



NEPAL
ECONOMIC
FORUM

nefport

**DIGITAL TRANSFORMATION BROUGHT ABOUT
BY COVID-19 GLOBALLY**

DOCKING NEPAL'S ECONOMIC ANALYSIS

ISSUE 43 | DECEMBER 2020

CONTENTS

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NEPAL FACTSHEET 4

EDITORIAL 5

1 GENERAL OVERVIEW 7

Political Overview 8

International Economy 11

2 MACROECONOMIC OVERVIEW 14

3 SECTORAL REVIEW 18

Agriculture 19

Energy 21

Infrastructure 22

Real Estate 24

Education 26

Health 28

Tourism 30

Trade and Debt 32

Foreign Aid 35

Remittance 37

Environment 39

Information and Communication Technology 41

4 MARKET REVIEW 43

Financial Market 44

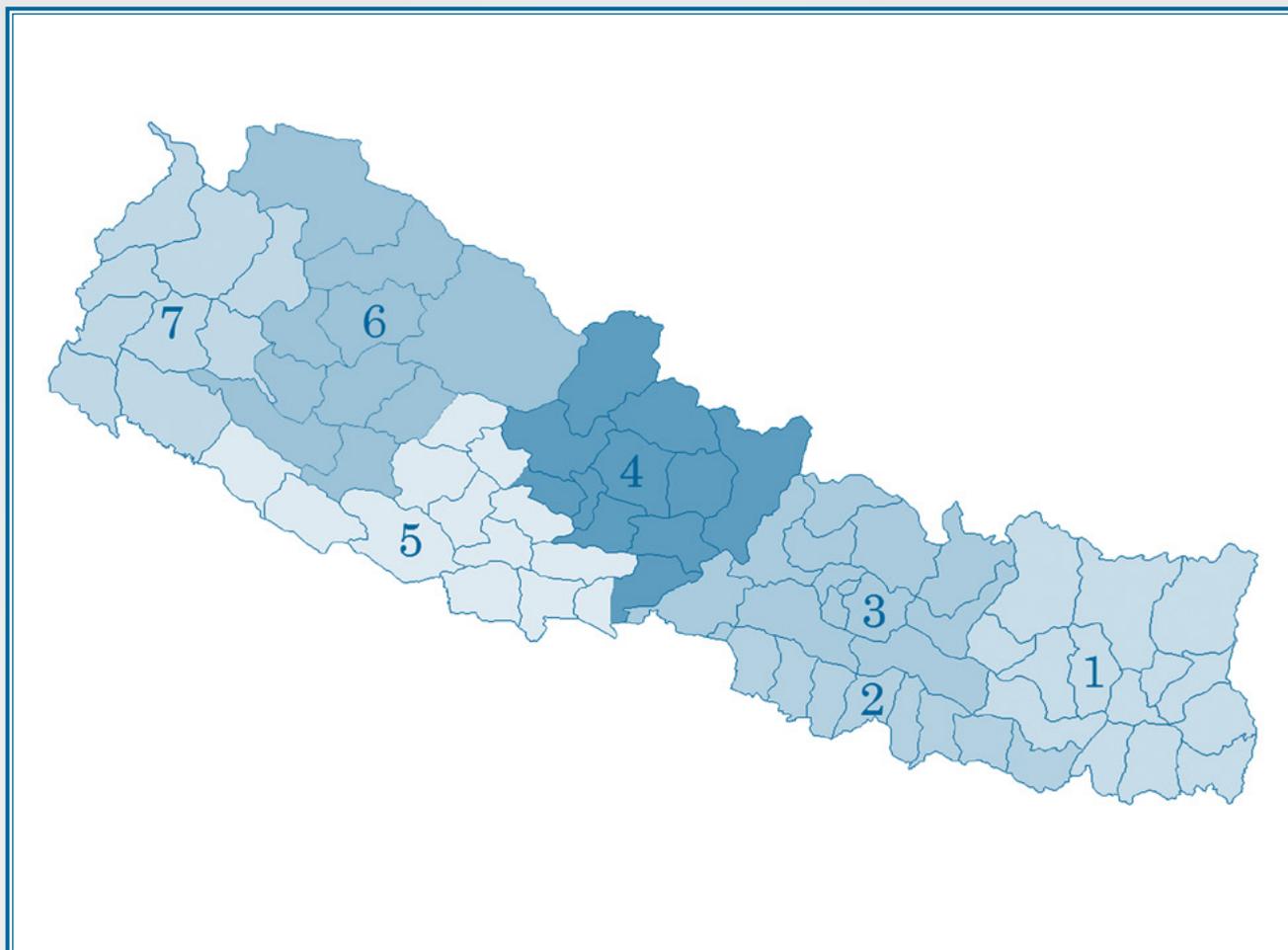
Capital Market 46

5 SPECIAL SECTION: DIGITAL TRANSFORMATION BROUGHT ABOUT BY COVID-19 GLOBALLY 49

6 ENDNOTES 54

7 NEF Profile 58

NEPAL FACTSHEET



KEY ECONOMIC INDICATORS

GDP (2019) ***	USD 30.6 billion	GDP Growth rate (%)***	0.2%
GNI (PPP,2019) ***	USD 3610	Inflation (y-o-y) ****	4.05%
Gross Capital Formation as of 2019, preliminary estimate (% of GDP) ***	50.2%	Agriculture sector (% share of GDP)**	27.65%
HDI *	0.602	Industry sector (% share of GDP)**	14.27%
Rank	142	Service sector (% share of GDP)**	58.08%

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

** Based on Nepal Rastra Bank's 12 months data of 2019/20

*** Based on World Bank Data

****Based on 4 months' Data (2020/21)



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EDITORIAL

This is the last issue of nefport for 2020 and least to say, the year was an eventful one filled with challenges and massive changes. The impact of COVID-19 pandemic have been unimaginable with ramifications felt across the world. As we welcome 2021, the questions of 2020 still remain as to how long the pandemic will persist and when can we get back to a life of pre-COVID times. Nevertheless, we at NEF strived to maintain a positive attitude throughout 2020. We have continued to provide our readers an uninterrupted and timely publication of nefport throughout the past year and thus endeavored to keep them abreast with the latest developments across the nation and provide in-depth views on essential sectors of the economy.

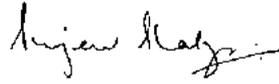
The economy of the nation owing to the pandemic and months of ensuing lockdown finally seems to be on the track to recovery albeit slowly. The World Bank in the month of October estimated that the economy of Nepal would grow by a meagre 0.6 percent in the fiscal year of 2020/21 as against 8.5 percent as projected by the government in the last fiscal year. The ensuing COVID-19 pandemic and prolonged lockdowns were particularly hard on tourism and hospitality sector, informal sector, service industries, supply chain and health sector. Furthermore, the capital expenditure by the government from the total capital budget has not picked up pace as desired to quicken the recovery process. Nevertheless, the e-commerce sector portrayed promising outlook resulting from quick adaptation and diversification. Another surprising factor was the increase in the flow of remittances despite the predictions made otherwise owing to the pandemic. Foreign employment has not only been a backbone in terms of overcoming unemployment challenges but also uplift Nepal's economy by means of remittances particularly during the pandemic.

In terms of political scenario, the nation witnessed a major turmoil caused by the sudden dissolution of the House of Representatives and announcement of fresh elections by the Prime Minister KP Oli two years before the schedule. The nation now stares at a political uncertainty and an anxious few months leading up to the election, would there be one. What is certain is that the ongoing political crisis would adversely impact the nation's recovery from the pandemic, which has already been hard for its citizens.

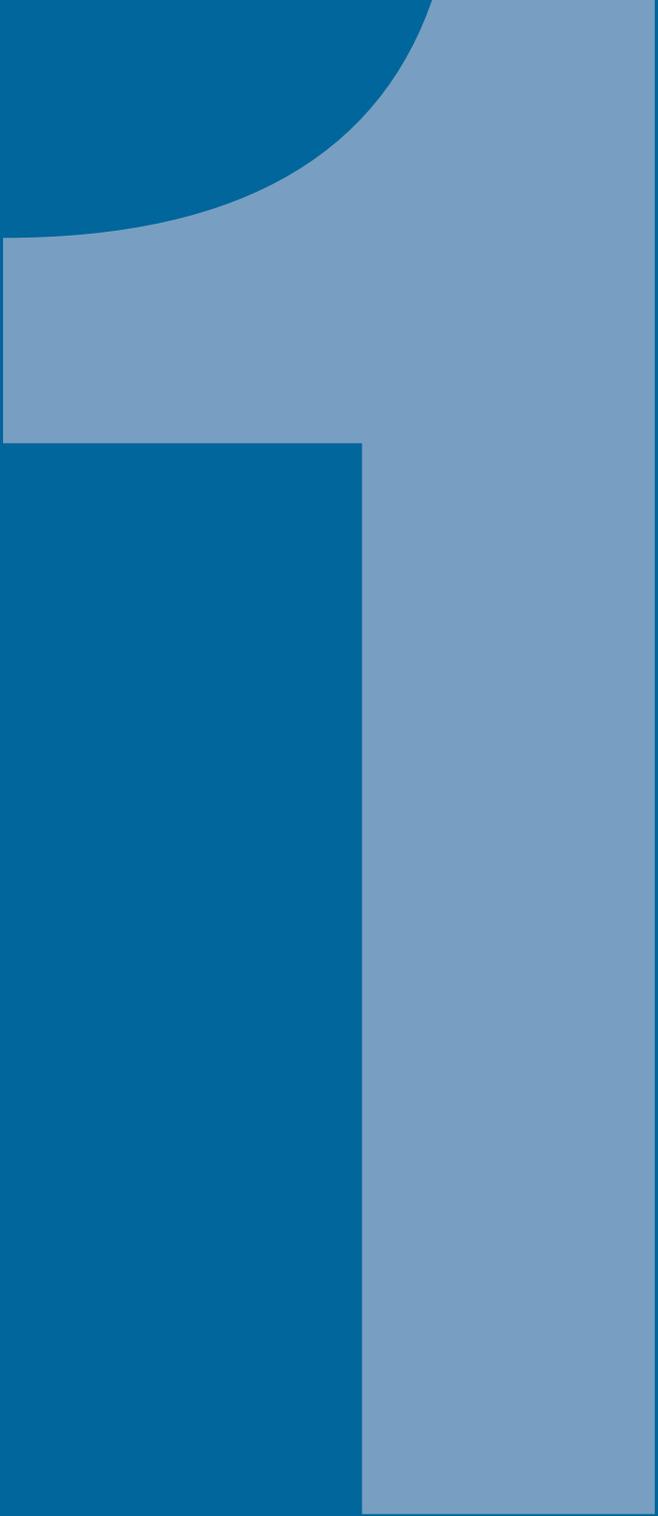
Despite the ongoing pandemic and the political crisis, NEF will endeavour to function with utmost positivity and perseverance and provide regular necessary updates, reports, blogs and information through various mediums. The special section of this nefport edition focuses on 'Digital transformation brought about by COVID-19 globally', which highlights changes brought by the ensuing pandemic in the digitization process

globally. We hope you enjoy reading this issue.

The NEF team would like to thank its well-wishers, followers, advisors, and partners for their continued support through the past year and particularly volunteers from beed for their valuable contributions. As always, we look forward to receiving your valuable comments and suggestions. We wish all the readers a safe and prosperous New Year.



Sujeev Shakya
Chair, Nepal Economic Forum



GENERAL
OVERVIEW

POLITICAL OVERVIEW

Nepali politics saw quite a bit of turbulence this quarter. Since COVID-19 broke out in the country, health facilities have been overwhelmed with cases and lack of infrastructure. But instead of concentrating all efforts in tackling the pandemic, Prime Minister KP Sharma Oli has been focusing more on holding onto power. With the ruling Nepal Communist Party (NCP) as well as the main opposition Nepali Congress busy with internal power disputes, the citizens have been taking huge hits from the virus and the dwindling economy. As the government has been failing to implement or even come up with proper decisions to help its people, it seems people have started losing faith in KP Oli and his government. Despite widespread criticisms, the government hasn't been able to address most of the crucial issues in sectors like health, education, infrastructure, and the economy.

Yubaraj Khatiwada resigned as Minister of Finance and Minister of Communication & Information Technology:

Dr. Yubaraj Khatiwada, on September 4, resigned as the Minister of Finance and the Minister of Communication & Information Technology. Prime Minister KP Sharma Oli had previously reappointed him as the Finance Minister on March 4, 2020, after the completion of his tenure on March 3, 2020. The ruling Nepal Communist Party (NCP) decided not to reappoint Yubaraj Khatiwada to the National Assembly, as there was only one seat vacant, and the NCP decided to nominate Bamdev Gautam instead. The constitution does not allow non-elected people to be appointed as a minister if he/she does not take oath as a member of either the House of Representatives or the National Assembly within six months of their appointment. Until the vacant minister positions were

filled, PM Oli took responsibility for both ministries. President Bidya Devi Bhandari approved the PM's recommendation.¹

Bamdev Gautam appointed as a member of the National assembly:

President Bidya Devi Bhandari appointed Nepal Communist Party's vice-chair Bamdev Gautam as a member of the National Assembly on September 17, after the recommendation from the Cabinet. Chairman of the Upper House, Ganesh Prasad Timalina, administered the oath of office and secrecy to Gautam. The seat was vacant after the two-year tenure of Yubaraj Khatiwada ended on March 3, 2020. The NCP decided to nominate Gautam for the NA instead of Khatiwada, which forced Khatiwada to resign as the Minister of Finance and the Minister of Communication & Information Technology.² The decision of the NCP and the cabinet

to nominate Gautam drew criticism as people denounced the NCP's action of nominating those who were previously rejected by the people. Gautam had lost to Sanjay Gautam of Nepali Congress during the 2017 parliamentary elections from Bardiya Constituency 1.

Cabinet reshuffled with three new ministers added to the council of ministers:

Prime Minister KP Sharma Oli made a few changes to his cabinet on October 14, appointing three new ministers to the council of ministers. As per PM Oli's recommendation, Bishnu Paudel, who is the General Secretary of the ruling Nepal Communist Party (NCP) was inducted as the new Minister of Finance. Similarly, Krishna Gopal Shrestha was appointed as the new Minister of Urban Development, and Lila Nath Shrestha was appointed as the new Minister for Women, Children and Senior Citizens. Parbat

Gurung, who was previously the Minister for Women, Children and Senior Citizens, was appointed as the Minister of Communications and Information Technology. Furthermore, PM Oli himself took the responsibility of the Ministry of Defense after removing Deputy PM Ishwar Pokharel as Minister of Defense. Pokharel was instead given responsibility of looking after the Office of the Prime Minister and the Council of Ministers.³ With these additions, the cabinet now comprises of 25 members, the maximum number of members allowed as per the constitution. The reshuffle of the cabinet, however, brought dissatisfaction to a few leaders close to the NCP co-chair Pushpa Kamal Dahal and senior leader Madhav Kumar Nepal, as all three of the new ministers were people close to PM Oli.⁴

No confidence motion against Chief Minister of Karnali Province: Tensions rose inside the Nepal Communist Party (NCP) after 18 out of 33 NCP lawmakers in the Karnali Provincial Assembly, led by NCP Karnali Province co-in charge Yamlal Kandel, registered a no-confidence motion against the Chief Minister of Karnali Province Mahendra Bahadur Shahi citing his incompetence in leading the provincial government as well as the party.⁵ In order to save his post, CM Shahi sought help from the party's central leadership. Accordingly, NCP chairperson Pushpa Kamal Dahal held a meeting with PM KP Oli and senior leader Madhav Kumar Nepal to lobby to save Shahi's post. NCP leader Subash Nembang, on behalf of PM Oli, urged the opposing lawmakers in Karnali to step back. The majority of the lawmakers who earlier tabled the no-confidence motion remained absent during parliamentary party

meeting. Thus, the no-confidence motion failed as it could not bring in enough votes. According to the leaders, a new power sharing deal was reached between the two opposing groups, where the Karnali Province government would soon be reshuffled and some of the opposing lawmakers would be appointed as ministers of the province.⁶

Indian Army Chief arrived on a three-day visit to Nepal: Indian Army Chief Manoj Mukund Naravane arrived in Kathmandu on November 4, on the invitation of the Chief of the Nepal Army General Purna Chandra Thapa. Naravane's trip was the first official high-level visit from India after the border dispute that spewed between the two nations. The main agenda of the visit was the conferment of the honorary rank of General of the Nepal Army in a special ceremony at the Shital Niwas by President Bidya Devi Bhandari. The Nepali Chief of Army Staff General Purna Chandra Thapa was conferred the honorary rank of General of the Indian Army in January last year by President Ram Nath Kovind in a special ceremony in New Delhi as well. This tradition of conferring Army Chiefs with the honorary title between the two countries has been followed since 1950.⁷ Naravane also held bilateral talks with Thapa and interactions with senior army officials at the Bhadrakali headquarters. Before ending his visit, the Chief of the Indian Army also paid a courtesy visit to Prime Minister KP Sharma Oli in his official residence in Baluwatar. The PM shared his view on how the border issue between the two countries can be solved through dialogue.⁸

Bamdev Gautam allowed to retain his post in the National Assembly and assume ministerial position:

The Supreme Court of Nepal, on November 11, made way for NCP vice-chair Bamdev Gautam to be appointed as minister and assume his post in the Upper House despite widespread criticisms and petitions. Senior advocate Dinesh Tripathi had filed a writ petition demanding the cancelation of Gautam's nomination to the Upper House against the Office of the President, Office of the Prime Minister and Council of Ministers, Bamdev Gautam and the NCP citing it was against the Constitution and failed to respect the verdict of the people. However, a constitutional panel consisting of Chief Justice Cholendra Shumsher JB Rana and Justices Biswombhar Prasad Shrestha, Hari Krishna Karki, Ishwor Prasad Khatiwada and Deepak Kumar Karki denied the motion to restrict Gautam from becoming a National assembly member or a minister.⁹

NCP secretariat meeting called: Amid rising tensions between the two NCP chairmen, Pushpa Kamal Dahal and KP Sharma Oli, Bishnu Paudel, the General Secretary of the party, called the long-anticipated Secretariat meeting with approval from both Dahal and Oli on November 13, 2020. The meeting, which was held in the prime minister's residence in Baluwatar, concluded after both parties came to a decision to hold another Secretariat meeting on November 18. The agenda of the next meeting was discussed and mostly focused on resolving the disputes in the party and implementing the decisions of the party. The meeting could not be held earlier as PM Oli refused to call the meeting until the disputes in the party were settled at the chairmen level. The two chairmen have been quarreling over decisions regarding appointment of ministers and ambassadors, and various other party related issues.¹⁰

OUTLOOK

While the economy of the country continues to remain shattered due to the corona virus pandemic, and the lives of the citizens worsen each day, Prime Minister KP Oli and his government have been preoccupied with internal squabbles within the ruling NCP. Oli has been fixated with holding onto his power as the Prime Minister as well as the co-chair of the NCP, contrary to previous dealings with co-chair Pushpa Kamal Dahal. While the COVID-19 crisis has been worsening day by day due to the government's mishandling and incompetence, the government seems to be getting itself into further controversies. From corruption in COVID-19 funds, the appointment of Yubaraj Khariwada as the financial advisor and then his nomination for the Ambassador to the US, the nomination of Bamdev Gautam to the Upper House, suspicious meetings with Indian intelligence agents, to the internal feuds within the ruling party--the government has been mired in one controversy after another with little focus on the lives at stake because of the pandemic. PM Oli has managed to aggravate most of the country as well as his own colleagues. The political scenario might look grim for the country in the coming days as people seem to be dissatisfied and have started losing trust in the government.

INTERNATIONAL ECONOMY

The economic ramifications of the pandemic induced by COVID-19 has been global. Assessed to be three times worse than the 2008 financial crisis¹¹, the ongoing recession has shaken the world economy. The emergence of the second wave of coronavirus has left the European region vulnerable to double-dip recession. Notwithstanding, this has not stifled the global real estate boom. Development banks around the world are joining forces to pave the way for post-COVID-19 green recovery. Meanwhile, countries too are bracing for tough weather. China has unveiled its 14th five-year plan, with a new focus on quality growth and economic self-reliance. Indonesia, on the other hand, has passed a contentious omnibus bill on job creation, consequently sparking a series of protests. Closer to home, in South Asia, the perpetual discord between India and Pakistan has been recently augmented by Basmati rice.

European recession: The recent spike in COVID-19 cases has put European economies under a massive strain. The third-quarter figure of the Eurozone was promising wherein 19 countries manifested GDP increase of 12.7 percent as estimated by the European Union's (EU) statistics office. However, the resurgence in the number of COVID-19 cases will most likely undo the economic improvements that had been attained thus far.¹² According to the experts, the region may face negative growth for the rest of 2020. Consequently, the European Central Bank's growth projection of more than 3 percent has been rendered far-fetched.¹³ The ensuing safety measures could further debilitate the economic health of the Eurozone as unemployment and national debt begin to soar.¹⁴

The Bank of Spain expects the country's GDP to shrink between 10.5 percent to 12.6 percent this

year due to lockdowns and other stringent measures that have been adopted to mitigate the spread of coronavirus cases. Similarly, the prospect of complete economic recovery for France is bleak and INSEE--national statistics bureau--predicts GDP decline of 9 percent or more, depending on the severity of pandemic-induced restrictions.¹⁵ Germany has also decided to follow the suit and impose a "light lockdown"¹⁶ following the escalation in active cases per day since the onset of the second wave.¹⁷ As a result, Deutsche Bank analysts have speculated the fourth-quarter GDP to diminish by 0.5 percent from that of last year.¹⁸

Public development banks to undertake green recovery: On November 5, 450 development banks around the world signed an agreement to join hands to rescue the global economy from the aggravating pandemic and climate crisis. Focusing

on green recovery--towards a new normal--the pledge also incorporates the need to financially assist poor countries. However, it gives no insights on the funding target or on the plan to halt fossil fuel finance whatsoever.

Moreover, poverty and climate activists have demanded for more effective measures and responses to counter financing shortages faced by the low income countries to protect them against climate change as well as to "help them reduce greenhouse gas emissions".

As a part of the UN climate talks over a decade ago, rich nations had pledged to allocate a total of USD 100 billion every year for the poor counterparts from 2020 in the form of climate finance. According to the OECD, with the current level of contribution from the private sector to climate finance, it is difficult to reach the

USD 100 billion target anytime soon. Similarly, issues such as inequitable distribution of funds and the practice of extending finance mostly as loans in lieu of grants to the developing nations, have addressed the need to reevaluate the ultimate objective of climate finance. Consequently, firm support from publicly funded development banks has become all the more imperative.¹⁹

A glimpse into China's five-year plan: The 14th five-year plan of China, which has prioritized quality growth over speed, is centered on innovation and technology. While the plan yet to specify the numerical growth target, the country is expecting its GDP per capita to catch up with that of “moderately developed countries” like South Korea and Spain by 2035.

China's intention to expand its tech capacity with the ultimate aim of becoming technologically self-sufficient is also embodied in the five-year development proposal.²⁰ In fact, from 2007 to 2018, the country has seen an average annual growth of 7.1 percent in the export of high-tech products.²¹

Furthermore, the plan addresses the need to generate quality employment and increase incomes of both urban and rural populations. In this manner, China hopes to boost its domestic demand, which is in line with the nation's economic agenda of “dual circulation”—creating a resilient domestic economy while availing oneself of international trade and investment.²²

Soaring housing price amid COVID-19: Despite the ongoing pandemic weakening the real economy, the global housing market remains largely unaffected—if anything, it is thriving.

House prices have grown at the average annual rate of 5 percent in the advanced economies. Germany's house prices had increased by 11 percent in August compared to that of last year. Likewise, in response to rapidly inflating property values, authorities in South Korea and China have imposed firmer restrictions on buyers.²³ Hong Kong's housing market still remains unaffordable during this pandemic with exorbitant rents showing no sign of depreciation in the region.²⁴

Numbeo, which tracks global housing affordability of 484 cities across the world, shows that house prices in 400 of these cities are now out of reach for a typical family residing there.

Experts have attributed the untimely housing market boom to “easy money”. Central banks around the world have been adopting expansionary monetary policy in the form of lower interest rates to trigger economic growth. While this has been the case for decades, the pandemic has nevertheless become a catalyst as countries have been coming up with stimulus packages worth billions. In this way, the increased money supply has further fueled the speculation of real estate along with the housing prices, leaving “more people unable to afford a home”.²⁵

Basmati sours the tenuous India-Pakistan relation all the more: Basmati rice is at the core of the recent quarrel between India and Pakistan. Since 2006, zero tariff policy has been practiced by the EU for basmati imports from India and Pakistan, which are labelled authentic. Although the EU imports two-thirds of basmati rice from India, this figure has been diminishing over the years due to the country's failure to comply with the EU's revised pesticide regulations. On

the other hand, Pakistan experienced doubling of their basmati exports to the EU from 120,000 tonnes to 300,000 tonnes between 2017 and 2019.

In order to revitalize its basmati export, India has applied for the geographical indicator (GI) status, in the hope of being recognized as the exclusive producer of basmati. Until now, the GI tag has been ascribed to basmati that is grown in the pre-designated states of Pakistan and India—such as Delhi, Himachal Pradesh, Uttarakhand and Punjab to name a few.

If India successfully acquires the sole GI tag, Pakistani exporters would most certainly find themselves in a grave predicament. Needless to say, the application will be met with strong opposition as confirmed by the advisor to Imran Khan, Pakistan's Prime Minister.²⁶

Indonesia's omnibus bill on job creation foments public unrest: The demonstrations in Indonesia, instigated by the passing of the “omnibus bill” on October 5, continue to intensify. The bill was enacted to ease the regulations surrounding business, labor, and environment with the intent to spur investment. This in turn is expected to create employment opportunities for the youth as well as for the millions who have lost their jobs during the pandemic.²⁷ However, the new law has been condemned on the grounds of being inequitable and solely serving the interests of the oligarchy. A group of activists, including trade unions, are calling out on the problematic rollback of environment and labor rights, which is misguided at best and malicious at worst.²⁸

OUTLOOK

Global cooperation is pertinent now more than ever. The compounded impacts of climate change and COVID-19 have left the Global South particularly vulnerable. In this regard, the commitment of numerous development banks to jointly drive green recovery for poor countries is absolutely timely. At the same time, Europe is compelled to scrutinize the economic tradeoffs of its lockdown and come up with effective policies to help small businesses survive the second wave.

China's pursuit of quality growth drives home the importance of looking beyond the numbers; GDP growth alone does not ensure the collective upliftment in livelihoods. Economic progress, in its conventional sense, often-times fails to include the socially/economically disenfranchised individuals and communities. This inconsistency is amended by the five-year plan, which addresses the need to generate quality employment and increase incomes of the working class. While such policies should be emulated by the entire world, the lesson is most relevant for Indonesia at present. Its omnibus law prioritises rapid growth at the expense of low-wage workers



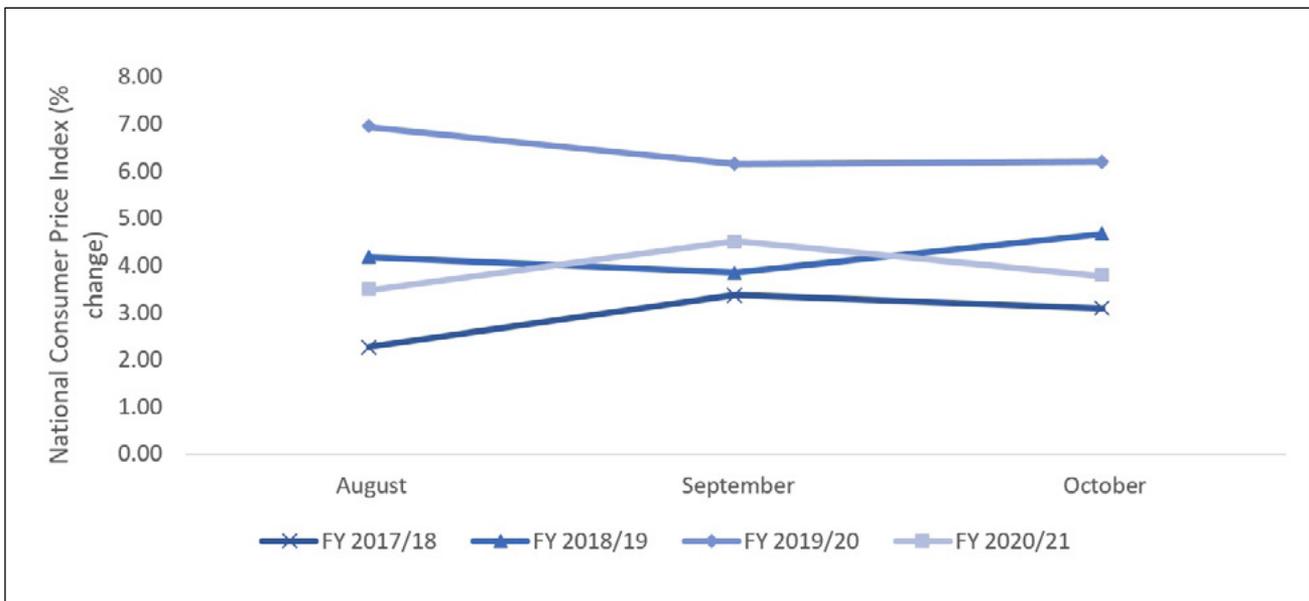
MACROECONOMIC
OVERVIEW

MACROECONOMIC OVERVIEW

Nepal’s economy saw the lowest inflation rate of four years in the first quarter of the fiscal year. The trade deficit continues to narrow--given the low volume of imports on account of stunted growth. The government has also been struggling to match the revenue collection targets leading it to borrow internally and externally to manage the financing.

Inflation: The inflation rate of the first quarter of FY 2020/21 remains the lowest among the rates of the past three fiscal years. Inflation, measured by the Consumer Price Index (CPI), has remained at 3.79 percent in FY 2019/20 compared to 6.21 percent in FY 2019/20 (Figure 1). This rise in CPI was attributed to the rise in food and beverage inflation, particularly vegetables (23.1 percent) and legumes (13.86 percent), which stood at a staggering 5.5 percent. On the other hand, the non-food and service inflation stood at 2.46 percent.

Figure 1 Year on year inflation measured by Consumer Price Index of first quarter for FY 2017-18 to FY 2020-21



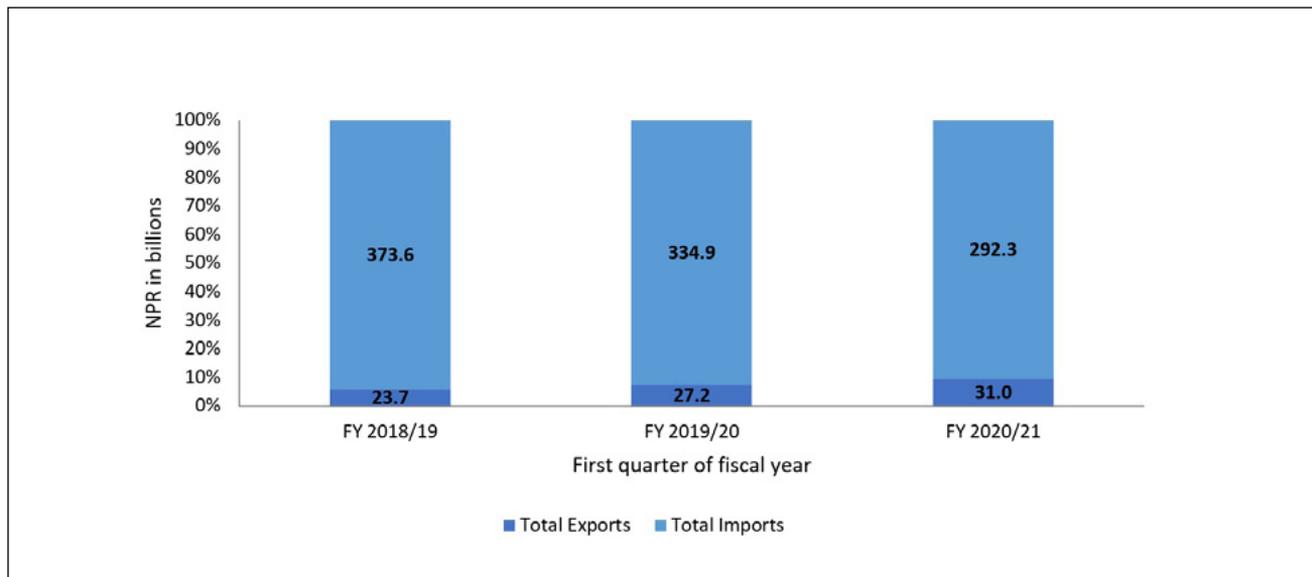
Source: NRB 10 months' Macroeconomic and Financial Data

Import-export and trade deficit: Merchandise exports increased 14.3 percent to reach NPR 31.05 billion (USD 0.26 billion) compared to an increase of 14.4 percent a year ago. Exports of jute goods, polyesters yarn and threads, noodles, cardamom, and

pashmina among others increased whereas exports of palm oil, pulses, zinc sheet, handicrafts, and skin (leather products) among others decreased among others, decreased in the first quarter. Merchandise imports on the other hand decreased 12.7 percent to

NPR 0.29 trillion (USD 2.42 billion) against an increase of 10.3 percent in the same period of the previous year. This led to the narrowing of the total trade deficit by 15.1 percent to NPR 2.61 trillion (USD 21.85 billion) in the first quarter.

Figure 2: Total exports and imports for first quarter of FY 2017/18 through FY 2020/21



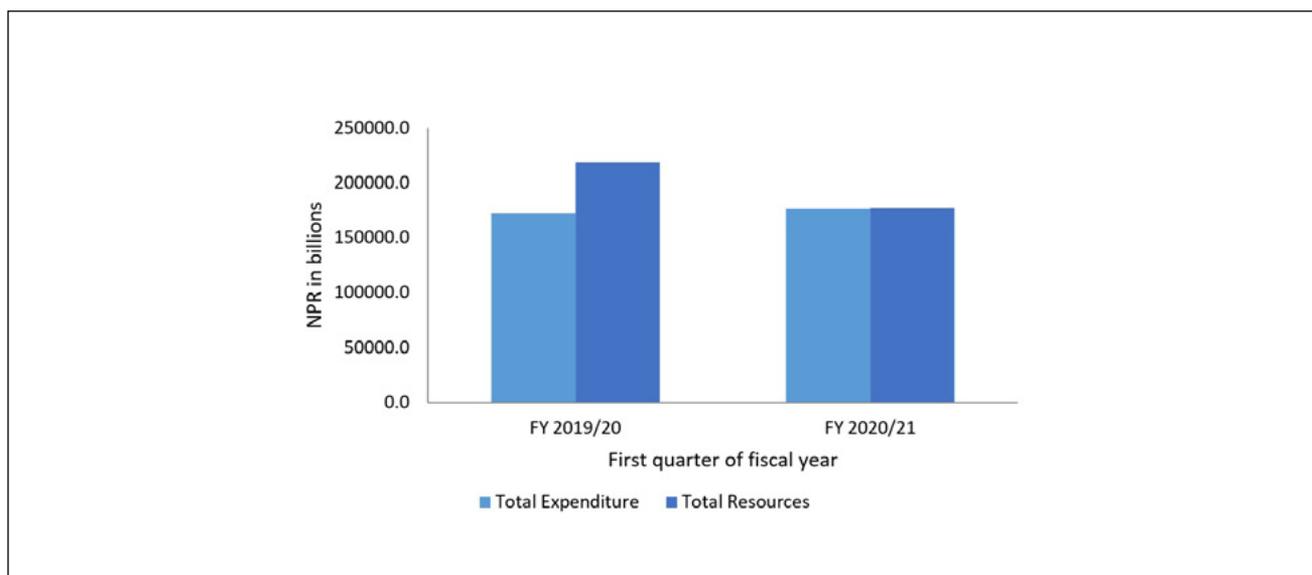
Source: NRB 12 months' Macroeconomic and Financial Data

The government revenue collection based on banking transactions (including the amount to be transferred to provincial and local governments) stood at NPR 172.36 billion (USD 1.44 billion) for the first

quarter of FY 2020/21. This collection was NPR 211.28 billion (USD 1.77 billion) in the FY 2019/20. Likewise, the total expenditure of the central government based on banking transactions stood at NPR 176.99

billion (USD 1.48 billion) which is similar to the expenditure of the same period in FY 2019/20 that stood at NPR 172.33 billion (USD 1.44 billion).

Figure 3: Government budgetary operation for the first quarter of fiscal years 2019/20 and 2020/21



Source: NRB 12 months' Macroeconomic and Financial Data

OUTLOOK

With slower economic activity, imports are set to contract which will narrow the trade deficit. While government revenues are set to decline with lowered imports, government expenditures will surge given the rapid rise in cases of COVID-19 patients causing a fiscal deficit. Likewise, borrowing will increase in part of the government to sustain the economic growth of the country. External trade, revenue mobilization, capital spending and credit expansion will continue to be affected in the coming quarter given the sluggish growth of the economy.

33

SECTORAL
REVIEW

AGRICULTURE

The uncertainty of the pandemic has certainly put a damper on the nation's agriculture sector. However, even against this backdrop, the sector has managed to undergo several major developments. From the approval of a multimillion-dollar project to the procurement of a trademark right on orthodox tea, Nepal's agriculture sector looks optimistic even amidst difficult times.

The World Bank gives the green light for a multimillion-dollar project:

The Rural Enterprise and Economic Development (REED) Project has been approved by the World Bank. The USD 80 million project, aimed at strengthening the agriculture sector through the expansion of rural market linkages, provides a platform for productive collaboration between the government and private partners. Moreover, the project supplements the government's Agriculture Development Strategy 2015–2035, which emphasizes the role of the private sector in achieving “sustainable, competitive, inclusive and resilient agricultural sector”.

Five economic corridors encompassing Province 1, 2, Bagmati, Gandaki, Lumbini and Sudurpaschim have been selected by the project as key strategic points for linking rural entrepreneurs. Bringing together provincial and local governments and small and medium enterprises, REED will be working towards capacity building of the agriculture sector.

Furthermore, the project will direct investments towards municipal agriculture centers and necessary infrastructure to increase agricultural productivity and to help in speedy recovery from the pandemic.²⁹

Government funded agriculture insurance scheme:

A government-funded agriculture insurance program has recently been implemented in 11 districts in the country. The scheme, which is available for farmers free of cost, will be financed by the federal government and the provincial Ministry of Land Management, Agriculture and Cooperatives, each contributing 75 percent and 25 percent of the insurance premium respectively. Programme as such could incentivize farmers to acquire agriculture insurance which functions as a bulwark against agricultural losses.

Furthermore, farmers tending barren land for a minimum of three years will be offered grants amounting to USD 25 per ropani as a part of a USD 20,000 government program. Likewise, USD 12,560 has been allocated for farmers cultivating vegetables in plastic houses enclosing a minimum area of 200 square meters and USD 42,700 for those who sell milk through cooperative abiding by the stipulated guidelines.³⁰

Orthodox tea gets trademarked:

After 157 years of growing orthodox tea, Nepal finally acquired a trademark right. The orthodox tea produced by Nepal has been trademarked as “Nepal Tea Quality from the Himalaya”, and

is the first agricultural brand of the country.

The trademark certificate has been given to 12 tea factories and cooperatives operating in compliance with Nepal Orthodox Tea Certification Trademark Directive 2018. For the Nepali tea producers, this is indeed a stepping stone to international recognition and greater market access.³¹

Data and digitization: One of the major impediments of the country's agriculture sector is the extreme lack of data. The exigency of up-to-date and accurate data has become evident as Nepali farmers face the repercussions of climate change in the forms of unpredictable rainfall, drought and flood. For the farmers to navigate these problems, it is imperative that they have access to agricultural advisory services. One of the platforms providing such services is the National Agricultural Management Information System (NAMIS), which dispenses “relevant digital information to farmers in 26 districts” of Nepal to help them avert or curtail losses from erratic climate/weather.

Likewise, seed quality control center at the Ministry of Agriculture and Livestock Development (MoALD)

has also launched a digitally enabled seed information system (DESI) to aid farmers in cultivating “high yielding and climate resilient crops” by circulating pertinent information on such crops. The prompt provision of real-time digitized data on seed availability has not just benefited the farmers but also seed suppliers and producers.

Additionally, MoALD along with ICIMOD have initiated remote sensing-based crop monitoring to map the major rice crop zones of the country. This mode of agricultural monitoring employs satellites to gather data over large areas of land. Requiring minimal human contact, remote sensing is particularly apt in the time of COVID-19 to generate accurate baseline data.³²

Paddy harvest strong as ever:

Despite Nepali farmers facing fertilizer shortages, a favorable climate along with abundant labor supply has contributed to a steady yield of paddy. While there was a possibility of increasing the harvest this year, due to the short supply of chemical fertilizers, the paddy production will remain more or less the same as that of last year. Agro experts have pinned this outcome on the government and its inability to make the fertilizers available on time. A chief statistician at MoALD estimates a growth of 15 to 20 percent in the harvest this year had there been adequate fertilizers.³³

Flower farming experiences unprecedented loss: Festivals and marriage ceremonies/public gatherings had hitherto shaped the

demands for flowers in Nepal. From the decorations of wedding premises to welcoming guests at hotels, flowers were typically in high demand.

But the floral industry has been severely affected by the proliferation of coronavirus in the country. With hotel businesses drying up and uncertainties posed by the pandemic, the sector is expected to incur a loss of around USD 6.3 million this year, according to the president of Floriculture Association Nepal.

Even the sale of Mahakali flowers, which are highly sought after during Tihar festival, declined this year, due to the uncertainty of COVID and imports of the flowers from India supplanting the local produce.³⁴

“ OUTLOOK

The Reed Project offers an opportunity to overhaul and reform Nepal’s agriculture sector. Creation of rural market linkages would streamline commercial activities and operations of this sector. While there are ample benefits that could be reaped from this project, the government needs to preempt misallocation of resources in any form.

The MoALD’s continuous effort in integrating agriculture with data-driven technologies has been nothing short of admirable. Since farming is climate-dependent, the ready access to data is critical to not only repress losses from climate change but also to cultivate climate resilient crops.

Finally, the concerned ministries are required to work on forming a robust supply mechanism of chemical fertilizers, which are integral to paddy cultivation. Without such an initiative, the country’s agriculture sector will continue to lag behind--despite it being one of the major sources of national income.

ENERGY

In the last fiscal year of 2076-77 (2019-20), Nepal's electricity export to India amounted to NPR 0.95 billion. The power deal signed between the two countries allowed Nepal to export just over 100 million units of electricity to India in the last fiscal. In the fiscal year before that, in 2075-76 (2018-19), Nepal had exported only 30.4 million units of electricity, which means the number grew by three fold in the last fiscal. The growth could be attributed to increased production and interconnectivity.

27 megawatt (MW) of electricity expected to be added to national grid by January 2020:

Once the Dordi Khola Hydropower Project is completed early next year, additional power would be fed to the national grid. About 95 percent of the works concerned to the project, such as construction of tunnel, laying pipelines, power plant and reservoir, is completed.³⁵ Although the project was supposed to be completed by August of 2018, it was delayed due to the Economic Blockade of 2015 and damages caused by floods last year. Furthermore, due to the COVID-19 pandemic, the deadline of the project had to be extended further.

Electricity generation at full capacity at Kulekhani: As the demand of electricity is increasing due to the

onset of winter, all three projects of Kulekhani have begun to generate power. With Kulekhani I producing 60 MW of power, Kulekhani II producing 32 MW of power and Kulekhani III producing 14 MW of power, the total energy generated will be 106 MW. The electricity generated from Kulekhani is currently being supplied to Kathmandu, Pokhara, Biratnagar, Nepalgunj, Jhapa, Bhairahawa, Janakpur and Mahendranagar.

Construction of Upper Chameliya Hydropower project commences:

The 40 MW project based in Darchula is expected to produce 264.1 million units of electricity annually. The project will be constructed with an estimated cost of NPR 7.4 billion and aims to earn NPR 1.62 billion in the first year by the sale of electricity.³⁶ Of

the total power generated, 30 percent of the output will be during the six months of winter and the remaining 70 percent will be during the six months monsoon period.

NEA reduces electricity tariff rate for charging stations:

Electricity tariff rate for recharging electric vehicles at charging stations have been reduced from NPR 10 per unit to NPR 4.6 per unit. Although the charging stations are required to pay the said amount to the Nepal Electricity Authority (NEA), they can charge an additional 20 percent of this amount as service fee to its customers. Additionally, the service providers are now obliged to charge only NPR 500 for recharging a battery powered public bus which earlier was NPR 1200.³⁷

OUTLOOK

With the onset of winter upon us, the dry season for electricity in Nepal has begun. This would mean that the demand for electricity would be higher and if adequate supply is not ensured, the possibility of power cuts is foreseeable. Then, all eyes would be on the newly appointed managing director of the NEA, as the nation would expect him to perform--if not better--as good as his predecessor. Apart from this, the power sector still reels with issues such as inadequate infrastructure, power theft and malpractice to name a few which it has yet to fully overcome. The upcoming near future would be a test for the nation's power sector which we all hope that it would pass.

INFRASTRUCTURE

During the review period, various new construction and infrastructural upgradation works have been undertaken by the government in order to mitigate the risks and losses induced by the ongoing COVID-19 pandemic. However, how effectively the projects will be implemented remains to be seen, as the government has drawn much criticism in the implementation of projects in the past too.

Government updates National Building Code: With the approval of the Council of Ministers, the government of Nepal has updated the National Building Code by incorporating into it all structural designs that are necessary to make buildings, both small and large, earthquake-resistant in the country. In regards to this, the Ministry of Urban Development has replaced the 'NBC 105:1994' with the updated 'NBC 105:2020', which indicates that construction of safe and earthquake-resistant buildings will be taken into consideration.³⁸

Biratnagar airport to be upgraded to international standards: The government of Nepal is planning to upgrade the Biratnagar domestic airport to international standards with the cooperation and coordination among the three tiers of the government. The Ministry of Culture, Tourism and Civil Aviation and Biratnagar Metropolitan has signed a memorandum of understanding during this fiscal year to expand and upgrade the airport. The Civil Aviation Authority of Nepal (CAAN) will also be investing 50 percent of the total investment for the expansion and upgradation, while the provincial government will bear 40 percent and the local government will contribute

10 percent. Hence, according to the agreement, the upgradation of the airport is one of the top priorities of the government.³⁹

Gautam Buddha International Airport (GIA) completes 92 percent construction: The ongoing construction of the Gautam Buddha International Airport (GIA) has witnessed 92 percent physical progress and 63 percent financial progress. The construction of this airport is one of the country's national pride projects. It is believed that the airport would have come to its final preparation for operating commercial flights if the COVID-19 pandemic had not occurred as the technical work of the airport had come to a halt and human resource was not available due to the pandemic-induced lockdowns. Nevertheless, the construction work is picking up pace.⁴⁰

Government issues a public transport board formation order: The government of Nepal has issued Kathmandu Valley Public Transport Authority Infrastructure Development Board Formation Order 2020 under the chairmanship of the Minister of Urban Development. The board will encompass 10 members, including mayors of Kathmandu Metropolitan City and Lalitpur Metropolitan

City, Secretary of Ministry of Urban Development (MoUD), Secretary of Ministry of Physical Infrastructure Development of Bagmati Province, Chief of Metropolitan Traffic Police Division, two experts on transportation, including a woman, nominated by MoUD and Executive Director of the authority. The board, thus formed, will be responsible for introducing cashless fare system in public transport, developing e-ticketing system, coordinating with concerned agencies for making arrangements of bus stops, passenger sheds, parking lots, and so on in order to increase the quality of public vehicles.⁴¹

Highway being built to make Everest accessible: Kathmandu is already linked through a 277 km highway to Phaplu of Solukhumbu district, and another road connecting Phaplu and Chairikharka, Lukla, is in progress. In addition to this, a new road, linking the town of Chaurikharka to the rest of the country, is due to open by December 2022. Although this road will not directly enter the Sagarmatha National Park, it will definitely make trekking and climbing in the Everest region more accessible. While some locals in the Solukhumbu and Lukla region fear that opening road linkages will spoil the region's pristine beauty

and fragile culture, there are strong voices in support of the road too, as such development works will increase the standard of living of the people in the region. However, the construction works in these highways have been delayed, although not completely shut down, due to the COVID-19 pandemic and lack of finances.⁴²

“ OUTLOOK

The ongoing COVID-19 pandemic has been an eye-opener to expose the underlying fallacies of the infrastructure sector in Nepal, as it has shown that disruption of raw materials and lack of workers can completely shut down this sector. Moreover, experts of the infrastructure sector have very often cited reasons such as bad intent, poor human resource management, capital leakages and wastages for the widening gap in infrastructure development in Nepal. They also believe that misappropriations and policy-level as well as political obstructions in infrastructure projects cause challenges while executing projects.⁴³

Considering these, a look at the infrastructure sector now indicates that Nepal needs to continue to bring out new plans of infrastructure upgradation and construction. Followed by this, the comprehensive plans that have been and will be prepared ought to be implemented under the consultation and supervision of international experts, albeit together with national counterparts.

REAL ESTATE

Contributing around 11.53 percent to the GDP of Nepal, the real estate sector is considered a valuable asset for the country's development. However, the global pandemic has not been so kind towards this sector. It has affected not just the big players in the market but the also the mom-and-pop businesses who rely on visitors for survival. Though the industries have been granted to operate despite the lockdown, the exponential losses and lack of demands have pushed the sector into negative growth.

Plotting land, now authorized:

The government's prior decision of restricting the plotting and fragmentation of land has been revoked by The Ministry of Land Management, Cooperatives and Poverty (MoLMCP) through a minister-level decision on September 2. The decision came into place after many complaints were lodged by people who had been facing difficulties in splitting their land.

Earlier in August 2017, the government had barred plotting, fragmentation and splitting of arable land without the authorities' permission as part of efforts to contain rapid urbanization and shrinkage of arable land. The decision by the government had aroused much criticism from real estate agent and developers, who had been lobbying the officials to withdraw the restrictions. Now, with the government's latest decision, the plotting and splitting of arable land, which was restricted for the last three years, will now be opened.

Construction, the hardest hit by Covid-19:

With almost six months of standstill, the corona virus has hit a heavy right hook on the growth momentum in the economy, and

one of the hardest hit sectors is the construction industry. The Central Bureau of Statistics has hinted that the construction sector will be one of the worst hit by the COVID-19 pandemic and the growth rate will plunge into negative 0.31 percent in the fiscal year 2019-2020 that ended in mid-July. Prior to the pandemic, the construction sector was one of the most booming sectors in the economy. The sector had been gaining exponential growth since the 2015 earthquake, receiving a double-digit growth that year. Even in the fiscal year 2018-2019, the growth was marked at 8 percent, taking the annual output of the construction sector to over NPR 232 billion.

Weather conditions are perfect from January to May for the construction business. However, since the first Covid-19 case, which appeared in January of 2019, and the lock down that followed till July, this sector has been at a complete halt. The pandemic has caused the material supplies to stop, restricted the worker's movement, which have in turn made it difficult for the contractors to arrange resources for construction activities. Tens of thousands of workers were rendered

jobless while most of the mobilized resources and machinery remained idle at construction sites. According the Rabi Singh, the president at the Federation of Contractors Association of Nepal, the sector alone has endured an estimated loss of NPR 65 billion.

Even though the lockdown has been revoked and most industries have been authorized to reopen and start operation, the sector is having a difficult time going back to business. The demand for the construction materials have fallen by 80 percent. Most industries are operating at minimum capacity resulting in the industries to endure massive losses. According to Dhurba Raj Thapa, the president of the Cement Manufacture Association of Nepal, almost all factories are running on 20 percent capacity and the industry has already incurred losses of NPR 30 billion.

The pandemic has affected the whole economy from an individual level to an industrial level. Most construction businesses have been forced to close down permanently while the remaining are anticipating the market to rise or are simply waiting for their businesses to close down.

“ OUTLOOK

With the weakening sales velocity and travel ban and cash flow at its minimum, almost 65 percent of real estate businesses have been forced to shut down while lackluster demands are making the remaining industries to work in its minimum capacity. The global pandemic has not only affected the production of construction material, it has also impacted the overall completion and deliverance of the projects which is hampering the overall performance of the sector.

EDUCATION

The closure of schools for over seven months following the COVID-19 outbreak has had substantial impact on thousands of children across the country. While most private schools continued with their classes online, public school students have had no or limited access to distant learning resources. Realising their inability to introduce virtual learning methods across the country, despite the escalating number of COVID-19 cases, the government has decided on reopening schools after the Chhath festival. The National Examination Board (NEB) has also announced the schedule and format of the grade 12 exams as well. Furthermore, the government has also directed schools to implement the new curriculum starting this academic year despite objections from private school operators.

Nepal Bhasa Curriculum to be implemented in schools:

The 51st municipal executive meeting chaired by Kathmandu Metropolitan City (KMC) mayor Bidya Sundar Shakya decided that Nepal Bhasa (Newari language) would be included in the curriculum of all schools inside the city.⁴⁴ According to KMC officials, the new course aims to introduce the cultural and historical identity of the Newa community, the indigenous inhabitants of Kathmandu valley, to younger generations. Purushottan Lochan Shrestha, a historian and cultural expert, believes that the course is necessary in order to preserve the language, as the use of Nepal Bhasa has been gradually dwindling and is on the verge of becoming extinct. The new curriculum also intends to educate students about the various cultures, rituals, traditions, festivals, arts, crafts, and geography of Kathmandu valley. The curriculum committee moved ahead with preparing the study materials after endorsing the curriculum. The course comprises 75 percent of theoretical classes, which would train students on

verbal and written communication, and 25 percent of practical classes, which would involve field visits to historical places, museums, and interaction with people. Historian Shrestha, who designed the course, said that the course has already been proved successful in strengthening cultural harmony among students from various ethnicities and backgrounds in Bhaktapur, where the course was introduced a year back. He added that reviving the disappearing languages of different ethnicities of Nepal would be easier if more local governments around the country introduce such courses.⁴⁵

Students to be promoted without holding the standard examinations:

The ongoing pandemic has made it impossible for schools to conduct examinations regularly. Taking it as an opportunity to improve the assessment system in Nepal, the curriculum development center has asked schools to evaluate its students using the continuous assessment method which tests a student's practical knowledge rather than conducting written examinations

in the traditional manner. Teachers are set to evaluate students based on their day to day performance and skills. However, government officials have also said that the schools were free to conduct examinations in the usual way if feasible. The new rule was mainly targeted towards public schools, as regular classes have not been possible due the pandemic and most public school-going students do not have access to virtual learning tools. The Ministry of Education has also reduced the curriculum by 30 percent in order to complete the current academic session on time.⁴⁶

New curriculum for grades 11 and 12 to be implemented:

The Ministry of Education, Science and Technology has urged all higher secondary schools to implement the new curriculum for grade 11 and 12, which had been in the making since the eighth amendment to the Education Act 2016. The Curriculum Development Center (CDC) introduced a new structure for school education that categorizes grades 1 to 8 as basic education and grades 9 to 12 as secondary education.⁴⁷ The new

structure also discontinued stream-based education like Management, Science, Humanities, and Education. This scrapping of the streams will enable students to study subjects from different disciplines; for example, a student can take up both physics and accounting together. According to the new curriculum, students of grade 11 and 12 would have to study six subjects each year. This includes three compulsory subjects and three elective subjects. The compulsory subjects are Nepali, English and Social Studies for grade 11, and Nepali, English and Life Skills for grade 12. As for elective subjects, students would be able to choose from 80 different subjects. Students would also be allowed to take an extra subject in each grade. However, private school operators seemed to be against the government's decision. Yubraj Sharma, senior vice-chair of Higher Institutions and Secondary Schools' Association and chairperson of Himalayan Whitehouse International College, believes that implementing the new curriculum during the time of a pandemic would not be wise because it would add additional burden to students. The association has urged the ministry to halt the new plan for the current academic year and implement it with the start of the next academic year after discussion with the concerned parties.⁴⁸

Grade 12 examination routine published: The National Examination Board (NEB) finally published the schedule for grade 12 examinations after seven months of indecision. The exams, which were originally scheduled to start from April 20 will now begin on November 24 and end on December 1. With COVID-19 showing no signs of going down, the board decided to move ahead with conducting the examination taking all the possible safety measures. As per the NEB, the exam would be conducted for only 40 points. As for the remaining 60 points, 20 points would be based on internal evaluation and 40 points would be based on the results of grade 11. The board has also made it mandatory for exam centers to set up health desks and arrange seats at a minimum distance of 2 meters with no more than 20 students in a classroom.⁴⁹ Examinees who tested positive for COVID-19 have been urged not to appear for the exam, and the board has assured to conduct exams for them after they recover. They would need to show their COVID-19 test results to get their exams rescheduled. Similarly, students would also be allowed to sit for their exams from exam centers nearest to them if their school is in a different district. The NEB already collected details of all the examinees and their current locations.⁵⁰

Schools to reopen after Chhath:

The Ministry of Education, Science and Technology has decided to open schools gradually in least-affected or COVID-free zones with the necessary health and safety measures following the Chhath festival. With schools being closed for over seven months across the country, students face the possible loss of an entire academic year.⁵¹ Private schools have been continuing with their courses via online classes, but most students at public schools do not have access to virtual learning resources. Since the government's attempt to implement distant learning turned out to be ineffective, rural municipalities across Nepal decided on resuming classes from 17 September, after the lockdown restrictions were relaxed.⁵² Measures such as the use of face masks; measurement of body temperature; disinfection of classrooms, furniture and toilets; proper ventilation; and proper hygiene facilities have been made mandatory for opening schools. The responsibility of monitoring these measures in schools has been entrusted to local governments. The schools have been instructed to inform teachers, students and parents two weeks before resuming physical classes.

OUTLOOK

A lack of coordination among the various tiers of the government and a clear case of mismanagement are the key reasons besides this poor Covid-19 outbreak response in relation to education. Although the government had been promoting the use of virtual learning methods, they have been ineffective in Nepal. The government's own economic survey for FY 2019/20 showed that only 8,366 out of 29,707 public schools have access to computers. Furthermore, only 3,676 of them are able to offer IT-based learning platforms. As the government failed to come up with effective alternatives or build the necessary infrastructure for virtual learning facilities in public schools, it decided on reopening schools despite the risks of the rising corona crisis. In order to wrap up the current academic session on time, the curriculum for the schools have also been downsized by 30 percent. Likewise, the National Examination Board also decided on conducting grade 12 exams despite the rising cases. These decisions of the government clearly entail high risk for millions of students and their families.

HEALTH

The pandemic has inflicted a significant strain on the healthcare infrastructure of the country, to the point where it has been proven that Nepal's health infrastructure is insufficient for dealing with a crisis such as the current one. Although there have been improvements in some regions in terms of enhancing health facilities for locals, Nepal still has to work hard to address the current crisis and bring its collapsing health infrastructure back to its feet.

Asian Development Bank launches a non-fired brickmaking solution in Nepal:

The ADB has provided a USD 125,000 grant and launched a Good Bricks System in Nepal to combat the brick industry's impact on health and environment. In Nepal, the traditional brick making method causes 600 deaths annually which adds to USD 46 million to public health costs every year. Since the Good Bricks System uses materials and technology from the Republic of Korea to make high-quality bricks with soil, soil stabilizer, and cement, it could reduce the health costs of the brick industry by reducing the industry's harmful impact on the environment and health of workers engaged in the production of bricks while still maintaining the industry's competitiveness.⁵³

Nepal government launches telemedicine:

To expand the scope of support to people impacted by the coronavirus, the government has launched telemedicine in all seven provinces. The telemedicine system allows citizens to seek medical support regarding information related to COVID-19 via phone, email and SMS by contacting telemedicine focal personnel appointed by the Ministry of Health and Population (MoHP).⁵⁴

Telemedicine is better than the previous system as the doctors within the province can also now directly consult with the Provincial Hub Hospitals, and the Provincial Hub Hospitals can consult with doctors in the Central Hub Hospitals about COVID-19 complications and treatments. In addition, the ministry has also been working to expand the service in the treatment of other diseases besides COVID-19.

Locals in Salyan and Rukum benefit from enhanced health care facilities:

Local healthcare units in Salyan and Rukum have been enhanced with increased institutional capacity and prompt ambulance services for locals in the region. Eleven additional vehicles for ambulance service purchased by local health units in the region has increased people's access to health facilities, particularly pregnant women. Until two years ago, there were only six ambulances belonging to the District Hospital, Nepal Red Cross Society and private hospitals in the district, created a threatening environment for pregnant women as they had to walk for hours to reach a hospital in the past. The health office's data shows that 3,769 women had safe deliveries in 41 different health facilities across the district in the

fiscal year 2019/20, which is around 63 percent of the total delivery cases in the district.⁵⁵ This increase in the number of safe deliveries goes not only to the creation of the district hospital, two private hospitals, two primary health centers and 36 birthing centers at various health posts in Salyan but it also goes to the construction of road that has connected locals to health networks in the district.

Nepal's healthcare infrastructure fails to provide care to patients of chronic diseases and vaccinations to children:

The elderly population has been reported to have been avoiding necessary medical treatment at hospitals out of the fear of contracting the coronavirus. The failure of hospitals to guarantee a safe environment to people seeking medical attention for health issues other than COVID-19 has also led to this problem. Around 200 children below two years of ages have been deprived of vaccinations, of diseases such as Polio, BCG, DPT and Hepatitis, after the health post at Kapilvastu halted its vaccination program. Similarly, according to the District Health Office in Banke, regular vaccinations have been lowered by 15 percent now.⁵⁶ The fact that even health officials have

contracted the virus has let the fear of the virus and consequently hospitals fester among the general public across the country.

Health Posts in Lahan face shortage of essential medicines: A health post at Bishanpur1 in Lahan Municipality Ward No. 18 has been facing a

shortage of essential medicines for the last one month. The health officials of the region have been unable to distribute even common medicines, including paracetamol, Jeevan Jal (Oral Rehydration Salts) and iron pills, to the public. The gap in the supply is a result of municipality health offices purchasing medicines last month that

didn't meet the WHO standards.⁵⁷ Although the chief administrative officer of Lahan Municipality has instructed the health post to start the process of purchasing medicines immediately, the impact of the health section's weakness on the locals has been significant.

“ OUTLOOK

With the nation starting to face a scarcity of hospital beds for ICU patients as coronavirus cases continue to surge, the time has come for Nepal to declare a public health emergency. The declaration would allow the government to devote a majority of its emergency budget for COVID-19 response and consequently mobilize the funds by expanding PCR tests and fortifying healthcare institutions. This requires sheer integrity and sincerity on the government's part. However, if these issues go unattended, Nepal could face a prolonged public health crisis—much worse than what it is now.

TOURISM

With the ease in lockdown, several businesses have been heaving sighs of relief. However, the damages of the pandemic have made it very difficult for the tourism industry to recover. The survival of some businesses, such as the hotel industry and airlines, depend on domestic tourists who are being attracted by price cuts, discounts and special offers. However, increasing number of infection cases is making people stay home, which is having negative impacts on the industry. Major festivals like Dashain and Tihar, which used to be the time for maximum sale and profits for tourism sectors, did not bring in much revenue either, as many people did not take the risk of travelling long distances. Despite the low performance, various plans have been made to bounce the industry back to life.

Nepal delays international tourists until November:

While international tourists will be allowed to travel to Nepal from October, the inefficiency of the government as well as the people to control the spread of Covid-19 has forced the government to increase the international travel ban in Nepal. Except for the mountaineering expeditions and trekking, which is currently allowed, as of October 17, the reopening of regular tourism to international visitors has been delayed until at least the middle of November.

Trekking and mountaineering groups, which attracts around one third of the 1.2 million international visitors, will be allowed to take foreign clients up the mountains. For the mountaineering expeditions, visitors are required to have a proper visa secured before travel or done through their travel/ trekking agency based in Nepal for arrangement of prior approval.

The Department of Tourism (DoT) has already started preparing necessary guidelines for climbers and

trekkers who plan to visit Nepal after October 17. According to Meera Acharya, DoT will also be issuing the Standard Operating Procedures for agencies to run autumn climbing and trekking activities. Iswari Poudel, Vice-president at the Expedition Operators Association of Nepal, mentioned that with trekking and expedition operators ready to resume climbing activities following safety protocols in the autumn season, most of the agencies will run expeditions on Mt Manaslu and Mt Ama Dablam, among others, once the flight operation resumes.

Bardiya National Park, now re-opens for tourists:

Officials from Bardiya National Park, after about seven months of hiatus due to the coronavirus pandemic, has decided to reopen the national park, as suggested by the Nepal government from October 17. For the first phase, tourism activities such as jungle drive and jungle walk have been resumed in the park. However, activities such as elephant safaris, rafting, and jungle camps have not been permitted to

resume yet.

Various safety measures and protocols have been set by the park authorities to prevent and protect visitors. The Park administration has advised visitors to abide by the health protocols and measures set by the Nepal government. Tourists must wear face masks and apply hand sanitizers during their stay in the park. They should also maintain mandatory physical distance.

Nepal to bag the world's second highest bungee jumping site:

With the completion of the suspension bridge connecting Kushma of Parbat and Balewa of Baglung over the Kaligandaki gorge, the site is set to conduct adventurous sports events from October 31, 2020. Cliff Private Limited will conduct various sports events, including bungee, swing, and sky cycling from the 525-meter-long bridge.

After the completion of the project, Nepal will host the world's second-highest bungee jumping site, with its

height measuring 748 meters. As of now, Macau, with a bungee site that sits at a height of 764 feet, leads the record, while the Verzasca dam of Switzerland, with a height of 720 feet, comes second.

As per Cliff Private Limited, the fee for bungee and swing service has been fixed at NPR 7,000 while a package of bungee or swing with transportation from Pokhara to Kushma will cost around NPR 8,450.

The NPR 200 million resort and bridge project was completed in mid-April this year, but the operations and events were stalled due to the lockdown. Now, with the ease in

travel restrictions, plans are on with various safety measures.

Ranipokhari all set for inauguration:

The Rani Pokhara has finally been fully reconstructed. The Nepali government has scheduled the date on October 23, 2020 for the inauguration ceremony of the iconic pond.

The National Reconstruction Authority (NRA) had started the reconstruction work on March of last year. The NRA had decided to rebuild the pond and the Balgopaleshwar Temple by using traditional architecture, technology, and construction materials to reflect the style of the Malla era. Almost 27

million liters of water from Baghmari river were successfully filled using the pipelines of the Melamchi Drinking Water Project along with the monsoon rain that has filled up almost 1 million liters of water.

As per the initial schedule, the inauguration of the reconstructed temple was supposed to be done by the Head of the State on September 19. But due to some minor work it had been postponed. After the inauguration ceremony, the Balgopaleshwar Temple will be opened for the public during the 2020 Tihar celebrations.

“ OUTLOOK

Nepal's tourism industry accounts for 3.9 percent of the national GDP⁵⁸. But as the country was forced into a travel ban and a nationwide lockdown for the past six months, the industry has been hit hard. According to the Minister for Culture, Tourism and Civil Aviation Yogesh Bhattarai, the Nepali tourism sector has incurred a loss of NPR 60 billion.

The ongoing pandemic has hit the global tourism industry, but the impact has been felt harder in Nepal because this Himalayan country is heavily dependent on the tourism sector for its economic balance. And with plans to reopen the border for international tourists being postponed time after time, many businesses are on the brink of bankruptcy.

TRADE AND DEBT

Trade in the country has resumed to a certain extent post the lifting of the lockdown enforced by the pandemic with most of the border trade checkpoints reopened. However, the trade process still remains disrupted, as traders face difficulty in getting their shipments. For the first quarter of the fiscal year 2020-21, trade deficit narrowed down 15.1 percent, owing to reduced imports due to the pandemic. The balance of payment registered a surplus of NPR 101.09 billion (USD 846.43 million) during the review period.

Foreign Trade Scenario: Table 1 reflects the trade scenario of the first quarter of the fiscal year 2020/21. In the review period, merchandise exports increased by 14.3 percent as compared to a 14.4 percent increase in the same period of the previous year. Total export recorded stood at NPR 31.05 billion (USD 259.98 million). In terms of destinations, exports to India and other countries grew by 19.4 percent and 7.4 percent respectively, whereas exports to China witnessed a significant decline of 53.2 percent. Similarly, in the first quarter of the fiscal year, merchandise imports fell by 12.7 percent to NPR 292.27 billion (USD 2.44 billion) as compared to a decrease of 10.3 percent a year ago. Destination-wise, imports from India, China, and other countries decreased 6.6 percent, 26.9 percent and 19.0 percent respectively.

Table 1: Foreign Trade Statistics of Q1 in the fiscal year 2020/21 (Rs. in millions)

Heading	2018/19		2019/20 ^R		2020/21 ^P	Percent Change	
	Annual	Three Months	Annual	Three Months	Three Months	2019-20	2020-21
Total Exports	97109.5	23744.9	97709.1	27166.8	31046.1	14.4	14.3
To India	62731.8	13164.2	70108.9	17870.9	21333.8	35.8	19.4
To China	2109.8	564.1	1191.2	451.9	211.6	-19.9	-53.2
To Other Countries	32267.9	10016.6	26409.0	8844.0	9500.8	-11.7	7.4
Total Imports	1418535.3	373587.3	1196799.1	334949.4	292269.9	-10.3	-12.7
From India	917922.2	236123.4	735294.8	207412.3	193624.3	-12.2	-6.6
From China	205518.6	53115.7	181920.3	59268.2	43323.2	11.6	-26.9
From Other Countries	295094.5	84348.2	279583.9	68268.8	55322.4	-19.1	-19.0
Total Trade Balance	-1321425.8	-349842.3	-1099089.9	-307782.6	-261223.8	-12.0	-15.1
With India	-855190.4	-222959.2	-665185.9	-189541.5	-172290.5	-15.0	-9.1
With China	-203408.8	-52551.6	-180729.1	-58816.3	-43111.6	11.9	-26.7

With Other Countries	-262826.6	-74331.5	-253174.9	-59424.8	-45821.6	-20.1	-22.9
Total Foreign Trade	1515644.9	397332.2	1294508.2	362116.1	323316.0	-8.9	-10.7
With India	980654.1	249287.6	805403.7	225283.2	214958.0	-9.6	-4.6
With China	207628.4	53679.8	183111.5	59720.0	43534.7	11.3	-27.1
With Other Countries	327362.4	94364.8	305993.0	77112.9	64823.2	-18.3	-15.9

Source: Nepal Rastra Bank. Current Macroeconomic Situation (based on annual data of FY 2019/20)

Top Exports and Imports: During the first quarter of fiscal year 2020/21, exports of jute goods, polyester yarn and threads, noodles, cardamom and pashmina increased whereas exports of palm oil, zinc sheet, handicrafts, and leather decreased. Similarly, imports of rice, crude soybean oil, telecommunication equipment and parts, edible oil and coal among others increased, whereas imports of petroleum products, transport equipment and parts, aircraft spare parts, other machinery and parts, and crude palm oil decreased in the review period. The top three exported commodities were woolen carpet, polyester yarns and threads and jute

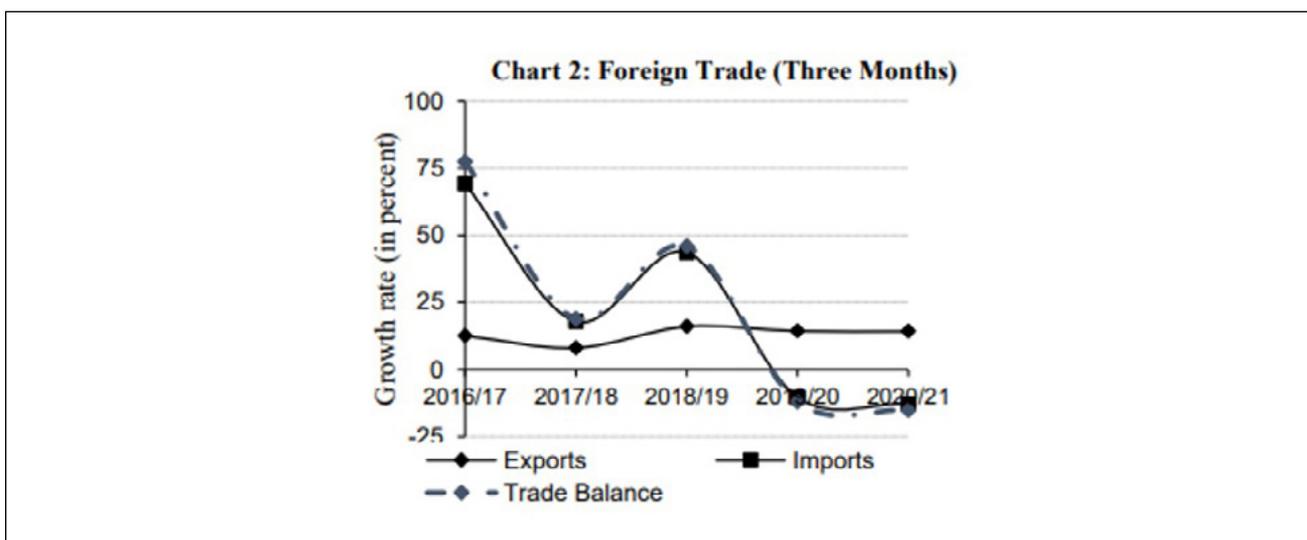
goods, contributing 6.6 percent, 6.0 percent and 5.2 percent respectively to the total exports. Transportation equipment, vehicles and tyres; petroleum products; other machinery and parts were the top three imported products with respective shares of 8.5 percent, 7.9 percent and 5.1 percent in total imports.

Trade Deficit: Owing to the reduced imports, the total trade deficit narrowed down by 15.1 percent to NPR 261.22 billion (USD 2.18 billion) as compared to the trade deficit of 12.0 percent in the same period of the previous year. This has positively reflected in the export-import ratio

which has increased to 10.6 percent in the review period from 8.1 percent in the same period of the previous year.

Balance of Payment: In fiscal year 2020/21, the current account registered a surplus of NPR 34.36 billion (USD 287.69 million) against a deficit of NPR 22.47 billion (USD 188.14 million) in the same period in the previous year. The balance of payment also showcased a surplus of NPR 101.09 billion (USD 846.43 million) as compared to a surplus of NPR 14.43 billion (USD 120.82 million) in the previous year.

Figure 4: Foreign Trade Scenario for Quarter 1 of FY 2020-21



Source: Nepal Rastra Bank. Current Macroeconomic Situation

Nepal's tea achieves its own trademark: Nepal's orthodox tea, which has been grown in the country for the past 157 years, received its own trademark, including the words 'Nepal Tea Quality from the Himalaya'. The minister for Agriculture and Livestock Development handed over the trademark certificates to 12 tea factories and cooperatives, which have adhered to the Nepal Orthodox Tea Certification Trademark Directive 2018, in Fikkal, Illam, on Tuesday. The trademark is anticipated to help establish a brand and help Nepal market its tea in the international market. It will also help traders gain access to international markets and expand their footprint instead of losing out to competitors. However, the implementation of the trademark seems to be a difficult task as it requires substantial financial outlays to fulfill provisions. Stakeholders highlight the

system of getting organic tea certified, which costs more than NPR 500,000 (USD 4,189.71) as a major obstacle to widespread adoption of the new brand. Moreover, there is lack of clear coordination among government bodies for the implementation of the trademark.

Tea exports soar, growing by 147 percent in the first 2 months of the fiscal year: As a result of people being confined to their homes due to the coronavirus pandemic, the consumption of tea has gone up in the country. As a result, the country exported tea worth NPR 1.58 billion (USD 13.23 million) in the first two months of the current fiscal year 2020-21 as compared to NPR 642 million (USD 5.37 million) in the same period previous year. In terms of quantity, Nepal exported 5.31 million kg of tea in the two-month period, equivalent

to a third of annual shipments. In the same period last year, exports amounted to 2.35 million kg.

Difficulty in importing goods at northern border points causes issues: Despite the Kerung and Tatopani check points reopening, imported goods have not been entering the country easily and smoothly. Expressing their dissatisfaction, entrepreneurs issued a warning to hold a sit-in at the northern border. The Federation of Nepalese National Entrepreneurs had issued a statement stating that the containers that have been stuck at the Chinese border for the past ten months have not yet entered Nepal easily. The border was reopened in Mid-October but traders have still been facing difficulties in getting containers.

“ OUTLOOK

In order to facilitate the recovery of trade post the pandemic, the government needs to prioritize resolving issues that traders have been facing in the northern border. The traders have consistently voiced their concerns and the government should take necessary actions to ensure smooth flow of shipment and entry of goods from the northern border. Local traders have lost their summer and festive shopping seasons due to delayed shipments. The government should take initiatives in ensuring that the traders do not miss out on the winter shopping season as well. Due to the degrading relationship with India, the trade can be severely affected. Necessary measures should be taken to maintain a friendly relationship with both the neighbouring countries so that trade in the country is not disrupted.

Additionally, since the local tea is faring well in the international markets and their prices have gone up, the country should be able to utilize this advantage. The government should provide technical and monetary support to tea farmers, as well as ensure proper implementation of the trademark.

FOREIGN AID

The review period highlights the situation of strangled revenue sources in Nepal due to the COVID-19 pandemic. It also highlights how, to abate an expected financial crisis, the Finance Ministry has managed to garner foreign aid pledges in the current fiscal year to put together a capital for stimulating a comatose economy and pay for rising healthcare expenses.

The Government of Nepal manages to collect NPR 84.07 billion (USD 0.70 billion) foreign aid pledges:

The Ministry of Finance of Nepal has managed to collect NPR 84.07 billion (USD 0.70 billion) in the first two months of the current fiscal year 2020/21, which indicates a nearly seven-fold increment year-on-year. The aid commitments were NPR 12.35 billion (USD 0.10 billion) during the same review period of the previous year. Of the total aid currently pledged, 64 percent has been dedicated for roads and good governance, 2 percent for education and 1 percent for reconstruction among others.⁵⁹

The Government of Nepal decides to take concessional loan from Asian Development Bank (ADB):

The government of Nepal has decided to take NPR 24 billion (USD 0.20 billion) as concessional loan from the ADB in order to improve the power transmission and distribution system of electricity. The Ministry of Finance put forth the proposal for the loan. According to the decision of the Ministry, the government has also decided to accept NPR 4 billion (USD 33.49 million) grant from the Norwegian government.⁶⁰

The United States provides ventilators to Nepal as aid: The United States (US) has provided 100 ventilators to Nepal to assist

the government of Nepal in fighting the COVID-19 pandemic. The US Ambassador to Nepal, Randy Berry, handed over the ventilators to the Minister for Health and Population, Bhanu Bhakta Dahal, on November 9. This donation builds on the USD 28.3 million (NPR 3.4 billion) the USAID has committed to Nepal in response to the pandemic. In addition to this, the US government has also supported 113 municipal contact tracing and case investigation teams, provided COVID-19 telephone counseling to almost two million families, conducted remote health counseling with more than 500,000 families during the lockdowns, identified more than 60,000 food insecure families and referred them to food aid programs and so on.⁶¹

Nepal and Switzerland sign agreement to build bridges:

On November 13, 2020, Nepal and Switzerland signed an agreement to collaborate to build 200 motorable bridges on provincial roads. The agreement, titled Motorable Local Bridges Program, has stated that the bridges will be constructed in the next four years and that the program will benefit 1.5 million citizens through access to economic opportunities and basic services. The Swiss government has provided such technical assistance in building over 415 motorable bridges for the last nine years and has helped in reducing transportation

costs to schools, health posts, markets, and so on by at least 20-25 percent.⁶²

Asian Development Bank supports production of clean bricks in Nepal:

In Nepal, the traditional brick making system requires approximately 1,600 kilns to burn nearly 1 million tons of coal annually, which causes around 600 annual deaths and adds USD 46 million (NPR 5.49 billion) to public health costs every year. Currently, the Good Bricks System is in use, which is a product of InnoCSR Co Ltd that uses materials technology from the Republic of Korea, to make high-quality bricks with soil, stabilizer and cement. Considering this, the Asian Development Bank's (ADB) venture capital arm ADB Ventures has provided the Good Bricks System in Nepal a USD 125,000 (NPR 14.9 million) grant to reduce the brick-making industry's harmful impact on the environment and health. This grant also gives ADB Ventures the option to make a future equity investment in the Good Bricks System.⁶³

World Bank provides aid to boost agro sector in Nepal and support post-pandemic recovery:

The World Bank has approved a credit worth USD 80 million (NPR 9.36 billion) for promoting market linkages to support the growth of rural enterprises, especially women-led enterprises. The project is expected to help boost the

agriculture sector by strengthening its rural market linkages, improving production through investment in municipal agriculture centers and value chain infrastructures and promoting entrepreneurship while creating jobs to support post-COVID-19 recovery. The project is also expected to stimulate niche sectors such as coffee, tea, fruit and medicinal products among others to help them grow and provide a 'Nepali' brand while also supporting their post-pandemic recovery.⁶⁴

“ OUTLOOK

The foreign aid pledges to Nepal have been rising year-on-year. In the last FY 2019/20, the foreign aid commitments totaled NPR 219.88 billion (USD 1.84 billion), recording a 59 percent jump year-on-year. The main reason behind the rise in this fiscal year's foreign aid is the COVID-19 pandemic. The country's internal revenues are drying up amidst the pandemic and under these circumstances, international organizations such as the International Monetary Fund, Asian Development Bank and so on, which used to provide credit whenever the country faced a current account deficit, are now providing emergency credit. However, former ministers and secretaries of the government are of the opinion that foreign loans should not be spent in emergency response and should instead be utilized in developing health infrastructure which will give returns in the long run.

The review period provides a glaring picture of the foreign aid sector and how the government is seeking more external assistance. But, keeping in mind the huge amount of aid the country is pledged to receive, the government has to be careful about selecting projects and completing schemes (where foreign loans have been used) so that they can yield a good rate of return and save the country from not being pushed further into high debt.

REMITTANCE

The review period depicts a reviving picture of the remittance economy of Nepal and the state of Nepali migrants in different parts of the world amidst the coronavirus pandemic. It highlights the noticeable improvement in remittance inflows over the past few months since the COVID-19 pandemic started up until now. Despite projections of huge drops in the remittance amounts, it is expected that the remittance sector will bring positive results.

Nepal's remittance income sees recovery despite ongoing COVID-19 induced low predictions:

During the previous fiscal year that ended on mid-July, the remittance income to Nepal had dropped by a marginal 0.5 percent in comparison to its corresponding period due to COVID-19 induced lockdowns and loss of jobs. Considering this, it was predicted that the remittance income will be very minimal and will not be able to contribute to the country's earnings this fiscal year as well. However, the estimates of drop in remittances were only witnessed till April. After April, there has been a noticeable improvement.

According to the Nepal Rastra Bank (NRB)'s annual macroeconomic report released on 24 August 2020, Nepali migrant workers sent home NPR 875.03 billion (USD 7.32 billion) in the last fiscal year 2019/20, and also indicated an all-time high remittance of NPR 100.16 billion (USD 0.83 billion) during the last month (mid-June to mid-July) of the FY 2019/20.⁶⁵

In addition to this, the Macroeconomic Update of the first month (mid-July to mid-August) of the current FY 2020/21 unveiled by the NRB revealed that the remittance inflow surged to a whopping NPR 92.71

billion (USD 0.77 billion), indicating a 23 percent surge in comparison to a 2 percent increase in the same review period of the previous year.⁶⁶

Remittance inflows surges by 8.1 percent in first two months in 2020/21:

According to the Macroeconomic Update of the first two months (mid-July to mid-September) of the current fiscal year 2020/21, the remittance inflow has increased by 8.1 percent in comparison to a decrease of 0.6 percent in the same period of the previous year. The remittance inflow rose to NPR 165.73 billion (USD 1.38 billion) in the review months, which is taken as a positive sign despite the hardships created by the ongoing COVID-19 pandemic.⁶⁷ Experts at NRB are of the view that remittance inflow may have significantly gone up due to returnees sending funds through formal channels only. In addition to this, the returnees have also brought back cash in recent months.⁶⁸

World Bank predicts subdued remittance growth in Nepal:

Although the remittance inflow has been upbeat in the first two months of the current FY 2020/21, the Migration and Development Brief, published by the World Bank on October 29, has stated that remittances will remain subdued in 2021 because of the

virus-related global slowdown and travel restrictions affecting migratory movements. According to the same report, the remittance income will be USD 7.4 billion (NPR 883.78 billion) in 2020, down 12 percent from pre-coronavirus levels in 2019. The report further stated that tepid economic growth and employment levels in countries hosting migrants, weak oil prices and depreciation of currencies against the US dollar were factors behind the decline. In line with this, Nepal Rastra Bank is of the view that the country would not see negative growth but the growth momentum might definitely be slow.⁶⁹

More than 52,000 Nepalis have returned home from abroad:

According to the statistics of the COVID-19 Crisis Management Centre (CCMC), more than 52,000 Nepalis have returned home from abroad up until August 24. A majority of the arrivals of 14,745 were from the United Arab Emirates, followed by Saudi Arabia 7,817, Malaysia 7,795, Kuwait 6,230 and Qatar 5,668.⁷⁰

Experts believe that although tens of thousands of Nepalis were preparing to return home, the government of Nepal's abrupt decision to cancel all planned repatriation flights for an indefinite period on account of requests made by the CCMC

restricted the returning migrant workers from coming back home. Besides, other migrant workers might have felt safe to stay back in their labor destinations due to the high airfare costs.⁷¹

“ OUTLOOK

The spread of COVID-19 worldwide has changed the remittance scenario. For decades, Nepal has been dependent on remittance income as one of its highest sources of earnings. This year, the coronavirus pandemic has threatened to erode Nepal of this particular source among many others.

Since many Nepali migrant returnees had to lose their jobs, return to Nepal or stay out of work, the remittance income has been adversely affected. There were predictions of major decrease in remittance inflows projected by organizations such as the World Bank, Asian Development Bank, Nepal Rastra Bank and so on. However to everyone's surprise, the actual remittance inflow has been better-than-expected at 8.1 percent growth as of September 2020. Based on the current scenario, the NRB believes that inflows will not fall in the next three months either, but the growth rate might slow down.

Given this scenario, it is crucial for the government to create domestic job opportunities now more than ever as the pandemic has revealed that the country cannot always depend on remittance, which is prone to global shocks (such as COVID-19 and economic turmoil). The employment opportunities have to be created at the local level because the local government is the closest to community life and has a better idea of what might work in its vicinity.

ENVIRONMENT

As the world gradually picks itself up and the stale economy starts gaining momentum, various countries have restarted their attempts to combat climate change. Nepal too is coordinating different projects and ventures into formative exercises in spite of lacking numerous sectoral strategies. In addition, Nepal has also collaborated and signed a pact with a neighboring country rectifying a record of largest foreign direct investment of NPR 115 billion for the construction of the biggest hydropower project.

Earth campaign launched digitally:

Earth Hour 2020, a global campaign demanding climate actions, was marked digitally for the first time through Nepal's Voice for the Planet, a worldwide mission requesting critical climate action from world leaders. Earth Hour Nepal saw individuals from across the nation come together to raise their voice for leaders to take immediate action against the changing climate. The platform drew a staggering over 4.9 million and 9.8 million⁷² in online media impressions.

Government propels programs for landscape management:

The Ministry of Forests and Environment dispatched the Integrated Landscape Management team (ILaM) to Secure Nepal's Protected Areas and Critical Corridors at a function in Kathmandu. The project will be executed in the Terai Arc Landscape for the next five years, with a focus to empowering climate for cross-sectoral coordination to advance forest and landscape conservation. The project mainly focuses on the Protected Area buffer zones and critical corridors, mainly in the Terai landscape.⁷³ The undertaking is financed by the Global Environment Facility (GEF), with WWF-US as the task execution organization and WWF-Nepal as its

neighborhood partner. Moreover, this program will be utilized to actualize a few of the projects recognized by global perspective for example, Biodiversity (CBD) and Climate Change (UNFCCC) to which Nepal is taking a lead.

Report ranks Nepal among most polluted country in the world:

As the nation braces for winter, Nepal once again ranks as one of the most polluted countries in the world. The State of Global Air 2020 report places Nepal among the top 10 nations with the most elevated open-air PM2.5 levels in 2019. With an outflow of an annual average of micrograms marking 83.1 per cubic meter ($\mu\text{g}/\text{m}^3$) of PM2.5 in the nation, Nepal was set behind India. The bad air killed 17,900 Nepalis in 2019 and additionally, 42,100 deaths⁷⁴ in Nepal were a result of air contamination during the period as per the reports produced by Health Effects Institute and the Institute for Health Metrics and Evaluation's (IHME's) Global Burden of Disease (GBD) project. The report comes as a stark reminder that Nepalis are continuing to breathe toxic air. The COVID-19 pandemic and long periods of lockdown, which saw a halfway or complete closure of vehicular development around the

globe, brought about an improvement of air quality in significant urban communities. However, with the volume of public development gradually getting back to pre-COVID times, air quality is likewise liable to crumble to pre-pandemic levels.

Local government under environment assessment guidelines:

The Ministry of Federal Affairs and General Administration (MoFAGA) has recently endorsed "Climate Assessment Guidelines" for local governments in an effort to facilitate the execution of environmental activities at the local level. WWF Nepal's Policy & Governance Specialist denotes this project as a major step forward in empowering local governments with the necessary tools to implement the Environment and Natural Resources Conservation Act Framework (ENRCA). WWF Nepal provides the technical support in the guidelines prepared by the Ministry of Federal Affairs and General Administration (MoFAGA). Numerous groups of ministers and key stakeholders including Ministry of Forests and Environment, Ministry of Urban Development, Department of Local Infrastructure, Department of Roads, and the National Planning

Commission also provided critical input and contributions.⁷⁵

Climate change threatens biodiversity

of rhinos: Due to the rapidly warming temperature, Nepal's one-horned rhinoceros population is under great threat. A recent report stated several rhinos were found dead due to unprecedented environmental calamities, like floods. But the ongoing inconsistency in climate, including hefty rains and floods in the monsoon and followed by prolonged drought in the dry season, have altered rhino's riverine territory. This year Chitwan recorded the highest rainfall measuring 3,130mm of rain, much higher than the annual average of 2,450mm.⁷⁶ In addition, the rhinos' grassland habitat has been replaced by new invasive flora, which is driving rhinos out of the park in search for better pastures. The Department of National Parks and Wildlife Conservation has delved 500 lakes in the Terai parks, with another 200 being prepared for coming dry season. It has additionally attempted to re-establish local grass in the territory of the rhinos. The rising deaths of rhinos have left officials at

Chitwan National Park in great agony, and they blame the environmental causes for climate change.

Hydropower project construction on quick track:

The Arun-III hydropower project, a venture led by five Indian banks and two Nepali banks, is under construction in Nepal's Sankhuwasabha district. The venture commits to lend debts for the construction of the 900 MW power project. Last month, Nabil Bank, along with Everest Bank, from Nepal, collaborated and signed a pact with India's Satluj Jal Vidyut Nigam (SJVN) rectifying a record of largest foreign direct investment to the Himalayan nation. The total investment of the venture is believed to cross NPR 115 billion,⁷⁷ including investment for the development of the transmission line. It is believed Nepal will acquire 197 MW electricity with 86 crore units for free in a year i.e. 21.9 per cent of the total electricity produced after the completion of the project. The SJVN will work the power plant for a concession time of 30 years, following which the possession will be moved to the Nepal government.

Kalaiya locals of sugar mill forage

constraints on pollution: The locals of Kalaiya, Bara, have demanded an industrial plant to curb harmful discharge, particularly gases, which is causing an unpleasant impact on the health of the residents. Several residents have raised their voice and are staging demonstrations against the industrial plant, looking for measures to restrict contamination from the plant and compensation. Locals believe that people are getting sick because of the smoke and ashes from the plant; however, as the administration of the industry has not yet addressed this issue. The local people in the region say they are experiencing pain in the eyes, migraine attacks, diarrhea and respiratory issues while a farmer too have expressed strong disapproval.⁷⁸ There had been an 18-point arrangement between the local people and the industry management to control contamination from the plant that was forged around seven years prior but the industry has yet to execute the agreement.

“ OUTLOOK

Although the COVID-19 pandemic has brought about a host of new challenges, the government has not been lost focus on directing the environmental sectors of the nation towards climate action. However, problems persist.

During the lockdown period, the data suggested there was a reduction in air pollution levels but after life resumed to normal, pollution levels spiked and Nepal now ranks as one of the most polluted countries, according to a recent report. New ventures and campaigns have been decided by the cabinet to look at all the possible measures in a broader way to improve the planet.

The Nepal government is also launching new programs and guidelines for the betterment of the landscape across the country, mainly targeting the Terai. Despite such measures, natural calamities like flood, landslides and heavy rainfall continue to hit Nepal. The frequency of natural disasters has led to an imbalance of ecosystems, in the Terai itself and is affecting the population of the one-horned rhinos. The local government and world bodies need to continuously supervise the problem before it is too late.

INFORMATION AND COMMUNICATION TECHNOLOGY

The role of ICT has become increasingly pivotal with the onset of COVID-19. From circulating crucial information regarding the pandemic to delivering contactless services, ICT has demonstrated its capacity to bolster the economy as well as spread public awareness. Needless to say, the pressing need to adopt information technology, for both public and private sectors alike, has become clearer.

Burgeoning internet access across the country: Internet service has reached a wide population of around 22.8 million people. The National Telecommunication Authority (NTA) estimates that 56% of the total users access the internet via mobile data. On the other hand, among the 5.7 million users with fixed broadband, 918,000 use ADSL and the rest have cable or Fiber to the Home (FTTH) connection provided by the private sector.

The NTA's Management Information System (MIS) report states that more than 11 million people use 3G in Nepal. The surge in internet consumption has been attributed in part to the ongoing pandemic.⁷⁹

Moving towards e-governance: The government has taken a step towards e-governance through the introduction of Integrated Information Technology Center. This institution, in collaboration with the local governments, works towards making government services accessible to the general public by employing information technology.

The Ministry of Federal Affairs and General Administration has already

set in place the policy framework for e-governance. Accordingly, IT Officers have been installed in all of the 753 local units, indicating the integration of ICT at the local levels. The local governments have readily embraced a technical shift of this sort with 400 of 753 local units actively taking part in the government's digital initiative.

Among these units, Waling Municipality has been exemplary in its use of e-governance. According to the Mayor of Waling, most of the local government's services have recently gone online from the provision of issuing birth and death certificates to relationship recommendation letters. All 14 wards of the municipality are virtually linked through e-governance and have managed to make the most out of the lockdown by utilizing ICT resources.

Similarly, Dhangadhi Sub-Metropolitan City has digitized some services as well, revenue collection being one. Additionally, information relevant to COVID-19 such as "isolation/quarantine centers, medical stores, and relief distribution details" have been digitally disseminated to the public.⁸⁰

Clean feed policy: The clean feed policy, promulgated in the Advertisement (Regulation) Act 2016⁸¹, has been implemented as of October 23. This decision was made in response to shrinking domestic advertising industry along with the non-compliance of pay channels with the given stipulations. Pay channels, unlike free-to-air channels, charge their viewers in exchange for not airing ads, or in other words, they are clean feed based. However, until now, the predominant Indian channels had been billing the viewers all the while airing ads on Nepali TV.

The government aims to address such deception through the clean feed policy and preclude foreign channels from airing commercials. Furthermore, the domestic advertising market is also expected to grow by around USD 92 million owing to this policy.

Stakeholders and entrepreneurs have been visibly content with the enactment of the clean feed policy and have called for broader implementation including in the telecommunication sector.⁸²

Cashless transaction gains ground:

Since the spread of COVID-19, Nepal's electronic payment platforms like IME pay, eSewa and Khalti have seen an astonishing growth in their user base. More than 40% of online purchases during the recent festival were done digitally. E-commerce

operators have ascribed consumers' growing inclination for digital payment, which allows contactless delivery, to the ongoing pandemic, as well as to the collaboration between e-commerce and e-payment.

On a similar note, the banking sector

has seen an unprecedented growth in the number of mobile banking users. According to the executive director of the Nepal Bankers Association, one-third of account holders access mobile banking, which totals to around 10.15 million.⁸³

“ OUTLOOK

The government's effort to increase its online presence is commendable. The shift to e-governance is inevitable given the current context. Hence, the local units must stop resisting impending changes and instead work towards facilitating the transition that has been called upon not just by the pandemic, but also by the increasingly digitized world.

While the government has enacted the clean feed policy with the intention to prevent foreign channels that charge viewers from airing ads, there has been an unwarranted consequence brought about by the policy. Some of these channels, that were unable to put forth clean feed compatible programs, have stopped broadcasting altogether. As a result, TV viewers have taken the greatest hit with a significant reduction in consumer choice/number of channels. Moreover, there is a possibility of price hike in the amount pay channels charge the viewers.



MARKET
REVIEW

FINANCIAL MARKET

The end of the first quarter of the fiscal year 2020/21 saw a decrease in the net profit of commercial banks by 8.4 percent. Of the 27 commercial banks in the country, 19 reported decline in net profits in the first quarter compared to the corresponding quarter of the previous year. This loss can be attributed to the average non-performing loans (NPL) of commercial banks reaching 1.6 percent, largely due to the ongoing pandemic, making the financial sector one of the worst-hit sectors. However, the banking sector seems to be recovering at a steady pace with deposits and loans increasing.

Key Indicators: Some of the key macroeconomic indicators as per the macroeconomic and financial situation report based on the first quarter data of the fiscal year (FY) 2020/21 published by the Nepal Rastra Bank (NRB) are highlighted below:

Deposit and Credit Mobilization:

In the review period, the deposits at Banks and Financial Institutions (BFIs) increased by 4.9 percent. Out of the total deposits, the share of demand deposits, savings deposit and fixed deposits stands at 9.1 percent, 32.8 percent and 49.4 percent respectively as compared to 8.2 percent, 33 percent, and 47.8 percent respectively in the previous year. The institutional deposits stood at 43.2 percent in mid-October 2020, while its share was 44.8 percent a year ago. Likewise, credit extended by the BFIs to the private sector increased by 4 percent in the review period as compared to an increase of 4.3 percent in the corresponding period previous fiscal year. In the review year, private sector credit from commercial banks and development banks increased 4 percent and 5.2 percent respectively while that from finance

companies decreased 0.5 percent. Of the total outstanding credit to BFIs, 65.9 percent is against the collateral of land and building and 12.6 percent is against the collateral of current assets such as agricultural and non-agricultural products. Loan of BFIs to agriculture sector, industrial production sector, construction sector, and transportation, communication and public sector increased by 6 percent, 1 percent, 1.8 percent, and 5.1 percent respectively. Likewise, loan to the wholesale and retail sector and the service industry increased by 4.7 percent and 6.7 percent respectively in the review period. In terms of credit exposure, the outstanding credit of BFIs to real estate loan (including residential personal home loan) increased by 0.6 percent and trust receipt (import) loan extended by commercial banks increased by 6.6 percent during the review period. Similarly, term loan and overdraft loan increased by 3.9 percent, and 3.7 percent respectively. In the review period, hire purchase loan declined by 2.7 percent.

Liquidity Management: In the review period, the central bank mopped up NPR 90 billion liquidity

through open market operations as compared to NPR 30 billion in the corresponding period of the previous year. NRB injected net liquidity of NPR 147.43 billion through the net purchase of USD 1.2 billion from foreign exchange markets. Similarly, NRB also purchased Indian currency (INR) equivalent to NPR 99.64 billion through the sale of USD 840 million in the review period.

Foreign Exchange Reserves and Adequacy:

As of mid-October 2020, the gross foreign exchange reserve stood at NPR 1470.26 billion (USD 12.55 billion), increasing by 4.9 percent as compared to NPR 1401.84 billion (USD 11.65 billion) in mid-July 2020. Of the total foreign exchange reserves, reserves held by NRB increased by 5.1 percent, to NPR 1288.55 billion (USD 10.79 billion) in mid-October 2020 from NPR 1226.12 billion (USD 10.27 billion) in mid-July 2020. The share of INR in total reserves stood at 23.1 percent. Based on imports of three months of FY 202/21, the foreign exchange holdings of the banking sector are sufficient to cover the prospective merchandise for 15.6 months and merchandise and service imports for

14.1 months. The ratio of reserve-to-GDP, reserve to-imports and reserve-to-M2 stood at 39.0 percent, 117.3 percent and 32.9 percent respectively in mid- October 2020.

Interest Rates: The weighted average 91-day Treasury Bill rate decreased to 0.63 percent in mid-October 2020 which was 4.33 percent a year ago. Likewise, the weighted average inter-bank transaction rate among commercial banks, which was 4.62 percent a year ago, decreased to 0.11 percent in the review period. The weighted average base rate of commercial banks decreased to 7.73 percent in the review period from 9.56 percent a year ago. Weighted average deposit rate and lending rate of commercial banks stood at 6.01 percent and 9.83 percent respectively.

Balance of Payments: In terms of BOP, the current account surplus stood at NPR 34.36 billion (USD 287.69 million) as compared to a deficit of NPR 22.47 billion (USD 188.14million) in the previous year. The overall BOP remained at a surplus of NPR 101.09 billion (USD 846.44million) in the review period against a surplus of NPR 14.43 billion (USD 120.82 million) in the same period of the previous year.

First Quarter Performance Analysis of Commercial Banks: As per the

unaudited first quarter financial results of commercial banks for FY 2020/21, as shown in Table 7, the operating profit of commercial banks fell by 6.7 percent, while the net profit also witnessed a 8.40 percent decline compared to the corresponding figure of the previous fiscal year. At the end of the first quarter, Global IME Bank was able to post the highest net profit of NPR 1.05 billion (USD 8.79 million) followed by Nabil Bank with NPR 1.03 billion (USD 8.62 million) and NIC Asia Bank with NPR 1.02 billion (USD 8.54 million). Similarly, during the review period, average Non-Performing Loans (NPL) of banks remained at 1.6 percent. Likewise, the average cost of funds of commercial bank decreased to 5.7 percent from 6.9 percent. Similarly, the average base rate stood at 7.7 percent during the end of this quarter, the highest being 8.9 percent of Civil Bank and the lowest being 5.7 percent of Rastriya Banijya Bank.

NRB issuing Development Bonds: Nepal Rastra Bank (NRB) decided on issuing ‘Development Bond 2087 Gha’ worth NPR 20 billion on behalf of the Government of Nepal. Issuing a press statement, the NRB is set to issue the bonds through a competitive process and the interest rate would also be determined through a competitive bidding process. Banks and financial institutions, insurance

companies, organized institutions and Nepali citizens are eligible to apply for the development bond. A minimum of NPR 50,000 worth of bond can be bought by the interested firms or individuals while the maximum limit would be the total number of the bonds. The interest imbursement would be made bi-annually, and the holder can also pledge the bonds as collateral to receive loans.⁸⁴

NPR 50 billion fund for hard hit sectors: The government announced that it would begin the disbursement of loans from the NPR 50 billion fund for the recovery, rehabilitation, and continuity of COVID-hit businesses from November 25. A cabinet meeting held on November 12, passed the guidelines for disbursing the concessional loans to domestic small and medium enterprises, and tourism businesses that have been deeply affected by the coronavirus crisis under the ‘business operation continuity loan flow research’ account which is worth NPR 50 billion. As per the guidelines, highly affected businesses will be availed loans of up to NPR 100 million, moderately affected businesses can get loans up to NPR 70 million, and less affected businesses are eligible for loans up to NPR 50 million.⁸⁵

“ OUTLOOK

Economies around the world have been gravely affected by the COVID-19 pandemic, with businesses struggling to stay afloat and the financial sector bracing for a hard impact. And the first few months of the pandemic hit the financial institutions in Nepal hard too, as deposits, loan disbursements and profits slumped while Non-Performing Loans (NPLs) soared. However, in the first quarter of the FY 2020/21, the banks and financial institutions in Nepal somehow kept things intact and even remained profitable. And now, with news of successful testing of the Covid-19 vaccines coming in recently, it might be safe to say that the country’s economy will not suffer greater damages and will start recovering soon.

CAPITAL MARKET

During the review period, the market has witnessed a bullish trend with high levels of transactions. Funds are being poured into the secondary market due to the absence of alternative investment avenues. The reduced interest rate on deposit schemes is resulting in a surge of liquidity in the capital market which is pushing the benchmark NEPSE index higher. Further, the surge has been backed by advancement in technological infrastructure at the stock exchange, making the market accessible from across the country.

Secondary Market: During the review period, the Nepal Stock Exchange (NEPSE) index went up by 23.50 percent, closing at 1,718.49 points. The total market capitalization reached NPR 2,302.76 billion (USD 19.28billion) while the total floated market capitalization reached NPR 800 billion (USD 6.69billion).

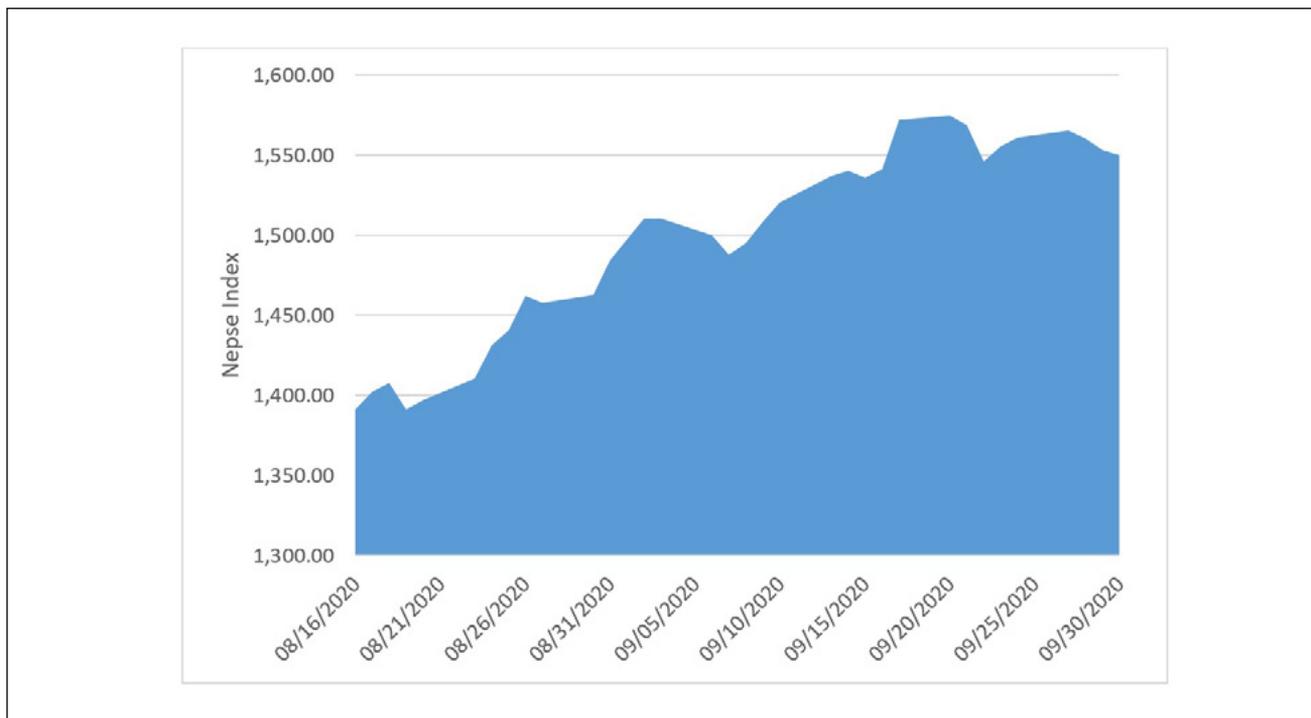
As indicated by Table 1, during the review period, all the indices landed in the green zone, as the market has remained bullish with high levels of transaction. The highest gainer was the 'Others' sub-index (58.67 percent) followed by the Hydropower sub-index (52.17 percent) and the Non-Life insurance sub-index (33.48

percent). The lowest gainer during the review period was the commercial bank sub-index, clocking a gain of 11.73 percent only. Notably, the Hotel sub-index has fared well, with a gain of 26.42 percent as it was in the red zone in the previous review period.

Table 2. Key indicators

	August 16th, 2020	November 12th, 2020	% Change
NEPSE Index	1,391.46	1,718.49	23.50%
Sub-Indices			
Commercial Bank	1,182.37	1,321.05	11.73%
Development Bank	1,733.31	2,090.53	20.61%
Hydropower	949.62	1445.06	52.17%
Finance	656.08	867.03	32.15%
Non-Life Insurance	6,603.36	8,814.00	33.48%
Others	808.31	1282.57	58.67%
Hotels	1,500.85	1,897.36	26.42%
Microfinance	2,348.39	2,708.20	15.32%
Life Insurance	8,439.69	10,229.34	21.21%
Manufacturing & Processing	2,655.37	3,393.69	27.80%

Source: Nepal Stock Exchange (NEPSE)

Figure 5. NEPSE Movement Index

Source: Nepal Stock Exchange (NEPSE)

Primary Market: The primary issue market has been active with the following public offerings:

- Reliance Life Insurance Co. Ltd – The IPO for the general public offered 6.3 million units, with Sanima Capital as the issue manager.
- Samaj Laghubitta Bittiya Sanstha – With Siddhartha Capital as the issue manager, the IPO offered 86,000 units. The issue was oversubscribed by over 142 times, with a total of 8,070 applicants being allotted 10 units each via lottery and remaining 5.39 lakh applicants returning empty handed.
- Bindhyabasini Hydropower- An IPO of Bindhyabasini Hydropower, which is worth

NPR 225 million, has been added by SEBON, with Sanima Capital being appointed as the issue manager.

- Dish Media Network- An IPO with 2.38 million units has been approved with Global IME Capital appointed as the issue manager.

Similarly, public offerings of Chandragiri Hills Limited, Himalayan Hydropower Limited and General Life Insurance Company to name a few have been approved.

Key Developments

Approval of IT Policy: NEPSE approved an IT policy, introducing a provision of information technology to enhance the effectiveness of the online secondary market. However, the Application Programming

Interface (API) policy within the IT policy has not been approved yet owing to reasons like Nepal Securities Board's instruction to make the API a different policy. The changes in API policy will help resolve some of the problems that investors currently face, such as not being able to log into NEPSE's TMS and not seeing purchase or sale orders. Preparations are being undertaken for the same, enabling brokers to make their own TMS. It is also anticipated that a certain fee will be charged while distributing API through the IT policy, which is being discussed by NEPSE.

“ OUTLOOK

The market during the review period reflects an enhanced investor confidence owing to the appointment of a new finance minister, a cabinet reshuffle and anticipation of higher proportion of bonus shares from listed BFIs. The process of making online trading easier and lack of other investment avenues has attracted a lot of investors to the share market. The weekly turnover, trading volume and number of transactions have also gone up considerably as festive spending is muted this year owing to the coronavirus pandemic, contrary to previous festive seasons. There is ample liquidity in the market. However, the investors should be cautious of the bullish trend as it is merely because of lack of investment avenues.

50

SPECIAL SECTION:

**'DIGITAL TRANSFORMATION BROUGHT ABOUT
BY COVID-19 GLOBALLY'**

COVID-19 PANDEMIC SHOWS DIGITIZATION IS THE KEY TO WINNING IN THE FINANCIAL INDUSTRY BY TANUSHREE AGRAWAL

The financial services industry was already evolving rapidly in the pre-COVID era due to heightened customer expectations and need for convenience, evolving regulations and technological upgradation and advancements. Digitalization of the industry was well in the works, well evidenced by the consistent growth in digital channels and tools like mobile money, internet banking, e-insurance etc. However, customers were still reluctant to change and thus firms were hesitant in investing.

But with the spread of COVID-19, health services became a priority for citizens across the globe. To avail of these services, people still needed access to their money and the various services banks offer to avail of health facilities. Bills needed to be paid, top-ups had to be done and money had to be remitted back home to families. There was a reluctance to go to banks, and in many countries across the globe, banks were shut. So people were forced to change their behavior, moving a substantial portion of the economy online and driving customers to engage digitally. The pandemic has accelerated the transformation in the financial services industry and this can be a game changer for the same. Additionally it has also exposed the urgency for digital transformation.

A study by Deloitte⁸⁶ identifies the following four fundamental shifts that are creating ripple effects in the financial service industry:

- Forced adoption of online, mobile and call center channels: Consumers' willingness to adapt to digital banking services has been catalyzed by the coronavirus pandemic. Demographics like senior citizens and boomers, who were reluctant to this change, surprisingly have been driving this change. In the US, which has traditionally lagged in digital adoption, 35 percent of customers have increased their online banking usage, with a significant share coming from seniors and boomers. Banks in America are also experiencing record numbers in mobile logins and check deposits. In Nepal, the scenario is no different. The transaction volume of PrabhuPay has gone up by 30-40 percent and most of these transactions include mobile top-ups, utility payments, and remittance transfer. Likewise, the number of new users of IME pay has also surged by 30 percent growth during the lockdown period.⁸⁷ In Nepal, this shift has also been driven by semi-urban and rural population in the country, as 60 percent of new users generated at IME Pay since March belong to this population demographic.⁸⁸
- Tipping point for digital and contactless payments: Fear of contracting COVID-19 through paper money has catalyzed the shift towards digital and contactless payments. Non-

traditional players have benefitted substantially as majority of their market share is concentrated in digital avenues: Paypal reported a 20 percent year-over-year growth in payments volume in April 2020; Paytm witnessed a 33 percent increase in digital payment usage in the month of April 2020. This shows that hygienic forms of payment such as digital wallets and tap-to-pay have taken off and surged as well. Businesses also sprinted to set-up ecommerce capabilities to ensure sales and continuity during lockdowns, either by choice or by necessity. Looking at the business landscape in Nepal, a fifth of businesses surveyed in a study carried out by International Finance Corporation (IFC) and World Bank have started to use or have been using the internet, social media, specialized apps, or digital platforms for business purposes.⁸⁹ Not only that, businesses have started promoting online payment gateway in Nepal and providing exclusive offers on digital payments. This is a bid from them to boost the culture of digital transactions.⁹⁰

- Overnight virtualization of workforce and working ways: The pandemic has revealed that remote working or working from home is possible for almost all kinds of business. The financial industry has successfully moved hundreds of thousands of

employees to remote work model. The Bank of America and Wells Fargo have each transitioned over 150,000 employees, which is approximately 70 percent of their workforce to work from home. Even traders, which has predominantly been an occupation requiring an office and a physical presence, as TD Bank has built new features allowing 80 percent of its traders to work remotely.⁹¹

Many financial companies across the globe are also looking to make this change permanent. However, in countries like Nepal, which have distorted internet access, the bandwidth and internet speed becomes a major concern for employees who work from home.⁹²

- Evolution of underlying market structure and economics: The coronavirus has ignited a radical shift in the structure of the financial services industry, implying margin pressures for organizations. Banks are being hit with lower interest rates as governments announce recovery policies and packages and increased loan loss provisions. Additionally, competition is predicted to intensify as "big techs" anchors its entry into financial services leveraging on its scale and diversifying into consumer necessities such as delivering essential products and services during the lockdown, allowing it to gain more negotiating power. Meanwhile, smaller fin-tech firms face additional risk, particularly with their funding models.

COVID-19 has smashed the traditional barriers, providing room for digital transformation: The CIO

of DBS Bank, which is often named "the world's best digital bank", stated that COVID-19 has: "... brought forth the value of technology and the investments we've made over the past decade to modernize our technology stack. But the transformation we've undertaken is not just in the way we've architected our infrastructure. One of the biggest things we realized was the change in the mindset of our people."⁹³

Conversely, most banks in Nepal are now racing to digitize their services, fearing that they may miss the digitization train. Banks and financial institutions have been exposed to staggering gaps in the technology, and responding quickly to close the gaps. Apps are improving, new products are emerging and online e-commerce market places are being set-up. Similarly, often banks and financial institutions have refrained from digitizing their processes as they are held back by their risk aversion and dilemma whether the heavy investment is justified. COVID-19 has swiftly removed these hurdles by revealing an organization's true capacity for innovation and showcasing the promise a digital future holds. The pandemic has also unlocked potential partnerships between financial institutions and digital service providers such as fin-tech and digital payment companies. For example, 'mDabali', a platform through which gives you digital access to your funds from cooperatives and finances was established in Nepal.

Looking ahead in the future: There are four key areas for making digital work for both banks and customers⁹⁴:

- Redefining customer experience: Customer is king and they need to be the focal point while building solutions. Banks must ensure that customers using these

online channels have a favorable experience both during and beyond the crisis. Customers need to come first, not one's business rules or technology because a bank's business is just a click away from one's competitors.

- Taking a mobile-first view: Product and service accessibility from portable devices should be prioritized as customers expect convenience and smooth interfaces.
- Developing a data strategy for personalization: Centralizing existing datasets is the key.
- Selecting the right technology platform: Making the right choice in terms of usability and interface while choosing platforms is important. Population demographics of the country and regulations should be considered.

However, lessons from such international banks may be hard to replicate in a country like Nepal, where digitization started late. The country and the banks operating in the country need to learn from winners in this revolution that talent is pivotal and only if the bank has adequate and efficient personnel, who has the technical knowledge, can its digital business strategy succeed.⁹⁵ Additionally, in the past, the central bank's policy on financial data to remain in-country has made digitization and foreign participation challenging. The government should give consumers control over their data. It should protect the privacy of a customer and prevent firms from hoarding information. Moreover, it should pave way for regulation that fosters innovation.

DO I NEED TO TEACH MY PARENTS TO USE NEPALI APPS? ASHRAYA DIXIT

I tried to get my mother to use Nepali money transfer apps--such as eSewa and ConnectIPS--during COVID-19 lockdown days in Nepal but failed. The apps were intuitive to me, but cumbersome to her. I emphasized how COVID has, and is, accelerating the adoption of digital technologies across the world: how massive enterprise IT budgets are shifting to remote working, security and collaborative IT segments; how US SAAS (Software-as-a-Service) companies tore up equity markets by adding almost USD 637.85 billion in value over 9 months (from March 30, 2020 to Nov 27, 2020); and how mega-vendors, like Microsoft, Amazon, and Oracle, are solidifying their positions as infrastructure and platform providers of choice for digital transformation in the 21st century. But it did little to convince my mother to make the shift. She is happy calling her acquaintance at the bank to complete her transactions. I wonder if she will pick up Alipay or PayTM's platform someday, or perhaps wait for Google and Facebook instead.

SAAS stocks and mega IT vendors may seem light-years away from the concern of my mother--a woman in her 60s in a least developed country (LDC)--yet digital change may come to her sooner than she thinks. So far, the digital transformation in developed and emerging markets has surfaced most noticeably in Nepal through cheap consumer electronics and consumer applications. It has also manifested as growth in IT/

BPO (Business Process Outsourcing) industry segments. Nepal exported almost \$300 million in IT services in 2017, about 18 percent of exported services.⁹⁶ Although it is an undoubtedly encouraging growth, the distribution of these services--among software development, research, operations support, or design and marketing, etc--is unclear. Nepal, and other LDCs, can play a role in digital transformation in other countries even if transformation within our own borders is slow and painful. What local planners and policymakers in LDCs must realize is that frontier markets like Nepal can participate in the global value chain of software development and digital transformation, just as East Asian Tigers integrated in global industrial and manufacturing value chains in the 1970s and 1980s.

Nonetheless, LDCs and frontier markets cannot just rely on imported consumer products/platforms and on outsourcing to facilitate internal digital transformation, let alone stay competitive in global software value chains. Institutional support is needed to expand a country's digital potential.⁹⁷ Nepal already has improving basic infrastructure: electricity supply and broadband penetration has improved our comparative advantage on top of cheap wages. Online freedom is also relatively high, perhaps by default. However, the pace of transformation in government departments for delivering services digitally, and the

momentum in the use of mobile money has been a drag on broader digital evolution. Both will require political agility to develop the strong operational architecture needed for high network liquidity and security. Furthermore, digital evolution in the broad corporate sector is poor, which is reflected in the lack of creation of significant medium-skilled digital jobs (like in ridesharing) or low-skilled digital jobs (like in e-commerce). Even incentivizing those with high digital skills to start companies and bring in foreign investments could have vast positive externalities on the local digital potential. Poor digital evolution across broader sections of the economy, especially without strong institutional support, will limit the overall digital potential of the country and dampen the competitiveness of local IT companies in global value chains.

As I struggle to convince my mother to use local money transfer apps to help with her transactions, I continue to wonder if I should just wait. Perhaps if I wait, I can just teach her to use more global platforms. It would be a welcome move to have larger established brands bring their capital and operational knowhow to Nepal and extend their services, but such moves may signal the failure of local firms to develop capacity and compete globally.

NEPAL'S TRANSFORMATION TO AN INCLUSIVE DIGITAL ECONOMY

SAROJ NEPAL, UNCDF

The Covid-19 pandemic will be remembered as a boon to the digitalization agenda, as it has catalyzed digital access and adoption of digital services across the Nepali market. With the pandemic, companies and different segments of businesses have been forced to adopt digital channels and modalities to protect employees and serve customers. Banks and financial institutions have launched digital outreach to customers, e-commerce platforms have become popular, schools have adopted online teaching and learning methods, and increasingly people are choosing digital channels to pay for goods and services. These recent developments in digital and adoption seem to be making everlasting structural changes in the economy. This is because customer behavior has changed significantly. Accordingly, the firms and companies have adapted to it to deliver goods and services. The supply chain is adjusting itself to the advents of digital technology.

Digital transformation at the organization level means enhancing digital investments, analysing the market using new data and artificial intelligence to improve business operations and increasing organizational agility to deliver more quickly. At country or market level, digital transformation requires a comprehensive and concerted approach that allows the development of conducive policy and regulatory framework, incentives for innovation, supportive infrastructure and

empowered citizens. If one of these is missing or weak then digital transformation will be flawed and would not lead to intended results--its benefits won't reach women, men, youth, migrants, farmers, and the poor and the disabled.

Nepal stands at a critical juncture with immense possibilities in terms of digital transformation to help build a more inclusive digital economy. This is because of impressive mobile penetration and internet coverage. The groundwork has also already been established for inclusive payment ecosystems, which can be a game changer for reaching and serving poor people in remote areas with a range of services. Nepal's policy and regulations on digital, mainly the digital finance related acts and directives from the central bank, do not pose any threat to digital transformation. The improvements in policies and regulations are steadily adopted and we can assume that it will continue as market innovates and expands. The government of Nepal's Digital Nepal Framework provides broader policy and programmatic framework for interventions to promote digital transformation. However, the willingness and ability of public and private sector agencies to implement the activities under the framework has not been encouraging so far. Since the digital sector is new, the public, by nature, perceives risks--many of which are poorly understood and not easily addressed. Fraudulent acts are difficult to control if there is limited

regulatory and oversight capacity. The increased number and diversity of actors engaged in delivering financial services makes it even more difficult to identify and hold actors accountable for fraud and negligence. For the private sector, investments in innovations are costly and risky. And a lack of or limited innovation within the industry is a major barrier to offer the appropriate services in all sectors.

Understanding limitations of both public and private sector and addressing their specific constraints is key to transformation to inclusive digital economy. UNCDF's Inclusive Digital Economy scorecard (IDES) helps to track the development of inclusive digital economies at the country level easily. It provides a framework to identify key markets constraints hindering the development of an inclusive digital economy. It also guides stakeholders to work with public and private stakeholders to remove these constraints to foster digital economies that leave no one behind.

In Nepal, the critical piece in driving digital transformation is to improve skills at customer level or empowering them to use services. The services offered should allow them to transact from their homes at any time with greater privacy and confidentiality. We should be watchful that digitalization doesn't lead to a greater economic divide. That's where the focus of our digital transformation agenda should be.

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NEF PROFILE



NEPAL
ECONOMIC
FORUM

Nepal Economic Forum (NEF) is a premier private sector-led economic policy and research organisation that seeks to redefine the economic development discourse in Nepal. Established in 2009 as a not-for-profit organisation under the beed (www.beed.global) umbrella, NEF is a thought centre that strives to redefine the economic development discourse in Nepal by strengthening the Nepali economy through various activities to promote an efficient and inclusive private sector. NEF has been featured in the list of Top Think Tanks in Southeast Asia and the Pacific in the Global Go To Think Tank Index Reports 2016 through 2019.

NEF BROADLY WORKS UNDER THE FOLLOWING AREAS:

BPRC

Business Policy Research Center (BPRC) consolidates NEF's activities into a hub that takes a holistic approach to the issues; generates dialogue between the public and private sectors on economic development concerns, and acts as a platform for information dissemination. To bridge the gap in credible research and leverage beed's engagement with the private sector, BPRC has been working to generate awareness and promote public discourse on key issues of the Nepali economy. NEF generates three products under BPRC:

nefport - a quarterly economic analysis publication

neftake - periodic blogs that covers wide range of issues

neftalk - a platform for policy discourse



Himalayan Circular Economy Forum (HiCEF) is one of the critical initiatives that NEF has taken as a functional outcome of the Himalayan Consensus Summit that NEF functioned as secretariat from 2014 to 2019. HiCEF brings forth key issues for public discourse to mainstream alternative development paradigms. Through HiCEF, NEF intends to explore the concept of a circular economy and contribute in paving a path towards sustainable businesses and societies.



Renewable Energy (RE) Center aims to be the premier platform for mainstreaming renewable energy issues by engaging multiple stakeholders to articulate discourse that will shape national-level energy policies. The RE Center has already conducted a dialogue series in this regard, bringing various stakeholders under the same roof to discuss the burning issues of this sector.



Startup Policy Incubation Center (Start-PIC) emerged because the regulatory environment in which the startup ecosystem operates has not evolved in the country. The stakeholders in the ecosystem face business uncertainty due to redundant policies. Start-PIC aims to review the prevailing laws in Nepal, recommend necessary amendments, and incubate startup policies that will foster entrepreneurship spirit and startup ecosystem in the country.



Through its **devCon** division, NEF operates in the domain of Development Consulting in conjunction with beed management. It works with a variety of bilateral, multilateral, national, and international institutions in the areas of policy research, economic analysis, value chain analysis, enterprise development, 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 info@nepaleconomicforum.org





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