NEPAL ECONOMIC FORUM

nefport

LABOUR SPECIAL

DOCKING NEPAL'S ECONOMIC ANALYSIS

ISSUE 36 | MARCH 2019

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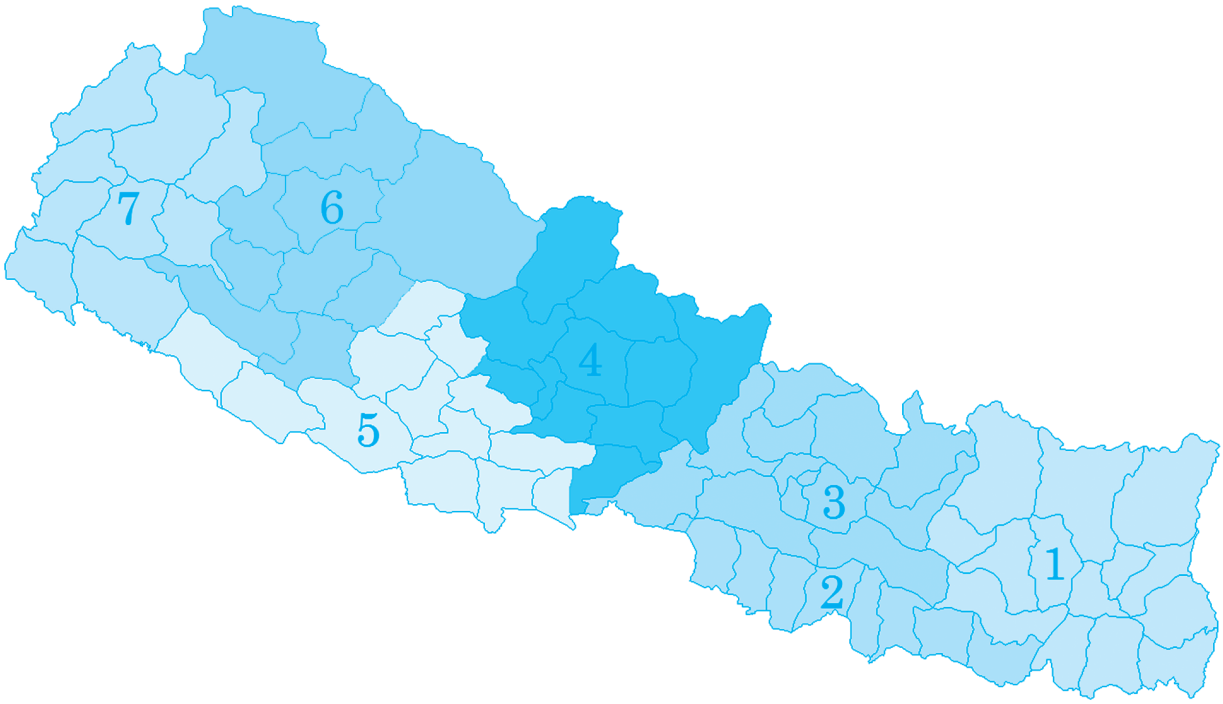
NEPAL FACTSHEET



KEY ECONOMIC INDICATORS

GDP Rank	USD 30.07 billion 105	GDP Growth rate (%)	6.3%
GNI (PPP) Rank	USD 2443 149	Inflation (annual %)	4.2%
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

In the last quarter, Government of Nepal (GoN) finalised the civil servants adjustment process. Accordingly, the government repatriated officials at the provincial and local level in a proportionate manner. The government also unveiled an ambitious program—the Prime Minister Employment Program that provides 100 days of job guarantee. Further, the government is on a verge of reforming policies related to investment to facilitate Foreign Direct Investment into Nepal.

Upcoming year will be an interesting one for Nepali economy as the government is hosting the Nepal Investment Summit 2019 on March 29 and 30. The successful hosting of the summit is likely to endorse Nepal as a promising investment destination showcasing the potential projects for studies and development. Policy reforms in sectors like technology and labour will definitely help to strengthen the business climate and facilitate investment. In this regard, NEF will continue to strive to analyse how the Nepali economic development paradigm will shape up in the days to come.

In other stances, Nepal achieved its target of welcoming one million tourists. Inflation remained within the targeted level of 6.5% while trade deficit continued to widen as merchandise import increased to NPR 723.94 billion (USD 6.29 billion). The banking sector continued to face liquidity problem as credit growth accelerated amidst receding deposit growth. The central bank via mid-term review of the monetary policy has introduced fresh directives that aim to stabilize the interest rate volatility.Other economic indicators also depicted the bleak picture of Nepali economy. Due to the ballooning trade imbalance, Balance of Payment deficit increased to NPR 64 billion (USD 556.47 million)—sufficient only to cover the prospective merchandise and service import of 7.8 months.

This edition of nefport is Nepal Labour and Skills special, highlighting the changing dimension of Nepali labor market and their respective skillsets. We would like to thank all the key contributors especially Arya Awale (beed, beed management), Baljit Vohra (Team Leader, Louis Berger), Giuseppe Savino (Senior Distinguished Fellow, Nepal Economic Forum), Pushpa Raman Wagle (Member Secretary, Council for Technical Education and Vocational Training) and Richard Howard (Director, International Labour Organization) 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

1

GENERAL OVERVIEW

POLITICAL OVERVIEW

In the first quarter of 2019, the government's effort towards nation building has been quite noticeable. Authorities from the Ministry of Federal Affairs and General Administration (MoFAGA) came up with policies to equalize benefits of reserved quotas among the larger nominees. While the government is contemplating on reshuffling the cabinet, efforts have been made to repatriate them at the provincial and the local government level in a proportionate manner. In addition, Prime Minister KP Sharma Oli has committed 100 days of job guarantee for the unemployed with a vision to uplift Nepali society.

Fighting corruption - An initiation taken by the CIAA: A recent study on the "Status of Corruption and Good Governance in Nepal, 2019" conducted by the Commission for the Investigation of Abuse of Authority (CIAA) offered suggestions to the Government of Nepal to make corruption less desirable and measures[1] to fight them in public offices.

Short term measures:

1. Optimum use of official websites, media and social networking sites to inform people about the services provided by the respective offices and the fees to be paid in the banks before going to the office for the respective task.
2. High-level authorities to keep track of junior employees so that they do not involve in personal work during office hours.
3. Immediate avoidance of high-handedness of trade unions affiliated to various political parties.

Long term measures:

1. Incorporate subjects of good governance and anti-corruption in school and university curriculum to instill a sense of integrity and accountability in the citizens from an early age.
2. Increase the salary of government employees to distract them from bribery as service-seekers are often denied services without bribe and the employees are compelled to resort to earn extra money by engaging in bribery.
3. Developing a time-bound action plan for service bribery in public offices which are often involved in corruption and bribery.
4. Provisions for installing e-software programming, e-attendance, mobile apps and installation of CCTV cameras in public service offices to keep employees on track.

Refurbished quotas on government job: The Federal Civil Servants Adjustment Bill 2075 endorsed by the House of Representatives on 8 February introduced new provisions for candidates belonging to highly disadvantaged and marginalized segments of the population. Previously, the reservation benefits which were allocated for these segments were found to be captured by the elites within those groups.[2] In order to ensure that reservation benefits reach as many disadvantaged candidates as possible, the new bill restricts a candidate (government employees) from these groups from receiving benefits more than once. Ministry of Federal Affairs and General Administration (MoFAGA) also claimed that the government will soon develop indicators for determining the social and economic status of prospective candidates.[3] Though the Interim Constitution promulgated after the 2006 People's Movement introduced various reservation policies, no successive government until now has introduced any criteria to select the actual beneficiary. Besides introducing the provision of economic and social indicators, this new bill also proposes to bar candidates from competing in various reservation categories simultaneously.[4]

Previously, someone competing under the woman category could compete under the indigenous nationalities or backward regions categories as well, but the new bill bars citizens from doing so. According to the new bill, the reservations benefit will be entitled to a person only once in his/her working tenure at the organization. The bill has made revisions in the quota percentages allocated to various targeted groups as well. 33% of the total reserved seats are allocated for women, 24% for candidates from indigenous nationalities, 20% for the Madhesi community, 9 % for Dalits, 4 % for Tharus and 3% each for Muslims and those with physical disabilities. The remaining 4% has been allocated for candidates hailing from backward regions including Achham, Kalikot, Jajarkot, Jumla, Dolpa, Bajhang, Bajura, Mugu, and Humla districts in the mid-western and far-western Nepal.

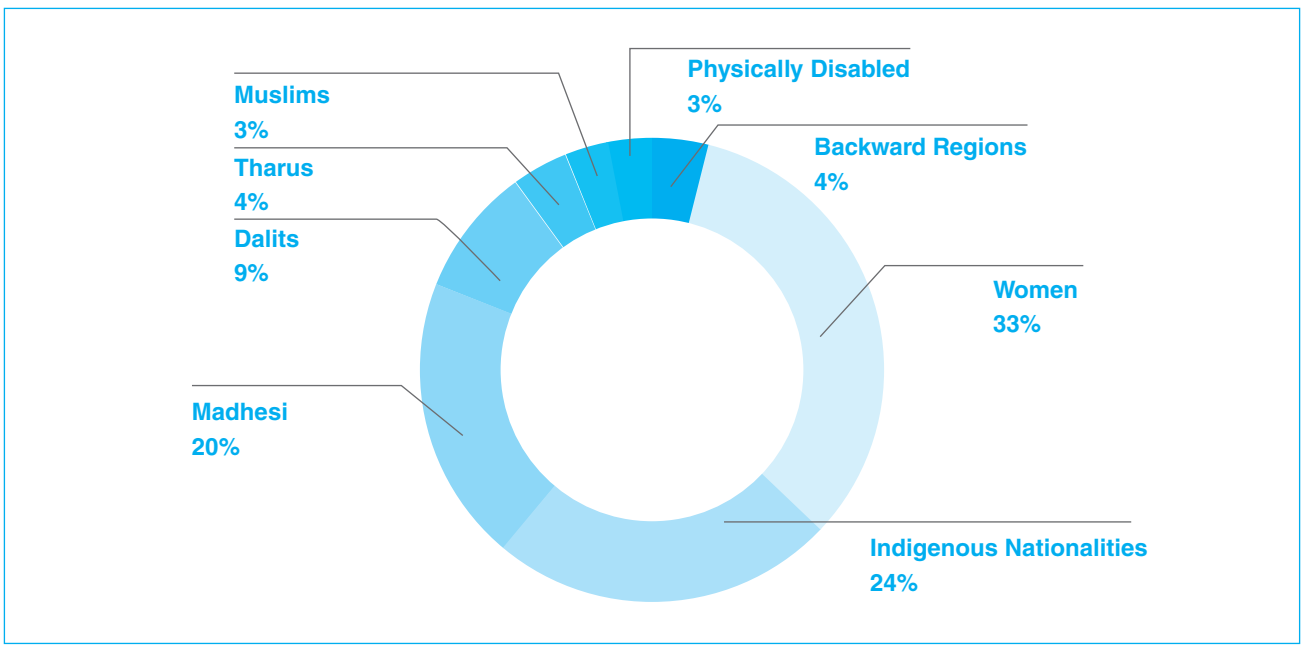
The Federal Civil Servants Adjustment Bill paved the way for civil servants adjusted into local and provincial governments to return to the federal government. The bill allows individuals who have met necessary academic qualifications and served at least seven years to participate in inter-service competitions to return to federal government. The earlier provision for recruiting civil servants for undersecretary and joint-secretary level via open competition through lateral entry has been proposed to be removed as stated by Dinesh Thapaliya, the Secretary at the Ministry of Federal Affairs and General Administration. The age limit for mandatory retirement of the civil servants remains 58 years.[5]

PM Oli to unveil 100 days of job for the unemployed: In order to battle the massive outflow of the working-age population and unemployment in the country, government rolled out a scheme, which will guarantee a minimum of 100 days of employment for citizens. The Ministry of Labor, Employment and Social Security has identified 13 sectors, including national pride projects, where unemployed youths can work as part of the scheme. Areas enlisted for the employment scheme are as follows:

1. Agriculture, Cooperatives and Animal Husbandry
2. Energy, Irrigation and River Training
3. Drinking Water and Sanitation
4. Forest and Environment
5. Tourism Promotion
6. Road Transport
7. Education, Youth and Sports
8. Reconstruction
9. Community Infrastructure Construction
10. Large and National Pride Projects
11. Industry
12. Health
13. Information and Communication Technology

The scheme envisions to create enough employment opportunities at home in the next five years so that no one is compelled to go abroad for work.[6] Prime Minister KP Sharma Oli unveiled the entire agenda on 13 February 2019 during the launch of Prime Minister Employment Programme. The registration for the scheme is subjected to begin from March 15.[7]

Figure 1: Reservation quotas for targeted groups in government job as per the Federal Civil Servants Adjustment Bill 2075



Source: Federal Civil Servants Adjustment Bill 2075

Border security to strengthen for Indian Lok Sabha elections: The Nepal-India border security meeting held in Janakpur on 11 February discussed on the possibility of Nepali soil being misused by Indian criminals during elections. Having the possibilities to transact illegal fake currency across the open border during the time of election, the Chief District Officer of Dhanusha, Pradeep Kandel announced that the decisions were made keeping special tabs on counterfeit Indian currency, human movement, sales and distribution of liquor and other illegal activities. Officials have even discussed to seal border from both sides during the election.[8]

Nepal wide - body aircraft procurement scam: A report[9] released by a subcommittee under the Parliamentary Public Accounts Committee (PAC) on January 2019 accused top officials including current and former ministers embezzling NPR 4.35 billion (USD 37.8 million) in the process of procuring two wide-body aircrafts. The procurement process was found to be suspicious after getting various cues from the highest level officials in the tourism industry including faulty terms and conditions, reducing maximum takeoff weight, providing different identities to the aircraft, violation of act and many more.[10] Rajan KC, a lawmaker from the Nepali Congress, had prepared the report after a 20-day long investigation accusing the then Tourism Minister Rabindra Adhikari and former ministers, Jivan Bahadur Shahi and Jitendra Dev of not taking enough measures to cancel the deal. Incumbent Managing Director of Nepal Airlines Corporation (NAC), Sugat Ratna Kansakar together with two incumbent secretaries, Prem Kumar Rai and Krishna Prasad Devkota and the former secretary of NAC, Shankar Prasad Adhikari were also accused of the scam.[11]

Oath administered to three Ambassadors: President Bidhya Devi Bhandari administered the oath of office and secrecy to the three newly appointed Ambassadors on 8 February. Amrit Bahadur Rai and Mani Prasad Bhattarai, two of the Nepal's Permanent Representative to Permanent Mission of Nepal to the United Nations and other International Organizations in New York, USA and Geneva, Switzerland respectively were administered oath of office. Career diplomat, Rai had earlier served as Nepali ambassador to South Africa since 2014 and earlier in November, the government had recalled him from South Africa. Mr. Bhattarai on the other handwas previously working as a Joint Secretary atthe Ministry of Foreign Affairs (MoFA). On the same occasion, Nepal's Ambassador to Israel, Anjan Shakya also took the oath of office and secrecy from the President at a special oath-taking ceremony in the President House.[12] Anjan Shakya has done PhD in management and holds the experience of working as the acting chief of the Foreign Affairs Study Academy. She is also the chairman of the International Concern Centre.[13]

Officials adjusted in the three tiers of government: Spokesperson for Ministry of Federal Affairs and General Administration (MoFAGA) on 9 February declared that the adjustment of 56 secretaries (special class gazetted officers), 662 joint secretaries (first class gazetted officers) and 848 under-secretaries (second class gazette officers) to the three tiers of the government was confirmed. Transfer letters have been issued to the 56 secretaries while for the joint secretaries and under-secretaries the Ministry is in the process of issuing letters of adjustment by the end of February. MoFAGA took this decision after they felt that the service delivery and development work have been largely affected due to the lack of civil servants in required numbers at the provincial and local government level.[14] Out of 123,000 civil servants envisaged by the Civil Service Adjustment Ordinance in the country, 45,000 are subjected to be kept under the central government, 21,000 under provinces and 57,000 for the local government.[15]

OUTLOOK

The renewed economic policies do sound promising to the disadvantaged groups since they are hopeful of getting support from the government. However, as policies continue to get refurbished, new demands and criticisms are equally likely to be raised. To tackle the inconsistent economic growth, government must stay strong and entitle concerned authorities to fight against the culprits and give rights to the actual beneficiaries.

INTERNATIONAL ECONOMY

Asia and much of the globe was shaken by the erratic dynamics of the events that occurred during the end of the year and towards the beginning of 2019. The trade war between the US and China continues with little signs of easing tensions. However, a trade deal is definitely what the two governments have in sight as they enter into a critical phase of negotiations. There is a probability that the two countries will come to a bilateral trade agreement by March. The political leaders will attempt to stabilise and recalibrate their relationship.

Vietnam economy escalates: The U.S. and China continue to be locked in a trade war wherein both the nations have thrown volleys of tariffs on each others' products. Regardless of the tariff imposed, China enjoyed a trade surplus of USD 323.32 billion in 2018. In retaliation to the Trump government, China issued white paper and imposed tariffs on 128 U.S. products. While the U.S. and China are on the process to negotiate and improve their relations and resolve this ongoing trade war, their dispute has given Vietnam the growth opportunities. The trade dispute has given the opportunities to seek for alternative manufacturing firms. Startups are growing which is among many indicators that show about Vietnam's development. At present, there are more job opportunities and the market is growing. The government of Vietnam is focusing on expanding the private sector by reducing the figures of state-owned enterprises. The private sector contributes more than 40% of the economy . At present, the Vietnamese government is focusing on meeting the target of 1 million businesses by 2020.

Venezuela crisis: What we understand? After the death of Hugo Chavez, Maduro was first elected as President of Venezuela in April 2013. During his tenure, the economy collapsed further with power cuts, medicine, and food scarcity. Following these incidents, the oil prices started to drop in the year 2014. Then after several protests and chaos in the political realm, finally a fresh election took place in May 2018. On May 21, Maduro was declared victorious and was elected to office for the second timewhere he vowed to stabilise the nation's economy . Despite the opposition's outcry, including several Latin American nations who are against his legacy, he was sworn for the second term. Therefore, a group of Latin American countries and Canada have urged the military of Venezuela to split ties with President Nicolas Maduro. Major global powers have recognised Juan Gerardo Guaido as the interim president of Venezuela. The result of election induced a new dimension for the opposition to rant against the Maduro government. Moreover, the Lima Group, set up in 2017 is aiming to find a peaceful solution. Canada's PM Justin Trudeau has also unveiled USD 53 million to support the people in Venezuela. With the US, the European Union, too chose to recognise Guaido as the new leader. Maduro on the other side claims that external interference in domestic affairs could lead to civil war. Venezuela has been engulfed in the hyperinflation threshold since November 2016. Three million people have fled the crisis amidst the supply shortages, power cuts, and inflation. In fact, the nation's inflation reached 80,000 by the end of 2018. Venezuela is the only nation in the world currently facing razes of hyperinflation.

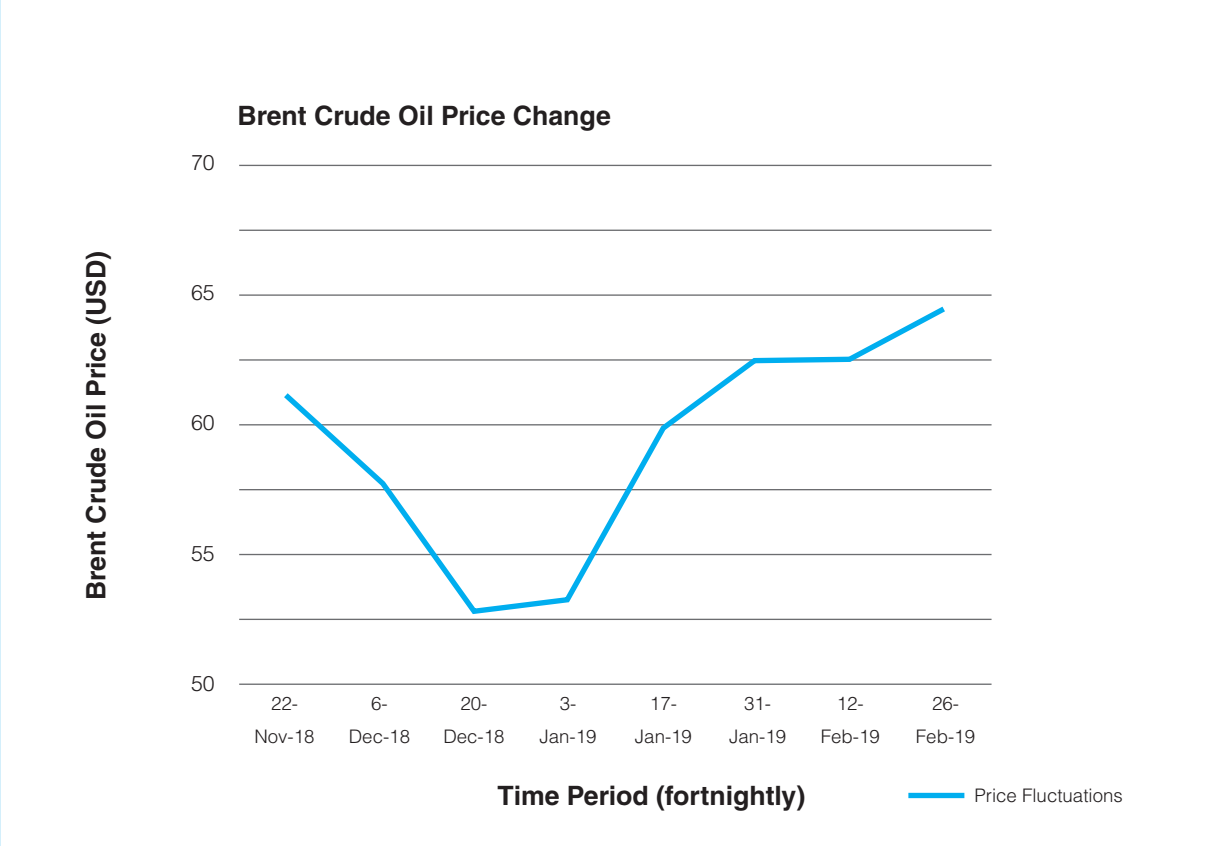
Davos 2019: The World Economic Forum, a leading platform for global affairs, held their 49th annual meeting at Davos, Switzerland. The theme for this year gathering was: Globalization 4.0: Shaping a Global Architecture in the Age of the Fourth Industrial Revolution. The leader, elites and luminaries from across the globe congrated and discussed the new wave of globalisation in the digital world. Multiple rounds of sessions were held to discuss this agenda. As stated by the founder, Klaus Schwab the world is entering into "profound instability" because of the disruption

in the geopolitical realignment and Fourth Industrial Revolution. Further, reskilling, work flexibility, inclusive education and bridging the gender gap in jobs were other major topics indulged upon.

What is a no-deal Brexit: A no-deal Brexit means that UK and EU failed to reach consensus on time. After leaving the UK government, the EU should act according to the changes. This would mean that they will follow a poor political relationship. Since the UK would no longer have trade ties with the EU it should face the external tariffs rate charged by the EU. Similarly, Britain would no longer have to follow the European Court of Justice. Because of this impasse, major issue of the borders between Northern Ireland and the Republic might still remain unsolved. However, If the House of Commons passes a draft agreement then that could be the next step in reaching the withdrawal of the agreement. After Brexit, the first EU Summit is expected to be held on 9th May 2019 in Sibu, Romania.

OUTLOOK

Figure 2: Change in oil price in 2019



Source: Macro trends

After the crucial meeting of the Organisation of Petroleum Exporting Countries (OPEC) on 6th December 2018, the price of oil started to increase. OPEC on its meeting decided to cut the oil production by 1.2 barrels per day. But what would be the next step of OPEC, will they continue with the cut or increase the overall oil production? Will they decide to further cut down on production? these questions still loom large. Another anticipated event to take place in April is the review of waiver allowed by the US to China, India, Italy, Greece, Japan, South Korea, Taiwan, and Turkey to keep importing oil from Iran for 180 days. This waiver comes to an end in April and the next move that the U.S. makes in this regard could further influence the price of petroleum in the global market. Will these eight countries be compelled to cut off their oil purchase from Iran? What would be the ramifications for isolating Iran on a global scale from trading? It's uncertain which countries would be still importing from Iran if the sanctions are slapped.

2

MACROECONOMIC OVERVIEW

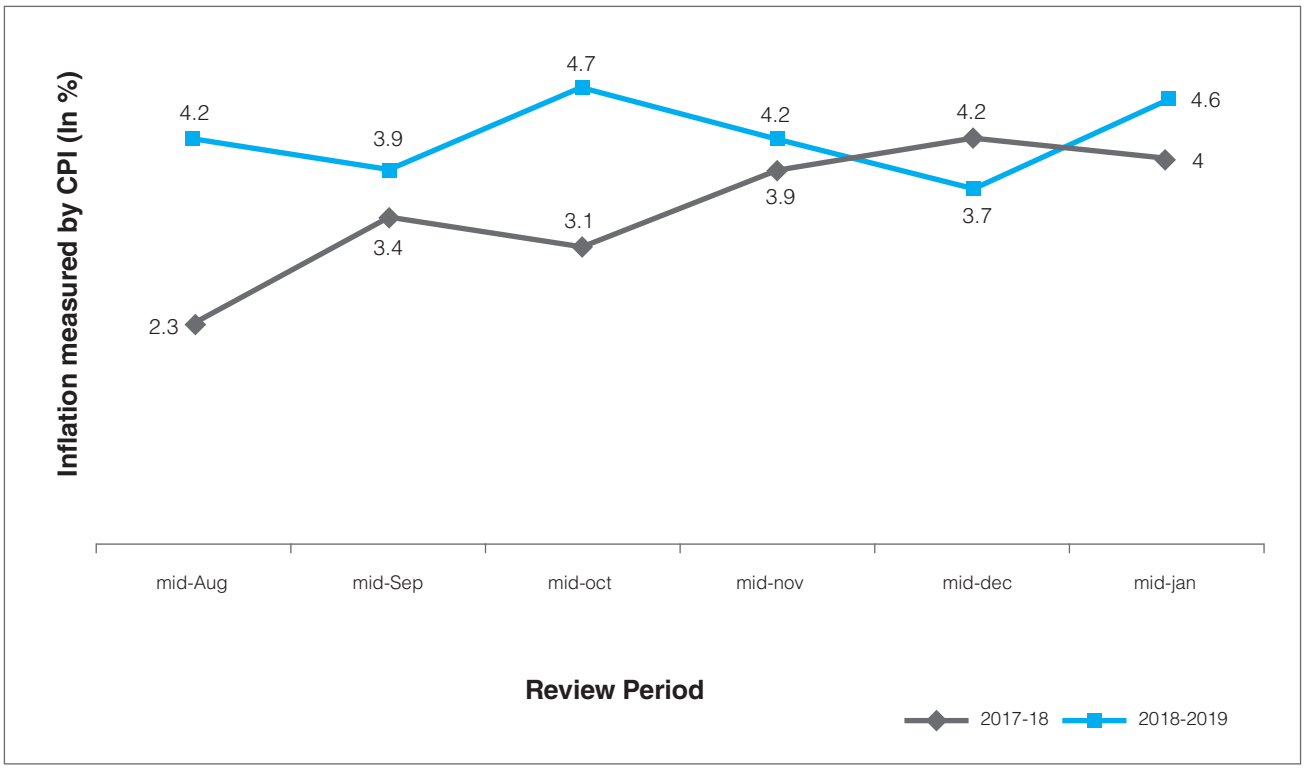
MACROECONOMIC OVERVIEW

The year-on-year (YoY) inflation level inflated to 4.6% over the first six 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 723.94 billion (USD 6.29 billion).

Inflation: The inflation rate, measured by the Consumer Price Index (CPI), has increased to 4.6% in mid-January (see Figure 3). It stood at 4.0% over the same period the previous year. Food inflation surged to 2.7%, which was caused by the increase in prices of pulses and legumes, spices, vegetables and fruits. Non-food inflation also increased to 6.1% on the back of increasing prices of clothes and footwear, furnishing and household equipment and housing and utilities.

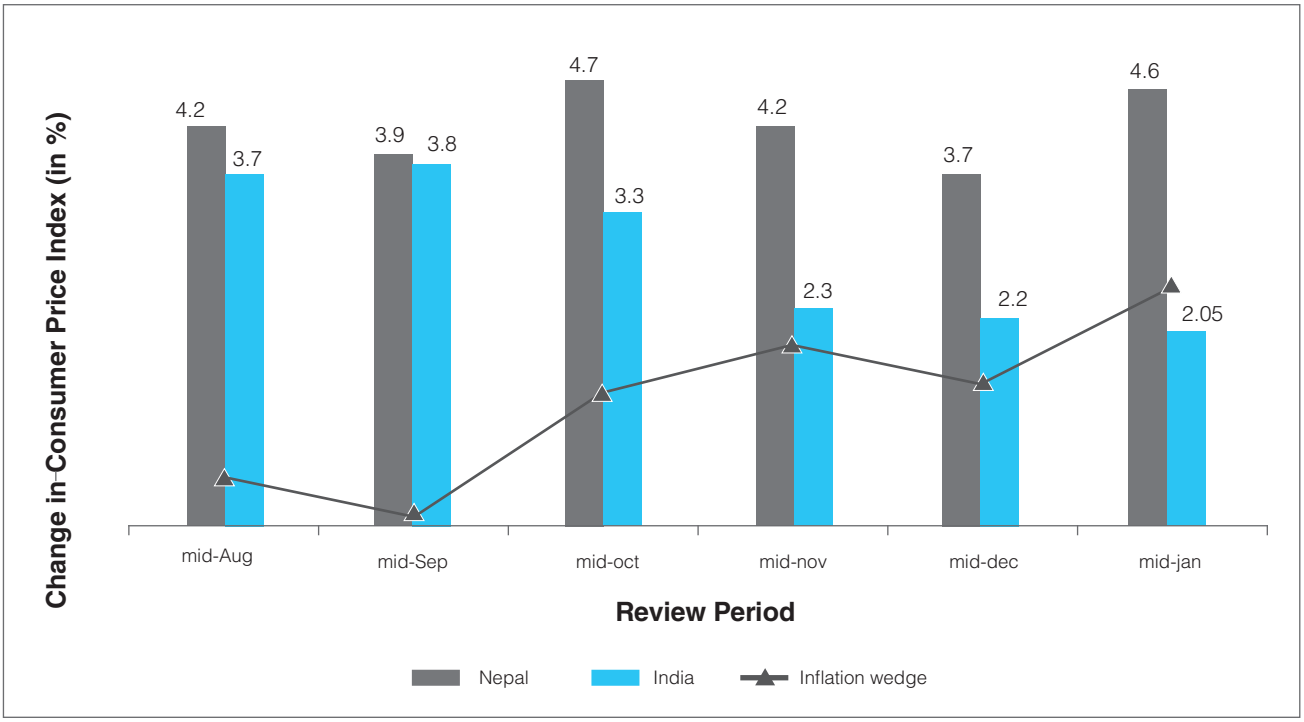
Inflation wedge between Nepal and India: The inflation wedge, measured as the YoY change in CPI of India and Nepal has moderately increased to 2.55%, as shown in Figure 4. Over the same period last year, the inflation wedge between India and Nepal stood at -1.1 % as shown in Figure 5. An improved supply 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 3: Year on year inflation measured by Consumer Price Index (CPI) for six months of FY 2017-18 & 2018-19



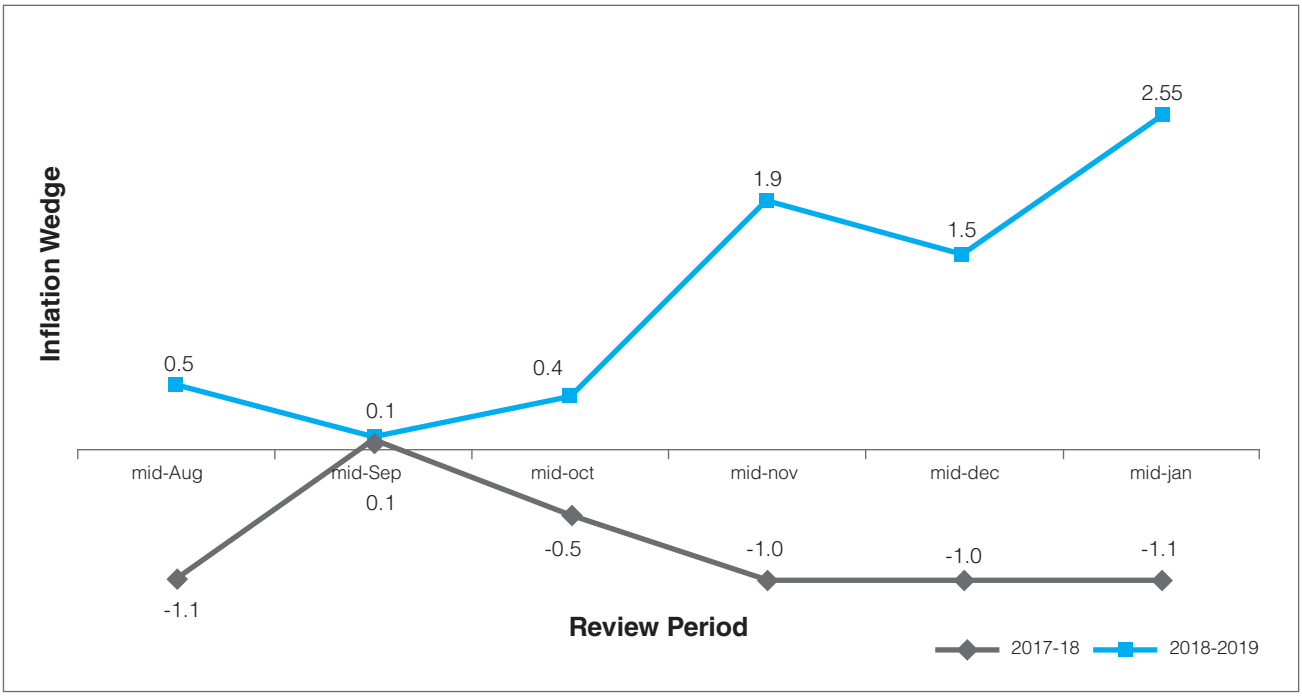
Source: Current Macroeconomic Situation of Nepal (Based on the six-month data of 2018/19), Nepal Rastra Bank

Figure 4: 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 six-month data of 2018/19), Nepal Rastra Bank

Figure 5: Year-on-year change in inflation wedge (based on CPI) between Nepal and India in FY 2017-18 & 2018-19



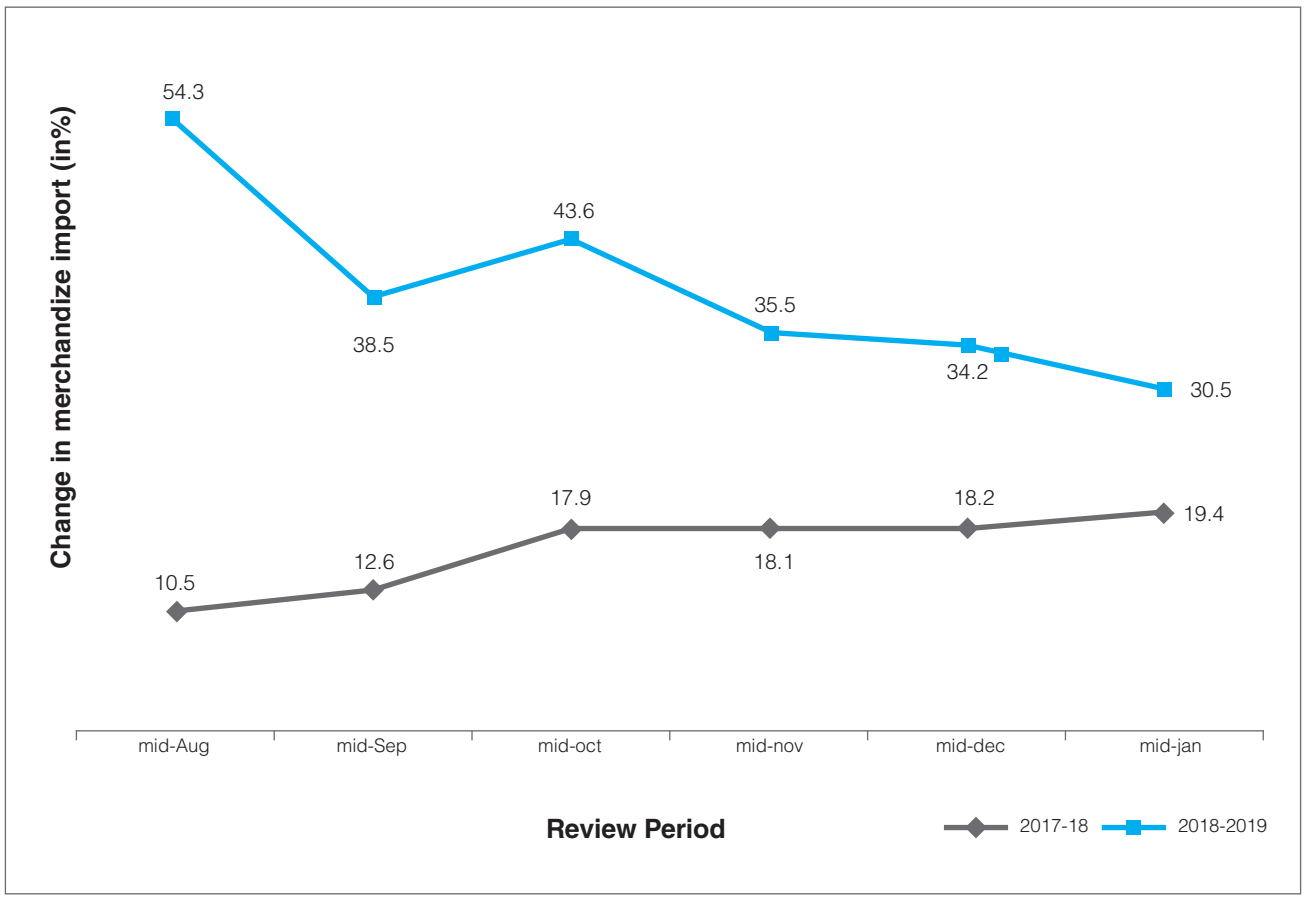
Source: Current Macroeconomic Situation of Nepal (Based on the six-month data of 2018/19), Nepal Rastra Bank

Import-export and trade deficit: Merchandise imports have increased by 30.5% to NPR 723.94 billion (USD 6.29 billion) in the first six months of fiscal year 2018/19, as shown in Figure 6 compared to 19.4% 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 28.7% and 42.9% 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 10.3% to NPR 45.41 billion (USD 394.83 million) in the first six months of fiscal year 2018/19. The corresponding figure was 13.5% 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, six months average wholesale price indices (WPI) increased to 6.0% in fiscal year 2018/19. The corresponding figure was 2.0% in the previous year.

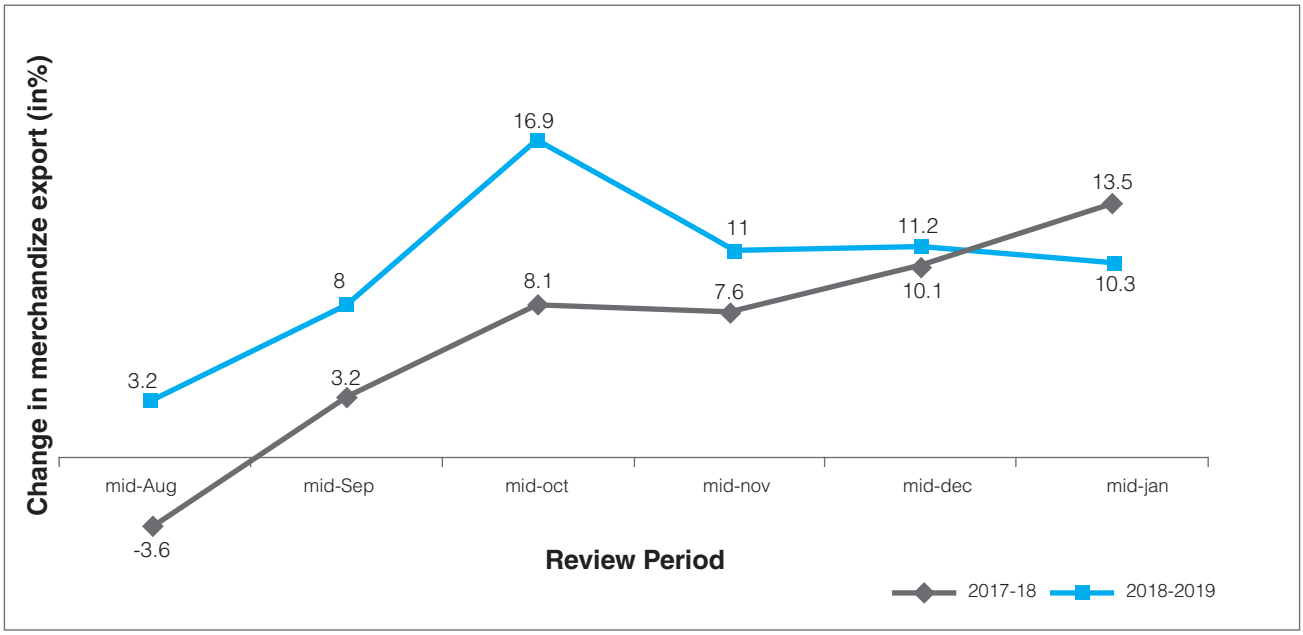
As a result of the widening gap between imports and exports, Nepal's trade deficit increased by 32.1%, compared to 19.9% in the same period the previous year, as shown in Figure 8. Nepal's trade deficit now stands at NPR 678.53 billion (USD 5.89 billion). Nepal's propensity to import goods from India 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 6: Year-on-year percentage change in merchandise imports in review periods in FYs 2017-18 and 2018-19



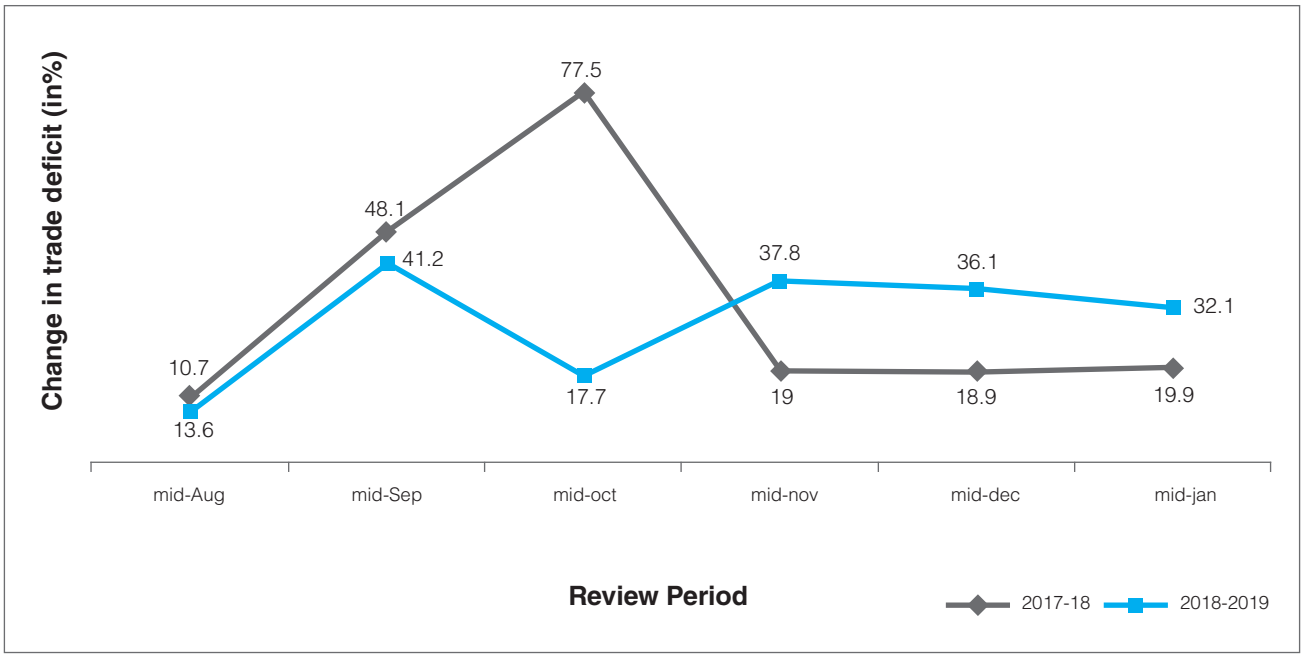
Source: Current Macroeconomic Situation of Nepal (Based on the six-month data of 2018/19), Nepal Rastra Bank

Figure 7: 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 six-month data of 2018/19), Nepal Rastra Bank

Figure 8: Year-on-year percentage change in trade deficit in review periods in FYs 2017-18 and 2018-19



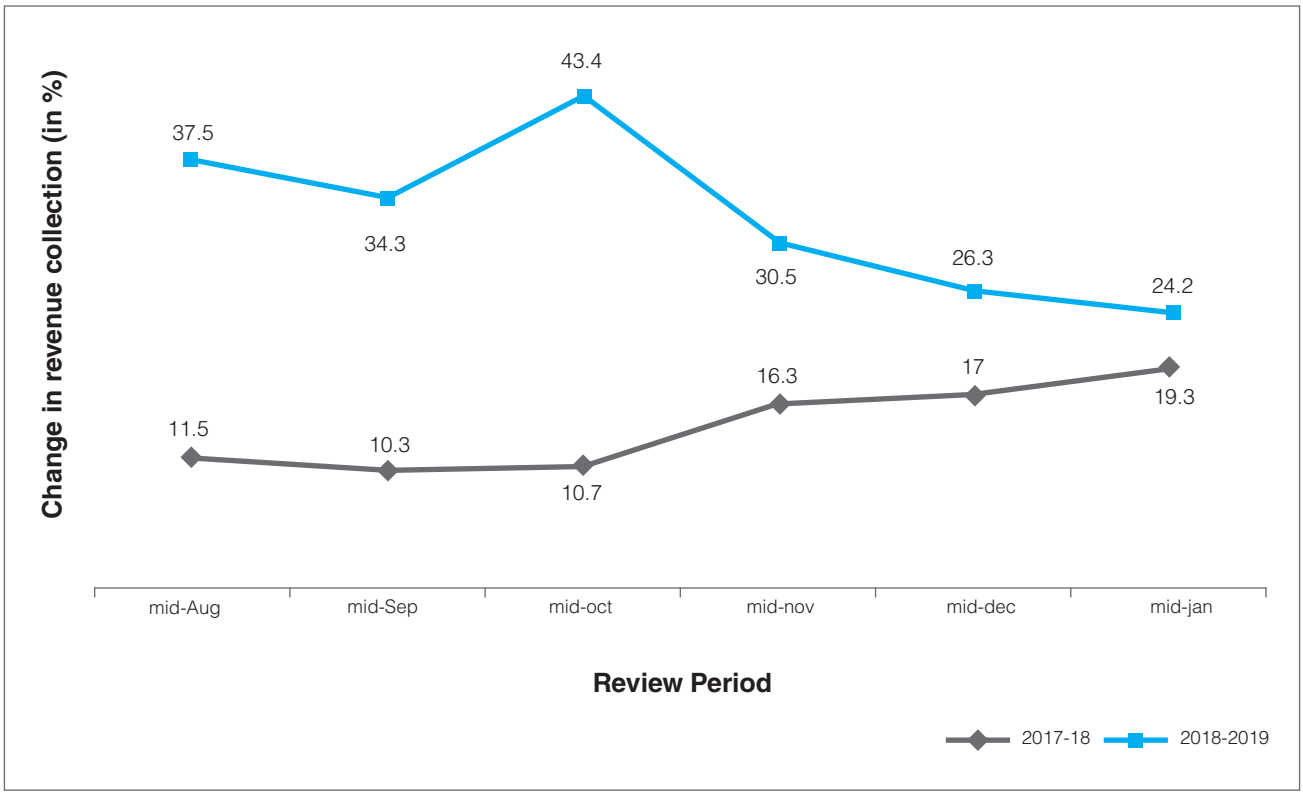
Source: Current Macroeconomic Situation of Nepal (Based on the six-month data of 2018/19), Nepal Rastra Bank

Government revenue: Government revenue collection increased by 24.2%, amounting to NPR 411.43 billion (USD 3.57 billion). The revenue collection had increased by 19.3% to NPR 331.21 billion (USD 2.87 billion) in the corresponding period of the previous year as shown in Figure 9.

Government expenditure: Total government expenditure stood at NPR 339.29 billion (USD 2.95 billion), compared to NPR 364.95 billion (USD 3.17 billion) previous year, as shown in Figure 10. This was on account of both recurrent and capital expenditure decreasing to NPR 269.97 billion (USD 2.34 billion) and NPR 45.77 billion (USD 379.97 billion) respectively. Recurrent and capital expenditure stood at NPR 513.67 billion (USD 4.46 billion) and NPR 199.19 billion (USD 1.73 billion) respectively in the corresponding period of the previous year.

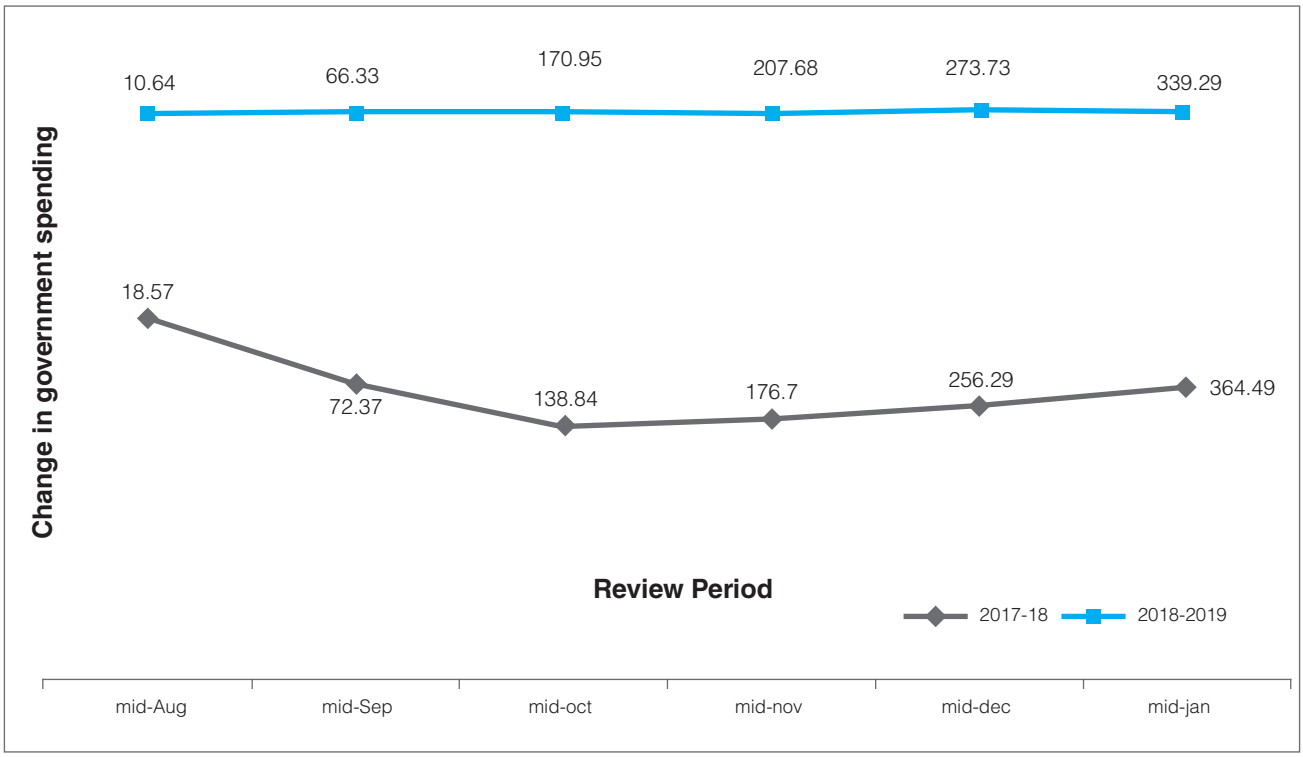
The utilisation of capital and the recurrent budget has been approximately 32.0% and 14.6% respectively. Figure 11 shows the monthly outlay in terms of percentage of the target achieved for government spending.[16]

Figure 9: Year-on-year percentage change in revenue collection during the review periods for FY 2017-18 and 2018-19



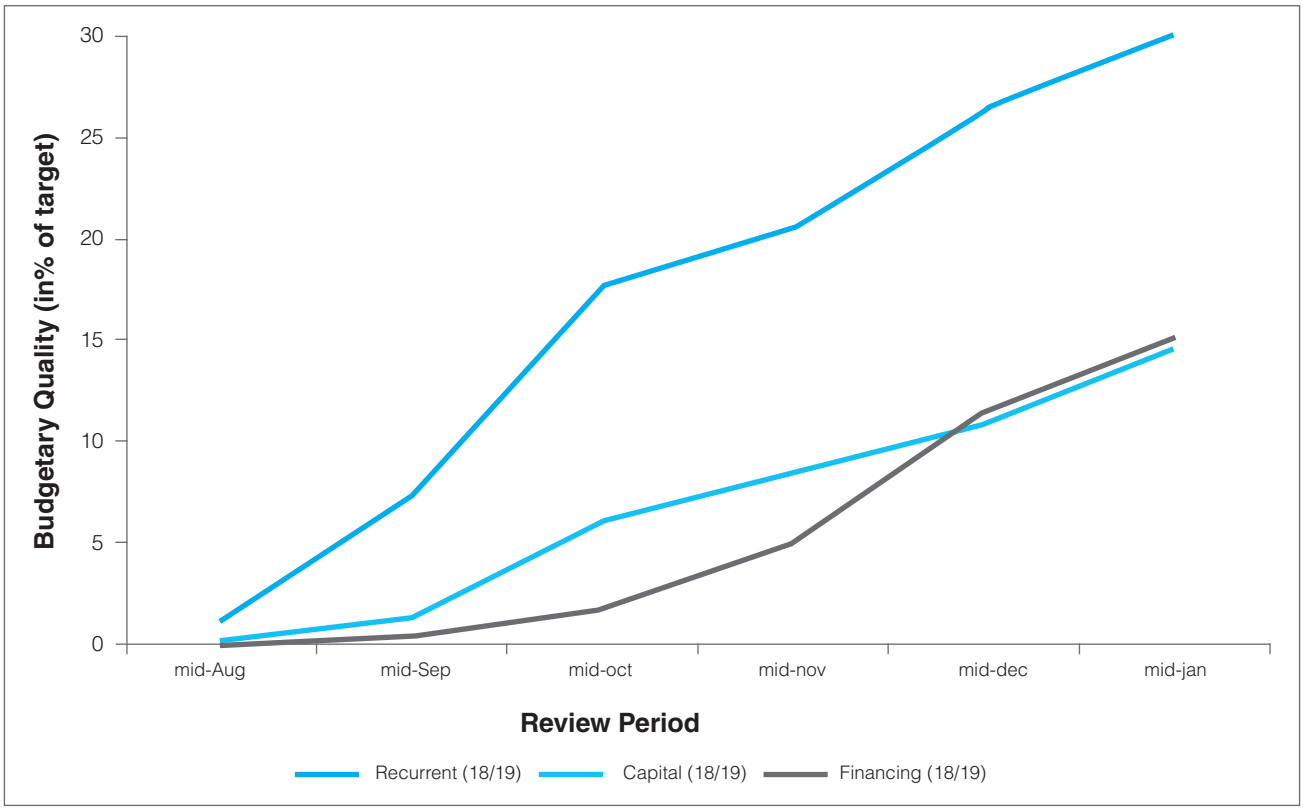
Source: Current Macroeconomic Situation of Nepal (Based on the six-month data of 2018/19), Nepal Rastra Bank

Figure 10: 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 six-month data of 2018/19), Nepal Rastra Bank

Figure 11: Budgetary outlay trend over the six months of FY 2018-19



Source: Current Macroeconomic Situation of Nepal (Based on the six-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.

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.

3

SECTORAL REVIEW

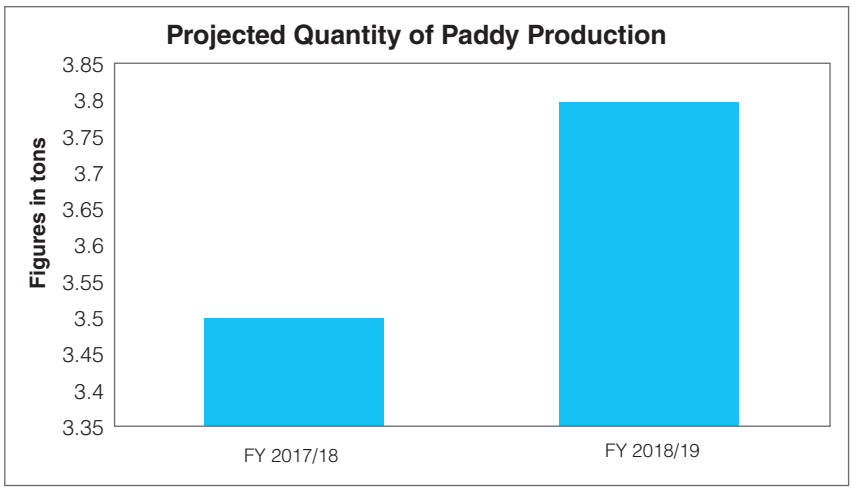
AGRICULTURE

Agriculture being the backbone of Nepali economy, contributed to 34% of the GDP and 78% of the total labor force during the first quarter of the review period. Efforts have been made to accomplish targets set by the government in meeting production goals. Among other agricultural products, paddy farming has been doing tremendously well and is most likely to exceed government's target within the third quarter of the review period.

USAID continues to strengthen agriculture and food Security: According to the recent report provided by the International Labour Organization (ILO), agriculture has been providing livelihood for 68% of Nepal's total population which accounts for 34% of the GDP. However, limited access to improved seeds, new technologies, and market opportunities attributes to the depression of rural economies followed by the increased widespread hunger, urban migration and low child mortality rates. Addressing such challenges, the United States Agency for International Development (USAID) under the U.S. government's, Feed the Future Initiative has been working with the Government of Nepal and local development partners to increase agricultural productivity, facilitate easy access to markets and enhance production and consumption of more nutritious food. Consequently, poverty dropped by 36% between 2013 and 2015, stunting of children decreased from 49% to 36% from 2006 to 2016 and average farmer sales increased from NPR 28,753 (USD 250) per year to an estimated NPR 80,507 (USD 700) per year in the 24 south-western and central districts where these programs were initiated. As USAID on February 2019 has decided to continue its work in Nepal under the U.S. Government's new Global Food Security Strategy to scale up agriculture, improve food security and nutrition in rural and urban areas.[17]

Taking the Leap: Paddy Harvest Turnover

Figure 12: Comparison between the actual paddy produced in FY 2017/18 and the projected paddy production in FY 2018/19



Source: Ministry of Agriculture Development, Government of Nepal

According to the reports released by the MoALD in December 2018, Nepal's paddy harvest is expected to hit a record high of 5.61 million tons by the end of FY 2018/19. The paddy production is expected to increase to 3.8 tons per hectare by the end of fiscal year 2018/19, which is also an increment from 3.5 tons during the same period of last fiscal year. Considering the average price per kilogram of paddy to be NPR 21 (USD 18 cents), this year's projected paddy harvest is worth more than NPR 115 billion (USD 999.9 million) excluding the value of bi-products like straw and bran, which can also total up to billions of Nepali Rupee.[18] Having received sufficient rainwater and chemical fertilizers, the farmers also adopted new mechanisms for growing paddies that thus, helped them to increase productivity.

Though the plentiful harvest of paddy is expected to increase income and decrease the country's import bill, its wider effect is yet to be seen in the government's growth target as the country is strongly dependent on agriculture. However, no new reports have been found which could show if the actual turnover exceeded the expectations of the MoALD regarding the projected paddy production and sales.

Agriculture Development Bank limited to promote banana farming: The Agriculture Development Bank Limited (ADBL) plans to provide bank loans to the farmers of Tikapur upon receiving a viable business model. With more than 100 farmers in Tikapur Municipality involved in banana farming covering over 338.63 hectares of land, such involvement of farmers can help promote Tikapur as an agri-tourism hub. However, due to lack of resources and government support, it hinders their execution.[19]

Sugarcane farmers against the government: Farmers from three districts- Sarlahi, Rautahat and Mahottari gathered to protest as the government failed to provide subsidy on the sale of sugarcane. Previously, the government had decided that the sugar mills would pay NPR 471.28 (USD 4.1) per quintal of sugarcane to the farmers and the government would provide additional NPR 65.26 (USD 0.57) per quintal in subsidy. The farmers are yet to receive around NPR 600 million (USD 5.22 million) from the sugar mills and NPR 900 million (USD 7.83 million) from the government, thus feeling deceived and ignored that farmers decided to halt vehicular transport along the East West Highway in Sarlahi. The protest began when the government failed to clear the dues despite having provided 45 days of agreement with farmers in December 2018.[20]

Short of farm production target: The government's effort to implement farm mechanism in Nepal has not been fruitful and hence, the production target for most agricultural products for 2019 is likely to fall short. Though the production target for paddy, corn and vegetables can be attained, the output of other major products like potato, wheat, fruit, legume, meat, egg, milk and fish is expected to fall below target. According to the reports from the Ministry of Agriculture, Livestock and Development, paddy harvest is expected to hit a record high of 5.61 million tons this fiscal year, surpassing the government target of 5.56 million tons. Similarly, the production of corn stood at 2.69 million tons against the target of 2.64 million tons in the first six months of the fiscal year 2018/19. Vegetables production of Nepal reached 4.1 million tons against the target of 4 million tons. The increased use of capital equipment, adequate rainfall, timely availability of fertilizers, use of improved seeds and crop disease control mechanisms were found to be the enablers of proper vegetable production.

On contrary, other agricultural products that are unlikely to reach its target goals are listed in Table 1.

Table 1: Targeted quantity vs. available quantity of different products

Items	Required quantity to meet targets (approx. in tons)	Available Quantity (approx. in tons)
Wheat	2.21 million	1.94 million
Potato	3.25 million	3.08 million
Pulse	438,000	369,000
Meat	70,000	67,000
Milk	509,000	487,000
Fish	12,870	10,027

According to the latest statistics by the government, self- sufficiency in milk and meat production can be achieved only by the end of fiscal year 2018/19, but the agricultural products will not be able to achieve the target even by the end of fiscal year 2018/19.[21]

OUTLOOK

Efforts have been made by the government to make agricultural development more viable. However, with more support and monitoring, advanced technologies could be brought in the country and different schemes and programs can enhance and elevate the agri-business in Nepal. Subsidies should be provided in more profitable areas to increase farmer's motivation towards getting involved in the agri-business.

ENERGY

In December 2018 major oil producing countries decided to reduce the production of oil by 1.2 million barrels per day (bpd). As per the agreement, OPEC members will slash its output by 800,0000 bpd whereas Russia and its allied members will reduce the production by 400, 000 bpd. Similarly, despite the rhetoric truculence with the United States, India has expressed its commitment to buy oil from Venezuela.

Renewable energy becomes the most competitive source of power: The International Renewable Energy Agency's (IRENA) report mentions renewable energy as the most competitive type of energy in the Gulf Cooperation Council (GCC). The report launched in Abu Dhabi states that achieving 2030 targets would help reduce the carbon dioxide emission by 136 million tons along with saving 354 million barrels of oil equivalent (MBOE) in the regional power streams. Achieving the target would cut the water withdrawals by 11.5 trillion liters by 2020. Under GCC's current plans, it aims to install 7 gigawatts (GW) of power from renewable sources by 2020.

With well-planned policies and a conducive environment, GCC is now one of the most fascinating regions to develop large-scale renewable energy projects. Solar and wind energy projects remain their prime focus on this path.[22]

Amlekhgunj pipeline commencing: The India- Nepal pipeline will be in operation from mid-April onward. This project stands as the first cross-border project in South Asia. The petroleum products will be imported to Nepal through the 70-kilometer long pipeline. The total length of the pipeline from Amlekhgunj to Motihari is 69 km. Out of the total length of the pipeline, 32.25 km length of the pipeline is positioned towards Indian territory, likewise, 37.25 km of the line faces the Indian market Raxaul.[23]

Prime Minister KP Oli and PM Modi inaugurated the project where they laid the foundation for installing the pipeline. The Indian government invested NPR 5.6 billion (USD 48.7 million) to install the pipeline. In order to execute this project, around 6500 large and 4000 small trees will be required to fell. According to Nepal Oil Corporation, the pipeline will be able to cater 60% of the demand for diesel. The project was supposed to be completed by June 2018 but the date kept on being postponed citing legal and policy hurdles. The pipeline will be delivering 250 kiloliters of fuel within an hour and will acquire the capacity to transfer 2 million tons of fuel per annum. Similarly, 280m is dug under the customs office to install the pipeline.[24]

Upscaling the renewable energy options in Nepal: With the motive of mobilizing energy services in Nepal, the World Bank ratified the Strategic Climate Fund (SCF) and grants amounting NPR 645 million (USD 5.61 million) and NPR 230 million (USD 2 million) respectively on 30 January 2019. The project's grant and credit will help increase the capacity of renewable energy mini-grids. The project will foster the participation of private sector in enhancing the renewable energy sector. To achieve this, the project will adopt the usage of commercial business models and promote renewable energy solutions in the market. Similarly, cooperatives and private bodies will be mobilized to provide electricity services in the rural areas that will enable to provide better access to credit services through the initiative.[25]

Private sector raises investment in hydropower projects: The hydropower projects continue to receive private sector investment with a steady increase in the hilly districts of the far-western region. Api hydropower in Darchula was the first private sector project to be completed with the investment of NPR 1.5 billion (USD 13.04 million). The construction of hydropower projects in remote districts such as Bajhang and Darchula have generated employment for regular wage earners. The Kalanga Gadh, 65MW, is another biggest project developed by a Nepali private company. Approximately, 20% construction work of the Upper

Kalanga is completed. Likewise, the Jaude Gadh hydropower project is expected to be complete soon, which will obliterate the electricity problem in Bajhang.[26]

China appointed for drilling: The Government of Nepal granted the permission to Government of China to begin the process of investigation of petroleum and natural gas in the nation. It has decided to implement this program under the radar of "Agreement of China Aid on Oil and Gas Resources Survey Project". Following the feasibility study conducted at 10 different locations, the Chinese Geological Survey will drill at different locations to determine the mobility of potential oil deposits. The government aspires to invite subsisting international tenders after China completes the first phase of the inspection. In fact, Nepal commenced petroleum exploration in the late 1990s, which equaled the attention of international firms and begun issuing permits. This implementation project is the by-product of the memorandum of understanding (MOU) signed with Government of China in 2017.[27]

Government of India proposes to construct lower Arun hydropower project: The government of India has proposed to construct the lower Arun hydropower project. The Indian government plans to adopt the Arun III model for constructing the project. Earlier, the license given to the Brazilian company "Brass Power" was scrapped by the Ministry of Energy, Water Resource and Irrigation since it failed to perform according to the directives mentioned in the license. The Brazilian company had not made any progress in the project ever since it received the permit to execute the project 15 years ago. Therefore, the Ministry aims to finalize the decision based on the progress of Arun III hydropower project. The project is estimated to be over NPR 100 billion (USD 869.5 million).[28]

Fund for Budhigandaki hydropower project to be collected in the form of infrastruture tax: Nepal Oil Corporation (NOC), which had been collecting NPR 5 (USD 4 cents) per litre on petroleum products[29] to fund the Budhigandaki hydropower project under the title" Budhigandaki hydropower project" is now being collected as "infrastructure tax" from the fiscal year 2018/19. Annually, the NOC has been collecting NPR 12 billion (USD 104 million) under this heading.

OUTLOOK

Nepal aims to become a USD 100 billion economy by 2030 and this upsurge is possible only by exploiting the energy sector. As energy is necessary for the economic production, there is a direct correlation between energy consumption and economic development. In alternative scenario, energy trade with our neighboring countries is another option to achieve the vision of rapid economic growth.

The demand of hydropower energy is expected to rise with the evolving transition towards green economy. In this regard, the hydropower sector of Nepal can have a comparative advantage. Nevertheless, with the advent of new technologies energy landscape is expected to change and the challenge is to understand and adapt accordingly.

INFRASTRUCTURE

As Cooperativa Muratori e Cementisti (CMC) di Ravenna—the Italian contractor, which was building the project decided to abandon the project, the fate of Melamchi is uncertain yet again. The project began in 2001 with an expectation to mitigate the water crisis in the the Kathmandu valley. The total length of the tunnel completed until the recent data is 23,743.95 m. But due to the negligence of the responsible body its status is in turmoil.The trend of leaving any ongoing projects by the contractors is rising which results in delays and sluggish progress of such infrastructure-based activities in the nation. Reforms and regulatory actions should be devised in order to facilitate the investment climate in the country. The government should adopt thought out polices and spring into action in order to expedite infrastructure based activities and explore more avenues to finance the resources.

Update and status of Gautam Buddha airport: In 2015, late Prime Minister Sushil Koirala laid the foundation stone for Gautam Buddha International Airport. The project since then is seen as a pertinent platform to harness the business scope of Siddharthnagar. Relatively, the project is aims to improve the tourism activity and expand connectivity within the tourism-based areas of Lumbini.[30]

However, the airport construction has been stalled due to several factors. The first phase of the project was supposed to be completed by 2017 but due to subsequent bandhs and strikes in the Terai region, the project is taking longer than planned. Consequently, the deadline was extended to 2018. Furthermore, lack of connection of feeder line, construction materials, political protests all contributed to the delay. Similarly, the contractors couldn't complete the work on time because of the dispute between them--Northwest Civil Aviation Airport Construction Group (NCAACG) and a subcontractor from North West Infra Nepal--this friction also most definitely slowed the pace of the construction.[31]

The airport will provide an alternative landing facility for big aircrafts and boeings. The air traffic hovering at Tribhuvan International Airport would eventually lessen.

Local units ban heavy equipment: Due to the haphazard construction of roads, sixty-nine houses were destroyed and 207 others were damaged by landslides in Rukum. Consequently, all six local bodies present in the district posted a ban on the usage of heavy equipment such as dozer. The local bodies of the district have shown their concern regarding the adverse impacts of such activities and pledged not to repeat it in a similar process.[32]

Foundation laid for dry port: Amidst protest, Prime Minister KP Oli laid the stone for the dry port in Chobhar. As claimed by the government, it acquires 1054 ropanis of land and out of it, 228 ropanis is allocated for the construction of a dry port. PM Oli emphasised that this facility would create employment opportunities to the locals as well as imported goods will be stocked in the warehouse making the Valley shortage free. The Nepal Intermodal Transport Development Board is in charge of this project. Similarly, World Bank is providing a soft loan of NPR 2.53 billion (USD 22 million) to build the port.

Chobhar is a land carrying huge religious and historical significance. It houses the renowned Manjushree cave.[33] The locals have been protesting that the dry port will destroy the Jal Binayak temple locate din this area.

China to upgrade Syafrubesi road: The Syafrubesi-Rasuwgadhi section is a prominent route linking Nepal and China. In general, the 82 km highway of the road section is under refurbishment with the support of

Table 2: Details on the construction of Gautam Buddha International Airport

Contract No.	CAAN/GAUC ICB-01/2013
Contractor	Northwest Civil Aviation Airport Construction Group Ltd, PR China
The estimated cost of the project	NPR.6,225,120,227.91 (USD 54 million approx.) inclusive of VAT
The total cost of the project	NPR 40 billion
Commencement Date	1 January 2015
Project Area(in hectares)	68.72
Runway	3000 meter long and 45-meter wide
Total Parking Bays	16
Government actors	Civil Aviation Authority of Nepal, Ministry of Culture, Tourism and Aviation, SATIDP Nepal (South Asian Tourism Infrastructure Development Project)[36]
International and Financial Institutions	OFID (USD 15 million loans), Asian Development Bank 58.50 million (USD 42.75 in loans and USD 15.75 million in grants, IFC (private sector advisor)
Project status	Under Construction
Location	Siddharthanagar
Operation model	Public-private partnership
Loan agreement signed on	25 May 2010
Grants awarded	NPR 6.2 billion (USD 53.9 million) to Northwest Civil Aviation Airport Construction group of China in 2013
Construction began	2014
Initial deadline	December 2017
Expected passengers to be catered	15,000 to 25,000
Consulting services	Germany Munich Airport
Commercial operation	July 2019
The deadline gave by ADB to Chinese contractor	June 2019

Source: Civil Aviation Authority of Nepal

Chinese aid. The programme will take three years to be accomplished. Upgrading Syafrubesi–Rasuwagadhi section is a by-product of an accord signed between Nepal and China in 2016. The agreement also states that out of RMB 1 billion (NPR 16.4 billion, USD 142.48 million), a portion of the aid will be utilised to upscale the road section. Currently, the project has acquired land around 30 km and is ready to be upgraded. The Department of Road states that this project is of strategic importance, henceforth the road upgrading task is a priority.[34]

Nagdhunga tunnel delayed: The Nagdhunga-Naubise tunnel project has been delayed as it is yet to appoint a contractor to execute its project. The tunnel is expected to be a pertinent pathway to commute. This underground route is anticipated to shrink travel time notably by directing a smooth transition of the vehicle and eliminating numerous turns of the highway. Specifically, the two major constructions; Basnetchhap to Sishne Khola and Basnetchhap to Thankot will eventually have LED lighting, evacuation tunnel door, and emergency telephone services. Accordingly, the project is expected to have two bridges, toll booths, parking space and a roadside rest area for travelers. Overall, the entire cost of the project is predicted to hover around NPR 20.2 billion (USD 174 million), which will be implemented with a loan taken from the Japanese government. The tunnel is a by-product of the Official development assistance agreement signed between Nepal and Japan.[35]

Five companies picked to set up solar panels: The Nepal Electricity Authority (NEA) has shortlisted five private developers to construct solar power plants at five different locations in the country. The constructed plants will supply the electricity generated to its nearest substations. After the PPA, the developers should complete the construction activities and start supplying electricity within year. NEA claims that due to the viability gaps in funding, the developers are charged with high tariff rates for the installation until the period of June 2022. Accordingly, ADB has provided NPR 2.12 billion (USD 18.5 million) grant of viability gap funds to the NEA within the umbrella of South Asia Sub-regional Economic Cooperation Power System Expansion Project. The NEA is on the operation to disseminate its power stream by augmenting the share of solar energy. The body has been including solar power in its energy mix.[36]

OUTLOOK

Infrastructure lays the foundation for investment and economic development. They play a crucial role in promoting the economic activity of water supply, roads, airports, and electricity. The government should work on improving the productivity of the workers and focus on boosting the long term job creations. Currently, the government falls short on its activities due to its lack of capital to fund the intensive projects. This is the reason behind the nation inviting foreign assistance to support the execution of the project. The public-private partnership model remains as a pre-dominant mechanism to finance the infrastructure based projects. Along with the rising interest of people on infrastructure development, it is equally important to consider the impediments and move ahead in the trajectory.

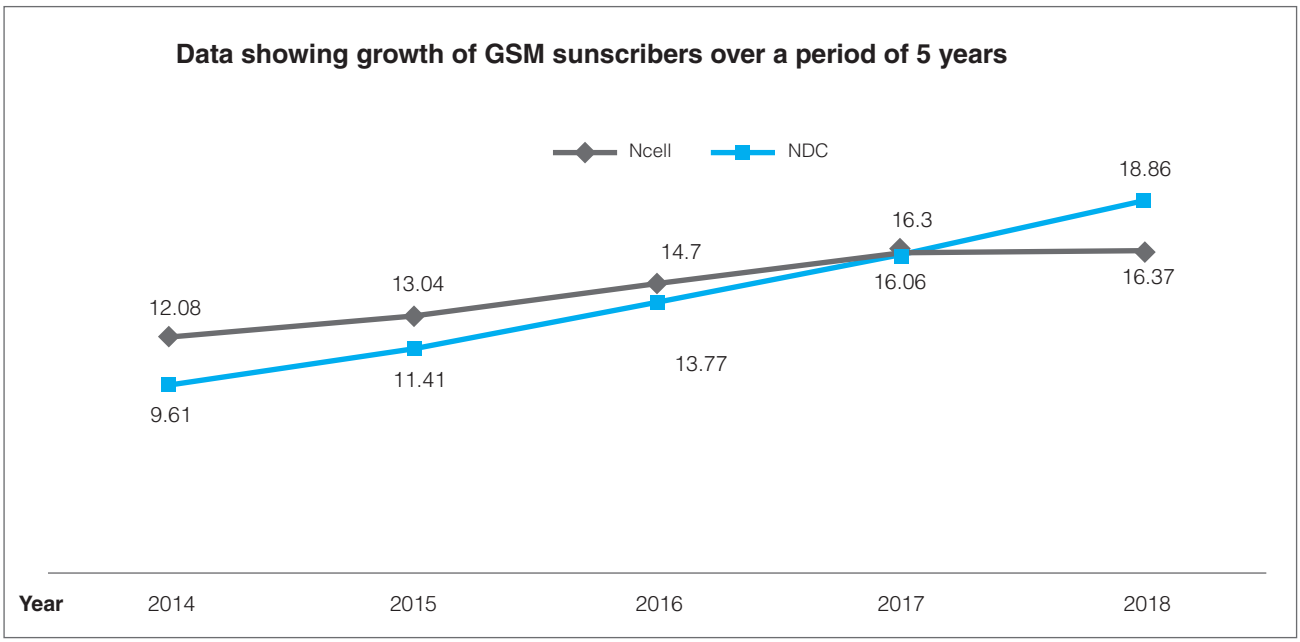
INFORMATION AND COMMUNICATION TECHNOLOGY

The telecommunication industry in Nepal has been booming ever since the government allowed private sector investors to enter the market in 1995. The current statistics during the first quarter of the review period show a diminishing growth rate in the industry. Nepal Telecom holds the largest market share among all the other industry players, and is undoubtedly one of the largest taxpayers in the nation.[37]

Nepal's telecommunication sector growth: Nepal's telecommunication sector has seen a significant growth since the year 1995 when the government duly allowed private sector investors to enter the market. The Nepal Telecommunication Authority (NTA) recorded a revenue of NPR 39.96 million (USD 350,000) overall telecom subscribers as of January 2019. The tele-density of the country currently stands at 136.44%, which was 142.63% during the same period last year. Despite the reduction in tele density from the same period last year, a higher figure of 136.44% depicts that the number of telephone connections for every hundred individuals is increasing. This also means that some people (36% of the total population) are using more than one telephone services or sim cards. Despite the growth in tele-density, the country's fixed line user base continued to fall from 860,000 in mid- Dec 2017 to 800,000 in mid- Dec 2018.[38]

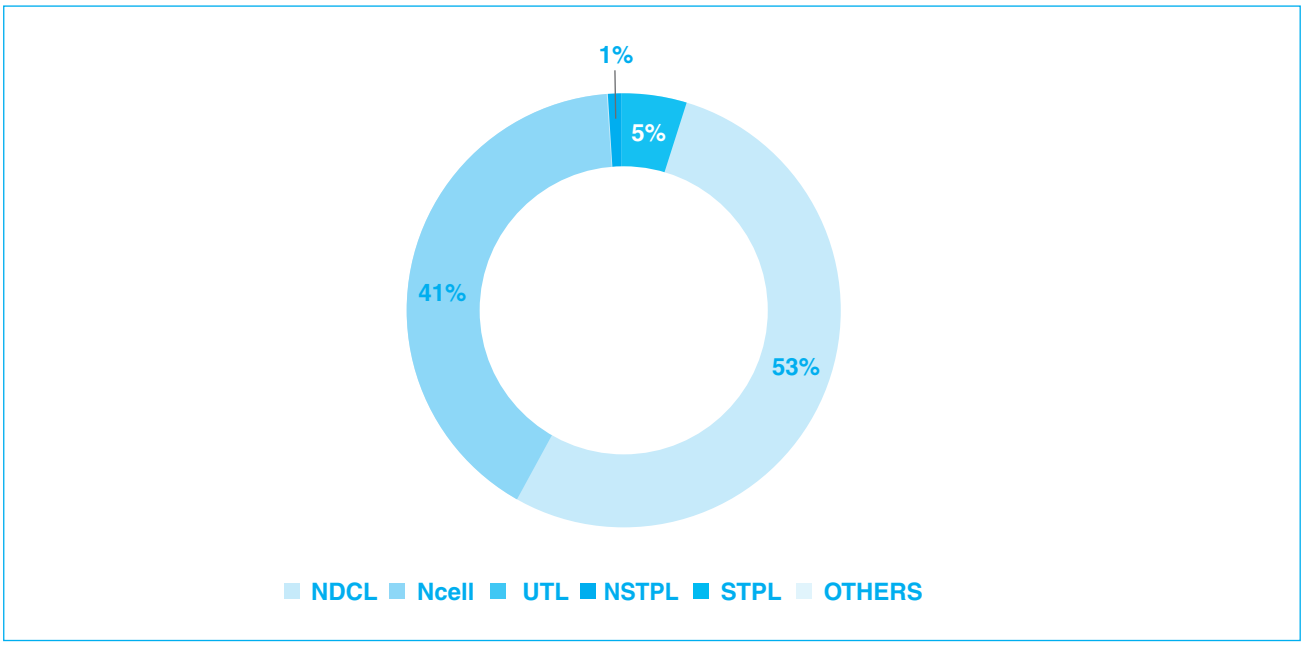
Under the GSM mobile segment, Nepal Telecom commands the largest market share ahead of Ncell with total number of 18.86 million subscribers. Ncell, on the other hand has recorded a total number of 16.37 million GSM subscribers. The figure 13 provides the growth rate of the total number of GSM subscribers over a period of 5 years. On the basis of this data, the Compounded Annual Growth Rate (CAGR) of two of these market leaders in the telecommunication sector was found to be standing at 8% and 18% for Ncell and Nepal Telecom respectively.[39]

Figure13: Growth rate of GSM subscribers of top telecom companies



(Source: MIS Reports dated Mid- Oct 2014 to Mid-Dec 2018)

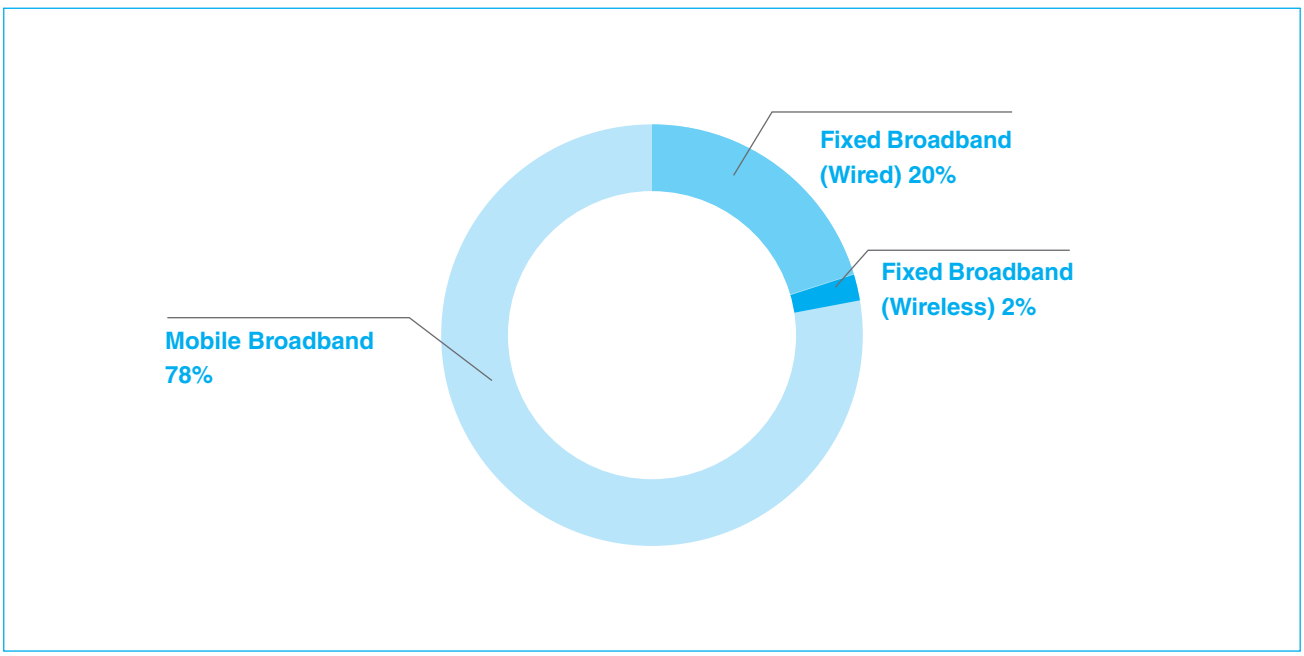
Figure 14: Market share of telecommunication operators in Nepal



Source: Nepal Telecommunication Authority "MIS report dated 16 December 2018"

Similarly, the growth in data/ internet users, has in fact decreased from 16.73 million as of mid-December 2017 to 16.52 million during the same period this year. Taking a closer look into various broadband services, Nepal Telecom has been contributing 51.25% of the overall wired, wireless and mobile broadband services as of mid- December 2018. Ncell on the other hand holds 48.18%, while Smart Telecom Private Limited (STPL) holds the remaining 0.6% of the total market share.[40]

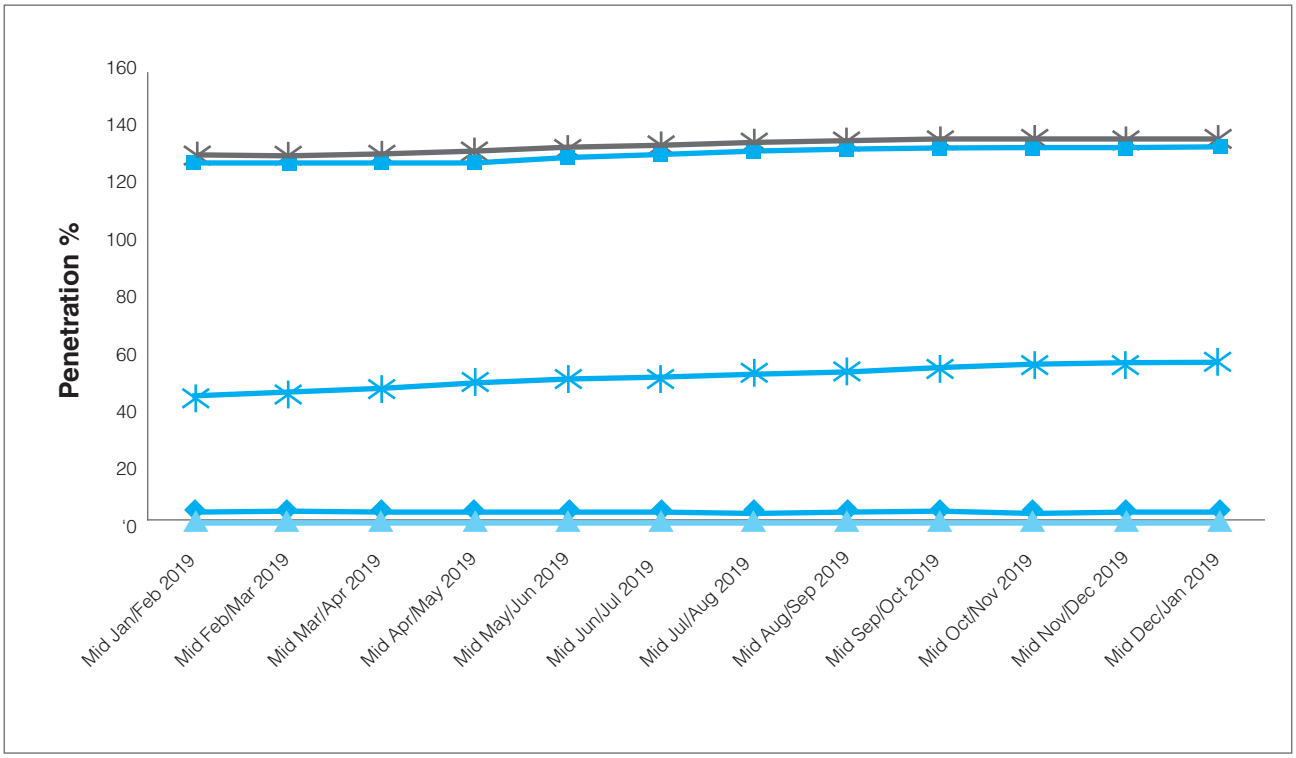
Figure 15: Market share of various broadband service providers as of mid- December 2018



Source: Nepal- Telecommunication Authority. "MIS Reports dated December 15, 2018"

Taking into consideration one year data of broadband services starting June 2018, the time period between mid-June to July have recorded an all- time high number of 18 million subscribers using fixed (wired and wireless) and mobile broadband services. Data shows the diminishing number of subscribers since July. Now coming to the month of December it has reached 16.52 million, but it is still sort of reaching the number of subscribers it had before June 2018.

Figure 16: Growth trend of voice and data services between Mid- January 2018 to Mid- January 2019



Source: Nepal- Telecommunication Authority. "MIS Reports dated January 15, 2018-January 15, 2019"

Similarly, as the growth in data/ internet users decreased from 16.90 million in December 2017 to 16.61 million in December 2018, the internet penetration rate stands at 56.41% which has been decreased by 7.1% from the same period last year.[41]

Media houses unhappy about the new bill: Ministry of Communication and Information Technology is planning to set a new bill at Parliament soon with the purpose of regulating country's advertisement sector. The new bill has envisioned an advertisement board which will work as a regulatory body to formulate a policy on advertisement contents. A list has been prepared explaining the dos and don'ts while preparing advertisements, including their language and contents. The government's attempt to stop advertisement of liquor in any medium created an outage as the advertisement industries were compelled to lose millions in revenue. However, the government has been urged to regulate the advertisement in social medias like Facebook and instructed agencies to give priority to the state- owned media while distributing advertisements. According to the bill, it has also been made clear that advertisements should not be misleading or exaggerated and careful choices of words should be used before publishing the contents.

87 billion capital gain tax on Ncell, Axiata: Supreme Court of Nepal on 6 February, ordered Ncell and its parent company, Axiata Holding–a Malaysian company—to pay NPR 87 billion (USD 756.45 million) as capital gain tax including fine and interest for delayed payment. Telia Sonera while exiting from Nepal by selling its ownership on Ncell to Axiata on 21 December 2015 argued that it does not need to pay capital gains tax in Nepal as the transaction took place outside the jurisdiction of Inland Revenue Department (IRD) of Nepal and the company whose shares were transferred was not Ncell but Reynolds Holdings Ltd (holding controlling ownership

of Ncell)—a company registered in West Indies controlled by Telia Sonera UTA Holdings B.V and SEA Telecom Investments B.V. However, the Supreme Court Office on 6 February gave verdict to Ncell that tax needs to be paid. Based on the expert team's investigation report, Large Taxpayers Office on 17 June 2017 had declared final tax liability of NPR 60.71 billion (USD 52.78 million) to Ncell.[42]

OUTLOOK

The decrease in tele-density signifies that the sector has receding growth in terms of adopting voice telephone services. The country's fixed line user base has been falling since last 3 years which means that the dependency on mobile phones has been increasing putting landline services at stake. Ncell, a tough competitor to Nepal Telecom having huge amount of unsettled taxes since 2015 could also be the reason behind sluggish economic growth in the telecommunication sector. Capital gain tax issue of Ncell arouse due to ambiguity in the prevailing income tax laws. Since Nepal is looking to increase foreign investment to support its economic growth, timely amendment of ambiguous income tax laws and other Foreign Direct Investment related laws areneeded to raise investors' confidence and avoid Ncell like disputes in future.

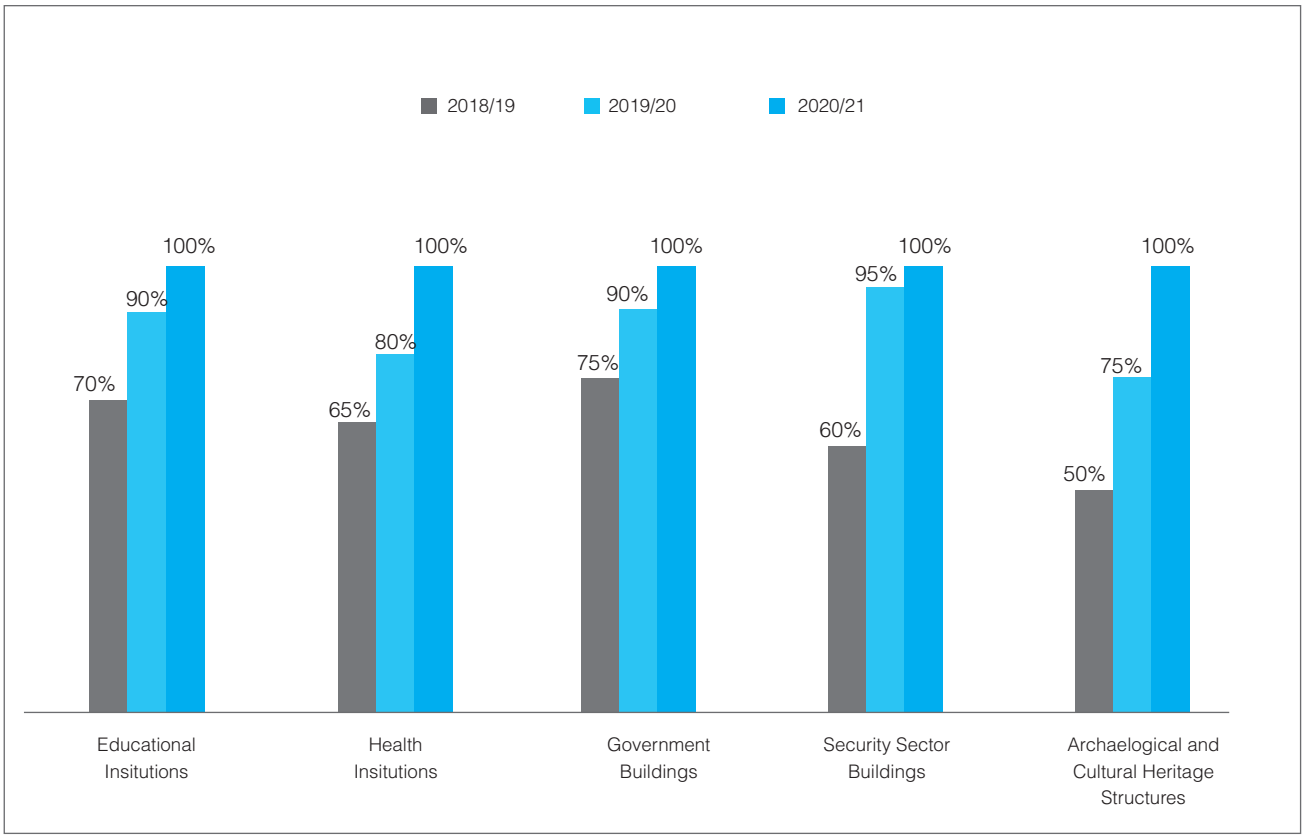
REAL ESTATE

After almost four years since the massive earthquake, the National Reconstruction Authority (NRA) has finally set a target to complete the remaining construction work by fiscal year 2021. Owing to the numerous hassles faced by service seekers at the Land Revenue Offices, the government expanded its online services in 47 branches across the country. Further, targets have been made to facilitate disadvantaged community by reconstructing their homes by the end of fiscal year 2020/21.

Post- quake reconstruction to finish by fiscal year 2020/21: The NRA Steering Committee approved the target and action plan for completion of post-earthquake reconstruction and rehabilitation by the end of fiscal year 2020/21. The target and action plan pledges to provide a first tranche payment to beneficiaries who have not received any grants during the current fiscal year (2018/19).

Under the revised target of the integrated settlement development, sector- wise targets, the aim is to complete the reconstruction work totally by the end of fiscal year 2020/21.[43]

Figure 17: Target and action plan for the completion of post- earthquake reconstruction work



Source: Ministry of Home Affairs, National Emergency Operation Centre

Land revenue offices go online: A total of 47 land revenue offices across the country have expanded their online services under the guidelines and supervision of Ministry of Land Management, Cooperatives and Poverty Alleviation. The Ministry had started online services at 37 land revenue offices 4 months ago. Details of the landowners will get registered in the system including fingerprints of both buyers and sellers, and their photos will be updated in the computer system. The online system is expected to incorporate around 75 % of land transactions across the country ensuring prompt, fast, secured and quality service in the field of land administration.[44]

Constructing home for the disadvantaged group: The government has developed a "Model Procedure for Implementation of People's Housing Program" for provinces to make arrangement of housing for dalits, disadvantaged muslims and people from highly marginalised endangered communities. Beneficiaries will be identified on the basis of their current living standards including the type of house they are living, type of its floor, wall, roof and the area of land they hold. Senior citizens, single women, orphans and persons with disabilities have been particularly prioritised by the People's Housing Coordination Committee to be provided with housing benefits, especially in places where people need to be relocated due to natural disasters and land requisitions. The programme implementation unit is subject to provide amount in four installments for the construction of houses. The beneficiaries, on the other hand, will have to bear 10% of total grant for the construction of houses as part of cost participation which could be in either in the form of labour donation, cash or construction materials for building their own house. The formal process of identifying beneficiaries will begin from 15 March 2019.[45]

Reconstructing 100 houses in a year: Pokhara Metropolitan City signed an agreement with Kamana Development Bank and Lumanti Group to reconstruct 100 houses within a year in Pokhara. The agreement signed between Kamana Bank and Lumanti Group provides evidence to grant NPR 10 million (USD 870,000) each as assistance for the housing programme run by the metropolis. As per the agreement Kamana Development Bank will provide a loan of NPR 400, 000 (USD 3,477) for each house with a pay-back period of 7 years. The agreement was signed by considering all the cost associated with the repair and construction of houses. The total amount allocated in the agreement is NPR 212 million (USD 1.84 million).[46]

OUTLOOK

From paying taxes to not having to stay in queue for longer hours, online services adopted by the land- revenue offices is most likely to take the country a step ahead in terms of saving time and providing ease to the land-owners. The service-seekers of the land revenue offices can now process their transaction from anywhere provided there is internet access. This will ultimately reduce the traffic in the physical location of the offices. Also, since they will no longer have to get involved in the physical transaction process, it frees up their time which they can utilise in doing something productive. Heritage experts, on the other hand, should improvise the New Building Code such that no ancient structure of the valley gets deteriorated. The government's promise to finish the post-earthquake reconstruction work by the end of fiscal year 2020/21 is definitely challenging. However, if looked at from a different angle, this could also serve as an opportunity for the government to prove their abilities.

EDUCATION

This quarter shed lights on the initiatives of the government to facilitate the local curriculum in the federated structure. The implementation of various programs provides a gateway to achieve the targets set by the SSRP (School Sector Reform Plan). Efforts are being made to enhance the quality of public education which demands the government and the responsible stakeholders to comply their programs with the Education Act. In addition, thousands of Nepali students in Australia are in turmoil as the university fails to receive the accreditation status. This calls for proper monitoring in the existing education policies within the nation and the global state.

Nepali students in limbo: Hundred of Nepali students in Australia are in a dilemma after the authorities decide to deregister the AIBT college as it failed to stand by the existing education rules. The Australian Skills Quality Authority took the decision since AIBT offers nursing courses that have not been accredited by the Australian Nursing and Midwifery Accreditation Council. The regulator canceled the AIBT's registration. The cancellation will come into effect from 26 March 2019 onwards. On the other side, the embassy has advised the students to stay enrolled in the classes. Similarly, the Tuition Protection Service is seeking alternative mechanisms to assist the Nepali students who are now unable to fully deliver their course of study. The Tuition Protection Service (TPS)—which is an initiative to assist International students--will come up with their decision where students will be protected under the Australian legislation, will probably receive a refund or betransferred to another college under the same course.[47]

Local curriculum to be implemented: The Kathmandu Metropolitan City (KMC) will escalate the enforcement of the local curriculum from the upcoming academic session. All kinds of schools, including public and private, will need to follow the directives. The local curriculum comprises five major sections. They are sustainable development, environmental education, traffic management, Nepal Bhasa, Culture of Kathmandu and Ancient language, among many. The schools are supposed to select any one. Along with the new federal structure, KMC is in the process of handing the overall authority of school management to the respective local level bodies.[48]

Starting the new session from mid-April, the schools will be using a localized curriculum as set by the local governments within the framework developed by the Curriculum Development Centre. The curriculum designing is on the process, which incorporates the need and special features of that specific local area. The executives of the local governments say that children belonging to the respective locations must have abundant knowledge of the areas potentialities and history.[49]

Kathmandu holding over local governments: Schedule 8 of the Constitution of Nepal gives local authority the autonomy to manage school education. The local governments follow the constitutional authorities' permit to execute any plan related to the education sector. However, the federal government continues its decision to merge the existing subordinate bodies under the Education Development and Coordination Unit, much to the dissatisfaction of the local government. This step taken by the federal structure exhibits its motive to dominate the school education sector. The Education Development and Coordination Unit emphasized that the federal and local government should cooperate effectively to implement the School

Sector Development Plan along with a number of other projects.

Representatives visit schools: After the decision made by Biratnagar High Court, Champadevi Rural Municipality in Okhaldhunga visited community schools to discuss their issues and challenges. During the visit, the discussion held among teachers, staffers, students, and locals pointed out the possible challenges that the school can face after the court's decision. As reported by Ajay Luitel, spokesperson for the municipality, local levels are barred from recruiting teachers and staffers and the regular work of the municipality is affected. Previously, the rural municipality had appointed 21 teachers and 7 staffers to expedite the service delivery in community schools. The locals appreciated this initiative, however, the municipality yearns all to provide the newly appointed teachers and staffs with a better working environment.[50]

Private schools to turn into non-profits: The High-Level Education Commission (HLEC) recommends private schools to convert into non-profit schools by the next 10 years. The report submitted by HLEC to Prime Minister KP Oli includes policies suitable for schools and higher education levels. In addition, the report advocates for the governemnt investing in school level education. The HLEC had to present its first draft of the report within four months since the meeting convened but it failed to do so. The new HLEC formed by the present government includes scholars, experts, and party cadres.[51]

Mechanism set for managing expenditures: The Ministry of Education has set a mechanism to manage the expenditures spent on education. This framework will help the local government to report about the expenses on education and this mechanism will be independent of nature. The government came up with the decision because the 753 local governments failed to submit the progress reports and expenditures to the government. Apparently, a consortium of 17 bilateral and multi-donors supports the SSDP (School Sector Development Program) program. It is reported that the donor agencies have been putting a toll on the government for the report submission.[52]

School dropout rate high: As children don't take their studies seriously, their parents do not prefer to send them to schools in Rolpa. The school dropout rate has been alarming in this region. Similarly, the district education system is found neglecting the data of the dropouts. Also, children who belong to the poor family are seen in the labor sites as they are considered as the vital source of income. Another factor reported by the localsis that the quality of education is lacking owing to which children have not been able to attribute it the kind of importance it warrants.[53]

Schools closed in Manang: Schools in Manang have been closed due to falling temperature. Neysang and Narphu rural municipalities declared vacation for three months.[54]

OUTLOOK

The major highlight for this quarter was the loss of accreditation status for an Australian university, which is now prohibited from carrying out its further studies. The university comprises thousands of students from Nepal who are currently vexed and uncertain about the future. Likewise, students across the globe are agitated about the erratic state of the university where it had the audacity to enroll thousands of international students. Clearly, this situation has exposed the duplicity of the International education system and standards. Thus, millions of students across the globe are in turmoil. It is important that students engage in proper research while selecting the colleges and similarly be aware of their financial status before departing to another country.

HEALTH

The World Health Organization discloses that spending on global health is increasing and is noticeable in the low and middle-income countries.The total health spending is growing in these similar countries which are close to 6% on average. Since the distribution of global health spending is highly unequal. A global report on public spending on health trends by WHO alerts the policy makers, government and health professionals to strengthen their health systems. As spending on health accounts for 10% of the global gross domestic product which is comparatively higher than the rest of the share in the global economy. It is crucial that the government increase their spending on health care to ensure that people don't have to pay out of their own pockets. Also, external aid remains a priority for low-income nations where half of the external funds are devoted to pertinent diseases –Malaria, Tuberculosis and HIV/AIDS. The global spending on health should be upsurged for achieving universal health coverage and other health-related goals for SDG's.

Revising the health sector: The Ministry of Health and Population and various development partners conducted a two-day event to review the health sector programs organized on 17th and 18th of December. According to Sudha Sharma, the former Secretary at the Ministry of Health and Population states that the event highlighted Nepal's achievement in reducing child mortality of the Millennium Development Goals. Likewise, according to the data conveyed by the Nepal-WHO Country Cooperation Strategy (CCS), Sudha marks that the country has made great stark in health care access and quality over the two decades. Similarly, the Nepal-WHO Country Cooperation Strategy (CCS) report presents the rise in life expectancy, decline in the HIV-infected patients and highlighting the achievement for controlling rubella before the target of 2019. Therefore, in order to move ahead the event emphasized the importance of public and private partnerships for the collaborative investments in the health sector.[55]

National Health Policy Issued: The constitution establishes health as inalienable rights of citizens.The new health policy issued ensures that activities are carried out accordingly within the three tiers of the government. The policy fosters towards achieving sustainable development goals by reducing the mortality rate and better management of health services. Along with the federal set up, the policy emphasizes the provision of equitable and free access to health services within the federal structure along with the utility of innovative technology and collaboration with multi-sectoral agencies. This policy envisions for the physical, mental, social and emotional well-being of its citizens with the major purpose being developing and expanding the health services. The policy identified road accidents and natural disasters as major impediments to the health sector. To address the persisting issue, the government will enhance the investment of the private sector and make robust health care services throughout the nation. [56]

Towards better services through health policy: With the rise of population in the nation, there are multiple areas where health care policy needs to pay attention. In the process of accommodating with the new decentralized structure, the Ministry of Health and Population had organized a meeting to facilitate an integrated approach for the improvement of the health sector. During this process, the national health policy was reviewed by the stakeholders where they stressed the

importance of aligning it with the goals of Nepal Health Sector Strategy (2015-2020), SDGs, periodic plans and national development policies. Over the years significant efforts have been made to improve the status of health care. Going ahead, along with the operation and regulation of new and many medical colleges and teaching hospitals, science laboratory the medical education has progressed whereas, this has also contributed in the expansion of health services across the country. The health policy has prioritized migration health along with that it has recognized family planning and population management as a core area for the first time under its research sphere. Despite some substantial progress, the health sector in Nepal still faces challenges of pandemic and non-pandemic diseases, unplanned road accidents, along with adverse impacts of natural disaster and climate change.[57]

National Medical Education bill is ramrodded: Despite the opposition's outcry in the parliament, the education minister sanctioned the medical education bill. The opposition pointed out that the tabling of the bill was an act of foul play by the majority of the parliament to pass the bill. Further, the bill includes cynical clauses that pose a threat to affect the quality of medical education that was supposedly envisioned from the agreement, which was tied in between Dr. Govinda KC and the government. The bill contradicts the assurances given from the PM KP Oli since the agreement stated that it would limit the affiliation given to the maximum number of medical colleges, whereas on the other hand, the bill waived its limitation to the affiliated colleges located outside the Valley. Similarly, another major agreement was to discontinue the operation of CTEVT training; however, the bill proposes the continuity of the CTEVT training. Koirala stated that the vision of such independent authority would have lessened the political interference in the field of medical education.[58]

Rabies claim lives: More than 50 persons are dying due to rabies infection every year. Four people died after lacking proper treatment to cure Rabies. In the last fiscal year, 32 people lost their lives. The death cases are rising as people don't seek early treatments and arrive at the hospital only after developing severe symptoms. Rabies is impossible to cure once the infection develops and spreads throughout the body. Dogs are the pre-dominant host of rabies because the disease spreads from the infected rabid wild animal.[59]

Ten threats to global health in 2019: The World Health Organization reports the top ten health issues that the world might need to encounter in 2019. In an attempt to address the threat, the organization comes in handy with the new 5-year strategic plan that ensures to provide universal health coverage to 1 billion population across the globe. HIV, Dengue, an outburst of Ebola and other high-threatening pathogens, fragile settings, air pollution are among the ten major health issues of the world.[60]

OUTLOOK

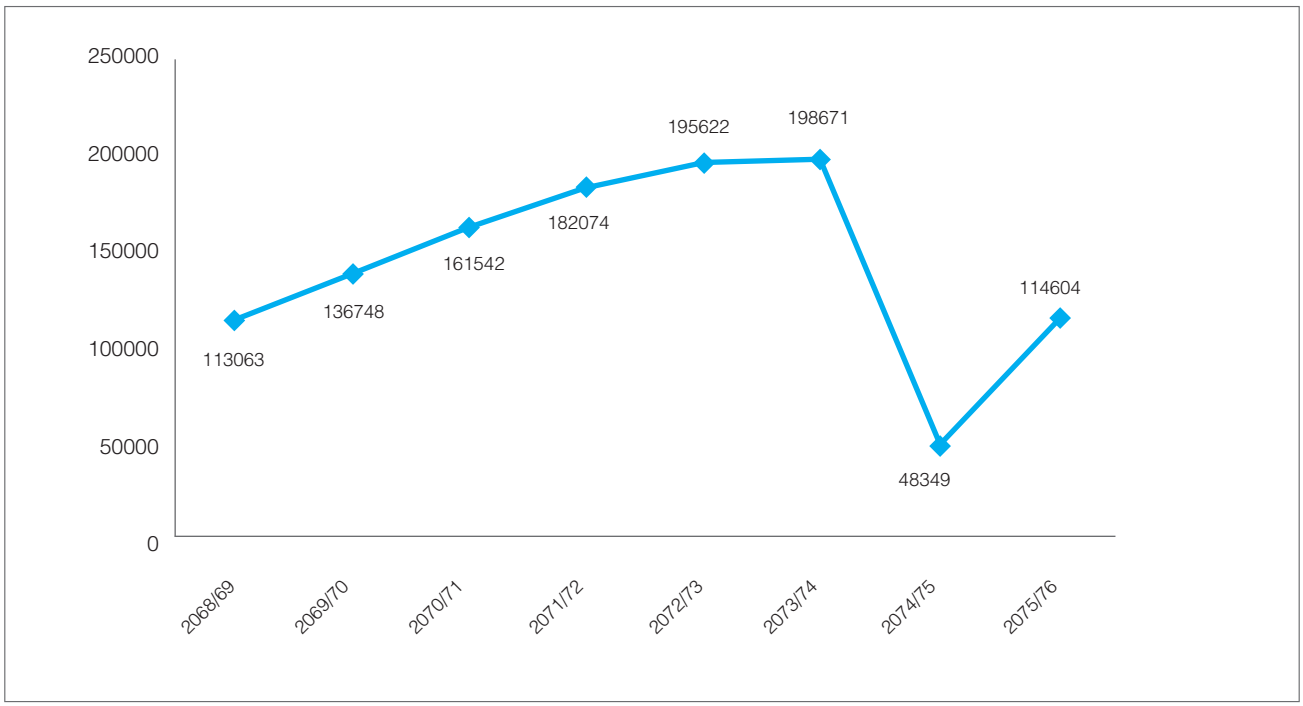
The nation is proceeding ahead to decentralize andit is substantial that the government should increase the coverage of government spending on health to ensure that health care is obtained by all. To foster the health sector more efforts should be undertaken. Likewise, Nepal is on its trajectory to attain the SDG's and among many, the operationof the National Medical Education bill willplay a crucial role in determining the operation and management of medical colleges.Therefore, health policies should be considered as a strong kit in enhancing health services throughout the nation.

On the other hand in a report published by the World Health Organization, dengue is highlighted as one of the biggest threats and is likely to spread to temperate countries like Nepal as dengue has been marked as the ninth biggest threat to global health by the organization.[61]

TOURISM

During the first quarter of the review period, Bhaktapur outreached number of tourists in the district by 13.3% as compared to the same period last year. Tourism arrival has decreased nation- wide since the massive earthquake hit our country in the year 2015. Two of the world's largest economies, also our neighbor, India and China have been swarming Nepal with the increasing percentage of tourists. Rural parts of Nepal including Madi, Rasuwa and many others have been able to lure more tourists into the country, thanks to their unique climate and topography.

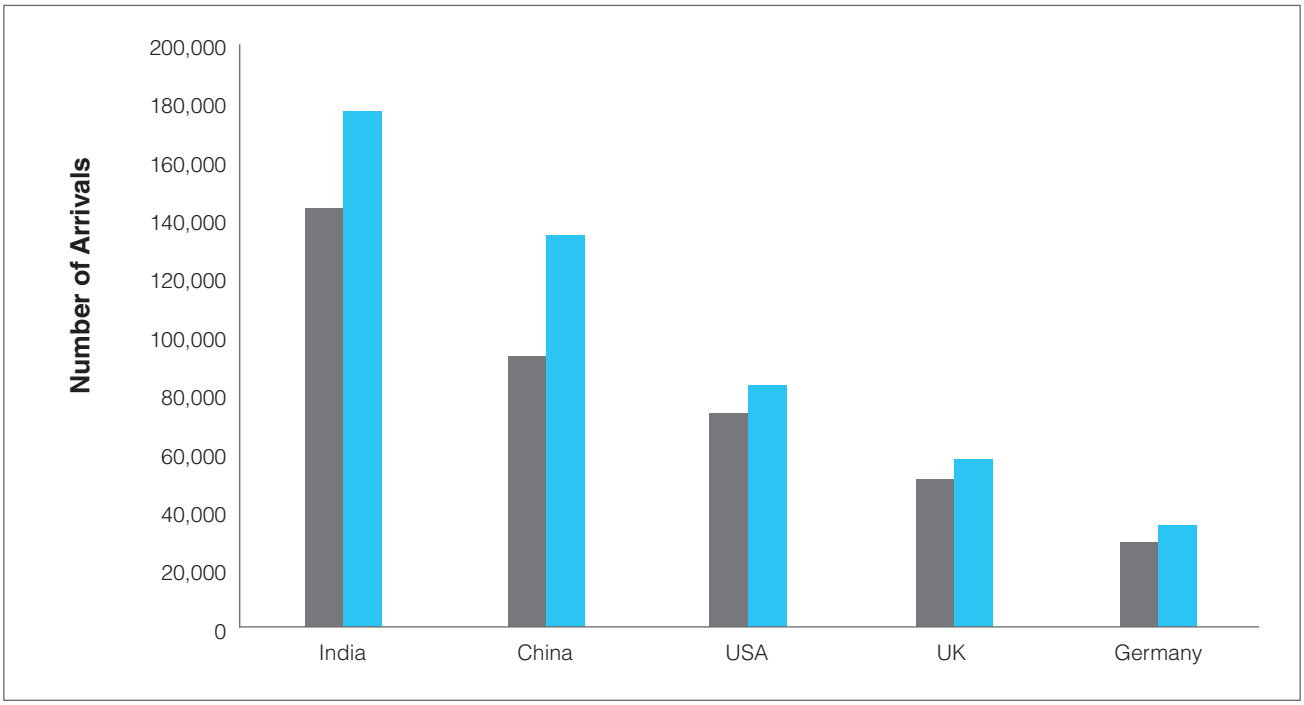
Figure 18: Comparative arrival figure for the first six months of fiscal year 2018/19



Source: Tourist Service Centre, Bhaktapur Municipality

Bhaktapur yet to outreach pre-earthquake level of tourist arrival: The number of tourist arrivals in the first half of the current fiscal year 2018/19 has reached 76,139. This is an increase by 9,149 or 13.3% from the same period last fiscal year. Bhaktapur, post-earthquake had seen the number taking a steep dive to 27,530 in the first half of fiscal year 2015/16, a decrease by 68.8% from the corresponding period of the previous year. Though the figures are improving gradually, the pace of reconstruction work, pollution and expensive air- fares are a few of the many reasons behind ailing tourism not only in Bhaktapur but in the

Figure 19: Top 5 Tourist arrivals (country-wise) in 2018 as compared to 2017



entire country. Figure 18 also show that Bhaktapur municipality is yet to surpass the 2014/15 peak of 88,288.[62]

Tourist arrivals cross 1 million mark in 2018: Reports provided by the Nepal Tourism Board revealed that tourist arrivals in 10 months from January to November in 2018 crossed one million with 1,001,930 arrivals--a cumulative increase of 17% over the same period in 2017. The consistent and upward momentum continued through the peak tourist season during October and November 2018 without accounting for overland international visitors. Including visitors who entered Nepal via land, if we compare the figures with 2017, accounted to a 23% hike in the number of tourists arrivals this year. The total number of arrivals of Indian visitors in January- November stood at 260,124 while Chinese tourist arrivals reached 134,362 along with a significant rise in the number of tourists from Thailand, Japan and South Korea.

Figures also show that the total number of arrivals of European tourists has also surged with healthy growths in key markets with the total number of arrivals marking 224,206 in 2018. Similarly, Nepal recorded a total of 82,870 visitors from the United States while the number of visitors from Australia stood at 33,528 in 11 months' time period.[63] This prodigious growth in visitor arrivals to Nepal can be ascribed to concerned efforts shown by the government like starting the campaign of Visit Nepal 2020 together with Nepal Tourism Board, private sector travel, trade and media for the promotion of tourism sector.

Solar lights beamed down Madi municipality: Households having potential to allot homestay facilities to the tourists flooding in one of the popular municipalities of Chitwan district, Madi have now been blessed with solar lights. Figures provided by Homestay Operation Committee, Madi, showed in the last three years, over 10,000 tourists have already enjoyed Madi's homestay service. The recent progress report on Madi homestay revealed that every family has now allocated two rooms each for homestay services and all of them are powered by solar energy. Gratified by the rich culture, cuisines, hospitality and mesmerizing location, the flow of tourists in this Magar community is inevitable. The enriching tourism sector developments have been bearing fruits for these Magar people who have been able to do wonders

in their own motherland. With more investment in solar power and biogas, people providing homestay services in Madi can make on an average NPR 3000 (USD 26) per month and do not necessarily have to fly overseas in search of job opportunities.[64]

Tourism swamp ameliorates Rasuwa districts' income: Records provided by Langtang National Park excerpted a growing number of tourists in Rasuwa district. The district that recorded 17,054 numbers of tourists in fiscal year 2014/15 arrayed this digit by 305,540 at the end of fiscal year 2017/18. Home to the famous religious landmarks, Gosainkunda Lake, Rasuwagadhi, sui generis Tamang culture and the high mountains, an average number of days tourists spend time in this district range from 9-12 days. Tourist footfalls in Rasuwa district have been accelerating the local hospitality business at a breakneck speed followed by over 300,000 foreign tourists permeating in 40 years' time. The stupefying figures show that the income of people of Rasuwa district has swamped up by almost 18% in 4 years' time.[65]

OUTLOOK

Nepal, post- earthquake has suffered a lot in terms of receiving foreign tourists who are considered to be the major source of income for its economic development. Delaying the completion of reconstructed heritage sites and high income generating sources hampers the tourism arrival in the country. In the long run, as tourists do not visit Nepal, they will travel to some other countries and when they go back home, they are more likely to recommend those places to their friends and families than talking about the country which they opt not to visit due to inadequate infrastructures which could amuse or simply facilitate them. The construction process should be accelerated and more mechanisms should be discovered to facilitate tourists who are willing to visit in the near future.

TRADE AND DEBT

For the FY 2018/19, the balance of payment remained at a deficit of NPR 63.68 billion (USD 553.69 million). With imports exceeding exports in the six months of FY 2018/19, the total trade deficit widened by 32.1 % amounting to NPR 678.53 billion (USD 5.85 billion). With major trading partners, India excerpted growth by 18.4% and export to China decreased by 29.5%. Exports of polyester yarn, zinc sheet, herbs, woolen carpet continued to increase while export of cardamom, rosin, tanned skin, shoes, and sandals, ayurvedic medicine decreased in the review period.

Foreign trade scenario: The table 3 shows the foreign trade scenario based on the six months 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 six months, merchandise exports increased by 10.3% to NPR 45.41 billion (USD 394.83 billion) compared to an increase in 13.5% in the same period of the previous year. Our major trading partners, India excerpted growth by 18.4% and export to China decreased by -29.5% respectively, while export to other countries increased by 2.7% in the review period. Simultaneously merchandise imports increased by 30.5% to NPR 723.94 billion in the review period compared to a rise of 19.4% of the previous years. Imports from India increased by 28.7% from 18.6%, China by 42.95% from 19% and other countries by 28.4% from 22.3% in the review period.

Table 3: Foreign Trade Statistics for the six months of financial year 2018/2019 (in million)

Particulars	2016/17		2017/18[R]		2018/19[P]	Percent Change	
	Annual	Six Months	Annual	Six Months	Six Months	2017/18	2018/19
Total Exports	**73049.1**	**36274.4**	**81633.3**	**41167.1**	**45412.5**	**13.5**	**10.3**
To India	41449.2	20393.1	46604.8	23267.0	27538.9	14.1	18.4
To China	1701.5	925.8	2879.5	1575.7	1110.8	70.2	-29.5
To Other Countries	29898.4	14955.6	32149.0	16324.4	16762.7	9.2	2.7
Total Imports	**990113.2**	**464608.4**	**1242826.8**	**554720.6**	**723937.5**	**19.4**	**30.5**
From India	633669.6	305705.8	809814.2	362465.0	466391.5	18.6	28.7
From China	127245.0	62054.1	159636.3	73842.7	105523.9	19.0	42.9
From Other Countries	229198.6	96848.5	273376.2	118412.9	152022.2	22.3	28.4
Total Trade Balance	**-917064.1**	**-428334.0**	**-1161193.5**	**-513553.6**	**-678525.1**	**19.9**	**32.1**
With India	-592220.4	-285312.7	-763209.4	-339198.0	-438852.5	18.9	29.4
With China	-125543.5	-61128.3	-156756.8	-72267.0	-104413.1	18.2	44.5
With Other Countries	-199300.2	-81892.9	-241227.3	-102088.6	-135259.4	24.7	32.5
Total Foreign Trade	**1063162.3**	**500882.8**	**1324460.1**	**595887.7**	**769350.0**	**19.0**	**29.1**
With India	675118.7	326098.9	856419.1	385732.0	493930.4	18.3	28.1
With China	128946.5	62979.9	162515.8	75418.4	106634.7	19.7	41.4
With Other Countries	259097.0	111804.0	305525.2	134737.3	168784.9	20.5	25.3

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

Top exports and imports: If we compare our figures in line with the trend of previous FY 2017/18, exports of polyester yarn, zinc sheet, herbs, woolen carpet continue to increase; while export of cardamom, rosin, tanned skin, shoes, and sandals, ayurvedic medicine decreased in the review period.

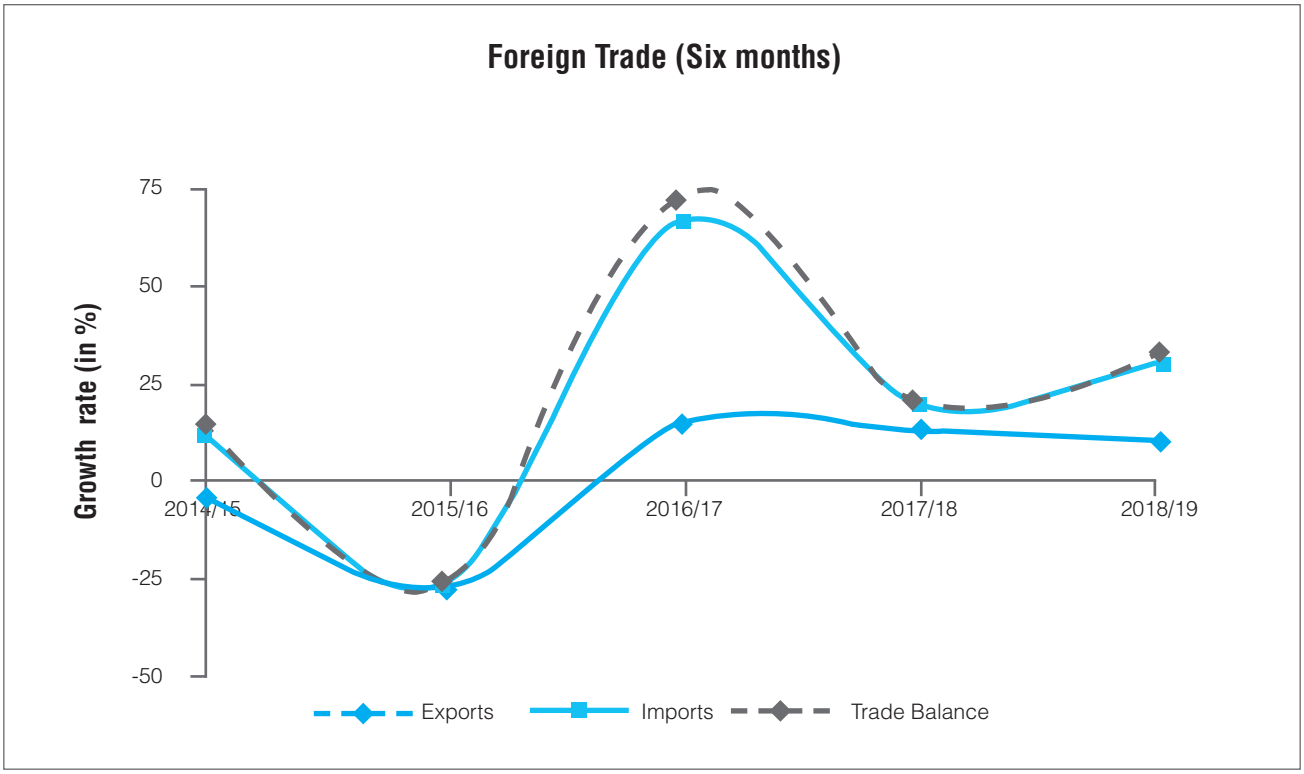
On the other hand imports of petroleum products, aircraft spare parts, M.S. billet, readymade garments, other machinery parts increased. Whereas imports of crude soybean oil, medical equipment and tools, betelnuts, telecommunication equipment, and cementdecreased in the review period.

Trade deficit: As imports exceeded exports in the six months of FY 2018/19, the total trade deficit widened by 32.1 % amounting to NPR 678.53 billion (USD 5.85 billion) as compared to the previous period which was 19.9% amounting to 513.6 million (USD 4.46 billion). As a result, the export-import ratio declined to 6.3% in the current review period as compared to 7.9% in the previous six months period.

Balance of payments deficit: 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 NPR152.16 billion (USD 1.32 billion) in the review period. The current account had registered a deficit of NPR 97.78 billion (USD 850.18 million) in the same period the previous year. Furthermore, the overall BOP remained at a deficit of NPR 63.68 billion (NPR 553.69 million) in the review period compared to the deficit of NPR 6.66 billion (57.90 million) in the same period the previous year.[66]

Trade trajectory of Nepal: The trading trend is in void as trade deficit continues to balloon. In order to enhance its internal market, Nepal needs to resolve its oil-related issues and attempt to refurbish the trade picture. The nation is heavily reliant on foreign markets for agro-based commodities where Nepal imported agro products amounting NPR 157.78 billion (USD 1.37 billion).[67] The food and beverage inflation registered at 2.7% in the fiscal year 2018/19 compared to that of the previous year. Similarly, the non-food and service inflation amounted at 6.1% in the consecutive period.[68]

Figure 20: Foreign Trade Scenario for six months period of FY (2018/19)



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

In order to thrive ahead, meticulous policy should be taken making it an important destination for the global investors. The garment sector which was booming in the early 2000s witnessed a major plunge after the government rejected to establish a garment processing zone. Similarly, the carpet industry which was once flourishing is now plummeting due to the lack of fulfilling the demands of consumers based abroad. This labor-intensive sector demands strong branding and marketing along with policy research. Overall, the collapse of these sectors led to incurring a huge loss to the nation's export trends.

Foreign exchange reserves: Remittance has failed to keep pace with the rising imports. If similar pattern continues Nepal can be at the risk of facing the crisis similar to that of India. The Balance of Payments collapsed and their foreign exchange reserves were almost empty in 1991. The national revenue is highly dependent on remittance and this is strengthening the plight. The remittance income is merely used for productive sectors and mostly vested on paying the cost of imported commodities. Nearly, 65% of the total import bill is paid through the support of remittance. On the other side, exports and investment comprise 6% and 17% respectively of the nation's annual foreign exchange income. In the start of the current fiscal year 2018/19, Nepal witnessed exports worth NPR 29 billion while the imported goods registered at NPR 400 billion. The widening trade deficit and worsening balance of payments deficit would probably compel the government to prevent the flow of hard currency by controlling imports or take foreign loans.[69]

OUTLOOK

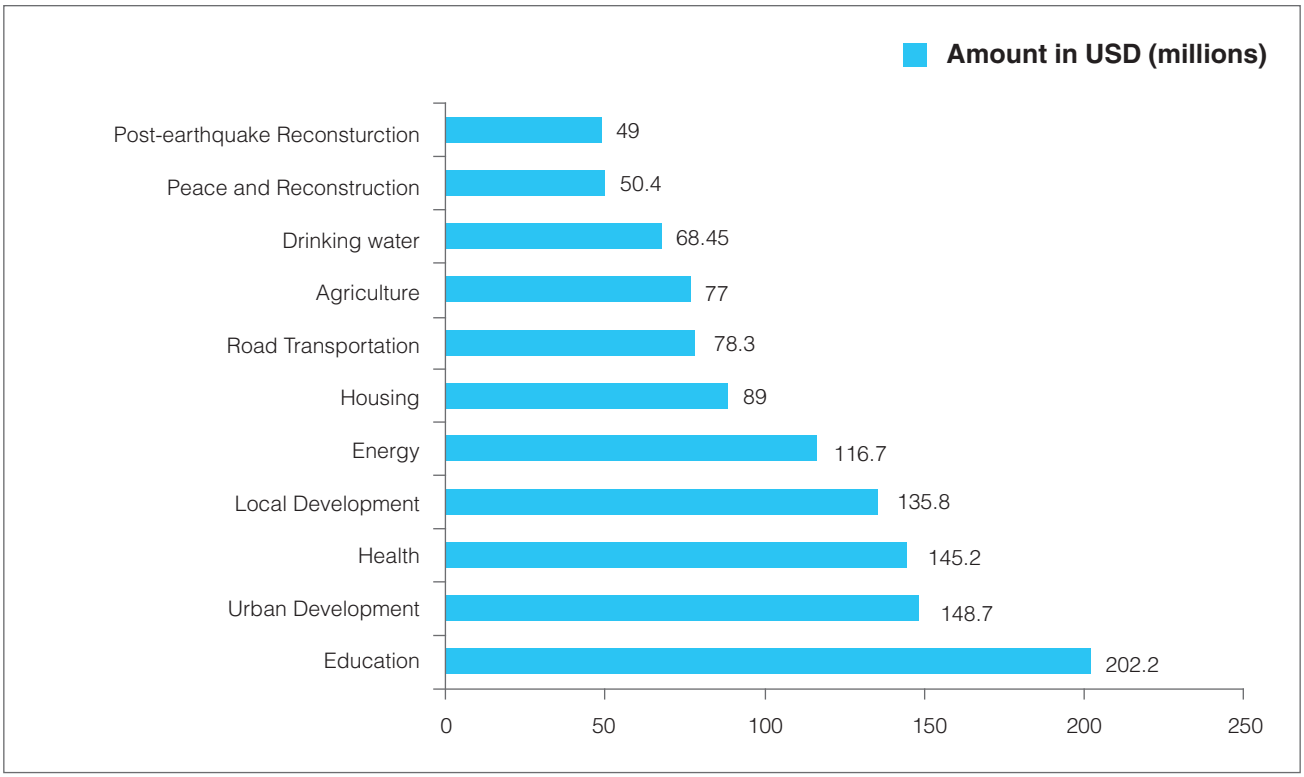
Proper diagnosis of economic problems is the prerequisite for making sound policy prescription for an economy. The ever increasing trade deficit can be controlled by changing the domestic consumption pattern. More emphasis on consumption of locally produced goods enables the country to become more resilient. 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.

Sectorial disbursement of the foreign aid: Government's effort on channelizing the entire foreign aid budget has been made visible. With a majority of funds going towards economic reform, education, health and urban as well as local development, reports depicted that economic sector received the highest foreign aid disbursement in fiscal year 2017/18 for the first time since fiscal year 2010/11. Annual disbursement in the economic sector increased from NPR 4.03 billion (USD 35.1 million) in fiscal year 2016/17 to NPR 24.23 billion (USD 210.7 million) in fiscal year 2017/18. Education sector representing 12.5% shares of the total aid disbursement hold the first position with development aid amounting to NPR 23.2 billion (USD 202.2 million). The sectoral aid disbursement on various developmental activities can be observed from the figure 21:[70]

Figure 21: Sectoral foreign aid disbursement as of fiscal year 2018/19



Source: Development Cooperation Report, December 2018, Ministry of Finance

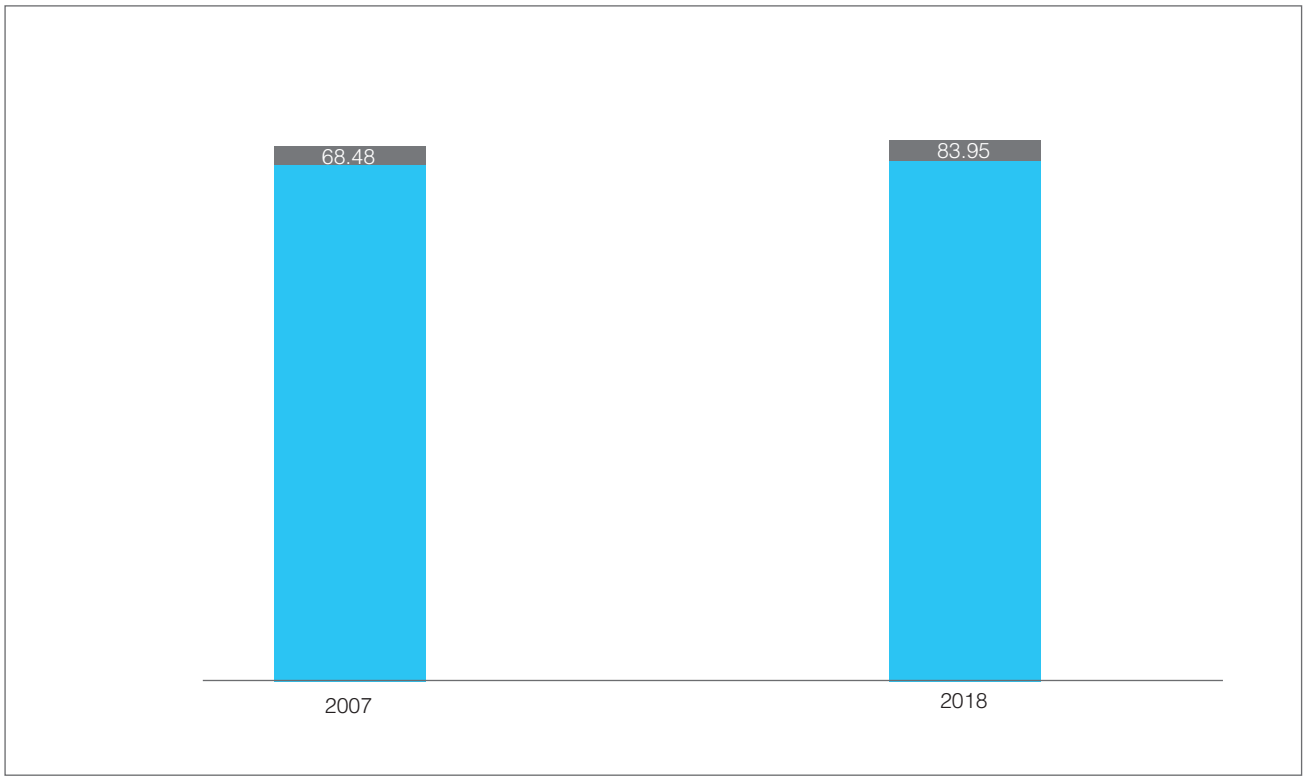
Foreign aid helpful in ebbing illiteracy: The use of fund in education sector has helped Nepal to achieve its vision of ebbing illiteracy. As a corollary, the literacy rate has increased significantly. As such, in 2018 the literacy rate was measured to be 83.29%. The corresponding figure was 64.48% in 2007.[71] Similarly, if we consider the use of fund in various infrastructural development projects, a whopping figure of NPR 11.3 trillion (USD 98.27 billion)[72] shows that the government's major focus has now shifted towards transforming production sector and developing more physical infrastructures.

Despite the increment in literacy rate and progressive infrastructural development, Nepal is least likely to graduate to middle-income nation by 2022. But to achieve the vision of middle-income nation, a right balance between job creation at home and export of labor is required. The reports by the World Bank Group[73] depicts just the opposite situation, however—dominated by the labor migration and paucity in job creation. Regardless of the bleak picture provided by the World Bank, Nepal was able to to transpire from the list of countries depending more on remittance putting Liberia and Kyrgyzstan in the forefront.

Foreign aid disbursement increased: Nepal's foreign aid disbursement increased by 16% to NPR 186.32 billion (USD 1.62 billion) in the last fiscal year 2017/18. The total amount was disbursed in the form of a loan (50.5%), grant (35.1%) and technical assistance (14.4%).[74] The annual budget book of the Government of Nepal depicted 78% of the foreign aid received under different-budget headings.

The Development Cooperation Report 2018 released by the Ministry of Finance showed that the World Bank contributed the most in development aid to Nepal in the fiscal year 2017/18 amounting to NPR 6.13 billion (USD 533.51 million)—an increase by 54% as compared to the same period of the previous fiscal year. The Asian Development Bank stood as the second highest multilateral lending agency to Nepal, disbursing NPR 3.35 billion (USD 291.69 million) in aid during fiscal year 2017/18, an increment of 14.88% compared to the same period of the previous

Figure 22: Data showing increment in literacy rate of Nepal



Source: Ministry of Education, Science and Technology (MoEST)

fiscal year. United Kingdom (UK) took the third position with total aid disbursement amounting to NPR 14.25 billion (USD 123.87 million).[75] However, comparing the data with that of fiscal year 2016/17, the UK was found to drop aid disbursement by 3.46% during fiscal year 2017/18. China and India stood at 8th and 9th position respectively, in terms of providing development assistance to Nepal. Nepal received NPR 6.75 billion (USD 58.72 million) from China in the fiscal year 2017/18 whereas, from India, NPR 6.53 billion (USD 56.76 million) was received marking down the percentage by 4.2 as compared to the same period of the previous fiscal year.[76]

Figure 23: Aid disbursement in the form of loan, grant and technical assistance

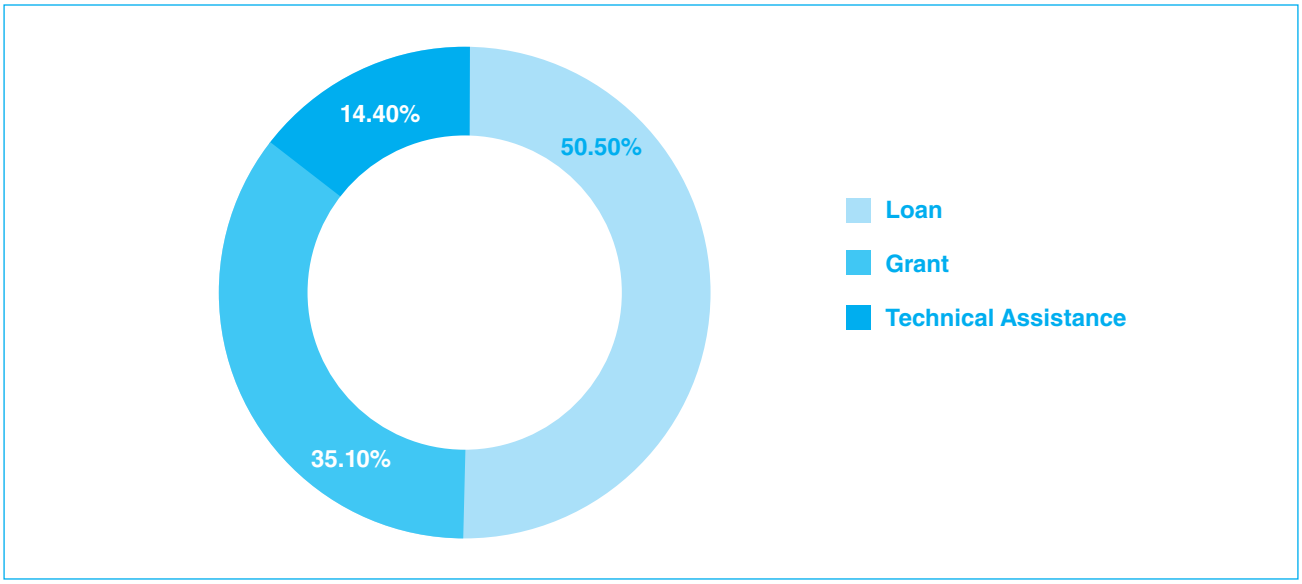
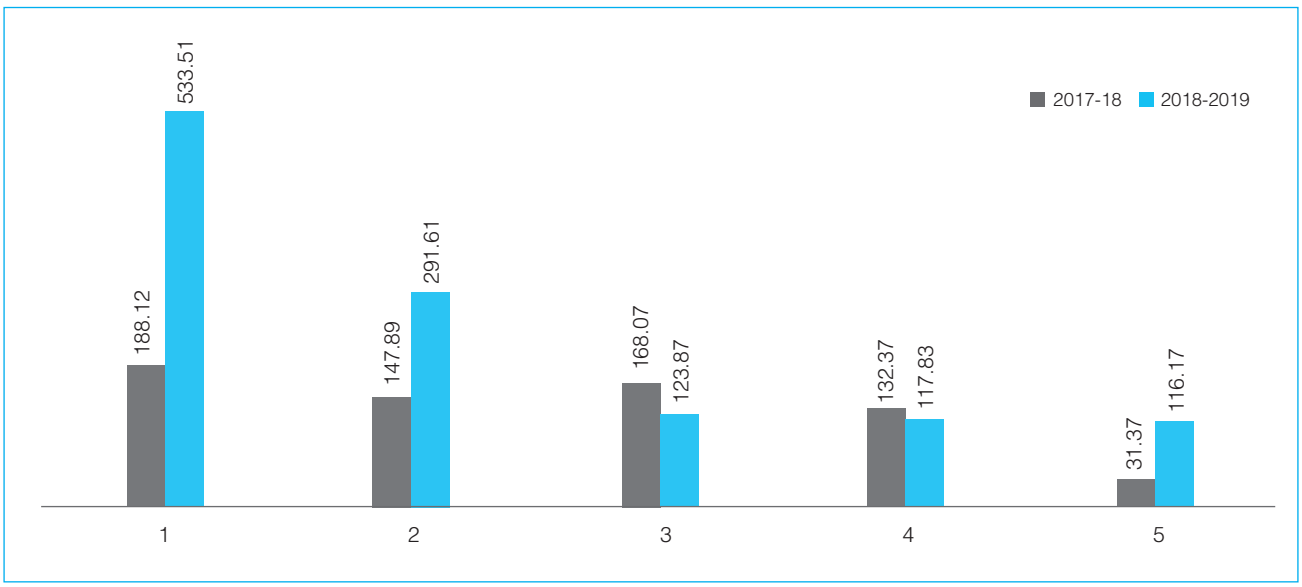


Figure 24: Data comparing aid disbursement to Nepal in the earthquake year (2014/15) and 2017/18



Source: Development Cooperation Report, Ministry of Finance

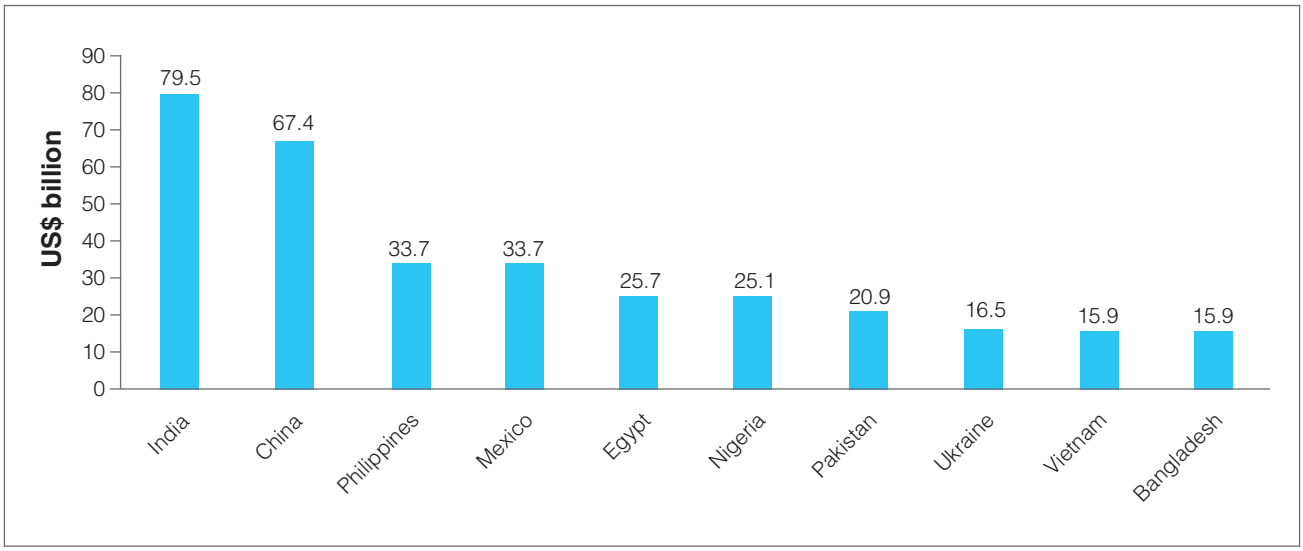
OUTLOOK

Nepal needs to understand that a country cannot prosper economically by relying on aid. The amount has to be channeled into productive sectors. Doing so will help to create jobs and achieve sustainable growth. Increasing dependency on foreign aid is likely to affect economic growth as the economy moves away from the notion of endogenous growth—where economic growth is a function of the internal system and not a force that impinges from outside.

REMITTANCE

Remittances to low and middle income countries are expected to reach an unprecedented amount of NPR 60.72 trillion (USD 528 billion) in 2018, which is an increase of 10.8% as compared to 2017.[77] India retained its top spot as as a highest remittance recipient country with NPR 9.14 trillion (USD 79.5 billion), followed by China with NPR 7.75 trillion (USD 67.4 billion), Mexico and the Philippines receiving almost NPR 3.91 trillion (USD 34 billion) each and Egypt with NPR 2.95 trillion (USD 25.7 billion). The flow of remittance experienced growth in all the six regions with Europe and Central Asia leading—20%, South Asia—14%, Sub-Saharan Africa—9.8%, Latin America and the Caribbean—9.3%, the Middle East and North Africa — 9.1% and East Asia and the Pacific—6.6%.[78] However, as the global growth is expected to be modest in the year 2019, the forthcoming remittances to low and middle-income countries are expected to grow by only 4% to reach NPR 63.14 trillion (USD 549 billion) this year. Similarly, global remittances are projected to grow by NPR 82.23 trillion (USD 715 billion) in 2019. (Ibid)

Figure: 25 Top Remittance Receivers in 2018



Source: The World Bank (Knomad)

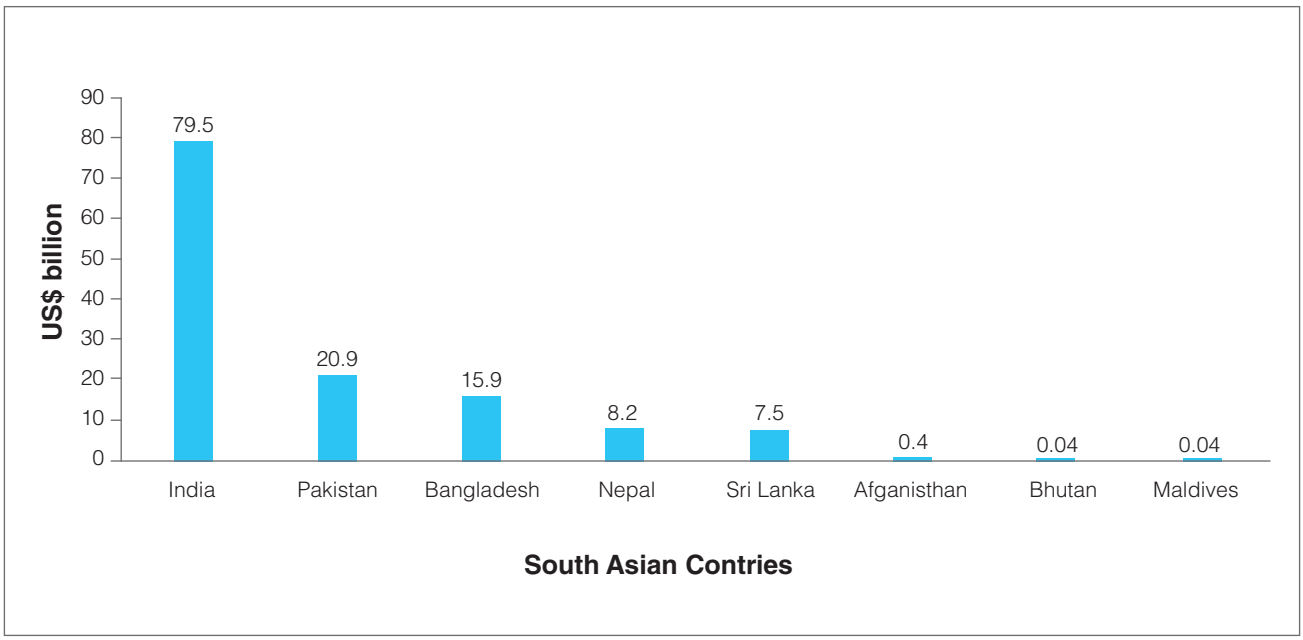
Remittances increased by approximately 32% as per the latest review: On the home front, remittances sent by Nepalese migrants from abroad rose 31.9% to reach NPR 376.9 billion (USD 3.27 billion) as of mid-December 2018 compared to a decrease of 0.8% in the same period of the last fiscal year.[79] The remittance flow to the country grew despite the fact that workers going abroad for foreign employment decreased by approximately 40% in the latest review period. 92,931 Nepalis travelled abroad for foreign employment in the first five months of the current fiscal against 155,381 in the same period of the last fiscal. The number of migrant workers to Malaysia decreased drastically from 49,057 during the corresponding review period of the last fiscal year to 2,532 in this review period of the current fiscal.(Ibid)

The Partnership between World Remit and NIC Asia Bank: NIC Asia Bank of Nepal and London based WorldRemit, an online money transfer service provider that provides international remittance services has entered into a partnership for digital money transfers to Nepal. World Remit states that using their application or website, the Nepalese diaspora living in over 50 countries would now be able to send money home instantly to over 7000 cash pickup locations across the country ranging from Dharan to Kathmandu and from Ghorahi to Dhangadhi.[80]

Increase in remittances to South Asia in 2018: The remittances to South Asia are projected to increase by 13.5% for the year 2018 in comparison to 5.7% growth in 2017.[81] The reason for increased growth is accounted to strong economic growth in advanced economies such as the US and increase in the oil price. Remittances to India is projected to be the highest at NPR 9.14 trillion (USD 79.5 billion) in 2018. Remittances to Pakistan, Bangladesh and Sri Lanka are all expected to grow by 6.2%, 17.9% and 5.4% respectively in 2018. Similarly, remittances to Nepal is predicted to grow by 18.5% in the year 2018 (Ibid). However, this year the remittances are expected to slow by 4.3% due to moderation in growth in advanced economies along with slowermigration to the Gulf Cooperation Council (GCC) countries. The figure below shows the remittance flows to South Asia in 2018:

Establishing a manpower agency to cost more: Opening a manpower agency may be costlier as per the proposal endorsed by a parliamentary panel. As per the proposal, the cash deposit and bank guarantee to establish a manpower agency could be increased by up to 29 times and 17 times, respectively.[82] The proposal is included in the Foreign Employment Act and is aimed to ensure manpower agencies work towards the interest of job seekers aspiring to seek employment abroad. Currently, manpower agencies could commence operation by depositing NPR 700, 000 (USD 6086) in cash and NPR 2.3 million (USD 19,998) as bank guarantee. (Ibid) A comparison of earlier proposal and the new proposal by the Ministry of Labour, Employment and Social Security (MoLESS) could be found below:

Figure 26: Remittance Flows to South Asia in 2018



Previous proposal	New proposal
NA	For sending up to 3000 workers per year • Cash deposit- NPR 5 million (USD 43,474) • Bank guarantee- NPR 15 million (USD 130,423)
For sending 3000-5000 workers per year • Cash deposit- NPR 10 million (USD 86,948) • Bank guarantee- NPR 20 million (USD 173,897)	For sending 3000-5000 workers per year • Cash deposit- NPR 10 million (USD 86,948) • Bank guarantee- NPR 30 million (USD 260,846)
For sending over 5000 workers per year • Cash deposit- NPR 20 million (USD 173,897) • Bank guarantee- NPR 40 million (USD 347,795)	For sending over 5000 workers per year • Cash deposit- NPR 20 million (USD 173,897) • Bank guarantee- NPR 40 million (USD 347,795)

OUTLOOK

Nepal is projected to receive NPR 943.08 billion (USD 8.2 billion) in 2018 from remittances sent by Nepalis working all over the globe. This was basically due to strong economic growth in the developed countries such as the US which caused the appreciation of dollar countries fuelled by increased crude oil prices until October last year. However, in 2019 the economic growth is expected to slow down and the current slump in oil prices could further stall economic growth in the Gulf Cooperation Council (GCC) countries where there are large numbers of Nepali migrant workers. The situation is highly worrisome for Nepal as remittances contributed to 30% of the GDP in 2018. In fact, in the case of Nepal, remittances contribution to GDP is the highest in South Asia and fourth highest in the world.[83] With so much reliance on remittances, if the global economic growth slows down in 2019, then Nepal could face a challenging economic situation.

4

MARKET REVIEW

FINANCIAL MARKET

At the end of second quarter (Mid-January) of the current fiscal year 2018/19, net profit of the commercial banks surged by 30.1% as compared to the same period of the corresponding fiscal year.

Key Indicators:

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

Deposit and Credit Mobilisation:

Deposits at Banks and Financial Institutions (BFIs) increased by 7.7 % in the review period. Of the total deposits at BFIs, the share of demand deposits, saving and fixed deposits stands at 8.6%, 33.3% and 47.9% respectively while the share was 8.4%, 36.4% and 42.8% a year ago. In terms of institutional deposits, the share of such deposit stands at 45.1% in the total deposits compared to 44.3% in mid-January 2018.

Likewise, credit extended to the private sector by BFIs increased by 12.7% in the review year as compared to an increase of 11.9% in the previous fiscal year. Credit mobilisation of commercial banks, development banks and finance companies increased by 11.9%, 19.8% and 10.2% respectively. Of the total outstanding credit of BFIs, 63.1% is against the collateral of land and building and 14.5% 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 residential personal home loan) increased by 6.2% and trust receipt(import) loan extended by commercial bank increased by 13.1% during the year. Similarly, term loan increased by 15.5%, hire purchase loan increased by 6.8% while overdraft loan increased by 10.1%.

Table 4: Snap shot of key Indicators during the first six months of current FY 2018/2019

Deposit and Credit Mobilization	Foreign Exchange Management
◗ BFIs total deposit went up by 7.7% ◗ Total deposits - Saving : 33.3% - Fixed : 47.1% - Demand : 8.6% ◗ Domestic credit increased by 8.7% ◗ Credit to private sector increase by 12.7%	Sufficient to cover ◗ Foreign exchange holding of banking sector - Prospective merchandise imports of 8.9 months - Prospective merchandise and service imports 7.8 months
Liquidity Management	***Balance of Payments (BOP)***
◗ NRB mopped up NPR 100.35 billion (USD 87.25 million) ◗ NRB injected net liquidity of NPR 160.29 billion (USD 2.38 billion) ◗ NRB purchased INR equivalent to NPR 274.57 billion (USD 2.38 billion)	◗ Current account fell into deficit of NPR 152.16 billion (USD 1.32 billion) ◗ The overall BOP posted a deficit of NPR 63.68 billion (USD 55.37 million)

Liquidity Management:

In the review period, NRB mopped up NPR 100.35 billion (USD 872.53 million) through various open market operations. Under this provision, NPR 79.65 billion (USD 692.54 million) was mopped up through deposit collection auction, and NPR 20.70 billion (USD 179.98 million) through reverse repo auction on a cumulative basis.

NRB injected net liquidity of NPR 160.29 billion (USD 1.39 billion) through the net purchase of USD 1.40 billion from foreign exchange market (commercial banks). Similarly, NRB also purchased Indian currency (INR) equivalent to NPR 274.57 billion (USD 2.38 billion) through the sale of USD 2.16 billion, Euro 28 million and GBP 20 million amongst others during the review year.

Foreign Exchange Reserves and Adequacy:

The gross foreign reserves stood at NPR 1058.20 billion (USD 9.20 billion) at the end of mid-January. This is a decrease of 4.1 % compared to NPR 1,102.59 billion (USD 9.58 billion) in mid-July 2018. Out of the total foreign exchanges, reserves held by NRB remained at NPR 919.57 billion (USD 7.99 billion) at mid-January 2019 from NPR 989.40 billion (USD 8.60 billion) as at mid-July 2018. The share of INR in total reserves stood at 24.5%.

Based on the imports of six months of current fiscal year 2018/19, the foreign exchange holdings of the banking sector is sufficient to cover the prospective merchandise imports of 8.9 months, and merchandise and services imports of 7.8 months. The ratio of foreign currency reserve-to-GDP, reserve-to-imports and reserve-to-M2 stood at 35.2%, 64.8% and 32.1% respectively as at mid-January 2019.

Interest Rates:

The weighted average 91-day Treasury bill rate increased to 0.86% in the review period from 5.82% a year ago. Likewise, the weighted average inter-bank transaction rate among commercial banks also decreased to 2.84% from 4.40% a year ago. Also, the weighted average base rate of commercial banks decreased to 9.80 % from 9.94% a year ago.

Balance of Payments (BOP):

In terms of BOP, the current account fell into a deficit of NPR 152.16 billion (USD 1.32 billion) during the review period as compared to a deficit of NPR 97.78 billion (USD 850.18 million) during the same period of the previous fiscal year 2017/18. The overall BOP posted a deficit of NPR 63.68 billion (USD 553.69 million) in the review period compared to a deficit of NPR 6.66 billion (USD 57.90 million) in the same period of previous year.

Second Quarter Performance Analysis of Commercial Banks:

As per the unaudited second quarter financial results of commercial banks for fiscal year 2018/19 as shown in Table 2, the operating profit of commercial banks grew by 33.3% while the net profit increased by 30.1% compared to the corresponding figure of the previous fiscal year.

Rastriya Banijya Bank was able to post the highest net profit of NPR 2.40 billion (USD 20.86 Million), followed by Nabil Bank at NPR 2.17 billion (USD 18.86 million) and Nepal Investment bank at NPR 1.97 billion (USD 17.12 million) and Nepal Bank at NPR 1.66 billion (USD 14.43 million) at the end of this quarter. During the review period, the deposit mobilisation increased by 19.9% while credit mobilisation by the commercial banks increased by 18.8%.

At the end of the second quarter, the average Non-Performing Loan (NPL) of banks had decreased to 1.5% from 1.7% as compared to the corresponding period, and the average cost of funds of commercial banks increased to 7.1% from 6.7% amidst tight liquidity. Similarly, the average base rate of commercial banks stood at 9.8% during the end of this quarter, the highest being 11.6% of Kumari Bank and the lowest being 5.6% of Rastriya Banijya Bank.

Key Developments

Monetary Policy Mid-Term Review:

The central bank came out with a half yearly review of its monetary policy for the fiscal year 2018/19. Some of the key highlights, revisions and provisions outlined by the mid-year review of the monetary policy are as follows:

Table 5: Status of Key Monetary Indicators as of Mid-January, 2019

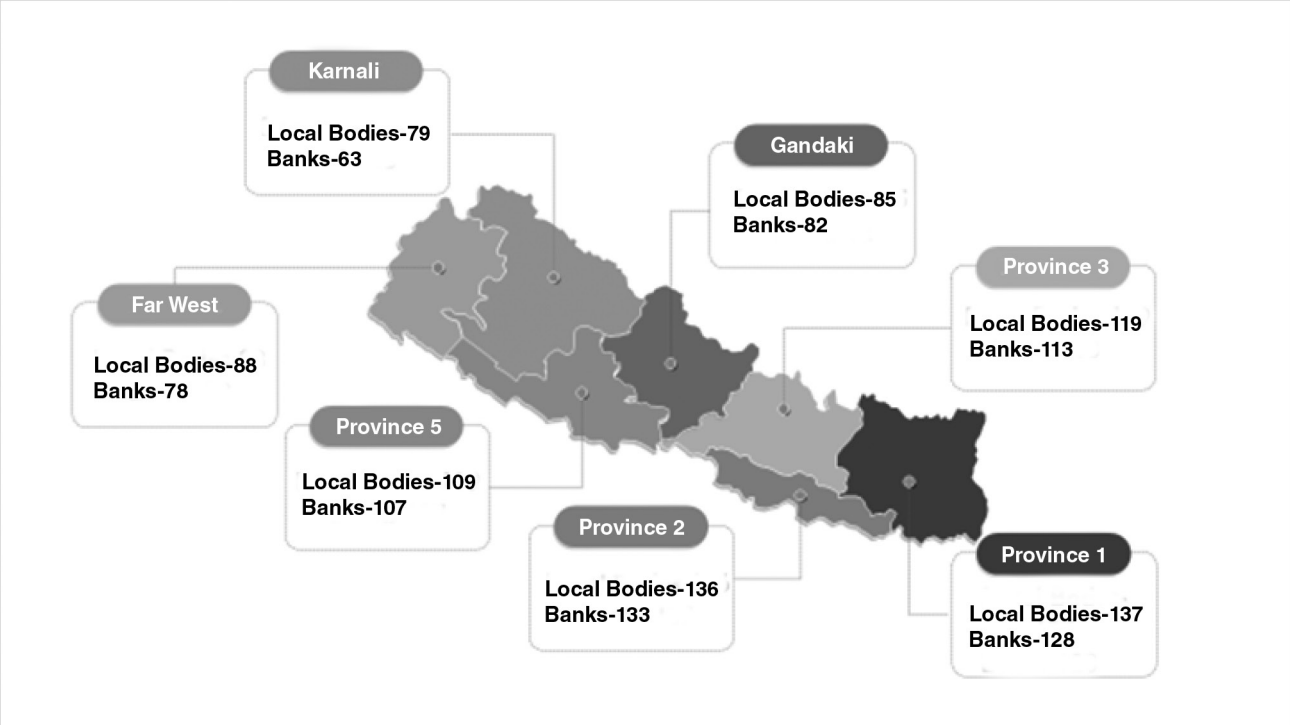
	Target/Objectives of Monetary Policy 2018/19	As on Mid-January 2019
Inflation	6.5%	4.6%
Broad money supply (M2) growth rate	18%	19.1%
Domestic credit growth	22.5%	28.5%
Private sector credit growth	20.0%	23.2%
Productive sector lending	25%	18.5%

Source: NRB

TABLE 6: SECOND QUARTER RESULTS OF COMMERCIAL BANKS-UNAUDITED-AS ON FISCAL YEAR 2018-19 (FIGURES IN NPR TEN MILLION)

			DEPOSIT			LOANS AND ADVANCES			OPERATING PROFIT			NET PROFIT			NPL (%)		COST OF FUND (LCY)			BASE RATE (%)
Bank	Paid-up Capital	Reserve & Surplus	FY 18/19	FY 17/18	% Change	FY 18/19	FY 17/18	% Chvange	FY 18/19	FY 17/18	% Change	FY 18/19	FY 17/18	% Change	FY 18/19	FY 17/18	FY 18/19	FY 17/18	% Change	FY 18/19
			2 QTR	2 QTR		2 QTR	2 QTR		2 QTR	2 QTR		2 QTR	2 QTR		2 QTR	2 QTR	2 QTR	2 QTR		2 QTR
Nabil Bank	804.3	1,452.3	14,938.2	12,128.9	23.16	13,071.0	10,293.8	27.0	308.3	260.6	18.3	217.6	183.7	18.5	0.6	1.1	5.9	4.4	1.5	7.9
Nepal Investment Bank	1,258.9	1,197.7	14,210.6	12,984.5	9.4	12,741.6	11,367.1	12.1	284.3	261.4	8.8	197.5	183.0	7.9	2.0	1.1	6.6	6.2	0.4	9.0
Standard Chartered bank	801.1	703.9	6,598.4	6,607.2	(0.1)	5,096.8	4,297.6	18.6	163.6	153.2	6.8	114.5	107.2	6.8	0.2	0.2	5.1	2.4	2.7	7.6
Himalayan Bank	852.0	606.6	10,610.7	9,263.4	14.5	9,883.6	8,208.5	20.4	196.0	152.0	28.9	136.7	110.5	23.7	1.3	1.3	6.7	6.4	0.4	9.1
Nepal SBI Bank	844.9	447.1	9,783.7	8,516.9	14.9	9,092.3	7,134.1	27.4	142.8	130.9	9.1	102.2	91.3	11.9	0.2	0.1	5.9	5.1	0.8	9.8
Nepal Bangladesh Bank	808.8	351.2	5,247.1	4,197.4	25.0	5,140.3	4,187.1	22.8	105.1	66.3	58.5	79.3	46.7	69.8	1.8	0.7	7.6	8.0	(0.4)	10.8
Everest Bank	810.6	758.1	12,417.7	10,329.9	20.2	10,592.7	8,608.2	23.1	204.3	174.7	16.9	142.9	122.2	16.9	0.2	0.3	6.2	5.0	2.8	8.2
Bank of Kathmandu Lumbini	707.2	612.4	8,021.8	7,072.1	13.4	7,353.8	6,341.6	16.0	104.8	77.5	35.2	73.7	55.1	33.8	2.1	1.9	7.9	7.6	0.3	10.6
NCC Bank	701.8	417.9	6,471.7	5,915.2	9.4	5,844.2	4,999.4	16.9	103.3	73.6	40.4	74.1	53.0	39.8	3.5	4.0	8.0	8.6	(0.7)	10.9
NIC Asia Bank	883.4	441.1	17,576.4	12,046.7	45.9	14,930.3	10,095.4	47.9	213.7	78.4	172.6	151.1	57.2	164.2	0.3	0.3	7.2	7.6	(0.4)	9.3
Machhapuchchhre Bank	805.5	227.2	8,517.6	6,579.8	29.5	7,465.3	6,007.2	24.3	115.2	69.6	65.5	78.1	48.6	60.7	0.4	0.3	8.0	7.6	0.4	11.0
Kumari Bank	716.3	429.0	7,544.8	5,784.9	30.4	7,077.2	5,075.9	39.4	96.6	71.5	35.1	67.6	51.1	32.3	1.2	1.6	8.1	7.8	0.3	11.6
Laxmi Bank	822.1	444.6	7,589.4	6,027.9	25.9	7,057.1	5,481.2	28.8	107.8	81.6	32.1	72.3	55.0	31.5	1.1	1.3	7.7	7.4	0.3	10.4
Siddhartha Bank	888.7	519.7	10,638.4	8,556.6	24.3	9,750.7	7,691.3	26.8	152.1	124.1	22.6	106.9	86.9	23.0	1.6	1.5	7.4	7.3	0.1	10.6
Global IME Bank	1,031.0	448.8	11,317.5	10,021.6	12.9	10,240.8	8,616.3	18.9	174.1	137.9	26.3	122.9	97.9	25.5	0.8	1.6	7.6	7.0	0.6	10.1
Citizens Bank International	837.1	337.2	6,512.4	5,846.4	11.4	6,047.4	5,235.7	15.5	108.6	87.5	24.1	77.0	62.8	22.6	1.6	1.9	8.2	7.9	0.3	10.8
Prime Commercial Bank	803.3	422.1	7,672.7	7,106.0	8.0	7,260.4	6,302.5	15.2	151.1	108.3	39.5	106.0	79.2	33.8	1.6	1.4	8.3	8.2	0.1	10.2
Sunrise Bank	815.2	410.6	7,606.2	6,326.9	20.2	6,775.3	5,624.1	20.5	113.5	99.4	14.2	79.2	58.7	34.9	1.3	1.7	7.6	7.3	0.2	10.6
NMB Bank	874.3	924.3	8,807.0	8,055.2	9.3	8,537.5	7,022.3	21.6	156.1	131.4	18.8	110.9	96.2	15.3	0.8	1.2	7.3	7.1	0.3	10.1
Prabhu Bank	823.3	560.1	10,498.1	8,614.1	21.9	8,815.9	7,177.1	22.8	133.1	82.8	60.7	104.1	60.1	73.2	2.5	4.1	6.2	6.4	(0.2)	9.4
Janata Bank Nepal	800.0	303.8	6,843.8	5,280.1	29.6	6,365.1	4,826.6	31.9	90.6	47.6	90.3	63.4	33.3	90.4	1.5	2.7	7.8	7.8	(0.0)	11.0
Mega Bank	1,038.8	231.2	7,085.9	4,557.3	55.5	6,584.9	4,076.7	61.5	103.4	55.3	87.0	73.2	39.3	86.3	1.2	1.0	7.7	7.6	0.1	10.8
Civil Bank	800.3	271.5	4,308.4	3,695.9	16.6	4,355.0	3,430.7	26.9	51.00	30.90	65.0	35.9	24.0	49.6	3.5	4.5	8.2	8.1	0.1	11.3
Century Commercial Bank	806.3	164.0	6,412.7	5,217.7	22.9	5,889.8	4,636.6	27.0	74.0	52.4	41.2	51.8	36.6	41.5	0.8	1.0	8.9	8.3	0.6	11.5
Sanima Bank	800.1	264.3	8,568.0	6,850.0	25.1	7,722.6	6,123.9	26.1	139.3	117.4	18.7	98.2	83.0	18.3	0.2	0.0	7.6	7.2	0.3	9.8
Public Sector Banks																				
Nepal Bank	981.1	1,965.0	10,567.8	9,189.8	15.0	8,579.8	7,871.0	9.0	231.2	183.2	26.2	166.1	163.8	1.4	2.7	3.2	3.6	2.9	0.6	6.1
Rastriya Banijya Bank	900.4	1,244.4	18,159.6	14,910.4	21.8	13,487.9	11,065.4	21.9	343.7	225.7	52.3	240.9	178.3	35.1	3.4	3.1	3.0	2.0	1.0	5.6
Agriculture Dev. Bank	1,393.7	1,422.1	11,013.2	9,817.3	12.2	1,073.1	9,211.2	(88.3)	178.5	126.0	41.7	136.4	102.9	32.6	4.5	4.0	7.2	7.2	0.0	11.2
Total	**24,410.5**	**17,578.2**	**265,539.8**	**221,500.1**	**19.9**	**226,832.4**	**191,008.5**	**18.8**	**4,346.1**	**3,261.2**	**33.3**	**3,080.5**	**2,367.6**	**30.1**	**1.5**	**1.7**	**7.1**	**6.7**	**0.4**	**9.8**

Figure 27: Presence of commercial banks at local level



To expedite opening up of branches in all the 753 local bodies, as per monetary policy, commercial banks who have committed to open branches in local bodies should establish branches in areas where minimum infrastructure is available, within the end of the current fiscal year 2017/18. As of Mid-February 2019, out of 753 local bodies, commercial banks have presence in 704 local bodies.

- BFIs would be allowed to raise foreign currency debt equal to their core capital.
- The total call deposit account portfolio to be capped at 10 percent.
- Mandatory provision to issue long term debt instruments
- The refinance fund will be increased to NPR 50 billion (USD 434.74 Million)
- The existing methodology to calculate spread rate will be refurbished.
- Adequate measures will be undertaken to minimise the credit cost by systematising the existing credit service fee and commitment fee.
- Banks will not be allowed to charge more than 8 percent on refinancing credit while for export refinancing (promoting export) the maximum rate is 3 percent.
- Commercial banks and national level financial institutions should set aside at least 10 percent of their Corporate Social Responsibility (CSR) fund towards financial literacy in all seven provinces from next fiscal year.

Forceful merger on cards:

In a quest to streamline the number of BFIs, Nepal Rastra Bank (NRB) has instructed all BFIs to either merge or go for acquisition if it fails to maintain certain criteria outlined by the central bank. NRB can now force the rule upon BFIs if; BFIs are not able to meet the new capital, goes into losses for five consecutive years and for not maintaining contingency reserves amongst others.

Concessional loans to be expedited:

Though NRB has issued a new directive for all bank and financial institutions (BFIs) to provide concessional loans to the eligible groups like migrant workers, returnees, women entrepreneurs and earthquake survivors, the credit extended to such groups is below par. To ensure BFIs extend credit to eligible candidates, NRB has issued a circular directing BFIs to prepare internal working procedures in line with the unified working procedures on interest subsidy for concessional loans of the central bank.

Nepal Infrastructure Bank starts operation:

Nepal's first public private partnership infrastructure bank i.e. Nepal Infrastructure Bank has officially started its operation from 6th March, 2019. The government owns 10 percent equity while the rest is owned by the private sector. The bank has an authorized capital of NPR 40 billion

(USD 347.80 Million), issued capital of NPR 20 billion (USD 173.90 Million) and Paid-up capital of NPR 12 billion (USD 104.34 Million). The new development bank is expected to expedite investments in infrastructure development, especially in tourism, energy, information technology, construction amongst other.

OUTLOOK

The central bank via mid-term review has clearly indicated its stance to stabilize interest rate volatility, the unbalance between growth rate of deposit and credits have created unnecessary liquidity problem in the banking system for the past two and half years. With the objective to bring down the lending rates amidst no signs of improvement, the central bank has directed commercial banks to maintain the spread rate (difference between the interest rates on deposits and credit) at a maximum of 4.5% by the end of current fiscal year. Going forward, banks will have to increase its non-funded income portfolio to maintain its current profitability and shareholders return. Currently, based on second quarter figure of commercial banks, the average non-funded income of commercial bank is only 22.56%, indicating higher reliability on funded income. By introducing value added services and innovation, banks will have to minimize its dependency in funded income by increasing their income from various services such as; brokering, transactions fees, service charges, inactivity fees amongst others.

As the mid-term policy review now allows BFIs to raise foreign currency debt equal to their core capital, BFIs will have to get out of their comfort zone and seek opportunities beyond Nepal to bring in additional foreign funds. Such funds are vital to ease the current liquidity while will also ensure consistent flow of funds towards the productive sector. On a positive note, few commercial banks have already inked agreements with foreign institutions to bring in fresh funds. Further, as Nepal is embarking upon path of rapid economic stimulation with political stability, amidst sluggish domestic deposit growth, entry of foreign banks will be key to meet the growing funding needs of both public and private sector. Nepal is yet to attract a single foreign bank in the country. As per a study, emerging market borrowers obtain 15-20 percent of their credit from foreign banks on average.[84]

CAPITAL MARKET

The secondary market went down by 3.73 % to close at 1105.53 points during the review period (November 29, 2018 to February 29, 2019).

Secondary Market:

During the review period, the Nepal Stock Exchange (NEPSE) benchmark index decreased by 3.73% to close at 1105.53 points. At the end of the review period, the total market capitalisation had reached NPR 1,351 billion (USD 11.74 billion) while the total floated market capitalisation had reached to NPR 473 billion (USD 4.11 billion).

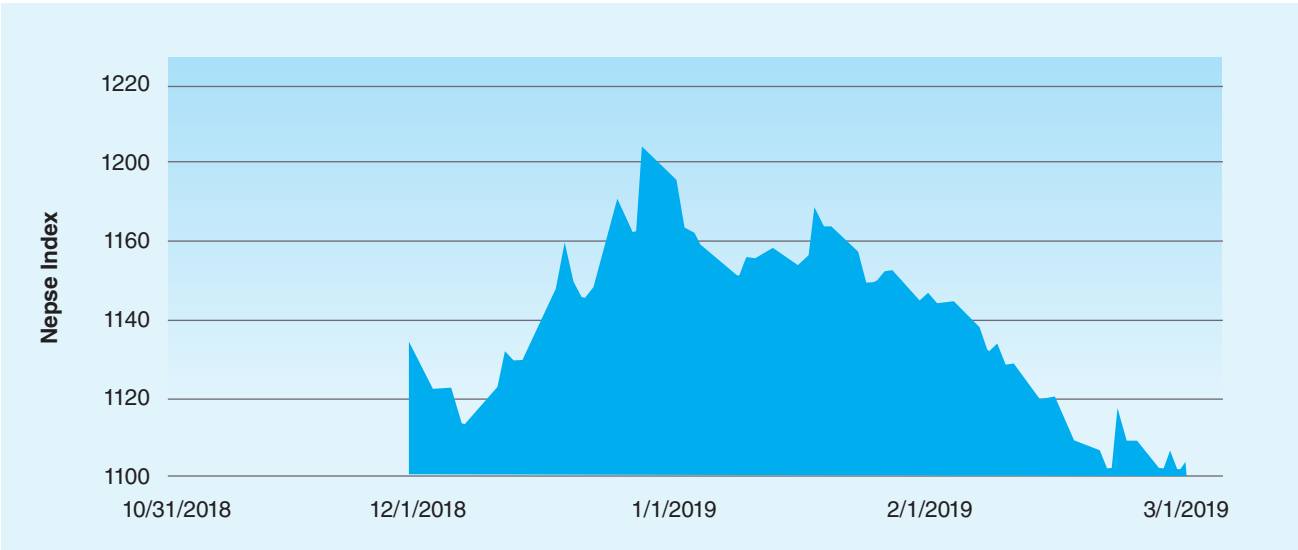
As shown in Table 7, during the review period, most of the sub-indices ended in red zone except Life Insurance Index, Non-Life Insurance Index and Micro Finance Index. The Hydropower index (-6.41%) was the biggest loser followed by the Commercial Bank Index (-6.17%), Hotel Index (-5.79%), Manufacturing & Processing Index (-5.04%), Others Index (-4.01%), Development Bank (-2.59%) and Finance Index (-1.86%). The Life Insurance Index (8.71%) was the highest gainer during the review period followed by Micro Finance Index (4.73%) and Non-Life Insurance Index (3.62%).

Table 7: Key Indicators

Indicators	29-November 18	29- February 19	% change
NEPSE Index	**1148.36**	**1105.53**	**-3.73%**
Commercial Bank Index	1008.93	946.63	-6.17%
Development Bank Index	1445.12	1407.73	-2.59%
Finance Index	595.91	584.84	-1.86%
Life Insurance Index	5135.64	5583.09	8.71%
Non-Life Insurance Index	5131.25	5317.12	3.62%
Hydropower Index	1185.32	1109.30	-6.41%
Manufacturing & Processing Index	2247.78	2015.54	-5.04%
Micro-Finance Index	1310.77	1372.78	4.73%
Hotel Index	1787.47	1684.03	-5.79%
Others Index	732.43	703.05	-4.01%

Source: NEPSE

Figure 28: NEPSE Movement Index



Source: NEPSE

Primary Market:

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

- Universal Power Company Limited issued Initial Public Offering (IPO) worth NPR 9,327,410 units. The issue was assigned IPO Grade 4 by ICRA Nepal indicating average fundamentals. After the allotment, the current paid up capital will reach NPR 2.10 billion (USD 18.2 million).
- Panchathar Power Company issued IPO of 962,500 units. The care rating agency, CARE Nepal, has assigned grade 4 rating to this issue, indicating below average fundamentals of the company.
- Shivam Cement Limited issued IPO of 579,640 unit shares at RS 200 per unit to the locals of Makawanpur and 4,120,000 units IPO at NPR 300 per unit to the general public. ICRA Nepal had assigned Grade 3+ rating to this issue, indicating Average Fundamentals. After the IPO, the paid up capital of the company will reach NPR 4.40 billion (USD 38.2 million).
- Union Hydropower Company issued IPO of 35, 34,340 units share to the general people. The credit rating agency, ICRA Nepal, has assigned grade 5 rating to this issue, indicates poor fundamentals. The ratio of public share structure is 51.16 – 48.83.

Key Developments

NEPSE removes PAN mandatory :

Nepal Stock Exchange (NEPSE) rolled back from its decision to make Personal Account Number (PAN) mandatory for share investors for stock trading. As per NEPSE, the PAN requirement will be implemented only after carrying out the necessary study, although SEBON had instructed it to enforce PAN requirement in the stock market from April 14, 2019. With PAN coming into effect,, share investors will require a PAN identification to buy or sell shares in the secondary market.

Various Directives from SEBON:

Securities Board of Nepal (SEBON) has directed NEPSE to provide; broker license to the commercial banks and to enable them to create a subsidiary company for the purpose, change the system of circuit breaker to match the international practices, create Investors Protection Fund for the protection of rights of the investors, develop necessary technological requirements for making the OTC market operational and provide approval to Employees Provident Fund (EPF), Citizen Investment Trust (CIT), Social Security Fund (SSF) and stock traders to work as market maker or dealer. Besides, SEBON has also directed CDS and Clearing Limited for the creation of Settlement Guarantee Fund for ensuring the necessary payments and to decrease the clearance period to T (Transaction) +1 day from previous T+3 days after the full implementation of online trading.

Margin Trading:

SEBON has allowed stockbrokers to engage in margin lending by providing loans to their clients to buy shares. For margin trading, investors need to have a margin account with the brokerage firm. As per the Nepal Rastra Bank (NRB), stockbrokers can themselves fix the interest rate on such margin accounts. Allowing stockbrokers to engage in margin lending was one of the recommendations made by a finance ministry panel formed to address the problems in the stock market.

OUTLOOK

Market interest rates were expected to come down post second quarter of this financial year. However, the rates are yet to come down which has negatively affected the secondary market. Further, despite the implementation of major recommendations given by the special committee, there hasn't been a significant turnaround in the market as investors' confidence remained low. Unless the interest rate volatility stabilises, the market is likely to remain subdued.

The mid-term monetary policy review for the current fiscal year 2018/19 intended to provide some respite to the borrower by limiting the spread rate to 4.5% and changing its calculation methodology. Nonetheless, bankers are skeptical about its impact on its annual profitably and operations. Since the secondary market is dominated by stocks of financial institutions, amidst low investors' confidence, the market is likely to be affected further in the days ahead.

It's already been over four months since the fully automated online trading system was launched by NEPSE. But the system has not been user friendly so far due to various technical glitches. Moreover, only over 500 investors are said to be using online trading platform[85], which is less than half a percent of regular investors in the market. Apart from technical issues, the existing bottleneck to make online payment due to lack of integration with financial institutions is a major setback. The large upfront deposits required by stock brokers as a security collateral has not helped either to promote online trading. In order to facilitate the market and increase the uptake of online platform, the regulator and service providers should provide timely solution to existing challenges.

6

LABOUR SPECIAL

LABOUR MARKET OVERVIEW

Total GDP FY 2017/18:
USD 27.20 billion

Agriculture: USD 7.50 billion
Manufacturing: USD 4.02 billion
Service: USD 15.67 billion

Total GDP FY 2030/31:
USD 122.03 billion

Agriculture: USD 33.67 billion
Manufacturing: USD 18.05 billion
Service: USD 70.31 billion

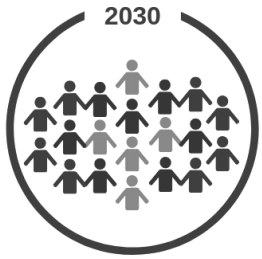
Economically Active Population

Total Population 2018
28.82 million

Economically active population: 17.73 million

Male: 47%
Female: 53%

Total Population 2030
33.33 million



Economically active population: 21.36 million

Male: 48%
Female: 52%

The landscape of Nepali labour market is changing with the increasing participation of women in the labour force. Compared to the past, it is glaringly obvious that more womenare graduating fromschools, creating surplus of empowered women in the labour market.By 2030, it is estimated that more than 500,000 women will enter the job market after graduating from school. In this regard, labour market has to create a suitable economic space for women. In a constrained job market dominated by men, there are only a handful of alternatives available for the women. In addition, empowered women are least likely to confine themselves to the orthodox role - household chores and traditional family engagement - unjustly defined by the society.Therefore, it is essential to consider contemporary and imminent relationship between jobs and labour market while drafting the economic policies.

Note: the calculation of GDP excludes " taxes less subsidies on product."

ARYA AWALE, BEED,
BEED MANAGEMENT PRIVATE LIMITED

BRIDGING THE SKILLS GAP: THE RWANDAN EXPERIENCE

One of the best ways to combat poverty and boost economic growth is through the creation of well-paying jobs. The World Bank estimates that more than 200 million working-age people are unemployed worldwide. Moreover, it estimates that in the next 15 years—due to population growth and demographic shifts—600 million additional jobs will need to be created to keep current employment rates stable.

The private sector plays a crucial role in creating jobs. In developing countries, nine out of ten jobs are created by the private sector. Yet globally, employers report difficulties filling vacant positions because applicants lack the right skills for available jobs. Last year, Manpower Group's Talent Shortage Survey of 39,195 employers in 43 countries revealed that 45% of employers faced difficulties in filling job vacancies due to a lack of available talent. Thus, there is a serious mismatch between the skills possessed by prospective employees on the one hand and the skills required by available jobs on the other.

For the developing world, the "skills gap" has emerged as a key constraint for social and economic growth. Lack of skills limits the ability of individuals to find employment and improve standards of living, of companies to improve productivity and competitiveness, and of countries to reach their full potential. To sustain their growth and development, emerging nations require an enormous enhancement of their human capital, which requires massive investment in education and training, and measures designed to attract and retain domestic and international talent. The private sector also has a crucial role to play in closing the skills gap as the public sector, especially education systems, is often unable to produce a sufficient number of qualified graduates or equip them with the skills required by employers.

In the past two decades, Rwanda has made tremendous economic and social progress. Similar to many emerging economies, however, Rwanda's growth has been constrained by an inadequately skilled workforce. While Rwanda ranked 41 out of 189 countries in the 2018 Ease of Doing Business ranking, an "inadequately educated workforce" was highlighted as a key challenge in doing business in the country.

Rwanda has recognized the need to invest in skills to sustain its growth. Human resource development was a key pillar of Rwanda's Vision 2020 and continues to be a cornerstone of Rwanda's national strategy—most recently articulated in the first National Strategy for Transformation (NST1). In keeping with Rwanda's long-term strategy, a number of government and donor programs are underway to help bridge the country's skills gap. Skills development is a crucial component of the government's National Employment Program (NEP; 2014-19). Under the program's Employability Skills Development pillar, the government aims to equip individuals with skills required for jobs in priority economic sectors. A mid-term evaluation of NEP did not quantify the number of jobs created by the program but presented a number of case studies that provided qualitative evidence that the skills, toolkits and support provided through the program had helped beneficiaries improve their own employability and create productive employment for themselves and others.

In 2017, the government of Rwanda signed an agreement with the World Bank for a USD 120 million (NPR 1.38 billion) project aimed at expanding opportunities for the acquisition of quality, market-relevant skills in energy, transport and manufacturing. The three-year Rwanda Priority Skills for Growth Program-for-Results project supports short-term training through three windows:

rapid response training, out-of-school youth training and apprenticeships/internships.

The private sector too is taking an active role in bridging the skills gap in Rwanda. Rwanda's Private Sector Federation (PSF)—an umbrella organization of Rwandan businesses—aims to go beyond advocacy in its promotion of private sector interests. Capacity building is a core component of PSF's mandate. To fulfill its capacity-building mandate, PSF aims to establish a center for skills development training, research and innovation—the Imanzi Business Institute.

A comprehensive review of existing skills development initiatives in Rwanda revealed soft skills training as a key gap in Rwanda's existing skills development landscape. Soft skills such as communication, critical thinking, teamwork and leadership are vital in the twenty-first-century workplace. World Economic Forum's Future of Jobs report revealed that by 2020, social skills—such as persuasion and emotional intelligence—will be in higher demand across industries than narrow technical skills.

proper accounting and administrative systems and rely on a single or small number of individuals to handle myriad responsibilities ranging from tax compliance to human resource management. Imanzi Business Institute aims to offer simple "rules of thumb" courses for such businesses on areas such as accounting, tax and legal compliance, and human resource management. By helping formalize business practices, these courses will be geared toward helping businesses increase profits, scale up and employ more people.

Imanzi Business Institute thus intends to improve both the ability of employers to generate employment as well as the employability of prospective employees. By doing so, the institute will serve as a key partner in achieving Rwanda's long-term vision of becoming a knowledge-based, private sector-led economy. In the long-term, Imanzi Business Institute aims to be the Knowledge Center of Africa—a world-class institute providing exemplary skills, learning and development opportunities not just for Rwanda but Africa as a whole. For now, it is set to begin its pilot or proof of concept phase later this year.

Source: Future of Jobs Report, World Economic Forum

Despite having a comprehensive Technical and Vocational Education & Training (TVET) system in place designed to equip individuals with sector-specific skills, employers in Rwanda often complain that fresh graduates lack the skills required to function in the workplace. As such, Imanzi Business Institute intends to offer short-term courses on key soft skills that enhance the employability of trainees.

Another area of focus for Imanzi Business Institute is the training of small businesses. The majority of businesses in Rwanda are small and informal. These businesses often lack

Shortage of skills is a global trend, the effects of which are most acutely felt in developing countries such as Nepal and Rwanda. In Rwanda, skills development initiatives have benefitted from a government that recognizes the importance of a skilled workforce for societal and economic transformation. Skills development initiatives in Rwanda—whether they be donor or private sector-led—are well aligned with the country's national vision and strategy. Such a coordinated effort between the government, private sector and the development community is required to tackle the skills conundrum—Nepal can benefit from this example.

BALJIT VOHRA, TEAM LEADER,
LOUIS BERGER

SKILLS DEVELOPMENT IN NEPAL

Overview

A country's development largely depends on the efficient and effective development and deployment of labour. However, in Nepal, there currently exists a "gap between academia and industry" and "graduates that don't meet the requirements needed by the employers". At the same time, slower job and wage growth (labour demand) in more skilled industries is not in-step with skilled graduates (labour supply), impels many skilled people to migrate to developed countries for better job prospects, stability, and wages while leaving behind many semi- or unskilled workers.

For example, there is a shortage of skilled labour in agriculture (trained manpower to operate farm machines), manufacturing (design cell for shoes), tourism (certified tourist climbing guides), skilled construction worker(heavy machinery operators), etc. On the other hand, majority of the Nepali firms firmly believe that a significant improvement in skills training needs to be undertaken. 56% of the 300 firms surveyed in 2018 have reiterated that they require support for pre-employment skills training, 53% required technical support for upskilling of existing employees and 39% required support for managerial skills training for senior and middle management.

Demand vs. Supply with respect to migration

There are gaps between the skill set of available labour workforce versus the demand in destination countries. Most of the Nepali migrants who choose to leave are often illiterate and from a poor background, which prevents them from accessing higher qualified occupations. They are unskilled and unfortunately don't match the existing demand for qualified, higher paying jobs and therefore, resort to low paying, unskilled jobs. Some recruitment agencies in Nepal have been training migrants into scaffolding, wielding and the Horeca sector resulting in better pay and working conditions, however, efforts on larger scale is required to address the high employability potential.

An approach to bridge this gap is by forecasting the demand (as in the case of Korea), and training the workforce to match the skill required by the destination countries. This then leads to better work and pay for the migrants, leading to an overall increase in remittances for Nepal.

Skill development programmes to match the skill set

In the context of Nepal, skill development programmes are not new; but one with a specific focus on engaging the private sector to deliver skills training sustainably in a time bound manner and at scale is minimal.

Currently, firms in Nepal focus on on-the-job training to fulfil skill development. 80% of the 300 firms surveyed preferred on-the-job training for skill development. Other preferred models include in-house training (52%), mentorship programmes (39%), and sponsor training providers (28%). External stakeholders include the Council for Technical Education and Vocational Training (CTVET) institutes and NGO/ Civil society focusing on training.

While documenting the existing models in Nepal, we also identified the global best practices, which are replicable and have a direct employment focus. These include models that are private sector led, private sector owned, public private partnerships and apprenticeships. Companies that link training to temporary and permanent employment have been studied too. The international models or best practices (used interchangeably) that have been identified are exemplars as they have all risen from a need to correct labour market imperfections and were designed with a purposeful outcome-based objective of employment and job creation.

Success Factors	Components
Employers and vocational education and training providers actively stepping into each other's worlds	• Employers pre-hiring before enrolment or providers with intake agreements • Co-developing curricula to ensure training providers bring the workplace to the classroom through apprenticeships and simulations to make it industry relevant • Regular feedback from the industry on graduates
Innovation in delivery of education and training	• Digital test preparation with preloaded tablets; tech-enabled remote teaching centres • Tech-enabled instruments to support community participation
Designing a system that works	• Better data collection and dissemination (to educate stakeholders, build transparency, and manage performance) • More sector-wide collaborations (to build industry consensus and share costs of improving education) • Creation of an education-to-employment "system integrator" that coordinates, catalyses, and monitors activity

Sector-specific skill related challenges and the existing market failures

There are several challenges related to skill development in sectors identified for transformational growth as explained in the table below:

The following possible eight categories of market failures for skill development and employment are prevalent in Nepal:

- **Risk of Attrition -** One of the major challenges highlighted for skill development was the risk of workers ***leaving the company once they have been trained***. This could be in the form of migration overseas (highlighted by Tourism sector), poaching by competitors (highlighted by agro-processing/ light manufacturing sectors), and starting their venture and becoming a competitor of the company they were

Table 1: Challenges related to skill developmen

Commercial Agriculture	Light Manufacturing	Construction/ Hydropower	Tourism	ICT
Except for large groups, processors are not engaging with cultivators.	This sector lacks competitive advantage	There are no projects on sectors like energy storage and transportation.	Service delivery is below global standards due to the lack of a defined service culture and difficulty in finding skilled, experienced workers.	There are only few large firms (Employees > 100) in this sector. A large chunk is comprised by Medium and Small Enterprises and freelancers.
Quality and cost of produce is not comparable to India.	Industries in this sector are unable to recruit and retain skilled employees.	Job specific technical skillsare lacking in this sector.	Skill gaps are prevalent across the sector.	Engineering graduates lack depth of knowledge(advanced trainings).
Nepali people do not consider farming as dignified job.	Thelabor force is highly dependent on foreign workers.	Nepal is highly dependent on foreign capital and expertise.	Skills on emergency response, culinary and communication skills are lacking	The risk of upscaling up is high due to the lack of trained resources
Farmers lack knowledge about bio-security, farm management, packaging, labelling.	There are too few practical trainings– CTVET does not provide hands-on training.	Most of the workers are seasonal in nature.	There is insufficient investment in developing new/updated tourist products and infrastructures.	The human resource lack soft skills such as initiative taking, drafting and responding to emails, language skills, among others.
The post-harvest facilities (Warehouse, Logistics, etc.) in this sector are insufficient.	Nepal lacks entire value chain in some areas such as secondary processing and electricians, among others.		There is a high turnover of skilled labors.	There are handful number of computer graduates in Nepal.

trained in (highlighted by ICT sector).

- **Imperfect information -** The stakeholders interviewed described that while they all faced challenges related to skills, there was ***limited information*** on the benefit of skill development. Workers are unaware of the market demand for skills, as there is a ***limited dialogue*** between the demand-side (businesses) and supply-side (educational institutes). There is also an ***expectation gap*** among the fresh graduates, as they can see the success of their peers overseas. The ***information asymmetry*** also leads to underinvestment in training and human resource development.
- **Incentive mismatch for skill development -** When it comes to skill development, there is a lack of incentives for various stakeholders. Nepali workers, in general, are ***more expensive*** as compared to their counterparts from the neighbouring states in India. It was quoted that labour in Nepal costs the companies 2 to 3 times higher than in India, especially when the lower efficiency of Nepali workers is accounted for. Companies are also not willing to pay higher wages for the skilled employees as compared to unskilled employees, especially for semi-skilled workers. The workers, thus, see little benefit in upskilling in terms of wages or career progression.
- **Short-termism and budgetary constraints -** Both the workers and the companies have a short-term mentality. For companies, the focus is on profits, and less on employee engagement. Typically, there is ***underinvestment in Human Resources***. Focus is on salary growth, with a goal ***towards migrating*** to a better life. This means there is limited incentive for the workers to develop skills. "We lack proper HR in the country. There must be just 30-40 of proper HR professionals in the country, and even those are not locals."
- **Inequitable access -** Typically, most of the institutes of higher learning (such as CTEVT institutions) are located close to economic centres (which tend to be urban). The labour might not come from the same areas, and therefore, there is a geographic access issue. Another challenge was the women, disadvantaged groups (DAGs) and (Persons with Disabilities (PwDs) face ***difficulties in access*** because of the additional cost, opportunity cost, distance, prerequisites, and male-oriented training setup. ***Gender tracking***, i.e., a pattern that reinforces male-female distinctions in occupational and income disparities, is evident in CTVET institutions as female enrolment is much higher in traditionally female skills like housekeeping and caregiving (ADB, 2013). Finally, the lack of a ***financial ecosystem*** for education was highlighted as a factor for the lack of skill development in Nepal.
- **Ecosystem imperfections -** There is a ***lack of coordination*** between the private sector and training providers. This leads to issues in terms of the development of a market-driven curriculum in Nepal.
- **Low skills trap -** The companies in Nepal are typically focused on low value-adding activities across the sectoral value chain. For example, the value added per worker for manufacturing in Nepal was NPR 223,000 (USD 1939 or £ 1,380) per year in 2011/12 (CBS, 2014) compared to a global average of NPR 2.77 million (USD 24167 or £17,200) per year.
- **Externalities to the skills market -** Besides the market-related factors in Nepal, other external factors impact the skill development. The official minimum wage of NPR 13,450 (USD 116.94 or £ 90) per month has created issues for the companies regarding hiring workers and developing skills. The minimum wage, which has been effective since July 2018, is a 38% increase over the previous limit. The stakeholders mentioned that this would mean a retrenchment for blue-collar workers even to the order of 20%. This also has led companies to evaluate hiring more contract-workers or converting the workers to partners (e.g. some agri-estate workers might now effectively become self-employed operators of the estates) to maintain the cost of operations. Since companies have fewer incentives to develop skills of contractual workers, this change indicates that the potential impact of skill development will be lower.

Private – Public engagements to enhance skills

Sustained economic growth needs productive human capital, job creation, and investments, aided by collaborative action between the government and businesses. Design of evidence-based public employment guarantee schemes and secondly in the design, piloting and scaling up of innovative employment and training approaches in the industrial corridors is critical. There is an urgent need for brokering public-private collaborations, and demonstrating replicable and scalable models for skill development, job creation and migration optimization.

Potential models of engagements for piloting and scaling innovative employment and training approaches include:

- **Approach 1:** Employer or network of companies forge partnership with an existing training provider
- **Approach 2:** Employer or group of companies invest in a new training provider
- **Approach 3:** Existing training provider expands/

strengthens capacity by cultivating stronger industry linkages

- **Approach 4:** Employer expands/strengths the internal training system with access to the public
- **Approach 5:** Private service provider extends and expands training to increase incomes and productivity; and/or to foster employment and entrepreneurship
- **Approach 6:** SME-enabler invests in training and entrepreneurial support system and solutions for start-ups/SMEs
- **Approach 7:** NGO/CSO/Non-profit service provider train for inclusion in partnership with employers/ training providers
- **Approach 8:** Network of employers build a collectively owned internal solution to build soft-skills of employees

Moreover, to achieve Nepal's vision of graduating to a middle income country status by 2030, some of the skillsets that will be essential include digital skills (from basic skills such as process control technicians to advanced skills for ICT sector), skills related to construction (general/ specialized skills), skills related to tourism (from tour guides, mountain guides to skills in hospitality and retail), and skills related to entrepreneurship/ small business management.

In short, Nepali people who are seeking to go abroad for employment out of desperation for livelihood need to be incentivized through a skills training and placement to the industry which is in dire need for skilled manpower.

Skills for employment programme

The overall objective of of the UKaid-funded 4-year Skills for Employment (SEP) is to work with the Government of Nepal, employers in the private sector, training and education institutions to carry out innovative employment interventions, including skills training and job placement, which provides higher income for individuals and increases the productivity of firms in growth sectors.

UKaid SEP will focus on ICT, tourism, commercial agriculture, construction (hydropower) and light manufacturing sectors through sectoral interventions in skilling, employment, migration and remittances that enable job creation and increase incomes. The programme will also focus on harnessing the benefits of migration for Nepal's workforce and economic development by demonstrating several cost-effective models to increase migrants' skills; lower financing and other costs of traveling abroad; and, increase savings and investment of remittances. As a result, the project will help reduce the skills mismatch, reaching over 90,000 Nepalis with an increase in income of at least 20% attributed to the project. Of these beneficiaries, 40% will be women and 40% from Disadvantaged Groups (DAGs) including Persons with Disabilities (PwDs).

UKaid SEP will draw on national and international resources and expertise to provide co-investment and technical advisory support to the Nepali private and public sector. It will use a 'Challenge Fund' mechanism to partner with the private and public sector to bring in innovative training models in the above-mentioned sectors and address the key gaps while also leveraging Nepaliprivate and public sector resources. In selecting innovative models for partnerships, the Challenge Fund will deploy eligibility criteria that will include: i) response to market failures, ii) number of beneficiaries trained and placed in gainful employment, iii) impact, iv) innovation, v) additionality, vi) inclusion, vii) scalability, viii) leverage and ix) sustainability.

Over the past few months, the programme has commissioned several activities to lay the groundwork for the successful implementation of the programme. These include: i) macroeconomic surveys, ii) identification of market failures, iii) skills gap assessments, iv) support for federal; provincial and local government skilling initiatives, and iv) creation of Challenge Fund "windows" to address market failures and establish the basis for partnerships using the co-investment model. Further, consultations with various stakeholders and ideation labs with industry associations have helped identify gaps in demand and supply in skills and migration, and has helped identify areas for potential collaboration that would enable employment and better opportunity, and increase in income for Nepali workers. These opportunities for partnerships will be pursued in the implementation phase that will commence in mid-March 2019.

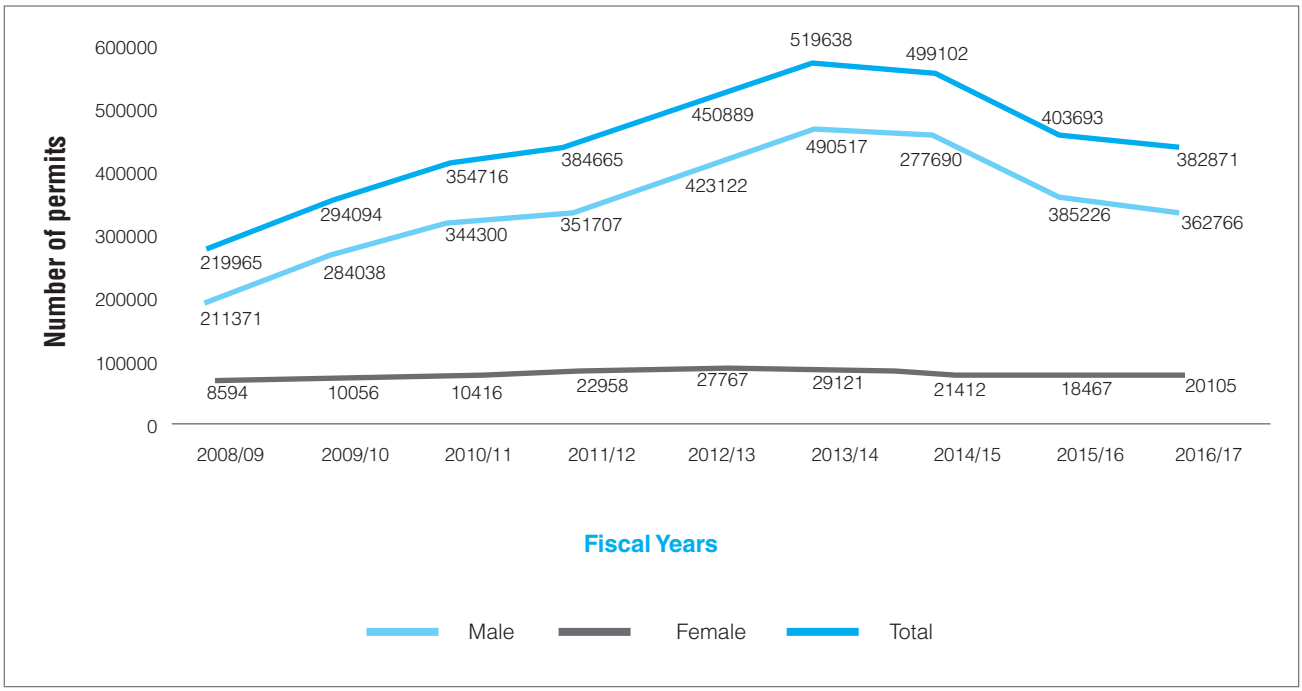
GIUSEPPE SAVINO, SENIOR DISTINGUISHED FELLOW,
NEPAL ECONOMIC FORUM

ECONOMIC SIGNIFICANCE OF LABOUR MIGRATION

In Nepal, the year 2000 marks the beginning of exponential growth of both remittances and international labour migration. From 2008 to 2017, over 3.5 million foreign labour permits were issued by the Department of Foreign Employment (DoFE) .

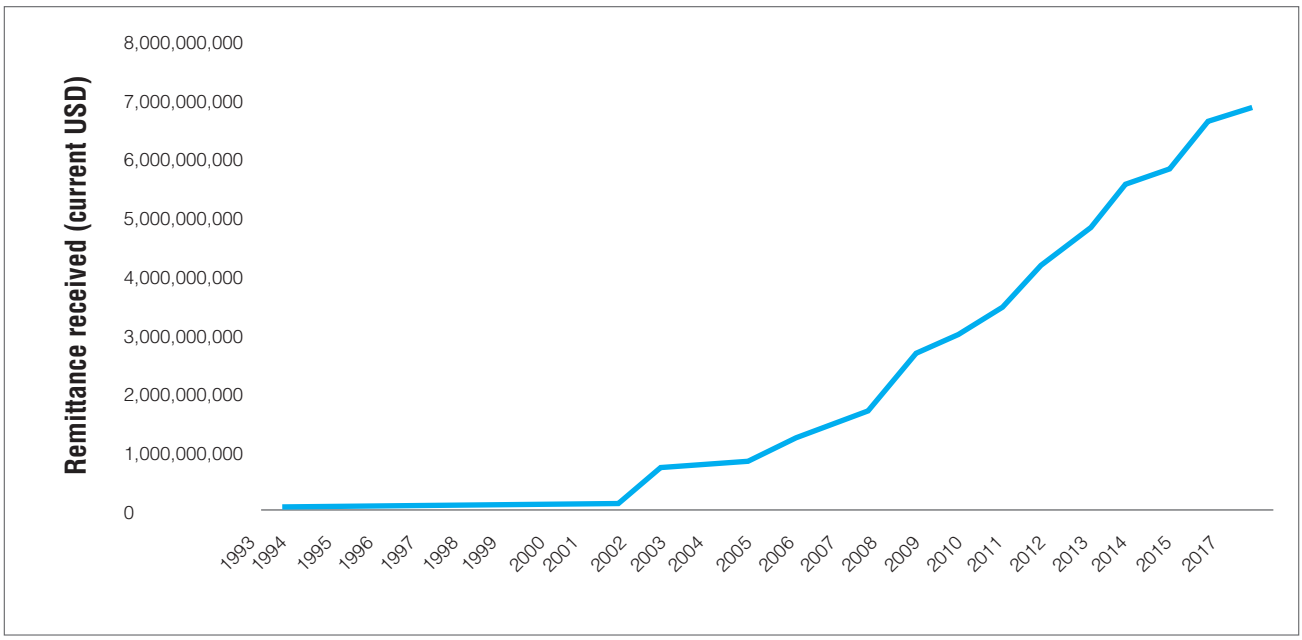
In 2016, income from remittances contributed to 29.7% of the country's Gross Domestic Product (GDP), compared to 2.4% in 2001, ranking Nepal amongst the top five remittances recipient as a share of gross domestic product as shown in Figure 3. Remittance income constituted a significant part of total income for migrant households and represented more than half of the household income for 58% of households, with 8% of households having no source of income beyond remittances.

Figure 1: Number of Labour Permits Issued from 2008 to 2017



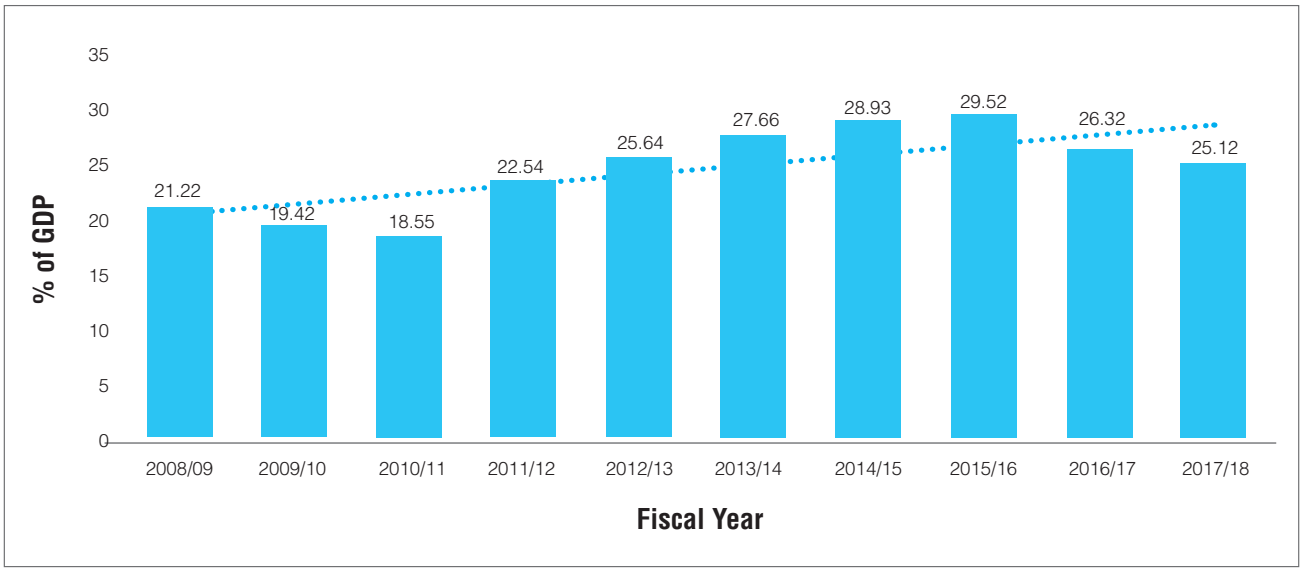
(Source: Ministry of Labour and Employment)

Figure 2: Personal Remittance Received from 1993 to 2017



(Source: World Development Indicators, World Bank)

Figure 3: Remittance as a Percentage of Gross Domestic Product



(Source: World Development Indicators, World Bank)

Nepal's migration and remittances expoure to external geo-politcal and economic factors

Nepal's socio-economic dependence on migration exposes the country to several risks, mainly due to external economic events and political decision affecting migration taken by the governments of the destination countries. For instance, Nepal's migration is highly concentrated in the Gulf Cooperation Council (GCC) countries (58%). The GCC countries that are facing fiscal tightening and economic slowdown because of the low oil prices have reduced the demand for foreign low-skilled workers, which represented 74% of Nepal's migrants. This has led

to a decline in the inflow of remittances to Nepal. Hence, Nepal's migration and remittances are highly exposed to such externalities.

Nepal's scale of dependence on remittances

As mentioned before, remittances in 2016 represented 29.7% of the country's GDP but imports of goods in 2015 represented almost 31% of GDP and exports counted only 3% of the GDP. This indicates that Nepal is highly dependent on remittances to finance its imports and support domestic growth. At macroeconomic level, remittances were the major driver for keeping a positive Balance of Payment constituting 62% of the year's Current Account receipts . In such a scenario, a significant drop in remittances could have destabilising effects on Nepal's economy.

A proactive approach towards migration on both the domestic and international arena is to be recommended considering Nepal's dependence on foreign employment and remittance. A reactive approach to labour migrations issues could leave Nepal unprepared to address the domestic demographic pressure that would build up, should the migration flow be hampered due to events exogenous to the country as well as the economic difficulties that an ensuing drop in remittances would cause.

The push factors

The major push factors for external migration in Nepal are poverty and low income (Nepal GDP per capita in 2016 was USD 732, the lowest in South Asia), illiteracy, unemployment and/or underemployment, lack of prospects for livelihood improvement, limited access to productive resources and shrinking opportunities to engage in economic activities.

The underemployment situation in the country where 54% of the population in 2011, worked less than 40 hours per week, highlights the precarity of job occupation and unpredictability of work revenues. Uncertainty about one's expected flow of revenue prevents long-term socio-economic planning. In addition, wages in some of the manufacturing sectors in Nepal ranged from NPR 5,000 to NPR 15,000 in 2012 while unskilled workers in the GCC countries can earn the equivalent of NPR 25,000 plus benefits in similar sectors.

On an average, since 2008, 20.5% of Nepal's working population (15 - 64) left the country every year to work abroad, the majority of the migrants being younger 28 years on average. In other words, Nepal has been losing its youngest and most vibrant segment of its population that it badly needs for economic development.

Impacts of foreign employment

Foreign employment has been beneficial for the migrants and their households. From 2001 to 2011, the literacy rate increased from 48% to 65%, the HDI improved from 0.44 to 0.55 whereas poverty dropped from 40% to 25%. Food security, improved housing, better education and health have been achieved through migration, which are parts of human capital development. However, Nepal's economy has increased its dependency on remittance. Some say that migration has eroded competitive advantage of Nepal by weakening export sector of the economy, however, Nepal's economy has not been able to undergo the needed economic transformation to absorb the inflow of remittance, create jobs for the Nepali that come to the job market and reintegrate migrants in the economy once they return.

At the micro-level, migration has been responsible for family breakdowns, exploitation from the local recruitment agencies charging excessive migration fees and inhuman treatment of migrant workers by employers and problems of reintegration of migrants upon return.

Migration of Nepali adults has created a scarcity of potentially productive workers, a majority of them are from Province 1 and Province 2. Labour shortage has enlarged the already existing inefficiencies in farm production as well as increased the wages for seasonable work in the agriculture sector. The increase is sufficient to attract Indian migrants from the bordering state of Bihar where, according to the World Bank, 37% of the population lives under the poverty line. Nevertheless, the labour shortage induced by migration cannot explain an economic growth constraint. What limits Nepal's economic potential growth amongst other things, is the absence of a conducive environment for starting new businesses and the ability to channel the skills that migrants acquired abroad and their savings into a thriving economy or business-minded ecosystem.

Addressing the labour migration

Migration should not be determined by necessity but should rather be an additional option for anyone to increase his or her human capital. Migration should be voluntary, informed, safe and regular. Nepal's migration bears high socio-economic costs. The Government of Nepal

(GoN) could either regulate/ban migration or reduce the importance of the push factors by improving the economic perspectives for Nepali in their own country.

The GoN is taking measures to support the transformation of Nepal's economy and improve the prospects for a better future. Some of the measures include increment of a minimum wage in the Labour Act 2017 and the introduction of Prime Minister Employment Programme (PMEP), increasing the support to unemployed Nepali. Additionally, there are provisions of loans for the returnees to start their own business. These measures, if successfully implemented, will reduce the drive to migrate.

On the other hand, regulating migration by "force" will not work. For instance, the participation of women in foreign employment has been highly regulated by the GoN since the promulgation of the Foreign Employment Act in 1985. Nepal introduced specific regulations and migration bans on women with the intent to protect them from long working hours, sexual violence, physical abuse and economic exploitation . Unfortunately, this approach has increased the trafficking of women through the India-Nepal porous border and pushed women into illegal/ irregular migration.

Investing in labour market to achieve vision 2030

The GoN in its 'Vision 2030' has stated that it is looking forward to graduating from the Least Developed Country category to becoming a middle-income country and achieving the Sustainable Development Goals by 2030. Nepal needs a new industrial policy to promote manufacturing and the export sectors and a holistic approach to labour migration. The PMEP has identified (amongst other sectors) commercial agriculture, light manufacturing, construction hydropower, tourism and ICT as priority sectors. Most of these sectors are high labour-absorbing and open to unskilled, semi-skilled and skilled workers.

Nepal will have to implement its structural and economic transformation aiming at long-term economic growth and investment in infrastructure (PMEP) to achieve annual growth of 7%. But this will not be the benchmark to foster development and inclusivity; social redistribution will be a determinant.

Nepal still has a demographic dividend to use for its economic objectives but needs to create a conducive economic environment to unleash its potential.

PUSPHA RAMAN WAGLE, MEMBER SECRETARY,
COUNCIL FOR TECHNICAL EDUCATION
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ROLE OF TECHNICAL AND VOCATIONAL EDUCATION IN NEPALI SKILL AND LABOR LANDSCAPE

The Council for Technical Education and Vocational Training (CTEVT), is an apex organization offering different kinds of skill development programs. As such, the institution is committed to the development of technical and skilled human resources. In this context, it has been offering coursed for proficiency/ diploma level, technical school leaving certificate and short- term vocational and skill trainings to approximately 60,000 students every year.

Despite the introduction of wide range of programs to support the domestic labour market, the outcomes have been limited. The labours with limited eduation are unlikely to find employment in the nation. Therefore, with an aim to fill the unemployment gap, CTEVT provides technical and vocational education to people interested in acquiring professional skills. Though theprogram focuses on the sectors including health, tourism, management, agricultureand service, the courses arerevised considering the requirements of the domestic labor market and national economy.

CTEVT also conducts employment verification programs. Surveys have shown that more than 75% of the graduates from CTEVT have been employed or have started their own businesses. Further, with the financial support of Asian Development Bank, CTEVT has alsoprovided short term training courses to 60,192 individuals out of which approximately 70% were found to be employed.

Role of Private Sector in Job Creation

The private sector has played a significant role in employing the graduates from CTEVT. The private sectoris the bedrock foundation of any economy and primary source of employment. They play a pivotal role in increasing the overall productivity of a counrty. Therefore, human resource should be developed accordingly to cater the need of the private sector. CTEVT has been working closely in collaboration with the private sector in designing demand driven courses.

Issues and prospects

Though the labor force is an essential engine of the economy, Nepal's existing employment situation and economic growth pattern faces myriad of issues. The orthodox norms of the society wherein labors are often considered as an outcast has aggravated the supply deficit. The labor market has not been able to supply the required human resources, consequently, Nepal needs to outsource labor from the neighboring countries. As our routine tasks depends on the service provided by such labor, it is the responsibility of society to encompass the culture of respect.

To accelerate the participation of the labor force in the market and mitigate challenges, policy reform is a must. Implementation of such policies will create an encouraging environment and help to overcome the situation of labor deficit.

Conclusion

As Nepal aims to achieve middle-income status by 2030, the domestic labor market should be safeguarded with appropriate labor policies to retain human resources and emulsify development activities. The technical and vocational education must be provided free of cost to ensure inclusive participation of the population. Similarly, transparent monitoring and evaluation of the training programs are significant to improve the quality of laborforce.

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INTERNATIONAL LABOUR ORGANIZATION NEPAL

MAKING JOBS ATTRACTIVE IN NEPAL

The National Planning Commission estimates that 525,000 people enter the Nepali job market every year, which is far more than the number of jobs created. The manufacturing sector produces about 20,000 job a year, and the government produces a similar amount. Nepal Labour Force Survey 2018 shows that the labor force participation rate is less than 40% implying many people are out of the labor force. The same survey shows that the unemployment rate is over 11% and underemployment is over 8%. Clearly, there is a lack of jobs to keep economically active population in the country.

The Nepali economy needs to be fully integrated into the global economy and the investment climate must be significantly improved in order to create jobs on the scale that is needed. There will not be a significant increase in new jobs in Nepal until there are improvements in the investment climate for domestic and international companies, including SMEs. Foreign Direct Investment (FDI) influx in the first five months of FY 2018/19 is approximately NPR 7 billion, which is a small fraction of total FDI in South Asia. This should change and Nepal should be an attractive country for investment.

Strengthening the job market

Lack of jobs is a fundamental factor, but is not the only factor that propels young people to leave the country for work. The quality of jobs is lacking in many cases, and quality is not defined by wages alone. In many cases, wages may be less or only slightly more than job available in Nepal and yet people still chose to go. Factors that are important to workers include working times, work environment, safety and health conditions, consistency in the availability of work and on-time payment of wages.

Cultural factors are also highly significant as migrating for work abroad is generally highly valued, especially in the case of men. There are also negative associations with certain types of service work and manual labor within Nepal, and many people find it more comfortable to work in these professions outside of Nepal but would never do it in Nepal. Young people also point out that they leave the country as it is easier to save money outside the country because inside Nepal, they are somewhat burdened by family responsibilities and social obligations.

There must also be an effort to improve job quality by strengthening labour administration to ensure that companies move toward full compliance with labour and contribution based social security laws and that there are systems in place to resolve labor disputes in a timely, fair and transparent manner. There should be sufficient number of labour inspectors to monitor workplace environment so that workers are not forced to work in a suboptimal situations.

It is also important that a systematic wage setting mechanism be established that follows standard approaches to determine appropriate wage levels and monitor the impact on different sectors and businesses. Wages setting procedures should take into account the needs to provide decent wages to workers, while at the same time, allowing essential economic growth and job creation to continue.

Job counseling that is available in public migrant resource and employment centers needs to be improved so that young people entering the job markets can make informed decisions whether to migrate or not. Generally young people do not consider the long term career gains of obtaining necessary educations and skills qualifications and seeking work in Nepal. Generally migration has been good for Nepal but those who have migrated for work, there is little thought in the initial planning stages of how overseas work can then feed into a career strategy upon returning to

homeland. Reintegration support for migrants is equally important as the initial pre-departures services.

Apart from ensuring that jobs are decent in terms of working conditions, wage, safety and health and access to social security, younger people also expect a degree of "time autonomy" in their work. This gives workers control over the amount of hours they work and achieve the healthy work life balance.

Support for new developments without extra regulation is also important because it will allow new business models to develop that are in line with market demands in Nepal and the aspirations of young people. It is important in this to ensure decent working conditions and access to social security within these novice working modalities. Providing workers with lifelong learning opportunities that support then to shift their job responsibilities repeatedly throughout the careers is also important.

Role of Regulations and Policies

Labor act 2017: The Labor Act 2017 has in many ways created an impact to make jobs attractive in Nepal. The law prohibits all forms of discrimination and promotes equal access to opportunity. The law provides maternity leave 14 weeks of total leave, including 2 months of paid leave for women for example. It is a positive step towards making jobs decent as it specifies regulations regarding the termination of jobs, labor inspection,severance benefits and workplace safety more explicitly.

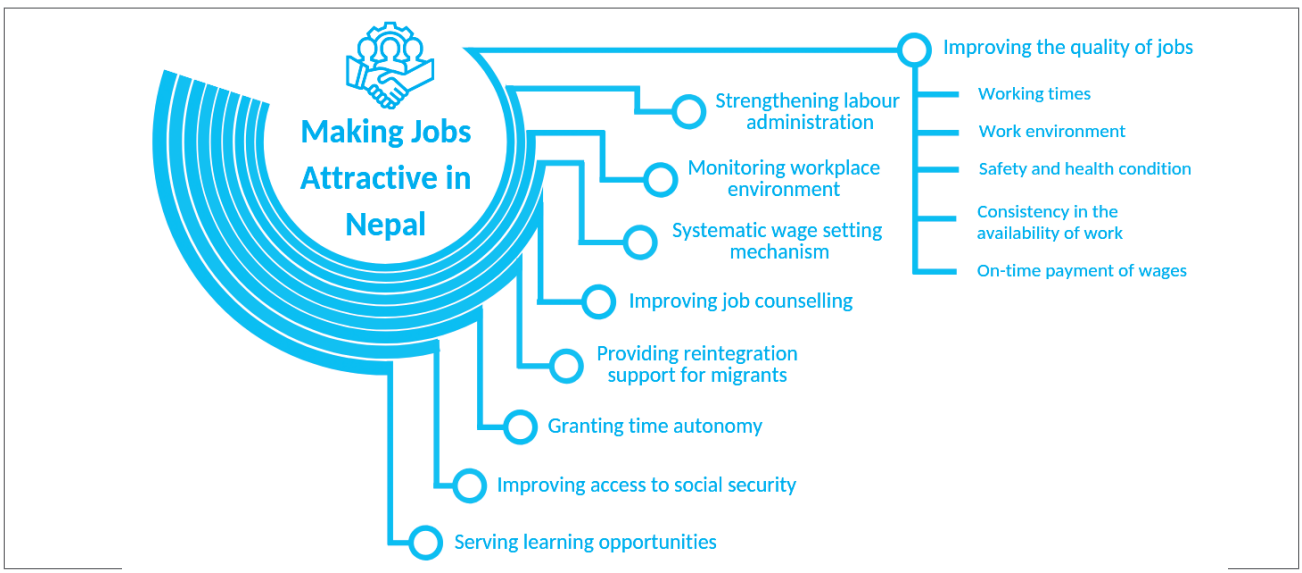
The Act (particularly, the accompanying labor regulation) also explicitly regulates manpower firms, a significant development given the out flux of workers from Nepal. This can eventually reduce the asymmetric information prevalent in Nepal about the working conditions abroad and may make some of the jobs in Nepal more attractive.

Nonetheless, despite these positive developments, there is little awareness and considerable misunderstanding about the law. The government also has a very narrow coverage of labour inspection which makes enforcement very difficult.

Social security scheme and the Prime Minister employment programme: A proper social security system is a precondition for making jobs decent and moving the economy from largely informal to more formal. The newly launched social security schemes are important steps in that direction. The scheme will eventually provide unemployment benefits and other related benefits in exchange of increased authority for employers in adjusting their workforce size based on market needs. This should contribute to continued improvement in industrial relationship in Nepal and indirectly support growth of jobs.

The Prime Minister Employment Program is also an important step towards creating a more equitable society. It will match people to available employment opportunities and will provide unemployment benefits to those who cannot be provided with jobs. The program also aims to train people with necessary skills so that they can access jobs in the future.

We expect both of these programs to positively affect labor market scenario in the long run, but as with the labor, the degree of impact will depend on the quality of implementation.



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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) 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.

NEPAL ECONOMIC FORUM

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

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

beed devCon

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 or niraj.kc@beed.com.np

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