year percentage change in trade deficit in the twelve months of FY 2015-16 and 2016-17**



Source: Current Macroeconomic Situation of Nepal (Based on the three month data of 2016/17), Nepal Rastra Bank

**Figure 7: Year-on-Year percentage change in revenue collection during the review periods for FY 2015-16 and 2016-17**



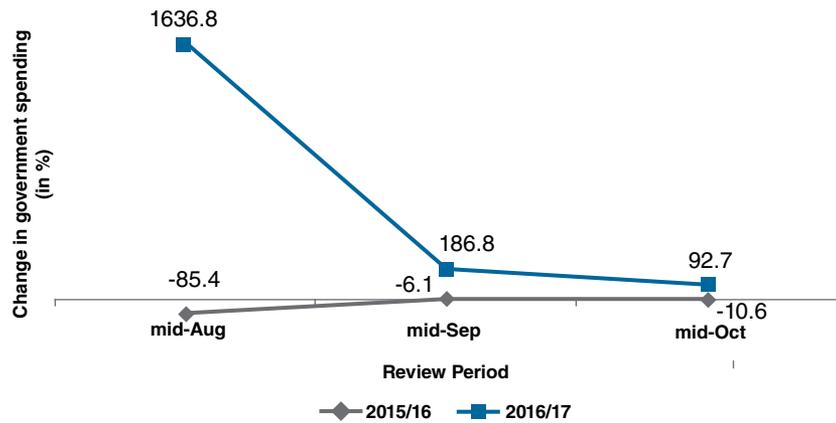
Source: Current Macroeconomic Situation of Nepal (Based on the three month data of 2016/17), Nepal Rastra Bank

current trend in government revenue collection can lead to optimism regarding the government achieving its revenue collection targets.

**Government Expenditure:** The total government expenditure increased by 92.7% to NPR 95.16 billion (USD 888.3 million) in October 2016/17, as compared to a decrease of 10.6% in the corresponding period of the previous year, as shown in Figure 8. This was due to both recurrent and capital expenditure rising to NPR 86.79 billion (USD 810.14 million) and NPR 7.29 billion (USD 68 million) respectively, in the first three months of FY 2016/17.

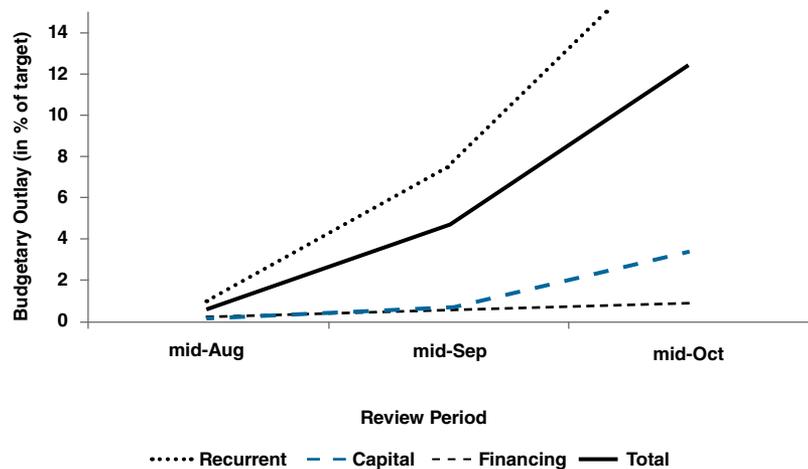
Government budget announcement one-and-a-half months before the start of FY 2016/17 and the speedy approval of Appropriation Bill resulted in relatively higher growth in recurrent and capital expenditure. While expenditure has grown compared to the previous fiscal year, out-turns in various government offices and ministries have remained below the targeted levels. Figure 9 tracks the monthly budgetary outlay in terms of percentage of the target achieved for government spending.

**Figure 8: Year-on-year percentage change in government expenditure during the review period for FY 2015-16 and 2016-17**



Source: Current Macroeconomic Situation of Nepal (Based on the three month data of 2016/17), Nepal Rastra Bank

**Figure 9: Budgetary outlay trend over the three months of FY 2016/17**



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

## OUTLOOK

Declining inflation rates have been a boon to the country still recovering from the effects of the border blockade and earthquake, though it is still up for debate whether inflation can be controlled around this level. Meanwhile changes in inflation rates in India could potentially also impact inflation rates within the country. Meanwhile, in the light of the ever-expanding trade deficit, it is essential that the government increase export products in which the country has a comparative advantage.



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SECTORAL  
**REVIEW**

# AGRICULTURE

After hitting the lowest point post-earthquake and economic blockade, the agricultural sector is reviving slowly but it still remains bleak. Nepal faces the growing threat of climate change; some areas in the country suffer from acute droughts while heavy floods and landslides plague others. This, along with high monsoon dependence and inadequate irrigational facilities as well as sporadic supply of chemical fertilizers has resulted in low and volatile agricultural output in the country. Amidst these, the government has initiated several steps to augment agricultural production, which if implemented properly might be able to rescue the sector from its current dismal condition.

## **IB to allow non-life insurance companies to sell insurance policies to cardamom producers:**

The Insurance Board (IB) is planning to allow non-life insurance companies to sell cardamom insurance policies. Having finalized most of the terms and conditions, the IB is now left to decide on the coverage amount. The draft policy allows farmers who have planted the crop on at least half a ropani of land or are raising at least 300 plants to be eligible to buy cardamom insurance.<sup>17</sup>

The insurance will provide coverage for a period of 12 years with a premium payment of 5% of the total coverage amount. The insurance will cover losses caused by fire, lightning, earthquake, flood, drought, landslide, cyclonic storm, hailstorm, snow, sleet etc. as well as against pests and other diseases. Since it is input-cost based and the cost of maintaining cardamom plants change every year, the coverage will also be revised annually. Considering various supply side constraints in the agriculture sector, this insurance policy will incentivize farmers to boost production, as it will protect the producers against various unwarranted climatic changes. Currently, Nepal is the largest

producer of large cardamom in the world with a 68% market share.<sup>18</sup>

## **Minimum Support Price for paddy fixed for the first time in almost two decades:**

The government has finally set the Minimum Support Price (MSP) for paddy for the first time in almost two decades after initiating the steps to do so back in 2012. The MSP has been fixed at NPR 2,070 (USD 19.3) per quintal for thick-paddy and at NPR 2,230 (USD 20.8) per quintal for common paddy, according to the recommendations of Ministry of Agricultural Development (MoAD).<sup>19</sup> The Ministry of Finance (MoF) has allocated NPR 3 billion (USD 28 million) for the purpose.

MSP is a form of market intervention by the government that ensures farmers a guaranteed price as well as an assured market for their produce. Under this policy pricing, the government announces a fixed price for paddy before the sowing season. If and when the market price of paddy fall below the fixed price due to various unwarranted reasons, Nepal Food Corporation (NFC) will purchase them at their respective MSPs therefore guaranteeing a certain amount of money to the farmers.

However, the announcement for this year came at an unbecoming time. It was announced on mid-November while many paddy farmers harvest and sell their produce by end-October.<sup>20</sup> MSP can only be effective if it is announced before the sowing season so that producers can take into account the price factor for their production decision. When MSP was first introduced in the Nepali economy in the Seventh Five Year Plan for Paddy and Wheat, the results were ineffectual for the same reason. MSP was not announced before sowing season and due to inadequate budget and storage facilities, NFC couldn't procure the food grains as claimed. The government will need to address these key issues for the policy to have desired effects.

## **Implementation of 'Prime Minister Agriculture Modernization Project in full swing:**

The implementation of the Nepali Government's ambitious plan, 'Prime Minister Agriculture Modernization Project' has officially begun. A Central Management Unit (CMU), which will be responsible for the implementation of the project, has been set up in Harihar Bhawan, Lalitpur.<sup>21</sup> The policy, which was envisaged in the budget of FY 2016/17, aims to increase productivity and

achieve self-sufficiency in food-products through the adoption of modern technologies and mechanization in the farming sector.

To do so, the Ministry of Agriculture Development (MoAD) will spend a total of NPR 130 billion (USD 1.21 billion) over ten-year period. Under the scheme, the ministry will pool land to create pocket areas, blocks and super-zones. Each super-zone will then be promoted for one particular food-product. As of yet, there have been talks to promote Jhapa for paddy, Bara for fish, Kaski for vegetables, Kavrepalanchowk for potato, Dang for maize, Jumla for apple and Kailali for wheat under the category of super-zones.<sup>22</sup>

The pocket areas under the plan will receive subsidies on fertilizers and irrigation, besides technical support. There will be an assured and easy availability of seeds and saplings. Additionally, an 85% subsidy on the construction of agro-production collection centers, warehouses, haat bazaars and processing and training centers will also be provided, thereby further incentivizing the farmers in the blocks, zones and super zones.

**Food shortage and food insecurity looms amidst climate change threats:** Nepal continues to face food shortage in various parts of the country. Baitadi district faced food shortage yet again this year, so

did the other three mountainous districts Mugu, Bajura and Humla.<sup>27</sup> These districts that face grave food insecurity, have been suffering from prolonged drought since the past few years. Moreover, low food productivity in a year tends to reflect in the subsequent years as well because seeds from one year are used for production in forthcoming years. Food distribution by the government in these regions is therefore a must in the short run to avoid hunger and malnutrition. However, investment in infrastructure both agricultural like irrigation facilities, seeds and fertilizers as well other general infrastructures like transport is required because of difficult terrain in these regions.

## GINGER EXPORT TO INDIA BANNED FOR NINE DAYS

India banned the export of ginger from Nepal in September for nine days citing quarantine issues.<sup>23</sup> Indian customs refused entry of ginger from Nepal after Indian Food Safety and Standards Authority claimed that there were high residues of Aldicarb pesticide, the usage of which is prohibited both in India and Nepal. The ban was also to prevent the infiltration of Chinese ginger as Nepali traders were said to have imported ginger from China and mixed it with that of Nepal's to sell in India.

After more than a week of ban on the exports, it was ultimately lifted. A laboratory test of the ginger samples found no traces of the fertilizer as alleged. The harm, however, had already been done. Because ginger has a low shelf-life and has to be sold within a certain time frame, the farmers producing the condiment incurred huge losses. Following the incident, a six-member committee was set up to study the problems and difficulties related to ginger export to India from Jhapa, Kakandivita, Bhairahawa and Nepalgunj border points.<sup>24</sup>

This is not the first-time India has restricted exports of such agro-products from Nepal. There was a similar episode with garlic export back in 2010, not to be forgotten the notorious Economic Blockade of 2015. Nepal needs to learn a lesson from such recurring episodes.

Nepal is the third largest ginger producing country in the world after India and China, with an annual production of about 250,000 metric tonnes in the last fiscal year.<sup>25</sup> Moreover, native ginger from Nepal is considered good as oleoresin content that is found in ginger is in higher amounts in the ginger produced here. Therefore, Nepali ginger has a huge potential in the global market. However, India acts as a monopsony for Nepali ginger as export to India comprises around 90% of fresh ginger and 6% of processed ginger.<sup>26</sup> This high dependency of trade with India has been affecting Nepal adversely because of the unpredictable Indian treatment.

Hence, firstly Nepal needs to broaden its consumer base and find alternative markets around the globe. Additionally, to prevent such episodes involving quarantine issues, Nepal needs to adopt global inspection standards. At present, Indian authorities do not accept quarantine certificates from Nepali laboratories. Thirdly, government should strictly monitor whether Nepali traders are exploiting the Nepali Certificate of Origin (CoO) provision, which exempts them from duty while exporting to India.

## OUTLOOK

It is positive to see developments from the government side in terms of efforts to increase agricultural production in the country. Minimum Support Price, Prime Minister Agricultural Project and crop insurance policies are all essential to revive the stalled sector. The problem in Nepali economy however does not lie in ideation but in execution of projects and policies. Therefore, it is imperative that these policies are properly implemented.

# ENERGY

With power cuts almost non-existent during the festive period, Nepal Electricity Authority (NEA) is working to end load shedding in Kathmandu Valley. Further developments like newer avenues for electricity generation and greater funding for the energy sector could also ease the country's energy woes. With Nepal Oil Corporation (NOC) willing to invest in infrastructure as well, fuel woes and long queues for petrol and diesel could also be a thing of past.

### Load-shedding to end in Kathmandu Valley:

Nepal Electricity Authority (NEA) is currently working to remove load shedding from Kathmandu Valley. The Prime Minister has assured full support of the government to NEA to achieve the goal.<sup>28</sup> Newly appointed NEA Managing Director Kulman Ghising has stated that since NEA was able to meet peak demand of 315MW during Tihar, they are confident of meeting valley's normal peak demand of 270MW and off peak demand of 190MW. Difficulties to manage the load shedding during winter is expected but after that NEA expects to meet demand securely. Also, Kathmandu Valley's current substations and distribution systems will be utilized to its optimum level to help end load shedding. Equaling load between substations and distribution systems is seen as one way to optimize the power supply.

### Three-dozen hydro projects in crisis:

Over three-dozen hydroelectric projects initiated by Independent Power Producers (IPP) are in a state of uncertainty as they will be unable to meet deadlines given by the NEA to conclude financial closure. The deadline for seven projects have already expired with another six projects expected to meet the same fate. According to a

recent report by the World Bank, IPP's have played an important part in the hydropower sector of Nepal with IPP's contributing an average of 25MW per year compared to NEA's 5MW addition to the grid per year.<sup>29</sup>

### Water level lowest in 3 years at Kulekhani Reservoir:

Water level in the Kulekhani Reservoir reached its lowest point in 3 years at 1,522.55 meters even though most parts of the country received adequate rainfall. The reservoir feeds into two hydropower projects, Kulekhani I and Kulekhani II; and as a result of lower water levels, power generation capacity of both plants is expected to reduce by approximately 13.5 million units. Officials at NEA, claim that the low water level will directly affect the power supply management

at peak hours. However, according to the Chief of NEA's Load Dispatch Center, an additional 150 MW shall be imported from India, which will nullify the impact of declining water levels.<sup>30</sup>

Last fiscal year, water levels at the reservoir had reached 1,525 meters leading to generation of 107 million units of energy. In the fiscal year before that, water levels reached 1,530 meters with both Kulekhani Projects generating 134 million units of energy in total. This fiscal year will mark another year where power generation from the two projects will decline.<sup>31</sup>

### Electricity generated from waste in Kathmandu:

Kathmandu Metropolitan City (KMC) has successfully generated

**Table 1: Hydro Projects unable to meet financial closure deadlines**

Projects with deadlines expired	Projects approaching deadline without financial closure
Upper Ingwa Khola	Phalanku Khola
Upper Mailun	Likhu-2
Tame Khola	Likhu-1
Upper Tadi	Sabha Khola
Midim Khola	Chulepu Khola
Maya Khola	Upper Myagdi
Ludee Khola	

Source: *The Himalayan Times*

electricity from waste material after years of continuous effort. In October, the team had produced biogas from waste and after two weeks electricity was also produced.

14kW of energy is projected to be generated from the waste-to-energy plant at Teku, which will be used by the KMC office. The project cost a total of NPR 18.2 million (USD 169,902). In addition to producing electricity, the project will also help in managing household waste which is a problem that KMC has been facing for long on account of lack of resources.<sup>32</sup>

**NOC to set up reserve tanks in each province:** Nepal Oil Corporation (NOC) is planning to set up petroleum reserve tanks in each of the province at a cost of NPR 5 billion (USD 46.7 million) by the end of the current fiscal year. The proposal to invest the proposed sum has already been passed and land procurement is expected to begin. The investment will be made from NOC's monthly profits, which currently stands at NPR 180 million (USD 1.68 million) per month.

In total, NOC aims to increase its oil storage capacity to 388,000 kiloliters after developing reserve tanks in each of the seven provinces. Currently, NOC's oil storage capacity is 71,000 kiloliters which is deemed sufficient to meet the demand for only two weeks. In contrast, having 338,000 kiloliters of storage capacity will be enough

**Table 2: Update on status of major hydropower projects**

Province	Storage Capacity (kiloliters)
Province 1	55,000
Province 2	36,000
Province 3	137,000
Province 4	40,000
Province 5	65,000
Province 6	30,000
Province 7	25,000

*Source: The Himalayan Times*

to meet demand for 90 days which could then potentially ease the fuel woes faced by the country.<sup>33</sup>

**World Bank suggests improvement required for NEA:** The World Bank has suggested the Government of Nepal (GoN) to reform the structure of NEA in order to develop the power sector of the country. It has stated in its report - "Nepal Development Update: Powering Recovery", that breaking the NEA into four separate entities for generation, transmission, distribution and power trade would be the best course of action as it will make the organization efficient and commercially sustainable.<sup>34</sup>

GoN had unveiled plans to split NEA into three separate entities in FY 2015/16, but nothing concrete has come through with procedural delays and legalities still acting as hindrances. The World Bank has stated that reforms are necessary in the power sector if Nepal is to meet its goals set out in the "National Energy Crisis Prevention and Electricity Development Decade 2016" plan.

**Nepal meets requirements of MCC, feasibility studies for projects being conducted:** Nepal has successfully met the required indicators to be reselected for the US government's Millennium Challenge Corporation (MCC) funding program in the coming year. Nepal successfully passed 16 out of 20 indicators to be re-selected. Previously, the country failed to meet the required grade in four categories, namely government effectiveness, trade policy, gender in economy and access to credit.<sup>35</sup>

After being reselected, feasibility studies are being conducted in energy and road projects that will be built or repaired with the MCC funding. Feasibility studies are expected to be completed within January 2017. MCC has been conducting surveys of Nepal and has concluded that funds should be directed towards the energy and transport sector as lack of development in these two have been a major hindrance in development of the country.<sup>36</sup> MCC has put in a request to the US Congress to set aside USD 300 million (NPR 32.1 billion) as development fund for Nepal in 2017.

**25 MW from Upper Marsyangdi Project added to national grid:** 25MW from the 50MW Upper Marsyangdi Project has been added to the national grid in September 2016.<sup>37</sup> The 50MW project has two turbines

generating 25MW of electricity each. As of now, only 25MW has been added to the national grid as the NEA has failed to build transmission lines to evacuate all of the generated electricity. The remaining 25MW is to be added

to the national grid within the coming three months if construction of transmission lines goes according to plan. At full operational capacity, the project will generate 317 million units of electricity in a year.<sup>38</sup>

## “ OUTLOOK

NEA's announcement about ending load shedding in Kathmandu Valley will be under the spotlight over the coming months, so as to see whether or not they can keep up with their goal. Their announcement raises question of whether load shedding was a cause of mismanagement on part of the NEA rather than lack of electricity production.

However, the goal will be difficult to achieve because of the receding water levels at the Kulekhani Reservoir. New developments such as producing electricity from waste material, NOC's decision to increase oil storage and Nepal being reselected for the MCC funding program though gives reason to be optimistic about the future.

# INFRASTRUCTURE

Infrastructure development is the bedrock for a sustainable growth model for Nepal. It is necessary that investment in infrastructure be made in order to foster development of key sectors in the economy such as agriculture, manufacturing, education, health and tourism.

## **Finalization of DER for petroleum pipeline:**

The Detailed Engineering Report for 41 km Amlekhgunj-Raxaul petroleum project has been submitted by SM Consultant to the Indian Oil Corporation (IOC). The NPR 4.4 billion (USD 41 million) worth project is expected to reduce transportation cost by 50%. The report identifies Birgung Bypass, Gandak, Parwanipur, Jitpur, Simara, Pathlaiya and Amlekhgunj as the pipe laying route. IOC will begin announcing the global tender once the report is approved by the Nepali cabinet.<sup>39</sup>

## **No progress for Kathmandu-Tarai Fast Track Road:**

The Kathmandu-Tarai Fast-Track road, which was expected to shorten travel time to Tarai to an hour, is in a limbo. Five months have elapsed since this proposed mega project of 76km road was allocated an amount of NPR 10 billion (USD 93 million) by the Communist Party of Nepal - Unified Marxist Leninist (CPN-UML) government. However, the United Communist Party of Nepal - Maoist (UCPN-M) government has left it untouched, despite the previous government's promises to build the project on its own under its annual budget program.<sup>40</sup> Currently construction agreement with Infrastructure Leasing and Financial Services Ltd has been cancelled. The

government has now committed to complete the project with domestic resources.<sup>41</sup>

## **Nepal secures soft loan of NPR 15.81 billion from Japan:**

Japan has agreed to provide a soft loan of NPR 15.81 billion (USD 147 million) for the construction of the earlier proposed Nagdhunga-Naubise Tunnel Road Project. The negotiation that occurred between the Nepal government and Japan International Cooperation Agency (JICA) involves a 2.5km long tunnel to be dug under the western rim of Kathmandu Valley with the objective of reducing travel time over the region. As per the agreement between the two sides, Nepal is expected to pay an interest of 0.01%, which according to JICA, is one of the lowest rates. Additionally, the repayment period has been set for 40 years, including a 10-year grace period. According to the Department of Roads (DoR), this is the first loan secured by Nepal from Japan in terms of road infrastructure. However, the signed agreement is yet to be approved.<sup>42</sup>

## **Rasuwadadi to Galchhi trade road too challenging:**

Over-congestion, slippery tracks, and lack of maintenance have turned the road connecting Galchhi of Dhading district to Rasuwadadi into a risky route for vehicle pliers. Despite being

considered as the gateway to China in Rasuwa district, this single-lane 102 km road has been left severely neglected. Only 24-kilometer section of the road from Galchhi to Bidur of Nuwakot has been black topped. However, it is also not broad enough to allow two vehicles to pass. Additionally, vehicles get stuck for hours or even days and regular traders have been facing a significant amount of loss.<sup>43</sup>

## **DoR set to speed up road expansion projects in Valley:**

The Department of Roads (DoR) has developed a plan to relocate electricity and telephone lines, as well as drinking water and sewage pipes; that have been major obstacles in the ongoing road expansion inside Kathmandu valley. According to the Central Regional Road Directorate, the plan includes details about the estimated cost for relocation, and a request for an emergency budget release from the Ministry of Finance to accelerate the road expansion project. Some major stakeholders in this plan include The Department of Roads, the Kathmandu Metropolitan City, and the Kathmandu Valley Development Authority.<sup>44</sup>

## **NAC decides to bring remaining four Chinese aircraft:**

Nepal Airlines Corporation (NAC), under direction of the Ministry of Culture Tourism and Civil Aviation, has decided to

bring the remaining four aircrafts from China, despite incurring huge losses from the two Chinese aircraft in its fleet. In the first phase, it plans to bring in two aircrafts - one Ark MA 60, a 56-seater aircraft and one Harbin Y-12E, an 18-seater craft. According to NAC, the two aircrafts are being bought immediately as NAC has the required manpower to operate these aircrafts. Previously, Nepal and China had signed a loan and grant agreement to bring six aircrafts - two MA 60s and four Y-12E aircraft - in November 13. As per the agreement, Nepal received NPR 2.94 billion (USD 27 million) in grants and NPR 3.72 billion (USD 34 million) in soft loans under an interest rate of 1.5% from China to purchase six aircrafts. However, NAC suffered losses as its earning was only NPR 141 million (USD 1.31 million) from MA 60 in the first year of operation, while its expenditure climbed up to NPR 405 million (USD 3.78 million). Similarly, Y-12E earning's was NPR 12.2 million (USD 113 thousand) in the first nine months of its operation, against its operating cost of NPR 67.5 million (USD 630 thousand).<sup>45</sup>

**11 international firms bid to supply aircrafts to NAC:** Eleven international firms have submitted bids to supply two long-range wide-body passenger jets to Nepal Airlines Corporation (NAC). The 11 hopeful suppliers are Rolls-Royce, KL Aero Parts, Aircraft Investment Group, Crown Commercial Services, Synergy Aerospace, ST Aerospace, Le Group Delta, AAR Corporation, Surya Air Support, KJT Investment & One World Closeouts and Ron Motta & Associates Aircraft Sales & Parts. According to NAC, there will be no short listing of bidders. Instead, a "one-envelope" procedure will be followed. NAC has planned to induct two jets into its fleet-one A330 by September 2017 and another by March 2018. It is expected to spend NPR 25 billion (USD 233 million) for the two jets. The carrier has proposed procuring long-range jets to serve destinations in North America, Japan, Australia and the UK. It is even considering arrangements for offers higher than its estimated investment plan. As of now, NAC has received a credit offer totalling NPR 60 billion (USD 560 million) from private commercial banks, Citizens Investment Trust and

Employees Provident Fund to finance the project.<sup>46</sup>

**Bhairahawa airport resumes construction process:** The Gautam Buddha International Airport project in Bhairahawa has been permitted to extract sand and gravel from the Tinau River for its construction using mechanical devices. The project had been put on hold after authorities banned extraction from local rivers using excavating equipment; permitting only hand tools, citing environmental concerns. Currently, the project requires 500,000 cubic metres of sand and gravel. It has planned to extract 100,000 cubic metres from the Tinau River. The project is estimated to be completed within its revised deadline of June 2018; pushed back from December 2017. However, the physical progress of the project has reached only 25% against its targeted achievement of 50% by this fiscal year ending mid-July 2017. The civil work component of this project has been valued at around at NPR 6.30 billion (USD 58.8 million) out of the total USD 90.6 million project cost.<sup>47</sup>

## “ OUTLOOK

Lack of infrastructure has hindered growth of all sectors in the economy. Infrastructure deficit has been a major barrier for businesses and hindered growth; and as a result, has failed to improve quality of life of people. One major reason cited for the poor rate of infrastructure development is the lack of political stability as well as the various policies pending that foster infrastructure development. The World Bank estimates that in order to close the infrastructure gap the country needs to invest 8.24% to 11.75% of the 2010 GDP per year. Though the government allocates a higher capital expenditure budget than that identified by the World Bank the government is unable to spend even one fourth of the budget allocated for capital expenditure; thereby indicating a dire need to improve the public expenditure system at the earliest.

# INFORMATION AND COMMUNICATION TECHNOLOGY

This quarter brought in some positive developments in the telecom sector of the country. Nepal Telecom (NT) will be the first telecom operator in the country to launch 4G services, while Ncell is preparing itself to launch the services as soon as it gets its license. On the other hand, the government is finally utilizing the unused fund of Rural Telecommunication Development Fund (RTDF) to extend broadband services to 32 districts of the country.

## **Nepal Telecom (NT) consumers to get 4G services from December:**

Nepal Telecommunications Authority (NTA) has approved NT's 4G plan after the latter sought permission for the launch of 4G services in Kathmandu and Pokhara by December 2016. NT will be upgrading its current services to 4G under the 'technology neutrality policy' after upgrading its equipment and software, which will be enough to launch the services in the two high data consuming cities. NT will be gradually expanding the services to other cities later.<sup>48</sup> In October 2016, NT had expanded its 3G service to all districts of Nepal. 3G services were first launched in 2007 within the ring road of Kathmandu Valley.<sup>49</sup>

**Ncell submits 4G plan to NTA:** In the process of awarding 4G service license to Ncell, NTA sought the 4G roll out plan from the telecom provider following which Ncell submitted its plan in the first week of November.<sup>50</sup> Ncell has claimed that it can introduce 4G services within a month of getting the license after aligning the system with the spectrum. Ncell plans to provide 4G services in Kathmandu, Pokhara and Damauli in the first phase and

then extend it to other parts of the country phase wise. Earlier NTA was reluctant to award the 4G license to Ncell on account of the pending capital gains tax issue.<sup>51</sup>

**First female MD of NT appointed:** Of the 3 candidates recommended to the cabinet for the highest management position in NT, Kamini Rajbhandari was appointed as the Managing Director (MD) of the state run telecom operator, NT. Previously, she was the Chief Technical Officer (CTO) of NT and also worked in several departments of the company including Wireless service directorate, Wire-line directorate, Planning Department, Operation and Maintenance Department. She is the first female engineer who got appointed as the MD in NT.<sup>52</sup>

**New billing system for postpaid users of NT:** NT has migrated its GSM postpaid subscribers to the new billing system called Convergent Real Time Billing (CRTB) system wherein balance of customer's account will get deducted in real time. Previously only CDMA subscribers, GSM prepaid and WiMAX were associated with this billing system.<sup>53</sup>

## **NTA, NT sign agreement to lay optical fibre:**

NTA and NT signed an agreement to lay the optical fibre along the mid-hill highway. NTA will bear the cost of laying the fiber through the Rural Telecommunication Development Fund (RTDF) and NT will lay optical fibre covering 32 districts along 2,376 kilometers. According to the NTA chairman, broadband connectivity will be there across all cities and villages of these 32 districts within the next two years.<sup>54</sup>

## **License for payment-related services sought:**

As per Nepal Rastra Bank's (NRB) Payment Systems Department, more than 67 companies have applied for license of payment related services. Banks and Financial Institutions (BFIs), payment service providers and payment system operators applied for the license after NRB instructed all companies related to payment related systems to apply for the license within 35 days of announcement. NRB came up with the legal framework on payment system and licensing policy to make the payment system secure.<sup>55</sup> Telecom companies are also eligible to apply for these licenses.

**Seven quake hit districts to get broadband connectivity in a year:**

In order to make the broadband network and internet connectivity accessible to the people of Gorkha, Dhading, Makwanpur, Dolakha, Rasuwa, Sindhuli and

Okhaldhunga, Nepal Telecom Authority has invited applications from Internet Service Providers (ISP) to submit proposals.<sup>56</sup> The selected ISP will have to make the broadband facility available in each of the Village Development

Committee (VDC), district headquarters, health posts, hospitals and educational institutions in these districts within a year. The selected ISP will be provided money to build infrastructure in these districts from NTA via the RTDF.

**“ OUTLOOK**

While the mobile penetration across the country has already exceeded 100%, the telecom providers are now working towards extending internet penetration which currently stands at 52.70 per 100 people. With the introduction of 4G services and extension of broadband services, data connectivity and thereby internet penetration throughout the country is expected to improve.

# REAL ESTATE

Nepal's realty sector has witnessed one of the most difficult times in the recent quarters. Short term demand factors fuelled by the 2015 earthquake and a strict central bank policy on realty lending had stalled the sector's growth; low consumer demand for apartment projects had further exacerbated the problem for developers. Absorption rates for apartments within the valley has virtually come to a standstill after the earthquake and developers continue to remain in a wait and watch mode.

**New provisions on house rental agreement:** The government has laid down a new provision in a bid to make the collection of rental tax more transparent and systematic. As per the provision, the landlord and tenant will have to enter into a 12-point agreement before giving or taking any house, flat, apartment and room on rent. As prescribed by the Ministry of Federal Affairs and Local Development, it is also mandatory to present a witness on their behalf while securing their respective signatures in the agreement. All 204 municipalities and 12 sub-metropolitan cities

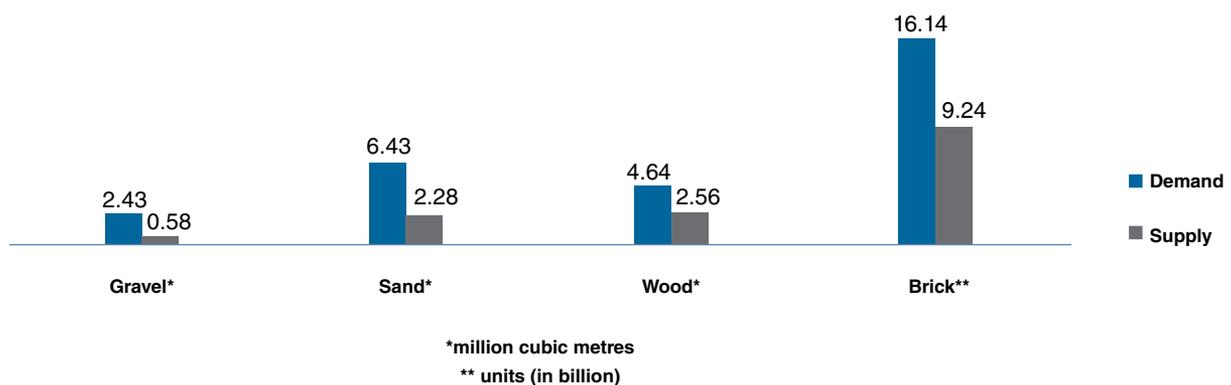
including Kathmandu Metropolitan City have been directed to follow the guidelines.<sup>57</sup>

**Shortage of construction materials for reconstruction work:** National Reconstruction Authority (NRA) has warned that the country may face a shortage of construction aggregates, boulders, gravel, sand, wood and bricks once the post-quake reconstruction activities start picking up pace. Currently, an inconsistency in the demand and supply of construction material has been reported which has been illustrated

in the figure below. Over 400,000 households have obtained the first instalment of the housing grant from the government to rebuild houses destroyed by quakes. The demand-supply mismatch at this hour has led to speculations of possible hike in the prices of these construction materials. However, the private sector has claimed that the problem is not as grave as portrayed by the NRA.

**Sharp rise in home loans:** According to Nepal Rastra Bank (NRB), real estate loan has risen by 30.8% to touch NPR 83.60 billion (USD 780

**Figure 10: Demand-supply inconsistency of construction materials for reconstruction work**



**Table 3: Comparison of Total Credit to Real Estate Sector over the past four fiscal years (in NPR billion)**

Fiscal Year	2012-13	2013-14	2014-15	2015-16
Total Credit to Real Estate	86.06	82.48	85.67	108.07
Commercial Banks	63.04	60.46	63.87	83.60
Development Banks	12.86	12.77	13.11	17.27
Finance Companies	10.15	9.24	8.68	7.19

Source: *The Kathmandu Post* <sup>59</sup>

million) in FY 2015-16 as compared to last year's NPR 63.87 billion (USD 596 million). This surge in home loans has been attributed to lower bank interest rates. For property purchase, banks have been financing up to 60% at an interest rate of 6.5% per year. Currently, NRB has imposed a 25% cap on property loans over NPR 10 million (USD 93,000). Similarly, a 10% ceiling has been maintained on loans to buy land for plotting. However, no restriction applies for home and land loans up to NPR 10 million (USD 93,000).

**Building completion certificate not met by 85% houses:** Only 15% of houses in Kathmandu have a

building completion certificate, even though the Kathmandu Metropolitan City (KMC) enforced a mandatory regulation on certification in June 2015 post the earthquake. The KMC issues a building completion certificate under two criteria i.e. the building should meet the code guidelines of KMC and a blueprint of the copy must be provided. Any house that does not meet the guideline will need to rectify their property or risk being demolished. According to KMC, out of the 25 applications submitted daily, only 4-5 applicants are able to meet the required building code.<sup>60</sup>

**Major surge in land registration fee:** According to Department of Land

Reform and Management (DoLRM), the collection of land registration fee leaped by 161% to NPR 1.8 billion (around USD 1.6 million) in August. This surge was backed up by a growth of 61% and 67% in fee collection recorded in June and July respectively. The major reason behind this surging demand for real-estate can be credited to remittance inflow. In the view of real-estate transactions continually growing after the lift on embargo, the market is rife with speculations that the property market may be overheating.<sup>61</sup>

**Remittance money going into real estate:** Majority of migrant workers from Gulf countries have been increasing their investment in land and residential buildings. Consequently, the price of land has sky-rocketed, both in rural as well as urban areas. Since economic status is directly synonymous to asset holdings, huge portion of remittance is being spent on real estate. However, these investors face possible risks from the counterproductive effects of rising price lands.<sup>62</sup>

## “ OUTLOOK

Due to the unpredictable nature of the real estate sector it is difficult to forecast its future on account of lack of information and research on demand and supply. The major challenges seen are increased supply of housing projects namely row houses and condos. Their absorption could be a major concern for developers due to overpriced properties, declining remittances and increasing housing interest rate. It is important for many of the realty developers to re-examine the demand scenario before developing properties.

# EDUCATION

In an effort to improve the education sector, the Ministry of Education (MoE) is undertaking several noteworthy steps. Firstly, it is working on the School Sector Development Plan (SSDP) to form regulations to restructure the education system of Nepal. It has begun reconstructing the schools damaged by the earthquake in 2015. The ministry's focus has also shifted to providing vocational training for the unemployed youth. Furthermore, the government has made major changes in the National Education Regulations regarding private schools. These changes remain to be properly implemented before Nepal's education system attains stability.

## **Discussions on post-federalization education system started:**

Education Helpline Biratnagar organized a discussion program regarding the type of education system to be adopted federally. Village locals and government committees who participated in the program suggested that vocational education should be conducted from the school level itself, since it would ensure the production of skilled human resources and help in minimizing the unemployment rate. Emphasis was also placed on the significance of job-oriented education policies and the need for a new policy, as the current policy has failed to meet the job demand. Many districts in Nepal have started discussions about such possible model of education system, ever since it had been recommended to Village Councils and Municipal Councils by the State Restructuring Committee.<sup>63</sup>

## **Post-earthquake reconstruction of schools off to a slow start:**

After 17 months of bureaucratic delay, the Ministry of Education (MoEd) has finally begun reconstruction of more than 300 schools damaged in last year's earthquake. It is also

planning to announce tender for reconstruction of 450 more schools within this fiscal year. The Central Level Project Implementation Unit (CLPIU) under MoEd aims to build 1,100 schools with a budget of NPR 5 billion (USD 46.67 million) sought from the National Reconstruction Authority (NRA). However, the reconstruction is off to a sluggish start as NRA is yet to approve the "Schools Reconstruction Guideline" submitted by CLPIU.

As per the guidelines, when the school reconstruction begins, funds can be provided to school management committees, once they produce the running bills. Also, each school can obtain up to NPR 20 million (USD 186,689.06) as grant from the government as opposed to the existing provision of NPR 6 million (USD 56,006.72) as grant amount for the reconstruction of schools. Likewise, more than 150 CLPIU-authorized NGOs have already completed reconstruction of 500 schools in 31 districts based on a tripartite agreement between NRA, CLPIU and the concerned NGOs/INGOs. However, out of the 9,353 damaged

schools across 59 districts, 7,923 schools still need to be reconstructed.<sup>64</sup>

## **Government to offer vocational training to jobless youths:**

In order to create self-employment opportunities for around 50,000 youths, the Industry Ministry is planning to provide vocational training in areas of metal fabricating, furniture manufacturing, carpet weaving, fruit processing, noodle manufacturing, milk processing, baking and off-season vegetable farming areas. Furthermore, the ministry will also ensure appropriate markets for the products generated by such vocation, along with the provision of easier and cheaper access to finance for youths seeking self-employment. However, experts claim that the ministry's plan will not be realistic unless youth are given entrepreneurship training as well. Experts have also argued that this plan will fail to make much of a difference, as it will cater to only 10% of the youth entering the job market.<sup>65</sup>

## **Education ministry set to implement School Sector Development Plan:**

The Ministry of Education (MoE)

is endeavoring to ensure equitable access to quality by implementing the School Sector Development Plan (SSDP) from this fiscal year. This plan was prepared after evaluating past experiences, disasters and federal status of Nepal to produce human resources and elevate Nepal's status from least developed country to middle-income country by 2030 A.D. MoE has set out a two-pronged strategy for the governance and implementation of SSDP program. The strategy focuses on the development of a roadmap for realigning MoE with the federalization process as well as on the consolidation of existing arrangements regarding SSDP implementation through improved program management, technical oversight and coordination. The estimated expenditure for SSDP implementation is NPR 1.14 trillion (USD 10.66 billion), NPR 696.34 billion (USD 6.5 billion) and NPR 353.52 billion (USD 3.3 billion) for 7 years, 5 years and the first year, respectively.<sup>66</sup>

**ADB-assisted school reconstruction projects begin:**

MoE has begun rebuilding of earthquake-damaged schools under the assistance of Asian Development Bank (ADB). The first project that began was the Shree Kali Devi Primary School in Kavre, where ADB Country Director and MoE Minister jointly laid the foundation stone. The school will be built at a total cost of NPR 27.2 million (USD 253,897.13), and will adopt earthquake-resilient technology and facilities such as disabled-friendly toilets, proper drainage systems, drinking water and solar backup. ADB is set to increase the assistance amount once the reconstruction gathers momentum. In addition, ADB has started the survey and designing of 62 schools in Ramechhap, Okhaldhunga, Sindhupalchowk and Kathmandu,

of which bidding documents for 34 schools are ready.<sup>67</sup>

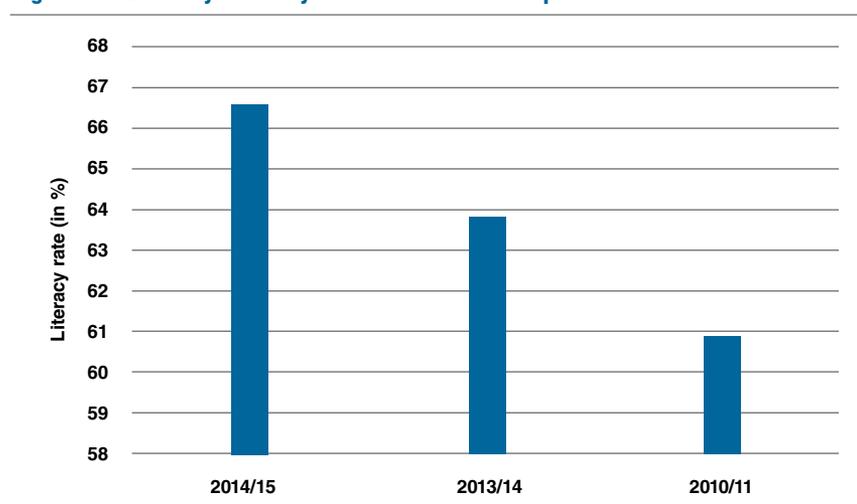
**Education gap yet to be minimized:**

In a survey conducted by Central Bureau of Statistics (CBS) of 4,500 households across the nation, it was revealed that the literacy rate of the Nepali population above six years of age is 66.6%, while the child literacy gap between rich and poor is 40%. The findings also indicate disparity in literacy of children when

disaggregated by sex – the literacy gap between male and female children above five years of age is 18%.<sup>68</sup>

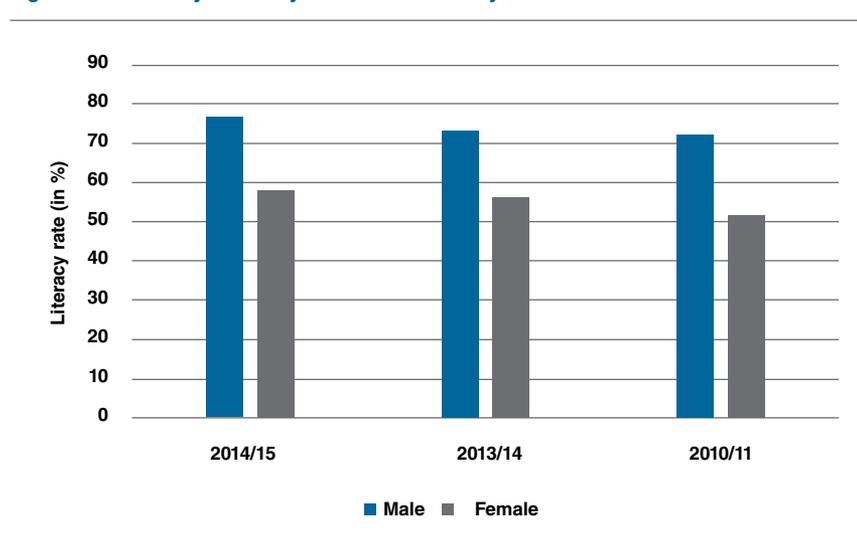
The estimates from the survey also indicate that 33.4% of the population is attending school at present as against the 28.1% in the previous report. However, according to a report published by MoE and United Nations Children's Fund's All Children in School, one million kids have never attended school, and

**Figure 11: Literacy Rate 6 years and above in Nepal**



Source: The Himalayan Times

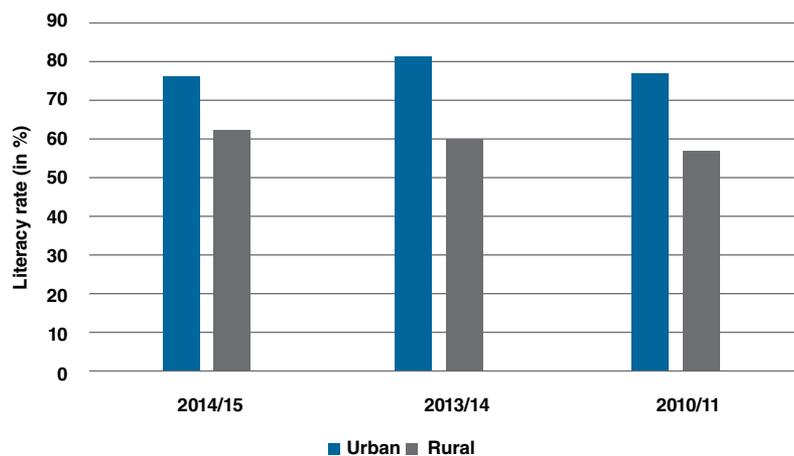
**Figure 12 Literacy Rate 6 years and above by Gender**



Source: The Himalayan Times

more than one-third of these children are from districts of central Terai, viz. Rautahat, Sarlahi, Mahottari, Dhanusha and Bara districts. Poverty, social exclusion, child labor, child marriage, trafficking and gender biases are considered to be the main hindrances to education for children. Other barriers include disability, migration, natural disasters and civil conflicts. To increase the literacy rate, MoE has recently amended the Education Act to make lower secondary level education free and compulsory to all.<sup>69</sup>

**Figure 13 Literacy Rate 6 years and above by Area**



Source: *The Himalayan Times*

## PRIVATE SCHOOLS REBUFF GOVERNMENT'S NEW RULES

Both National Private and Boarding Schools Association Nepal (NPABSAN) and Private and Boarding Schools' Organization Nepal (PABSON) have raised objection against government's proposed amendment to Nepal's Education Regulations. Both parties have expressed their dissatisfaction with the stern regulatory provisions for private schools put forth in the amendment. The amendment endorses mandatory provisions for operating the guthi-run private schools, terminating registration of private schools under Company Act and categorizing school education into basic (Grades I to VIII) and secondary levels (Grades IX to XII). MoE has also made it compulsory for private schools to review their fee structure in accordance to the grade rating of the schools.<sup>70</sup>

According to the Education Regulations, private schools are expected to submit proposals for determining school fees to the district education offices by January 15 every year, after which the district education offices have to decide on the fee ceiling by February 15.

However, representatives from private schools have demanded that the government should allow them to determine the fees at the local level. They were also dissatisfied that their representatives were not included in the discussions during drafting of the amendment. If the schools do not comply, they run the risk of fines up to NPR 25,000 (USD 233.36) and cancellation of their license on account of breach of rules.<sup>71</sup>

## “ OUTLOOK

It is praiseworthy that the government today is all set to increase number of schools in the country so that children in all parts of the country have access to education. However, the government should also focus on ensuring quality education to its citizens. In addition, there is a need to bridge the gap between private and public education system, as the difference in performance levels of students is clearly evident. Moreover, the government's move to include vocational subjects such as agriculture, electric engineering, animal science and others is praiseworthy, as it encourages self-employment. However, it ought to include entrepreneurship training on its radar, if it aims to bring down unemployment figures.

# HEALTH

The Government of Nepal (GoN) has planned multiple investments in health-related sectors as a part of which the Ministry of Health (MoH) has initiated a nationwide health insurance scheme. It has also directed government hospitals to set up their own pharmacies in an effort to make medicine affordable for all. While efforts have been made to provide health services, on the other hand there is still a long way to go to complete post-earthquake reconstruction of health amenities in many of the earthquake affected districts of the country.

**Government to rebuild 200 health facilities:** The Ministry of Health (MoH) has allocated NPR 1 billion (USD 9.33 million) for rebuilding health facilities in four of the earthquake-affected districts in the country. The government plans to reconstruct 200 damaged health facilities on its own in Ramechhap, Okhaldhunga, and Makwanpur and Sindhuli districts as donor agencies have failed to reach these districts as of now.<sup>72</sup>

**Air quality becoming a matter of concern:** World Health Organization (WHO) recently published the Global Urban Ambient Air Pollution database – Update 2016 which is a comprehensive database of urban air quality for 2008-2015. According to figures published by WHO on Ambient Air Pollution, nearly 740 people died from acute lower respiratory infection, 1,770 from chronic obstructive pulmonary disorder, 932 from lung cancer, 3,328 from ischemic heart disease and 3,183 from stroke in Nepal in 2016 alone.<sup>73</sup> Nepal was also listed among the top four worst performers in protecting human health and environment from degrading air quality by the Environmental Performance Index

(EPI) 2016 published by the Yale University.<sup>74</sup>

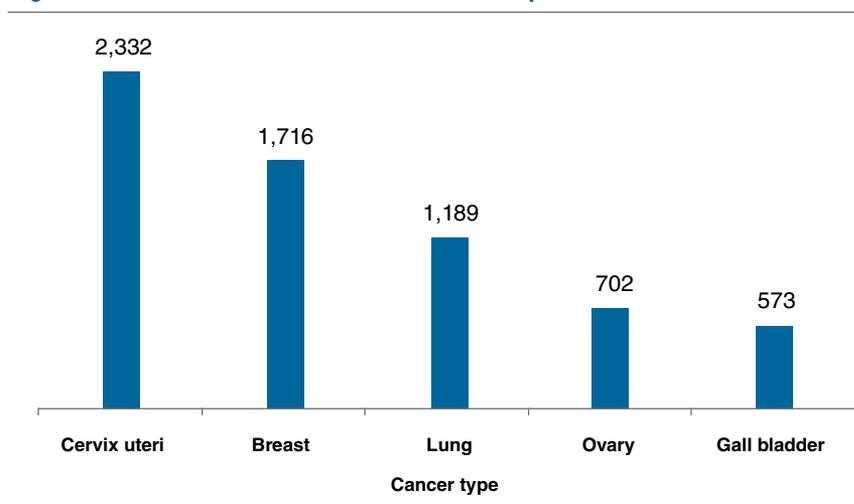
**One in two lab reports mislead patients:** In its routine cross examination of laboratory reports from private polyclinics and government laboratories, National Public Health Laboratory (NPHL) has found that more than 50% of laboratory reports are either erroneous or completely incorrect. NPHL regularly monitors the authenticity of tests conducted by laboratories throughout the country, however most hospitals and laboratories avoid sending their reports to NPHL. Most errors in lab reports arise due to negligence of technicians, questionable quality of the reagents, and improper storage and/or inaccurate temperature control.<sup>75</sup>

Fallacies in test results can lead to prescription of wrong medication, which in turn, can have serious effects on health of the patients. In addition to adequate training of lab technicians, it is essential that NPHL and other concerned agencies under the Ministry of Health (MoH) take steps to ensure that both doctors and patients can rely on laboratory

reports. Meanwhile strict actions must be taken against laboratories and polyclinics whose reports are consistently erroneous.

**Government hospitals to set up own pharmacies:** The Ministry of Health (MoH) has allocated over NPR 300 million (USD 2.8 million) to state-run hospitals for setting up their own pharmacies. A total of NPR 3 million (USD 28,003) has been allocated for central hospitals, NPR 2.5 million (USD 23,336) for regional hospitals, NPR 2 million (USD 18,668) for sub-regional hospitals and NPR 1.5 million (USD 14,001) for zonal hospitals. A timeframe of six months has also been set down for the same where the money assigned will be used to prepare the required infrastructure of pharmacies.<sup>76</sup>

At present government hospitals in a bid to add to their cash inflow, have been renting out space to private pharmaceuticals instead of opening in-house pharmacies. However, with government hospitals setting up their own pharmacies, a strict implementation of Hospital Pharmacy Service Directives 2013 is likely to take place, making medicine more affordable for patients.

**Figure 14: Cancer-Caused Female Deaths in Nepal**

Source: Cancer Country Profiles 2014

#### Breast cancer cases on the rise:

As showcased in Figure 14, breast cancer is the second most prevalent cancer after cervix uteri cancer among Nepali women; the cases of which are on the rise owing to poverty, illiteracy and lack of awareness among women, especially in rural areas. More than 1,200 patients have been treated in some of the major hospitals of Nepal such as Bhaktapur Cancer Hospital, TU Teaching Hospital, BP Koirala Memorial Cancer Hospital and Nepal Cancer Hospital and Research Center, with the number of patients increasing ever year.<sup>77</sup> According to WHO's Cancer Country Profiles 2014, each year, a total of 7,400 women die of cancer in Nepal, out of which 1,716 deaths are caused by breast cancer.<sup>78</sup>

#### Restructuring health sector post-federalization:

The Government of Nepal (GoN) has planned to put together a high level 11-member taskforce for restructuring the Nepali health sector within the federal setup. The taskforce is mandated to prepare a vision paper highlighting the status of the health sector in federal Nepal within six months of its formation. Dr Padam Bahadur Chand, Chief Specialist at the MoH, will serve as the

Member Secretary of the taskforce. The restructured health sector will be developed as a three tier system, with central, provincial and local health councils. The center will function as the policy making body and platform for international cooperation, while the provincial and local units will be in charge of program management and service delivery respectively.<sup>79</sup>

#### Hospitals to allocate beds for poor:

The Ministry of Health (MoH) under the 'Establishment, Operation, and Upgradation Standards of Health Institutions

## SLUGGISH BEGINNING TO GOVERNMENT'S HEALTH INSURANCE PLAN FOR ALL

While the Ministry of Health (MoH) is determined to provide nationwide health insurance within a period of three years, its plan of extending the scheme to 25 districts each year is off to an unimpressive start. After the scheme began on mid-July, MoH has only seen 18,000 names registered for the health insurance scheme out of the 1.3 million population from Baglung, Kailali and Ilam.

The MoH has allocated NPR 2.5 billion (USD 23.33 million) to provide insurance to 25 districts for the current fiscal year.<sup>82</sup> The districts selected for the scheme in the current fiscal year are Baitadi, Achham, Myagdi, Palpa, Kaski, Jhapa, Tanahu, Gorkha, Bhaktapur, Chitwan, Jumla, Jajarkot, Mahottari, Dolpa, Makwanpur, Solukhumbu, Surkhet, Bardiya, Parsa, Sindhuli, Sunsari and Rautahat. Meanwhile the government's plan for gradual extension of the program to five more districts every three months is underway.

The health insurance scheme provides tax exemptions on premiums up to NPR 50,000 (USD 466.72) per family. Insurance premium for a five-member family is NPR 2,500 (USD 23.33) per annum, and for every additional member, the premium increases by an amount of NPR 425 (USD 3.96).<sup>83</sup> Upon registration, insurance-holders are issued identity cards. The identity cards can be furnished in government hospitals to get the insurance service. Taxes on insurance compensation, including compensation paid to the family of a deceased person, have also been scrapped.

However, despite the simplicity of the procedure and tax benefits to insurance-holders, the government has not been able to speed up the health insurance scheme. A major reason for this seems to be lack of awareness among the public regarding the benefits of insurance, whereas efforts on the government front on this matter have also been missing. Meanwhile, Beema Samiti; the insurance market regulator, has insisted that the scheme be brought within its scope in order to increase its effectiveness.<sup>84</sup>

Directives, 2014<sup>7</sup> has mandated hospitals throughout Nepal to allocate 10% of the total beds for free treatment of disadvantaged, helpless and unclaimed patients. The directive aims to make quality health services accessible and affordable to the poor. Hospitals are required to send monthly progress reports to the concerned District Public

Health Office, Regional Health Directorate, Department of Health Services and MoH. While offering the free treatment services, the hospitals are required to give priority to senior citizens, disabled and single women.<sup>80</sup>

**22% decline in HIV/AIDs patients:** In the last decade, the number of HIV/

AIDs patients in Nepal recorded a drop of 22%. The report published by National Center for AIDS and STD control mentions that the total number of HIV/AIDs patients stood at 70,000 in 2007. In recent times, only 13,000 people have been estimated to be newly infected. Moreover, each year 0.2% of people between the age of 15 and 49 years are infected with HIV.<sup>81</sup>

## “ OUTLOOK

With the government investing in affordable health care and insurance, progress in the health scenario of the country is expected. The slow start to the health insurance scheme being pushed by the government indicates the lack of awareness efforts on the government side, and needs to be addressed for better results. Meanwhile, success of the scheme also depends not only on meeting the deadlines on time, but also on the development and strengthening of the existing peripheral health system.

# TOURISM

Nepal's tourism industry is slowly bouncing back from last year's earthquake, blockade and subsequent avalanches in the Himalayan region. Ministry of Culture, Tourism & Civil Aviation (MOTCA) launched the National Tourism Strategy 2016-2025 in a bid to attract 2.52 million tourists annually by the year 2025. Now Chinese citizens are eligible for free visa on arrival resulting in a remarkable growth of 28% in Chinese tourist arrivals, in the first six months of 2016 compared to last year. Tourism plays a crucial role in the country's economy with the World Travel and Tourism Council (WTTC) ranking Nepal in the sixth position out of 184 countries in terms of direct contribution to job creation by the Tourism industry.<sup>86</sup>

### Reopening of Boudhanath Stupa:

Nepal's United Nations Educational, Scientific and Cultural Organization (UNESCO) World Heritage Site, Boudhanath Stupa that was severely damaged by the 7.8 magnitude earthquake, in 2015 has been restored and reopened. The restoration work began in May 2015, without any government funding. Boudhanath Area Development Committee stated that more than USD 2 million (NPR 214 million) were donated by the devotees and private Buddhist organization from all over the world, for the restoration of the monument. Around 31 kilogram of gold was also donated, which was used to cover the structure's pinnacle, along with the 13 steps that represents the Buddhist path to enlightenment. The stupa was decorated with colourful pray flag and flowers at the opening which was followed by three days purification rituals to mark its opening.

**DPR for SIA:** MOTCA is in the process of preparing another Detailed Project Report (DPR) for the Second International Airport (SIA) in Bara, Nijgadh. The new DPR states that SIA can be built at the cost of NPR 121 billion (USD 1.13 billion), as per

the financial assessment made by Civil Aviation Authority of Nepal (CAAN). This will also include the construction of a 4,000-metre runway, 100,000-square-metre international passenger terminal building. The new airport will be able to handle 20 million passengers annually in the first phase.<sup>87</sup>

### Holiday packages for Ghumfir

**Barsha 2073:** Nepal Tourism Board (NTB), along with travel trade associations have introduced new holiday packages for "Ghumfir Barsha 2073". These packages target domestic tourists, as domestic tourism has become a key source of income in many remote parts of Nepal. Domestic travel spending has contributed 57.5% to travel and tourism GDP in 2015. The packages range from three to nine nights and comprises of four pilgrimage destinations that include -Haleshi Mahdev Darsan, Jankapur Dham, Devi Pathibhara Darshan and Lumbini-Sworgadwari-Pyuthan, two trekking and holiday destinations -Khaptad and Rara, and a wildlife and hill destination- Koshi Tappu-Dharan-Dhankuta-Hile.<sup>88</sup>

**NRNA promoting Tourism:** Non-Resident Nepali Association (NRNA)

are working towards boosting tourist flow in Nepal under which the association aims to bring 1.6 million foreign tourists by end of 2017.<sup>89</sup> NRNA has signed a declaration with Century Tourism Entrepreneurs Committee to promote the popular Annapurna trekking route starting from Dhampus, Chhomrong upto Machhapuchchhre base camp. Efforts will also be directed towards developing new routes while also adopting measures to preserve the bio diversity in area. The association also plans to establish a botanical and a geological garden, which will also be a centre for study and research in climate change and bio-diversity.<sup>90</sup>

### Establishing porter clothing centres:

Trekking Agencies Association of Nepal (TAAN) and Kathmandu Environmental Education Project (KEEP) have signed Memorandum of Understanding (MoU) to operate "porter clothing centres" in Kathmandu and Lukla. These centres will allow trekking staffs who cannot afford to buy appropriate clothing for higher altitudes, to rent warm jackets, trousers and boots at laundry rate. As per the MoU, KEEP will administer the management of the clothing

centre, where as TAAN will provide funds to pay the salary of employees and rent of the centres while also providing the clothing sets.<sup>91</sup>

#### **Nepal listed as 2017's Best Value Destination:**

Lonely Planet, the largest travel guide book has ranked Nepal as "Best Value Destination" and it is the only country from South Asia to be featured as top 10 countries to visit in 2017. Namibia, Portugal, Italy, Hungary, Belize Morocco, Russia, Australia and USA were among the top 10 countries on the list. The massive earthquake and the subsequent blockade had made access difficult last year, but now Nepal tourism is rapidly catching up and it has become an apt destination for budget travellers to trek along the famous trails in the Himalayas and discover the untapped wildlife.

#### **Introducing Organic Argo Tourism:**

Trekking Agencies' Association of Nepal (TAAN) has taken an initiative to associate organic farming with

tourism. The new concept of Organic Argo Tourism will be promoted among the famous trekking trails like Kanchanjunga, Jaljala-Makalu, Jiri-Everest, Langtang-Helambu, Upper Mustang and Upper Dolpa. This niche tourism product will be favourable for both tourism as well as the agricultural sector, as this product is gaining momentum worldwide and will potentially attract high-end tourist to Nepal. This will also help the local farmers to benefit from tourism and earn extra income.<sup>92</sup>

#### **Positive growth of Hospitality Industry:**

Nepal Hospitality industry has a lot of potential to have a healthy growth in future. International brands like Marriott, Aloft, Sheraton, etc. are entering the industry by signing contracts with local entrepreneurs and many new four-five star hotels are coming up.<sup>93</sup> Soaltee Crowne Plaza has also come up with a new four-star property in Nepalgunj, which is scheduled to be launched

by the first quarter of 2017.<sup>94</sup> Due to increased tourist inflow in Palpa, the local hotel entrepreneurs there have made investments of more than NPR 321 million (USD 3 million) in district headquarters of Tansen and surrounding areas.<sup>95</sup> Muktinath, the holy pilgrimage site for Hindu and Buddhist has also seen tremendous growth in the hotel industry, as more tourist are able to access the holy place after the construction of the Beni-Jomsom road.<sup>97</sup>

#### **New tourism campaign launched:**

In a bid to lure foreign tourists to the country, Nepal Tourism Board (NTB) has launched a global tourism campaign – 'Experience Nepal.' This campaign will continue till July 31, 2017 and aims to promote Nepal by organizing trade fairs and via social media. NTB will be partnering with different embassies to organize promotional campaigns in their respective countries. American Express and Himalayan Bank have partnered with NTB for this campaign.<sup>96</sup>

## NEW CIVIL AVIATION BILL SENT TO MINISTRY

Integrated Civil Aviation Bill 2016 has been finally submitted to MOTCA, which had been under preparation for last 7 years. The new bill pleases dividing Civil Aviation Authority of Nepal (CAAN) into two departments as the regulator and service provider. Currently these departments are operating under one office and there is no clarity on the organizational structure nor on the duties to be performed. The bill also proposes an independent aircraft accident investigation bureau with the objective of enforcing safety measures for aviation, prevent accidents and provide better services in the aviation field. It would also authorize the commissioner of the bureau to hold independent investigations, in case of a plane crash, without the interference of MOTCA.<sup>98</sup>

The integrated bill also proposes setting up a separate airport security unit and envisions the private sector to build and operate airports, so as to improve the quality of service and attract foreign direct investment. The government has laid down five categories feasible for building a private airport and will decide the limit of the airport. The airport should be built in a good geographical location, considering environmental and commercial factors.<sup>99</sup>

## “ OUTLOOK

Youth travel is now a growing trend in Nepal, hence the private sector should target this market segment and customize tourist packages which cater to both domestic and international tourist. In line with the government's plan to observe 2018 as "Visit Nepal Year", emphasis should be laid on accelerating the reconstruction work of heritages that were damaged by the earthquake. Although, Nepal is known for its adventure tourism and famous for its trekking trails, popular trekking trails like Upper Mustang and the Annapurna Circuit have been shortened due to unplanned construction of roads. Stakeholder should direct timely efforts to strike a balance between development and conservation to ensure sustainable growth of tourism in the country.

# TRADE AND DEBT

The country's import in the first quarter of FY 2016/17 surged heavily against stagnant export growth. An upward inclination of imports can be attributed to de-industrialization and low agricultural productivity. While the exports are also on the rise, the growth is sluggish as compared to the surge in imports, continuing the escalation of trade deficit.

**Foreign trade scenario:** Table 4 shows the foreign trade scenario of Nepal for the first three months of FY 2016/17. Merchandise exports improved by 12.6%, with the total exports amounting to NPR 18.93 billion (USD 176.7 million) against a drop of 25.4% increment during the same period of previous year. Exports to main trade partner, India saw a rise of 19.9%, while exports to China also grew 29.5%. Exports to other countries increased by 3.9%, contributing an amount of NPR 8.12 billion (USD 75.79 million) to the country's total exports.

On the other hand, imports have increased significantly, by a whopping 69.1%, with the total imports amounting to NPR 220.67 billion (USD 2.05 billion). This is a sharp increment in contrast to a drop of 31.9% during the same period of the previous fiscal. Imports from both India and China saw a considerable rise compared to the contraction in the previous year which was mainly the result of the trade embargo with India. Imports from India rose by 79% while those from China increased by 58.8%, resulting in a total import amounting NPR 175.45 billion (USD 1.63 billion).

**Top imports and exports:** Import of vehicles and spare parts from India substantially increased by 193.6%

**Table 4: Foreign Trade Statistics for the FY 2016/17 (in billions)**

In NPR millions	2013-14	2014-15 <sup>R</sup>	2015-16 <sup>P</sup>	Percent Change	
				2014-15	2015-16
				R	P
TOTAL EXPORTS	22.53	16.80	18.93	-25.4	12.6
To India	13.56	8.69	10.42	-35.9	19.9
To China	0.88	0.29	0.38	-66.5	29.5
To Other Countries	8.08	7.81	8.12	-3.3	3.9
TOTAL IMPORTS	191.71	130.48	220.67	-31.9	69.1
From India	123.89	80.07	143.29	-35.4	79.0
From China	23.34	20.24	32.15	-13.3	58.8
From Other Countries	44.47	30.16	45.22	-32.2	49.9
TOTAL TRADE BALANCE	-169.18	-113.67	-201.74	-32.8	77.5
With India	-110.32	-71.38	-132.87	-35.3	86.1
With China	-22.45	-19.94	-31.77	-11.2	59.3
With Other Countries	-36.39	-22.34	-37.10	-38.6	66.0
TOTAL FOREIGN TRADE	214.25	147.29	239.60	-31.3	62.7
With India	137.45	88.76	153.72	-35.4	73.2
With China	24.23	20.54	32.54	-15.2	58.4
With Other Countries	52.55	37.98	53.34	-27.7	40.4

*Based on customs data R=Revised / P=Provisional  
Source: NRB Report – Current Macroeconomic Situation, Based on three months data of 2016/17<sup>99</sup>*

to NPR 22.36 billion (USD 208.71 million) in contrast to a decline of 36.2% at the end of first quarter of FY 2015/16. Similarly, there has been a considerable rise in the import of

petroleum products as compared to last year's steep fall. Import of petroleum products registered an increment of 50.2% compared to the corresponding period last year,

with the total imports amounting to NPR 20.40 billion (USD 190.42 million). MS Billet worth NPR 11.48 billion (USD 107.15 million) was also imported from India, recording a significant increase of 172.8% against a 34% fall during the first quarter of FY 2015/16. The import of telecommunications equipment from China saw a growth of 34.2% while the import of gold from other countries registered a 9.2% fall.

Cardamom exports declined 26.2% amounting to NPR 746.3 million (USD 6.96 million) as compared to the 169% increment during the same period of previous fiscal. The export of polyester yarn is still on the decline, registering a fall of 11.4% in the first three months of FY 2016/17. Similarly, export of zinc sheets, readymade garments, and vegetables has decreased. On the other hand, the export of juice and jute goods increased by 136.9% and 59.7% respectively, as compared to the figures in the same period of previous year. Juice export amounted to NPR 1.35 billion (USD 12.60 million) while export of jute products amounted to a total amount of NPR 1.10 billion (USD 10.26 million). Metal and woolen handicrafts are still the major exports to China, amounting to NPR 100.8 million (USD 940,912.90).

**Trade deficit:** Total trade deficit in the first quarter of FY 2016/17 widened by 77.5% to NPR 201.75 billion (USD 1.88 billion) compared to a contraction of 32.8% during the same period of last fiscal. This is evident from the export-import ratio, which fell to 8.6% from 12.9% in the corresponding period of the previous year. The rise in deficit can be attributed to the country's weak production base.<sup>101</sup>

**BOP surplus:** The overall Balance of Payments (BOP) registered a surplus of NPR 19.70 billion (USD 183.88 million) in the first quarter of FY 2016/17 compared to a surplus of NPR 63.96 billion (USD 597.03 million) in the same period of the previous year. However, the current went into a deficit of NPR 1.97 billion (USD 18.38 million) owing to an increase in trade deficit, decline in grants and sluggish rise in remittances.

**Rise in government's domestic debt:** At the end of FY 2015/16, the government of Nepal's total debt stood at NPR 621.55 billion (USD 5.80 billion) comprising of 62% external debt and 38% internal debt. In terms of external debt, foreign debt liability in Nepali rupees has decreased as the flow of disbursement has decreased to some extent compared to the previous quarter. By the end of FY 2015/16, internal debt amounted to NPR 87.77 billion (USD 819.28 million) and external debt amounted to NPR 37.27 billion (USD 347.89 million). Of the total debt, 28% was received from multilateral sources, while 2% was received from bilateral sources. Similarly, the government repaid NPR

17.79 billion (USD 166.05 million) in principal repayment of external creditors and NPR 50.33 billion (USD 469.80 million) to domestic creditors. The total interest paid by the fourth quarter of FY 2015/16 was NPR 8.67 billion (USD 80.92 million).<sup>102</sup>

**Food imports on the rise owing to fall in domestic production:** Nepalgunj Customs saw a rise in food imports this quarter owing to drop in domestic production and soaring demand. Imports of vegetables and other farm products increased significantly due to high demands from Kathmandu, Pokhara and hill districts in the Mid-Western Region during the festival season. In addition, a decline in productivity has also forced traders to opt for large-scale imports from India.<sup>103</sup>

**Trade Facilitation Agreement to be ratified:** Preparations for tabling the Trade Facilitation Agreement (TFA) in the Parliament for its endorsement have started again as the previous endeavor was stalled due to the change in government. Nepal signed the TFA in 2013, which comprises of provisions for advancing the movement, release

## UPDATED AND REALISTIC NEPAL TRADE INTEGRATION STRATEGY LAUNCHED

The Ministry of Commerce (MoC) has launched the updated Nepal Trade Integration Strategy (NTIS) 2016 with an objective to increase the export of NTIS products to 4% of the gross domestic product (GDP) by 2020. As of now, the export of NTIS products stands at 2% of GDP. The revision intends to strengthen the supply capacity and develop the institutional capacity of trade-related institutions to build an enabling environment for trade. Furthermore, the updated NTIS aims to address the continuous decline in exports of NTIS-listed priority products.<sup>104</sup> The revision has condensed the export priority list of products and services, listing only five products and three services under priority export items. The products include carpets, leather products, pashmina, footwear and all types of fabrics (textiles and yarns) while service categories include skilled and unskilled labor, information technology and business process outsourcing, and tourism.<sup>105</sup>

and clearance of goods, including goods in transit. The TFA also governs Special and Differential Treatment (SDT) provisions that allow developing and least developed countries (LDCs) to determine the schedule for the implementation of individual provisions of the agreement with or without technical assistance and capacity building support from developed countries and multilateral banks. According to the MoC, Nepal has identified two measures as implementable within one year of the agreement, viz. pre-shipment inspection and better management of customs brokers to shorten the clearance time of goods at customs.<sup>106</sup>

#### **Agreement between shipping liners to issue multi-modal bill of lading:**

Shipping liners like Maersk Line and Safmarine among others have agreed to issue combined bill of lading of Nepal-bound cargo from the port of loading to Inland Clearance Depot (ICD), Birgunj. Before the recent agreement with shipping

liners, bill of lading was issued from the loading port to the destination port in Kolkata, India, which put the burden of extra payment, accumulated due to inefficiency of port and transit transport. With the multi-modal bill of lading, shipping liners, instead of the traders, will deal with Container Corporation (CONCOR) India for the timely delivery of goods. Himalayan Terminal Pvt Ltd (HTPL), the terminal management firm of ICD Birgunj, is in negotiations with other shipping liners as well for further simplifying the transit transport.<sup>107</sup>

#### **Nepal-China transit treaty to be finalized:**

Nepal and China's technical committee is working to develop the protocol of Transit and Transport Agreement to finalize the port and route for export and import via China. The technical committee targets to finalize the draft by March 2017. The port of Tianjin has been identified as the feasible port as it is close to the capital of China

and is around 500 kilometers from Kathmandu. However, the joint team will also look into two to three other ports. Nepal will be able to use the transit facility after the protocol is signed.<sup>108</sup>

#### **SASEC operational plan launched:**

The government together with the Asian Development Bank (ADB) launched the operational plan for South Asia Sub-Regional Economic Cooperation (SASEC). This is a USD 100 billion project on trade facilitation and energy and transportation sector development in South Asia. Out of the 209 projects to be implemented in Bangladesh, Bhutan, India, Maldives, Nepal and Sri Lanka 37 projects will be implemented in Nepal. The total investment in Nepal is estimated to be around USD 30 billion. The key aim of the plan is to align land and sea based routes to support efficient distribution and collection of goods while also supporting easy movement of people in the region.<sup>112</sup>

## “ OUTLOOK

With soaring imports and sluggish exports, trade deficit can be expected to widen. Experts have suggested that achieving self-reliance in agriculture production and creating a conducive environment for manufacturing industries should be the priority of the government in order to improve the trade scenario. The recent revision of NTIS 2016 should lead to capacity enhancement of trade-related institutions.

# FOREIGN AID

Low spending patterns of donor funding continues to remain a problem; with four agencies requesting for a refund on unspent money released for post conflict rehabilitation, reconstruction and peace building programmes.

### **World Bank extends USD 150 million loan:**

The World Bank has extended credit worth NPR 16 billion (USD 150 million) to the Government of Nepal (GoN) for the Strengthening Systems for Social Protection and Civil Registration Project. Under this project, the GoN will work towards expanding coverage of civil registration and modernizing delivery of social security allowances over a five year period. The population register is expected to serve as a basis for identifying populations eligible for social security allowances as well as those excluded from accessing public or private services.<sup>109</sup>

### **ADB loans USD 186 million to improve transport connectivity:**

The Asian Development Bank (ADB) is providing a loan of NPR 20 billion (USD 186.80 million) to upgrade 160 km of Nepal's strategic road network and improve domestic and regional connectivity. The project will upgrade a section of the strategic East-West highway - the main arterial road cutting across the entire width of the country in the southern Terai area - and a key feeder road. These critical sections are the 115 km road network running from Narayanghat to Butwal, and the 45 km feeder road from Bhairahawa to Taulihawa. The total cost of the project is NPR 27.5 billion (USD 256.50 million),

with the government contributing 7.5 billion (USD 69.70 million). The estimated completion date is in early 2022.<sup>110</sup>

### **Germany pledges NPR 4.2 billion in development cooperation:**

The Government of the Federal Republic of Germany, has agreed to provide NPR 4.2 billion (USD 39 million) to the Government of Nepal (GoN) for development cooperation in three key thematic areas; namely Sustainable Economic Development and Trade, Health and Energy Efficiency and Renewable Energy, with 49% of funds allocated to energy and 12% to health.<sup>111</sup>

### **ADB supports School Sector Development Plan:**

The Asian Development Bank (ADB) is working to improve the access and quality of secondary education in Nepal through a loan of NPR 12.86 billion (USD 120 million) and a NPR 53.57 million (USD 500,000) grant. The support is a part of the multi donor NPR 696.35 billion (USD 6.5 billion) School Sector Development Plan (SSDP) which aims to set up 200 model schools with disaster risk resilient infrastructure and improved education facilities such as water and sanitation facilities, library, science laboratory, ICT facilities, internet connectivity, etc. As part of the

SSDP, the ADB loan is expected to boost the quality of education; for instance, through the introduction of ICT, enhancing teachers' professional development, and promoting activity-based teaching for Math, Science, and English. The program will be carried out using ADB's results-based lending modality whereby funds will be disbursed based on the achievement of yearly results or performance targets over the next five years.<sup>113</sup>

### **DFID aids trail reconstruction:**

The United Kingdom's Department for International Development (DFID) has provided NPR 199.26 billion (USD 1.86 million) to the World Food Programme (WFP) to support the Government of Nepal's (GoN's) effort to rebuild critical infrastructure in six trails (129 km) as access to trails helps communities reach markets and social services, and is inextricably linked to food security and economic development. This will also include engineer assessments on another six trails (158 km) severely affected by the 2015 earthquake. The new trails will be built to withstand seasonal landslides and future earthquakes.<sup>114</sup>

### **NRA aid coordination committee in the offing:**

The Chair of the NRA Advisory Council has approved the formation of a Development Assistance

Coordination and Facilitation Committee (DACFC) provisioned in the Nepal Reconstruction Authority (NRA) Act. The proposed DACFC will have 11 members headed by the CEO of NRA followed by representatives from donor countries and agencies as well as representatives of I/NGOS and Federation of Nepalese Chamber of Commerce & Industries (FNCCI) among others. The responsibilities of the DACFC will centre on coordinating and facilitating reconstruction work under the NRA, mobilize and encourage financial and technical support, provide advice and recommendations to the Government of Nepal (GoN) and NRA by monitoring and reviewing progress

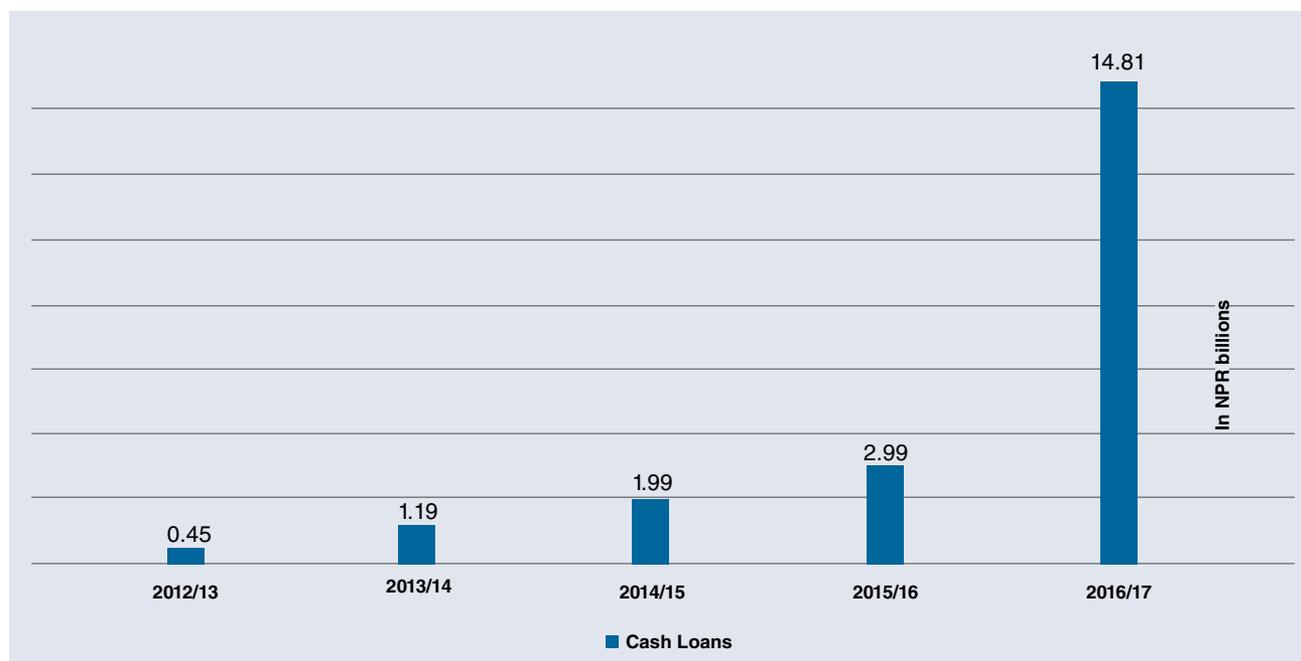
to make activities more effective, take measures to ensure uniformity and avoid duplication in activities and assistance, and undertake activities as directed by the Advisory Council to make reconstruction activities more effective.<sup>115</sup>

**World Bank to potentially increase concessional financing:** The World Bank is likely to increase concessional financing for the period of 2017-2020 given that the Government of Nepal (GoN) improves its quality of development spending; particularly in areas of financial management, procurement, contract management, and project staffing. So far NPR

87.84 billion (USD 820 million) has been allocated in concessional credit for the period of 2014-2016.<sup>116</sup>

**DFID pledges NPR 11.98 billion for health:** DFID has pledged NPR 11.98 billion (USD 111 million) to support the Nepal Health Sector Reform Programme for four and half years. The support will be used to restore essential health services in areas affected by earthquake, and building and improving the quality and governance of health services across the country. The support is expected to help improve the health of women and children as well as the poor and marginalised in the country.<sup>117</sup>

**Figure 15: Comparison of Foreign Cash Loans in the first three months over the past five years**



Source: Current Macroeconomic Situation, Nepal Rastra Bank

## OUTLOOK

With spending patterns and quality of development spending continually remaining an issue, so much so that donor agencies have now requested a refund on unspent money pledged for post conflict reconstruction and rehabilitation, it is high time that the government works towards efficiency in development spending, and make improvements in areas of financial management, procurement, contract management, and project staffing.

While there has been a significant increase in foreign loans in the current fiscal year, it is also essential that the government ensures higher utilization of committed funds, as historic spending patterns indicate otherwise.

# REMITTANCE

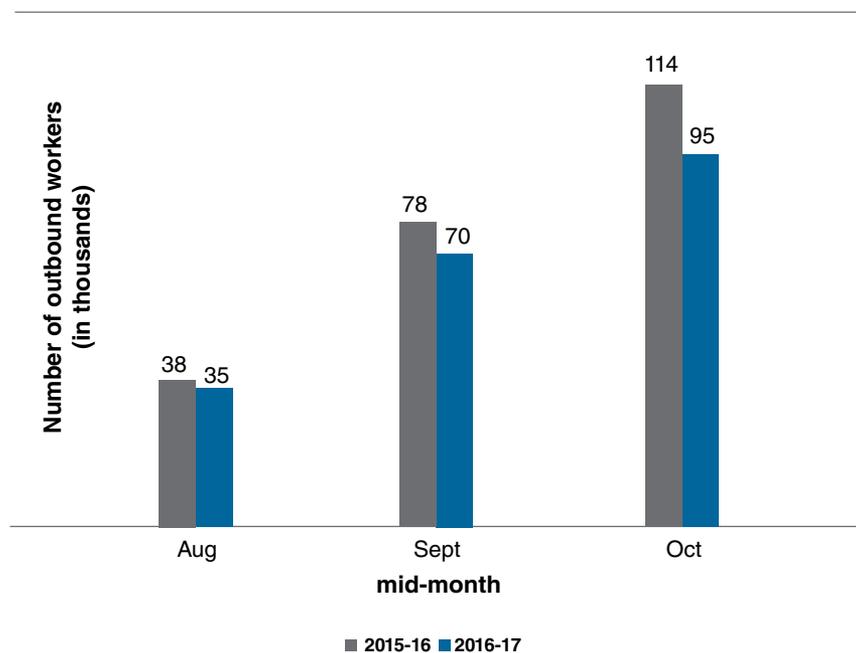
There has been a continuous decline in the remittance inflow since beginning of 2016 after the initial jump in remittance post-earth-quake. Meanwhile the number of Nepali migrant workers pursuing foreign employment has contracted significantly due to economic stress in destination countries. This has been further exacerbated by the free visa, free ticket policy initiated by the government, discouraging recruiting companies from sending workers to labour destinations.

### Remittance growth rate declines:

Remittance inflow rose by only 3.2% to NPR 171.80 billion (USD 1.60 billion) in the first three months of the FY 2016/17 compared to a growth of 24% in the corresponding period of the previous year.<sup>118</sup> This decline in growth rate can be attributed to the fall in the number of Nepalese workers seeking foreign employment. According to Department of Foreign Employment (DoFE), the number of Nepalese seeking work abroad has dropped by 16% in the first three months of FY 2016/17 as compared to corresponding period of previous year. The decline can be attributed to the fall in oil prices in the international market resulting in less job opportunities in major labour destinations, as well as the “Free Visa, Free Ticket” scheme imposed by the Government of Nepal (GoN) under which employer must bear the cost of tickets and visa, with potential migrants having to pay no more than NPR 20,000 (USD 186.69) as processing fees.

**Revising Free Ticket Free Visa Policy:** The Nepal Association of Foreign Employment Agencies

**Figure 16: Comparison of the number of outbound migrant workers in FY 2015-16 and 2016-17**



(NAFEA) has asked the government to re-evaluate the “Free Visa, Free Ticket” policy, imposed on June 2015, claiming that this policy has hampered the foreign employment opportunities. NAFEA has agreed to comply with the rules if the government revises the service charge and seeks commitment from labour receiving countries to

bear the expenses for visa and air ticket. Recruiting agencies want government to introduce long term plans and policies and discuss the issue with other stakeholders who will eventually help in translating it into action.<sup>119</sup> Even after months of discontent with the policy, the government has not considered revising the policy.

**NRB recommends government to channel remittance into specific projects:**

With a view to deploy remittances into productive sectors, the Nepal Rastra Bank (NRB) has recommended the government to channel funds raised through foreign employment savings bonds to specific infrastructure projects. The demand of foreign employment savings bonds floated by NRB on the behalf of government is very low unlike other bonds, which are generally oversubscribed. In order to promote sales of these bonds NRB in its report “Savings and Investment Pattern of Remittances Beneficiaries Report” has recommended to generate awareness among target households on the significance of these instruments in the country’s development process and provide information on how the fund pooled through sales of these bonds will be invested in projects so that outbound migrant workers can take pride in the development project that they have funded.<sup>120</sup>

**Ban on foreign employment to Afghanistan lifted:**

The government

ban in on foreign employment in Green Zones of Afghanistan has been lifted by the Government of Nepal (GoN) given that no major threats are expected and the incidental nature of such threats. The ban had been imposed on four conflict-ravaged countries namely Afghanistan, Iraq, Libya and Syria following the Afghanistan bomb attack incident in which 13 Nepali migrant workers were killed. Meanwhile, as per Department of Foreign Employment (DoFE), the hiring companies should ensure that workers’ residence should either be located at duty premises or there should be strong security measures to transport the workers to and fro.<sup>121</sup>

**Recession in overseas employment affects recruiting agencies:**

Following the recession in demand for migrant workers, foreign employment firms have been struggling to maintain operational costs; with a few firms having to shut down. As per Nepal Association of Foreign Employment Agencies (NAFEA), around 5,000 people working for various recruiting

agencies have diverted to other fields since the earthquake last year. This has been attributed to a downturn in Gulf economies which are struggling due to the fall in global oil prices, as well as poor performance of the Malaysian Ringgit against Dollar. Meanwhile the ‘Free ticket, free Visa’ policy, has also acted as a bottleneck with host countries reaching out to other countries for cheaper labour.<sup>122</sup>

**Alleged exploitation of Nepali workers:**

Two of the world’s leading electronic brands, Samsung and Panasonic, have allegedly deceived and forced Nepali workers in Malaysia to work under harsh labour conditions. According to reports, workers were forced to work continuously for 14 hours on their feet without adequate rest and toilet breaks. Though these companies forbid their labour supply companies to confiscate passports or charge recruitment fees, workers have claimed that they paid NPR 90,000-115,000 (USD 840.10 - 1,073.46) as recruitment fees, and their passport was confiscated by the agency.<sup>123</sup>

## “ OUTLOOK

The declining trend in the remittance inflow is expected to put a downward pressure on the country’s balance of payments and domestic liquidity. The global economic slowdown may possibly stimulate host countries to adopt further cost cutting measures that could further hit the remittance inflow. Given that remittance is not a stable source of income, the government needs to undertake proactive measure to address the impact on the economy.





MARKET  
**REVIEW**

# FINANCIAL MARKET

At the end of the first quarter of the current FY 2016/17, net profit of the commercial banks has surged by whopping 47.3% as compared to the same period of the corresponding fiscal year.

## Key Indicators

### Deposit and credit mobilization

As per the macroeconomic and financial situation report based on three months' data of FY 2016/17 published by the Nepal Rastra Bank (NRB), deposits at Banks and Financial Institutions (BFIs) increased by 3.8% compared to an increase of 2.5% in the same period of the previous year. The deposit mobilization of commercial banks and development banks increased by 3.9% and 4.9% respectively. Meanwhile, deposits of finance companies decreased by 11.9%.

In the review period, credit extended to the private sector by BFIs increased by 4.2% compared to an increase of 2.5% in the corresponding quarter of the previous year. Credit mobilization of commercial banks and development banks increased by 4.2% and 7.8% respectively while that of finance companies decreased by 8.5%. Of the total outstanding credit of BFIs, 60.7% is against the collateral of land and building and 15.1% against the collateral of current assets such as agricultural and non-agricultural products.

Likewise, in terms of credit exposure, the outstanding credit of BFIs to real estate sector stood at 14.9% at NPR 265.85 billion (USD 2.4 billion). Similarly, BFIs' total margin lending extended against the collateral of shares stood at 2.2% while credit to Small and Medium Enterprises

(SME's) was only 2.5% of the total credit exposure.

### Liquidity Management

In the review period, Nepal Rastra Bank (NRB) used various instruments to mop up NPR 90.25 billion (USD 842 million), on a turnover basis. Liquidity absorption consisted of NPR 31.5 billion (USD 294 million) through deposit collection auction and NPR 58.75 billion (USD 548 million) through reverse repo auction on a cumulative basis. NRB had further injected net liquidity of NPR 108.95 billion (USD 1.01 billion) through the net purchase of USD 925.9 million from the foreign exchange market (commercial banks) and NPR 10.01 billion (USD 94 million) through repo auction. In the corresponding period of the current fiscal year, net liquidity of NPR 117.46 billion (USD 1 billion) was injected through the net purchase of USD 1125.9 million. Similarly, NRB also purchased Indian currency (INR) equivalent to NPR 107.59 billion (USD 1 billion) through the sale of USD 900 million and Euro 95 million. INR equivalent to NPR 62.40 billion (USD 582 million) was purchased through the sale of USD 600 million in the corresponding period of the previous fiscal year.

### Foreign Exchange

Gross foreign reserves stood at NPR 1,054.61 billion (USD 9.8 billion)

at the end of the first quarter of FY 2016/17, an increase of 1.5% compared to NPR 1,039.21 billion (USD 9.7 billion) in mid-July 2016. Out of the total foreign exchanges, reserves held by Nepal Rastra Bank (NRB) increased by 0.8% and reserves held Banks and Financial Institutions (BFIs) increased by 5.3%. The reserve held by NRB was NPR 894.42 billion (USD 8.34 billion) and the reserve of BFIs was NPR 160.19 billion (USD 1.49 billion). The share of INR in total reserves stood at 21.9 % as at mid-October 2016.

### Interest Rates

The weighted average 91-day Treasury bill rate increased to 2.12% in the review period from 1.10% in the previous year. The weighted average inter-bank transaction rate among commercial banks also increased to 3.27% as compared to 0.64% in the previous year. The weighted average interest rate spread between deposit and lending rate of commercial banks remained 4.45% in the review period compared to 4.34% in the previous year. Meanwhile the average base rate of commercial banks came down to 6.43 % from 7.22% in the previous year.

### Balance of Payments (BOP)

In terms of BOP, the current account fell into a deficit of NPR 1.97 billion (USD 18.3 million) in this quarter from a surplus of NPR 85.88 billion (USD 801 million) in the same period

of the previous year mainly due to decrease in grants and slower growth of workers' remittances. However, the overall BOP had a surplus of NPR 19.70 billion (USD 183 million) in the review period compared to a surplus of NPR 63.96 billion (USD 597 million) in the same period of the previous year. In the review period, Nepal received Foreign Direct Investment (FDI) inflow of NPR 5.02 billion (USD 46 million) compared to NPR 1.12 billion (USD 10 million) in the same period of the previous year.

## Key Developments

### Shortage of physical dollar bills

The central bank brought USD 10 million (NPR 1.12 billion) in cash from CIMB bank of Singapore to overcome shortage of physical dollar bills in Nepal.<sup>124</sup> The stock of dollar bills have been depleting in the domestic market as Nepalese travellers going abroad prefer to take hard cash rather than dollar-denominated electronic cards. Unlike Nepalese travellers, international travellers visiting Nepal usually use electronic cards resulting in reduced supply of dollars in the country. In addition, it is said that, money changers and travel businesses often do not send their dollar earnings to the Nepal Rastra Bank (NRB). This is the first time that the central bank has imported physical dollar to meet domestic needs.

### Demonetization of INR 500 and 1,000 rupee banknotes from circulation

The Indian government is demonetizing INR 500 and 1000 bills to crack down on rampant

corruption and fake currency.<sup>125</sup> The demonetization has direct impact in Nepal as the usage of INR is high. The use of high denomination Indian currency is particularly high among Nepalese businessmen and traders, especially since the government formally legalized import and export of Indian banknotes of 500 and 1,000 denominations in February 2015. Additionally, Nepalese in border areas usually hoard Indian notes of larger denominations as they visit Indian markets frequently to purchase daily essentials.<sup>126</sup> In addition, Nepalese hold INR for medical treatments and pilgrimages to India. Therefore, in order to tackle this issue, a committee has been formed under the deputy governor of the central bank to look into the loopholes and design effective ways to provide exchange facility to genuine people.

### Approval of BAFIA bill

The much-awaited Bank and Financial Institution Act (BAFIA) has finally been approved by the Parliament.<sup>127</sup> Some of the provisions under the new bill are as follows:

- Promoter shares can be converted into public share after 10 years of establishment of BFIs, subject to approval from the central bank.
- People holding constitutional positions cannot be a Board of Director (BOD) member of any BFIs.
- Chairman, directors, and CEO of BFIs will be able to hold the same position for two consecutive four-year terms. An independent director will now have working tenure of two years.<sup>129</sup>
- Directors of insurance companies

cannot be directors of BFIs.

- Any businessperson having a 50% stake in a firm is prohibited to be a director of a BFI from which it has taken loans.
- BFIs will be allowed to allocate 0.5% of their shares to their employees.
- Microfinance companies can only use 'Microfinance Company' in their title and cannot use 'Bank' in their company title.

### First Quarter Performance Analysis

As per the unaudited first quarter financial results of commercial banks, the operating profit margin of commercial banks grew by 41.3% and the net profit margin grew by a whopping 47.3% compared to the same quarter of the corresponding fiscal year. Out of the 28 commercial banks, 6 banks were able to increase their net profits by more than 100% as compared to the same quarter financial results of FY 2015/16. Amongst all the commercial banks, Nepal bank was able to post the highest net profit of NPR 116.6 million (USD 1.08 million) at the end of this quarter.

The average Non-Performing Loan (NPL) of banks has gone down from 2% to 1.6% in the review period compared to the corresponding period. Likewise, the average cost of funds of the commercial banks has decreased from 4.1% to 3.5% during the review period. Similarly, the average base rate of commercial banks stood at 6.5% during the end of this quarter, the highest being 9.6% of Agriculture development bank and the lowest being 4.1% of Nabil Bank.

## “ OUTLOOK

Commercial banks have posted a healthy growth at the end of first quarter of current FY 2016/17 as they have accelerated lending amidst increased capitalization. Banks were able to increase their lending portfolios as demand for credit from key sectors such as; construction, production, trade, real estate, services and agriculture sector surged. However, due to the extensive growth in credit supply amidst sluggish growth of deposits, BFIs are slowly increasing interest rates on their deposit schemes while they have also increased interest rates on various credit products. The deposit growth has been primarily affected due to decreasing remittance inflow and sluggish government spending amongst others. If the mismatch of fund continues, both credit supply and bank's profitability is likely to be affected in the coming days. The current tightening of liquidity may smoothen if government speeds up its capital expenditure. Moreover, the profitability and performance of 'D' class Microfinance companies is likely to be impacted in coming quarters as their source of funds is going to be contracted. Commercial banks are now required to float up to 2% of their deprived sector lending on their own, which was earlier done through a micro finance company.

Besides numerous attempts, the central bank of Nepal has failed to come up with any policy as a solution to the demonetization plan rolled out by the Government of India. The government needs to speed up its negotiations with Indian counterparts to ensure that legitimated funds with Nepalese citizens are taken care of to avoid any monetary and social loss to the economy; especially in border economies. Moreover, the policy to provide solutions should not be Kathmandu-centric but should also prioritize border economies as they are at a greater risk.

On a positive note, the much awaited BAFIA has been finally endorsed by the parliament, the new bill is likely to affect banking sector in terms of governance, accountability and transparency which will help in minimizing risk related to sector and maximize clarity and confidence to the general public.

**TABLE 5: UNAUDITED 1ST QUARTER RESULTS OF COMMERCIAL BANKS-FY 2016-17 (FIGURES IN NPR TEN MILLION)**

			DEPOSIT			LOANS AND ADVANCES			OPERATING PROFIT			NET PROFIT			NPL (%)		COST OF FUND (LCY)			BASE RATE (%)
Bank	Paid-up Capital	Reserve & Surplus	FY 16/17	FY 15/16	% Change	FY 16/17	FY 15/16	% Change	FY 16/17	FY 15/16	% Change	FY 16/17	FY 15/16	% Change	FY 16/17	FY 15/16	FY 16/17	FY 15/16	% Change	FY 16/17
			1 QTR	1 QTR		1 QTR	1 QTR		1 QTR	1 QTR		1 QTR	1 QTR		1 QTR	1 QTR	1 QTR	1 QTR		1QTR
Nabil Bank	618.3	620.7	12,012.8	10,997.6	9.2	8,354.6	6,743.0	23.9	118.5	85.6	38.4	79.8	65.3	22.2	1.1	1.5	1.9	2.8	(0.9)	4.1
Nepal Investment Bank	870.6	832.1	11,486.9	9,590.2	19.8	9,444.5	7,411.0	27.4	108.8	57.7	88.6	74.0	42.3	74.9	0.7	1.1	2.9	3.5	(0.6)	5.2
Standard Chartered Bank	281.2	511.0	5,741.2	5,835.4	(1.6)	3,239.1	2,692.3	20.3	53.2	48.4	9.9	34.9	34.5	1.2	0.3	0.4	1.4	1.5	(0.2)	4.5
Himalayan Bank	496.4	481.3	9,322.6	7,752.9	20.2	7,218.3	5,749.4	25.5	68.4	50.6	35.2	43.8	32.2	36.0	1.2	3.4	2.6	2.8	(0.2)	5.5
Nepal SBI Bank	388.3	344.8	6,889.7	5,395.3	27.7	5,237.8	3,985.4	31.4	53.8	44.2	21.7	35.4	30.2	17.2	0.1	0.2	2.5	2.9	(0.4)	6.1
Nepal Bangladesh Bank	401.1	303.9	3,960.3	3,466.4	14.2	3,427.2	2,697.5	27.1	20.1	14.8	35.8	22.5	12.4	81.5	1.2	1.3	4.2	4.7	(0.5)	7.0
Everest Bank	274.2	638.3	8,915.5	7,601.7	17.3	6,953.0	5,132.3	35.5	76.9	53.9	42.7	51.3	36.3	41.3	0.4	0.7	2.3	2.7	(0.4)	5.0
Bank of Kathmandu Lumbini	457.6	420.6	6,932.6	4,016.9	72.6	6,147.6	3,418.7	79.8	39.0	25.0	56.0	27.0	16.8	60.7	1.1	3.6	4.1	4.4	(0.3)	6.4
NCC Bank	235.3	202.8	3,063.3	2,562.1	19.6	2,534.7	2,162.0	17.2	17.0	13.3	27.8	12.9	12.7	1.6	1.0	1.8	4.2	4.8	(0.6)	7.0
NIC Asia Bank	581.9	218.7	7,247.8	5,384.8	34.6	6,101.4	4,424.4	37.9	32.6	18.2	79.1	26.1	15.7	66.2	0.9	1.8	4.2	5.1	(1.0)	6.5
Machhapuchchhre Bank	466.6	92.0	5,813.7	4,470.1	30.1	4,987.4	3,696.7	34.9	33.8	26.0	30.0	24.6	17.3	42.2	0.5	0.5	3.8	4.4	(0.7)	6.3
Kumari Bank	269.9	150.1	4,035.6	3,473.8	16.2	3,241.1	2,746.7	18.0	15.4	6.4	140.6	13.7	4.8	185.4	1.3	2.9	4.4	4.9	(0.5)	7.5
Laxmi Bank	303.9	335.6	5,158.4	4,115.6	25.3	4,404.2	3,381.1	30.3	18.9	15.8	19.6	13.5	10.1	33.7	1.7	0.9	4.3	4.7	(0.4)	6.7
Siddhartha Bank	337.5	358.9	7,005.0	4,511.3	55.3	5,893.7	3,812.2	54.6	33.5	24.9	34.5	35.9	17.2	108.7	1.6	1.7	4.0	4.2	(0.3)	6.4
Global IME Bank	715.0	197.6	8,034.7	6,309.6	27.3	6,716.4	5,210.1	28.9	53.9	43.8	23.1	42.0	31.3	34.2	1.7	2.0	3.2	3.7	(0.5)	6.3
Citizens Bank International	553.7	164.8	5,031.9	3,694.7	36.2	4,373.0	3,188.1	37.2	35.2	11.4	208.8	34.5	14.2	143.0	1.7	2.4	4.3	4.8	(0.5)	7.0
Prime Commercial Bank	370.5	200.6	5,241.8	4,140.2	26.6	4,234.1	3,282.6	29.0	25.6	31.4	(18.5)	25.1	22.0	14.1	1.3	1.7	4.2	4.8	(0.5)	6.9
Sunrise Bank	530.1	109.6	5,408.3	3,526.3	53.4	4,645.1	2,922.7	58.9	30.4	15.8	92.4	25.3	11.7	116.2	1.7	2.7	4.4	5.1	(0.7)	6.8
NMB Bank	543.0	419.6	6,558.5	3,655.0	79.4	5,606.0	2,765.2	102.7	36.7	18.1	102.8	35.3	14.2	148.6	1.8	0.4	3.8	4.3	(0.5)	6.6
Prabhu Bank	588.1	55.4	6,529.6	4,566.7	43.0	5,174.5	3,003.4	72.3	19.9	15.9	25.2	28.2	26.1	8.0	7.5	5.7	3.3	4.1	(0.8)	6.1
Janata Bank Nepal	206.0	68.2	2,525.0	2,256.7	11.9	2,180.9	1,963.7	11.1	9.5	(0.3)	3,266.7	6.3	5.7	10.5	1.2	1.0	4.3	5.0	(0.7)	8.5
Mega Bank	324.0	111.1	3,677.4	2,256.5	63.0	3,181.9	1,844.0	72.6	17.6	11.4	54.4	14.6	8.4	73.8	1.1	1.6	4.0	3.9	0.1	7.3
Civil Bank	308.2	53.7	3,134.1	2,737.0	14.5	2,634.1	2,349.3	12.1	(14.0)	(3.0)	(366.7)	1.4	5.8	(75.9)	4.1	2.5	5.3	5.8	(0.6)	7.8
Century Commercial Bank	284.0	60.6	3,168.1	2,530.2	25.2	2,759.6	2,132.0	29.4	12.3	10.1	21.8	7.4	7.4	-	0.3	0.5	4.3	4.8	(0.5)	7.2
Sanima Bank	527.8	101.5	4,869.7	3,543.6	37.4	4,460.8	3,033.3	47.1	44.7	26.6	68.0	27.1	17.6	54.0	0.1	0.1	3.8	4.7	(0.9)	6.3
<b>Public Sector Banks</b>																				
Nepal Bank	649.9	153.4	8,622.3	7,754.2	11.2	6,603.1	5,309.5	24.4	47.9	13.6	252.2	116.6	44.4	162.6	3.1	3.8	1.9	2.4	(0.5)	6.0
Rastriya Banijya Bank	858.8	123.4	14,659.5	12,423.7	18.0	8,598.9	7,469.1	15.1	58.3	74.9	(22.2)	50.0	60.3	(17.1)	3.3	3.5	1.8	2.0	(0.3)	5.0
Agriculture Dev. Bank	1,037.4	880.7	8,566.4	7,977.2	7.4	8,113.0	6,638.8	22.2	30.5	23.1	32.0	42.2	28.8	46.5	3.8	5.2	4.1	5.8	(1.7)	9.6
<b>Total</b>	<b>13,479.3</b>	<b>8,211.0</b>	<b>183,612.7</b>	<b>146,545.7</b>	<b>25.3</b>	<b>146,466.0</b>	<b>109,164.5</b>	<b>34.2</b>	<b>1,098.4</b>	<b>777.6</b>	<b>41.3</b>	<b>951.4</b>	<b>645.7</b>	<b>47.3</b>	<b>1.6</b>	<b>2.0</b>	<b>3.5</b>	<b>4.1</b>	<b>(0.6)</b>	<b>6.5</b>

# CAPITAL MARKET

After a brief recovery in early September, the NEPSE index has since been on a downward spiral losing 294.79 points to close at 1540.01 points during the review period (6th September-23 November, 2016) as selling pressure continues to mount in the market.

## NEPSE slips below 1600 points

The Nepal Stock Exchange (NEPSE) benchmark index went down by 16.07% (294.79 points) and closed at 1540.01 points during the review period (6th September-23rd November, 2016). At the end

of the review period, total market capitalization had reached NPR 1.7 trillion (USD 15.9 billion).

As indicated in Table 6 during the review period (6th September-23rd November, 2016), all sub-indices

ended in red zone. The biggest losers were the commercial banks and development banks sub index with decrease in index by 18.84% and 15.63% respectively. Comparatively, the hotel sub-index decreased by only 7.89%.

**Table 6: Key Indicators**

Indicators	6-Sep-16	23-Nov-16	% change
<b>Nepse Index</b>	<b>1834.8</b>	<b>1540.01</b>	<b>-16.07%</b>
Commercial Bank Index	1773.66	1439.55	-18.84%
Development Bank Index	1898.14	1601.37	-15.63%
Finance Index	856.26	751.25	-12.26%
Insurance Index	8814.79	7740	-12.19%
Hydropower Index	2393.08	2023.24	-15.45%
Manufacturing & Processing Index	2497.58	2229.18	-10.75%
Hotel Index	2153.55	1983.72	-7.89%
Others Index	792.44	739.52	-6.68%

Source: NEPSE

**Figure 17: NEPSE Index performance**



Source: NEPSE

## Key developments

### Suspension of merchant banking license

In order to improve the area of service provided by existing merchant banking institutions, Securities Board of Nepal (SEBON) has suspended the issuance of new licenses effective from 23rd October, 2016.<sup>128</sup> Merchant bankers are currently permitted to offer services in four areas: share registrar, issue manager, underwriting and portfolio management. The amended Securities Businessperson (Merchant Banker) Regulation 2064 that is subject to final approval for amendments allows merchant bankers to expand their services to new areas such as investment advisory, loan syndication and valuation, among others. Currently, SEBON has halted the licenses of merchant banks temporarily to enhance their professionalism and working areas before allowing new firms to enter the market.

### ASBA system to be introduced

SEBON has announced the launch of the Applications Supported by Blocked Amount (ASBA) system from mid-January 2017, with the objective of modernizing the country's capital and secondary market. This system will simplify and shorten the IPO and stock issuance process. Till date, six Banks and Financial Institutions (BFIs) have come forward to be a part of ASBA system. Currently, once investors apply for primary issues such as IPO or FPO, the amount gets debited from their account immediately and the issue manager holds the money till the shares are allotted to applicants, with the process taking at least 70 days to

complete. Under the ASBA system, the same procedure will be completed in 20 days. The investors will need to open an account with BFIs that use the ASBA system, following which the investment amount will be frozen as authorized by the issue manager. The investment amount will be debited from the applicant's bank account only after being selected in the allotment. Meanwhile if the applicant does not get selected, the bank will unfreeze the amount upon instruction of the issue manager.<sup>130</sup>

### Opening doors for NRNs

SEBON has been looking forward to formally allow non-resident Nepalis (NRNs) to invest in Nepal's securities market. A six-member panel headed by Mr. Niraj Giri, executive director of the Regulation and Management Division at SEBON has been assigned to study its pros and cons. Though the government has been repeatedly planning to allow NRNs to invest in the secondary market through investment in portfolio management services, they have not been able to formally implement it. NRNs will be required to register themselves with SEBON in order to participate in the market. Meanwhile an investment ceiling and floor will also be created for them.<sup>131</sup>

### SEBON restricts firms from reversing their decisions

SEBON is considering enforcing a regulation to protect interests of general investors. This regulation will restrict listed companies from influencing the capital market by taking multiple corporate actions at the same time. For instance, SEBON had directed Reliable

Development Bank to first implement its previous announcement of issuing 1:1 rights shares to its shareholders and then sell its shares (acquisition) to Global IME bank. Since the announcement of selling of shares to Global IME was done midway through when rights shares was announced, such action will negatively affect the investors. Since a number of listed companies have jumped into future plans without completing ongoing tasks, the securities market regulator is considering introducing such a provisions to protect the interests of investors. In addition, SEBON is also planning to maintain financial discipline by enforcing a code of conduct to companies involved in insider trading.<sup>133</sup>

### Amendment of Securities Regulation

In order to increase participation of the real sector companies and to ensure that the stock market reflects the real picture of the economy, the government has come up with recent amendment of the Securities Registration and Issue Regulation. It offers companies to fix the price of their Initial Public Offerings (IPOs) rather than the mandatory NPR 100 (USD 0.9334) per share. Previously, the real sector companies had to issue 30% of their shares to go public. However, the threshold of shares has now been reduced to 10%. Also, as per the current fiscal policy for the year 2016-17, the real sector companies are offered 15% income tax exemption if they float shares to the public.<sup>132</sup>

### Primary Market:

During the review period, the primary market witnessed the primary issuance of one Hydropower Company and two

mutual fund schemes.

- Arun Kabela Power Limited (AKPL) issued 3,000,000 unit shares to the general public worth NPR 300 million (USD 2.8 million) from 25 - 28 October 2016. The IPO was oversubscribed by 43 times. The company's paid-up capital will reach NPR 1.50 billion (USD 14 million) after the issuance. The credit rating agency ICRA Nepal has provided grade 4 plus rating to the issue, indicating below average fundamentals of the company.
- NMB Hybrid Fund L-1 managed by NMB Capital has allotted 100 million units, of face value NPR 10 (USD 0.09), under its mutual fund scheme worth NPR 1 billion (USD 93,000), to the general public on 25th October, 2016. The credit rating agency ICRA Nepal has provided grade 3 rating to the issue, indicating adequate assurance on management quality.
- Nabil Equity Fund managed by Nabil Investment Banking Limited has allotted 125 million units of face value NPR 10 (USD 0.09) under its mutual fund scheme worth NPR 1250 million (USD 11 million) to the general public on 4th November. The credit rating agency ICRA Nepal has provided grade 3+ rating to the issue, indicating adequate assurance on management quality.

## “ OUTLOOK

Despite attractive first quarter results posted by listed companies especially BFIs, the NEPSE index has been in free fall since early October, 2016. Investor sentiment has weakened by a number of factors such as; squeezed liquidity in the banking system leading to tightening of margin lending by BFIs and hike in interest rates on such products. According to the current macroeconomic and financial report; based on three months data of FY 2016/17 prepared by NRB, the BFIs' total margin lending extended against collateral of shares stood at 2.2% (NPR 38.58 billion i.e. USD 360 million) of their total credit exposure. Likewise, anticipation of higher supply of shares in the secondary market is another key concern for investors. As per the recently amended Bank and Financial Institution Act (BAFIA), promoter shares could be converted into public shares after ten years of operation upon NRB's final approval. However, such provision will be implemented in a phase wise manner as other legal grounds for implementation must be prepared.

The approval of the amended 'Securities Registration and Issue Regulation 2073' has paved the way for issuance of local currency bonds by international financial institutions such as Asian Development Bank (ADB) and International Finance Corporation (IFC). The funds issued through such bonds would be invested in local infrastructure projects. The new provision also allows companies to issue shares at justified premium value. This would be one of the key impediments to attract real sector companies in the primary market.



**A SPECIAL ISSUE ON**  
**MIGRATION AND REMITTANCE IN NEPAL:**  
**SOCIO-ECONOMIC PERSPECTIVES AND**  
**FUTURE UNCERTAINTIES**

## A SPECIAL ISSUE ON

# MIGRATION AND REMITTANCE IN NEPAL SOCIO-ECONOMIC PERSPECTIVES & FUTURE UNCERTAINTIES

Migration of labour for better income and livelihood opportunities has been a common phenomenon in Nepal over the last few decades. However, up until the mid-1980s, labour migration from Nepal was primarily characterized by an outflow to India; the only country where visa was not required to either visit or work. As more countries opened up for foreign employment in the early 1990s, particularly the Gulf and a few Asian countries, migration to these countries also increased gradually. Other factors that have contributed to the rise in labour migration include escalation of the Maoist insurgency, insufficient growth of the domestic economy, failure of the public and private sector in providing adequate employment opportunities outside the agricultural sector to the rising labour force etc. Additionally, Nepal's liberal policies accompanied by the mushrooming growth of recruiting agencies have further facilitated out-migration. According to the Department of Foreign Employment (DoFE), about 2.2 million Nepalis have migrated to Gulf regions as well as other countries for work (excluding India), during the period of FY 2008/09 to FY 2014/15.

Remittance has thereby become a predominant economic force in Nepal, particularly with the unprecedented increase in migrant workers over the last few decades. In FY 2013/14 alone, the DoFE issued over 500,000 labour permits, while just four years earlier in FY 2008/09, the numbers averaged at 200,000. This rapid rise in migration can be attributed to the high demand from job markets in Gulf and Asian countries like Malaysia and South Korea. According the National Economic Survey 2014/15, about 56% of households in Nepal received remittances.<sup>134</sup> As a result, the remittance sector has moved significantly closer to the agricultural sector in terms of contributions to Nepal's Gross Domestic Product (GDP).

### ORIGIN OF MIGRANT WORKERS

Even though the origin of migrant workers can be mapped to all 75 districts of the country, the top-ten migrant-

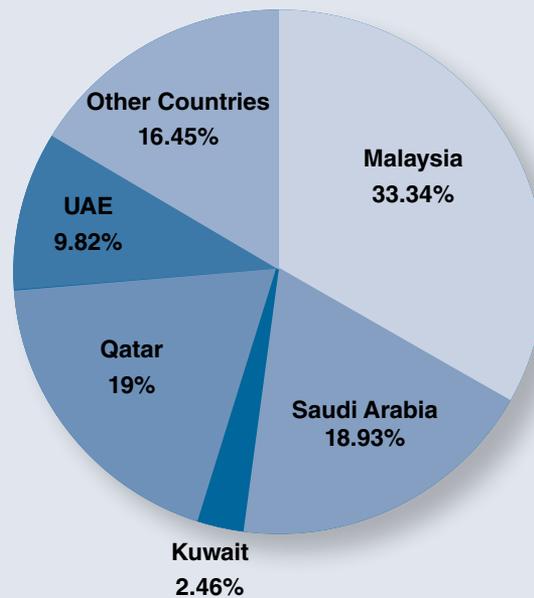
exporting districts are Dhanusa, Mahottari, Jhapa, Morang, Siraha, Nawalparasi, Saptari, Sunsari, Sarlahi and Rupandehi.<sup>135</sup> Out of the 2.2 million labour permits issued over the past seven years (FY 2008/09 - FY 2014/15), 79% were arranged through recruitment agencies with only 21% arranged through personal applications.<sup>135</sup> This underscores the fact that recruitment agencies play a critical role on securing jobs for migrant workers.

The top districts of origin appear to be mainly southern border districts and constitute 36.4% of all labour permits issued over the seven-year period (FY 2008/09 - FY 2014/15). Additionally, poor socioeconomic factors and low scores on the Human Development Index (HDI), particularly in districts such as Mahottari, Siraha and Sarlahi, pushes the population in these regions to seek foreign employment.

Although these districts remain the top geographic source for most migrants, their share of the total has been decreasing as more people from other districts are also seeking foreign employment. For instance, the acquisition of permits of workers has significantly increased in the districts of Banke, Bara, Kanchanpur, Kapilvastu, Parsa and Rautahat; located along the southern plains of Nepal. Similarly, there has been a dramatic increase in the number of labour permits issued in the far-western hills of the country. For instance districts such as Jajarkot and Dailekh have experienced exponential growth in issuance of labour permits, i.e. 75.73% and 76.56% respectively over the seven-year period (FY 2008/09 - FY 2014/15).<sup>136</sup>

### MIGRATION DESTINATIONS

Nepali migrant workers have obtained permits to work in as many as 142 countries over the past few decades. A migrant worker may choose any country that is a member of the United Nations as a prospective destination, unless banned by the Government of Nepal (GoN). However, the government

**Figure 18: Top Five Destinations for Labour Migration, (FY 2008/09 - 2014/15)**

Source: Labour Migration for Employment: A Status Report for Nepal 2014/15, Ministry of Labour and Employment

Nepal has been plagued by political instability, which has suppressed economic development of the country. As a result, employment opportunities have not grown to meet the exponential growth in labour within the country.

limits the number of countries that may be managed by recruitment agencies for employment purposes.<sup>136</sup>

While the Middle East and Malaysia remain the most preferred destinations for migrant workers, numerous new destinations have opened up in recent years. Between FY 2008/09 and FY 2014/15, of the total of 2,723, 587 labour permits issued, 33.3% was for Malaysia followed by Qatar, Saudi Arabia, UAE and Kuwait. The Republic of Korea and Bahrain have also emerged as favourable labour destinations over the past seven years.

While the trend for male migrant workers has followed the same pattern over the past seven years with migration highest in the above mentioned five destinations, the trend for female

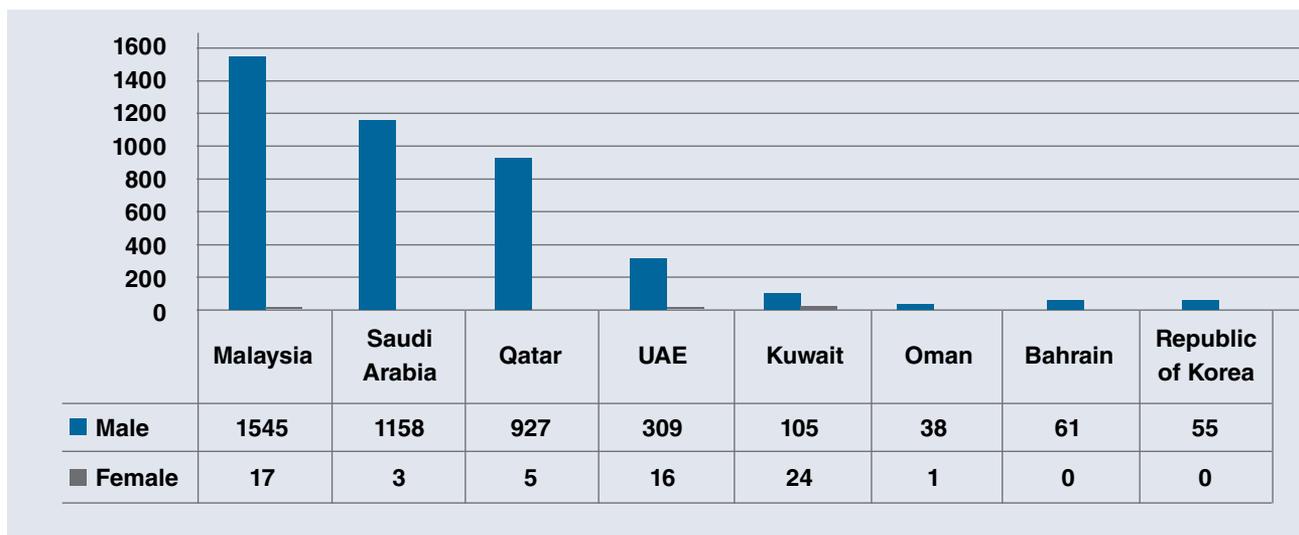
migrant workers differs slightly with the main destinations being Malaysia, UAE, Qatar, Lebanon and Cyprus.<sup>136</sup>

## REASONS BEHIND MIGRATION

Nepal has been plagued by political instability, which has suppressed economic development of the country. As a result, employment opportunities have not grown to meet the exponential growth in labour within the country. As of 2016, Nepal's youth unemployment stands at 19.7% while the national unemployment rate stands at 2.7%.<sup>137</sup> Nepali workers have therefore been forced to seek foreign employment opportunities. While lack of employment opportunities is one of the major reasons behind migration, another reason behind individuals increasingly seeking foreign employment is the possibility of earning higher incomes and a better livelihood. For instance, low skilled labourers have the potential to earn 3-4 times more through foreign employment than through similar jobs in Nepal.

## CHALLENGES FACED BY MIGRANT WORKERS

Recognizing the remarkable contribution of remittance sector to the national economy, the GoN has initiated several important laws, provisions, and mechanisms to promote/assist migrant workers and more importantly, to mitigate their exploitations. However, it is unfortunate that the government is currently unable to fully execute and implement these laws governing recruitment. The majority

**Figure 19: Reported Number of Deaths in Top-Destination Countries, FY 2008/09 – FY 2014/15**


Source: Labour Migration for Employment: A Status Report for Nepal 2014/15, Ministry of Labour and Employment

of Nepali migrant workers are unskilled and uneducated, making them more vulnerable to exploitation since they are not able to understand the job contracts, rules, and their own rights. All these factors have regrettably spawned rampant extortion and exploitation of migrant labourers by manpower companies in Nepal. Listed below are some of the key challenges and issues faced by migrant workers.

**Harsh Living and Working Conditions:** Low -skilled workers who choose to work in the construction sector particularly in the Middle East, are often faced with appalling living and working conditions. The news of harsh treatment of migrant workers in Qatar in preparation for the FIFA World Cup 2022 in particular, has brought these conditions to light. Migrant workers are frequently found to be living in squalid conditions lacking basic necessities such as water, hygiene and electricity.

With a large segment of foreign employment seekers being under-skilled, engagement in migrant destinations is often limited to the construction sector. As a result, migrant workers are often faced with difficult and hazardous working conditions. For instance migrant workers in the Middle East often work for long hours in extreme temperatures with lack of adequate safety measures.<sup>138</sup> Such work conditions have led to a number of deaths of migrant workers in the Middle East, especially Qatar. According to a report by the International Trade Union Confederation, around 522 Nepali migrant workers died in Qatar from 2011 to 2013, whereas other estimates indicate a total of 1,200 migrant worker deaths since Qatar started preparations for the World Cup.<sup>139</sup> Other popular migrant destinations such as Malaysia and Saudi Arabia also have similar

work environment and conditions and also account for a large number of deaths as shown in Figure 19.

One of the major reasons behind these issues originate from the lack of bilateral labour agreements with major destinations, which has further aggravated the problems.<sup>140</sup>

**Abuse and Discrimination of Laws:** Low skilled migrant workers are often treated with disrespect and discriminated against in most labour destinations, because of systems like kafala in the Middle East; which links a work permit to single employer. As a result migrant workers are often treated inhumanely and looked down upon by the rest of society. While multiple calls have been made to abolish it; the system still persists and is a major source of abuse and exploitation of migrant workers. Meanwhile cases of ill-treatment and abuse of migrant workers have also cropped up in countries like Malaysia and the Republic of Korea.

**Under or Non-Payment of Wages:** There have also been cases where migrant workers are not given their wages, or are not paid salaries initially promised. Investigations carried out by BBC state that workers are forced to work long hours without pay, with any protests quelled down swiftly.<sup>138</sup> This has had a major impact on workers whose families rely on remittance to meet daily needs. Furthermore, language barriers and lack of education and vocational skills also hamper earnings. As most workers leaving the country are uneducated and unskilled, workers are easily cheated and underpaid. Additionally, with employment contracts written in Arabic in Middle East countries, workers who sign them often do not have a grasp of what they are signing up for.

# POLICIES AND LEGAL FRAMEWORK

In Nepal, the foreign labour migration policy is regulated directly by the Foreign Employment Act 2007, Foreign Employment Rules 2008, Foreign Employment Policy 2012, and indirectly by a number of other national laws, bilateral labour agreements, treaties and international conventions.<sup>141</sup> Migrant workers also come within the framework of specific national laws of the countries to which they migrate for employment.

## FOREIGN EMPLOYMENT ACT 1985 AND THE FOREIGN EMPLOYMENT ACT 2007

GoN's first effort at regulating foreign employment was issued in 1985 in the form of the Foreign Employment Act to control and manage foreign employment and to maintain financial interests and facilities of the general public. The act governed all activities of foreign employment until 2007 and was amended three times. The Foreign Employment Act 2007 was passed after the Comprehensive Peace Agreement was reached between the erstwhile insurgents, now CPN-Maoist and the Government in 2006. The act was designed to address new issues brought forward by rapid growth in labour migration and foreign employment.

The Foreign Employment Act 2007 aims to promote the security and welfare of foreign migrant workers with the following provisions for the protection of their rights and regularization:

- Monitoring of agencies that facilitate the migration process.
- Pre-departure preparation (including cultural orientation, what to expect, some language training etc.) and skills training.
- Creation of a Migrant Workers' Welfare Fund.
- Establishment of a Labour Desk at the international airport.
- Regulation of agencies (registered under the Company Act to conduct foreign employment services) by issuing licenses and specifying that the license may be revoked if it fails to uphold the spirit of the act and policies.

## NATIONAL LABOUR POLICY 1999 AND THE FOREIGN EMPLOYMENT POLICY 2012

The National Labour Policy adopted in 1999 initially cited foreign employment indirectly by including some strategies that highlighted the need to develop mechanisms and structures promoting the same. As foreign employment grew to be an attractive opportunity for the young labour force, GoN formalized a Foreign Employment Policy in 2012. The new policy makes safety and protection of foreign workers its utmost priority, with a goal to “ensure safe, organized, respected and reliable foreign employment and contribute to poverty reduction along with sustainable economic and social development through economic and non-economic benefits of foreign employment.”<sup>142</sup>

The Foreign Employment Policy 2012 attempts to facilitate labour migration with the following strategies:

- Identify and promote employment opportunities in the global market.
- Develop skilled labour to a competitive capacity to maximize benefits from foreign employment.
- Make the process of foreign employment simple, transparent, organized and safe.

The new Foreign Employment Policy 2012 makes safety and protection of foreign workers its utmost priority, with a goal to “ensure safe, organized, respected and reliable foreign employment and contribute to poverty reduction along with sustainable economic and social development through economic and non-economic benefits of foreign employment.

- Address concerns of female migrant workers and ensure their rights in the overall migration cycle.
- Ensure good governance in the management of foreign employment.
- Catalyse local, national and international resources for managing foreign employment and bolster collaborative efforts by increasing sector partnerships.
- Utilize remittances on human development and productive sector.

### ZERO COST MIGRATION SCHEME

The Ministry of Labour and Employment (MoLE) has recently implemented the new provision on zero cost migration which aims to send Nepali workers to selected labour destinations at zero cost or by incurring a maximum expense of NPR 10,000 (USD 93.35) in special cases. The provision enables Nepali workers to be sent to seven major labour destinations - Malaysia, Qatar, Saudi Arabia, the United Arab Emirates, Kuwait, Bahrain and Oman on condition that employers bear the cost of visa and air ticket.

According to the provision, companies hiring Nepali workers will need to send expenses for air ticket and service fee to the Nepali agency's bank account, with agencies maintaining a record of income and expenditure. This prohibits employers from deducting any cost from the salary of Nepali workers while hiring them. But prospective migrant workers may still have to pay insurance money, orientation class fee, service charge (maximum of NPR 10,000 or USD 93.35) to recruiting agencies and a charge to Foreign Employment Welfare Fund if the employer refuses to finance these expenses.

With the issuance of this provision, the previous provision of charging a maximum of NPR 80,000 (USD 746.75) for workers going to Malaysia and NPR 70,000 (USD 653.41) as service charge for workers going to the Gulf countries has been scrapped.

### POLICY IMPLEMENTATION CHALLENGES AND ISSUES

While good labour policies and foreign employment acts are in place in Nepal, effective and efficient implementation of the same is lacking due to various reasons. Hence, the overall positive impact of these policies and acts have not fully materialized. The following issues are therefore key bottlenecks in the policy implementation process that need to be addressed to ease the migration process.

- **Underdeveloped Resources and Capacities at the DoFE:** The DoFE is severely understaffed, thereby increasing the workload at multiple levels of the DoFE. As a result there is a dire need to increase the resource base; as lack of staff and resources increase the lead time for processing even simple requests.
- **Decentralizing Foreign Employment Services:** Currently, all procedures for obtaining a permit for foreign employment can only be done in Kathmandu. This poses a problem for workers from rural areas who have to travel all the way to Kathmandu. Having a decentralized system will thereby reduce hassles at the central level while making services more efficient thereby decreasing the workload of staff and improving the overall data management system.
- **Transparency in Services:** Transparency in services is essential to establish greater trust between the employment service staff and prospective migrant workers. The overall purpose of an effective, efficient and transparent service is to eliminate extortion and exploitation of workers and eliminate hassles in the procedure for visa applications and work permits. In addition, strict laws and stiff penalties should also be implemented to prevent the exploitation of migrant workers both at home and the destination countries.

# SOCIO-ECONOMIC IMPACTS OF MIGRATION

International labour migration has brought both positive and negative effects in Nepal. Factors such as flow of remittance, reduction in poverty levels and increased consumption levels are few of the major positive changes. Remittance flow is a major component of foreign savings which also complements national savings by increasing the total pool of resources available for investment. Remittance, though, can be put on both the positive and negative spectrum due to its adverse effects on the country's trade balance. When considering negative impact of migration, a look at the effect on the day-to-day lives of migrant families can highlight a host of issues.

## SOCIO-ECONOMIC BENEFITS

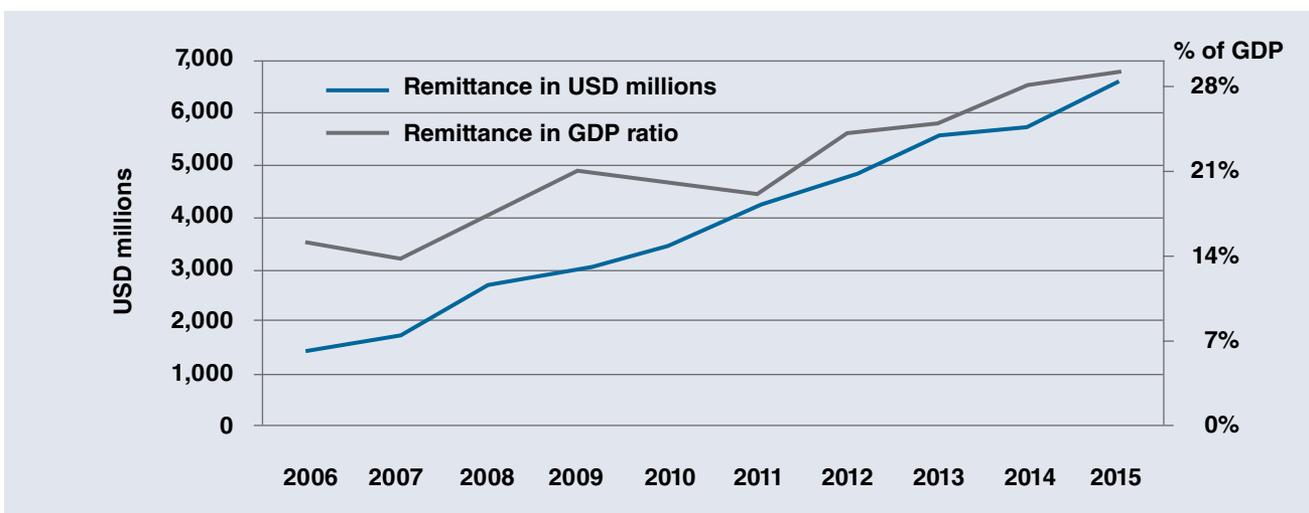
### Remittance Contribution to the National Economy

There has been a significant increase in the inflow of remittances with the increase in foreign employment; particularly from migrant workers of the Gulf Cooperation Council (GCC) countries and Malaysia. Total remittance income increased from USD 1,453 million (NPR 155.6 billion) in FY 2005/06 to USD 6,594 million (NPR 706.4 billion) in FY 2014/15 as shown in Figure 20. As a percentage share of GDP, remittance income increased from 13.8% in FY 2006/07 to 29.1% in FY 2014/15, placing Nepal among the top five recipients of remittance in terms of economy.<sup>143</sup>

Remittance flow is a major component of foreign savings which also complements national savings by increasing the total pool of resources available for investment. Remittance, though, can be put on both the positive and negative spectrum due to its adverse effects on the country's trade balance.

Remittance income is considered one of the six pillars of Nepal's economy (others being investment, trade, agriculture, water and tourism), as it contributes considerably towards sustaining macroeconomic stability. Nepal Rastra Bank in its Economic Survey has acknowledged the contribution of remittances in managing the country's Balance of Payments (BOP)<sup>136</sup>, whereas the 2014/15 Monetary Policy also notes that remittance inflows and foreign assistance contribute towards a surplus in the current account as well as the BOI.<sup>144</sup>

Figure 20: Remittance Inflow and Remittance to GDP ratio from FY 2005/06 to FY 2014/15



Source: Nepal Rastra Bank & Migration and Remittance Fact book 2016

The growth in remittance inflow thereby expands national income by providing foreign exchange, raising national savings and investment and providing hard currency to finance essential imports hence curtailing any BOP crisis. As utilization of remittance money is not tied to specific investment projects with high import content, they have a higher positive effect on BOP than any other monetary flow such as direct investments or loans.<sup>145</sup>

### Improved Standard of Living of Migrant Families

Remittance also accounts for poverty reduction among low-income families where members have opted for foreign employment. Foreign employment has therefore been a key measure in alleviating poverty, meanwhile also improving the earning capacity of migrant workers.<sup>145</sup>

A study by Nepal Rastra Bank on the impact of remittance in the district of Dhanusa, which has the highest number of international migrant workers, reveals that households with migrant workers have higher consumption levels than those with no members in foreign employment. A substantial fraction of the remittance income was found to be spent on food and weddings, followed by purchase of land.<sup>136</sup>

According to the Ministry of Labour and Employment, population living below the national poverty line declined from 42% in 1990 to 23.8% in 2013; which is the same time period during which remittance inflow grew.<sup>135</sup> Furthermore, the report also states that the incidence of poverty would jump from 19.3% to 35.3% if remittances were cut off.<sup>136</sup>

### Social Status and Security

Remittance receiving households have greater saving levels on an average and as a result a stronger ability to withstand external economic shocks. Such households have a tendency to save a portion of their remittance in case of unexpected events, thereby providing them with a private safety net.<sup>146</sup> According to Nepal Rastra Bank 66.6% of remittance receiving households in 16 districts save remittance money in some form.<sup>147</sup> Furthermore, a majority of migrant workers who return bring in their savings as well. This is then invested in real estate, houses and jewellery. All these investments are a safer and beneficial alternative than

holding onto money as real estate and houses purchased can be rented out which in turn provide families with a constant stream of income.

## SOCIO-ECONOMIC COSTS

### Economic costs

In Nepal, increasing remittance levels has led to high consumption patterns, high imports and appreciation of the exchange rate which has battered the manufacturing sector and its competitiveness.<sup>148</sup> The manufacturing sector has been posting a decline in terms of per capita growth in the last decade. In addition, large-scale migration has also taken its toll on the agriculture, infrastructure and tourism sector with lack of labour severely hampering the productivity and efficiency of these sectors. Such shortages are also caused by the inflow of remittance, as the receiving households prefer to live off remit transfers rather than work and engage in economic activities. Furthermore, incoming remittance also hampers the development of an efficient export sector as the inflow of remittance covers up for the lack of exports in BOP.

### Social costs

Family dynamics of migrant families change drastically when a person leaves for foreign employment. It is generally the male member of the family who seek foreign employment leaving his parents, wife and children behind. With work contracts running up to four years, migrant workers are able to visit their families only a few times during the time period. Such long periods of separation can have a negative impact on marital life and cause tension between the husband and the wife. Irregular remittances can further escalate tensions and divorce. Meanwhile cases have also been reported of husbands and wives eloping with different partners, and in the process taking all material possessions with them.

Mental health is also affected greatly by migration. Most migrant workers who come back to Nepal after working abroad face a tough time in reintegrating and finding employment in Nepal. Therefore, the pressure of not being able to provide for their families and other issues such as loan repayments and payments to manpower companies can take a toll and drive them into depression and anxiety.

# CHANGING NATURE OF FUTURE MIGRATION

Nepal has so far benefitted from high demand for low skilled labour from the Gulf regions and Asian countries like Malaysia and South Korea. However, changes in policy as well as in the nature of labour demanded in these countries is likely to bring a shift in demand. Especially in regard to the nature of labour which is likely to shift towards higher skilled or semi-skilled labour in the future. Nepal therefore needs to act proactively to adjust itself for such future uncertainties by creating jobs and developing human capital at home, or training migrant workers to better adapt to changes based on the nature of demand. Listed below are a few key reasons that could potentially change the course of future migration:

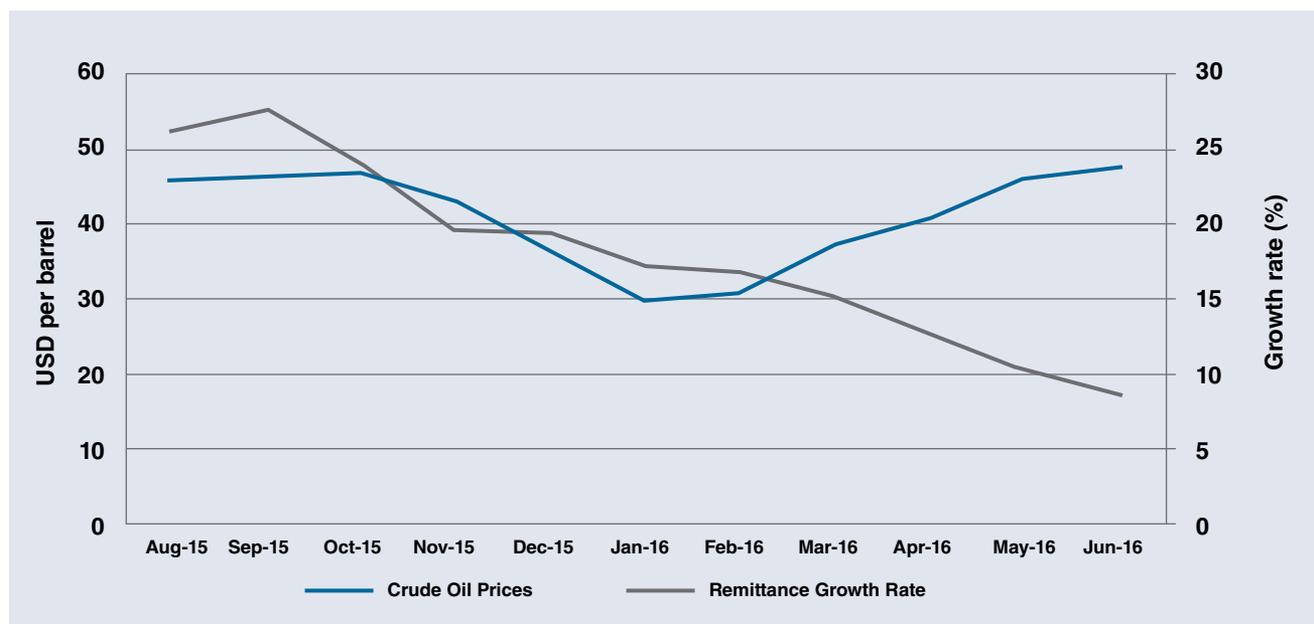
## DECREASING GLOBAL OIL PRICE LEADING TO SLOWER ECONOMIC GROWTH

Heavy decline in global oil prices have already started to take a toll on the economies of Gulf countries. Most of the proposed mega construction projects in the region are either on hold or altogether cancelled. Many firms and factories

Nepal needs to act proactively to adjust itself for future uncertainties by creating jobs and developing human capital at home, or training migrant workers to better adapt to changes based on the nature of demand.

are shutting down in Saudi Arabia and thousands of foreign employees are being laid off as a result. Oil-dependent Gulf countries facing economic slowdown due to falling crude oil prices have reduced employment offerings to migrant workers. All of these occurrences are likely to have a major impact on countries like Nepal that send large numbers of workers to the Gulf countries, with an estimated 600,000 workers in Saudi Arabia alone.

Figure 21: Comparison between changes in oil prices and remittance growth



Source: Indexmundi and Nepal Rastra Bank

Collectively Saudi Arabia and Qatar contributed NPR 138 billion (USD 1.29 billion) of remittance inflow in FY 2015/16.<sup>149</sup> Therefore, any slowdown in their economies will have a direct impact on remittance inflow and Nepal's economy. Figure 21 highlights the trend in changes in oil prices and growth of remittance inflow in the country.

### NEW POLICIES IN MALAYSIA

The Malaysian government on February 2016, suspended the recruitment of all foreign workers. The freeze on foreign employment was scheduled to be in place till the government reviewed a two-tier levy program for foreign workers.<sup>150</sup> The move was a result of criticism towards the government's decision to bring in 1.5 million Bangladeshis to work in Malaysia. The ban was also imposed to reduce Malaysia's reliance on foreign workers in sectors such as manufacturing and construction. Furthermore, the

government has also urged employers to hire locals, rather than hiring foreign workers for low skill jobs.

The ban was criticized by Malaysia's manufacturing and construction sector, which is grappling with shortage of labour. As a result of shortage of labour, financial losses of Ringgit 24 billion (USD 5.83 billion) have been reported by the Malaysian businesses since the ban was imposed in February. The ban was partially removed in four sectors, namely construction, planting, manufacturing and agriculture after immense pressure as these sectors faced chronic labour shortages, which declined their productivity.<sup>151</sup> As a result of this policy the number of migrant workers going to Malaysia has decreased to 60,979 in FY 2015/16; a decline of 69.7% from last year. Remittance inflow of Malaysia was highest last year i.e. NPR 132.7 billion.

# LOOKING AHEAD

A dip in demand for labour can be expected from Gulf countries in the near future, with oil prices expected to remain volatile; casting a shadow on the economic growth of Gulf countries. Additionally, the FIFA 2022 World Cup preparations are also in its last stages, and major construction projects have been projected to be completed in the coming years. Meanwhile migration to Malaysia is also expected to decline over the coming years as the Malaysian government has not shown any signs of removing its ban on certain sectors. Meanwhile, the weakening Ringgit could also deter future migrant workers.<sup>152</sup>

Migration and remittance have become critical socio-economic forces in Nepal, in particular with the unprecedented increase in migrant workers over the last decade. To address the paradigm shift and changing demand of foreign job opportunities, it has become clear that Nepal will have to invest massively in human capital development; especially since educated/skilled labours command salaries that are 3-4 times higher than unskilled workers. Nepal will have to prioritize and invest in vocational schools and training centres in key cities and regions of the country, with a goal of providing technical skills to address foreign or local job demands. By investing in a skilled and knowledge-based economy, Nepal will be able to create much-needed employment for its population.

## RECOMMENDATIONS

Given the impact of a drop in global oil prices, subsequent slowdown in demand for unskilled migrant workers, and likelihood of changing migration and remittance patterns, Nepal must undertake proactive measures to deal with the adverse socio-economic impacts. In addition, with construction and development projects nearing completion, host countries are more inclined to recruit or retain higher skilled migrant workers. The demand for labour is therefore likely to shift towards a skilled or semiskilled workforce in areas such as operation and maintenance.

To deal with the potential change in demand patterns, a move towards higher end migration could be beneficial for

With the slowdown in demand for labour, Nepal could potentially face changes in migration patterns and subsequently a surge in unemployment in the coming years, as migrant workers turn to the local economy for employment. Meanwhile, lack of remittance could once again push people under the poverty line.

future migrant workers as well as for the country; as higher skilled workers often have greater social standing as well as salary packages. Currently less than 1% of Nepali migrant workers fall under the high skilled labour category. High-skilled workers enjoy easier work and living conditions, are categorized as “expatriates” and issued employment passes. Such advantages make being a high skilled worker a safer option and also guarantee a stable flow of remittance into the country.

Nepal will not be able to prevent the decline in demand for low skilled workers, pro-activeness on part of the government can help mitigate effects of the shift in demand. Highlighted below are key steps that the GoN could potentially take to addressing the issues:

### Reintegration in the Domestic Labour Force and Investment Opportunities

While migration and consequently remittance has been crucial in keeping the economy afloat, it is essential to understand that these only provide temporary relief from unemployment pressures. As the shift in demand from unskilled to semiskilled and skilled workers occur, unemployment will once again be a key issue with migrant workers returning home. Using a larger share of remittance inflows for investment and employment creation in Nepal instead of the present trend of consumption, for instance will help to support a returning workforce and ensure their reintegration into the domestic labour market.

Investments in sectors such as energy, agriculture, tourism and infrastructure; recognized as major pillars of the economy, could therefore create greater job opportunities; these sectors having borne the brunt of high rates of migration. Meanwhile new public private partnerships should also create the institutional capability to absorb new investments, technology and ultimately an increase in total factor productivity. This will also help attract new entrants into the labour force in the country itself.<sup>153</sup>

Other than government investment, investment opportunities for returning migrant workers should also be considered. A unique form of investment for migrant workers could be investment in sectors such as hydropower. For instance, the Remit Hydro project aims to construct two hydropower projects using remittance money wherein migrant workers will receive 24% of total shares.<sup>154</sup> Such projects could act as a stepping-stone towards investment opportunities from migrant workers.

### Technical and Vocational Training

To address the paradigm shift and changing demand of foreign job opportunities, it has become evidently clear that Nepal will have to invest massively on the human capital development, especially since educated/skilled labourers command the salary that is 3-4 times higher than unskilled workers. Nepal will have to prioritize and invest on vocational schools and training centres in key cities and regions of the country, with a goal of providing various technical skills to address foreign job demands. Investing in skilled and knowledge-based economy, Nepal will be able to create much-needed jobs at home as well.

For instance development of specific training programs for migrant workers that cater to the demand for skills in host countries could support higher end migration in the future. According to the Council for Technical Education and Vocational Training (CTEVT), more than half of the migrant workers who go abroad for work are classified as unskilled. This makes them vulnerable to abuse, harsh working conditions and lower pay scales. Investing in TVET centres; of which there are very few in Nepal could therefore be a first step in developing skills of prospective migrant workers and increase their chances of higher end migration.

Mechanisms also need to be established to enhance the utilization of skills acquired by returning migrants. Subsequently TVET centres also create huge employment opportunities as returning migrant workers can work as trainers or as general staff; having experienced and learned certain skills during their time spent abroad. TVET centres also provide good investment opportunities for returning migrant workers as it provides them with a source of income.

### Government Level Changes

In order to improve the situation of migrant workers in Nepal, it is essential that the GoN take a more proactive role at various levels, be it through the establishment of more embassies in labour migration destinations or the revision of systems, procedures and services at the Department of Foreign Employment to make it more effective and efficient.

To address these challenges, Foreign Employment Services will have to expand and improve with adequate staffing and resources, thereby enabling the working system efficient, effective, and transparent for all migrant workers. Such Foreign Employment Services should be provided in the main cities and regions in Nepal for easy access for prospective applicants; significantly reducing hassles for prospective applicants. The decentralization for migrant support will further ensure that labour recruiting laws are efficiently executed and implemented throughout the country to eliminate extortions and exploitations. It also provides easier points of contact for procuring relevant information as well as putting through complaints or grievances. In addition, strict laws and harsh penalties should be implemented for those involved in exploiting potential migrant workers.

### Conclusion

Ultimately protection of migrant workers and providing adequate support in labour migration destinations needs to be a key priority for the government to avoid issues such as abuse and exploitation of migrant workers. Meanwhile Nepal will also have to make a significant policy leap, including bilateral agreements with job offering countries in line with the ILO multilateral framework on labour migration; which could better protect migrant workers and promote decent work.

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# 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.



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 nefstalk, 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.



NEF operates in the domain of Development Consulting through its devCon division in conjunction with beed management.. 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 receives from beed management and the Open Society Foundations. If you are interested to support NEF, please do get in touch with [sujeev.shakya@beed.com.np](mailto:sujeev.shakya@beed.com.np) or [shayasta.tuladhar@beed.com.np](mailto:shayasta.tuladhar@beed.com.np)





NEPAL  
ECONOMIC  
FORUM

P.O.Box 7025, Krishna Galli, Lalitpur - 3, Nepal

Phone: +977 1 5548400

[info@nepaleconomicforum.org](mailto:info@nepaleconomicforum.org)

[www.nepaleconomicforum.org](http://www.nepaleconomicforum.org)

