



NEPAL  
ECONOMIC  
FORUM

# nefport

**REAL ESTATE SPECIAL**

**DOCKING NEPAL'S ECONOMIC ANALYSIS**

ISSUE 35 | DECEMBER 2018



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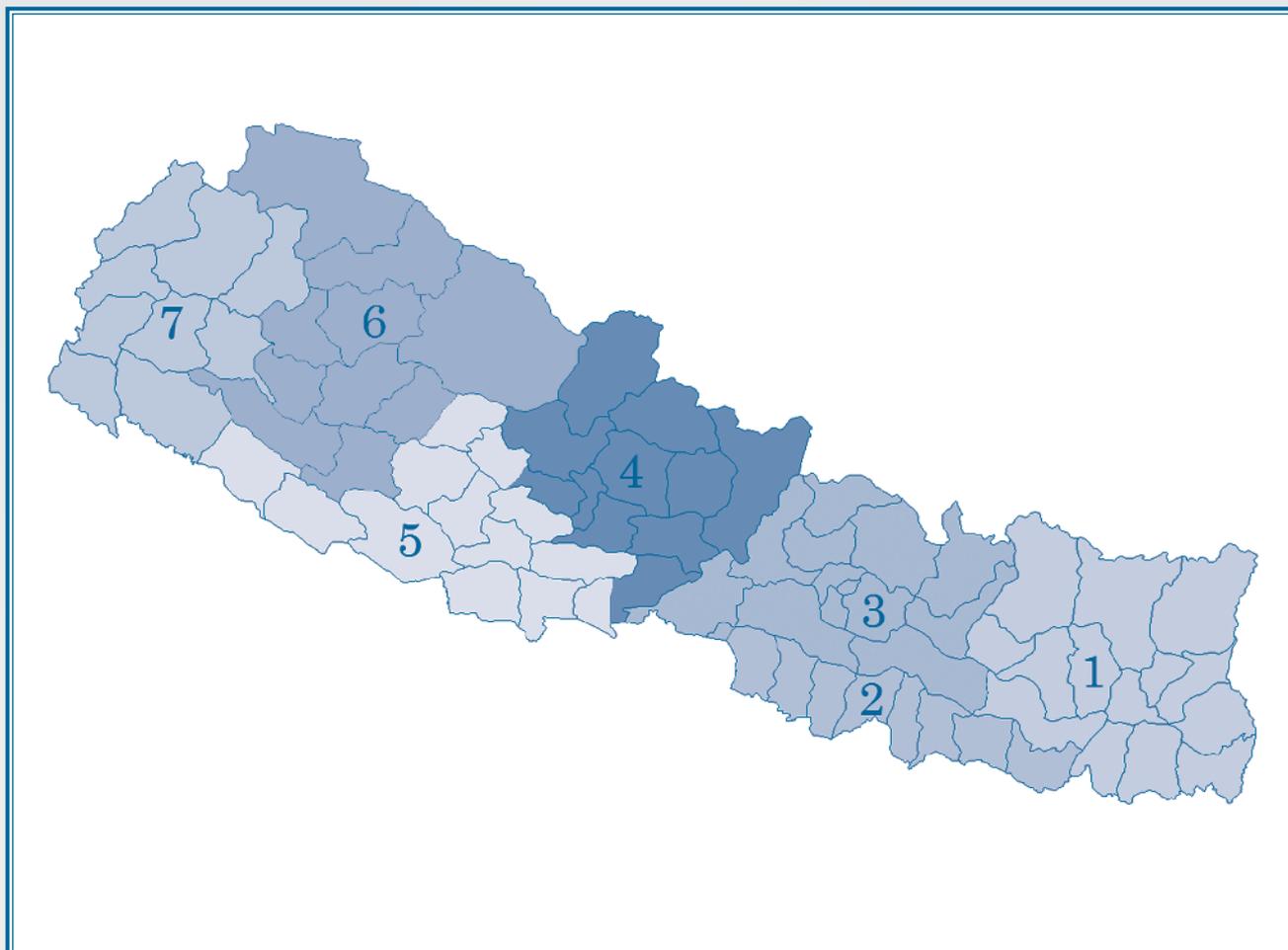
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# NEPAL FACTSHEET



## KEY ECONOMIC INDICATORS

GDP	USD 30.07 billion	GDP Growth rate (%)	6.3%
Rank	105		
GNI (PPP)	USD 2443	Inflation (annual %)	4.2%
Rank	149		
Gross Capital Formation (% of GDP)	34%	Agriculture sector	31.57%
HDI	0.574	Manufacturing sector	15%
Rank	148	Service sector	53.43%

*HDI figure from Human Development Reports of the UNDP-2018, Nepal Rastra Bank (Annual Report 2074-75)*



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# EDITORIAL

The last quarter was marked by a series of important socio-economic events. Notably, the Government of Nepal (GoN) unveiled the much-awaited contribution based social security scheme for formal sector workers. Of the total fund collected, the scheme aims to allocate 91.39% for old age security; 4.52% for accident and disability security; 3.22% for medical treatment and 0.87% for dependent family. The scheme will be formally be introduced from May 22, 2019.

In other stances, money and capital market suffered from an acute liquidity crisis. Lack of capital expenditure further exacerbated the crunch. To avoid the depleting of cash, Banks and Financial Institutions locked horns in interest rate Tug-of-War. As such the average interest rate offered by the commercial banks of Nepal in personal fixed deposit increased to more than 10%. Other economic indicators also depicted a bleak picture of the Nepali economy. Due to the ballooning trade imbalance, Balance of Payment deficit increased to NPR 36 billion (USD 307,509)—sufficient only to cover the prospective merchandise and service import of 7.9 months. Central Bank continued to put an additional restriction on foreign exchange payments. The government formed a committee under the aegis of the Deputy Governor and a report was submitted.

In the last quarter, NEF engaged in the discourse on doing business in federated Nepal. NEF successfully launched its flagship publication—*Doing Business in Federated Nepal*. The session of neftalk was organised to discuss the pertinent issues on Doing Business in Federated Nepal. Likewise, NEF conducted awareness generation and information dissemination campaign as a part of BBIN (Bangladesh, Bhutan, India and Nepal) project in Biratnagar, Birtamod, Butwal, Hetauda, Kakarvitta, Narayanghat and Itahari.

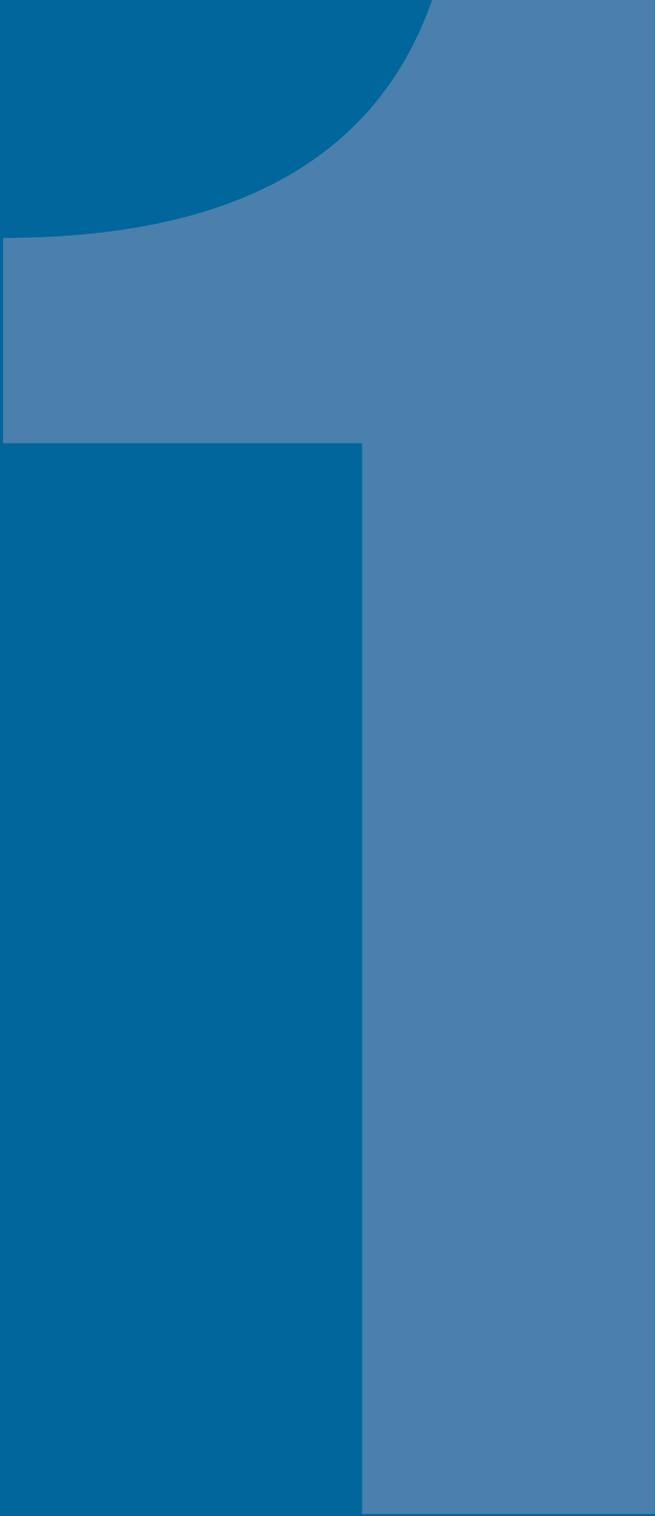
The upcoming year will be interesting for the Nepali economy as the renaissance of hydropower could pose uncharted challenges. Besides the hassling issues on trading electricity, the situation of energy surplus could entirely transform the consumption habit of Nepali consumers. In a sense, the trade could be dominated by the import of electronic merchandise. Nevertheless, as the production of goods become cheaper it could also provide a fertile economic ground for Foreign Direct Investments (FDIs) to come to Nepal. NEF will continue to strive to analyse how the Nepali economic development paradigm will shape up in the days to come.

This edition is a Real Estate special, highlighting the forthcoming challenges and opportunities. We would like to thank all the key contributors especially Mr. Kishore Thapa (Former Secretary, Government of Nepal—Ministry of Urban Development), Mr. Mahendra Mainali (Senior Advocate, Legal Council Centre) and Mr. Om Raj Bhandari (Chairperson, Brihat Investment Pvt. Ltd.) for helping us make this issue an enriching one.

We continue to look forward to your valuable comments and suggestions.

**Sujeev Shakya**  
Chair, Nepal Economic Forum





GENERAL  
**OVERVIEW**

# POLITICAL OVERVIEW

## INTRODUCTION

The political atmosphere this quarter was tumultuous compared to the last one. While the federal politics remained rather stable, two of the provincial ministers were relieved from their post following non-performance in their respective jurisdictions. On the bilateral front, a landmark labour pact was signed between the Government of Nepal and the Government of Malaysia allowing Nepali workers to take up employment opportunities in Malaysia at zero cost. On the regional front, the President of Sri Lanka has dissolved Parliament and pushed the country towards political turmoil. The global politics, on the other hand, saw a series of change in political leadership, including in Bhutan, the Maldives and Brazil. This quarter also observed the midterm elections in the United States where the Democratic Party won control of the House of Representatives, while the Republican Party expanded its majority in the Senate.

## DOMESTIC POLITICS

### Ministers of Province 3 and Sudurpaschim Province sacked:

Physical Infrastructure and Development Minister of Province 3 Keshav Sthapit, was sacked following a heated dispute with the province's Chief Minister Dormani Poudel in a Cabinet meeting. Minister Sthapit reacted aggressively after CM Poudel commented that the former's 'ineffective performance'<sup>1</sup> led to the sluggish execution of the Ministry of Physical Infrastructure and Development. CM Poudel shall himself handle the Ministry for the time being.

Dirdharaj Sodari, the Social Development Minister of Sudurpaschim Province has also been sacked for his non-performance and misconduct. Allegations for embezzling funds have been lodged against Sodari.<sup>2</sup> As a result, he has also been suspended from the general

membership of Nepal Communist Party. The position has been allotted to Provincial Assembly member Krishna Raj Subedi.

### Malaysia-Nepal sign landmark labour pact:

Nepal and Malaysia signed a labour agreement, according to which the Kuala Lumpur government will let Nepali workers take up employment opportunities in Malaysia at zero cost. Based on the agreement, the cost of recruitment service charge, two-way ticket, visa charges, medical check-up charges, security screening charges shall be borne by the employment providing firm. According to the Malaysian Ministry of Human Resources, the number of documented Nepal workers in Malaysia is 358,211, 72% of whom are involved in the manufacturing sector; however, the Nepal government provides twice the number of Nepali workers in Malaysia<sup>3</sup>. The agreement has been

seen as a major diplomatic feat for Nepal although its effectiveness would depend on the sincerity of both the governments in the implementation of the accord.<sup>4</sup>

### Government begins new process to brief on Cabinet decisions:

The Government of Nepal has stopped the immediate public release of the decisions taken by the Council of Ministers. The government will hold a press conference every week to brief about the Cabinet decisions and other government works and to explain why the decisions were taken. The government spokesperson will also take questions from the media persons during the press conference. This process as per the government officials is to manage the information dissemination process.

**Gachchhadar nominated as the Vice President of Nepali Congress:** Nepali Congress (NC)

leader Bijay Kumar Gachchhadar has been unanimously elected the Vice-President of the party. Leader Gachchhadar, who had quit NC in 2008 and joined the then Madhesi Janadhikar Forum (Democratic) had re-joined the party in 2017 after the merger of two parties before the provincial elections.<sup>5</sup>

**Government increases the minimum wage of working journalists by one-fourth:** The government has raised the minimum wage of working journalists by 25%.<sup>6</sup> Currently, the minimum wage of a working journalist is NPR 19,500 (USD 116.57).

## INTERNATIONAL POLITICS

**Bhutan elects its new Prime Minister:** Bhutan held the election for the National Assembly (House of Representatives) on 15 September and 18 October. Druk Nyamrup Tshogpa (DNT) won 30 of the 47 National Assembly seats<sup>7</sup> in the second round of voting and the president of DNT, Lotay Tshering was elected as the new Prime Minister of Bhutan.

**Presidential Elections take place in Maldives:** The presidential elections held in the Maldives on September 2018 saw Ibrahim Mohamed Solih of the Maldivian Democratic Party to become the seventh President of the Maldives. Solih was nominated as the joint candidate of a coalition of opposition parties against the

incumbent President Abdulla Yameen.<sup>8</sup>

**Brazil elects its new President:** Brazil Elects Congressman Jair Bolsonaro as the President in the 2018 election. Bolsonaro, a former army captain, is a far-right leader who pledged to restore the greatness of Brazil, to eradicate their problems in a direct manner and to preserve the stability of the society.<sup>9</sup> Bolsonaro's general proposals appear to be generally positive for Brazil's investment climate, given his focus on improving security, rooting out corruption and continuing the outgoing administration's pro-business policies. Bolsonaro's presidency shall not only affect the domestic politics but also influence regional political dynamics and smoother relations between Brazil and the United States is also expected.

**Bangladesh PM convicted for corruption charges:** Khaleda Zia, a key rival of the current Prime Minister Sheikh Hasina, has been found guilty of misappropriation of charity money worth 31.5 million takas (USD 375,000)<sup>10</sup>. Zia is already facing five-year jail sentence on separate embezzlement charges since early 2018. The latest conviction has sparked riots and violence across Bangladesh.

**Srilanka's president dissolves Parliament:** Srilanka's President Maithripala Sirisena in an unprecedented move dissolved the Parliament in the first week of

November and called for a general election early January.<sup>11</sup> Sirisena sacked Prime Minister Ranil Wickremesinghe and the appointed Mahinda Rajapaksa as the Prime Minister of Sri Lanka. The presidential decree to resolve the Parliament and hold elections, however, faced a stay order from the Supreme Court.<sup>12</sup> The Parliament has also passed a no-confidence vote against the Rajapaksa. Amidst the political crisis, concerns are raised for the already fragile economy of Sri Lanka as IMF has decided to delay discussions on Sri Lanka's next loan tranche due to the country's political crisis.<sup>13</sup>

**United States midterm elections:** The United States contested its midterm elections in the middle term of incumbent President Donald Trump. Thirty-five of the 100 seats in the United States Senate and all 435 seats in the United States House of Representatives (HoR) were contested. Thirty-nine state and territorial governorships, as well as numerous other state and local elections, were also contested. In the elections, the Democratic Party won control of the HoR and made gains at the state level while the Republican Party expanded its majority in the Senate. Control of the HoR will now allow Democrats to investigate President Trump's administration and also block his agendas, particularly on health care, social security and taxation.

## OUTLOOK

While the political environment is expected to see turbulent phases on the provincial level, federal and local political climate looks quite stable. The federal government is expected to roll out significant decisions regarding policy changes in the upcoming quarter given the time it is taking to manage information on Cabinet decisions.

# INTERNATIONAL ECONOMY

This quarter was a continuum of the previous one where the US-China trade war continued to escalate and the oil prices continued to slump on an average. The unfolding of the Brexit deal where the EU and UK negotiators approved the withdrawal agreement was a major turn of events for the global economy. The World Bank's 'Doing Business 2019: Training for Reform' was also released this quarter where Nepal slipped by five positions and was ranked 110th out of 190 countries.

**Nepal slips by five ranks in the Doing Business Report:** Nepal is ranked 110th position in the World Bank's 'Doing Business 2019: Training for Reform' report—a fall by five positions from the Doing Business Report of 2018. Out of the ten parameters used by the World Bank to judge the ease of doing business, the performance in 'Paying Taxes' in Nepal has deteriorated sharply. The score is 52.87 points for 2019, which is a fall by 5.14 points from 2018 score.<sup>14</sup> Tax payments, time, total tax and contribution rate for a firm to comply with all tax regulations as well as a post-filing process are some of the criteria measured for the parameter 'Paying Taxes'.

The difficulty in paying taxes was attributed to the provisions introduced in the new Labour Act 2017. The compliance for labour gratuity, medical insurance, and accident insurance to be paid by the employer has increased the number of tax payments and time in hours to comply with tax obligations. Employers must file and pay the labour gratuity every month and the medical and accident insurance every year. Besides, Nepal has scored better

in four of the parameters—dealing with construction permits, starting a business, getting electricity, and registering property.

**G20 summit:** The 2018 G20 Summit to be held in Buenos Aires in the first week of December comes at a crucial time when significant events are taking place in the global economies.<sup>15</sup> With the escalation of the trade war between the US and China, EU leaders agreeing to Brexit deal and plunging oil prices, there is a lot on the plate for the G20 leaders to agree upon.

**Iran faces tough sanctions:** The United States has levied the full extent of its sanctions on Iran, with targets including 50 banks and their subsidiaries, the national airline, and 200 members of the shipping industry and vessels. These sanctions aimed at reducing Iran's oil supply in the global market has been countered by temporary waivers provided by eight of Iran's oil-importing countries, China, India, Italy, Greece, Japan, South Korea, Taiwan and Turkey.

**Trade dispute between United States and China:** Trump administration has levied taxes

on various Chinese imports in yet another populist move. China has retaliated by imposing heavy tariffs on American agriculture produce—placing American farmers at the center of Donald Trump's trade war. The export of soybean, America's biggest farm export to China, has been plugged by more than 80% with the introduction of new measure of tariffs by China. It has been assumed that the ongoing trade war will impact the farm income significantly. Moreover, due to the inward looking policy of the United States, the dollar is strengthening (as many companies are coaxed to establish their subsidiaries in American soil thereby surging the demand of dollar) and making American exports expensive.

**Brexit deal:** Britain is nearing the final stage of exiting the European Union. After Britain voted to leave the EU in June 2016, the UK government triggered Article 50<sup>16</sup>—the EU's legal provision for countries wishing to leave the EU, following parliamentary approval in March 2017. This had set a countdown of two years for the UK to leave the EU on 29 March 2019 officially.

On June 2018, the UK government passed the EU Withdrawal Act<sup>17</sup> which laid the provision that the new EU laws would not affect the UK. On November 2018, the draft text for the political declaration on future ties and withdrawal agreement that covers issues like trade, law and immigration, was agreed upon by the EU and the UK negotiators. Besides, a crucial part of the agreement is the transition period that shall run from the exit day on 29 March until the end of 2020.<sup>18</sup>

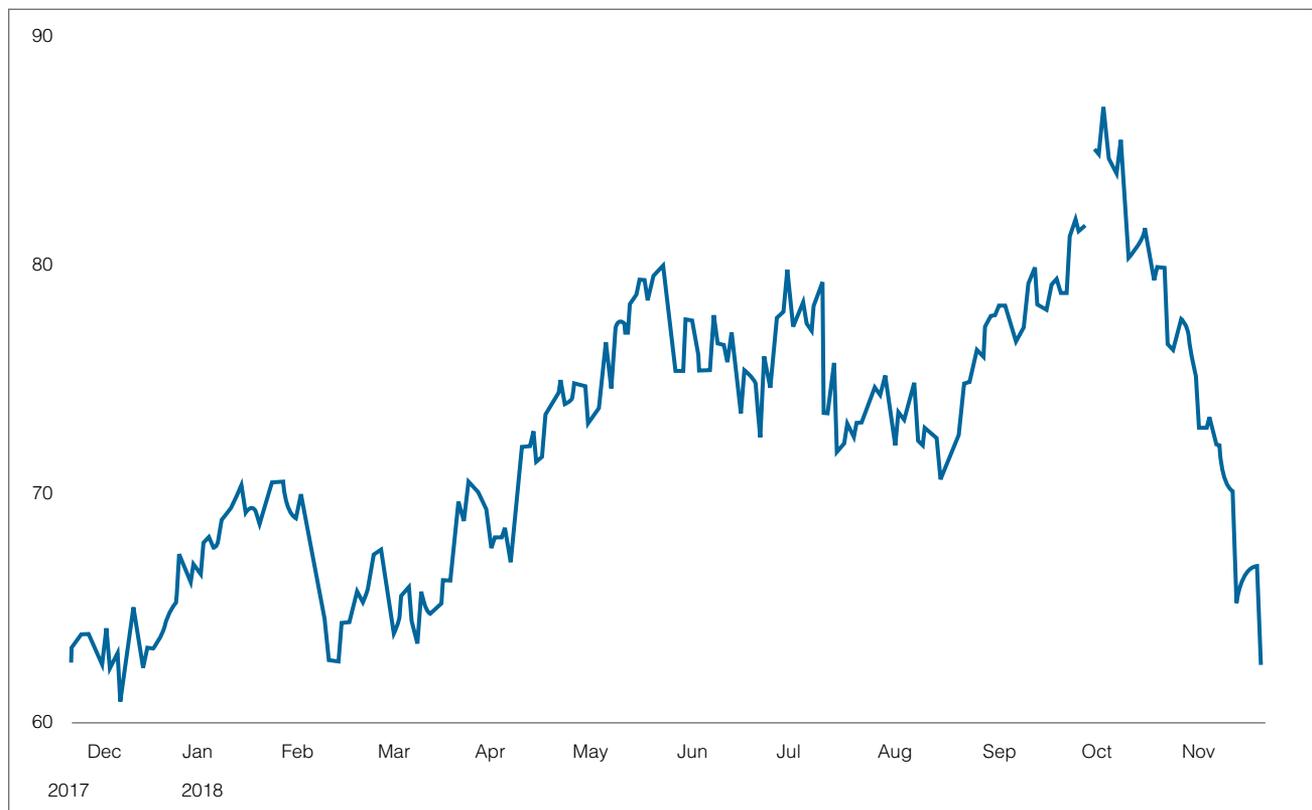
The next step to the Brexit is approval of the withdrawal agreement by the British Parliament and the EU. Upon

the approval, the UK and EU would spend the transition period trying to agree on a future relationship. There would be a possibility to extend the transition period for a set period if both sides agree. During the transition period, the UK would not be a part of the EU but would have the same obligations as a EU member, which includes remaining in the EU's customs union and the single market, contributing to the EU's budget, and following the EU law. The next key milestone for the Brexit deal is to pass the draft agreement through the House of Commons for a 'meaningful vote'.<sup>19</sup>

**Volatility in oil market :** Oil showed sign of a slight increase by mid-November after declining by more than 20% from the October peak.<sup>20</sup> However, this rise was short lived, and the price of oil further declined as it reached close to one year's low. A boom in US shale, and a surge in Saudi Arabian and Russian exports are among the forces driving the oil price lower this quarter.

Given the volatility, the oil prices could further slump if there is a sudden fall in demand or the OPEC fails to reach an agreement to reduce production by between 1 and 1.4 million barrels per day.

**Figure 1: Change in Oil Price in 2018**



(Source: BBC)

## “ OUTLOOK

The events that shall be of crucial importance in the upcoming quarter are the G20 summit and the 175th OPEC meeting to be convened in Vienna. The G20 summit will bring together leaders of the major economies of the world. While the Trump-Xi meeting will be one of the most looked out meetings in the summit, the OPEC meeting, on the other hand, shall set the base of oil price in the upcoming year.





MACROECONOMIC  
**OVERVIEW**

# MACROECONOMIC OVERVIEW

The year-on-year (YoY) inflation level inflated to 4.7% over the past three months of FY 2018/19, nevertheless the inflation is within the targeted level of 6.5%. On the other hand, Nepal's trade deficit continues to widen as merchandise import increased to NPR 23.74 billion (USD 202.78 million).

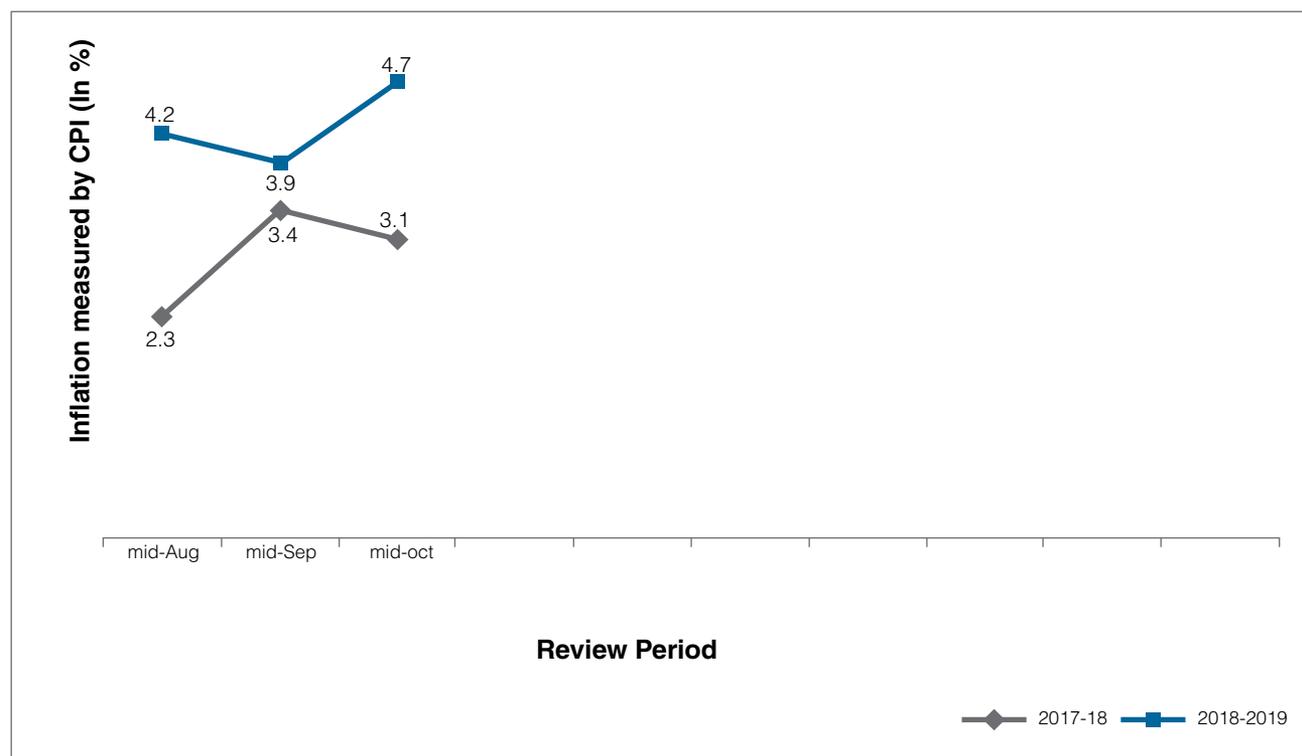
**Inflation:** The inflation rate, measured by Consumer Price Index (CPI), has increased to 4.7% in mid-October (see Figure 2). It stood at 3.1% over the same period the previous year. Food inflation surged to 3.4%, which was caused by the increase in prices of pulses and legumes, spices, vegetables and fruits. Non-food inflation also

increased to 5.7% on the back of rising rates of clothes and footwear, furnishing and household equipment and housing and utilities.

**Inflation wedge between Nepal and India:** The inflation wedge, measured as the YoY change in CPI of India and Nepal has fallen to 1.4%, as shown

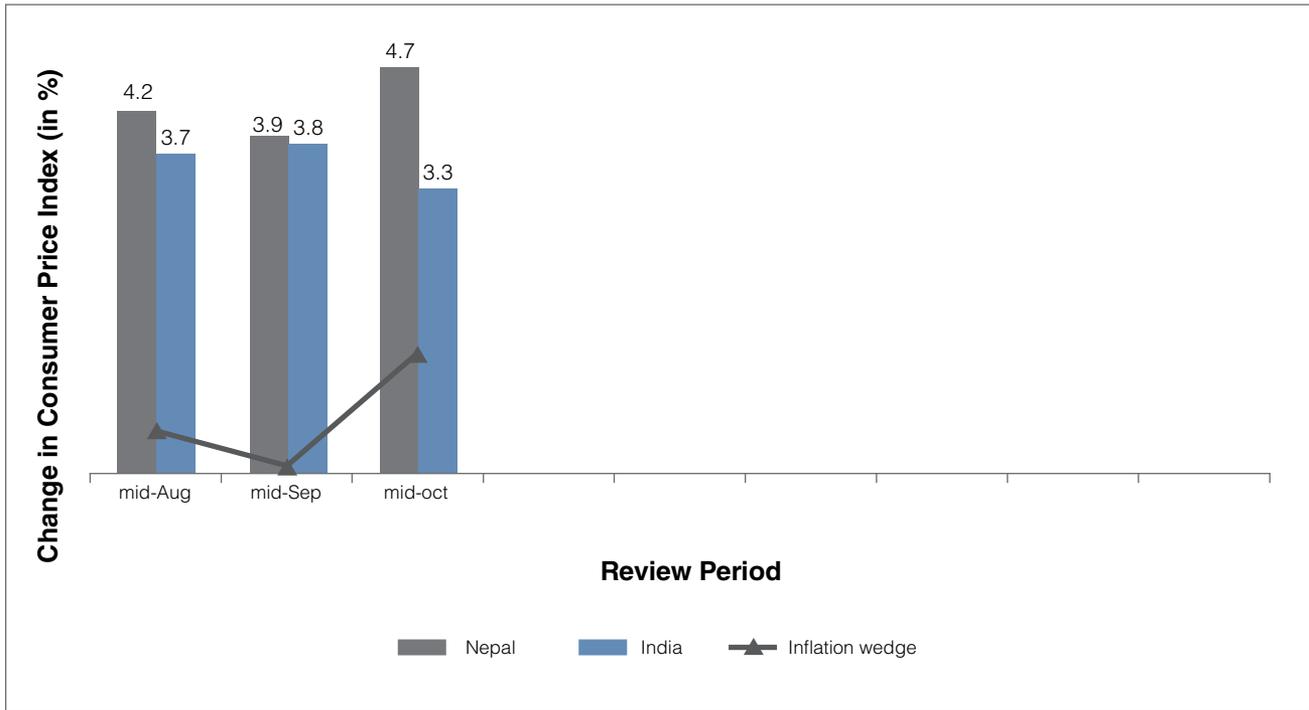
in Figure 3. Over the same period last year, the inflation wedge between India and Nepal stood at 0.4% as shown in Figure 4. An improved supply situation between the two countries and a deceleration in the Indian inflation rate can be cited as the main reasons for the subtle inflation wedge.

**Figure 2: Year on year inflation measured by Consumer Price Index (CPI) for three months of FY 2017-18 & 2018-19**



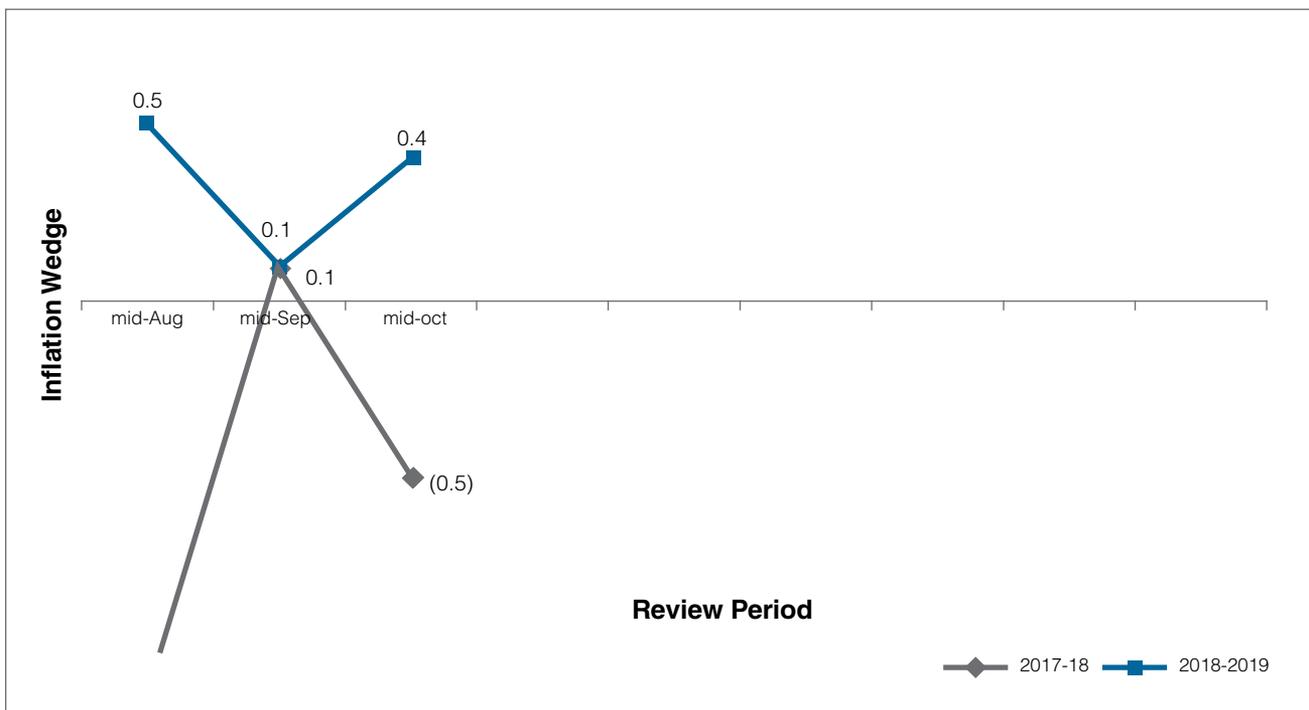
Source: Current Macroeconomic Situation of Nepal (Based on the three-month data of 2018/19), Nepal Rastra Bank

**Figure 3: Year-on-year percentage change in CPI in Nepal and India and the inflation wedge in the corresponding period for FY 2018-19**



Source: Current Macroeconomic Situation of Nepal (Based on the three-month data of 2018/19), Nepal Rastra Bank

**Figure 4: Year-on-year change in inflation wedge (based on CPI) between Nepal and India in FY 2017-18 & 2018-19**



Source: Current Macroeconomic Situation of Nepal (Based on the three-month data of 2018/19), Nepal Rastra Bank

**Import-export and trade deficit:**

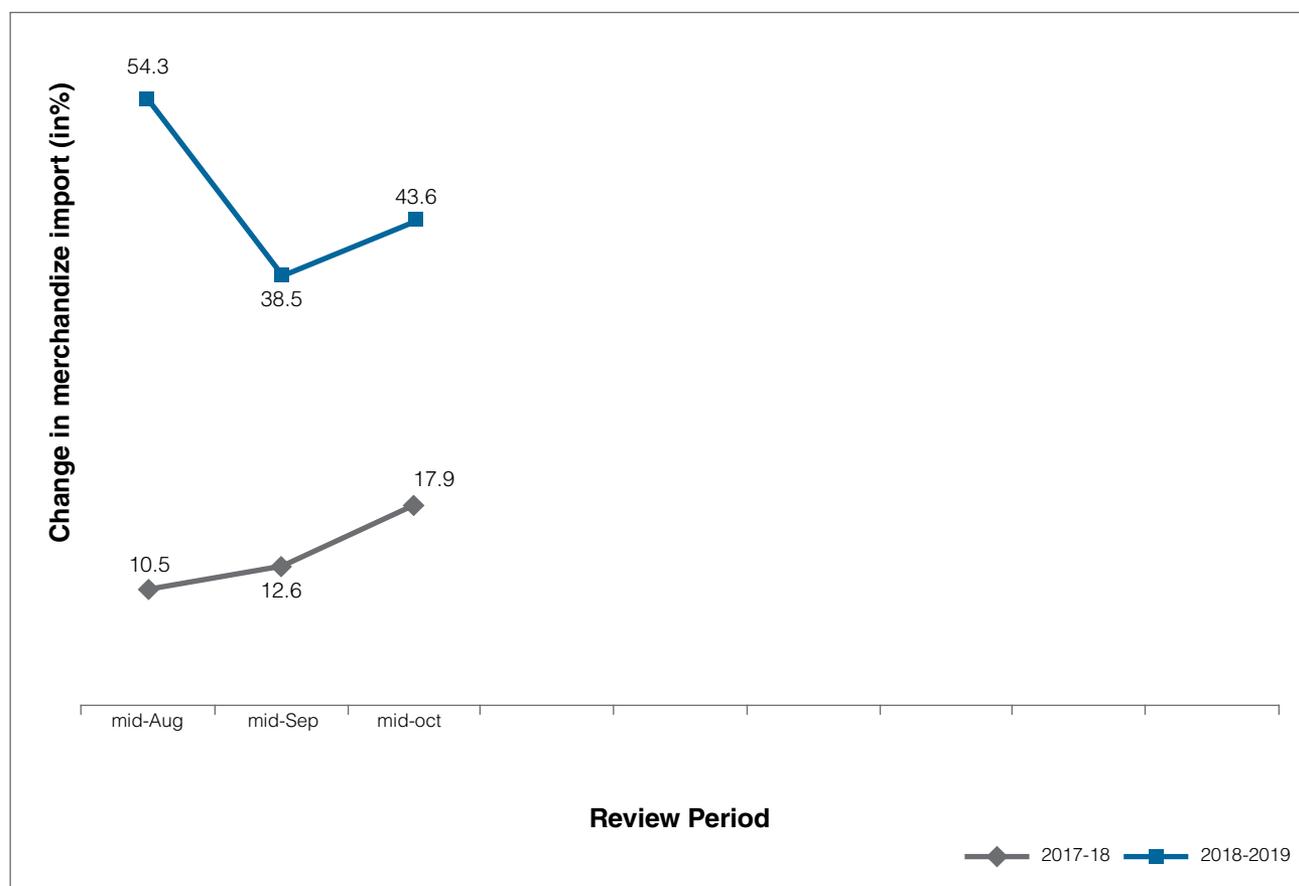
Merchandise imports have increased by 43.6% to NPR 373.59 billion (USD 3.19 billion) in the first three months of FY 2018/19, as shown in Figure 5 compared to 17.9% in the same period of the previous year. In comparison to the same period last year, Nepal's import from India and China increased by 40.8% and 45.9% respectively, showing a greater dependency on its neighbours.

Merchandise exports have grown at a sluggish pace in comparison to a

drastic increment in merchandise imports. Merchandise exports increased by only 16.9% to NPR 23.74 billion (USD 202.78 million) in the first three months of FY 2018/19. The corresponding figure was 8.1% in the same period of the previous year. A lack of growth in the industrial sector can be attributed to the lack of any substantial growth in exports. Similarly, three months average wholesale price indices (WPI) increased to 9.2% in FY 2018/19. The corresponding figure was 1.5% in the previous year.

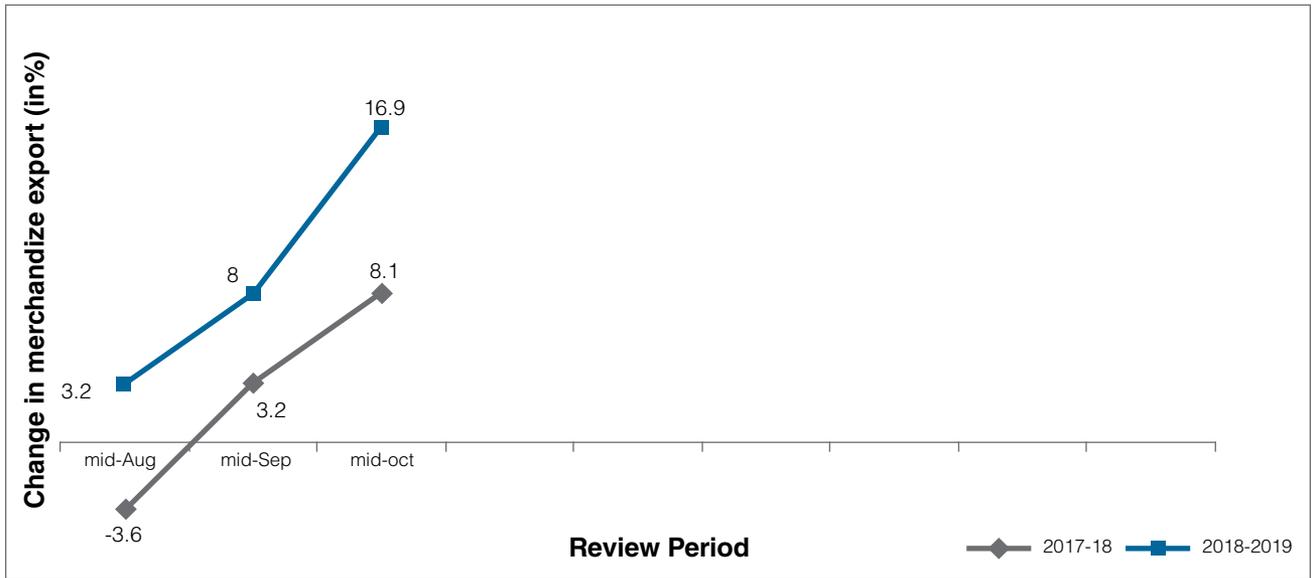
As a result of the widening gap between imports and exports, Nepal's trade deficit increased by 21.7%, compared to 42.6% in the same period the previous year, as shown in Figure 7. Nepal's trade deficit now stands at NPR 816.55 billion (USD 6.97 billion). Nepal's propensity to import goods from India and the lack of growth in domestic producers can be attributed to the widening trade gap. With the government unable to boost exports and support the development of the domestic industrial sector, the trade deficit will continue to worsen with imports growing at a substantial rate.

**Figure 5: Year-on-year percentage change in merchandise imports in review periods in FYs 2017-18 and 2018-19**



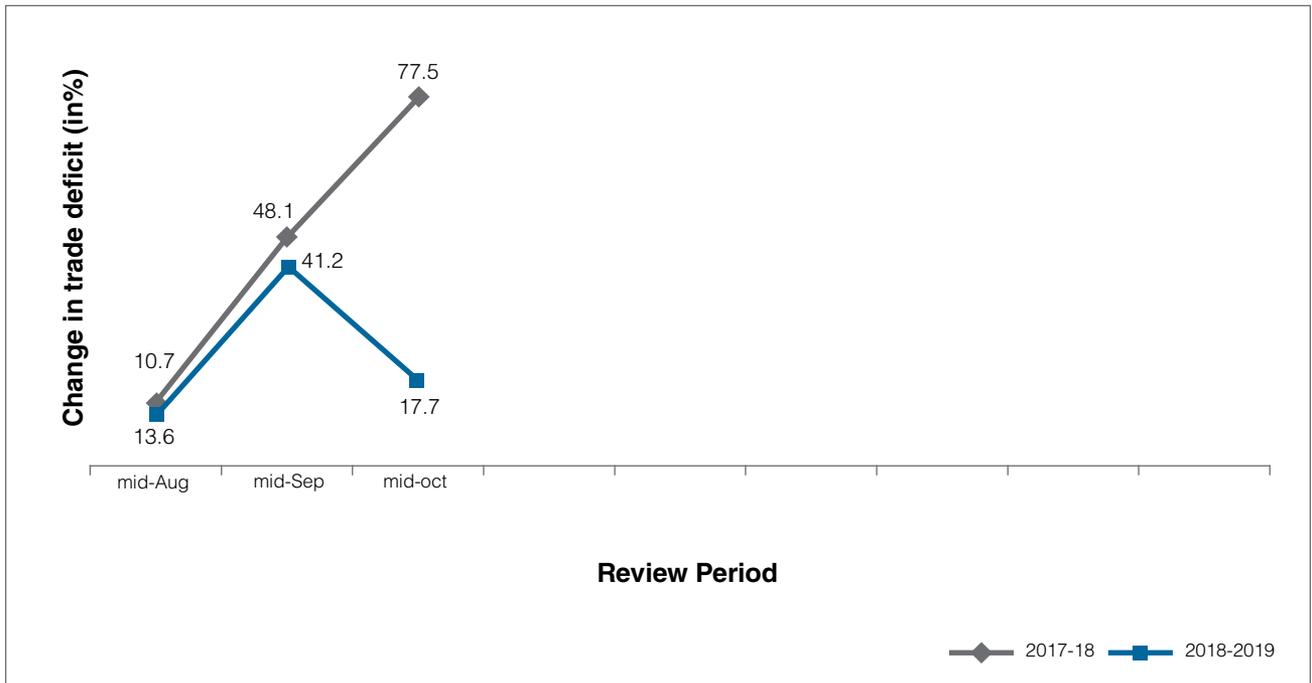
Source: Current Macroeconomic Situation of Nepal (Based on the three-month data of 2018/19), Nepal Rastra Bank

**Figure 6: Year-on-year percentage change in merchandise exports in review periods in FYs 2017-18 and 2018-19**



Source: Current Macroeconomic Situation of Nepal (Based on the three-month data of 2018/19), Nepal Rastra Bank

**Figure 7: Year-on-year percentage change in trade deficit in review periods in FYs 2017-18 and 2018-19**



Source: Current Macroeconomic Situation of Nepal (Based on the three-month data of 2018/19), Nepal Rastra Bank

**Government revenue:** Government revenue collection increased by 43.4%, amounting to NPR 200.32 billion (USD 1.71 billion). The revenue collection had increased by 10.7% to NPR 139.65 (USD 1.19 billion) in the corresponding period of the previous year as shown in Figure 8.

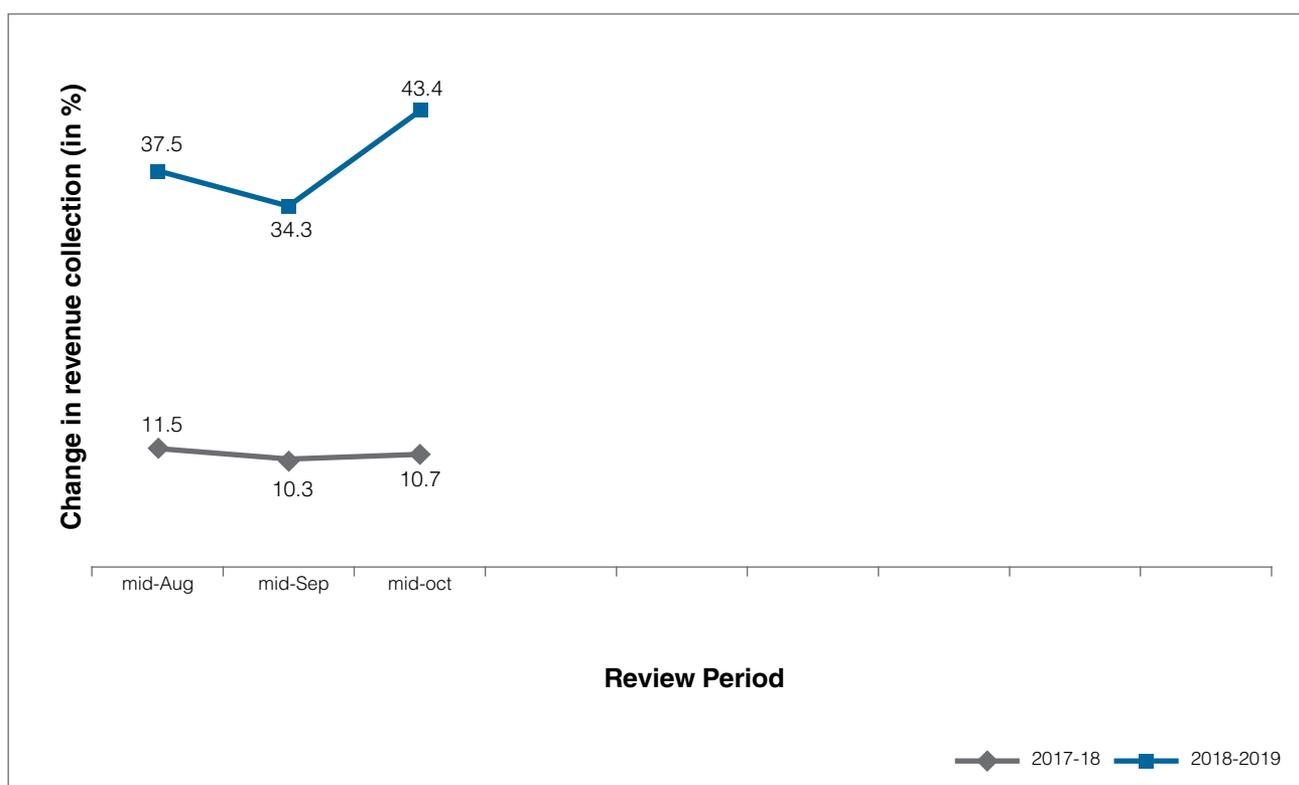
**Government expenditure:** Total government expenditure stood at

NPR 170.95 billion (USD 6.05 billion), compared to NPR 138.84 billion (USD 1.18) previous year, as shown in Figure 9. This was on account of both recurrent and capital expenditure rising to NPR 149.57 billion (USD 1.27 billion) and NPR 126.35 billion (USD 1.07 billion) respectively. Recurrent and capital expenditure stood at NPR 168.4 billion (USD 1.43 million) and NPR

137.99 billion (USD 1.17 billion) respectively in the corresponding period of the previous year.

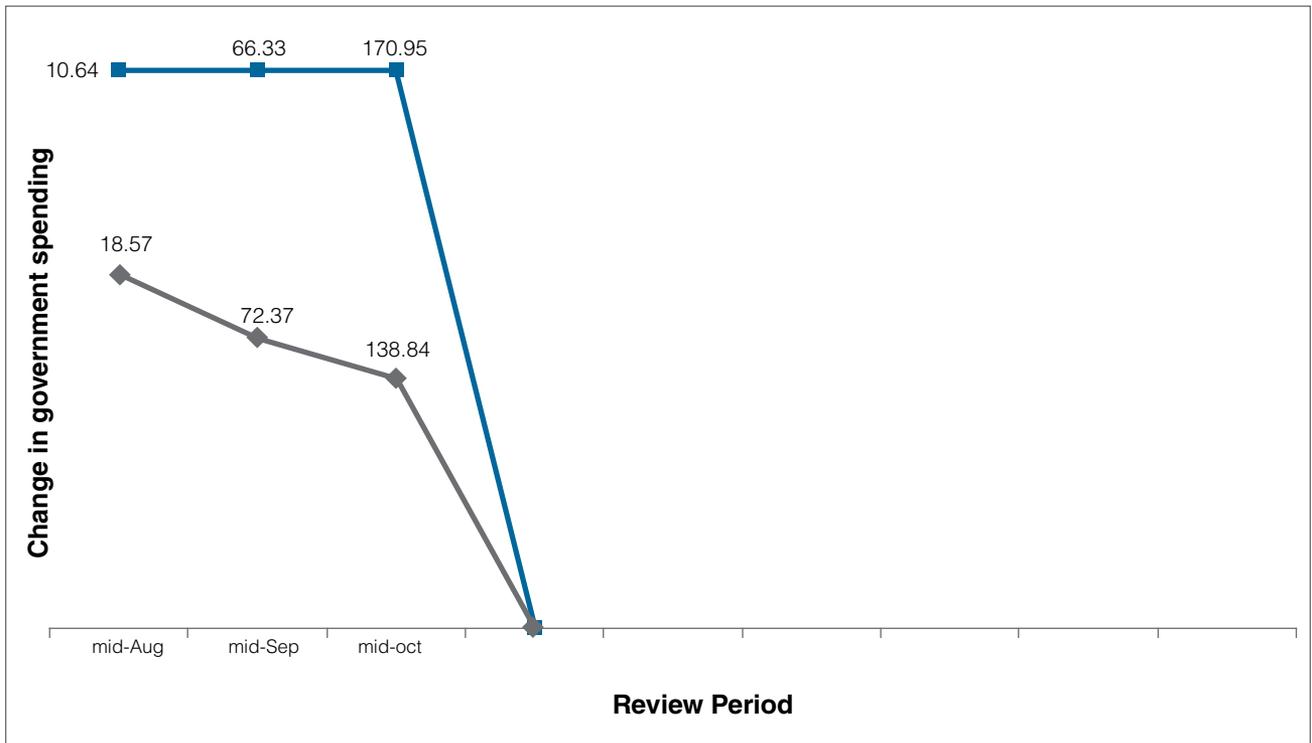
The utilisation of capital and the recurrent budget has been approximately 17.7% and 6.0% respectively. Figure 10 shows the monthly outlay in terms of percentage of the target achieved for government spending.<sup>21</sup>

**Figure 8: Year-on-year percentage change in revenue collection during the review periods for FY 2017-18 and 2018-19**



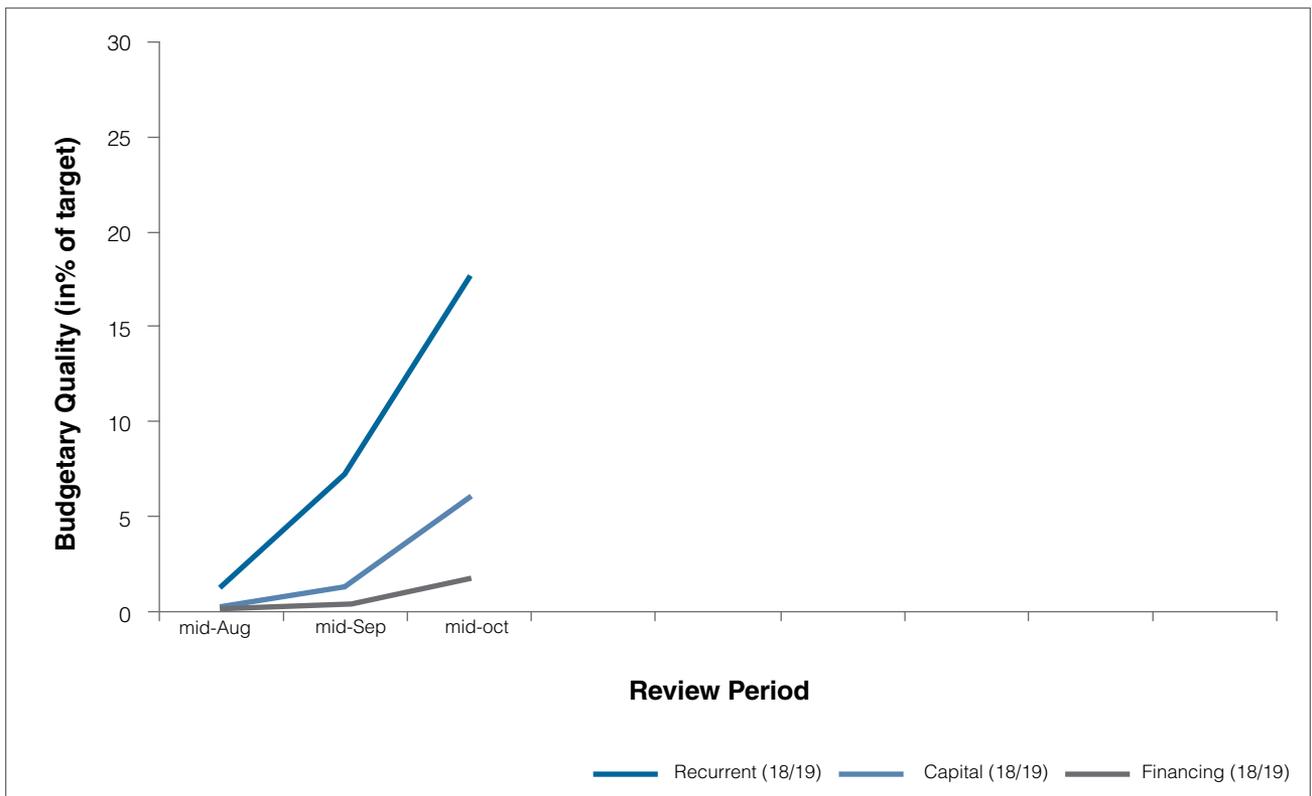
Source: Current Macroeconomic Situation of Nepal (Based on the three-month data of 2018/19), Nepal Rastra Bank

**Figure 9: Year-on-year change in government expenditure during the review period for FY 2017-18 and 2018-19**



Source: Current Macroeconomic Situation of Nepal (Based on the three-month data of 2018/19), Nepal Rastra Bank

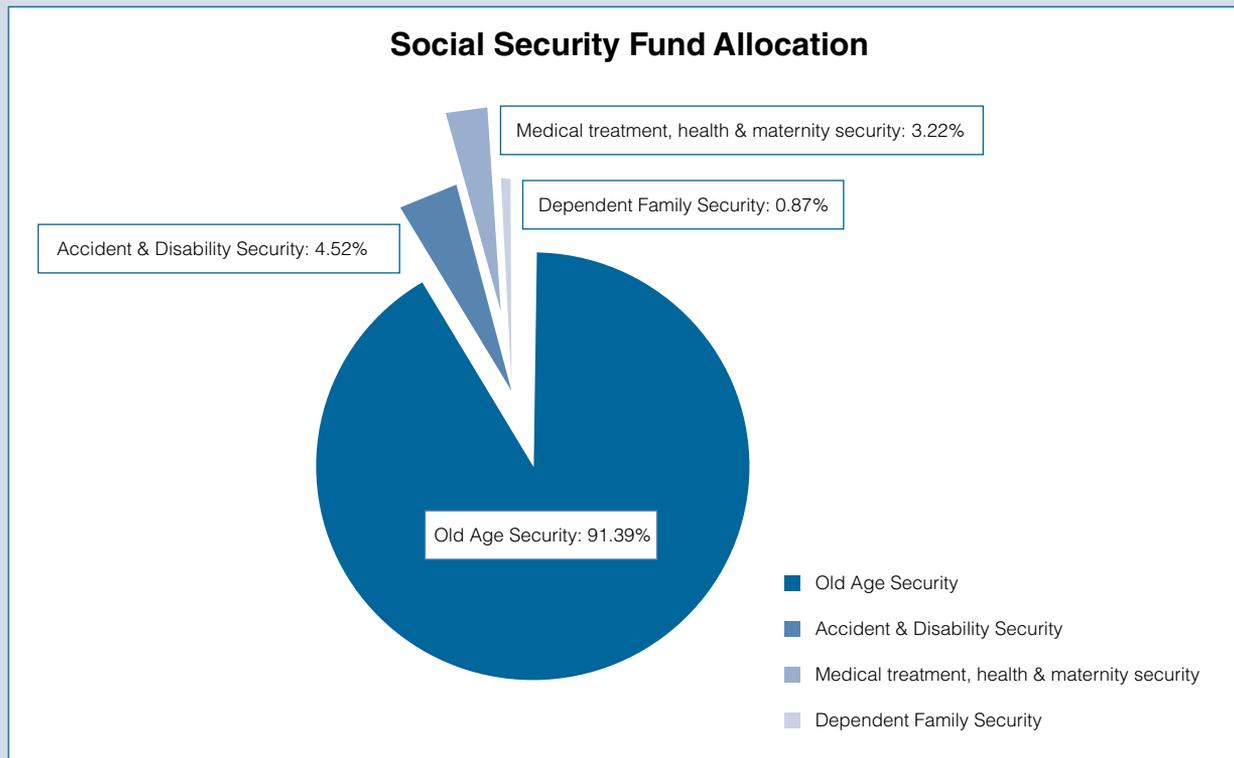
**Figure 10: Budgetary outlay trend over the twelve months of FY 2018-19**



Source: Current Macroeconomic Situation of Nepal (Based on the three-month data of 2018/19), Nepal Rastra Bank

## OUTLOOK

Economic inequality as measured in terms of income inequality is increasing, flirting with another major risk of socioeconomic and political disequilibrium. To address the issue of the in-egalitarian spiral, Government recently announced the social security scheme. The aim of the scheme is to promote just and insured society, similar to that of the western economies. The basic structure of the proposed scheme is highlighted in the picture below:



*Source: Nepal Economic Forum*

While the scheme has been praised as a progressive approach in achieving a prosperous and happy society, its full-fledged implementation will be a challenge. Demographic status of Nepal depicts that 57% of the population is economically active and 35% are below the age group of 15. To realize the ambition of insured society, economically active population must be harnessed by unbridling the economy from the current state of stagnation. In other words, the creation of viable economic opportunities is needed to sustain the social security scheme.

In this context, to reduce inequality Nepal must follow the world trend and industrialize. As described by Kuznets, industrialization is a powerful weapon to accumulate wealth and reduce inequality. The idea presented by Kuznets suggest that inequality initially increases in the early phase of industrialization as the only minority is prepared to benefit from the new wealth that industrialization brings. Later, in a more advanced phase of development, inequality decreases as a larger fraction of the population partakes the fruit of economic growth. Reduction in the inequality observed in the United States between 1913 and 1948 is attributed to Kuznets phenomena. Nevertheless, the optimistic conclusion of Kuznets should be explored with precaution as there have been instances (like in 1914 and 1945) where the sharp reduction in inequality was the outcome of economic violence and political shocks rather than the tranquil process as described by Kuznets.

Reduction in inequality is also about the redistribution of wealth, apart from accumulation. In this context, it should be noted that the given redistribution mechanism (Fiscal redistribution Vs. Direct redistribution) are not alike. Depending on the economic size and preferred system one can be more efficient than others. In other words, by adopting the suitable redistribution tool it is possible to achieve improvement in the standard of living without reducing the level of employment.

33

SECTORAL  
**REVIEW**

# AGRICULTURE

Implementation of various government programmes to enhance productivity as well as lure more individuals towards farming, livestock and fishery have greatly impacted the lives of farmers. Different schemes have been initiated to make farmers self-reliant and boost the agriculture sector.

### Increase in coffee price to lure more farmers:

According to the National Tea and Coffee Development board, the government decided to raise the price of Nepali coffee as farmers face increased costs in its production. The revised increased rate was introduced on the 14th National Coffee Day which falls on 17 November. The cost of fresh cherry A grade and B grade coffee was hiked by NPR 2 per kg while the parchment coffee was increased by NPR 10 per kg. According to the executive director of the board, Shesh Kanta Gautam, as Nepali coffee is one of the most exportable agricultural produce gaining demand in international market, the increase in price will encourage farmers towards coffee plantation. Nepal has the potential to cultivate coffee on 1.9 million hectares of land, but lately, it covers only 2,650 hectares of land.

Last fiscal year, the country exported 84.22 tonnes of coffee worth NPR 93.7 million (USD 800,375) out of the 513 tonnes produced—an increment by 10% compared to the previous fiscal year according to the board. Also, the government is making efforts to encourage coffee plantation in a large and commercial manner which is attracting many farmers.<sup>22</sup>

### Increase in orange production in Eastern hilly districts:

The Agriculture Market Management Committee so far has recorded production of 6,719 tonnes of oranges amounting to NPR 530 million (USD 4.53 million) in Dharan—an increase of 50% compared to the same period last year. Based on this early indication, the local traders and farmers have forecasted production of 10,000 tonnes of oranges worth NPR 1 billion (USD 8.54 million) this year. According to the manager of the Committee, Laxman Bhattarai, there has been increased production of oranges in Bhojpur as new farmers are venturing into the citrus fruit business. However, the surge in output is not backed with adequate cold storage facilities for the farmers and traders. The Committee believes that with proper storage facilities, grading and packaging, Nepali oranges can eventually replace the ones coming from India in the market.<sup>23</sup>

**More farmers drawn towards farming due to government-backed schemes:** Many schemes under the Prime Minister Agriculture Modernisation Project are being implemented in a bid to encourage potato farming and as a result, there has been a subsequent surge in

commercial potato farming in Jhapa. Potato Management Committee formed under this project has declared areas such as Kamal Rural Municipality, as potato pocket area, as it has doubled its potato cultivation area compared to last year. As per the government scheme, the Committee provides farmers with machinery like potato harvester and transplanter for free which saves them time and reduces their production cost. Moreover, the farmers are also offered a 50% subsidy on potato seeds and NPR 300 (USD USD 2.46) per biga to promote potato farming. The NPR 130 billion (USD 1.11 billion) Prime Minister Agriculture Modernisation Project implemented in 2016 is aimed at boosting productivity and self-reliance in food by adopting modern farm techniques.<sup>24</sup>

### Decrease in price of poultry worries farmers:

Due to fluctuating chicken prices, Nepal Poultry Farmers Association (NPFA) in Chitwan demanded that the government fix a minimum support price for chicken. The constant decrease in the rate of broiler chicken has hampered many poultry farmers in Chitwan as the district exports poultry on an average of four to five containers every day. Despite having market

ready chickens, farmers are facing difficulties in finding buyers for their fowls. According to the president of Chitwan NPFA, Narayan Dawadi, the compulsion to sell chicken at lower prices has tremendously affected the poultry farmers. The cost of live chicken has reduced to NPR 130 per kg (USD 1.11) while sold at NPR 260 (USD 2.22) per kg to the consumers. This depicts a large difference between the consumers and the farmers, as the middle-men thrive.<sup>25</sup>

**Domestic farmers urge the ministry to halt sugar import:** Upon the appeal of local sugarcane farmers, the Office of the Prime Minister and Council of Ministers has given direction to the Supplies Ministry to cease sugar import temporarily. Sugar imported from India and Pakistan costing at NPR 65 (USD 55 cents) per kg is flooding the Nepali market overshadowing domestic sugar which costs NPR 70 (USD 60 cents) per kg. In March, the import duty on sugar was raised from 15% to 30% by the government to assure a market for domestic produce. The decision was driven by the fact that while sugar worth NPR 115 million (USD 982,318) was being imported to the country, Nepali sugar worth NPR 7 billion (USD 59.79 million) was being stored in warehouses. Chandra Prasad Ghimire, secretary of the Ministry of Industry, Commerce and

Supplies points out the importance of such policy intervention to protect domestic sugar and sugarcane producers.<sup>26</sup>

**Apple farming on rise with the help of government:** The production of 6,000 tonnes of apples in Jumla has recorded sale of 3,000 tonnes amounting to NPR 180 million (USD 1.53 million). Jumla has the capacity of cultivating apples on 10,000 hectares of land, among which only 3,000 hectares are utilised. The local government has been providing farmers saplings, market access, irrigation facilities and 75% subsidy on apple packaging which has attracted many farmers towards apple cultivation. Moreover, the demand for apples from Jumla has increased since receiving the Nepal organic certification. Also, a ‘one village one apple orchard’ campaign has been introduced in the district to increase apple production. The tremendous increase in the sale of the organic apples has also been attributed to the transportation system of the district. According to the chief of Chandannath Municipality, Kantika Sajuwal, apple farming has become the prime source of income for the farmers of Jumla.<sup>27</sup>

**Provincial government to launch 400 model farms:** The Annual Policy and Programme of the Ministry

of Land Management, Agriculture and Cooperatives has requested for proposals to set up about 400 model farms for farming, livestock and fishery in the Gandaki province. This initiative intends to make farmers self-reliant by promoting commercial agriculture. The provincial government for the fiscal year 2018/19 has allotted a total of NPR 400 million (USD 3.41 million) of its budget to developing 400 model farms, out of which NPR 250 million (USD 2.14 million) is for the cultivation of crops and NPR 150 million (USD 1.28 million) is for livestock and fishery. Lekh Bahadur Thapa, Minister for Land Management, Agriculture and Cooperatives, individuals setting up the model farms for the first year will get 50% of the proposed cost by the government. The proposals submitted by the farmers, entrepreneurs or any such organisations interested in operating commercial model farms will be evaluated before their selection. Following their selection and a site visit, an agreement would be signed with the individuals or firms. Likewise, the Ministry also declared that the proposed first-year cost for different categories of enterprises, such as small model farm should be NPR 1 million (USD 8,542), commercial model farms should be more than NPR 2.5 million (USD 21,354) and enterprise-based model farm more than NPR 5 million (USD 42,709).<sup>28</sup>

## “ OUTLOOK

The government programmes aimed to increase the production of agricultural produce have yielded the desired result and has surely impacted the lives of many individuals. The government schemes have given a much-needed boost to the agriculture industry. However, as production increases, strong initiatives and efforts should also be concentrated on storage facilities, market access and transfer of goods from the producers to consumers in a fair manner.

# ENERGY

The World Bank has approved its first loan of NPR 11.70 billion (USD 100 million) to strengthen the finances and operations of the energy sector in Nepal.<sup>29</sup> The loan has been provided under the Nepal Energy Sector Development Policy Credit programme aiming towards the implementation of key policies as well as regulatory and institutional measures. The fund will be used in improving the financial viability of the Nepal Electricity Authority (NEA) as the sole off-taker; establishing a regulatory framework that is transparent, autonomous, and accountable; encouraging electricity trade; restructuring the NEA to make it easier for the private sector to compete in the energy sector.

**Motihari-Raxaul-Amlekhgunj Petroleum Pipeline Project:** About 75% work has been completed on the petroleum pipeline that is currently being constructed jointly by Nepal and India.<sup>30</sup> Around 19 km of the pipeline has already been laid on the Nepali side and the Nepal Oil Corporation (NOC) has already been granted permission by the Forest Ministry to fell 5,888 trees that lie on the pipeline route within the Parsa National Park.<sup>31</sup>

India is contributing NPR 3.2 billion (USD 27.3 million) for the project, while Nepal is pouring NPR 1.2 billion (USD 10.2 million) for the construction of the pipeline. The objective of the petroleum pipeline under construction is to facilitate the uninterrupted supply of petroleum products in Nepal and to reduce the transportation cost. The pipeline has the capacity of supplying 200,000 litres of fuel on an hourly basis and a fuel pumping facility has been established in Motihari. It is anticipated that the transportation cost would decrease by approximately NPR 700 million (USD 6 million) annually.<sup>32</sup>

**Nepal revives deal with a Chinese state-owned firm to construct a hydroelectric plant:** Budhi Gandaki Hydropower Project has been awarded to the China Gezhouba Group Corporation (CGGC), reversing the former Sher Bahadur Deuba government's decision to develop the 1200 MW project with internal resources.

A Cabinet meeting directed the Ministry of Energy, Water Resources and Irrigation (MoEWRI) to begin the process to award the project to the Chinese development company.<sup>33</sup> The MoEWRI has been asked to hold talks with Gezhouba, prepare a proposal and strike a deal to execute the NPR 293 billion (USD 2.5 billion) reservoir project.<sup>34</sup>

However, the project has been opposed particularly by the Nepali Congress (NC) stating that it should be developed on domestic investment and that the government decision to award the project to China Gezhouba was not transparent, objectionable, and surprising.<sup>35</sup> The NC has argued that awarding the project without

a competitive bidding process was against the national interest.

**Petroleum import bill keeps rising:** Nepal's petroleum import bill has now reached a record-breaking amount of NPR 170 billion (USD 117 billion) during the fiscal year 2017/18. Petroleum remains to be the highest imported commodity of the country and it continues to be the largest contributor towards the nation's widening trade deficit. The current account deficit of NPR 245 billion (USD 2.09 billion, 8.2% of GDP) in 2017/18 is a huge increase from a deficit of NPR 10 billion (USD 896 million, 0.4% of GDP) in 2016/17<sup>36</sup>, with petroleum products being the main contributor to the deficit.

Although the Nepal Electricity Authority (NEA) has been relatively successful in ending load shedding, the petroleum imports have not declined despite the prediction of steep decline in liquid petroleum gas (LPG). Similarly, eliminated load shedding in the industrial sector has not reduced the import of petroleum products either. The rise in the oil

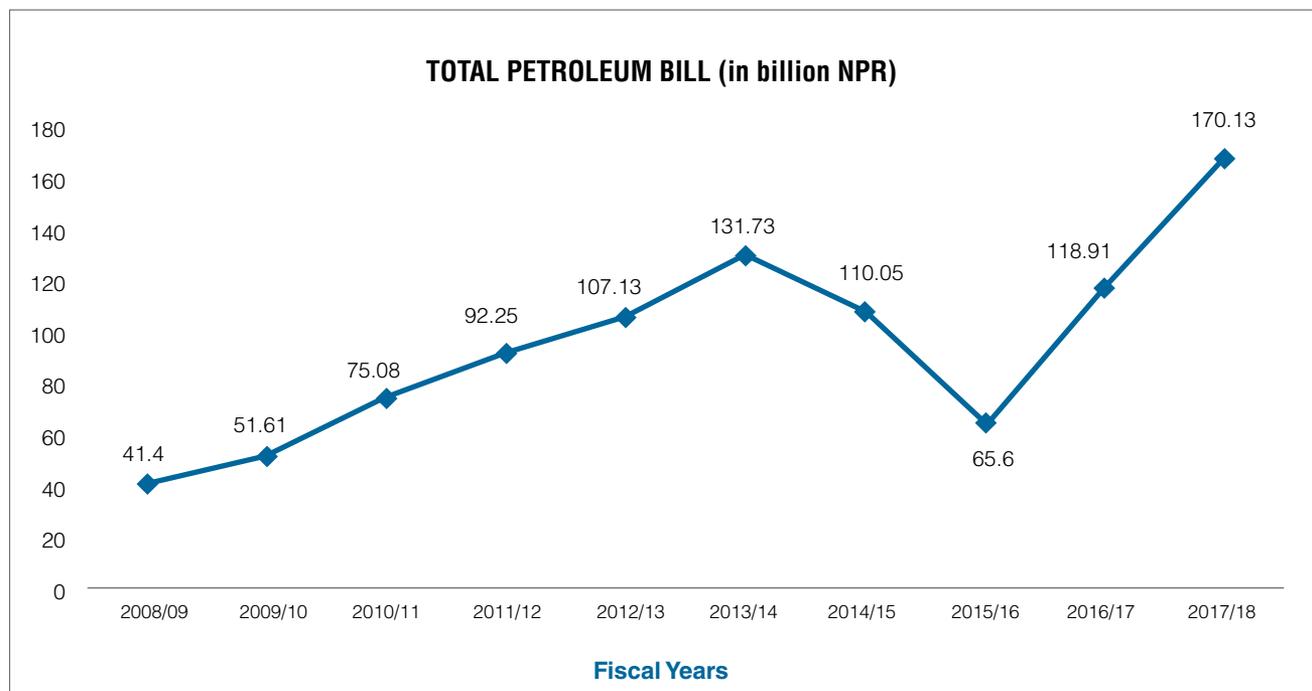
import bill is also contributed by the increase in global crude oil prices and the increase in the value of the US dollar.

**Bajhang connected to national grid:** The NEA has announced that Bajhang district has been

successfully connected to the national grid. Although it took around eleven years to build the 85 km 33kv transmission line from Khodpe of Baitadi to Bajhang, hundreds of homes now have access to electricity via the national grid.<sup>37</sup>

Power supply via the national grid would be more reliable and abundant in comparison to small and micro hydropower projects which suffer frequent damages and technical issues. Access to grid-supplied electricity would invite more trade and investment in the district and increase economic activity.

**Figure 11: Total Petroleum Bill**

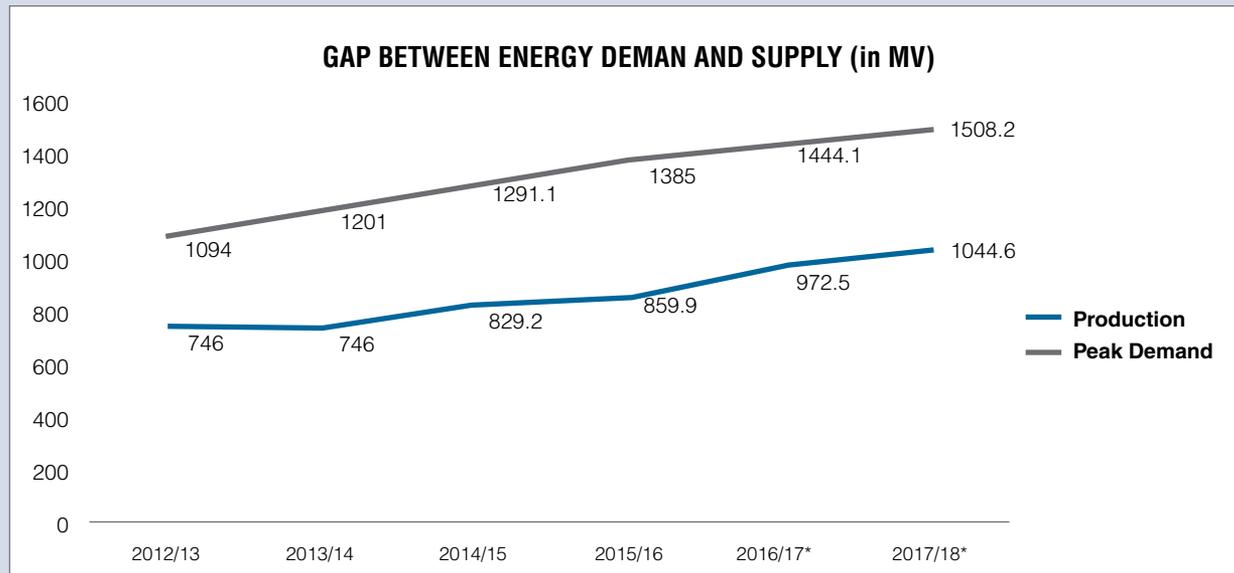


Source: Nepal Rastra Bank.

## OUTLOOK

As the nation's reliance on petroleum products increases so does the petroleum import bill at an unprecedented level. Excessive dependence on fossil fuels is not only adversely affecting the Balance of Payment of the nation but also causing it to under-utilise its abundant cleaner sources of energy, mainly hydropower. Furthermore, there is a rising demand for electricity within the country that has not been met resulting in further import of power from India. However, substantial improvements have been made in terms of supply management of electricity, which has led to a decline in load shedding hours and the overall leakage has been reduced by 2.7%.<sup>38</sup> Also, the total population with access to grid electricity has reached from about 65% in the last fiscal year to about 70% in this fiscal<sup>39</sup>. However, electricity demand has not been met by adequate supply as per the below graph.

## “ OUTLOOK



*Economic Survey, Ministry of Finance*

Hence, our nation should first focus on meeting the domestic demand by expanding our national grid and making electricity distribution more reliable and sustainable. Furthermore, other renewable energy sources such as solar, biogas, wind and other sources should be efficiently promoted and implemented to provide reliable and sustainable energy for all and meet the required demand.

# INFRASTRUCTURE

Though the Gross Domestic Product (GDP) has expanded by from NPR 2.34 trillion (USD 20 billion) to NPR 3.51 trillion (USD 30 billion), the Nepali economy has not been able to achieve the desired level of growth. The major speed bump in the country's economic growth is the inadequate and slow-growing infrastructure. Infrastructure deficit has been a significant barrier for businesses and hindered growth. The World Bank estimates that to close the infrastructure gap the country needs to invest 8.24% to 11.75% of the 2010 GDP per year.

### **Increased progress in Nepal-India oil pipeline project:**

It is estimated that almost 80% of Motihari-Amlekhgunj oil pipeline project has been completed within Nepal.<sup>40</sup> Of the total 69 kilometer pipeline, 36.2 kilometer lies under Nepali territory. The design throughput capacity of the pipeline is 2 million tonnes per annum. It is estimated that the project will cost NPR 5.19 billion (USD 44.3 million) and is likely to be completed by March 2019.<sup>41</sup>

### **Janakpur-Jayanagar-Kurtha board gauge railway inauguration:**

The NPR 8.8 billion (USD 75.16 million) Janakpur Railway Expansion and Upgradation project is expected to be inaugurated in December. The project consists of three phases. The first phase is a 35 km railway line between Jaynagar and Kurtha, the second phase is a 17 km railway line from Kurtha to Bhangaha, Mahotari and the third phase is a 17 km railway line from Bhangaha to Bardibas. The

railway test run had been successfully conducted in August. The Department of Railway plans to wet lease two diesel-electric multiple units (DEMU) which is a multiple unit train powered by onboard diesel engine.<sup>42</sup>

### **Dolpa connected to national road network:**

A 103 km track opened by the Nepal Army from Pasagadh in Jajarkot to Supani in Tripurasundari has helped connect the district headquarters of Dolpa with the national road network. The last 14 km track from Supani to Dunai has been constructed with the investment of local bodies and the MP's constituency development fund.<sup>43</sup>

### **Near completion of Jogbani-Kimathanka road:**

The 390 km Jogbani-Biratnagar-Khandbari-Kimathanka road has neared completion with 367 km of the road has been opened. Till date, it is estimated that out of the NPR 2.39 billion (USD 20.4 million) budget

NPR 2.11 billion (USD 18 million) has been spent.<sup>44</sup>

### **Shortage of funds an impediment to reconstruction of Tatopani road:**

Although more than three years have passed since the massive earthquake the Tatopani road still remains inaccessible. The government had announced the Tatopani customs office would resume operation by the end of September. However, due to lack of funds, no progress has been made till date. The government has sought China's assistance to repair the road section.

### **Construction of parkways to ease parking woes:**

Two new parking ways are currently being developed at the cost of NPR 1.6 billion (USD 13.6 million) to ease parking problems at the Tribhuvan International airport. The north-east parking way is expected to be completed by March 2019 while the southwest section is scheduled to be completed by May 2019.<sup>45</sup>

## “ OUTLOOK

In the last decade, development of road networks has expanded remarkably across the country. Currently, Humla is the only district yet to be connected to the national road network. Slow progress and poor quality of road construction remain a major concern. Low bids by contractors as low as 50% below the estimated cost to secure contracts is a key driver for the slow progress and poor quality of roads. The situation persists not only in road project but also in other infrastructure projects. Hence it is important to evaluate the current system of awarding contracts to contractors with the lowest bid. Dependence on foreign assistance for infrastructure development has also let to project delays. The Tatopani road which is crucial for reviving Nepal-China trade has not been repaired despite the government's commitment. The irony of the government having to depend on China's decision to repair the road section has had an impact on Nepal China trade.

# INFORMATION AND COMMUNICATION TECHNOLOGY

Nepalis have been making significant achievements in the field of new technologies like Artificial Intelligence. Nepali team “SochWare” won Imagine Cup Award in Artificial Intelligence organised by Microsoft in July. Moreover, Kshitiz Rimal, Artificial Intelligence (AI) developer and researcher mainly focused in the field of Deep Learning has been designated as a technology expert in Google.

**Global tender call for e-passport from next year:** The Department of Passport (DoP), under the Ministry of Foreign Affairs, is likely to call early next year a global tender to print e-passports. The department has done the initial work for e-passports that would replace the existing Machine Readable Passports (MRP). The government has already given the go-ahead to the department and the Ministry of Finance would do the budgetary allocation for e-passport.

An e-passport is also known as a digital or biometric passport. As of mid-2018, more than 150 countries have issued e-passports. An e-passport has an embedded electronic microprocessor chip. It contains biometric information of the person that authenticates the identity of the passport holder. It uses contactless smart card technology,

including a microprocessor chip and antenna to power the chip as well as communication.<sup>46</sup>

**Khalti to bank money transfer facility:** Khalti, one of the payment gateways currently available in Nepal has launched portfolio to bank money transfer facility, enabling its users to transfer the balance in their Khalti account to their respective bank accounts.<sup>47</sup>

**Nepal’s first robot waiter ‘Ginger’:** Local start-up Paaila Technology has built a robot waiter Ginger, a 1.5 meter tall robot, from scratch and programmed her to understand both English and Nepali. This bilingual humanoid robot—named Ginger after a commonly used ingredient in Nepali cuisine—can even crack jokes like Apple’s Siri or Amazon’s Alexa. Three such ‘Ginger’ robots work at Naulo Resturant, Durbar Marg,

Kathmandu. Customers can order via a touchscreen menu fitted into the tables, and Ginger is called to the kitchen when dishes are ready. Ginger, who is able to sense movement and obstacles, deftly navigates the crowded restaurant carrying trays laden with food.<sup>48</sup>

**Kshitiz Rimal designated as technology expert in Google:** Kshitiz Rimal a native of Nepal has been designated as a technology expert in Google. Rimal is an Artificial Intelligence (AI) developer and researcher mainly focused in the field of Deep Learning. Rimal has been engaged in developing projecting, conducting workshops and hands-on sessions on Deep Learning in Nepal via the not-for-profit research organisation known as Artificial Intelligence for Development, of which he is Head of Research and a Co-founder.<sup>49</sup>

## OUTLOOK

Although several positive developments are taking place in the Information, Communication and Technology sector of Nepal, it is insufficient for digitizing Nepal and keeping pace with recent technological developments around the world. In the coming days, the world is going to witness a major overhaul in the day to day lives as well as methods of doing business due to newer technologies like Artificial Intelligence (AI). Accordingly, Nepal should invest more in such technological research and development to gain maximum benefits and avoid aftershock of technological changes.

# REAL ESTATE

Majority of the Nepalis consider real estate a top priority for investment. It is perceived as a safe investment and the only asset class that has an assured capital appreciation. The real estate though classified as an unproductive sector drives employment opportunities to a large number of Nepalis including direct growth of Nepali manufacturing sector such as cement, bricks and wires, among others. Besides the sector indirectly support other sectors such as furniture, carpets and various household consumer goods

**Land registration offices to report to NRB:** To prevent tax evasion, the government has instructed land registration offices to send the details of land transactions worth NPR 1 million (USD 8,542) and above to the Financial Intelligence Unit (FIU) of Nepal Rastra Bank (NRB). Individuals evading taxes will be penalised under the Asset (Money) Laundering Prevention Act.<sup>50</sup>

**Amendment to building code within Kathmandu Valley:** A new building code was endorsed by Kathmandu Metropolitan city through the official Gazette published on 11 July 2018. The Gazette allows for the development of single basement in Preserved Monument Sub-Zone and double basement in Preserved Cultural Heritage Sub-Zone. As per the Gazette, Preserved Monument sub zone will follow the building codes set down by Kathmandu Valley building code 2065 which is as follows:

- **Preserved monument sub zone**
  - ▶ Floor Area Ratio (FAR) 3-3.5
  - ▶ Maximum no of 4 floors
  - ▶ Maximum building height 35 feet.

As per the Gazette, FAR is not applicable for Preserved Cultural Heritage Sub-zone and Mixed Old Residential Sub-Zone but allows for the following:

- **Preserved cultural heritage sub-zone**
  - ▶ The number of floors has been increased from a maximum of 5 floors to a maximum of 7 floors.
  - ▶ The building height has been increased from 45 feet to maximum 65 feet.
- **Mixed old residential sub-zone**
  - ▶ The number of floors has been increased from a maximum of 5 floors to a maximum of 8 floors.

- ▶ The building height has been increased from 45 feet to maximum 75 feet.

Similarly, in terms of setback areas, the gazette notes the following:

- Minimum setback is 1.5 meters
- If road length is less than 50 meter (CUL-DE-SAC/dead end) then right of way (ROW) must be 3 meters and minimum setback area should be 1 meter.
- If road length is longer than 50 meters, then ROW must be 4 meters and setback should be 1.5 meters.
- Old city areas where the pathway is less than 1.2 meters and if any new construction is to be undertaken then the pathway size of 1.2 meters must be achieved.
- Besides the old city area, buildings with height of more than 17 meters must have minimum setback area of 5 meters.

Further Gazette allows for increased Floor Area Ratio (FAR) as shown in Table 1.

**Table 1: Changes in Floor Area Ratio**

a)	Commercial Sub-Zone	Old FAR	New FAR
•	Mixed Residential/commercial	3.0	4.5
•	Star Hotel	2.5	3.5
•	Commercial Complex	2.5	3.5
•	School, college, university	2.0	2.5
•	Government and semi-government offices	2.5	2.5
•	Public and private hospital/nursing home	N.A	3.0
b)	Dense Mixed Residential Sub-Zone		
•	Residential building	2.5	4.0
•	School, college, university	2	2.5
•	Government, semi-government, private office building	2.0	2.5
•	Star Hotel	3.0	3.5
•	Commercial Complex	2.0	3.5
•	Public and private hospital/nursing home	2.0	3.0
c)	Other Residential Sub-Zone		
•	Residential building	1.75	3.5
•	School, college, university	1.5	2.5
•	Government, semi-government, private office building	1.5	2.5
•	Star Hotel	3.0	3.5
•	Commercial Complex	2.0	3.5
•	Public and private hospital/nursing home	1.5	3.0

*Source: Kathmandu Metropolitan City, Local Gazette*

## “ OUTLOOK

The purpose of reporting land transaction more than NPR 1 million (USD 8,542) to FIU of NRB is yet to be ascertained. Any land transaction within the Kathmandu Valley is more than NPR 1 million (USD 8,542) which means that every transaction must be reported to the FIU of the NRB. Under such circumstances, it will be quite challenging for the NRB to evaluate each and every land transaction for tax evasion.

The new building codes, especially for old city areas classified as preserved monumental subzones, preserved cultural heritage subzone and mixed old residential subzone, comes as a shock with increased FAR and permission to construct basements which could have a negative impact on the old monumental structures as well as existing heritage structures. The increase in FAR, number of floors and building height is expected to incentivise construction of higher rise buildings which will cover the existing unique heritage buildings and increase pressure on the already fragile insufficient infrastructure (drainage, sewerage, water supply, roads) in old city areas within the Kathmandu Valley.

Further remittance continues to be a key driver for pushing urbanisation and consumerism is driving retail markets across Nepal. It is observed that quality retail space with clear visibility is witnessing healthy absorption not only in Kathmandu Valley but also in major cities across the country. This calls for the adoption of tools and systems that analyse consumer behaviour for product placement and location selection for retail space.

Similarly, affordable housing remains an untapped segment within the real estate market. Affordable housing sector will be a key driver for residential markets and provide a big opportunity for developers as well as investors in the coming few years. Within the Kathmandu Valley, new housing sectors such as student housing and senior living will gain momentum and could be the low hanging fruit for developers to drive the realty market.

# EDUCATION

The government recently enacted the Free and Compulsory Education Act, taking responsibility for children's education. Private schools, however, are not too pleased with the new Act as it stipulates them to increase their scholarships to 15% from the existing 10%. Meanwhile, waning foreign aid in the education sector is a matter of concern for the government as the new free education policy will put additional stress on state coffers. Despite continuous efforts, the quality of public education in the country still looks unpromising as private schools reign in quality over public schools. Wendy Kopp—cofounder of Teach for All—commended Teach for Nepal's efforts toward improving the quality of public education.

### Free and compulsory education act:

The government's Free and Compulsory Education Act came into effect on September, which mandates the state to be responsible for all citizens' education. Since the statute enacts every child's constitutional right to free education, the new law stipulates the local government to ensure every child from 5 to 12 years of age are enrolled and receive a free education at public schools. Furthermore, the local government must also guarantee that the orphaned children enjoy the same right. By April 2028, anyone without a basic education (until grade eight) will be barred from undertaking any government as well as non-government jobs and from seeking public positions.<sup>51</sup>

### Private schools not too pleased:

The Compulsory and Free Education Bill also instructs private schools to increase their scholarships to 15% from the existing 10%. Unhappy with the provision, Private and Boarding Schools' Organisation Nepal (PABSON) has threatened the government to either amend the law

or face protest. This is not the first time PABSON has protested against a government rule; in 2011, the government had introduced a 5% tax to the private school but later revoked as PABSON refused to honour it.

Education expert Kedar Bhakta Mathema asserts the need to decrease the percentage of private school goes by improving public schools. He further alludes that it becomes difficult to regulate private schools when dozens of lawmakers are directly running them. Education minister Giriraj Mani Pokharel says that the government is not in the position to take monetary responsibility for the entire education system (both public and private) due to lack of funds.<sup>52</sup>

### Global conference on education:

A three-day global conference on education was organised in October by Teach for All, a global organisation that works to promote the quality of education. Teach for Nepal, the national organisation for Teach for All, shared its successes and challenges in improving public education. Wendy Kopp—founder of Teach for America

and co-founder of Teach for All—was present for the conference along with educators and key people from 48 of Teach for All's network partners as well as future partners.

Every year, Teach for All holds a global conference catering on a different theme on different Teach for All's partners. This year, the theme was 'Community at the Centre.' Kopp commended Teach for Nepal's community-centred approach and emphasised it to be crucial for achieving community-level progress all over the world.<sup>53</sup>

**Declining education aid:** While the government's financial liability grows with the policy of free and compulsory education for children, a declining share of multilateral and bilateral donations to the education budget is likely to trouble the administration. Records at the Ministry of Education, Science and Technology show that donor agencies have 10% budgetary contribution in the current fiscal year. But the loan amount outweighs grants. According to a rough estimate, the government needs to inject at least

NPR 60 billion (USD 512 million) more into the education sector to implement the free and compulsory education provision.<sup>54</sup>

Recently the government of Japan vouched to provide grant assistance of NPR 308 million (USD 2.6 million) for the School Sector Development Programme (SSDP) for the fiscal year 2018. The much-touted SSDP's total budget is NPR 1.2 trillion (USD 10.2 billion), which means the donation provided by Japan contributes just 25% to it. The SSDP is a seven-year programme initiated in FY 2016/17 which aims to improve the quality, equitable access and efficiency of basic and secondary education in Nepal.<sup>55</sup>

**No promises for quality improvement:** The quality of

education in public schools continue to remain poor in spite of efforts made by the government and non-government organisations to improve it. The new law on free education focuses on increasing children's access to education; however, it puts little emphasis on boosting the quality of education. Government reports show a deteriorating quality of education and the dropout rate in public schools.<sup>56</sup>

Binaya Kusiyat, a professor at the Tribhuvan University, believes that the entire school education can be free and the quality of education can also improve if the government commits the amount it has globally pledged. Currently, the education sector receives around NPR 125 billion (USD 1.06 billion) annually, which is just 10% of national budget against

the global commitment of 20% or around 6% of the GDP.

A recent economic survey by the Ministry of Finance shows that out of the total 35,601 schools in the country, 6,566 are privately owned. In the last six years, there has been nearly 5% increase in the number of private schools across the country—and it continues to rise despite the country's adoption of a new constitution that ensures free school education to every Nepali citizen.

Education experts say it is ironic that capitalist countries have a minimal presence of the private schools while a country like Nepal, which is led by a socialist or a communist party, has become a fertile ground for commercialising education.<sup>57</sup>

## “ OUTLOOK

With the enactment of the free and Compulsory Education Act, the government has burdened itself with excess baggage. Since the Act only applies to public school goers, the rest of 16.7% (enrollment at primary level in 2017) students attending private schools will not benefit from the Act. As put by minister Giriraj Mani Pokharel, the government lacks the fund to take responsibility for the entire education system. As a result, the private school is required to fill the gap with increased scholarship quota. The government needs to understand that free education will not be of benefit to all children unless majority of students opt to enroll at public schools over private schools. Rendering free education could well be delayed as it isn't damaging to charge parents for their children's education. In fact, that guarantees ownership and more engagement in their child's education. As long as private schools reign in quality over public schools, the quest should be to improve the quality instead of setting records with quantity.

# HEALTH

More efforts have been undertaken to eliminate various diseases by the government and non-state organisations. The National Planning Commission has set more goals after recent achievements and Nepal has become among the first South East Asian countries to be declared trachoma free. However, more Nepalis lead sedentary lives which ultimately cause many health risks and threaten an individual's life.

### More effort to eradicate diseases by WHO-South East Asia:

The 71<sup>st</sup> Regional Committee meeting among the member countries of the World Health Organisation (WHO) South East Asia Region focused on health issues pertaining to the region. According to the WHO the meeting will primarily emphasise on addressing the increased threat of dengue, intensifying action to eliminate malaria and improving existing and new ways of providing access to essential medicines, vaccines, medical products both within and beyond the region. As the region is prone to natural disasters and health emergencies, discussions on strengthening disaster risk management, fortifying response capacities and measures against vector-borne diseases such as Chikungunya and Zika are also of key agenda for the meeting.<sup>58</sup>

### Early intervention in lifestyle to minimize health risk:

The World Health Organisation's study reveals more than 15.6% women and 11.2% men of Nepal as physically inactive which increases the risk of non-communicable diseases (NCDs). Also according to the Nepal Development Society research, one out of four Nepalis suffers from hypertension, a major cause of cardiovascular disease.

Dr. Bholu Ram Shrestha, a Senior Consultant Medical Generalist, says physical activity reduces the risk of various diseases while inactivity leads to body pain, affects heart's pumping and metabolism giving way to non-communicable diseases like diabetes, stroke and cardiovascular diseases. Data from Nepal Health Research Council shows, NCDs as responsible for 44% of deaths in Nepal. Endocrinologist Dr. Indu KC advises individuals to go outdoors to acquire Vitamin D and be physically active to reduce their risk of NCDs. Likewise, many doctors stress on introducing early positive interventions in an individual's lifestyle to minimize the risk of one's health.<sup>59</sup>

Meanwhile, WHO declared Nepal as the first nation among eleven South East Asian countries to have eradicated trachoma, an infectious eye disease causing blindness. Minister for Health Upendra Yadav celebrated the elimination of trachoma and termed it as a big achievement in the public health sector.<sup>60</sup>

### Prevalence of sickle cell anaemia in other communities:

Sickle cell anaemia (SCA) has recently been identified in other communities as previously it was only seen in the Tharu community of Nepal.

Institute of Medicine's study depicts the prevalence of SCA to be 80-90% among Tharu people while its prevalence in other communities is between 2-4%. However, SCA is still limited to eastern Tarai and individuals of other castes belonging to the area were diagnosed. According to Shristi Priyadarshinee of the Nepal Health Research Council (NHR), that SCA is only seen in Tharu community is a misconception. The current research at the NHRC on SCA focuses on Tharu community, but it should include other Tarai communities as well.<sup>61</sup>

### Lung cancer can be cured with early diagnosis:

Globally, 2 million people are diagnosed with lung cancer and it is on the rise among Nepalis as well but with most individuals being diagnosed during the advanced stage. According to Dr. Sampurna Man Tuladhar of Nepal Cancer Hospital, patients diagnosed at stage four have a survival window of three to fifteen months while if diagnosed early, the chances of curing lung cancer increases. Tobacco smoking is considered to be the leading cause of lung cancer with 10 million active tobacco smokers in the age group of 30-69 years which is further escalated by exposure to air pollution in Nepal. The use and sale of tobacco near

public places, schools and hospital have been prohibited according to Dr. Sushil Nath Pyakhurel of Ministry of Health and Population. The American Cancer Society recommends lung cancer screening to individuals with high risk for early detection.<sup>62</sup>

**Hospitals lag on research:** A report prepared by the Nepal Health Research Council (NHRC) reveals that up to 80% of the hospitals and research centres registered at the Office of the Company Registrar does not undertake any research activities on health issues. In addition, only 8% of them submit their research studies to the authorities. The hospitals and research centres are registered only after the approval of the Ministry of Health and Population (MoHP) and NHRC, where the rules state on submitting their research reports to MoHP, NHRC and Ayurved Campus. According to Arun Kumar Sah of the NHRC, about 80% of the private hospitals neither carry out research nor submit their research papers. Following such investigations,

more than 13 hospitals have removed research centres from their initial names.<sup>63</sup>

**Shortage of budget hinders target**

**goals:** Although the Midterm Expenditure Report of National Planning Commission has set new target following recent achievements and commitment towards Sustainable Development Goals, the appointed budget and its distribution hinder the objectives. The report targets at reducing maternal mortality rate, infant mortality rate, HIV patients, increasing maternity services and access to health services, among others. According to Dr. Sushil Pyakurel, Chief Specialist of the MoPH, Nepal has allocated only 4% of the total budget to the health sector, whereas most of the countries allot a minimum of 10%. This has led to curbing of many health services and programmes, which can affect its targeted goals.<sup>64</sup>

**Medical education bill to commence as soon as the winter session**

**begins:** The Education and Health Committee of Parliament was unable to pass the Medical Education bill due to inadequate discussions. The committee has assured to advocate the bill at the beginning of the winter session. This bill was initiated after a movement led by Dr. Govinda KC urging for reforms in the country's health care system and medical education. According to the bill, scholarships are to be provided in government medical colleges, one state-run teaching hospital needs to be set-up in each province, grant teaching permit after three years of service and a ten-year moratorium on the establishment of a medical college in Kathmandu. The Committee will submit the bill after a final report is prepared by incorporating suggestions of experts and stakeholders. However, Dr. KC has not agreed to make any amendments in the bill, as it is aimed at improving the lives of the public. Dr. KC's supporters have also encouraged public participation and engagement in the inquiry of the bill's content and its writing process.<sup>65</sup>

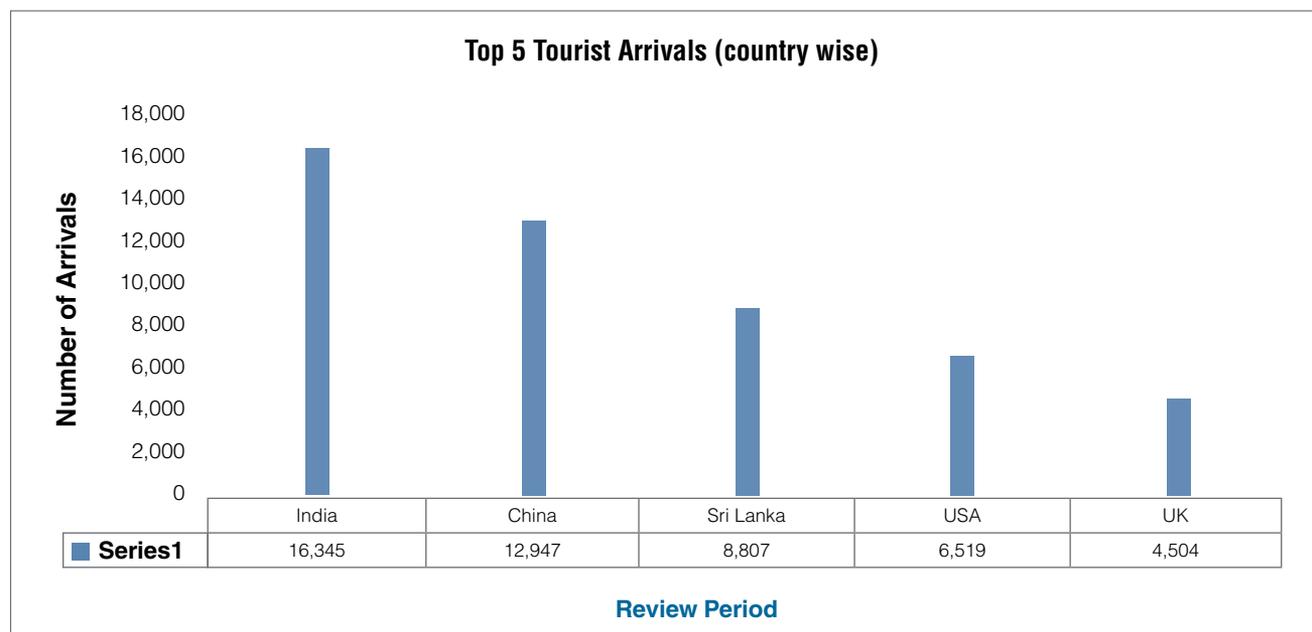
## “ OUTLOOK

While being free of trachoma is an achievement to be proud of, more rigorous efforts should be undertaken to improve the health facilities in the country. More research studies, considerate amount of budget for the health care system and the passing of the Medical Education bill is among a few steps in the right direction.

# TOURISM

Tourist arrivals in Nepal have significantly surged during the first nine months of the year 2018. In the month of September 2018 alone, 91,820 foreign foreigners visited Nepal totaling to 772,798 international visitors since January this year—a growth of 33.8% compared to the same period in 2017.<sup>66</sup> The Nepal Tourism Board (NTB) reported that tourist arrivals from India grew by 96% this September when compared to figures for the same month in 2017, while the tourist arrivals to Nepal from Sri Lanka and China increased by 57.1% and 55% respectively in comparison to the arrivals in the same month last year.<sup>67</sup> Overall, entries from SAARC countries have indicated growth of 52.8% compared to the same month the previous year. Similarly, European visitors increased by 66.3% in September this year compared to the same month last year with arrivals from Germany and France rising to 30.9% and 19% respectively. However, the number of visitors from Australia, New Zealand, the US and Canada dropped by 9%, 4%, 9% and 2% respectively this September in comparison to the same month last year.

**Figure 12: Tourist Arrival in Nepal in the year 2017**



Source: Nepal Tourism Board (NTB)

**NPR 1.71 billion budget approved for the fiscal year 2018/19:**

The Nepal Tourism Board (NTB) approved an annual budget of NPR 1.71 billion (USD 14.6 million) for the fiscal year 2018/19 to develop the tourism sector in terms of promotion, branding and marketing purposes. Furthermore, the NTB has allocated about NPR 373.5 million (USD 3.19 million) for tourism market management and promotion, and NPR 321.5 million (USD 2.75 million) for public relations and publicity campaigns. Additionally, NPR 244 million (USD 2.08 million) for tourism, heritage publicity and human resources development, NPR 8 million (USD 68,335) for research, development and monitoring and NPR 76.6 million (USD 650,000 million)

for provincial destination promotional campaigns.<sup>68</sup>

**Government comes up with 97 new tourist destinations:**

The Government of Nepal has identified 97 new tourist destinations to further promote and diversify the tourism sector.<sup>69</sup> Although the earlier target was to identify, develop and promote 100 new tourist destinations within the nation, only 97 were identified with three new destinations to be added in the future.<sup>70</sup> This proposal was put forward in the federal budget. As per the plan, the government aims to work with provincial and local governments for the promotion of internal and external tourism. Additionally, a budget amount of NPR 500 million (USD 4.27

million) has been allocated to develop the required infrastructure.

**Over 1 million tourists visit Lumbini in the first 10 months:**

Approximately 1.1 million tourists comprising both of foreign and national origin visited Lumbini, the birthplace of Lord Buddha in 10 months.<sup>71</sup> The number of domestic visitors in the ten-month period was over 800 thousand whilst over 100 thousand tourists visiting Lumbini were from India. After national and Indian tourists, visitors from Sri Lanka, Myanmar and Thailand topped the list. Chinese tourists' numbers have been growing too, with 10,577 visitors only from China visiting Lumbini till the month of August this year.

## “ OUTLOOK

As Nepal gears to welcome two million foreign tourists annually by 2020, one cannot ignore the importance of domestic tourists and their significance in boosting the overall tourism sector of the country. The government must equally focus on promoting domestic tourism which has massive potential in stimulating local economies and thus contributing to balanced economic growth. Campaigns such as 'Pahile Desh, Ani Bidesh' initiated by the Nepal Tourism Board is a good initiative to attract domestic tourists to visit various parts of the country and more such efforts are needed.

# TRADE AND DEBT

Major highlights of the review period include an account of trade expansion accompanied by the deficit in Balance of Payments (BOP). Followed by the increment in worker's remittances, governments spending on cash basis along with the revenue collected have taken the plunge resulting into the increase in deposit at Bank and Financial Institutions (BFI's) and proper growth in credit disbursement.

**Foreign trade scenario:** The table below shows the foreign trade scenario of Nepal based on the annual data of FY 2018/19. Overall, Nepal's trade viewpoint gives the idea that the declining setback can be principally credited to supply-side imperatives and non- tariff barriers faced by the country's export.

In the period of three months of 2018/19, merchandise exports increased by 16.1% to NPR 23.7 billion (USD 202 million) compared to an increase in 8.1% in the same period of the previous year. Our major trading partners, India & China excerpted growth in export by 20.2% and 14.4% respectively, while export

to other countries increased by 11.2% in the review period. Simultaneously, merchandise imports increased by 43.3% to NPR 373.6 billion (USD 3.19 billion) in the review period compared to a rise of 18% in the same period of previous years. Imports from India increased by 40.8% from 17.1%, China by 45.9% from 13.2%

**Table 2: Foreign Trade Statistics for the three months of financial year 2018/2019 (in million)**

(NPR. in million)

	2016/17	2017/18	2018/19	Percentage Change	
				2017/18	2018/19
Total Exports	18,931	20,455.1	23,744.9	8.1	16.1
To India	10,425	10,956	13,164.2	5.1	20.2
To China	386	493.1	564.1	27.7	14.4
To Other Countries	8,120	9,006	10,016.6	10.9	11.2
Total Imports	220,676.1	260,205.3	373,587.3	18	43.6
From India	143,298.3	167,750.6	236,123.4	17.1	40.8
From China	32,156.3	32,414.1	53,115.7	13.2	45.9
From Other Countries	45,221.5	56,040.6	84,348.2	23.9	50.5
Total Trade Balance	-201,745.1	-239,750.2	-349,842.4	18.8	45.9
With India	-132,873.3	-156,794.6	-222,959.2	18	42.2
With China	-31,770.3	-31,921	-52,551.6	0.5	64.6
With Other Countries	-37,101.5	-47,034.6	-74,331.6	26.8	58
Total Foreign Trade	239,607.1	276,660.4	397,332.2	15.5	43.6
With India	153,723.3	178,706.6	249,287.6	16.3	39.5
With China	32,542	32,907.2	53,679.8	1.1	63.1
With Other Countries	53,341.5	65,046.6	94,364.8	21.9	45.1

Source: Nepal Rastra Bank. Current Macroeconomic Situation (based on three months data of 2018/19)

and other countries by 50.5% from 23.9% in the review period.

**Top exports and import:** If we compare our figures in line with the trend of previous FY 2017/18, exports of polyester yarns, zinc sheets, woolen carpets, pashmina, and toothpaste continue to increase while export of cardamom, rosin, GI pipes and aluminium section decreased in the review period.

On the other hand, imports of petroleum products, aircraft and spare parts, M.S billet, vehicles and spare parts, increased whereas imports of telecommunication equipment and parts, cement, crude soybean, medical equipment and tools, decreased in the review period.

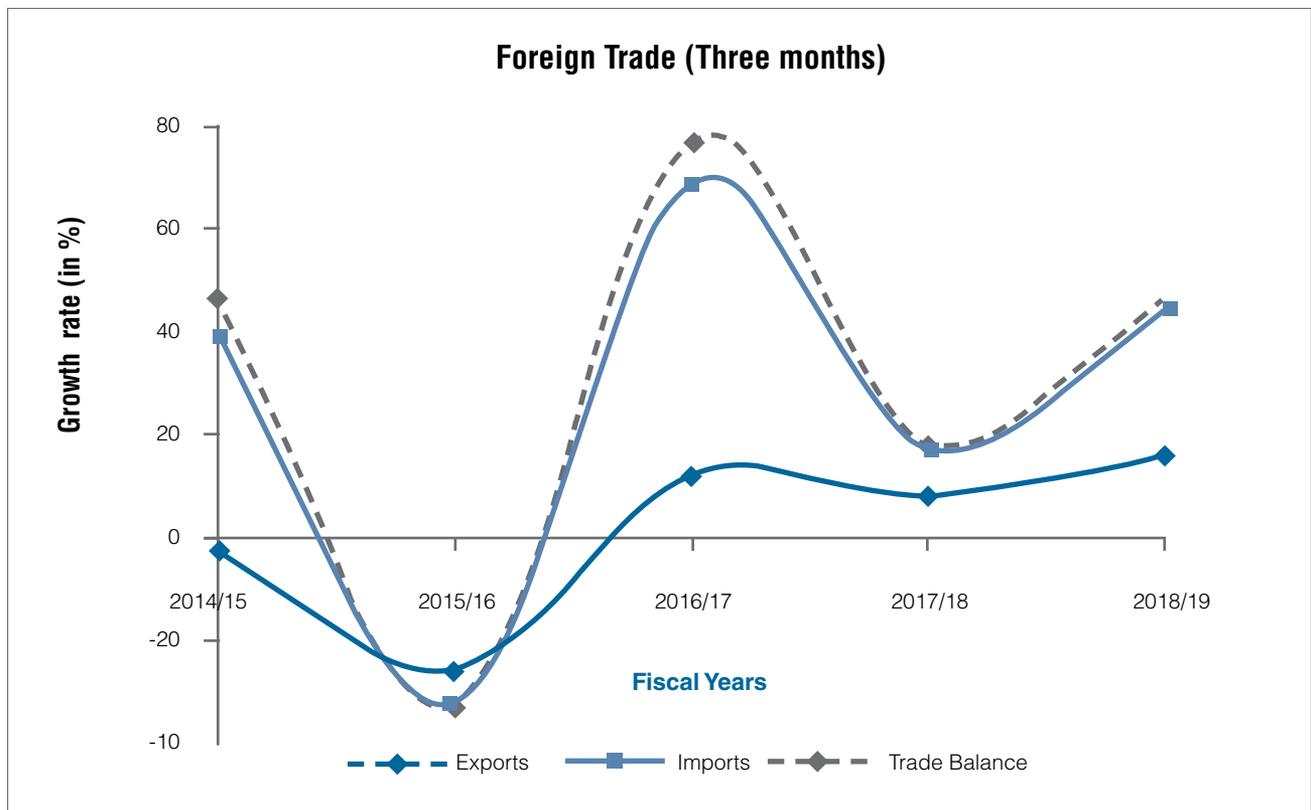
**Trade deficit:** As imports outperform exports in the three months of FY 2018/19, the total trade deficit widened by 45.9% amounting to NPR 349.8 billion (USD 2.99 billion) as compared to the previous period which was 18.8% amounting to NPR 239.8 million (USD 2 million). As a result, the export-import ratio declined to 6.4% in the current review period as compared to 7.9% in the previous three months period.

**Balance of Payments surplus:** With the increase in forever demanded commodities like petroleum products, aircraft, vehicles and spare parts, accompanied by sluggish exports have resulted in a current account deficit of NPR 82 billion (USD 700 million) in

the review period. The current account had registered a deficit of NPR 25.5 billion (USD 218 million) in the same period previous year. Furthermore, the overall BOP remained at a deficit of NPR 35.4 million (USD 0.3 million) in the review period in contrast to a surplus of NPR 4.27 billion (USD 36.4 million) in the same period the previous year.

**Upsurged petroleum prices & US Dollar aggravates government:** With soaring petroleum prices and domestic currency falling against the US dollar, the economic situation has worsened. Nepal government is likely to face a hard time meeting the economic growth target and inflation rate this year. The government is also under pressure because depreciation

**Figure 13: Foreign Trade Scenario for three months period of FY 2018/19**



Source: Nepal Rastra Bank. Current Macroeconomic Situation (based on three months data of 2018/19)

of domestic currency might propel inflow of remittance. Price hikes led by the increment in transportation costs and decreased value of local currency increases family budget size for consumption reduce savings and elevate overall expenditure.

As for the government, it will need more money for the settlement of interest and principal amount of foreign debt leading to drained out possible fund for capital expenditure in paying the foreign loan.

#### **Growing production of FMCGs inside the country:**

Data provided by International Media Network Nepal (IMN) says that FMCG sector has been growing at the rate of 20% per annum. Multinational companies like Unilever, Coca-Cola, Carlsberg, ITC and Dabur have excelled the FMCG market in Nepal. As for the domestic players, The Chaudhary Group, BLC,

Sharda, Khetan, TM Dugar, Laxmi Group and Dabur Nepal have become able to cover a wider range of FMCG market. However, there still remains room for development in terms of low scale producers. With the increase in production of FMCGs inside the country, annual BOP and trade deficit can be improved by about 2.27% per annum just within the span of two years if only the existing producers can market their products well. If the new players can penetrate the market, the country can scale up its demand for domestic products and hence reduce the trade deficit.

**“Make in Nepal” initiative:** For the last couple of years, industrial sector contribution to GDP has stagnated below 6%, well below 15% reported around a decade back. With the low industrial capacity to boost supply into the international market, there has been a continuous rise in the

volume of trade deficit. The irony is the import of huge amount of powdered milk while farmers have to bear with forced milk holiday in lack of market for their products. Similarly, Nepal is importing sugar in large quantity as a result of low or delayed payment which has discouraged farmers to produce sugarcane in large volumes.

The budget has made efforts to protect producers of sugar, medicine, iron bar, wood and cement so that Nepal can become self-reliant on these products within three years. The document has also emphasised the promotion of exports of high potential goods including carpet, pashmina, garments and handicrafts. With vibrant economic diplomacy, Nepal can create demand for its domestic products in the international market. With political stability, recent reforms, end of load-shedding and better incentive, the ‘Make in Nepal’ initiative can be a success.

## “ OUTLOOK

Proper diagnosis of economic problems is the prerequisite for making sound policy prescription for an economy. The ever increasing trade deficit can be controlled by changing the domestic consumption pattern. More emphasis on consumption of locally produced goods enables the country to become more resilient. The increase in consumption expenditure increases effective demand by increasing private investment and thus output and employment increases by many folds due to a multiplier effect in the economy.

# FOREIGN AID

In the review period, Nepal secured grant assistance from Germany, the World Bank, Japan and other development partners. These grants are targeted at improving infrastructure and the health sector of rural and vulnerable areas. Meanwhile, the government has been accused of not regulating foreign aid and failing to take concrete actions against the issue.

**Germany to assist Nepal:** Nepal recently secured a fresh grant of NPR 7.55 billion (USD 64.5 million) from the German government. The aid was pledged during the two-day negotiations on development cooperation that ended in Berlin on 20 September 2018. A substantial portion of this grant will be distributed among three critical sectors of Nepal— energy NPR 3.33 billion (USD 28.5 million), sustainable economic development NPR 3.33 billion (USD 28.5 million) and health NPR 1.62 billion (USD 13.9 million). The cooperation will direct a special focus on rural areas of Mid and Far West Nepal as well as additional support to selected quake-affected districts. The German Embassy in Kathmandu maintained that all their commitments go in line with Nepal’s Development Co-operation Policy. With the new grant, Germany’s financial aid to Nepal reached approximately NPR 162 billion (USD 1.39 billion) since 1961. The cooperation stands committed to Germany’s continued support for energy efficiency with Nepal’s Ministry of Energy, Water Resources and Irrigation as the lead partner.

**World Bank to assist in infrastructure and food security:** The Government of Nepal and the World Bank signed NPR 18.2 billion (USD 155.7 million) to be invested in the construction and maintenance of safe, resilient and cost-effective bridges

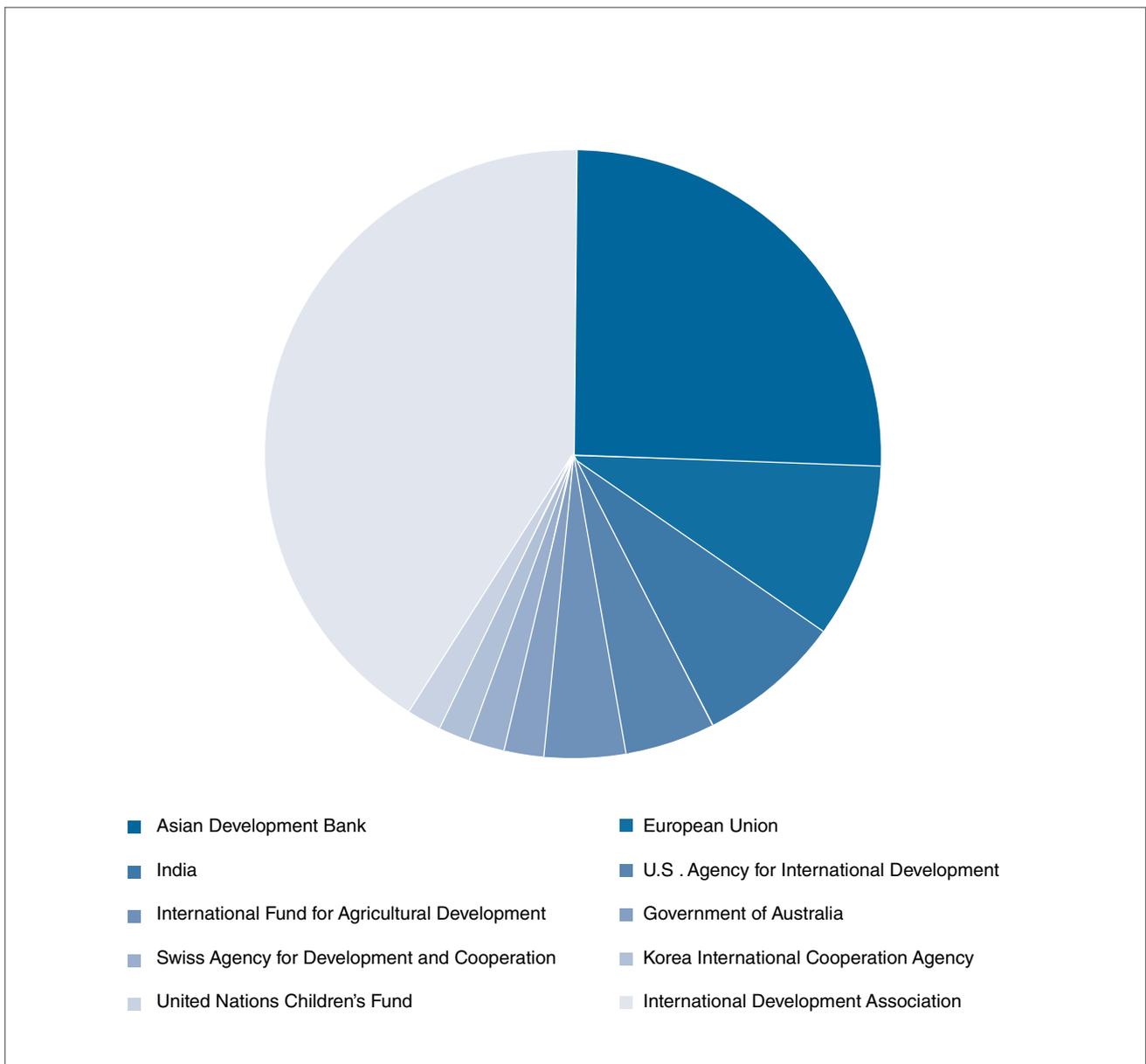
in Nepal, and in improving the food security of vulnerable households and communities in the country.

The first credit of NPR 15.57 billion (USD 133 million) will finance the Second Bridges Improvement and Maintenance Programme targeting approximately 477 bridges along Nepal’s Strategic Roads Network. This includes maintenance support for nearly 90 bridges and upgrading road safety measures on approximately 180 existing bridges to help reduce accidents, injuries, and fatalities. The programme will also support construction, rehabilitation or replacement of about 80 new two-lane bridges and 35 four-lane bridges. Also, it will help the Department of Roads complete construction of 92 bridges that are vital to improving connectivity and access throughout Nepal. Under the second agreement, the multi-donor Global Agriculture and Food Security Program (GAFSP) will provide NPR 2.65 billion (USD 22.7 million) grant to support the Food and Nutrition Enhancement Project. The project aims to improve the health and livelihoods of approximately 65,000 direct beneficiaries, of which 65% will target women. It will work with smallholder and marginal farmers to improve nutritional behaviour by linking it with agriculture-related and income-enhancing activities. In addition, farmers from adjacent communities are expected to indirectly benefit through knowledge exchanges

and other engagements from project-supported farmers.

**Government criticised for not regulating grants:** Former Finance Minister Surendra Pandey has criticised the government for not monitoring development partners who, according to him, have siphoned off grants money, meant to be spent through the Government of Nepal, to NGOs, INGOs and UN agencies. Pandey revealed that the European Union (EU) has diverted NPR 42 billion (USD 360 million) in recent years to those agencies while the government has been looking for loans. The Government of Nepal had signed agreements for receiving the amount in grants, Pandey said.

Speaking at the parliament’s Finance Committee, Pandey blamed the government for allowing the EU to distribute grants to other non-state agencies. A statistics of the Ministry of Finance shows that the EU has spent NPR 32 billion (USD 271 million) in the last four fiscal years, while the commitment was in the tune of NPR 44.2 billion (USD 378 million). Thirty percent, or NPR 9.37 billion (USD 80 million), of the total grants spent in those four years has been spent via 127 programmes run through different NGOs and INGOs. Agencies of the government have spent NPR 22.4 billion (USD 191 million).

**Figure 14: Top donors to Nepal for FY 2017/18**


Source: Ministry of Finance

## “ OUTLOOK

Although Nepal has received official development assistance of NPR 608.74 billion (USD 5.2 billion) between the early 1950s and the end of the century, one can argue if it really has helped the nation move up the ladder from the Least Developed Countries. In order for aid to work well for a country, the government should take measures to ensure its effectiveness. With government getting criticized for mishandling funds by a former minister, the success of aid is questionable. There are simple yet effective things government can still do to increase efficiency of aid. Mobilising the funds in lesser bureaucratic developmental ideas can ensure efficiency of aid. However, aid fails to be effective if it makes the nation further dependent on donors. The government has to be wise and take steps to use the donation to free itself from the dependency with donors.

# REMITTANCE

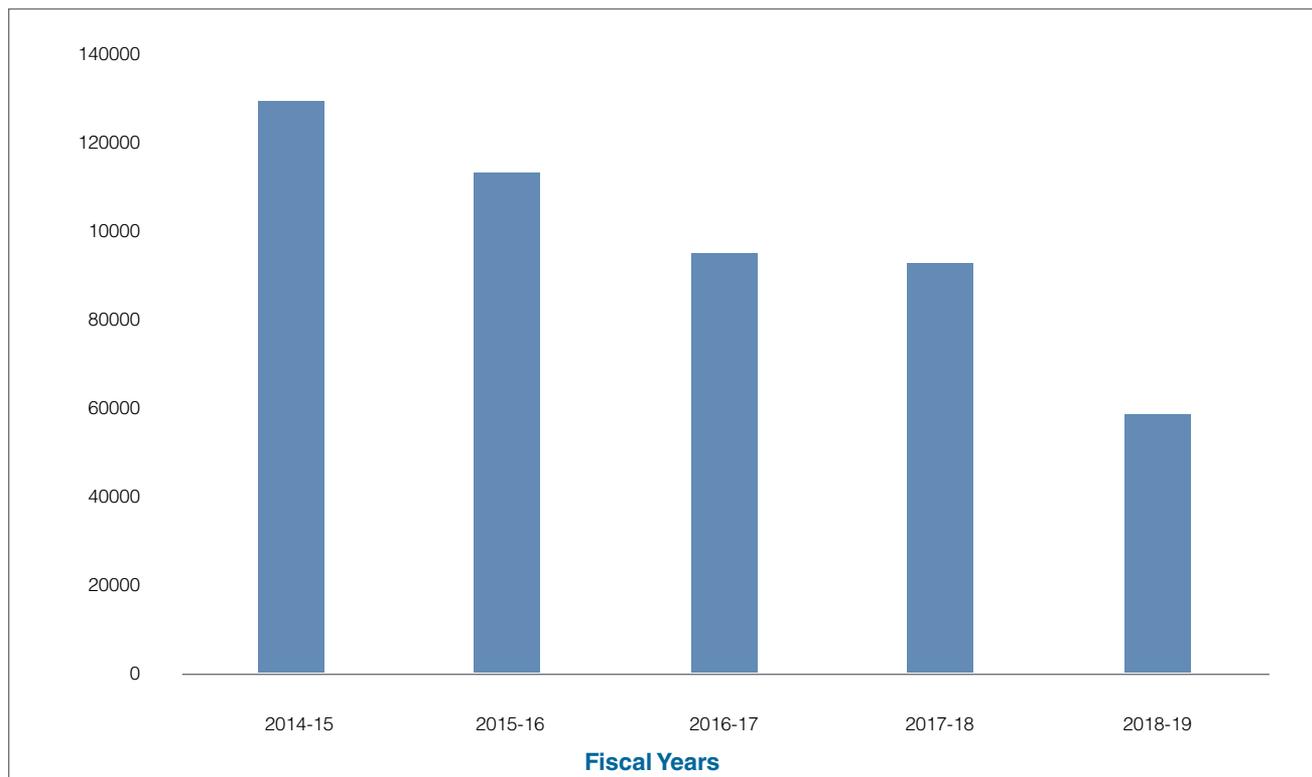
The much-awaited Nepal-Malaysia bilateral labour pact was finally signed during the review period. This pact will resume employment opportunities for Nepalis in Malaysia, the most popular foreign employment destination for Nepali migrant workers. The Nepal government had suspended the process of sending Nepali workers to Malaysia since May due to exorbitant fees levied on the workers by illegal agencies.

**Remittances swell despite drop in migrant departures:** According to the latest Macroeconomic Report of Nepal Rastra Bank (NRB), remittance inflows swelled 37.3% to NPR 242.17 billion (USD 2.07 billion) in the first three months of fiscal year 2018/19 compared to a growth of 2.6% in the same period of the previous year despite a drop in departures of

Nepali migrant workers. The jump in the value of remittances has been attributed largely to a rising US dollar against the Nepali rupee. The report said that 58,713 individuals were given approval for foreign employment in the first three months of fiscal year 2018/19, a decrease of 36.7% compared to the same period last year. Foreign employment statistics

show that Qatar topped the list of destination countries for migrant workers. A total of 21,873 people left for Qatar in the first three months of fiscal year 2018/19, down 1.21% as compared to the same period last year. Similarly, the UAE emerged as the second most popular destination with 14,861 individual workers going to this nation. However, the

**Figure 15: Outflow of Nepali migrant workers for Foreign Employment in first three months of FY 2018/19**



Source: Current Macroeconomic and Financial Situation (Based on first three Month's Data of 2018/19, Nepal Rastra Bank)

number of Nepalis going to the UAE dropped 6.49% during the review period. Departure to Malaysia shrank noticeably due to its suspension by the Nepal government due to exorbitant fees levied on migrant workers by illegal agencies.

**Nepal-Malaysia labour pact:** Much awaited Nepal-Malaysia Labour pact was finally signed as per the pact, Nepali migrant workers going to Malaysia will not have to pay any fees from now on. The Malaysian employer company will bear all the costs relating to employment including airfare, visa fee and medical check-up. Besides, the employer will also be responsible for transporting workers to their destination within six hours of landing in Kuala Lumpur. With this new pact, there will not be any burden of levies upon Nepali migrant workers, but the duration of the contract will be reduced from three to two years. Besides, employers are also required to deposit their monthly salaries in the bank account of workers by the seventh of every

month. Other facilities like bonus and overtime payment should not be lower than the minimum amount set by the Malaysian government.

**Foreign jobs data system and phone app launched:** The government has launched the Foreign Employment Information Management System (FEIMS) that would enable the Department of Foreign Employment (DoFE) to keep records of migrant workers returning home for the first time. With this new system, various foreign employment agencies have been integrated into a single platform. It will also provide real-time information to all the stakeholders and facilitate migrant workers from the time of the start their job application process and workers can now apply for the re-entry permit online and can get their necessary approval from the concerned official at Tribhuvan International Airport. Besides providing online services to the recruiting agencies and workers, this system will also avoid incidents like physical files being lost as seen in the past.

**Colombo process adopts Kathmandu declaration:** The two-day 5<sup>th</sup> Senior Officials Meeting and 6<sup>th</sup> Ministerial Consultation of the Colombo Process organised with the theme 'Safe, Regular and Managed Migration: A Win-Win for all' was concluded on 16 November 2018 after endorsing 27-point Kathmandu Declaration. The Kathmandu Declaration has focused on the five thematic areas that the Colombo Process has adopted, which include skills and qualification recognition processes, fostering ethical recruitment practices, pre-departure orientation and empowerment, promoting cheaper, faster and safer transfer of remittances, and labour market analysis. The government organised the event under the technical support of the International Organisation for Migration and was attended by representatives from Abu Dhabi Dialogue, South Asian Association for Regional Co-operation, Association of Southeast Asian Nations and Global Forum on Migration and Development as observers.

## “ OUTLOOK

It is commendable that the Nepal government successfully negotiated the G2G (Government-to-Government) bilateral labour pact with the Malaysian government for the benefits and security of Nepali migrant workers. However, a mere signing will not solve the prevailing issues but a word by word implementation will. Now the government needs to focus on the implementation of this pact along with the possibility of signing such labour pacts with other countries, where Nepalis go as migrant workers, to reduce the hardships and exploitation faced by the labourers.



MARKET  
**REVIEW**

# FINANCIAL MARKET

Despite the deepening liquidity crisis, apart from Nepal Bank Limited, all the commercial banks were able to post healthy net profit growth at the end of the first quarter of current fiscal year 2018/19. The average net profitability of commercial banks increased by a staggering 44.9% as compared with the same period last year.

## Key indicators:

Some of the key macroeconomic indicators as per the macroeconomic and financial situation report based on the first three months of fiscal year FY 2018/19 published by the Nepal Rastra Bank (NRB) are highlighted below.

### Deposit and credit mobilisation:

Deposits at Banks and Financial Institutions (BFIs) increased by 2.4% in the review period. Of the total deposits at BFIs, the share of demand deposits and fixed deposits stands at 8.0 % and 46.2% respectively while the share of saving deposits to 35% from 36.1%.

Likewise, credit extended to the private sector by BFIs increased by 7.2% in the review year as compared to an increase of 4.6% in the previous fiscal year. Credit mobilization of commercial banks, development banks and finance companies increased by 7.2%, 8.0% and 3.8% respectively. Of the total outstanding credit of BFIs, 63.1% is against the collateral of land and building and 14.4% against the collateral of current assets such as agricultural and non-agricultural products.

In terms of credit exposure, the outstanding credit of BFIs to real estate loan (including the residential personal home loan) increased by 4.4

% and trust receipt loan extended by commercial bank increased by 10.1 % during the year. Similarly, Hire Purchase loan increased by 2.8% while overdraft loan increased by 4.1%.

### Liquidity management:

In the review period, NRB mopped up NPR 95.35 billion (USD 814.47 million) through various open market operations. Under this provision, NPR 79.65 billion (USD 680.36 million) was mopped up through deposit collection auction, and NPR 15.70 billion (USD 134.11 million) through reverse repo auction.

NRB injected net liquidity of NPR 80.75 billion (USD 689.76 million) through the net purchase of NPR 78.3 billion (USD 699.1 million) from foreign exchange market (commercial banks). Similarly, NRB also purchased Indian currency (INR) equivalent to NPR 120.91 billion (USD 1.03 billion and Euro 16 million during the review year. INR equivalent to NPR 88.47 billion (USD 755.70 million) was purchased through the sale of NPR 100.68 billion (USD 860 million) in the previous year.

### Foreign exchange reserves and adequacy:

The gross foreign reserves increased to NPR 1120.92 billion (USD 9.57

billion) at the end of mid-October 2018, increased by 1.7% compared to NPR 1,102.59 billion (USD 9.42 billion) in mid-July 2018. Out of the total foreign exchanges, reserves held by NRB increased by 240 million to NPR 989.64 billion (USD 9.45 billion) at mid-October 2018 from NPR 989.40 billion (USD 8.45 billion) as at mid-July 2018. The share of INR in total reserves stood at 23.2%.

Based on the imports of first three months of current FY 2018/19, the foreign exchange holdings of the banking sector is sufficient to cover the prospective merchandise imports of 9.2 months, and merchandise and services imports of 7.9 months. The ratio of foreign currency reserve-to-GDP, reserve-to-imports and reserve-to-M2 stood at 37.3 %, 65.7% and 35% respectively as at mid-October 2018.

### Interest rates:

The weighted average 91-day Treasury bill rate increased to 1.77 % in the review period from 1.18 % a year ago. Likewise, the weighted average inter-bank transaction rate among commercial banks also increased to 1.86 % from 1.13 % a year ago. Also, the weighted average base rate of commercial banks rose to 10.23 % from 10.08 % a year ago.

**TABLE 3: FIRST QUARTER RESULTS OF COMMERCIAL BANKS-UNAUDITED-AS ON FY 2018-19 (FIGURES IN NPR TEN MILLION)**

Bank	Reserve & Surplus		DEPOSIT		LOANS AND ADVANCES			OPERATING PROFIT			NET PROFIT			NPL (%)			COST OF FUND (LCY)			BASE RATE (%)	
	Paid-up Capital	Reserve & Surplus	FY 18/19	FY 17/18	% Change	FY 18/19	FY 17/18	% Change	FY 18/19	FY 17/18	% Change	FY 18/19	FY 17/18	% Change	FY 18/19	FY 17/18	% Change	FY 18/19	FY 17/18	% Change	FY 18/19
			1 QTR	1 QTR	1 QTR	1 QTR	1 QTR	1 QTR	1 QTR	1 QTR	1 QTR	1 QTR	1 QTR	1 QTR	1 QTR	1 QTR	1 QTR	1 QTR	1 QTR	1 QTR	
Nabil Bank	804.3	1,379.5	14,330.1	12,311.9	16.39	12,807.8	9,706.8	31.9	150.1	120.8	24.3	105.2	85.1	23.6	0.6	1.1	5.7	5.7	4.4	1.3	8.1
Nepal Investment Bank	1,064.5	1,564.1	14,121.1	13,129.3	7.6	12,460.8	10,624.2	17.3	150.6	127.8	17.8	105.4	89.4	17.9	1.2	1.0	6.3	6.3	6.1	0.2	9.0
Standard Chartered bank	801.1	678.9	6,547.0	7,142.1	(8.9)	4,836.4	4,083.5	18.4	90.5	71.4	26.8	63.4	50.0	26.8	0.2	0.2	4.8	4.8	3.0	1.8	8.1
Himalayan Bank	811.4	689.3	10,245.9	9,548.4	7.3	9,424.0	7,933.8	18.8	92.6	38.6	139.9	64.9	41.0	58.3	1.5	1.2	6.1	6.1	6.6	(0.5)	9.2
Nepal SBI Bank	804.6	526.0	9,446.7	8,662.0	9.1	8,462.5	6,817.0	24.1	69.6	60.4	15.2	48.5	43.8	10.7	0.2	0.1	6.2	6.2	5.2	1.0	10.4
Nepal Bangladesh Bank	808.8	406.4	4,706.9	4,233.3	11.2	4,841.2	3,968.0	22.0	45.0	32.6	38.0	30.1	22.9	31.4	1.6	0.7	7.4	7.4	8.0	(0.5)	10.8
Everest Bank	810.6	863.4	12,033.9	9,937.1	21.1	10,331.8	8,185.9	26.2	90.4	75.7	19.4	63.3	53.1	19.2	0.2	0.3	6.1	6.1	4.9	2.8	8.8
Bank of Kathmandu Lumbini	707.2	596.1	7,995.7	6,995.4	14.3	7,180.5	6,095.7	17.8	54.7	31.1	75.9	38.6	22.4	72.3	1.6	2.1	7.9	7.9	7.8	0.1	10.6
NCC Bank	468.5	490.8	6,284.3	6,175.9	1.8	5,730.1	4,799.9	19.4	61.3	34.0	80.3	46.9	25.1	86.9	3.7	4.3	7.9	7.9	8.2	(0.3)	11.5
NIC Asia Bank	803.1	509.6	16,330.7	10,365.3	57.6	13,926.4	8,674.1	60.6	106.1	37.8	180.7	75.2	27.8	170.5	0.3	0.3	7.2	7.2	8.0	(0.9)	10.8
Machhapuchhre Bank	805.5	269.2	7,798.4	6,030.1	29.3	7,180.5	5,492.5	30.7	54.0	35.8	50.8	37.1	25.0	48.4	0.5	0.5	8.0	8.0	7.2	0.8	11.2
Kumari Bank	716.3	395.4	7,249.8	5,482.4	32.2	6,782.4	4,629.2	46.5	50.0	19.0	163.2	35.1	14.4	143.8	1.1	2.0	7.9	7.9	7.8	0.2	11.1
Laxmi Bank	822.1	411.2	6,907.2	5,864.5	17.8	6,462.7	5,437.0	18.9	47.1	33.3	41.4	30.3	22.5	34.7	1.5	1.8	7.6	7.6	7.5	0.2	11.3
Siddhartha Bank	846.4	562.7	10,025.3	7,787.5	28.7	9,067.0	6,969.9	30.1	74.4	52.3	42.3	52.5	36.6	43.4	1.4	2.0	7.2	7.2	7.3	(0.1)	10.6
Global IME Bank	898.8	573.5	11,146.9	10,494.1	6.2	9,950.9	8,687.3	14.5	75.3	53.6	40.5	53.5	39.2	36.5	1.1	1.6	7.3	7.3	7.2	0.1	10.6
Citizens Bank International	807.9	332.7	6,338.7	5,277.5	20.1	5,988.3	4,909.0	22.0	60.5	44.6	35.7	43.1	31.9	35.1	1.2	2.0	8.7	8.7	8.0	0.7	11.5
Prime Commercial Bank	803.3	397.6	7,633.6	6,859.7	11.3	7,233.2	5,956.6	21.4	83.1	54.9	51.4	58.1	39.9	45.6	1.4	1.4	7.8	7.8	8.2	(0.4)	10.4
Sunrise Bank	815.2	373.0	7,579.2	6,361.5	19.1	6,659.3	5,449.1	22.2	47.6	29.1	63.6	33.1	20.3	63.1	1.1	1.5	7.7	7.7	7.3	0.4	11.0
NMB Bank	874.3	872.2	8,583.2	7,194.9	19.3	8,277.9	6,348.3	30.4	78.1	62.3	25.4	55.0	46.3	18.8	0.8	1.7	7.4	7.4	7.1	0.2	10.7
Prabhu Bank	823.3	485.8	10,302.4	8,285.4	24.3	8,601.8	6,674.7	28.9	81.7	44.0	85.7	59.8	34.8	71.8	2.5	4.2	6.2	6.2	6.6	(0.4)	9.5
Janata Bank Nepal	800.0	234.5	6,288.7	5,224.4	20.4	5,845.6	4,738.3	23.4	45.9	23.0	99.6	32.1	16.1	99.4	1.5	1.7	7.7	7.7	7.9	(0.2)	11.2
Mega Bank	1,028.5	280.7	6,611.9	3,984.9	65.9	6,224.9	3,570.8	74.3	57.7	11.7	393.2	40.4	8.1	398.8	1.1	1.7	7.6	7.6	7.8	(0.2)	10.6
Civil Bank	800.3	205.3	3,943.6	3,424.8	15.1	4,194.5	3,120.2	34.4	26.70	16.00	66.9	18.5	11.2	65.2	3.1	4.7	7.7	7.7	8.1	(0.4)	11.0
Century Commercial Bank	806.3	138.2	6,237.0	4,535.1	37.5	5,754.5	3,986.9	44.3	39.1	19.1	104.7	27.4	13.3	106.0	0.8	1.7	8.1	8.1	8.0	0.1	11.5
Sanima Bank	800.1	330.4	8,416.3	6,464.0	30.2	7,508.3	5,800.4	29.4	74.0	52.5	41.0	51.8	37.5	38.1	0.1	0.1	7.5	7.5	7.4	0.1	10.6
<b>Public Sector Banks</b>																					
Nepal Bank	980.8	1,960.6	9,343.1	9,272.0	0.8	7,904.9	7,369.5	7.3	128.1	91.0	40.8	91.3	97.1	(6.0)	2.8	3.4	3.8	3.8	2.8	1.1	7.5
Rastriya Baniya Bank	900.4	1,254.9	16,416.8	14,852.6	10.5	12,390.8	10,954.1	13.1	158.5	101.2	56.6	111.9	70.9	57.8	3.8	2.9	2.7	2.7	1.7	1.1	6.3
Agriculture Dev. Bank	1,393.2	1,469.6	10,262.6	9,930.8	3.3	10,361.2	8,820.8	17.5	76.6	38.4	99.5	66.3	36.3	82.6	3.9	4.6	7.1	7.1	5.7	1.3	12.3
<b>Total</b>	<b>23,596.8</b>	<b>18,251.6</b>	<b>253,127.0</b>	<b>215,826.9</b>	<b>17.3</b>	<b>226,390.2</b>	<b>179,803.5</b>	<b>25.9</b>	<b>2,169.3</b>	<b>1,412.0</b>	<b>53.6</b>	<b>1,538.8</b>	<b>1,062.0</b>	<b>44.9</b>	<b>1.5</b>	<b>1.8</b>	<b>6.9</b>	<b>6.9</b>	<b>6.6</b>	<b>0.3</b>	<b>10.2</b>

**Balance of Payments (BOP):** In terms of BOP, the current account fell into a deficit by NPR 81.96 billion (USD 700.09 million) during the review period as compared to a deficit of NPR 25.52 billion (USD 217.98 million) during the same period of the previous FY 2017/18. The overall BOP posted a deficit of NPR 35.42 billion (USD 302.55 million) in the review period compared to a surplus of NPR 4.27 billion (USD 36.47 million) in the same period of the previous year.

**First quarter performance analysis of commercial banks:** As per the unaudited first quarter financial results of commercial banks for FY 2018/19, as shown in Table 3, the operating profit of commercial banks grew by 53.6% while the net profit increased by 44.9% compared to the corresponding figure of the previous fiscal year.

Rastriya Banijya Bank was able to post the highest net profit of NPR 1.12 billion (USD 9.5 million), followed by Nepal Investment bank at NPR 105.4 billion (USD 9 million) and Nabil Bank at NPR 105.2 billion (USD 9 million) and Nepal Bank at NPR 0.91 billion (USD 7.77 million) at the end of this

quarter. During the review period, the deposit mobilisation increased by 17.1% while credit mobilisation by the commercial banks increased by 25.9%.

At the end of the first quarter, the average Non-Performing Loan (NPL) of banks had decreased to 1.5% from 1.8% as compared to the corresponding period, and the average cost of funds of commercial banks increased to 6.9 % from 6.6 % amidst tight liquidity. Similarly, the average base rate of commercial banks stood at 10.2% during the end of this quarter, the highest being 12.3% of Agriculture Development Bank and the lowest being 6.3% of Rastriya Banijya Bank.

### Key developments

**Limit to borrow in foreign currency increased:** The central bank has raised the limit to borrow in convertible currency from international institutions from 25% to 50% of the bank's core capital. Taking into consideration the current core capital of commercial banks would be able to borrow up to NPR 185 billion (USD 1.58 billion) in foreign currency including Indian rupee. However, such borrowed funds could only be distributed towards the productive sector.

### Working procedure for various subsidised loan schemes released:

The central bank issued much-awaited unified working procedures for various loan schemes to be provided at lower subsidised rates as declared in the fiscal policy. The different target groups under the scheme are: unemployed educated youths, returnee migrant workers, women entrepreneurs, Dalits and earthquake victims, and other target groups as well. As per the document, unemployed can apply for a loan up to NPR 700, 000 (USD 5,600) putting their academic certificate as collateral. Likewise, returning from foreign countries can apply for a loan up to NPR 1 million (USD 8,540) to start a business; and another in which women entrepreneurs are eligible to apply up to NPR 1.5 million (USD 12,812).

**Relaxation in CCD ratio:** The ease the current liquidity situation, the central bank will not include the subsidised loans in the calculation of the Core Capital cum Deposit (CCD) ratio. The new provision is likely to provide some respite and will push banks to float subsidised loans to unemployed educated youths, women entrepreneurs, returnee migrant workers amongst others.

## OUTLOOK

The availability of loanable funds has once again become a prolonged problem, despite various efforts such as ease in CRR and SLR, and the implementation of interest rate corridor. Apart from sluggish spending by the government during the first quarter of the fiscal year, aggressive lending by commercial banks to stimulate their earnings amidst increased capital could be attributed towards the current liquidity situation. The aggressive credit expansion by banks reflected in the first quarter results of the current fiscal year—banks year on year net profitability increased by whopping 44.9%.

Going forward, the sustainability of profit growth will depend on the availability of loanable funds further, as the average base rate of commercial banks has gone up to 10.2%, it is less likely borrowers will see some respite in interest rates in the near future. Since banks have already decelerated their credit expansion spree, it is expected to impact government economic growth target as well. The demand for credit is likely to remain high in coming days as economic activities continue to surge amidst political stability and favourable business environment.

The increase in the limit to borrow in foreign currency is a welcome step nonetheless other adequate mechanisms should be expedited such as country credit rating to smoothen the inflow of much required foreign capital. Further, the refinancing facility provided by the central bank should also be increased to make it more effective. Further, the decision of the central bank to ease CCD ratio calculation, and relook the current interest rate corridor could provide some relief in the short term.

# CAPITAL MARKET

At the end of the first quarter of FY 2018/19, the secondary market went down by 2.56% to close at 1148.36 points, the lowest point in the last past two years.

## Secondary market

During the review period, the Nepal Stock Exchange (NEPSE) benchmark index decreased by 2.56% to close below 1200 points at 1148.36 points. At the end of the review period, the total market capitalisation had reached NPR 1,369 billion (USD

11.69 billion) while the total floated market capitalisation was NPR 474 billion (USD 4.05 billion).

As shown in Table 4, during the review period, most of the sub-indices ended in the red zone except Development Bank, Manufacturing & Processing,

Hotels and Others index. The Hydropower index (-13.74%) was the biggest loser followed by the Micro Finance Index (-11.39%), Non Life Insurance (-11.02%), Life Insurance (-10.94%), Finance Index (-2.12%) and Commercial Bank (-0.53%). The sub-sectors

**Table 4: Key indicators**

Indicators	23 –August 18	29-November 18	% change
<b>NEPSE Index</b>	<b>1178.58</b>	<b>1148.36</b>	<b>-2.56%</b>
Commercial Bank Index	1014.30	1008.93	-0.53%
Development Bank Index	1431.93	1445.12	0.92%
Finance Index	608.81	595.91	-2.12%
Life Insurance Index	5766.63	5135.64	-10.94%
Non-Life Insurance Index	5766.63	5131.25	-11.02%
Hydropower Index	1374.08	1185.32	-13.74%
Manufacturing & Processing Index	2139.97	2247.78	5.04%
Micro-Finance Index	1479.23	1310.77	-11.39%
Hotel Index	1809.44	1787.47	1.21%
Others Index	717.59	732.43	2.07%

Source: NEPSE

**Figure 16: NEPSE Movement Index**



Source: NEPSE

representing Manufacturing & Processing Index (5.04%) was the highest gainer during the review period. While the subsectors Other Index (2.07%), Hotel Index (1.21%), and Development Bank (0.92%) continue to move upwards.

### Primary market

In the public issue front, the market witnessed Initial Public Offerings (IPOs) of numerous companies during the review period.

- Aankhu Khola Hydropower Company Limited (AANKHU) issued Initial Public Offering (IPO) worth NPR 200 million (USD 1.7 million). ICRA, credit rating agency Nepal, indicating poor fundamentals assigned the issue IPO Grade 5.
- Samudayik Laghubittiya Sanstha issued IPO of NPR 300,000 unit share worth NPR 30 million (USD 260,000 million). After the allotment, the current paid-up capital will reach NPR 100 million (USD 850,000 million) from its current of NPR 70 million (USD 600,000).
- Likewise, Madhya Bhotekoshi Hydropower Company is

currently issuing IPO of NPR 10.17 (USD 86,817) units for the members registered with Employees Provident Fund. ICRA Nepal has assigned grade 4+ rating to this issue, indicating below average fundamentals of the company.

- The IPO'S in the pipeline SEBON has approved IPO worth NPR 990,000 (USD 8,456) of Himalaya Urja Bikas Company Ltd. for local people of the project affected areas. The issue has been assigned IPO Grade 4 by ICRA Nepal indicating below average fundamentals.
- Himalaya Urja Bikas Company issued IPO of NPR 990,000 (USD 8,456) unit shares. The issue was assigned IPO Grade 4 by ICRA Nepal indicating below-average fundamentals.
- Joshi Hydropower development company is issuing IPO of 16,90,470 units at NPR 100 per share. ICRA Nepal has assigned Grade 5 indicating poor fundamentals. After IPO, the paid-up capital will reach NPR 371.4 million (USD 3.17 million) and shareholding ratio is standing

at 51:49 for promoters and ordinary shareholders respectively.

### Key developments

#### Online trading goes live

The Nepal Stock Exchange (NEPSE) officially launched full-fledged online stock trading on 6 November 2018 that allows investors to place buy and sell orders over the internet. The NEPSE Online Trading System (NOTS) is expected to ease management of the growing transaction volume and provide access to a large number of potential investors across the country. Although investors can buy and sell shares from their place, they still need to visit their broker's office to complete financial settlement as online stock trading will take full shape only after the establishment of the online payment system.

#### Amendment in CDS regulation

Securities Board of Nepal (SEBON) has endorsed the third amendment of Central Depository Service by laws 2068 as proposed by CDS and Clearing Ltd with an aim to ease the process of registration and ownership transfer of the listed stocks in the only stock market NEPSE.

## OUTLOOK

Despite, the announcement of attractive benefits from the earnings of previous Fiscal Year (FY) 2017/18, investors are less attracted towards the secondary markets as most of these benefits are in the form of cash dividends only. Mostly Banks and Financial Institutions (BFIs) are announcing cash dividends as they have met the new capital requirement set by the central bank. The much awaited online trading system has started in the secondary market. Nonetheless, it would take some time for the system to be accessible to the masses. Further, investors' confidence remained low as tight liquidity in the banking system continues to impact the market, even so, the market may witness some fresh buying amidst low Price Equity (PE) ratio of stocks.



**REAL ESTATE SPECIAL**

# Kishore Thapa

## Former Secretary, Government of Nepal—Ministry of Urban Development

## REAL ESTATE AND URBAN DEVELOPMENT

There is an increasing recognition that the growth of cities is inevitable and the solution to urban problems heavily depend on effective urban planning, infrastructure development and management. Nepal has seen a rapid population growth over the past 50 years. However, inappropriate planning has outstripped the infrastructure and service capacity leading to environmental degradation. There are adequate social infrastructures in place but the physical infrastructures like wider roads, airports, electricity, water supply, sewerage and drainage facilities, solid waste management, and other civic amenities like auditorium halls, stadiums are inept.

The current state of population growth of Nepal demands more amenities like better auditorium, large stadiums, uncongested international airports, better-equipped hospitals, world-class universities, proper waste disposal system, sufficient electricity and water facility, among others. The international terminal in Tribhuvan International Airport that was designed with the capacity to hold 500 passengers per hour cannot hold the current flow of 3,000 passengers per hour. Rather than blaming the government for inadequacies, its high time citizens get equally responsible for the amenities and the laws that

come together with them. A proper pavement of roads, water supply, electricity, sewage and drainage facilities are the prerequisites of a housing. However, the susceptibility of farmers toward private investors has further discouraged the laws that emphasise on designated land zoning in Nepal.

Urban development plans are changing now and then. From constructing earthquake-resistant buildings to establishing a resilient community, developers are coming up with the idea of having a common place for parking, recreational parks, and community garden. Comparing the housing tenureship with other South Asian countries, Nepal's huge figure of 88% suggests that the general facilities like proper water supply, electricity, drainage and sewerage systems have become few of the most critical prerequisites for urban planning of the society. One of the significant problems with rural Nepal is that people are compelled to lock their houses and come to bigger cities for easy accessibility of even the basic facilities like education and transportation. On the other hand, one good thing about urban Nepal is that one family makes a house for at least two other families which according to the Kathmandu Municipality Report marked almost

45-50% living in rent in the year 2011. Taking the above figures into consideration, if we compare the rental statistics of Nepal with our neighboring country, India, building common housings or apartments together in a group of few people like family or friends would not be a bad idea.

Nepal faced a lot of housing stock loss due to the massive earthquake that happened in the year 2015. Sporadically, a situation like this enables the entry of commercial businesses into residential areas creating pressure among the locals. At the same time, the permit process for registering residential buildings which require lesser fees than buildings for commercial purposes have established the habit amongst business developers to first obtain permits as residential buildings and later turn the same into commercial purposes. The undesirable politics that go inside the various organizations are the enablers of delayed growth. The haphazardly thrown wastes show our inefficiency in being able to manage them properly. The amount of time and money we can save by segregating wastes at an individual level is something we have never thought of before. Selling plastics to the plastic collector by segregating them from other wastes can mark up

the savings of about NPR (200-300) per month. One best example can be of the landfill site at Dhankuta. The landfill site which looks completely like a garden has now started taking entry fees with people to enter inside of it. In Dang, there's another private party doing bees keeping inside the landfill site. The other example could be of Hetauda where the youths have opened a big compost site by fully utilising wastes and managing them properly.

The ever-increasing traffic of Kathmandu valley has made it difficult for small microvans, tempos or taxis to handle the number of passengers on the road. The solution to this could be the development of monorails having the capacity to carry almost 500 passengers at once. To handle this

pressure more effectively, together with mono rails, the government can bring some big buses that can carry more passengers at a time. On the other hand, the outlook on one of the mega projects of Nepal, Melamchi, scrutinised the employment history of 98% natives. This indicates that the project has helped almost 500 Nepali people to get employment for an extended period of time.

Furthermore, the supply of an additional 170 million liters water per year through Melamchi project is likely to provide an adequate amount of water to households in and around the Kathmandu Valley. With sufficient supply of drinking water, reserved water tank along with water pump businesses are likely to get hampered. The ability of the

pump being able to pull water up to 15 metres, households then will not have to pay more amount of money as electricity bills.

With wastes getting reduced and the rivers getting cleaner, it is high time for general people to be equally responsible and not allow sewerage and drainage to be dumped into the river. What about the responsibilities of citizens at an individual level? Well, they are the ones who should be proactive and eliminate the habit of blaming others and start taking initiatives to come up with innovative ideas to manage waste. From rural to urban areas, growth is inevitable and there is no denying the fact that Nepal is at its early stage of growth and requires each individuals' effort to take it further and beyond.

## OM RAJ BHANDARI

Chairperson, Brihat Investment Pvt. Ltd

# EVOLUTION OF THE REAL ESTATE MARKET IN NEPAL

Until 2046 B.S., Nepal was totally unaware about the prospect of having a home as a source for the quality of life. Post 2046 B.S., there has been a vital shift in the concept of real estate, however.

Real estate is one of the major contributing factors for the urbanization. Since the population continues to expand the demand for homes increased remarkably. The concept of real estate is becoming more acceptable and carried out into practice across the nation. As per the recent census of Nepal, the annual population growth rate is around 1.6%. Furthermore, if we scrutinize the situation of Kathmandu, we look at two different entities of the city. The first entity is the urban sphere and the another is urban population. Moreover, as the nation has moved into the new federal structure it is quite evident that the urban population and urban areas are rising significantly. However, the major contemporary issues are not addressed properly. Real estate is a crucial area which needs to be facilitated by urban services and infrastructure.

Factors and actors are the two major attributes that are to be considered wholly in the real estate sector. The government, bank and financial institution (BFI), builders, developers, landowners play the crucial role of actors in the real estate niche. On the other hand, factors include pre-dominant aspects such as demography, construction cost, land policy, government policy, and monetary policy which play a significant role in shaping the situation of real estate.

### Assessing the scope of business before and after the earthquake:

There has been a massive change in the overall scenario of real estate business post 2072 earthquake. Prior to earthquake people were mainly concerned about the design and layout of the houses whereas post-earthquake people are more concerned about safety and quality of construction.

The real estate sector is on the verge of rising but has not been able to grow to its full potential. It is important for us to have a proper mindset to bring rational changes in this sector. In fact, it is very difficult to achieve the proposed target of planned urbanization due to the lack of constructive policy which is prohibiting the growth of the industry. The current policy allows only upto 50% of financing from BFI for buying a home. In addition, the home loan comes with a huge interest rate which creates difficulty in paying back the loan for a normal person. Moreover, for a nation like Nepal, the property is a revenue-generating tool. In general, having any sort of property enhances the quality of living and induces monetary benefits along with access to credit and services. Somehow, the policy fails to analyse such fruitful prospects. In fact, the cost of doing the construction business into practice is very high in the new federal structure of Nepal. These problems need to be systematically addressed to resolve the existing crisis in the real estate sector. If the government introduces the tax rebate and tax holiday system efficacy of the housing sector will improve. The consumers should

also receive tax benefits and subsidies in the interest rate so they will be motivated for buying a house. Thereby, this will create a proper business climate for the investors.

### **Workforce in Real-Estate Sector**

Labours play a pivotal role in the construction sector. In the current scenario, it is evident that there are significant loopholes in managing the supply and demand for labor. Moreover, the nation needs to work on facilitating the labour laws to robust the real estate sector. In the international scenario, we have seen that the labor laws work strongly to facilitate and augment their living standards. I strongly believe that this will improve the efficiency of the labours and will enhance productivity. In fact, Nepal also needs to replicate a similar path to give such services to the labours where they will be provided a good working environment to work and would upsurge their health status.

### **Issues and prospects**

Nepal is still lagging behind due to lack of the proper

financial resources which becomes prominent to regulate the infrastructure for construction. If the real estate sector starts escalating with an effective framework it will create tremendous opportunities for employment generation and will strengthen the economic development. On the other hand, the real estate developers should also bear the responsibility of providing the customers with the property that they initially promised to deliver. Else, this will ruin the trust over the developers.

### **Conclusion**

Nepal possesses a huge advantage in leveraging the idea of green economy in the nation because it's topography is supremely suitable to create possibilities from the available resources. I strongly believe that to expand the economy it is quite important that we realise our prominent indicators for development. Moreover, the microeconomic enterprise and the existing entrepreneurs, investors should be pledged with the favourable environment to hasten the housing and building sector of Nepal.

## MAHENDRA MAINALI

### Senior Advocate, Legal Council Centre

# REAL ESTATE: A LEGAL PERSPECTIVE

The current land use policy in Nepal raises concerns about the increasing land fragmentation and unplanned urbanisation. Obliteration of traditional agricultural lands through unsystematic land plotting, unplanned commercial use of land and haphazard construction of houses have squeezed the area of arable land. Moreover, urban cities like Kathmandu are facing deficit of open spaces, traffic management and mobility issues. In this context, decision of the Government to endorse a policy to restrict land plotting and control haphazard land fragmentation is appreciable but it has been a while for the restriction so the policies should be formulated soon. Nevertheless, the policy should be in accordance with the constitution so that the citizens are not denied to their property rights. Though it could be an unfavourable situation policy for real estate players, it would help in effective land management and ensure optimum control of land fragmentation.

Further, to address the issue of traffic congestion, the government is attempting to expand the road by acquiring land. The policy, nevertheless, is criticised to be unfair and unwise to the displaced families. Furthermore, it has led to allegations against the government demanding justice and proper compensation. Complying with the vision of beautifying the city, Government has been successful in creating systematic urbanization in some pocket areas. The same policy of pulling, plotting and redistributing the land should be applied in viable places.

In other stances, urban congestion could be eased by zoning the lands (based on the floor area ratio (FAR)). The FAR area is the quotient of the total built or floor area on a plot and the total area of that plot. FAR area code is usually implemented to promote safe buildings and limit urban congestion. In general, the government allocates 60% and 40% FAR areas for homes and hotels respectively. Considering the rampant settlement, Kathmandu Valley requires a wide application of FAR area to ensure safer building codes. The incorporation of safer building codes

would also establish transparency and facilitate national building laws. While endorsing a law is important, the focus also should be on its strict implementation. In other words, proper implementation of land demarcation policy should be given a priority. For instance, the policy prohibits construction of modern buildings around the cultural heritage sites, however in reality it is rampant. Additionally, record system in the Land Revenue Office requires proper management as it is not scientific and safe.

Regulating building permits for businesses is another course of action required to limit haphazard land settlement and conciliate adversities of urbanisation. In this context, the government could adopt a policy to specifically define the geographical area of operation considering the nature of the business. The policy should be supported by a robust legal framework, however. In this regard, we are currently in the amendment phase of the laws after the promulgation of constitution and hence involving the recommendations and opinions of concerned stakeholders would help to create a strong commitment to the rule of law. Likewise, as mentioned above strict adherence to the law is must. There are some laws and regulations already in place but they have not been effectively implemented or monitored as per the legal provisions.

Regarding the investment in real estate, Non Resident Nepalis (NRNs) are able to own a maximum of two *ropanis* in Kathmandu Valley, eight *katthas* in municipalities of the Terai districts, four *ropanis* in other municipalities, one *bigha* in the villages of Terai and ten *ropanis* in other parts for settlement or to reside in Nepal and can also invest in other real estate businesses like any Nepali whereas foreigners, can only invest in construction industry. If new ideas, technologies, techniques and more capital can be attracted in the real estate sector then it might be beneficial for the government to ease or/ and revise the Investment Act to attract adequate foreign investments and address the demand of the real estate sector in the new amended laws.

# ENDNOTES

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# NEF PROFILE

Nepal Economic Forum (NEF) is a premier private-sector led economic policy and research organisation that seeks to re-define the economic development discourse in Nepal. Established in 2009 as a not-for-profit organisation under the beed ([www.beed.com.np](http://www.beed.com.np)) umbrella, NEF is a thought center that is working to create positive transformations in policy reforms. One of the big updates for NEF this year was its feature in the list of Top Think Tanks in Southeast Asia and the Pacific in the 2017 Global Go To Think Tank Index. The report was released by the Think Tanks and Civil Societies Program under University of Pennsylvania. 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 Third Himalayan Consensus Summit 2018 in March 2018.

## NEF BROADLY WORKS UNDER THREE AREAS:

### BPRC

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

### PPCP

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



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 [niraj.kc@beed.com.np](mailto:niraj.kc@beed.com.np)



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