



NEPAL  
ECONOMIC  
FORUM

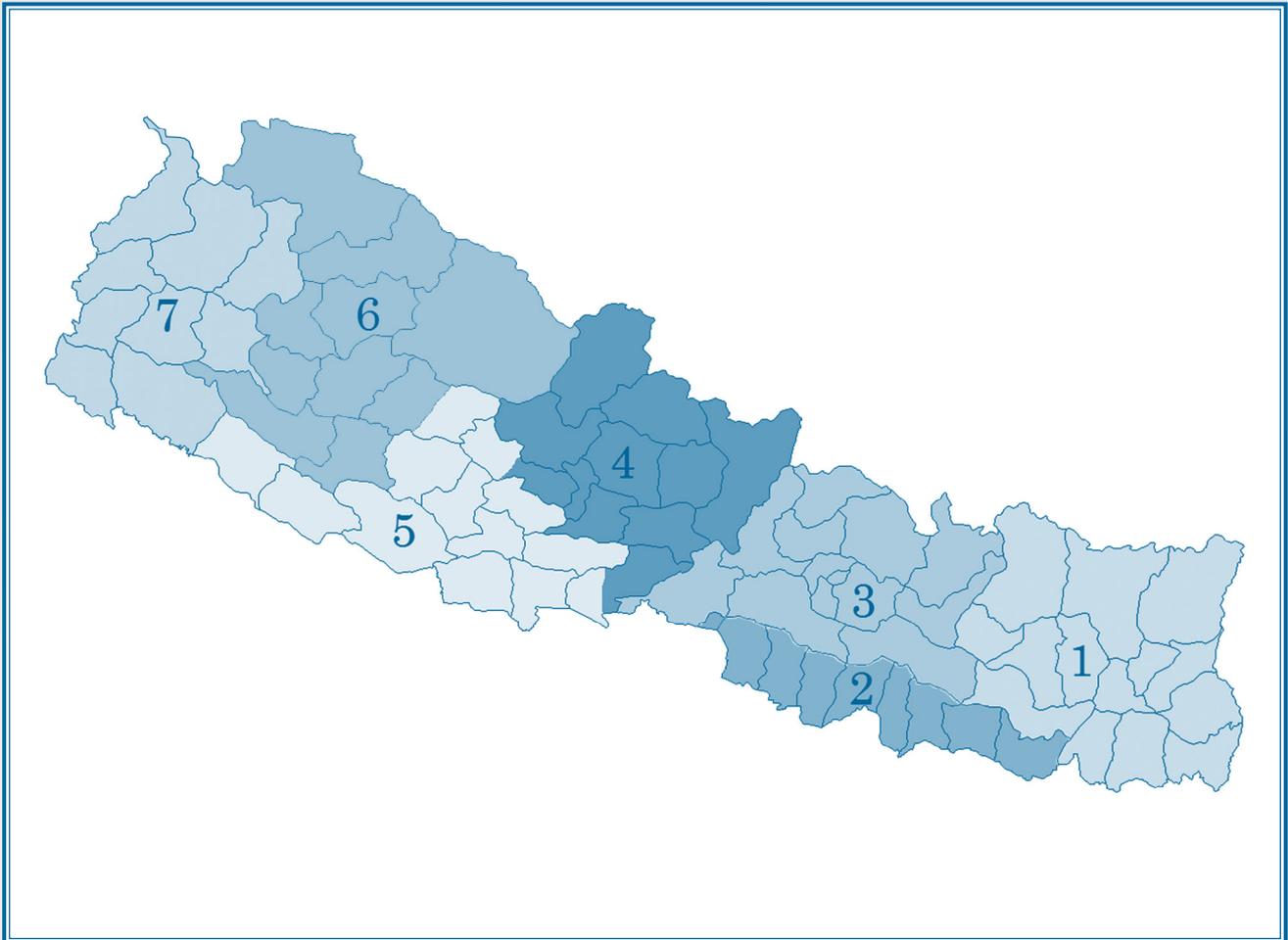
# nefport

**INTERNATIONAL RELATIONS FOR  
ECONOMIC GROWTH**

**DOCKING NEPAL'S ECONOMIC ANALYSIS**

ISSUE 46 | SEPTEMBER 2021

# NEPAL FACTSHEET



## KEY ECONOMIC INDICATORS

GDP (2021) ***	USD 36.08 billion	GDP Growth rate (%) (2021 estimate)***	2.9%
GNI (PPP, 2020, at current price)*****	USD 4060	Inflation (y-o-y, 2021) ****	3.10%
Gross Capital Formation as of 2020/21, preliminary estimate (% of GDP) **	30.8%	Agriculture sector (% share of GDP)**	20.2%
HDI *	0.602	Industry sector (% share of GDP)**	19.6%
Rank *	142	Service sector (% share of GDP)**	60.2%

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

\*\* Based on Ministry of Finance Economic Survey of 2020/21

\*\*\* Based on IMF Data

\*\*\*\* Based on 9 months' data of Nepal Rastra Bank (2020/21)

\*\*\*\*\* Based on World Bank Data

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# NEPAL ECONOMIC FORUM

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# EDITORIAL

The political landscape of Nepal saw a significant turn of events in the last quarter. In a landmark verdict, the Supreme Court reinstated the House of Representatives (HoR), overturning KP Sharma Oli's decision to dissolve the house for a second time. Consequently, Deuba was appointed as the prime minister for the fifth time in his political career, with the support of the opposition alliance. However, over a month after his appointment, Deuba still has not been able to expand his cabinet. Furthermore, the Deuba government failed to give the parliament any business and instead prorogued the house session while amending the political party act through an ordinance drawing flak from all directions.

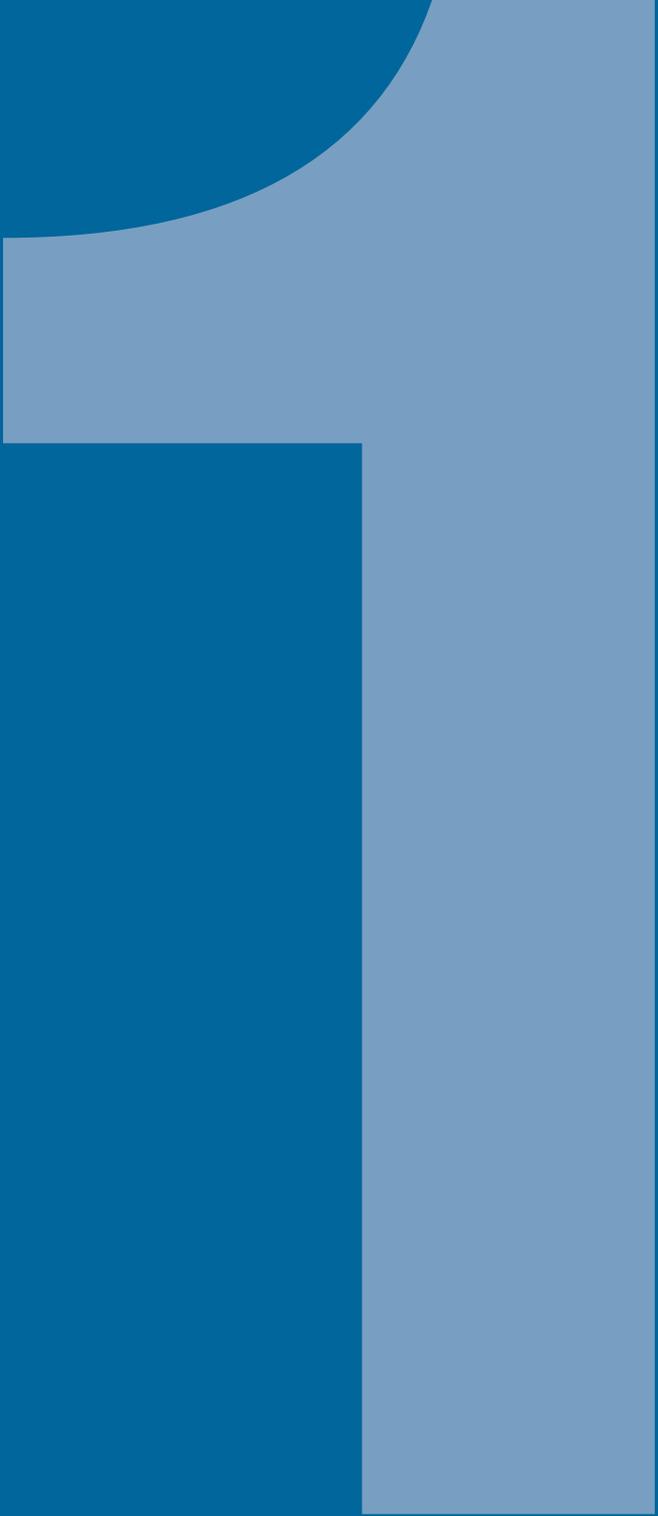
In terms of economy, although the GDP has performed better than what was expected by a significant growth of 4.01% against negative predictions by most economists and development organizations around the world, all of the sectors have not bounced back the same way. The trade balance, which is one of the most significant indicators of a country's financial state, as well as balance of payment, are at larger deficits than the previous quarters, indicating how the economic activity is slowing down. Exports are also narrowing in comparison to imports, and foreign reserves are contracting while the revenue collection is weakening. Although it was predicted that the remittance inflow amount will decrease as a result of reverse migration and a halt in the labor permits due to the COVID-19 pandemic, there has been a notable growth in the amount of earnings. While the sharp slump in number of migrant workers going abroad will affect the external stability of the economy, remittance inflows is expected to continue flowing into the economy. Likewise, consumption and demand will persist, and stimulate the Nepali economy. Given this, economic hardships are likely to be overcome in the next quarter to a greater extent despite the pandemic but the major challenge lies in managing trade deficit, and prolonged work absence creating an impact on income and employment.

This issue of Nefport focuses on international relations for economic growth where we have explored diplomacy for investment, foreign private equity for growth and diaspora investment. We would like to thank our contributors: Ambassador Felicity Volk, Jiba Lamichhane, Siddhant Raj Pandey and Lisa Choegyal for their valuable contribution to this edition of Nefport.

In this issue of Nefport, we have recalibrated the content making it more outlook focused and analysis based in an attempt to add value to the knowledge of our readers. We have included updates on various themes for each sector to provide a holistic idea of the sectors. We are also ideating on how we can make the extensive data, research and analysis from past 11 years to make it more accessible and useful. Please do provide us with your valuable inputs and feedbacks on our [survey page](#).



**Sujeev Shakya**  
Chair, Nepal Economic Forum



GENERAL  
**OVERVIEW**

# POLITICAL OVERVIEW

The political landscape of Nepal saw a significant turn of events in the last quarter. In a landmark verdict, the Supreme Court reinstated the House of Representatives (HoR), overturning KP Sharma Oli's decision to dissolve the house for a second time. Consequently, Deuba was appointed as the prime minister for the fifth time in his political career, with the support of the opposition alliance, and he even won the vote of confidence in the first meeting of the reinstated parliament. However, over a month after his appointment, Deuba still has not been able to expand his cabinet. Furthermore, the Deuba government failed to give the parliament any business and instead prorogued the house session while amending the political party act through an ordinance.

## EXECUTIVE UPDATES

**Supreme Court reinstated House of Representative:** On July 12, 2021, the Supreme Court overturned Prime Minister Oli's decision to dissolve the House of Representatives (HoR) and ordered President Bidhya Devi Bhandari to appoint Nepali Congress (NC) President Deuba as the new prime minister as per Article 76 (5) of the constitution. The five-member Constitutional Bench of the Supreme Court also ordered the president to summon the parliament session by July 18, 2021. Furthermore, the court also ruled that the House Speaker could convene house sessions or meetings on their initiation.<sup>1</sup> The first session of the restored parliament witnessed the tabling of 15 ordinances. Among the ordinances tabled, the Deuba-led government also tabled the budget ordinance introduced by the Oli-led government citing the need for endorsement of the budget by parliament. Likewise, the controversial Constitutional Council

Ordinance 2020 was also scrapped.<sup>2</sup>

**NC President Sher Bahadur Deuba appointed as the Prime Minister:** On July 13, NC President Sher Bahadur Deuba was appointed as the prime minister of Nepal. The newly appointed prime minister formed a five-member cabinet on the same day, who took the oath of office and secrecy amid a function held in the president's office. Bal Krishna Khand, NC chief whip has been appointed as the minister of Home Affairs, while Gyanendra Bahadur Karki has gotten the Ministry of Law, Justice and Parliamentary Affairs. Similarly, Janardan Sharma from the Communist Party of Nepal (CPN)-Maoist Centre has been appointed the minister of Finance and Pampha Bhusal has been appointed as the minister for Energy.<sup>3</sup> Prime Minister Deuba decided to test the floor in the first meeting of the reinstated parliament on July 18, 2021 and secured a majority of votes with the support of the ruling alliance comprising of the NC, CPN-Maoist

Centre, Janata Samajbadi Party (JSP), Rastra Janamorchha Party as well as the Madhav Nepal faction of the CPN-United Marxist Leninist (UML).

**Common Minimum program unveiled:** The Common Minimum Program (CMP), incorporating the priorities of the incumbent government led by Deuba was unveiled by the ruling alliance on August 8, 2021. A seven-member task force comprising of three members from the NC and two each from the CPN-Maoist Centre and JSP was formed to prepare the CMP. The prevention and control of the COVID-19 pandemic and administration of vaccines to all the citizens have been mentioned as the major priorities of the government in the CMP. The government also aims to take all the necessary steps towards strengthening federalism, promoting national interest and sovereignty, and strengthening the government's diplomatic positions. Similarly, increasing economic prosperity, maintaining rule of law,

guaranteeing peace and security, improving governance, code of conduct, and environmental balance have also been set as priorities.<sup>4</sup> The practice of announcing the CMP by coalition governments has become the norm in Nepal, but many experts on bureaucracy, law, and governance believe that the document has very little relevance. Similar policy documents have been prepared in the past as well, but the implementation and results have mostly been unsatisfactory.

**House of Representatives session prorogued:** On the recommendation of the Council of Ministers, Bhandari prorogued the eighth session of the HoR on August 16. The first meeting of the reinstated HoR took place on July 18, 2021, in which Deuba secured the vote of confidence. One month into its reinstatement, ten HoR meetings have taken place for a total of 20 hours and 15 minutes. However, the parliamentary meetings were only limited to the presentation of ordinances issued by the previous government and annual reports.<sup>5</sup> The reinstated house was prorogued without any new bill being introduced or any of the 31 pending bills being endorsed or even discussed upon.

The decision to prorogue the HoR session just a month after its reinstatement has drawn criticism for the Deuba government as he can be seen to be following the same path as his predecessor. As per political analysts, Deuba may have been reluctant to present bills at the parliament as he might not have been confident regarding the strength of the coalition government to pass the bills. The coalition government, consisting of the NC, CPN-Maoist Centre, and JSP has a total of 130 lawmakers, while 136 votes are required to pass a bill by a majority.

**Ordinance to amend political party act authenticated by the President:** President Bhandari, on the recommendation of the cabinet, authenticated an ordinance to amend the provisions in the Political Party Act 2017, easing the procedures for political parties to split. Amending the mandatory provision of requiring 40% support in both the Parliamentary Party and the Central Committee to split a party, only 20% support either in the parliamentary party or in the central committee would be enough for a split as per the new provision.<sup>6</sup> So far, as many as six writ petitions have been filed against the government's decision to issue the ordinance.

## POLITICAL PARTY UPDATES

**Election Commission annulled the complaint to scrap the CPN-Maoist centre party:** Around two dozen former CPN-Maoist Centre leaders, who defected to the CPN-UML, had registered a complaint at the Election Commission demanding to scrap their former party claiming that the CPN-Maoist Centre had breached the mandatory constitutional provision as well as Section 45(C) of the Political Party Act 2017, which mandates timely conduct of the party's conventions at the central and provincial committees. The former Maoist leaders also argued that the party breached Article 269 (4) (b) of the constitution, which makes it mandatory for a political party to hold its general convention at least once in five years. However, the Election Commission disregarded the complaint citing that there were no valid grounds on which the leaders could raise questions about the legality of the CPN-Maoist Centre.<sup>7</sup>

**Upendra Yadav faction of the Janata Samajbadi Party received Election Commission authenticity:** The

Upendra Yadav faction of the JSP got the party's authenticity after a majority of the members of the central executive committee stood with the faction in a headcount on August 9, 2021. As many as 34 members of the 51-strong committee stood with the Yadav faction, while just 16 stood for the Mahantha Thakur faction in the headcount conducted by the Election Commission. Resham Chaudhary, who is serving a jail term for masterminding a riot in Tikapur six years ago, remained neutral. The JSP was formed in April 2020 after the merger of the Thakur-led Rastriya Janata Party (RJP) and Yadav-Bhattarai-led JSP. There were 26 members from the RJP and 25 from the Samajbadi Party in the central executive committee of the unified JSP. However, nine of those who were with Thakur earlier sided with Yadav.<sup>8</sup> Moreover, the chairperson of JSP, Upendra Yadav was elected unopposed as the party's parliamentary party leader. As many as 19 lawmakers among 32 from the HoR were present in the meeting. The party's federal council chairman, Baburam Bhattarai, had proposed his name for the post, while Mahendra Raya Yadav seconded the proposal.<sup>9</sup>

**NC General convention postponed yet again:** The ruling NC has postponed its general convention by more than two months to the last week of December 2021. The party's Central Working Committee meeting on August 15, 2021, endorsed the proposal of the party's general secretary, Purna Bahadur Khadka, to hold the 14th national convention in Kathmandu from November 25-29, 2021. Earlier the convention was slated for September 1-4, 2021. The party, which held its 13th general convention in March 2016, had to complete its convention process before September 8, 2021,

to meet the constitutional deadline. The Constitution of Nepal gives a maximum of five and a half years for a party to hold its periodic convention. To show that the party had begun the convention, it decided to hold the ward conventions on September 3, 2021. The party could not hold the convention on the slated date because of disputes over the allocation of the active membership. The party distributed active membership to around 850,000 cadres.<sup>10</sup>

**Madhav Kumar Nepal faction Applied for a New Party:** The Madhav Kumar Nepal faction opted to split from the CPN-UML as soon as Bhandari issued the ordinance to amend the Political Parties Act, 2017. As many as 95 leaders from the party, including 58 from the existing central committee, applied for registration of a new party at the Election Commission on August 18. The new party has been named “Communist Party of Nepal-Unified Marxist Leninist (Socialist).” Madhav Kumar Nepal is the chairperson of the new party, while former prime minister, Jhala Nath Khanal, is in the second rank. The UML had long been on the verge of a split following a dispute between the Madhav Kumar Nepal faction and party chairperson Oli faction. Only three standing committee members including Khanal have sided with Madhav Kumar Nepal as he opts to form a new party. The new party has claimed that it has the support of at least 23 parliament members.<sup>11</sup>

**Mahantha Thakur Faction of Janata Samajbadi Party Applied for a New Party:** The Mahantha Thakur faction of the JSP applied for the formation of a separate party. As many as 24 leaders from the JSP, including 16 from the existing Central Executive Committee, have applied for the formation of the JSP-Loktantrik with

Thakur as its chairperson. The Thakur faction hadn't been able to split the party despite disputed with the Upendra Yadav faction due to the provisions of the Political Parties Act. The ordinance issued on August 18, 2021, opened the door for the faction to split. The Election Commission will formally register the new parties after studying if their applications comply with the law.<sup>12</sup>

## LEGISLATIVE UPDATES

**Government replaced Province chiefs in Province 2, Gandaki and Lumbini Provinces:** The federal government has decided to replace the province chiefs of Province 2, Lumbini, and Gandaki Provinces appointed by the Oli government. The Cabinet recommended Hari Shankar Mishra, Amik Sherchan, and Prithivi Bahadur Gurung as province chiefs of Province 2, Lumbini and Gandaki Provinces, respectively. The president on the commendation of the government appoints the governors. The Oli government had earlier sacked Sherchan. Gurung will now be replacing Sita Paudel. Similarly, Sherchan will be replacing Dharma Nath Yadav in the Lumbini Province, and Mishra will be replacing Rajesh Jha in Province 2.<sup>13</sup> The Deuba administration decided to recommend Mishra to the post of the provincial chief to commemorate his family's contributions to nation-building.<sup>14</sup>

**Maoist centre's Kul Prasad KC becomes Chief Minister of Lumbini Province:** Kul Prasad KC, a parliamentary party leader of the CPN-Maoist Centre from the Lumbini Provincial Assembly, was appointed as the chief minister of the Lumbini Province. He took the oath of office and secrecy from provincial governor Amik Sherchan on August

12, 2021. After the resignation of Shankar Pokharel on August 11, 2021, Sherchan gave the opposition a one-day deadline to claim for the coalition government; KC presented the claim for the position with the support of 41 lawmakers from his party, the NC, JSP, and Rastriya Janamorcha. With KC becoming the chief minister, the CPN-Maoist Centre has chief ministers in three of seven provinces of the country. With 16 months remaining for the next provincial assembly election, the NC and the CPN-Maoist Centre plan on leading the government for eight months each.<sup>15</sup>

**Asta Laxmi Shakya appointed Chief Minister of Bagmati Province:** A senior leader of the CPN-UML, Asta Laxmi Shakya, was appointed as the chief minister of Bagmati Province following the resignation of incumbent chief minister Dormani Poudel. Shakya is the first woman chief minister of Nepal. Shakya was appointed as a parliamentary party leader of the CPN-UML at the Province after she decided to leave the Madhav Kumar Nepal faction. Shakya was an aspirant for the chief minister; however, she lost the election of the parliamentary party to Poudel, who is close to Oli.<sup>16</sup>

**Railway bill and public service broadcasting bill passed by the National Assembly:** On August 12, 2021, the National Assembly unanimously approved The Railway Bill 2020 and the Public Service Broadcasting Bill 2020. The Railway Bill aims to make up for the lack of related laws for the operation of the railway service and the expansion of the railway service in Nepal. Similarly, the Public Service Broadcasting Bill was drafted to bring state-owned television broadcaster Nepal Television and radio broadcaster

Radio Nepal under a single umbrella. However, stakeholders such as the International Federation of Journalists (IFJ), the Federation of Nepali Journalists (FNJ), and the Nepal Press Union (NPU) believe that this bill fails to adhere to the National Mass Communication Policy as well as international broadcasting principles. Experts and stakeholders have been raising concerns over how the bill would allow the government to exercise greater control over the two media houses, thus curtailing the independence of journalism as it envisions a governing council for the broadcasters led by the minister of Communications and Information Technology with secretaries as members. As per the stakeholders, provisions within the bill such as

the definitions, the procedure of formation, objectives, structures, appointment procedures, and representation do not match those of the public service broadcasting practiced globally either. If the bill is passed as it is from the HoR as well, the government and politicians would have direct influence over state media, which experts consider a threat to the free press and the spirit of democracy.<sup>17</sup>

### BUDGET UPDATES

#### White paper of economy unveiled:

Finance Minister Janardan Sharma unveiled the whitepaper of Nepal's economy in the parliament on August 10, 2021, aiming to reflect the current economic situation of

the country. According to Sharma, the government plans on revising the budget introduced by the Oli government through an ordinance and presenting a "substitution bill" reflecting the priorities of the new government as the 6.5% economic growth rate envisioned by the budget was impossible to achieve in the current fiscal year. Similarly, the whitepaper also mentioned how the country's outstanding debt had crossed 40% of the GDP, and how the inability of the growing debt to be mobilized in the productive sector could lead to a lack of resources for future growth and increased costs for development finance operations.<sup>18</sup>

## OUTLOOK

Disputes within the ruling party, CPN-Maoist Centre, and the JSP on picking ministerial candidates, and indecision by the Madhav Kumar Nepal faction of the CPN-UML to join the government all have halted the expansion of the cabinet. Since the maximum number of the Council of Ministers is 25, the bickering of the parties owing to a large number of aspirants is expected to delay the cabinet formation in the upcoming quarter. Nevertheless, the Deuba-led government has merely four quarters to implement its policies and programs until periodic elections are held in November 2022. Therefore, the incumbent government should just focus on expediting vaccination drives to inoculate all the citizens, reviving the economy, and ensuring that the elections are held as scheduled.

The budget introduced by the Oli-led government was to a great extent influenced by election agendas, and it was unrealistic. The incumbent minister's announcement to revise the budget is a welcoming move but the delay in revisions has created more confusion and uncertainty among the private sector as well as government offices. Releasing the revised budget in the upcoming quarter should be one of the prime activities of the incumbent government. By proroguing the parliament and issuing the ordinance on Political Party Act, the Deuba government has depleted its credibility and received widespread criticism from the opposition as well as from within the NC. In the upcoming quarter, some form of protests can be expected as the Oli faction of CPN-UML has warned the government of launching protests if the ordinance is not withdrawn.

# INTERNATIONAL ECONOMY

Transmission of the highly contagious Delta variant has frustrated the recovery efforts of many emerging economies, consequently lowering their growth projections for this year. The disparity in the recovery path between the well-off nations and their less well-off counterparts has largely to do with the prevailing vaccine inequality across countries. With the COVAX scheme coming up short of its target to bring about global vaccine equity, Pan American Health Organization (PAHO), an organization that is a part of the World Health Organization (WHO), has announced its plan to supply COVID-19 vaccines across Latin America and the Caribbean. The world has seen natural calamities taking place one after the next in these past few months, and along with the recent publication of the Intergovernmental Panel on Climate Change (IPCC) climate assessment report, this has encouraged solemn discourses on climate change.

## GLOBAL EVENTS UPDATES

**Vaccine distribution under a new initiative:** Upon accepting the inadequacy of the COVAX scheme in vaccinating the global population, the Pan American Health Organization (PAHO) has decided to distribute coronavirus vaccines across Latin America and the Caribbean, and it has announced its plan of purchasing millions of vaccine doses and start supplying them in October 2021. Twenty countries have stated their interest in being a part of the program until now. So far, 20% of the population in Latin America and the Caribbean has been fully immunized and some nations have a vaccination rate of less than 5%.<sup>19</sup>

While the COVAX program is still short of reaching its initial target of inoculating at least 20% of the population in the world's

poor countries, it has been evident the scheme on its own will not suffice especially given the recent proliferation of Delta variant. Although the initiative by PAHO will certainly supplement the effort of COVAX, it is not yet clear how the organization will attain its target. Unlike COVAX that provides doses for free to poorer nations, PAHO plans to sell them to countries.<sup>20</sup>

**IPCC's dismal assessment of the climate:** On August 9, 2021, the IPCC published a new report shedding light on the rapid rise in temperatures as a result of human activities. The sixth assessment report warns about extreme weather as well as unprecedented rates of warming atmosphere and seas. Some damages are irreversible, and scientists have indicated that the only way out of the imminent climate crisis is a drastic reduction in greenhouse gas emissions

within this decade.<sup>21</sup>

The urgency of climate action as suggested by the IPCC report will potentially affect the global fossil fuel industry as investment into this sector begins to ebb. Fossil fuel is the primary source of carbon dioxide and curbing its consumption is absolutely necessary to reduce carbon footprints. Countries dependent on export revenue from oil and gas, namely Venezuela, Angola, Nigeria, Saudi Arabia, and Iraq,<sup>22</sup> will be hit hard as the world gets compelled to switch to alternative, cleaner sources of energy. This will not only put a massive strain on these nations' public finances but also will put countless people out of employment. Hence, they should consider diverting investments towards non-oil economic sectors, which Saudi Arabia has already begun practicing.

### IMF prohibits Afghanistan from accessing funds:

The International Monetary Fund (IMF) had dispensed USD 370 million (NPR 44.07 billion) worth of funds, which were set to arrive in Afghanistan on August 23, 2021, as a part of the “global IMF response to the economic crisis”. The IMF is now revoking the country’s access to these funds along with other resources following the Taliban’s takeover of Afghanistan. Additionally, the fund has blocked the country from accessing its reserves in Special Drawing Rights (SDR) assets, which can be converted to government-backed money.<sup>23</sup>

The recent political upheaval in Afghanistan has left the country’s economic future vulnerable and uncertain. Furthermore, it is highly aid-dependent with development aid accounting for 22% of gross national income (GNI) according to the 2019 World Bank figures. The prospect of receiving aid under the current political circumstance has become murky for Afghanistan as donors like the United States (US) and Germany have already decided to block their aid flow to the country.<sup>24</sup>

As of April 2021, Afghanistan had an outstanding foreign loan of NPR 178.5 billion (USD 1.5 billion) according to the Finance Ministry.<sup>25</sup> With an estimated 80% of the country’s budget deriving from the US and other donors,<sup>26</sup> the possibility of Afghanistan defaulting on its loan is enormous given the withdrawal of aid money to the country by international communities.

### President Biden pushes for an EV conversion:

As a part of the climate policy, Biden, the US president, has urged a shift from gasoline vehicles to Electric Vehicles (EVs). The strategy to bring about a nationwide

conversion to EVs is the key feature of the current climate action plan, which had been largely compromised under the Trump administration with its withdrawal from the Paris Agreement. About one-third of the carbon dioxide emission, or two billion tons, is estimated to be curbed annually as a result of regulations that would be imposed on vehicles in the model year 2023; the auto mileage standard is set to be at 52 miles per gallon by 2026. Gasoline-powered cars and trucks account for 28% of the country’s aggregate emissions, making them the largest greenhouse gas emitter.

Hence, without a massive overhaul in the vehicles Americans use, the administration’s plan to slash the “emissions by 50% from 2005 level by the end of this decade” will most likely fail. Accordingly, Biden has signed an executive order mandating the government to “ensure that half of all vehicles sold in the United States be electric by 2030”. Furthermore, he has requested the Congress to build 500,000 charging stations. According to the International Council on Clean Transportation, by 2030, the country requires a total of 2.4 million charging stations (up from the current 216,000), considering 36% of new car sales would be electric.<sup>27</sup>

### Wider adoption of crypto:

According to a crypto-analysis firm, Chainalysis, cryptocurrency adoption has surged by over 881% globally in the past year. Countries like Vietnam, India, Pakistan, and Ukraine have the highest degree of crypto adoption in terms of retail investors, i.e., the use of cryptocurrency for transactions and individual saving instead of trading and speculation. While adoption of cryptocurrency in advanced economies has been largely driven by institutional investment, emerging markets have seen the trend

primarily for saving purposes in the face of currency devaluation, sending and receiving of remittances, and carrying out business transactions.

Cryptocurrencies have gained immense popularity over the past year as seen from the striking surge in their prices. For instance, the price of Bitcoin tripled in the last 12 months and that of Ether, the second biggest crypto, has increased sevenfold.<sup>28</sup>

## INEQUALITY UPDATES

### Income inequality and varying impacts of the pandemic:

Running multiple correlation tests between 41 different variables and American COVID-19 deaths, a data scientist, Youyang Gu recently found that<sup>29</sup> only three of these variables—inequality, population density, and nursing-home residents per capita—demonstrated an association with COVID-19 mortality. Among these three, inequality showed to have the most significant effect on deaths due to COVID-19.

This finding could be further corroborated by observing the incidence of deaths in different countries. Scandinavian nations, recognized for their egalitarian policies, for instance, faced lower cases of COVID-19 deaths than what Europe faced as a whole. Likewise, France with a lower Gini index, which indicates lower inequality, witnessed fewer deaths than Britain with a higher Gini index (0.29 vs 0.34).<sup>30</sup>

Another similar study by Frank Elgar of McGill University,<sup>31</sup> upon examining 84 countries, found that when the Gini coefficient soars by 1%, there is a corresponding increase of 0.67% in the COVID-19 induced mortality rate. Again, another paper has also shown the varying but

positive relationship between income inequality and COVID-19 deaths over the year 2020 in American countries.<sup>32</sup>

## RECESSIONS UPDATES

**Delta variant thwarts growth in Asia:** The spread of the Delta variant of the coronavirus and slower vaccination drive in Asia than the West has dampened Asia's odds of emerging out of the pandemic with a strong economic foothold; the region was otherwise demonstrating a promising prospect of full recovery in the earlier phase of the pandemic. New COVID-19 restrictions have affected manufacturing and their exports in some Asian economies that had previously been key drivers of speedy recoveries. For instance, China and South Korea managed to maintain healthy economic indicators during the pandemic largely owing to foreign demand for their consumer goods including bikes, furniture, and electronic gadgets. As domestic and international demands have gone down in recent months, Asian export

economies have started to feel the burn.<sup>33</sup>

Similarly, a sluggish growth in Japan from April to June 2021 has brought down the predicted average growth figures of July–September 2021 to 1.4% (as predicted in August 2021)—this is much lower than the June forecast of 5.2% for the same period. This discouraging number experienced by Japan arises from suppressed consumer spending amid the recent spread of the new variant.<sup>34</sup>

Southeast Asia has also been equally hit hard by the contagious Delta variant. Malaysia and Indonesia have seen the greatest drop in the 2021 growth forecasts as a result of stringent lockdown measures. According to Goldman Sachs, Malaysia's revised growth projection stands at 4.9% (down from 6.2%) and Indonesia's at 3.4% (down from 5%). The weak pace of vaccination has been a major setback for this region with Singapore being the exception in regaining decent economic growth.<sup>35</sup>

## ECONOMIC UPDATES ON SOUTH ASIA

### India scraps its retro tax law:

The Bharatiya Janata Party (BJP) announced its plan to repeal its retrospective tax on the sale of shares in foreign companies, which was first enacted on August 5, 2012. The retro tax has long been inimical to foreign investments and has even led to legal disputes, both at home and abroad.<sup>36</sup> Disputes with Cairn Energy and Vodafone are the most recent legal tussles faced by the Indian government and have caused the government a major setback. The proposed bill to abolish the retrospective tax will “nullify any orders passed against taxpayers raising tax demands” and any paid amount would be refundable if they decide not to seek litigation, arbitration, or mediation in India or abroad. The bill essentially precludes tax demand from rising in the future “based on a retrospective amendment for any indirect transfer of Indian assets,” given the transaction occurred before May 28, 2012.<sup>37</sup>

## OUTLOOK

The gap in global vaccination drive shall continue to persist in the upcoming quarter as developed countries are looking to provide their citizens with a third booster dose in light of the third wave, while nationals of less-developed countries are deprived of even a single dose. The failure of the COVAX scheme to materialize is indicative of the inability or unwillingness on the part of the richer countries to look out for the least well-endowed nations in a time of crisis—it is a diplomatic failure.

The IPCC assessment has urged governments and businesses to take immediate actions to cut back on greenhouse gas emissions instead of thoughtlessly regurgitating their plans to go “net-zero”. This might bring some momentum in activities related to mitigation of climate risks, with one such action being Biden's pledge to lead the country towards an EV transition. However, the switch can be a costly affair as EV vehicles cost considerably higher than those that run on gasoline. Regardless, concentrated global efforts are necessary to not just mitigate but also preclude the consequences of ongoing climate disasters.

The impact of COVID-19 on the global economy has been rather striking with even Asian economies, that had demonstrated remarkable resilience during the earlier phase of the pandemic succumbing to the new Delta variant.

This will likely cause a significant dent on the global recovery trajectory as many Asian and Southeast Asian countries are manufacturing powerhouses accounting for much of the global exports of consumer goods. While Western economies have reopened as they have managed to vaccinate a majority of their population, they will nonetheless be affected by the economic slowdown of the east given how international markets are closely interlinked.



MACROECONOMIC  
**OVERVIEW**

# MACROECONOMIC OVERVIEW

The review period is a clear reflection of the repercussions of a battered economy affected by the COVID-19 pandemic. Although the Gross Domestic Product (GDP) has performed better than what was expected by a significant growth of 4.01% against negative predictions by most economists and development organizations around the world, all sectors have not bounced back the same way. The trade balance, which is one of the most significant indicators of a country's financial state, and balance of payment are at larger deficits than the previous review periods, indicating how the economic activity is slowing down. Exports are also narrowing in comparison to imports, and foreign reserves are contracting, while revenue collection is weakening.

**Gross Domestic Product (GDP):** At the turn of the century, the GDP of Nepal for the Fiscal Year (FY) 2000/01 stood at NPR 413 billion (USD 3.46 billion). Since then, the economy of Nepal painstakingly grew to NPR 1,562 billion (USD 13.11 billion) in FY 2010/11 to NPR 3,914 billion (USD 32.86 billion) in FY 2019/20.<sup>38</sup>

The annual data of FY 2020/21 shows that the GDP at current prices stands at NPR 4,266.3 billion (USD 35.82 billion) for FY 2020/21, which is higher than NPR 3,914 (USD 32.88

billion) in FY 2019/20.<sup>39</sup> It has been reported that the GDP value of Nepal in FY 2020/21 represents 0.03% of the world economy.<sup>40</sup>

For the change in GDP to have occurred since the past decade, Nepal has witnessed momentous changes in Nepal's political spectrum through the abolishment of monarchy, end of the Civil War, steady growth in trade, remittance and aid, the implementation of federalism, and increasing living standards of Nepalis.<sup>41</sup>

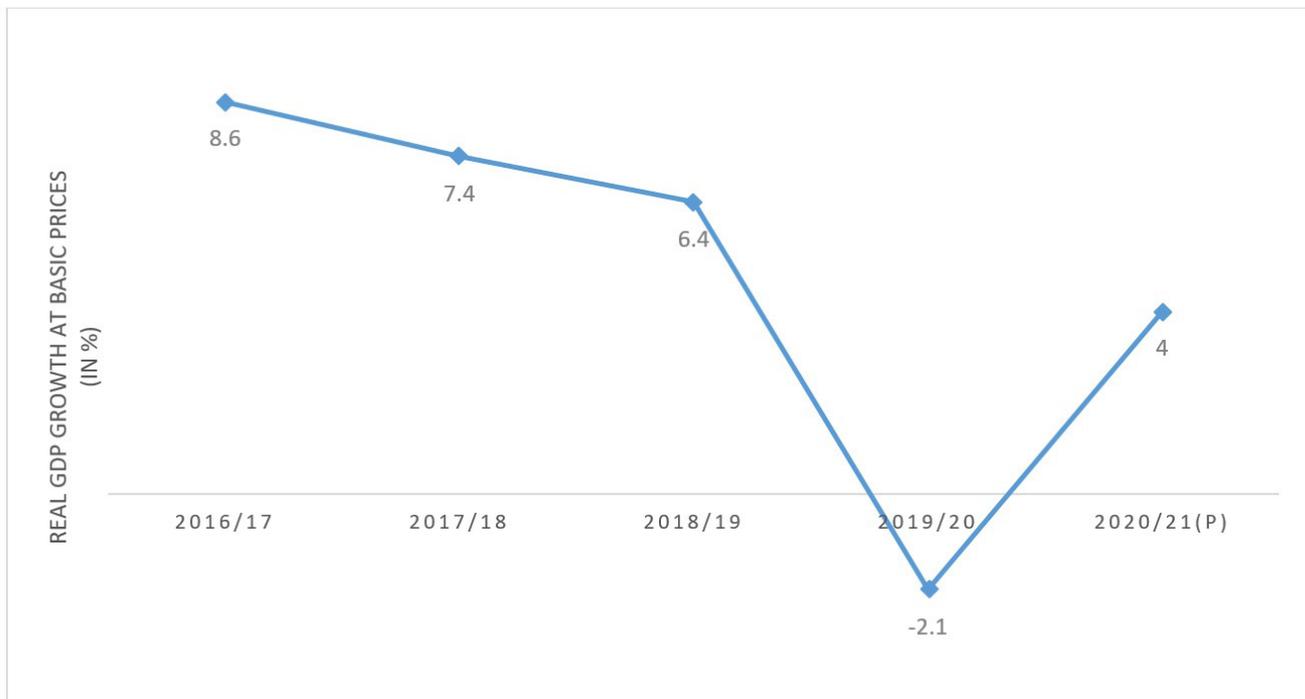
Last year, due to the onset of the COVID-19 pandemic and the subsequent lockdowns, the economic growth of Nepal was adversely affected. As a result, the overall GDP growth at basic prices contracted by 2.09% in 2019/20, which spilled over all sectors of the economy, including agriculture, industry, and services. Contrastingly, the annual data released by NRB has estimated a GDP growth of 4.01% for 2020/21.<sup>42</sup> The same data has been presented in the table below with a breakdown into sectors:

**Table 1. Real Gross Domestic Product (GDP) growth over the last three years (in %)**

Particulars	2018/19	2019/20	2020/21 <sup>P</sup>
Real GDP growth	6.66%	-2.09%	4.01%
Agriculture	5.16%	2.23%	2.64%
Industry	7.38%	-3.69%	5.05%
Service	6.76%	-3.97%	4.43%

Source: Current Macroeconomic and Financial Situation Annual Table, 2020/21.

<sup>P</sup>2020/21 (P) represents preliminary data of 2020/21 released by Nepal Rastra Bank (NRB).

**Figure 1. Real Gross Domestic Product (GDP) growth at basic prices over the last five years (in %)**

Source: Current Macroeconomic and Financial Situation Annual Table, 2020/21.

Real GDP is a better gauge of the change in production levels from one period to another, and an increase in these figures indicate economic growth that will cause an increase in average

interest rates in the economy in the stated time period. On the contrary, nominal GDP at producer's price has increased from 1.45% in 2019/20 to 8.98% in 2020/21. Since the real

GDP is lower than the nominal, this suggests that the inflation of Nepal will be positive. The table below gives a snapshot of the real and nominal growth in GDP over the years.

**Table 2 Real and Nominal Gross Domestic Product (GDP) growth rate figures over the years (in %)**

Particulars	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21P
Real GDP at producer's price	0.43%	8.98%	7.62%	6.66%	-2.09%	4.01%
Nominal GDP at producer's price	7.61%	17.98%	12.31%	11.66%	1.45%	8.98%

Source: Central Bureau of Statistics.

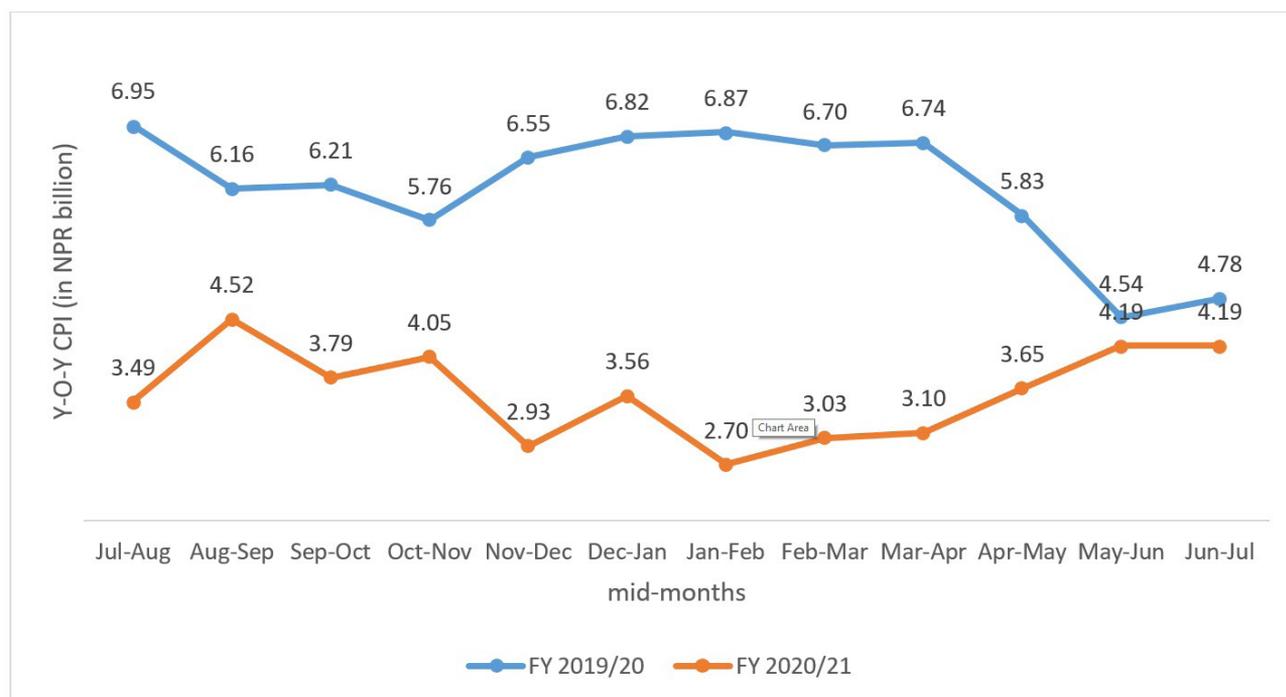
**Inflation:** The average inflation rate, measured by the Consumer Price Inflation (CPI), has decreased in the FY 2020/21 as per the annual data released by NRB. This has been indicated by the average CPI which stood at 3.60% in FY 2020/21 compared to 6.15% in the corresponding period of the

previous FY 2019/20.<sup>43</sup> Factors such as economic growth rate, inflation in the neighboring country (India), exchange rates, oil prices, credit flows, etc., affect the inflation in Nepal.

In mid-July 2021 alone, which represents the last month of the FY

2020/21, the year-on-year CPI stood at 4.19% in comparison to 4.78% of the corresponding month of the FY 2019/20.<sup>44</sup>

A series of changes that have occurred in the CPI index over the years has been shown in Figure 2 below:

**Figure 2. Year-on-year Consumer Price Inflation (CPI) index measured in mid-months over the years (in NPR billion)**


Source: Current Macroeconomic and Financial Situation Annual Table, 2020/21

**Consumption of goods and services:** The Consumer Price Index (CPI) is a measure used to calculate the

weighted average of prices of a basket of consumer goods and services.<sup>45</sup> Table 3 below shows the pattern of

consumption over a series of mid-months throughout the FY 2020/21.

**Table 3. Food and Non-food Consumer Price Index over the mid-months of the FY 2020/21 (in %)**

Headings	Jul-Aug	Aug-Sep	Sep-Oct	Oct-Nov	Nov-Dec	Dec-Jan	Jan-Feb	Feb-Mar	Mar-Apr	Apr-May	May-Jun	Jun-Jul
Food & beverage	2.76	1.11	0.26	0.30	-1.04	-1.29	-1.80	0.10	1.37	1.79	0.88	1.31
Non-food & service	0.22	0.62	-0.25	0.56	-1.51	1.93	0.46	0.01	0.15	0.16	0.08	0.50

Source: Current Macroeconomic and Financial Situation Annual Table, 2020/21

The changes in CPI during the review period has been attributed to the fall in food and beverage inflation from 8.16% in 2019/20 to 5% in 2020/21. However, within food and beverage, the price of ghee and oil, pulses and legumes, tobacco, and transportation sub-groups rose 17.54%, 10.65%, 9.83%, and 6.41%, respectively, on a year-on-year basis.

In comparison to this, the non-food

and service inflation stood at 2.51% in FY 2020/21, indicating a fall from 4.61% in FY 2019/20.

One of the most notable things throughout the FY 2020/21 and even before the mentioned year is that the pattern of consumption of goods and services of Nepali people has been relatively consistent and is ever-increasing. One of the articles published on July 2021 stated that

the middle-class population of Nepal is wealthier than the population of subsistence peasants and landless laborers and is poorer than the upper class, which tends to be characterized by inherited wealth.<sup>46</sup> The same article also stated that the Nepali middle class is mostly identifiable by its pattern of spending as it typically has a stable, adequate income from a salaried job or a small business. Because of this, what can be duly noted is that the

middle class of Nepal is creating businesses and has remained a key player in Nepal’s transformation and growth. This statement can be validated through a walk in the nation’s growing cities where there are now restaurants, variety of boutiques, commercial enterprises, resident houses, etc. All of this shows that there is upward mobility and the

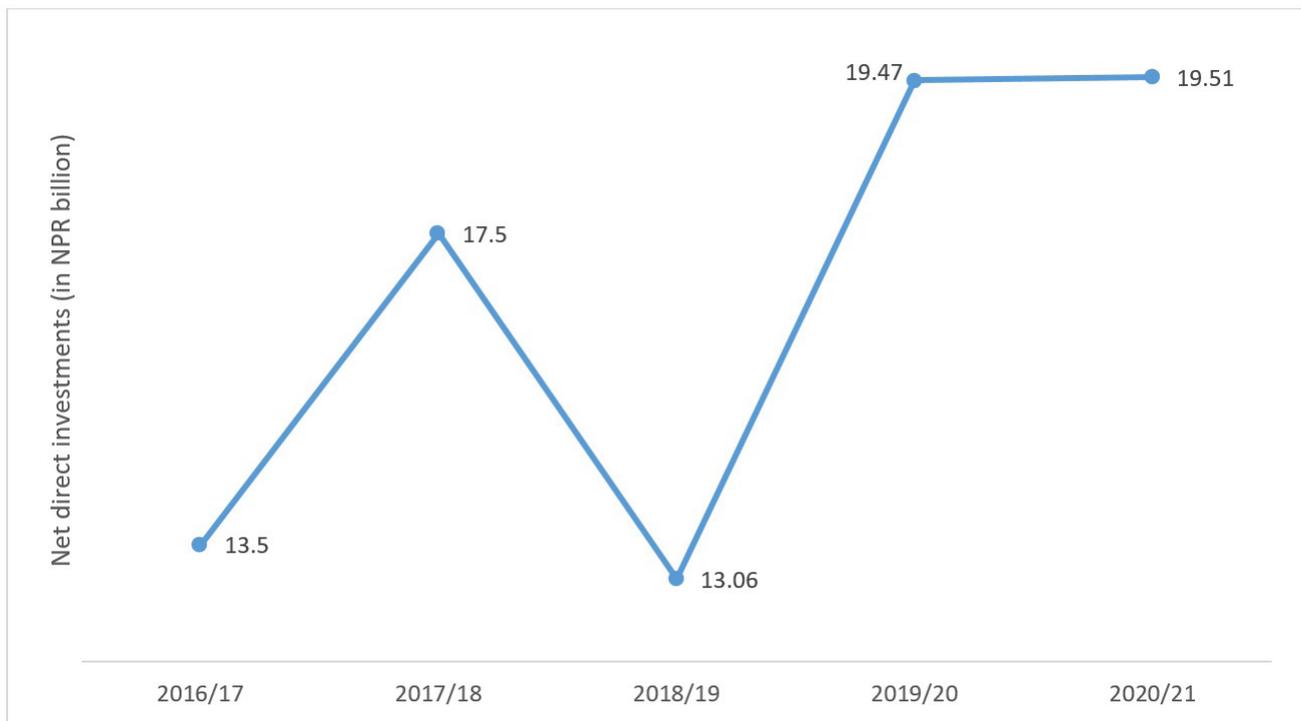
growth in consumption of goods and services is thus inevitable even though it has been battered by the pandemic for the last two consecutive years.

**FINANCE STATUS**

**Investments:** The net Foreign Direct Investment (FDI) increased by 0.2% to NPR 19.51 billion (USD 0.16

billion) in FY 2020/21 in comparison to NPR 19.48 billion (USD 0.15 billion) in the corresponding period of the previous FY 2019/20.<sup>47</sup> Although the increase is by a minimal percentage, it shows continual growth from the year before, indicating the consistency in attracting FDI in Nepal when it is most needed.

**Figure 3. Net foreign direct investments in Nepal over the last five years (in NPR billion)**



Source: Current Macroeconomic and Financial Situation Annual Table, 2020/21

Government of Nepal has always been in favor of encouraging private sector investment in telecommunication, education, health, and other sectors. Particularly, the plans and programs unveiled for the upcoming FY 2021/22 have especially targeted priority sectors such as big unfinished construction projects of the previous FY 2020/21, employment programs, etc. For instance, around 100 Non-Resident Nepalis (NRNs) from various countries of the African continent have initiated a campaign to bring together over 1,000 NRNs

from all over Africa to invest in Nepal, while also bringing back the experiences and technical knowledge they have earned. They have plans to invest in the energy, agriculture, infrastructure, and other sectors in Nepal.<sup>48</sup> Such kinds of plans and policies as well as efforts of NRNs to bring in investments can help in increasing the investments in Nepal.

**FOREIGN AID**

**BILATERAL AND MULTILATERAL AID**

**United Nations World Food Programme extended contribution towards nutrition support:** The United Nations (UN) World Food Programme (WFP) has contributed NPR 130 million (USD 1.09 million) from the government of the United Kingdom (UK) towards the nutrition support for vulnerable families in Nepal. This aid from the UK government is targeted towards more than 100,000 mothers and children in eight districts in Province 2, Sunsari in Province 1, Jajarkot in Karnali Province, Kailali and Kanchanpur in

Sudurpaschim Province. The fund is in addition to the NPR 678 million (USD 5.68 million) that WFP Nepal received from the British government in December 2020 towards the food security response to COVID-19 impacts.<sup>49</sup> This support has come at a time when the agriculture supply chain has been disrupted through the monsoon floods in addition to the COVID-19 pandemic effects, which have exacerbated food insecurity issues and malnutrition problems in the country. It can be of help to meet the minimum dietary requirements of the targeted group and help them with adequate and nutritious food.

#### **United States provides support for COVID-19 assistance to Nepal:**

The United States (US) Ambassador to Nepal along with the US Agency for International Development (USAID) donated two liquid oxygen tanks to Bir Hospital and Paropakar Maternity Hospital in Kathmandu on August 17, 2021, as a part of COVID-19 assistance to Nepal. These oxygen tanks will provide uninterrupted supply of oxygen (refill around 40 cylinders of 40L capacity in an hour), and due to its effectiveness and importance, four more liquid oxygen tanks are being installed at hospitals across the country with USAID's support.<sup>50</sup>

Additionally, USAID also committed NPR 1.25 billion (USD 10.5 million) in urgent COVID-19 assistance to Nepal in order to strengthen surveillance and contact tracing in municipalities, as well as to support laboratory systems and expand antigen tests at border crossings. This additional assistance has built on to more than USD 90 million (NPR 10.71 billion) in COVID-19 support from the US government to Nepal that has reached over 60% of the Nepali population since the onset of

the pandemic.<sup>51</sup>

#### **Pakistan provides aid to Nepal for fighting COVID-19 pandemic:**

Government of Pakistan has provided financial assistance of NPR 44.3 million (USD 0.37 million) to Nepal to support its fight in curbing COVID-19 pandemic.<sup>52</sup> The amount that has been provided to Nepal is to be made available through the South Asian Association for Regional Cooperation (SAARC) COVID-19 Emergency Fund. Nevertheless, the amount is most required to help in prevention, control, and treatment of COVID-19 pandemic.

#### **PROJECT/PROGRAM-SPECIFIC AID**

##### **Memorandum of understanding signed for employment training program:**

The Confederation of Nepalese Industries (CNI) and the UK Aid's Skills for Employment Program have signed a Memorandum of Understanding (MoU) to implement workplace-based employment training program.<sup>53</sup>

An apex body of the large and medium scale industrial community of Nepal. CNI has a membership base consisting of almost all big corporate houses of Nepal, joint venture companies, etc., spread across different sectors of the economy.<sup>54</sup> In light of this, the employment training program has been aimed at training skilled human resources required for the industrial sector in Nepal and creating 150,000 jobs annually. In other words, the collaboration aims at enhancing transformational enterprise-driven partnership to encourage growth of employment and enterprise growth opportunities in priority sectors.<sup>55</sup> Given the importance and relevance of this program, the Ministry of Industry is expecting to expand the budget it receives in the future.

#### **Asian Development Bank to support the National Development and Vaccination Plan in Nepal:**

On July 22, 2021, the Asian Development Bank (ADB) approved USD 165 million (NPR 19.65 billion) to Nepal to support the National Development and Vaccination Plan. The project, financed by ADB's USD 9 billion (NPR 1,071.9 billion) Asia Pacific Vaccine Access Facility, was launched in December 2020 with an aim to provide rapid and equitable vaccine-related support to its developing member countries. Since Nepal is also one of its developing member countries, an estimated 15.9 million doses of COVID-19 vaccines can be procured from the said amount.

#### **GRANTS AND CONCESSIONAL LOANS**

##### **World Bank provides concessional loan for nurturing excellence in Nepal:**

The World Bank (WB) has provided USD 60 million (NPR 7.14 billion) concessional loan to Nepal, with an aim for Nurturing Excellence in Higher Education Programme to improve the quality of higher education, augment online learning, and expand access to academic institutions for underprivileged and vulnerable students.<sup>56</sup> The aim with which the concessional loan has been provided is in alignment with Nepal's own recovery strategy of strengthening the higher education sector, and providing access and quality education to those who have been displaced and are at a disadvantage due to the COVID-19 pandemic. This suggests that the program is building on Nepal's own focus; this, it can be a great way to help the government of Nepal in helping young people reach their development potential, serving the labor market needs, boosting collaborative research, and helping Nepal build back better.

**Asian Development Bank provides concessional loan to purchase anti-COVID vaccine to Nepal:**

Government of Nepal and ADB have reached an agreement to provide NPR 19.58 billion (USD 0.16 billion) concessional loans to Nepal to buy anti-COVID vaccines<sup>57</sup> since only 15.3% of the Nepali population has been vaccinated.<sup>58</sup> The assistance is of paramount importance as it can be utilized to purchase 15 million doses of anti-COVID vaccines to materialize the national vaccination drive. A rough estimate states that as many 6.8 million people would be benefitted from this support.<sup>59</sup> Hence, this is one of the most notable aid that Nepal has received in the review period as it can be a milestone to ensure people are vaccinated. If the government can guarantee its effective implementation, targeting migrant

workers and students, the country’s economy can definitely be restored.

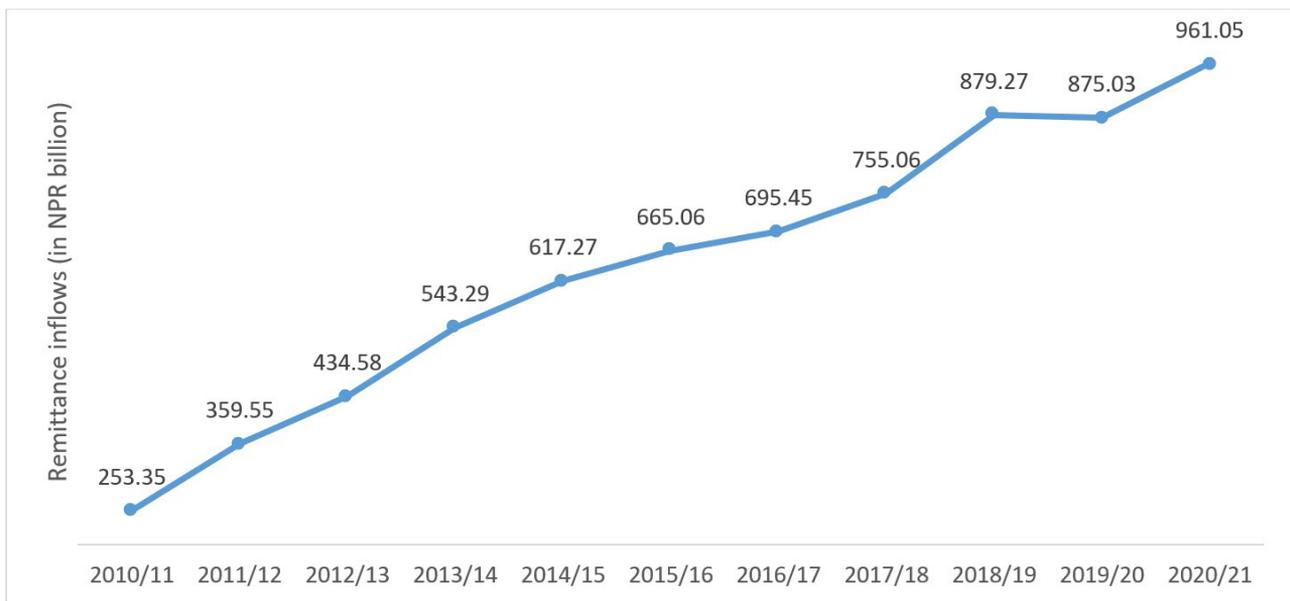
**REMITTANCE**

**REMITTANCE INFLOWS AND MIGRANT WORKERS**

**Remittance inflows surge by 9.8% in the FY 2020/21:** According to the Current Macroeconomic and Financial Situation Update of FY 2020/21 released by the Nepal Rastra Bank (NRB), the annual remittance inflows to the country increased by 9.8% to reach NPR 961.05 billion (USD 8.06 billion) from NPR 875.0 billion (USD 7.34 billion) in the previous FY 2019/20.<sup>60</sup> This also indicates that as of FY 2020/21, the share of workers’ remittance inflows to GDP stood at 22.5%.<sup>61</sup>

Although it was predicted that the remittance inflow amount will decrease as a result of reverse migration and a halt in the labor permits due to the COVID-19 pandemic, there has been a notable growth in the amount of earnings.<sup>62</sup> Most notably, the remittance inflow in the last month of the FY 2020/21 (between mid-June to mid-July 2021) increased by 10.34% alone,<sup>63</sup> hinting at the possible growth in the economy’s inflows that could not have been achieved in the previous FY due to the pandemic-induced lockdowns and containment measures. The figure below shows the trend of the remittance inflows over the last six years, and clearly points out how the economy has been recovering from the COVID-19 pandemic’s effects on remittance earnings in FY 2019/20.

**Figure 4. Workers' remittance inflows over the last years (in NPR billion)**



Source: Current Macroeconomic and Financial Situation Annual Table, 2020/21.

Decreasing number of Nepali migrant workers applying for foreign employment

As per the Department of Foreign Employment (DoFE), the number of Nepali workers obtaining approval

for foreign employment (new and legalized) decreased by 62.8% to reach at 72,081. In the previous FY

2019/20, the decrease was by 20.5%, and it represented 193,945 workers.<sup>64</sup> This indicates that migration of Nepali workers has remained affected since March 2019 owing to the COVID-19

pandemic-induced restrictions.

Likewise, the number of Nepali workers taking approval for renewal of their labor permits to go for foreign

employment has also decreased by 46.8% in FY 2020/21 against a decrease by 34.7% in the previous FY 2019/20.<sup>65</sup> Table 4 below provides a snapshot of the same.

**Table 4. Number of Nepali workers going for foreign employment**

Particulars	Annual			Percent Change	
	2018/19	2019/20R	2020/21P	2019/20	2020/21
Institutional and Individual (New and legalized)	243868	193945	72081	-20.5	-62.8
Renewed entry	272618	177980	94617	-34.7	-46.8

Source: Department of Foreign Employment, Nepal.

### Remittance income inversely proportional to the number of migrant workers:

There has been an increasing trend of migrant workers going abroad for employment ever since the peak of the Maoist insurgency in Nepal. In the FY 2000/01, just over 55,000 Nepalis had gone abroad and had sent home NPR 47 billion (USD 0.39 billion).<sup>66</sup> Likewise, in the FY 2009/10, the Department of Foreign Employment (DoFE) granted 294,094 permits for foreign employment, which was a 35.4% increase from the 217,164 permits issued in the previous FY 2008/09.<sup>67</sup> However, with issues of labor migrants' abuse surfacing and the government of Nepal as well as destination countries tightening the labor sector, the number had started to drop. In FY 2018/19, a year prior to the COVID-19 pandemic, the number had dropped to 243,868. Along with this already declining number, COVID-19 and its subsequent restrictions on travel and movement caused the number to further fall to a 16-year-low.<sup>68</sup> This has been represented by a 62.8% decrease in the review period.

However, despite this drop in the number of migrant workers, the

remittance income has kept increasing, suggesting an inversely proportional relationship between remittance income and the number of migrant workers.<sup>69</sup>

Experts of the sector, including people from the research division of NRB, believe in a few significant factors behind such a relationship. Some of the factors are (a) many labor destination countries have increased the workers' wages, (b) migrant workers are cutting their spending on consumption, entertainment, and movement due to COVID-19 restrictions, (c) migrant workers returning home are not purchasing gold, clothes or electronic items, (d) the US dollar had appreciated, and lastly, (e) the illegal funds transfer channels such as *Hundi* have been almost closed due to COVID-19 induced lockdowns worldwide.<sup>70</sup>

### DESTINATION COUNTRIES

#### Most labor destination countries allowing the entry of only vaccinated people:

As a part of curbing the spread of COVID-19, most of the destination countries have put labor restrictions to the unvaccinated people. In the case of Nepal, there has been a greater

decrease in the number of workers taking approval to go to Kuwait, Israel, Malaysia, South Korea, Malta, and United Arab Emirates (UAE) among others.<sup>71</sup>

The reasons behind this are majorly due to the restrictions put in place by the respective destination countries such as allowing entry to only vaccinated people. For instance, the Kuwaiti government has even specified a list of vaccines (Oxford/AstraZeneca, Pfizer, Moderna, and Johnson & Johnson that foreigners entering the country should be taking.<sup>72</sup> Likewise, UAE has come up with provisions relating to Visa changes according to which there are hefty penalties for visa renewals<sup>73</sup>. Such restrictions and change in labor laws in destination countries have caused the number of Nepali migrant workers' applying for foreign employment to decrease.

In response to this, the government of Nepal prioritized inoculating migrant workers and administered them with J&J jabs, which is one of the vaccines approved by the Kuwaiti government.<sup>74</sup> However, Kuwaiti government has yet again introduced another provision stating vaccine certificates with Quick Response

(QR) codes are needed.<sup>75</sup> All of this has resulted in a huge plight of migrant workers, which can have a negative effect in the remittance inflows in the coming months.

**Unexpected deaths of Nepali migrant workers in Qatar:** A study conducted by Amnesty International highlighted how Qatar, one of the most popular labor destinations for Nepali workers, routinely issues death certificates for its migrant workers, and how this issue goes without a thorough investigation. The deaths are rather attributed as ‘due to natural causes’ or are vaguely defined cardiac failures. For instance, between 2017 and 2021, Qatar had issued 18 such death certificates within which 15 had no information about underlying causes. A further investigation by the Guardian stated that 69% of the deaths among Indian, Nepali and Bangladeshi workers between 2010 and 2020 were attributed to natural causes, and none of the bereaved families were given the right to remedy. All of them have had to adjust to unanswered questions.<sup>76</sup>

**Over hundred Nepalis evacuated from Afghanistan:** During mid-August 2021, the Taliban group took control of Kabul, the capital of Afghanistan, and ended the United States’ era in Afghanistan. After Kabul fell to the Taliban, Nepal, like many other countries of the world, has also been scrambling to evacuate its citizens who work as migrant laborers in the country. As many as 1,073 Nepalis had obtained labor permits to work in Afghanistan in the last fiscal year, which represents the figures that exclude undocumented Nepali workers.<sup>77</sup> The data indicates that there might be more Nepalis working in the country, thus, increasing their risk of staying in an unsafe working environment currently under Taliban rule. As many as 118 Nepalis arrived in Kathmandu from Afghanistan via Kuwait on the morning of August 17, 2021.<sup>78</sup>

## PLANS AND PROGRAMS TARGETED TOWARDS MIGRANT WORKERS

### Project loan for youth-returnee

**migrant workers:** Over hundreds of youth migrant workers have had to face the repercussions of job loss and return to Nepal. After coming back to Nepal, they have not been able to engage in any income-generating activities. In light of this, although the government of Nepal announces different programmes time and again targeted towards such migrant returnees, hardly any of them get effectively implemented<sup>79</sup>. One of such programs is the provision of giving project loans to youth-returnee migrant workers.

The government of Nepal had decided to provide loans to youth-returnee migrant workers for their business projects that could yield them income as well as generate revenue and employment for the nation. Under such project loans for youth-returnee workers, the number of borrowers has been significantly increasing over the last three years. The table below represents the same data for year ending mid-July:

**Table 5. Number of borrowers for project loan for youth-returnee migrants (mid-July)**

Types of Loan	Number of borrowers		
	2019	2020	2021
Project Loan for Youth-Returnee Migrant Workers	49	221	839

Source: Current Macroeconomic and Financial Situation Annual Table, 2020/21

**One per cent interest increment on remittance deposits in banks:** Almost a decade ago, in FY 2010/11, informal channels (such as Hundi) used to send to Nepal remittance money worth as much as 35% of the total remittance of NPR 231.7 billion (USD 1.94 billion).<sup>80</sup> However, as the pandemic held its ground, there were restrictions in movement in almost all sectors of the economy. Because of this, there has been a ban on informal

channels and an increase in formal channels. This, according to the annual data released by the NRB, is also one of the key reasons that there has been an increase in remittance inflows by 9.8% in the FY 2020/21.

To increase such remittance inflows in the future too, the government has announced an increase of 1% in the interest on remittance deposits at Banks and Financial Institutions

(BFIs) through its monetary policy for the FY 2021/22.<sup>81</sup> Such a policy can help formalize remittance inflows, reduce the use of informal channels, increase disposable income and spending, increase tax revenues to the government, and create a positive spillover effects in terms of reducing poverty and stimulating economic development.

### Concerned agencies in remittance sector to release exchange rates systematically:

In a bid to systematize the remittance sector, NRB has instructed concerned agencies to release exchange rates from 10:00am to 2:00pm every day for the purpose of remittance exchange. It has specifically asked BFIs and remittance companies to determine the exchange rate through the Foreign Exchange Dealers Association of Nepal (FEDAN). After this, FEDAN is supposed to send the exchange rate to the Foreign Exchange Management Department of the NRB every day.<sup>82</sup>

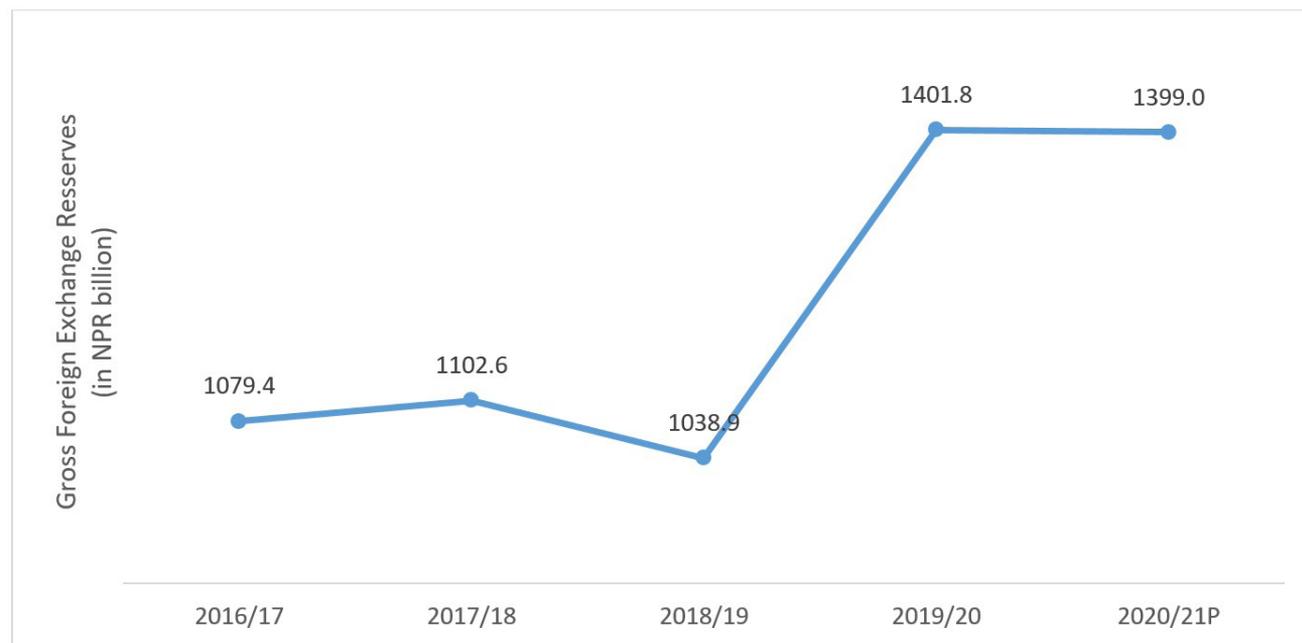
### Government of Nepal to accept applications for QR-coded job certificates from migrant workers:

In response to vaccination becoming one of the most necessary conditions for foreign workers to go to their labor destination countries in the Persian Gulf, the government of Nepal has decided to provide QR-coded job certificates to them. The Ministry of Health and Population (MoHP) published a notice stating that it would issue vaccination certificates with QR codes to outbound Nepali migrant workers. For this, they would have to submit their applications online at <https://vaccine.mohp.gov.np/public-request-form> along with required documents. Some of the documents include a scanned copy of their passport, a passport-size photo, a copy of vaccination card and a declaration form confirming

that the person has fully vaccinated for COVID-19.<sup>83</sup> Besides, if there are people who cannot apply online, then they can submit their applications at the National Ayurveda Research and Training Centre at Kirtipur.<sup>84</sup>

**Government Reserves:** The gross foreign exchange reserves stood at NPR 1,399 billion (USD 11.75 billion) at the end of the fiscal year, representing a decrease by 0.2% from the previous FY 2019/20.<sup>85</sup> This level of foreign exchange reserve is sufficient to cover the merchandise and services imports for 10.2 months as per the experts of NRB.<sup>86</sup> The trend of the reserves over the last five years has been depicted in the figure below.

**Figure 5. Gross Foreign Exchange Reserves over the last five years (in NPR billion)**



Source: Current Macroeconomic and Financial Situation Annual Table, 2020/21.

**Government Debt:** The total debt accumulated by the government of Nepal can be divided into domestic debt and external or foreign debt. Under domestic debt, the government debt stands at NPR 800.32 billion (USD 6.71 billion) in comparison to NPR 613.21 billion (USD 5.14

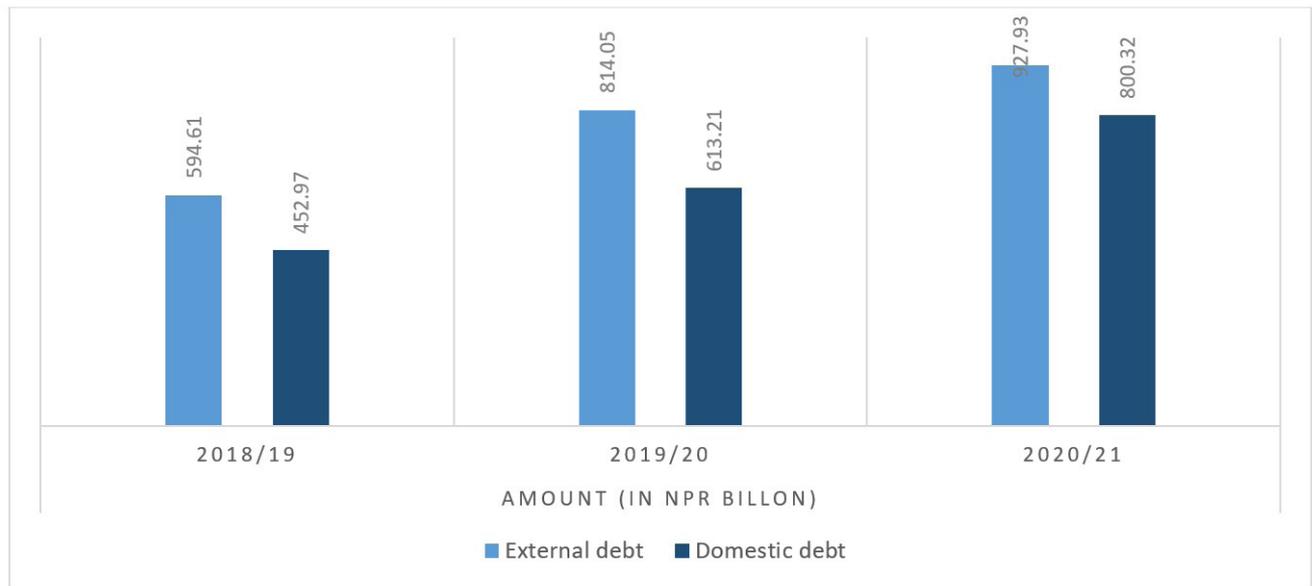
billion) a year ago. Likewise, the foreign debt amounted to NPR 927.93 billion (USD 7.79 billion) in FY 2020/21 against NPR 814.05 billion (USD 6.83 billion) in the previous FY 2019/20.<sup>87</sup> The data represents the vulnerable financial condition that the country is in

as the debt amounts have been rising gradually over the years along with their shares to the country's GDP. Table 6 below represents the government debt status over the last three years.

**Table 6. Government debt over the last three years (in NPR billion)**

Particulars	Amount (in NPR billion)			As percentage of GDP		
	2018/19	2019/20	2020/21	2018/19	2019/20	2020/21
External debt	594.61	814.05	927.93	15.4	20.8	21.8
Domestic debt	452.97	613.21	800.32	11.7	15.7	18.8
Total debt	1047.58	1427.26	1728.25	27.1	36.5	40.5

Source: Current Macroeconomic and Financial Situation Annual Table, 2020/21.

**Figure 6. Total domestic and external debt over the last three years (in NPR billion)**

Source: Current Macroeconomic and Financial Situation Annual Table, 2020/21.

**Government Spending (Expenditure and Revenue):** Based on NRB's Current Macroeconomic and Financial Situation report, the government of Nepal's fiscal position remained at a deficit of NPR 267.97 billion (USD 2.24 billion) in FY 2020/21

in comparison to a deficit of NPR 267.45 billion (USD 2.23 billion) in the corresponding period in the FY 2019/20.<sup>88</sup>

Herein, the fiscal position is determined by the breakdown into

government spending, i.e., government expenditures and revenues. According to the Financial Comptroller General Office (FCGO), the total government expenditure and revenue are presented below in Table 7.<sup>89</sup>

**Table 7. Government expenditure and revenue collection**

Particulars	2019/20	2020/21
Government expenditure	NPR 1091.33 billion (USD 9.16 billion)	NPR 1180.95 billion (USD 9.91 billion)
Revenue collection	NPR 793.75 billion (USD 6.66 billion)	NPR 978.74 billion (USD 8.21 billion)

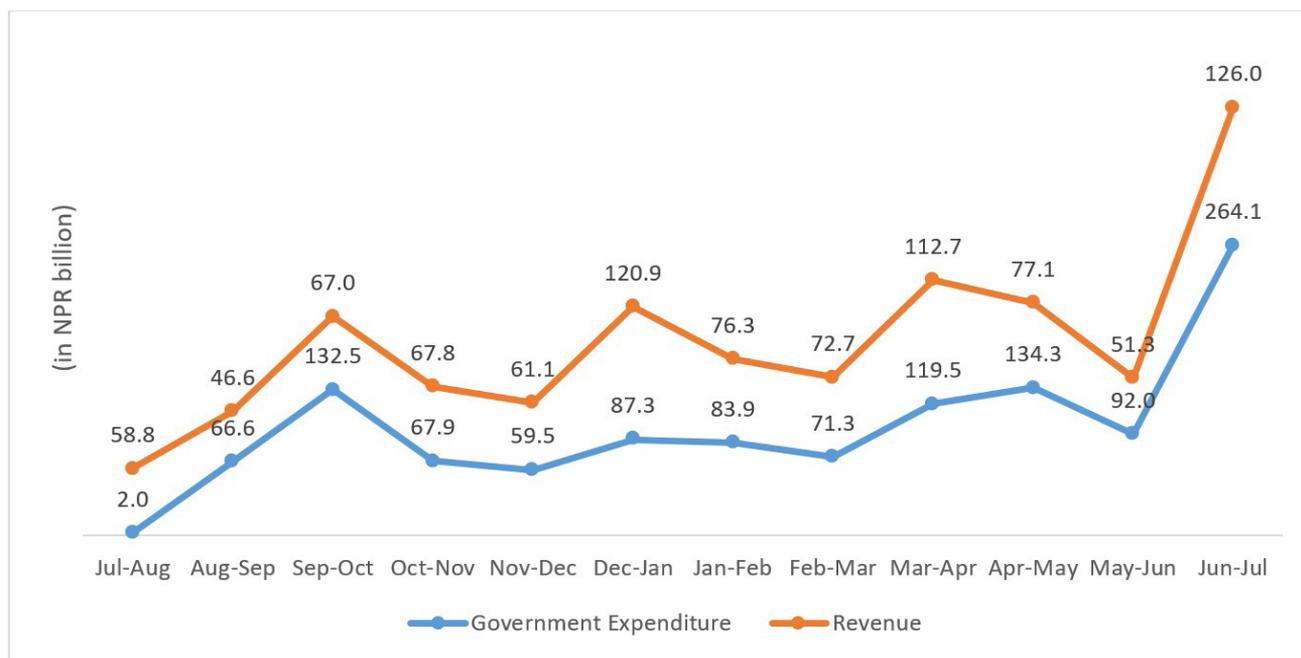
Source: Financial Comptroller General Office

Table 7 above represents a decrease in expenditure by 8.21%, and an increase in revenue collection by 23.30%. This shows that the rate at which the government expenditures have increased is lower than the rate at which the revenue collection is

taking place, indicating that the revenue collection has been better than the previous period. The revenue collection could have been even better had the operations of tax authorities not been halted due to lockdowns imposed by the government.

Nevertheless, the rate at which it has increased in this period can be attributed to the ease in prohibitory restrictions. Figure 7 below shows a breakdown of the whole fiscal year's expenditure and revenue during mid-months of FY 2020/21.

**Figure 7. Government Spending (expenditures and revenue) during mid-months of Fiscal Year 2020/21**



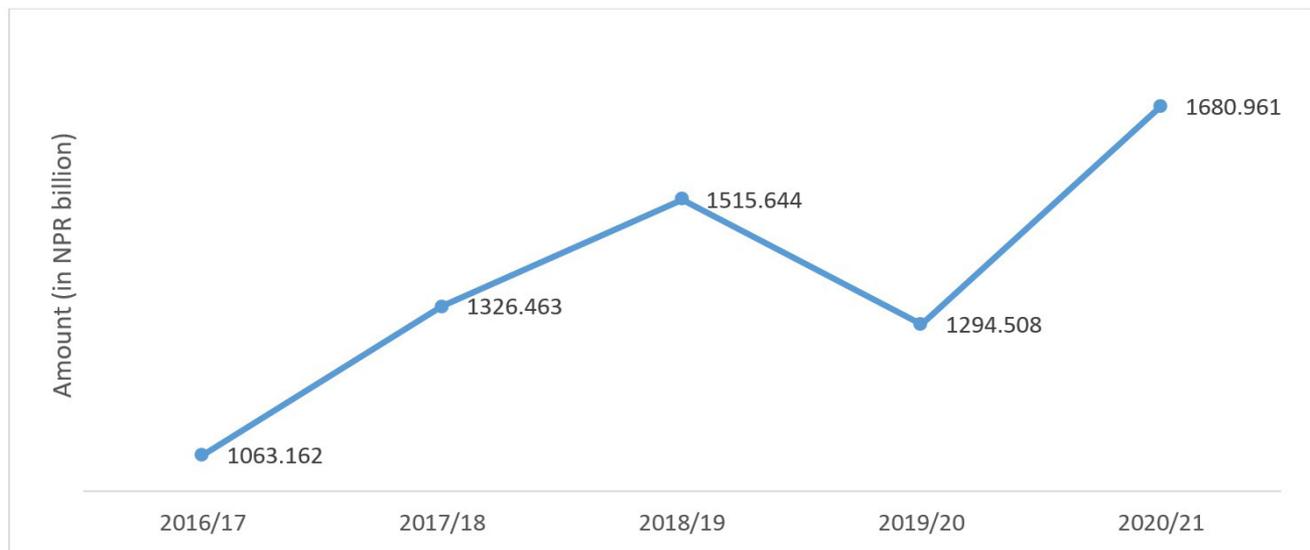
Source: Current Macroeconomic and Financial Situation Annual Table, 2020/21

**TRADE STATUS**

**Foreign Trade Scenario:** In terms of foreign trade scenario, the total foreign trade reached NPR 1,680.96 billion (USD 14.11 billion) in the FY 2020/21 in comparison to NPR 1,294.50 billion (USD 10.86 billion)

in the previous year, indicating an increase by 23%. The most significant trade of Nepal is with its neighboring countries, India and China, i.e., 64.1% and 14%, respectively. In 2020/21 alone, the trade with India and China increased by 33.8% and 28.3%, respectively. Likewise, the

share of export and import in the total foreign trade scenario is 8.4% and 91.6%, respectively—this indicates how Nepal is more dependent on imports than exports, and it highlights the need for appropriate measures to bring reform in this sector.

**Figure 8. Total foreign trade over the last five years (in NPR billion)**

Source: Current Macroeconomic and Financial Situation Update, Nepal Rastra Bank

**Top Imports and Exports:** According to the Current Macroeconomic and Financial Situation of FY 2020/21, the merchandise exports increased by 44.4% to reach at NPR 141.12 billion (USD 1.18 billion) in comparison to an increase of 0.6% in the corresponding period of the previous FY 2019/20.

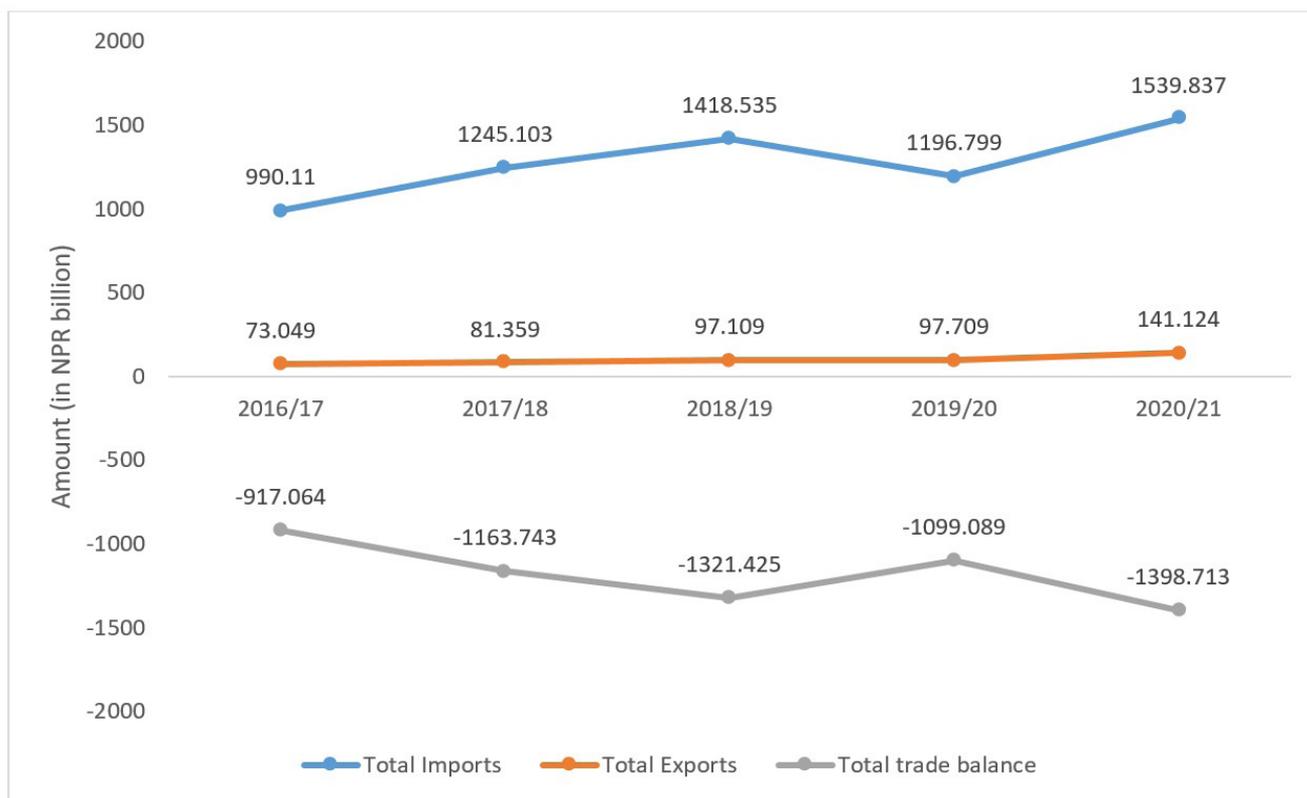
Exports to India and other countries rose by 51.7% and 27.7%, respectively whereas exports to China decreased by 14.7% during the review period. With this, India's share in total exports reached 75.4% of the total exports in the review period, which is the highest, in comparison to 71.8% in the previous period. Overall, the top five export commodities were soyabean oil (38%), polyester yarn and threads (5.2%), woolen carpet (5.1%), cardamom (4.9%), and jute goods (4.8%). As much as exports are being pushed in the Nepali market, appropriate measures are still lacking

in terms of costs of freight charges, international online payments, and so on; due to this, the export potential of Nepal has not been met yet. For this, exporters of Nepal have urged the government to hold government-to-government talks so that Nepali products can get exposure at big trade fairs in international platforms.<sup>90</sup> Such exporting strategy is one of the major ways through with foreign exchange can be brought into the country, this is important to be taken into consideration.

Likewise, according to the same report, merchandise imports increased by 28.7% to reach NPR 1,539.84 billion (USD 12.92 billion) against a decrease of 15.6% in the corresponding period of the previous FY 2019/20. In the case of imports, the imports from India, China, and other countries increased significantly by 32.1%, 28.6% and 19.6%, respectively. With this, India's share in total imports

reached 63.1% of the total imports in the review period, which is the highest, against 61.4% in the previous period. Overall, the top five imports were petroleum products (11.4%), transport equipment and parts (8%), machinery parts (5.2%), M.S. billet (4.6%), and crude soyabean oil (3.5%).

**Balance of Trade:** Based on the Current Macroeconomic and Financial Situation of FY 2020/21, the total trade balance witnessed a 29.9% increase in FY 2020/21 in comparison to a decrease by 14.6% in the corresponding period of the previous FY. However, despite the increase, the total trade balance figure stands at a negative NPR 1,398.71 billion (USD 11.74 billion) because of higher imports than exports. The trade balance of the last five years is presented in the graph below in Figure 9.

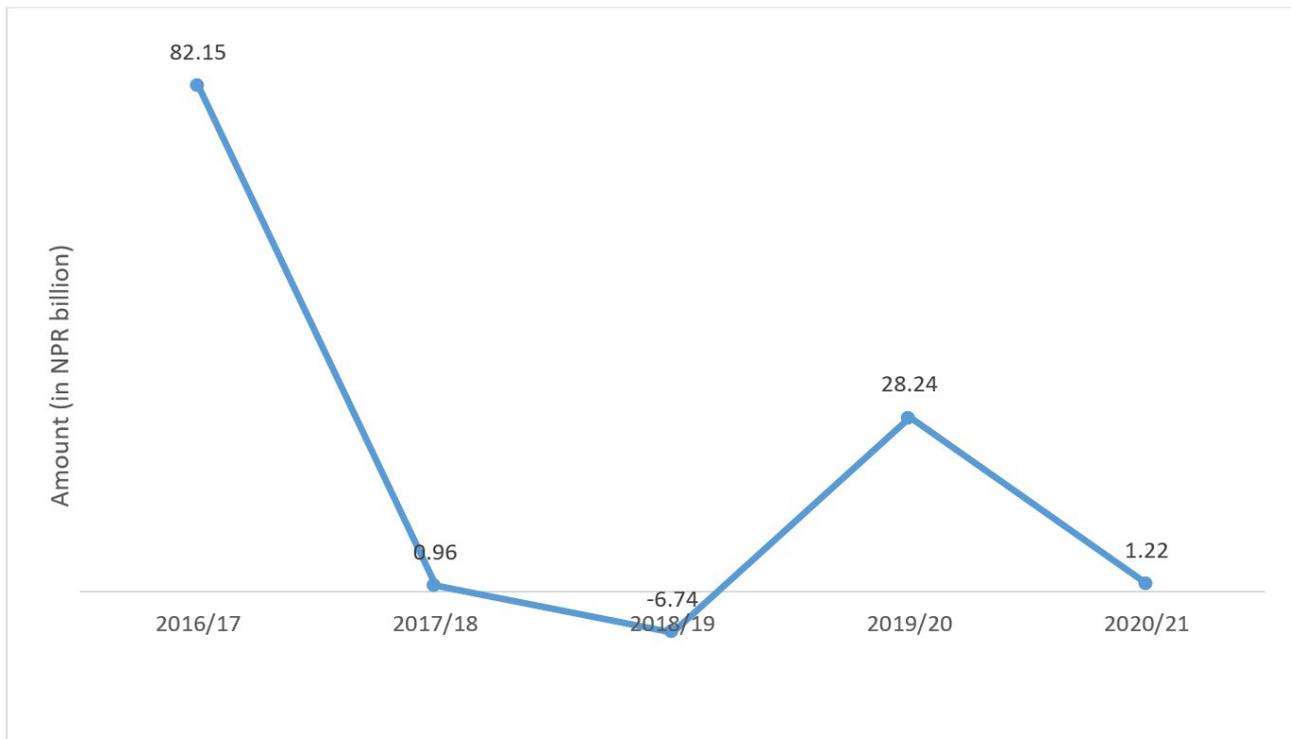
**Figure 9. Total imports, exports, and trade balance over the last five years (in NPR billion)**


Source: Current Macroeconomic and Financial Situation Update, Nepal Rastra Bank.

**Balance of Payment:** As of FY 2020/21 (ending mid-July 2021), the current account remained at a deficit of NPR 333.67 billion (USD 2.80 billion) compared to a deficit of NPR 33.76 billion (USD 0.28 billion) in the corresponding period of the previous FY 2019/20.<sup>91</sup> Likewise, the Balance of Payments (BOP) registered

a surplus of NPR 1.23 billion (USD 0.01 billion) in FY 2020/21 against NPR 282.41 billion (USD 2.37 billion) in the previous FY. With this, the BOP covers 0.03% of the GDP of the nation, while it was 7.2% in the previous year.<sup>92</sup> This indicates that the BOP surplus has declined and that the country is sustaining an increasing

pressure to manage the foreign currency, which is already declining. The foreign currency is only sufficient to cover the prospective merchandise imports for 11.2 months, and merchandise and services imports for 10.2 months. This also hints towards a possible further decline in the next review period.

**Figure 10. Balance of payment trend over the last five years (in NPR billion)**

**Unemployment:** During the review period, unemployment stood out as one of the major problems that could possibly create a negative toll on the overall economy. This statement comes in light of the labor industry mostly, where a sharp spike in the coronavirus cases prompted governments to create stricter regulations for migrant workers. An assessment by the United Nations Development Programme (UNDP) found that 60% of the employees in micro and small businesses had lost their jobs, among which the most affected were women (especially from lower income groups).<sup>93</sup> Adding to this, protracted employment status was further hit hard when the Central Investigation Bureau of Nepal Police arrested four people for their alleged involvements in duping nearly NPR 4 million (USD 0.033 million) from foreign job aspirants. It was further

reported that 577 such cases were filed in the first 11 months of the FY 2020/21 (ending mid-June 2021).<sup>94</sup> This stands as an important issue that needs immediate attention and action as it can further push people towards uncertainty and unemployment.

**Exchange rate fluctuations:** Nepali currency visa-a-vis the US Dollar appreciated 1.1% in mid-July 2021 from mid-July 2020,<sup>95</sup> indicating that the Nepali currency is strengthening in relation to the USD, and there is a possibility of imports getting cheaper.

**Gold/silver updates:** In the FY 2020/21, the import of gold increased significantly from NPR 13.63 billion (USD 0.11 billion) to NPR 27.48 billion (USD 0.23 billion), indicating a 101.5% increase. With this, gold stands within the top ten commodities that have been imported in the fiscal

year and represents a share of 1.8% in the total imports of the country.<sup>96</sup> The price of gold soared 1.1% to the NPR 217.20 (USD 1823.75) per ounce in mid-July 2021 from NPR 219.21 (USD 1,804) per ounce in the corresponding period of the previous year.<sup>97</sup>

Likewise, gold investment by the government of Nepal has increased over the years to stand at NPR 51.132 billion (USD 0.42 billion) from NPR 44.996 billion (USD 0.377 billion), indicating an increase by 13.6%. Further, the outstanding credit of BFIs based on mid-month data of each fiscal year for gold/silver stands at NPR 43.11 million (USD 0.36 million), which represents a 12.2% increase from the year before.<sup>98</sup>

## “ OUTLOOK

As Nepal braces to move away from the impact of the corona crisis, its economic activities have started reviving. The GDP growth rate, which is the most significant indicator of an economy, has seen an increase by 4.01%. With this, the growth prediction in the year ahead stands on the positive side as well.

It is not to say that growth has not been possible at all but rather that it has not been visible since it has remained subdued. For it to create a larger and significant impact, sectors that are thriving despite the pandemic such as remittance, consumption of goods and services, foreign aid, etc., should be prioritized. For the fiscal stimulus, it is important to note that strategies for reviving agriculture, service and industry sectors are most important. While the sharp slump in number of migrant workers going abroad will affect the external stability of the economy, remittance inflow is expected to continue flowing into the economy. Likewise, consumption and demand will persist and stimulate the Nepali economy. Given this, Nepal is likely to overcome economic hardships in the next quarter to a greater extent despite the pandemic; however, the major challenge lies in managing trade deficit and prolonged work absence, which is creating an impact on income and employment.

Overall, the review period serves as a stark reminder that Nepal is in dire need of an effective national strategy—one that practices federalism to the core and binds all tiers to their respective responsibilities by holding them accountable and also overlooks efficient implementation of planned activities.

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SECTORAL  
**REVIEW**

# AGRICULTURE AND LIVESTOCK

The country has been witnessing an ever-expanding trade deficit as imports of agriculture commodities like edible oil, cereals, and sugar continue to soar. Prices of edible oil and meat have also undergone a notable rise in the first ten months of the Fiscal Year (FY) 2020/21. The increase in meat prices could be attributed to increased meat consumption among Nepalis in recent years. Furthermore, there has been an effort to push the country towards self-sufficiency in rice production.

## TRADE OF AGRO-COMMODITIES

**Agriculture imports on the rise despite COVID disruptions:** In FY 2020/21, the agriculture goods import bill reached NPR 325 billion (USD 2.73 billion), a 30% increase of the FY 2019/20 amount. As a result, the share of agriculture in the country's total import bill has increased to 21%, as indicated by the statistics published by the Department of Customs.<sup>99</sup>

The surge in agriculture import bills could be attributed to the heightened purchases of edible oil, cereals, and sugar. The import value of edible oil surged by NPR 32.66 billion (USD 274 million) to NPR 82.9 billion (USD 696 million) in just a matter of one year, with annual imports of crude soybean oil crossing the NPR 52.95 billion (USD 445 million) mark, which has also “become the country's top export commodity within a year”. The soybean imports totaled 452,626 tonnes, and NPR 40 billion (USD 336 million) worth of soybean oil was imported from Argentina alone. Nepali traders enjoy a profit margin of 45% by importing crude oils at minimum tariff and again exporting them to India at zero tariffs. The rise in the country's import bill is primarily due to a massive surge in demand for imported edible oils,

which are again re-exported by Nepali traders to India at a net profit of 45%. Nepal enjoys a zero-tariff policy on its exported goods as mandated by the South Asian Free Trade Area (SAFTA) agreement, which has been exploited by traders to engage in rent-seeking activities; they have been extracting profits without adding any value to the economy in the process of importing and exporting edible oils. Such action is counterproductive to the entire intent of the SAFTA agreement, which is to alleviate trade deficits for countries like Nepal by promoting exports through the removal of trade barriers in the likes of tariffs. Instead, re-exporting edible oils has put the nation's trade balance under a greater strain with the purchases of the crude oils from other countries reaching an all-time high. It is imperative that Nepal avail itself of trade agreements like SAFTA, for instance, to promote more productive and sustainable exports so that the country could gain and maintain a foothold in the global market for a longer period.

Likewise, cereal imports spiked by NPR 22.71 billion (USD 191 million), exceeding NPR 79 billion (USD 663.3 million) in FY 2020/21. Sugar imports increased to NPR 12.26 billion (USD 103 million) from NPR 4.27 billion (USD 36 million) in the

last fiscal year. Due to an increasing number of farmers opting for the production of other crops, domestic sugarcane production has continued to dwindle causing a demand-supply gap. While the domestic demand for sugar was 250,000 tonnes, the domestic supply was limited to 105,000 tonnes in the last FY. Soaring imports combined with stagnant exports have led to trade deficit ballooning, with the deficit rising by 27.26% over one year.<sup>100</sup>

## PRODUCTION UPDATES

**The momentum of paddy harvest is still as strong:** The incidence of heavy precipitation as well as people migrating back to their villages amid the lockdown has helped farmers maintain last year's pace of paddy harvest, a promising sign for the COVID-19 affected economy. As per the Department of Agriculture, 88.75% of the 1.37 million hectares of arable land has been cultivated as of July 2021, owing to abundant and “above normal” rainfall the country reported this monsoon. Sudurpaschim province experienced the highest transplantation rate (96.74% of 164,639 hectares) followed by Karnali province (93.82% of 38,385 hectares) and Lumbini province (92.24% of 303,593 hectares).<sup>101</sup>

The impact of paddy production on the national economy is notable as it contributes around 7% to the country's Gross Domestic Product (GDP) and serves as the primary income source for a majority of the population. Furthermore, it indirectly strengthens the manufacturing and service sectors as well.<sup>102</sup>

## GOVERNMENT POLICIES AND PROGRAMS

**Concerns over the absence of agriculture act:** During the meeting of the Delegated Management and Government Assurances Committee of the National Assembly that was held on July 25, 2021, the president of the committee Ram Narayan Bidari pointed out the irony of an agrarian country not having an agrarian act. In the absence of a comprehensive agriculture policy, Nepal has been extending subsidies along with other facilities on an arbitrary/discretionary basis. In the absence of proper policy and guidelines, the misuse of funds becomes more prevalent as resources are allocated on an arbitrary basis. As a result, funds and resources from the state coffer are constantly misallocated. According to the committee secretary, the draft of the Agriculture Act is currently in the process of being registered as a bill to the parliament by the ministry.<sup>103</sup>

## FOOD AND BEVERAGE PRICES (CONSUMER PRICE INDEX [CPI] AND WHOLESALE PRICE INDEX [WPI])

**Marked rise in the price of edible oil and meat:** Nepal Rastra Bank's (NRB) annual macroeconomic report indicates a significant rise in the price of food and beverage items, especially that of edible ghee and oil; they underwent a price increase of 17.54% in FY 2020/21 compared to the

previous year.<sup>104</sup> Overall, the annual food and beverage inflation was 5% in FY 2020/21 compared to 8.16% in the previous year. The inflated price of edible oils was attributed to swelling prices of raw material in the international market, primarily due to supply chain disruption amid COVID-19.<sup>105</sup>

## NUTRITION/FOOD SECURITY

**Increasing meat consumption leading to self-reliance:** Meat consumption in Nepal has seen a marked rise in recent years largely owing to increasing household incomes through remittances. In 2020 alone, the country recorded meat consumption of 552,000 tonnes compared to 357,000 tonnes in the previous year.<sup>106</sup> The average per capita consumption of meat in the country is currently at 18kg per year,<sup>107</sup> exceeding the United Nation's (UN) minimal requirement of 14kg per year for a balanced diet. This rise in meat consumption is concomitant with the growth of the commercial poultry industry—chicken production has increased from 5,200 tonnes in 1981 to 255,000 tonnes as of now.<sup>108</sup>

Nepal records a daily chicken consumption of around 700,000 kg, half of which comes from Kathmandu Valley. In the 1980s, poultry meat accounted for merely 5% of national meat consumption; this figure has now reached 46%. Likewise, consumption of eggs has been on the rise as well, with per capita egg consumption now standing at 55 eggs per year. The UN has set 48 eggs per year as the threshold for a balanced diet.<sup>109</sup> There is a direct and positive correlation between meat consumption and nutrition of Nepalis. As per the recent survey conducted by the Central Bureau of Statistics, malnutrition among children has gone down from

56% in 1996 to 36% in 2016, and 31% currently.

The rising demand for meat has strengthened the poultry industry, which, in turn, has been an economic blessing for the country. Today, there are at least 340 modern hatcheries across the nation and over 100 plants providing feed for poultry farms. The industry has employed at least 500,000 people according to the Nepal Hatchery Industries Association. The association further explained how the sector is providing opportunities for self-employment given the relatively low investment requirement and barriers to entry.<sup>110</sup>

Nepal's poultry industry has been booming in recent years as a result of increased meat consumption. Nonetheless, the sector is not without bottlenecks. The industry has been struggling to cut back on production costs to bring down the price of meat in the face of competition from cheaper Indian imports. The industry's conscious effort to make meat more affordable could be given credit for the rising popularity of chicken meat. While Nepal has been demonstrating a level of self-sufficiency in meat production, there has been an associated increase in imports of maize, soybean, and grain for producing feed.<sup>111</sup> Unless the country can amplify its meat production capacity and compete in the global market, the expansion of the poultry industry would do little to bridge the existing trade gap. Additionally, mass production of meat is one of the major contributors to greenhouse gas emissions, and livestock farming is heavily extractive as it requires a colossal amount of water. Amid the impending climate crisis, the country must bring policies that could promote a more sustainable way of poultry farming while ensuring

a minimal impact on the livelihood of farmers.

## NEW DEVELOPMENTS

**Hybrid rice tech project kicks off:** Nepal Agriculture Research Council (NARC) together with the International Rice Research Institute (IRRI) has initiated the Hybrid Rice Technology Transfer project<sup>112</sup> in a bid to attain self-sufficiency in rice through embarking on hybrid varieties. The project seeks to commercialize climate-resilient hybrid rice through import substitution in the process of pushing the country towards rice self-sufficiency. Scientists from NARCs will be leading the development of hybrid rice technology under this five-year project, which has been financed by the government. The International Rice Research Institute (IRRI) will be providing NARC with the necessary technology and skills to facilitate rice breeding research. Moreover, the project will transfer technology and knowledge to Nepali agricultural scientists, which could potentially bring far-reaching reforms and impacts within the country's agriculture sector.

According to the Department of Customs, Nepal imported 603.725 million kilograms of rice worth NPR 28.603 billion (USD 240.2 million) during 11 months of FY 2020/21.<sup>113</sup> While the per capita consumption of rice is 138 kg per year, the country produces 3.35 million tonnes annually, indicating an annual production need of 6.1 million tonnes of paddy and 4.76 million tonnes of rice.<sup>114</sup> Increasing household incomes largely owing to the sustained remittance inflow has driven the heightened consumption of agriculture products, further aggravating the nation's trade deficit. In this regard, the joint

initiative of NARC and IRRI to kick off the hybrid rice technology project is timely. With agriculture activities like rice production typically depending on rainfall and favorable climate, Nepal must resort to climate-resilient methods of farming if it were to realize the goal of becoming agriculturally self-sufficient. Hence, this project could be a milestone in reducing the country's dependency on imports of food grains and not to mention in strengthening the capacity of agriculture scientists in Nepal through knowledge transfer. Furthermore, upon the successful implementation of the project, Nepal could serve as the front runner and center of the use of hybrid technology in the entire South Asian region.

**Women cooperatives receive Agri Transport Vehicles:** Heifer International Nepal (HPIN) joined hands with women cooperatives to operate Agri Transport Vehicles. Twenty-eight vehicles, which were procured in February–March 2021 were distributed to various cooperatives across the country. This has facilitated agricultural transactions amid the pandemic-induced lockdown during which physical mobility has been largely compromised and has subsequently resulted in farmers having to incur losses. With some financial support from local and provincial governments, these vehicles are expected to directly benefit 20,751 members of 28 cooperatives.

Heifer's project, Strengthening Smallholders in Livestock Value Chain II, has been promoting market system development in "goat, dairy, local poultry, and vegetable value chains" and as of June 2021, the organization has expanded its reach to over 43 districts assisting over 276,000 socially marginalized smallholder households. The project has successfully

established 156 permanent and 452 temporary collection centers to conduct collective marketing of dairy, vegetables, and goat.<sup>115</sup>

**Nepal Army's controversial venture into agriculture:** Two years ago, Nepal Army had started a Vocational Agriculture and Husbandry Training Centre in Lamjung with the goal of training retired and retiring army personnel.<sup>116</sup> The center has provided training to 140 such personnel and has also extended loans to help them establish their agriculture farms through its welfare fund in the past two years. The army is now working towards upgrading the center to Nepal Army Institute of Agriculture and Sciences, which will impart undergraduate courses, open to the public, from next year. The army has invested more than USD 1.18 million (NPR 140.5 million) in this center, which covers an area exceeding 20.34 hectares.<sup>117</sup>

However, this decision has not been without controversy. The issues of transparency and profit-making, the latter of which the army should not be engaged in, have caused contentions. According to former Nepal Army officials, the army's venture into the agriculture sector is highly debatable given the scale and non-military nature of the sector. While the country's constitution allows the government to mobilize the army for works in development, construction, and disaster management, there is a lack of clear provision dictating the boundary for what is allowed and what is not; this, in turn, has led the army to exploit existing loopholes in the constitution and expand their presence in various sectors.<sup>118</sup>

## “ OUTLOOK

With the festival season approaching, the next quarter will likely see a surge in consumption of meat along with other agricultural commodities including rice, lentils/legumes, edible oil, sugar, and flour. This could consequently inflate the price of food and beverages. However, the threat of the third wave with only a small portion of the population being vaccinated against COVID-19 could potentially undermine the demand for such commodities as was the case last year during the same period. Regardless, the meat industry will most likely see a growth entering the next quarter given the increased meat consumption throughout the year.

The trade deficit will most probably continue to swell in the next quarter since imports of agro commodities have become more expensive amid the pandemic. Furthermore, the quantity of these imports did not show any sign of depletion despite movement restrictions during the recently imposed lockdown, thus indicating that next quarter will likely see an increase in import quantity to meet the rising demand during the festival season. Hence, higher price combined with greater number of imports would most certainly contribute to the country's growing trade deficit in the upcoming quarter.

# EDUCATION

The education sector of Nepal faced several issues in the last quarter owing to the COVID-19 pandemic. The Secondary Education Examination (SEE) results were published with schools allegedly falsifying evaluations. The surge in COVID-19 cases in the country forced the National Education Board to indefinitely postpone grade 12 examinations, while the Tribhuvan University forcefully carried out physical exams despite the spike in cases. Nevertheless, the government decided to inoculate all university students appearing for examinations after a series of protests from students demanding vaccines and cancellation of physical exams.

## PROGRAMS

**Kathmandu Metropolitan City to implement “One Ward One Model School” program:** Announcing its policies and programs for the Fiscal Year (FY) 2021/22, Kathmandu Metropolitan City (KMC) unveiled its plan to implement a “One Ward One Model School” Program with an aim to develop community schools as model learning centers and training hubs. Similarly, to improve the quality of schools in all 32 of its wards, KMC plans on creating an education plan by forming an Integrated Education Management Formulation Committee comprising of educational and cultural experts. Likewise, to motivate teachers at community schools, the city plans on providing NPR 1,000 (USD 8.40) per month as motivation allowance.<sup>119</sup>

**New academic session begins for academic year 2021/22:** The new academic session for the current year started across the country on June 15, 2021. The director general of the Centre for Education and Human Resources, Baikuntha Aryal, directed all secondary level schools to start taking new admissions through online, telephone, and other alternative means and to complete the

admission processes by June 29, 2021. The schools have still not been given permission to start physical classes and have been directed to continue teaching through online and other alternative means such as radio and television.<sup>120</sup>

**‘Philosophy Promotion Fund’ introduced by Nepal Academy:** In order to advance the study of philosophy and research in a more systematic way, Nepal Academy instituted the Philosophy Promotion Fund. As per the member-secretary of the academy and chief of philosophy department, Professor Jagat Prasad Upadhyay, NPR 500,000 (USD 4,198) would be provided under the philosophy promotion fund for study and research related to philosophy. After being honored with the Nepal Academy Social Science, Culture and Philosophy Award, Professor Dr. Birendra Prasad Mishra handed over the NPR 200,000 (USD 1,679) that he received to the academy as seed money for the promotion fund.<sup>121</sup>

## ENROLLMENT AND DROPOUTS

**High rate of school dropout:** The Economic Survey 2020/21 unveiled

by the government showed that over two thirds of the students who enroll in schools across the country drop out by the time they reach grade 12. Although the net enrollment rate for grade 1 increased to 97.3% in FY 2020/21 from 91% in FY 2013/14, the study showed that only 29.2% of the students enrolled completed grade 12.<sup>122</sup> The dropout rate seemed to skyrocket once students entered the higher secondary level. While 82.2% of the students stayed in school up to grade 8, and only 64.6% completed grade 10. However, the study did not include the reasons behind such high dropout rates.<sup>123</sup>

**Scholarship funds underutilized:** In order to ensure equitable access to education, promote quality education, increase retention rates, and support students from poor communities, the government of Nepal allocates millions of rupees for scholarships every year. In FY 2020/21, NPR 850 million (USD 7.14 million) was allotted for scholarships; however, only NPR 150 million (USD 1.26 million) was disbursed, leaving over 82% of the allotted amount unspent in the government treasury. Of the students eligible for scholarships, those

of grades 9 and 10 receive NPR 6,000 (USD 50.38) per year. Students of grades 11 and 12 majoring in science, receive NPR 24,000 (USD 201.51) per year and those majoring in other subjects receive NPR 18,000 (USD 151.13) per year. The government had a target of providing scholarships to 83,592 students in the last fiscal year but was only able to disburse amounts to 13,305 students. According to the Centre for Education and Human Resource Development, 7,643 grade 9 students and 5,145 grade 10 students received the scholarship amounts. Only 517 grade 12 students received the amount, while not a single student from grade 11 received any scholarship money in the previous fiscal year.<sup>124</sup>

## EXAMINATIONS

**Secondary Education Examination results for the academic year 2020/21 published:** Results of the SEE were published on August 7, 2021. A total of 484,278 students appeared for the exams this year, out of which 8,444 students scored a 4.0 Grade Point Average (GPA).<sup>125</sup> As in the previous year, the examinations for 2021 that were scheduled to take place physically from May 27, 2021, to June 7, 2021, were called off owing to the surge in COVID-19 cases. Subsequently, the federal government decided to let schools grade their students and have the schools send the marks to the National Examinations Board (NEB) as in the previous year.<sup>126</sup> The high number of 4 GPA scorers made it obvious that schools misrepresented the results of their students, misusing the authority given to them to grade their students based on internal assessments. However, the NEB did nothing to verify the results nor did it make public any analytical information regarding the

unusual grades. Such false evaluations of students might not only make it difficult to assess the actual learning of students but might also discourage students from working hard and actually learning.

**Grade 12 examinations for 2021 postponed:** Grade 12 examinations have been postponed by NEB for the second time until further notice, upon the recommendation of the Ministry of Education, Science and Technology (MoEST), Ministry of Health and Population (MoPH), and the COVID-19 Crisis Management Centre (CCMC). The examination, which was initially scheduled to start from June 9, 2021, was postponed to August 15, 2021, due to the COVID-19 induced lockdown.<sup>127</sup> The decision of NEB came after immense pressure from students, parents, and other stakeholders demanding the board to cancel the exams and think of alternative evaluation. Students and parents took to social media, circulating posts with hashtags such as #cancelNEBExaminations, #cancelboardexams2021, and #cancelNEBexamssavestudents. Although the NEB agreed to postpone the exams, it disregarded the possibilities of alternatives to physical examinations and are set on conducting regular three-hour long exams with students physically present.

**Tribhuvan University exams continue despite COVID-19 surge:** Despite widespread criticism and protests, Tribhuvan University (TU) decided to continue in-person examinations even though the COVID-19 cases in the country have been surging. The university, which has 1,124 affiliate and 61 constituent colleges with over 400,000 regular students in 125 programs, is currently holding exams for its bachelor's

and master's levels. However, over 500,000 students are estimated to be sitting for the exams including those with back papers. Although the COVID-19 Crisis Management Centre (CCMC) and a separate response team from TU were said to have been inspecting exam centers to check if health protocols were being enforced, in reality, none of the exam centers can be seen following any kind of health safety protocols. A youth organization, Hami Nepal, also filed a writ petition at the Supreme Court against TU's decision to continue with physical examinations. However, the date for the hearings have been postponed, rendering the petition useless as the exams would be over by the time the case would be heard. Students had been demanding alternative methods for exams, but TU officials do not see the possibility of any alternative methods and are set on continuing physical examinations.<sup>128</sup> It seems unlikely that the university would switch to alternative evaluation methods any time soon.

**Pass rate of entrance examinations for medical courses low:** The Medical Education Council published the results for the entrance examinations for 16 medical and paramedical courses conducted in the last week of July 2021, which showed that majority of the examinees performed extremely poorly. Out of 21,000 examinees who sat for the entrance exams for MBBS, only 4,319 passed, qualifying for 1,835 seats available in 21 medical colleges across Nepal. While 1,420 seats were allocated for the Bachelor in Public Health program, only 565 examinees passed the entrance test. Similarly, only 504 examinees passed the entrance test for the Bachelor in Science (Nursing) program, for which 1,100 seats had been allocated. Out of the 902 seats allocated for the Bachelor in Pharmacy program, only 547

examinees were qualified. Likewise, only 114 examinees qualified for the 150 seats available for the Bachelor in Physiotherapy program and 35 examinees qualified for the 71 seats available for the Medical Imaging Technology program.<sup>129</sup>

**All examinees to be administered COVID-19 vaccines:** The government decided to vaccinate all university students sitting for their examinations against COVID-19. Issuing a press statement, the Ministry of Health and Population directed the authorities concerned to provide the first doses of either AstraZeneca or Vero Cell to such students in coordination with the district vaccine coordination and monitoring committee. The government's decision came in the wake of the students' protests and dissatisfaction over the government's decision to conduct exams. While the government has already postponed grade 12 examinations, the tests under TU are ongoing with the students required to be physically present.<sup>130</sup>

## CURRICULUM

**Tribhuvan University adds new subjects:** Tribhuvan University (TU) is offering a Master of Business Administration in Cooperatives and

Entrepreneurship Development starting from the next academic session. An agreement had been reached between the National Federation of Cooperatives and the Central Department of Management of TU, according to which the university will formulate the necessary curriculum in coordination with the federation. The federation will also provide NPR 500,000 (USD 4,198) to the central department of the management for the formulation of the curriculum.<sup>131</sup> Similarly, TU also introduced a postgraduate program in Good Governance and Prevention of Corruption, under the Faculty of Humanities and Social Sciences. TU is the first university in the world to start a course on anti-corruption.<sup>132</sup>

**KU to offer Bachelor and Master programs on AI:** For the first time in Nepal, Kathmandu University (KU) is introducing courses on Artificial Intelligence (AI). The Department of Computer Science and Engineering, School of Engineering is set to begin classes in Bachelor of Technology in AI and Master of Technology in AI starting September 2021. According to the university, 30 students would be enrolled in the bachelor's program and 10 in the master's program. Likewise, the fees for the four-year B.

Tech course have been fixed at NPR 800,000 (USD 6,717), while the fees for the two-year M. Tech course have been fixed at NPR 395,000 (USD 3,316.5).<sup>133</sup>

## Gandaki University to begin Bachelors in Sports Management:

Gandaki University, established by the Gandaki Province is preparing to introduce a four-year Bachelor in Sports Management course for the first time in Nepal. Theoretical and practical aspects of 10–12 sports, sports marketing, sports economy, funding in sports, sports tourism, sports in globalization, strategic management in sports industries, athletics care and rehabilitation, and other subjects related to sports are included in program curriculum. A total of 50 students would be enrolled in each semester, with the fees for the program fixed at NPR 300,000 (USD 2,518.9).<sup>134</sup> Such courses would help produce technical human resources in the field of sports such as sports managers, trainers, referees, coaches, and sportspersons.

## “ OUTLOOK

The impact of COVID-19 on education has been severe. Although the government has been promoting alternative methods of teaching, such measures have not been effective enough. The government first needs to ensure that students have access to mobile phones, computers, and good quality internet. Despite efforts from the government to increase retention, the desired results have not been achieved as experts believe that these programs do not address the underlying causes of students dropping out. Poverty can be seen as a major challenge for retention as parents from poorer communities tend to indulge their children in income generating activities to support their families. The budget allocated by the government for the education sector for FY 2021/22 might go to waste if adequate strategies are not formulated and implemented. The government should ensure effective implementation of its programs for the current fiscal year.

Similarly, with the country grappling to deal with the COVID-19 pandemic, examinations of secondary, higher secondary, and university levels were also harshly impacted. The irregularities in the grade 10 SEE results, the NEB dead set on conducting physical examinations for grade 12 exams, and the TU forcefully conducting physical exams disregarding the surge in infections and student protests is a sign that the education system in Nepal is quite flawed. Instead of focusing on evaluating students based on three-hour long written exams, which do not actually guarantee learning, stakeholders along with the government must come up with alternative means of evaluations that would allow students to implement their learnings as well.

# ENERGY AND ENVIRONMENT

Notable developments could be observed in the energy and environment sector in the review period. The most anticipated Upper Tamakoshi Hydropower project came into operation, while various new hydropower projects are in the pipeline. The Sher Bahadur Deuba-led coalition government, after taking over the Oli government re-appointed Kulman Ghising as the managing director of Nepal Electricity Authority (NEA) and made the decision to provide free electricity to low-income households. Furthermore, the Deuba government also reversed the Oli government's plans to extract and export natural resources from Chure region. Nepal also witnessed one of the harshest monsoons with landslides and floods displacing people and destroying infrastructure.

## POLLUTION AND EMISSIONS

### Plastic products imports surged by 40% in Fiscal Year (FY) 2020/21:

Contrary to the government's announcement to reduce the use of plastic products, Nepal imported more than NPR 63 billion (USD 529 million) worth of plastic products in FY 2020/21. Data from the Department of Customs shows the import of plastic products increased by 40% in FY 2020/21 compared to FY 2019/20. According to the department, plastic products are ranked eighth in the list of top-ten imports of Nepal. Likewise, plastic face-shields worth NPR 423.44 million (USD 3.55 million) were imported in the last fiscal year.<sup>135</sup>

### Supreme Court directs government to completely ban plastic less than 40 microns thickness:

To address the issue of pollution and environmental conservation, the previous government had announced a complete ban on plastics less than 40 microns thickness. The Supreme Court on August 15, 2021, directed

the government to completely ban the use of such plastic within 21 days. A single bench of justice, Naha Kul Subedi, asked the government to prepare its action plan to ensure the ban within 10 days. Although there have been several announcements by the government to ban plastic with low microns, including in the recent budget announcement, it has not come into implementation yet.<sup>136</sup> The ineffective implementation can be attributed to the government's lack of concrete plans and monitoring mechanisms to ensure that the decision is brought into effect. Despite the Supreme Court's orders, it is safe to say that the public does not have high expectations from the government regarding the implementation of the ban.

### Floods and landslides wreaked havoc across Nepal:

The monsoon this year was expected to be more dangerous as above-average rainfall had been forecasted for the season. Only a few days into the monsoon season, floods and landslides had already started wreaking havoc across

the country. Flash floods devastated settlements around Kaligandaki, Bheri, Rapti West, Tinau, Babai, and other rivers flowing through Gandaki, Lumbini, Karnali, and Sudur Pashchim provinces. Hundreds of people went missing in the floods and landslides in Helambu and Melamchi areas of Sindhupalchowk district. Floods in two local streams also caused damages in various areas of the Manang District. Over 100 villages in the Bajura district have also been put at high risk of landslides. Water levels in rivers across Nepal passed the warning levels and were expected to witness flash floods.<sup>137</sup> Nepal, being one of the most vulnerable countries to the effects of climate change, would only face more severe natural disasters in the future. Therefore, the government needs to be well prepared to deal with these disasters and mitigate impending risks.

## PROJECTS AND PROGRAMS

**Government to ban extraction and export of natural resources from Chure:** Through the announcement

of the Common Minimum Program on August 8, 2021, the Deubaled coalition government reversed the Oli government's decision of reducing the country's trade deficit by exporting pebbles, sand, and gravel from Chure region. The incumbent government emphasized its policies for the preservation of forests, rivers, and environment, and highlighted its plans to prevent desertification of the Terai region by protecting Chure region. Likewise, the government also announced its plans to ensure intervention for the conservation of biodiversity and the environmental rights of the citizens.<sup>138</sup> The decision of the Deuba government to ban the extraction and export of natural resources from Chure region is a good step although a populist one. Nevertheless, the effective implementation and monitoring of the ban would be a challenge.

**Supreme Court issues interim order against Kaligandaki diversion project:** The Supreme Court issued an interim order not to proceed with any work on the proposed Kaligandaki Diversion Project. The project, which was pushed forward by former finance minister, Bishnu Paudel, ran into controversy after Lumbini and Gandaki provincial governments expressed contrasting views regarding the project. The apex court also asked the Office of the Prime Minister and Council of Ministers to explain why the project should not be terminated. Citing the historical, religious, and cultural significance of the Kaligandaki river, the court ordered that any work related to changing the natural flow of the river, building dams, and polluting and excavating riverine materials be stopped immediately.<sup>139</sup>

Such immediate actions taken by the Supreme Court are what are most needed when implementing

any projects or plans that may have multiplier effects. For this, the government needs to ensure that Environmental Impact Assessment (EIA) reports are strictly following for all national level and private sector projects.

## HYDROPOWER

**Upper Tamakoshi comes into operation:** The highly anticipated Upper Tamakoshi Hydropower Project finally came into operation, producing electricity from the first unit of the 456 MW project on July 5, 2021.<sup>140</sup> Similarly, the second unit started generating electricity from the second week of July 2021. The project currently generates 304MWs from four of its six 76 MW units.<sup>141</sup> However, all six units have been connected to the national transmission line, and the project is expected to go into full-fledged production by mid-September 2021.<sup>142</sup> Electricity generated from the project has been connected to the national grid through a 47.2 km 220 KV transmission line (from Gogara, Dolakha-based powerhouse to Khimti). With 456 MWs of the Upper Tamakoshi project connected to the national grid, Nepal is now in an energy surplus. As per NEA, the addition of the Upper Tamakoshi increased Nepal's installed capacity to over 1,800 MWs, while the country's peak demand stands at 1,550 MWs.<sup>143</sup>

**Tripartite agreement of Tamakoshi-V Hydropower Project signed:** A tripartite Memorandum of Understanding (MoU) was signed for loan investment in the 99.8 MW Tamakoshi-V Hydropower Project between NEA, Tamakoshi Hydropower Company, and the Employees Provident Fund (EPF) on July 25, 2021. The project is expected to require an investment of NPR

16.19 billion (USD 135.94 million), out of which 70% is being invested by EPF as a loan. The remaining amount of the project will be raised by issuing shares to the general public. The detailed design and EIA for the project has been approved and it had already received permission to generate electricity in 2017.

Further environmental studies of the project were carried out with the grant of the Asian Infrastructure Investment Bank (AIIB) established under the leadership of China. Pre-construction works of the project are underway.<sup>144</sup>

**Investment Board Nepal, Sultej Jal Vidhyut Nigam sign memorandum of understanding for Lower Arun Hydroelectric Project:** Investment Board Nepal (IBN) and Sultej Jal Vidhyut Nigam (SJVN) Limited, India, signed an MoU for the construction of the Lower Arun Hydroelectric Project. The IBN CEO Sushil Bhatta and SJVN Limited India Chairman and Managing Director Nanda Lal Sharma signed the MoU on July 11, 2021, in Kathmandu. As per the MoU, the Detailed Project Report (DPR) of the 679 MW project will be completed by 2023. The Oli government had decided to award the Lower Arun Project to SJVN in the last week of January 2021. The SJVN is currently constructing a 900 MW Arun-3 project in Sankhuwasabha. The NPR 154.8 billion (USD 1.3 billion) project was showcased during the Nepal Investment Summit 2019. The 46th board meeting of IBN on January 16, 2021, decided to award the project to SJVN following the international bidding.<sup>145</sup>

**Hydropower Projects damaged by floods and landslides:** Floods and landslides triggered by continuous rainfall across Nepal have damaged

16 under-construction hydropower projects and 10 completed projects generating electricity since the beginning of the monsoon season in June 2021. According to the Independent Power Producers' Association (IPPA), this has resulted in physical damages of at least NPR 10 billion (USD 83.96 million), with the under-construction 44 MW Super Madi Hydropower Project in Madi of Kaski District incurring the most financial loss. Most of the projects in the Dordi, Marsyangdi, and Madi corridors have been severely affected.<sup>146</sup>

## TRADITIONAL ENERGY

**Importing diesel from pipeline saved Nepal Oil Corporation NPR 4 billion:** Nepal Oil Corporation (NOC) saved around NPR 4 billion (USD 33.59 million) on the import of diesel from the Indian Oil Corporation (IOC) after the Motihari-Amlekhgunj Petroleum Pipeline came into operation on September 10, 2019; NPR 3.24 billion (USD 28.71 million) was saved on transportation costs, while NPR 753.4 million (USD 6.32 million) was saved on temperature and technical losses. This has not only reduced costs and leakages but also reduced pollution, obstructions in transportation, and deterioration of roads. The NOC has imported 1.38 kiloliters of diesel from the pipeline to date, which would have required over 69,000 oil tankers with the capacity of 20,000 liters each.<sup>147</sup>

**Nepal Oil Corporation hikes fuel prices:** The NOC hiked the price of fuel 15 times in the FY 2020/21. The latest hike in fuel prices came into effect from midnight on July 6, 2021. According to the corporation, an increase in the price of petroleum

products in the international market and the new price list sent by IOC were reasons for the hike. The price of petrol increased from NPR 127 (USD 1.07) to NPR 129 (USD 1.08) per liter. Similarly, the price of diesel and kerosene went up from NPR 110 (USD 0.92) to NPR 112 (USD 0.94). The price of Liquefied Petroleum Gas (LPG) cooking gas has also been hiked by NPR 25 (USD 0.21). The new retail price of aviation fuel for domestic flights reached NPR 84 (USD 0.71) per liter. Likewise, international aviation fuel prices have also risen from USD 19 (NPR 2,263) to USD 754 (NPR 89,801) per kiloliter.<sup>148</sup>

## RENEWABLE ENERGY

**Free solar panels distributed to 50 families in Kalikot:** Under the Chief Minister Karnali Ujyalo Program, the Mahawai Rural Municipality of Kalikot district distributed solar panels to 50 extremely poor families to provide them with free electricity. The Karnali state government launched the Chief Minister Karnali Ujyalo Program in 2019 to provide free electricity in the high mountains of Karnali and remote areas without electricity.<sup>149</sup> Introducing renewable energy through solar panels in remote areas of Nepal could reduce cost of electricity transmission for the NEA while increasing access to electricity. This would also help displace traditional energy sources such as firewood, which would in turn prevent deforestation and lower carbon emissions as well.

**Chandranigahapur solar power project connected to the national grid:** The 4 MW Chandranigahapur Solar Power Project in Rautahat district, constructed by Api Power Company was connected to the national grid on July 11, 2021.

The project is connected to the Chandranigahapur substation at a distance of 3 km through a 33 kV transmission line. The electricity generated by the project will be purchased by NEA at NPR 7.30 (USD 0.062) per unit. The project generates electricity through 11,112 solar panels of 400 W each spread out in an area of 20 acres. Similarly, the solar power project is estimated to generate 69.25 GW hours of electricity annually.<sup>150</sup>

## NEW DEVELOPMENTS

**Kulman Ghising re-appointed as Managing Director of Nepal Electricity Authority (NEA):** The Deuba government appointed Kulman Ghising as the managing director of NEA for the second term. Ghising is credited for freeing the country of prolonged power cuts of up to 18 hours a day and converting the loss-making state-owned entity into a profit-making body during his previous stint from 2016 to 2020. After his term expired in September 2020, the Oli-led government had appointed Hitendra Dev Shakya as managing director of NEA in February 2021. With the change in the government, Shakya has now been transferred to the Water and Energy Commission as an expert.<sup>151</sup> Ghising's reappointment, regardless of it being a populist move by the Deuba government, has brought high hopes that he would fix the irregularities in the energy sector as he did in the past. However, there are newer challenges that Ghising might face this time.

**Electricity tariff waiver for low-income households announced:** On August 11, 2021, the government decided to waive electricity tariffs for low-income households. Minister Pampha Bhusal, who also chairs NEA, announced that the Ministry

of Energy, Water Resources, and Irrigation would provide free electricity to the people who use less than 20 units of electricity per month. The cost of the tariff waiver, which has been estimated to be NPR 700–750 million (USD 5.88– 6.29 million) would be borne by the NEA itself as its Corporate Social Responsibility (CSR). Once the waiver comes into effect, around 42% of NEA's customers would be getting free electricity. By encouraging the use of electric appliances like electric stoves, the government would also be able to cut down billions on subsidy expenses while increasing the consumption of electricity. According to the Department of Customs, the country imported LPG worth NPR 36.15 billion (USD 303.53 million) in FY

2020/21. The government has been giving subsidies of NPR 442 (USD 3.71) per cylinder of cooking gas, costing the government over NPR 10 billion (USD 83.96 million) in the last fiscal year alone.<sup>152</sup> Nevertheless, the government first needs to ensure a consistent power supply.

**Energy Ministry to use Electric Vehicles (EVs) only:** Speaking at a press conference, the Minister of Energy and Irrigation, Bhusal, announced that the Ministry of Energy and its subordinate offices would only use Electric Vehicles (EVs), except for heavy duty vehicles at project sites where road conditions are rough. The government had earlier set a target of displacing petrol/diesel vehicles by 2030. Accordingly, the FY 2021/22

budget completely repealed excise duties on e-vehicle imports while cutting customs duties down to 10%. The government has also started work to install 50 electric vehicle charging stations across the country within the current fiscal year.<sup>153</sup> The government has also made plans to provide various incentives to encourage the world's top electric vehicle manufacturers to set up plants in Nepal. However, stakeholders think that this plan is too farfetched. To encourage the use of EVs, the government would need to set up enough charging stations across the country to begin with, ensuring an uninterrupted supply of power at affordable costs, while continuing to provide tax incentives to EV users.

## “ OUTLOOK

Nepal has successfully been able to increase the total installed capacity and is now in an energy surplus. However, power projects have been coming into operation at a faster pace than transmission lines, preventing the energy produced from reaching the market. The surplus of energy generally exists in the wet season; so, unless the country can increase consumption or export it to neighboring countries, the energy produced would most likely go to waste. The good news is that India officially allowed Nepal to participate in Cross Border Electricity Trade on the Indian Energy Exchange, allowing Nepal to expand its power market.

The new government announced several programs to improve the country's energy consumption. With the country's fossil fuel imports bloating, utilizing the existing and potential electricity capacity would definitely help lower the country's dependency on petroleum and LPG. Reducing LPG imports by encouraging the use of electric cooking stoves would not only reduce the country's trade deficit and save the government billions on subsidies but also help increase consumption of electricity, for which the government first needs to ensure a consistent power supply.

With the threat of climate change more eminent than ever, the government would need to start taking serious actions to mitigate the risks of natural disasters caused by climate change as well. The recent devastation like floods and landslides caused by heavy rainfall across the country should be taken as a wake-up call for the government. The toll of such natural disasters in terms of human lives as well as financial losses and destruction of infrastructure would only increase in the future; hence, the government must take necessary steps to mitigate such risks. The recent decision of the Deuba government to ban the extraction and export of natural resources from Chure region was a good step although a populist one. Nevertheless, the effective implementation and monitoring of the ban would be a challenge. Furthermore, the government needs to ensure that EIA reports are strictly following for all national level and private sector projects.

# HEALTH

The vaccination campaign by the Government of Nepal (GoN) has been picking up its pace through procurement of various vaccines, and donations from the COVAX scheme. The country is facing a shortage of medical staff, medical equipment, and resources that are needed to be prepared for an inevitable third wave of COVID-19 pandemic. COVID-19 and the subsequent lockdowns have affected the treatment of chronic diseases as well as maternal and infant healthcare in the country.

## PROCUREMENT OF HEALTH SUPPLIES AND VACCINATION AND IMMUNIZATION

**Vaccine and medical supply procurement:** Government of Nepal (GoN) has initiated a procurement of 6 million doses of Pfizer-BioNTech to be administered to children above 12.<sup>154</sup> An agreement to procure an additional 4 million doses of Moderna vaccine, suitable for children aged 12 to 17 years, through the COVAX cost-share option has been reached.<sup>155</sup> A deal to purchase 6 million doses of Vero Cell Vaccine from China is also underway;<sup>156</sup> 1.6 million doses of AstraZeneca vaccine are set to arrive from Japan through the COVAX facility, the UN-backed international vaccine sharing scheme.<sup>157</sup> Government of Bhutan has supplied Nepal with 230,000 doses of the AstraZeneca vaccine.<sup>158</sup>

The World Bank has signed an agreement with GoN to provide NPR 17.8 billion (USD 150 million) concessional loan to support Nepal in its recovery from the COVID-19 pandemic.<sup>159</sup> Similarly, the Asian Development Bank has approved a loan of NPR 19.6 billion (USD 165 million) to Nepal for vaccine

procurement.<sup>160</sup>

Project HOPE, which focuses on global health and humanitarian relief, along with partner organizations has provided gowns, face shields, masks, personal protective equipment (PPE) coveralls, and gloves worth NPR 78.6 million (USD 660,000) to Pratima-Neema Memorial Foundation in Rupandehi district to prepare them for the third wave of Covid-19.<sup>161</sup> Government of Israel and the Nepali community in Israel have provided ventilators, oxygen concentrators, masks, and PPEs to the Ministry of Health and Population of Nepal.<sup>162</sup> As per Nepal Rastra Bank, Nepal imported medical equipment worth NPR 15.24 billion (USD 127.9 million) during the first 11 months of the Fiscal Year (FY) 2020/21, which represents an 88% increase compared to the same period in FY 2019/20<sup>163</sup>.

## NEW DEVELOPMENTS

**Telenursing: COVID-inspired remote healthcare:** The COVID-19 Special Nurse Group is a group of nurses gathered from every province in Nepal providing telenursing through 24-hour telephonic counseling to COVID-19 patients. The team of

seven local coordinators and seven counselors has reached more than 700 patients and benefitted 900 cases of COVID-19. They are providing orientation to different organizations at the local level, such as Kadam Nepal and YOSHAN, regarding proper care during home isolation and preventing infection. The group has trained 1,200 health workers through 15 online vaccination training sessions. They have also expanded to advocate and facilitate stress management sessions to more than 147 frontline health workers.<sup>164</sup>

## Anti-cancer drug manufacturing in Nepal:

Tizig Pharma Private Limited has commenced the production of an anti-cancer drug in Nepal, which is expected to be available in the market within August 2021. It has received approval for 15 molecules to manufacture anti-cancer drugs from the Department of Drug Administration. These drugs are expected to be cheaper than imported ones.<sup>165</sup> The average annual direct cost of cancer care for an individual in Nepal is NPR 387,000 (USD 3249), which is far above the average annual income of NPR 78,946 (USD 662.8). For many cancer patients in Nepal, medical expenses are huge stressors

that impair the financial abilities of the whole household. Patients, therefore, avoid follow-ups, treatments, and medicines.<sup>166</sup> Currently, GoN is providing financial assistance under Bipanna Nagarik Kosh of up to NPR 100,000 (USD 840) per person for cancer treatment.<sup>167</sup> The cost of treatment, including medicine, accounts for 58% of the total direct cost of cancer care.<sup>168</sup>

## HEALTHCARE PERSONNEL AND PROVIDERS UPDATE

**Shortage of health workers:** The inadequacy of health workers is one of the biggest challenges to combat the COVID-19 pandemic as the country braces for the third wave. Nepal had 90,946 health personnel as of mid-July 2020, which decreased to 90,369 as of mid-March 2021<sup>169</sup>. An additional 20,000 medical personnel are required to make Nepal's healthcare system more resilient for the third wave. There is a considerable lack of specialist doctors and pediatricians, given that children are more vulnerable to the third wave because they are not vaccinated yet. Despite receiving health equipment from various countries and agencies, Nepal lacks human resources with technical expertise to operate the equipment.<sup>170</sup>

## INCIDENCE OF DISEASE

**Impact of COVID on the incidence of other diseases:** Patients suffering from diabetes, cardiovascular diseases, kidney ailments, and other chronic diseases were unable to receive regular treatment due to the lockdown imposed by GoN to contain the spread of COVID-19. Necessary organ transplants have been halted, and since many procedures have to be repeated when rescheduling the transplant, it has increased the

financial burden of the patients and in some cases, it might have cost their lives. Due to the fear of contracting COVID-19, the foot traffic at hospitals has decreased with people only visiting when their condition escalates. For cancer patients, the lockdown has resulted in late follow-ups, delaying the detection of cancer, and complicating their treatment. According to a study conducted by Shahid Gangalal National Heart Centre, the death toll from heart disease was 11% in the first wave of COVID-19, which increased to 24.5% in the second wave.<sup>171</sup>

Hypertension made up for a majority of the hospital patients after the relaxation of lockdown. This is likely due to added mental stress and lack of exercise during the lockdown.<sup>172</sup> Nearly one-third of the adult population in Nepal has some form of hypertension. By 2025, 44.7% of Nepali men and 28.6% Nepali women are projected to have hypertension.<sup>173</sup> Undetected and uncontrolled hypertension can lead to heart attack, stroke, heart failure, kidney failure, and peripheral artery disease.<sup>174</sup>

Maternal and neonatal mortality has increased considerably during the lockdown imposed to control the spread of COVID-19. Pregnant women stopped visiting hospitals and healthcare centers for regular check-ups and deliveries due to the fear of coronavirus as well as lack of transportation during the lockdown. According to the Department of Health, 258 women died from pregnancy or during childbirth between March 2020 and June 2021. In the year before the lockdown, Nepal had recorded only 51 maternal deaths.<sup>175</sup> Similarly, neonatal deaths have increased from 13 deaths per 1,000 live births before lockdown to

40 deaths per 1,000 live births during the first lockdown.<sup>176</sup> The pandemic and the subsequent lockdown have hindered the provision of already frail maternal health services in Nepal.

## PHARMACEUTICAL INDUSTRY UPDATES AND IMPORT AND EXPORT OF HEALTH COMMODITIES

**Demand for medicine is expected to increase by 7% per annum:** As per the report on pharmaceutical and medicine manufacturing industries published by the Department of Industry, the annual demand for pharmaceutical products stands at 53.66 tonnes.<sup>177</sup> The findings suggest that this demand is expected to grow to 71.65 tons in the next five years, indicating a 7% annual growth. Currently, 39 pharmaceutical industries of mostly small and medium scales operate in Nepal with each holding an average market share of NPR 64 million (USD 0.53 million).<sup>178</sup> Currently, Nepal imports pharmaceutical products worth NPR 28.65 billion (USD 240 million), representing 54% of the total market for pharmaceuticals products. Imported medicine from India commands 52% of the Nepali market, while domestically produced medicine holds a 46% share; imported medicine from other countries makes up the remaining 2% of the market. The highest imported products are vaccines, biotechnological products, and modern technology used for cancer patients and other critical care. With proper government policies and a favorable business environment, Nepal could produce 75% of its total market for pharmaceutical products<sup>179</sup> and save an estimated NPR 8.3 billion (USD 69.76 million) in imports.<sup>180</sup>

## HEALTH EDUCATION UPDATE

**MBBS in Karnali province:** Karnali

Academy of Health Sciences (KAHS) is set to start its first session of MBBS (Bachelor of Medicine, Bachelor of Surgery) classes. It will provide medical services and education to 13 different districts in the region.

Previously, people of Karnali had to travel to cities such as Birendranagar, Nepalgunj, and Kathmandu for proper medical services. With its 300-bed hospital, KAHS is expected to improve the reach of medical services

in the region. It will also set up health posts and send healthcare workers to remote places of the region such as Humla and Bajura.<sup>181</sup>

## “ OUTLOOK

As the country braces for the third wave of the COVID-19 pandemic, vaccine efforts must be rushed to decrease the incidence of severe complications of coronavirus during an inevitable third wave. If the agreements and purchase deals of the vaccines were to roll out in the next quarter, a total of 17 million doses can be administered, including the vaccination of children from ages 12-17 that represent around 20% of the population of Nepal in 2021. This will continue to increase the resilience of the country to the pandemic.

With the increasing number of vaccinated people, emphasis should still be laid on adherence to safety measures to prevent the spread and disallow mutations. Similarly, efforts can be made to increase the flexibility of the health system's capacity and financing to cater to exceptional emergencies. A public-private partnership can also be institutionalized. To address the shortage of health workers, their recruitment along with adoption of telemedicine must be planned with a long-term vision. The recent development of telenursing can be expected to improve palliative care and management of patients with chronic diseases, enhance patient care in remote areas, supplement the scarcity of health care providers, and reduce the cost of healthcare. Similarly, with the production of anti-cancer drugs in Nepal, the direct cost of cancer care will also be reduced. The production of anti-cancer drugs in Nepal is positive news, especially to low-income families with cancer patients. This might uplift the financial situation in the household of cancer patients.

# INFRASTRUCTURE AND REAL ESTATE

The review period witnessed several infrastructure projects nearing completion. The floods and landslides triggered by the heavy monsoon rain has caused damages to roads and bridges all over Nepal. Regulations have been introduced to improve and promote better use of infrastructure and real estate in the country.

**Upper House passed crucial aviation bills:** The Upper House of the parliament unanimously passed two bills allowing Civil Aviation Authority of Nepal (CAAN) to be split into two parts: a regulatory body and a service provider. The bills registered on 23 February 2020 were approved by the Upper House on 2 August 2021 and will be enacted 31 days after being signed by the president of Nepal. This bill hopes to get Nepali carriers removed from the EU Air Safety List, which banned Nepali airlines from flying to EU after the September 2012 crash of Sita Air flight 601, which killed 19 people.<sup>182</sup>

**Feeder roads under Postal Highway nearing completion:** The construction of nine out of ten feeder roads of the Postal Highway has been completed in Morang, Saptari, Dhanusha, Mahottari, Dang, and Bara. The remaining road of 60 km is under construction, with 25 km being completed and 35 km expected to be completed in three months. The Postal Highway is expected to be completed in the Fiscal Year (FY) 2022/23.<sup>183</sup>

**Chobhar Dry port to be operated by the Government:** The newly built Chobhar dry port will be operated by the government initially. After a certain period, the operation of the port will be transferred to the private sector through a competitive bidding

process. The documentation and custom clearance works will be done at the Chobhar dry port instead of at transshipment points.<sup>184</sup>

**Janakpur – Jayanagar Railway Service ready for operation:** Nepal Railway Company Limited has completed all the preparations, including infrastructure and human resources, for the operation of Janakpur–Jayanagar railway service. An understanding between Government of Nepal and Government of India needs to take place before the railway comes into operation.<sup>185</sup>

**Supply from Melamchi water project uncertain due to floods:** The floods in Melamchi river since June 2021 have caused severe damage to the head works of Melamchi Water Project. The accumulated debris from floods and landslide has covered the infrastructure with at least a 10 m thick silt. The Melamchi Water Project had cost a total of NPR 51 billion (USD 428 million) to complete. The damage is estimated to be NPR 2 billion (USD 16.8 million) and a preliminary budget for repairing the infrastructure of NPR 1.88 billion (USD 15.78 million) has been prepared. The government has planned to repair the headwork and other structures by mid-October 2021, and the supply of water to

Kathmandu Valley is expected to be resumed by mid-February 2022.<sup>186</sup>

**Land plotting increasing despite Supreme Court's order:** According to the Department of Land Management and Archive, in the FY 2020/21, 1.2 million lands were plotted, a staggering increase from FY 2016/17 when only 0.52 million lands were plotted. The government had banned the plotting of arable land for building houses back in August 2017. Any land that was not deemed arable by the local authority, despite the type of land recorded in Ministry of Land Management, Cooperatives and Poverty Alleviation's field book, was open for plotting. Local representatives, land revenue officers, and survey department officers have colluded to pass arable land as suitable for housing in order to enable land plotting.<sup>187</sup>

**Changes to land ceiling exemption:** The Land Ceiling Exemption Order 2021 has reduced the land holding ceiling for real estate companies. Real estate companies can hold 5.08 hectares in Hilly area, 2.5 hectares in Kathmandu Valley, and 13 hectares in Terai region. The ceiling was previously 15.2 hectares in Hilly area, 5.08 hectares in Kathmandu Valley, and 33 hectares in the Terai region.<sup>188</sup> The order related to Exemption on Land Ceiling 2021 has provisions

for exemptions for any company that requires land exceeding the holding ceiling. Such companies cannot, however, use the land beyond the ceiling as collateral to receive bank loans.<sup>189</sup>

## “ OUTLOOK

The CAAN bill seek to eliminate conflicts and contradictions that currently exist due to CAAN acting both as a service provider and regulator with no separation of duties. The lack of separation of duties may result in inadequate oversight on service resulting in poor performance of the service provider. Under the bill, the regulator (CAAN) will be responsible for developing an effective system for technical guidance and resources to effectively perform the oversight functions. The Air Service Authority of Nepal (ASAN) will remain a government entity but will allow private sector involvement in construction, development, operation, and management of airports.<sup>190</sup> The bill also fulfils Nepal's commitments to global aviation watchdogs of ending dual functioning from the same office.<sup>191</sup> The audit conducted by International Civil Aviation Organisation (ICAO) of CAAN in 2017 identified air navigation and accident/incident investigation as a problem area.<sup>192</sup> The separation of regulator, will to some extent, improve the accident/incident investigations as it removes the bias that might arise from self-review. The upcoming international airports in Pokhara and Bhairahawa will benefit from this bill as the services will now be on par with international standards. Travel and tourism accounted for 7.9% of Gross Domestic Product (GDP) of Nepal in 2019,<sup>193</sup> with more than 80% of international tourists arriving by air. Therefore, this bill is a step forward in building a robust aviation sector, which will be crucial to the economy of Nepal.

The construction of Postal Highway was started with an objective of expanding the road network in the Terai region to increase the market reach of agricultural products, generate employment, and reduce poverty in the region. The completion of this highway is expected to benefit 8.8 million people.<sup>194</sup> Only 65% of the Postal Highway has been completed till date despite the project starting a decade ago. The construction of 80 bridges on the highway has not been contracted yet. The floods and landslides caused by the monsoon rain have caused damage to the foundations laid out for several bridges. The part of the highway that goes through the Chitwan National Park has still not been approved by the Ministry of Forests and Environment.<sup>195</sup> The major hindrances to timely and high-quality road construction in Nepal are insufficient allocation of budget, corruption, scarcity of construction material, noncooperation from landowners and Ministry of Forest and Environment, and lack of reliable contractors. In the last 20 years, 332 construction companies have been blacklisted by the government of Nepal citing various reasons such as violating public procurement law, failing to complete projects on time, and breach of contract terms.<sup>196</sup> A bill to amend the Public Procurement Act was amended in 2020 to blacklist not just the companies but their owners as well, and to hold government officials accountable for their actions or inactions that led to the delay of development projects. The implementation of this bill will discourage blacklisted company owners from registering a new company to participate in the public bidding process and reduce the chances of government contracts being awarded to inefficient contractors.<sup>197</sup> With proper implementation of this bill, one of the hurdles causing the delay of road constructions can be minimized.

Several dry ports construction projects, including Chobhar dry port, have been planned in key areas of Nepal. Construction of dry ports will improve goods distribution and promote economic activity in the region. As 60-70% of the imported goods are consumed in Kathmandu valley, the Chobhar dry port is expected to quicken inventory turnover and reduce the logistic costs of traders.<sup>198</sup> The performance of Chobhar dry port will depend upon the quality of road from the transshipment point to the dry port. It will also depend upon the quality of inland access, which is influenced by terminal operators, transport operators, and port authorities.<sup>199</sup>

# INFORMATION AND COMMUNICATION TECHNOLOGY

The importance of telecommunications infrastructure for the economy has heightened from the start of the COVID-19 pandemic. With the increase in internet and mobile users, Government of Nepal has taken many initiatives to ensure the affordable and reliable reach of internet through telecommunications infrastructure. The private sector of Information and Communication Technology (ICT) has leaped into action to take advantage of this very lucrative market.

## **Shared use of Telecommunications infrastructure:**

Nepal Telecommunication Authority (NTA) has approved regulations related to the shared use of telecommunication infrastructure such as towers and fiber networks. Two or more telecommunication service providers can agree among themselves to use the telecommunication infrastructure mutually but will need to inform NTA within 15 days of the agreement. Every service provider is required to publish detailed information about the telecommunication infrastructure, which can be shared on their official website, and update it monthly. A maximum charge for infrastructure sharing will be determined by the authority and the service provider is required to share the details of the charges whenever asked.

With the approval of the regulations, telecommunication and internet service providers will no longer have to invest heavily in infrastructure, easing their financial burden and bringing down costs. This policy is expected to enhance coverage and network quality by increasing internet penetration of stable connections. This is expected to create a fair and healthy competition in the market.<sup>200</sup>

## **Directives for testing of new technology:**

Several directives have been issued by NTA for the testing of new technology including 5G. This covers network construction, trial period, frequency charges, and service charges. The directive states that a service provider should submit an action plan to the authority regarding the modalities of possible testing of the new technology, its information, locations to be tested, services to be provided, and its process. Similarly, details of frequency required for testing (band, bandwidth, reason to use band, and basis for bandwidth consumption), network connection, and operating schedule should also be disclosed by the service provider in the action plan. Both rural and urban areas need to be included while testing such technology.<sup>201</sup> The import of equipment required to test new technology will be facilitated by NTA. The trial period for 5G testing is one year, where NTA will waive the frequency fee as well as prohibit the service provider from charging fees to the customer in areas where 5G is available.<sup>202</sup>

**Chaudhary Group launches Fiber Net in Nepal:** CG Net, a part of Chaudhary Group, has launched

its fiber internet services. Initially available only in few places of Lalitpur, it is quickly expanding its services and is now available in more than 20 places within Kathmandu Valley. It has plans of widening its coverage to major cities of Nepal within this year. CG Net introduced the highest bandwidth speed at the lowest available cost, which is 120Mbps at NPR 999 (USD 8.38) per month.<sup>203</sup>

## **Optical Fibre Backbone Network Expansion Project:**

The Optical Fibre Backbone Network Expansion Project, which was launched in 2016, has completed 46.16% of the work till July 15, 2021, laying optical fiber cables along 1600 km length. This project was divided and assigned to Nepal Telecom, Smart Telecom, and United Telecom (UTL). Nepal Telecom has made the most progress so far by installing optical fiber cable in 1006 km out of 2,083 km it had been assigned. The contract with UTL was annulled due to their failure to commence the project within the given period. Smart Telecom has so far laid out only 20 km of the 2500 km it had been assigned.<sup>204</sup>

This project is expected to encourage the expansion of broadband internet

services across the country. With the completion of this project, telecom operators can use these cables instead of investing in their own cables. This will make internet cheaper and thus more accessible all over the country.<sup>205</sup>

**Nepal ranks 94th in Global Cybersecurity ranking:** Nepal scored 44.99 points out of 100, ranking 94th in the Global Cybersecurity Index 2020 out of 182 countries, an improvement from the 106th position in 2018. Nepal secured 15.61 points in legal measure, 5.94 in technical measures, 9.58 in organizational measures, 9.6 in capacity development, and 4.26 in cooperative measures. An increase in digital transactions in Nepal has created a need for investment in cybersecurity infrastructure. Nepal Telecom Authority's Cyber Security Bylaw 2020 is being implemented. Ministry of Communication and Information Technology has drafted a National Cyber Security Policy 2021 to control and prevent cybersecurity attacks.<sup>206</sup>

**Digital payments decrease as the country re-opens:** As the country eased lockdown restrictions, various means of electronic payment showed

a decline in transaction volume. The Interbank Payment System (IPS) recorded 855,522 transactions worth NPR 144 billion (USD 1.21 billion) from mid-May 2021 to mid-June 2021. Digital payments dropped 12% to NPR 276.43 billion (USD 2.32 billion) in the period compared to the previous month. Transactions worth NPR 8.35 billion (USD 70.1 million) occurred through digital wallets in the same period, a decrease of 17% from the previous month. Similarly, Quick Response (QR) based payments were worth NPR 1.96 billion (USD 16.45 million) in the period, a 22% decline from previous month. E-commerce transactions through cards dropped by a staggering 79% from previous month to NPR 161 million (USD 1.35 million). This can be attributed to easy access to cash after lockdown was eased, showing a strong preference for cash transactions by Nepali people.<sup>207</sup>

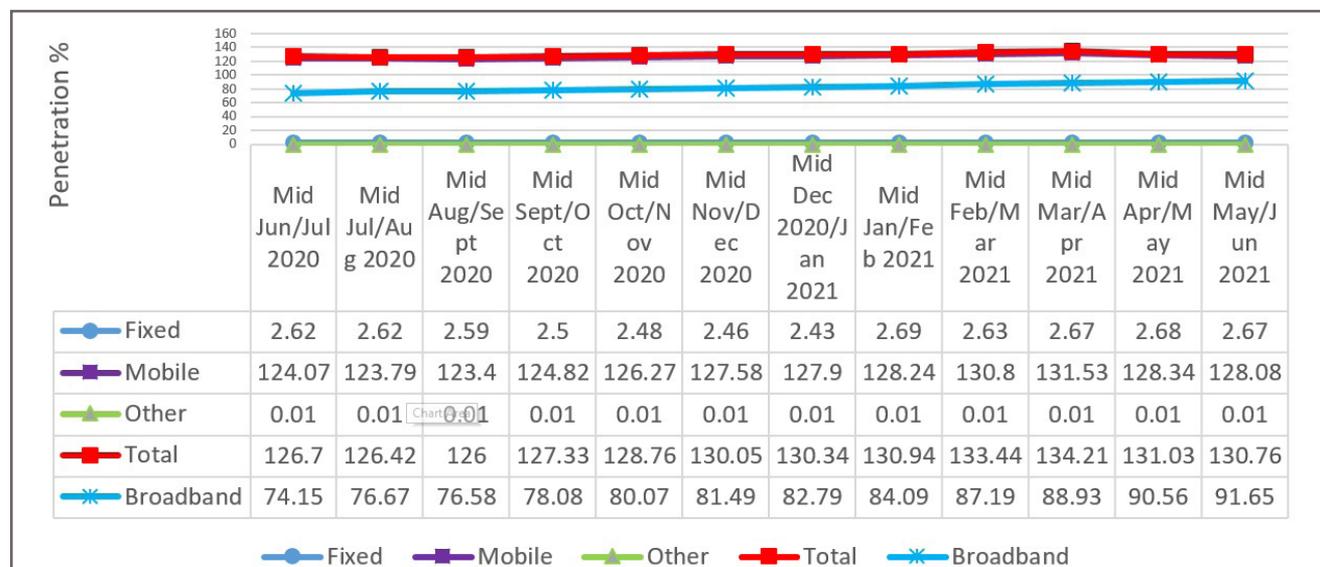
**FY 2021/22 declared as "Electronic Transaction Promotion Year":** Nepal Rastra Bank (NRB), Nepal's central bank, declared Fiscal Year (FY) 2021/22 as "Electronic Transaction Promotion Year". The bank is focused on developing necessary infrastructure to interlink digital payment tools and

establish a national payment gateway to introduce payment cards. A review of transaction limit set for digital payment tools will be conducted along with reducing the tariffs imposed on digital transactions. It will also facilitate government agencies to receive money via electronic payments, with plans to enable social security payments through electronic transaction systems.<sup>208</sup>

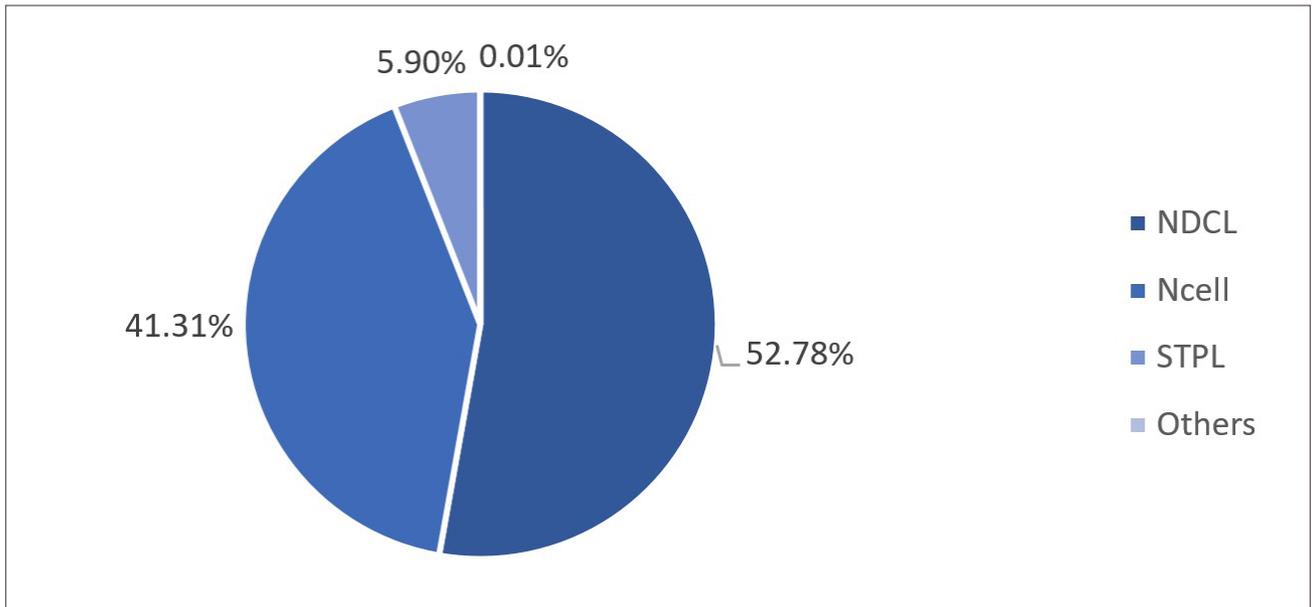
#### Increasing access to telecommunication and data:

The tele-density of the country was recorded by NTA to be 130.7% with 806,047 fixed line subscribers (2.7%) and 38.7 million mobile subscribers (128%). The number of internet data subscribers stood at 27.7 million. The internet penetration rate as of mid-June was 91.65%. As shown in Figure 1, the internet penetration has been largely driven by mobile broadband services, which account for 65.68% of the total internet penetration, and fixed broadband (wired and wireless), which contributes to 25.98%.

**Figure 11. Growth Trend of Voice telephone and data service penetration**

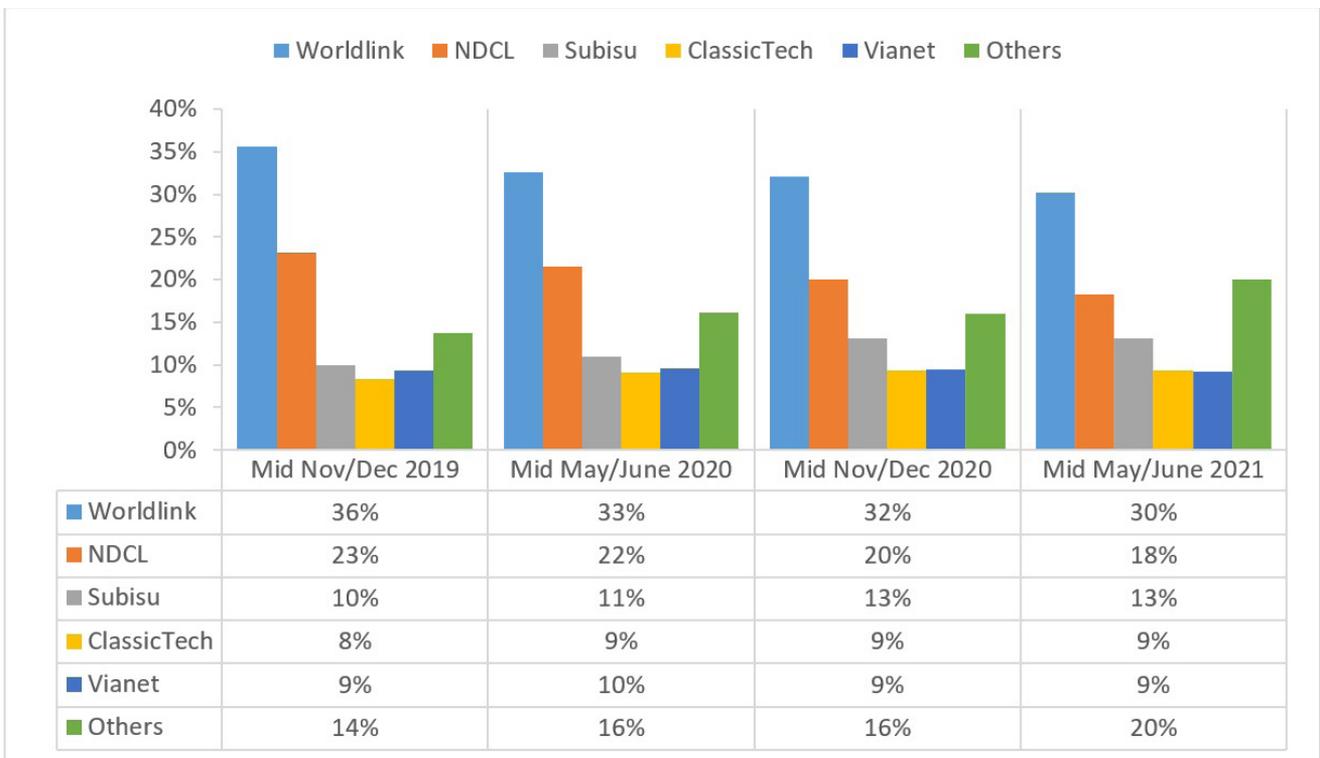


**Figure 12. Telecom Operators Market Share**



Note: NDCL stands for Nepal Doorsanchar Company Limited, and STPL stands for Smart Telecom Private limited.

**Figure 13. Market share of Internet Service Providers in Nepal over two years**



Note: NDCL stands for Nepal Doorsanchar Company Limited.

## “ OUTLOOK

Telecommunication infrastructure sharing directives have been demanded for a long time by the country's Internet Service Providers (ISPs). Sharing of telecommunications infrastructure will reduce the number of towers and their energy requirement. The service providers who own the infrastructure will benefit from an additional source of revenue, thus increasing their return on the telecommunications asset. The savings made by organizations on investment in infrastructure can be utilized to increase resources for the faster rollout of new technologies. The load bearing capacity of the already existing infrastructure might not be capable of handling extra load, which might make them unsuitable for sharing. The benefit received by the end consumer depends on whether the service provider choose to pass their cost saving on to consumers in the form of reduced prices. The likelihood of this happening is small as such savings are retained by the service providers, except in cases of high competition. One of the main disadvantages of infrastructure sharing is that the owner of the infrastructure will not have full control over its network strategies anymore, discouraging construction of infrastructure in new areas.<sup>209</sup>

The directives issued by NTA for the testing of new technology will fast track the adoption of 5G in Nepal. The expected speed of 5G is 100 times more than 4G, with latency 10 times lower than in 4G. 5G has 1,000 times more capacity than 4G, which will greatly help in the development of Internet of Things.<sup>210</sup> Due to these features, new automation, and Artificial Intelligence (AI) technologies will flourish. 5G has enormous potential in the automation of manufacturing industries, such as process automation, component tracking, etc. However, 5G's impact in Nepali manufacturing industry may be limited due to unorganized and informal workforce, and manufacturing representing only 11.8% of GDP.<sup>211</sup> Since 5G uses shorter wavelengths than 3G or 4G, it will need an increased number of towers to be able to reach everywhere. 5G connection could be easily obstructed in a country like Nepal where even 3G and 4G connections are not available conveniently at all locations; the proportion of population who will benefit from 5G seems to be limited. Existing network towers may not be compatible with 5G, which will further increase the set-up cost. A cost-benefit analysis needs to be carried out to see whether the high costs of setting up 5G networks will be offset by the benefits received in the form of increased business activities and improved communication.

With CG Net's debut, the landscape of ISPs could change due to increased competition; to maintain their customer base, ISPs have already made some changes to their offered packages. DishHome introduced the cheapest 25Mbps fiber net at NPR 233 (USD 1.95) per month for its premium customers. Similarly, Subisu launched a 150Mbps fiber internet package at NPR 2360 (USD 19.81) per month, becoming the highest speed offered by ISPs in Nepal.<sup>212</sup>

The FY 2021/22, which is being promoted as a “Electronic Transaction Promotion Year”, is expected to provide further momentum to the increasing trend of digital transactions in Nepal. Electronic transactions worth NPR 163.87 billion (USD 1.37 billion) were made through mediums such as ConnectIPS, mobile and internet banking, and QR codes in the month ending in mid-February 2021, representing a 7% increase from the previous month. ConnectIPS represented nearly 64% of these transactions.<sup>213</sup> Despite the transaction volume across digital payment platforms falling as the country re-opened from the pandemic, with proper initiatives from the government and the private sector, this trend can still be maintained. With the internet penetration reaching 91.65%, people all over the country have increasing access to the benefits of digital payments such as increased efficiency and ease of transaction. Awareness campaigns to promote digital payment platforms and financial literacy can be conducted, especially outside Kathmandu Valley where use of digital payment is low. The preference for cash and doubts regarding the security of digital payments in Nepal will change slowly as people start to get used to the ease of digital payments. Growth in financial technology (fintech) companies in the country and government efforts such as the “Electronic Transaction Promotion Year” will ease Nepal's transition into a cashless economy.

# MANUFACTURING AND CONSTRUCTION

The manufacturing sector represents a major portion of the industry in Nepal, making its development crucial for employment generation, promotion of value-added trade, enhancement of income, and poverty alleviation. The manufacturing sector in Nepal can be broadly classified into three sub-sectors, namely Fast-Moving Consumer Goods (FMCG), industrial goods, and consumer goods. The share of manufacturing to the total Gross Domestic Product (GDP) of Nepal was 4.98% in 2019-20. Additionally, a large portion of the manufacturing enterprises is concentrated in the production of construction materials like metal and metal products, cement, and bricks.

**Outstanding credit to the manufacturing sector:** The outstanding credit to the manufacturing sector stood at NPR 1,137.35 billion (USD 9.54 billion) in mid-June 2021 as compared to an outstanding credit of NPR 957.46 billion (USD 8.03 billion) in mid-July 2020, which is an 18.78% increase in the credit deployed.<sup>214</sup> This represents 27.77% of the total credit deployed by the Banks and Financial Institutions (BFIs) in mid-June 2021. Within the manufacturing sector, 59.45% of the credit is disbursed to agriculture, forestry, and beverage production-related, followed by construction having a 35.01% share.

**Listed companies and Market Capitalization:** In Nepal, there are 19 manufacturing and processing firms that are listed with the Securities Exchange Board of Nepal (SEBON). These include Arun Vanaspati Udhog, Bottlers Nepal, Shivam Cements, Nepal Lube Oil Limited, Himalayan Distillery, and Harisiddhi Brick and Tiles Limited. However, out of 19 companies, only 9 companies

are actively traded in the stock market; these include Bottlers Nepal, Gorkhali Rubber Enterprise, Himalayan Distillery, Nepal Lube Oil, Raghupati Jute Mills, Shivam Cements, and Shree Ram Sugar Mills.

## POLICIES AND REGULATORY UPDATES

**Inclusion in the Business Continuity Credit Plan:** As per the newly introduced monetary policy,<sup>215</sup> the manufacturing industry will be included in the business continuity credit plan, which was introduced in the previous Fiscal Year (FY) to help firms pay their employees and continue their businesses. This will allow manufacturing firms to avail credit at a subsidized interest rate of 5%.

**Financial concessions and exemptions to the vaccine manufacturing industry:** The Ministry of Industry and Commerce has announced financial concessions and exemptions<sup>216</sup> to the vaccine manufacturing industry, with a provision

of a loan at 1% interest and up to 50% discount on electricity tariff. For the establishment of the vaccine manufacturing industry, loans at base rate, interest capital facility, project-based loan, concessional loan at special refinancing rate, and loan renewal facility will be provided. Furthermore, while importing machine equipment required for the establishment of the vaccine industry, a full exemption in customs duty, value-added tax, and excise duty will be given for three years from the date of registration of the industry as per the approved scheme.

## SUMMARY OF REPORTS

**Detail Study of Self-Reliant Industrial Goods in Nepal:** This report<sup>217</sup>, which was published in June 2021, identifies and analyses the current production status of five self-reliant industrial products, their demand and supply conditions, their problems, and their solutions. These products are tea, electrical cables and conductors, footwear, paints, and GI sheets (*Jasta pata*). In the year 2019-20, the total production of tea was 24,000 metric

tons (MT), with the average growth rate of demand being 2.61%. The export of tea outweighed imports by 50 times, with half of the production being exported in 2019-20. In terms of cables and conductors, the actual demands for cables & conductors are lower than production capacity. However, minimal quantities of cables and conductors are exported compared to imports.

For footwear, the annual production capacity is 45 million pairs in the year 2019-20, with a growth in annual production by 50%. In 2019-20, the country exported the highest amount of footwear (in value) in the past five years. For paint, the annual demand in 2019-20 was 130,000 MT, with almost 90% of the demand fulfilled by domestic manufacturers. Likewise, the demand and supply of GI sheets was 300,000 MT in 2019-20, with an import growth rate of 70%. The export quantity as well as value decreased in 2019-20; however, all demand was also fulfilled by domestic manufacturers.

For all five products, it has been recommended to the government to facilitate raw materials and technology procurement so that the cost of production can be reduced, and finished goods can be available at a competitive price. Adequate training, research, and infrastructure development are required to make the manufacturing industry attractive for investors.

**Detail Study of Pharmaceutical and Medicine Manufacturing Industries in Nepal:** The mentioned study aims to analyze the current status of the pharmaceutical manufacturing industry concerning demand,

supply, energy consumption, and challenges for sustainability. In Nepal, there are 103 medicines and drugs manufacturing industries registered, with 66 operational with licenses for both manufacturing and marketing, 33 in process of getting a license for marketing, and 4 non-operational. Of such industries, 56.06% are concentrated in Bagmati Province, followed by 21.21% in Province 2, and 13.63% in Lumbini Province.

The annual capacity of tablet production from 66 industries is NPR 2.06 billion (USD 17.29 million); capsule production from 60 industries is NPR 1.87 billion (USD 15.70 million); liquid drugs from 45 industries is NPR 4.5 billion (USD 37.78 million); ointment from 40 industries is NPR 0.15 billion (USD 1.25 million); powder from 20 industries (dry syrup) is NPR 0.03 billion (USD 25.18 million); and other (eye/ear drop) from 5 industries is 37 million units.

In the year 2019-20, the total sales of the pharmaceutical manufacturing industry were NPR 51.11 billion (USD 429.13 million), with domestic sales accounting for 41% of the total sales. To further develop the medicine manufacturing industry in Nepal, it is recommended to discourage import and promote domestic sales, along with prompt licensing, registration, and testing of medicines by the Department of Drug & Administration (DDA).

**Detailed Study of Cement Manufacturing Industry:** According to the report, as of 2019-20, in Nepal, there were a total of 124 cement industries, which were categorized into two sub-groups, namely fully

integrated producing cement, and clinker and clinker based milling industries. The total consumption of cement in 2018-19 was 6.9 MT.

The cement industry in Nepal has experienced a non-linear growth in the past 20 years, with a significant increase in cement production since 2010, thereby reducing the import of cement owing to reconstruction, federalization, and promotion of foreign direct investment (FDI) in the sector. The report highlights the direct relationship between GDP and demand for cement. The multiplier factor to the cement demand in Nepal stands at 4.79, i.e., an increase of one percentage point in GDP leads to 4.79% in demand for cement in Nepal. The capacity utilization of cement manufacturers is improving with regular power supply and improvement of the road network to the mines and plants. Total capital investment in the cement industry is estimated to be around NPR 20 billion (USD 167.92 million).

**Report on Employment Relationship Survey in the brick industry in Nepal:** In 2019, the Central Bureau of Statistics (CBS) conducted a probability proportional to size sampling of 301 brick kilns, where 4,210 households were surveyed. As per the survey<sup>218</sup>, in 2019, 103,548 individuals were identified as main workers in brick kilns, with 71% male workers and 29% female. The age of workers ranged from 5–80 years, with an average age of 31. Additionally, migrant workers represented a high proportion of workers in the brick kilns industry, with 46% of the workers having migrated for labor from India.

## “ OUTLOOK

The manufacturing sector in Nepal is undergoing a structural change and moving towards more basic export-oriented industries.<sup>219</sup> To graduate to a lower middle-income country, Nepal must accelerate trade and investment by diversifying into higher value-added export products (e.g., promoting the manufacturing industries) and export destinations.<sup>220</sup>

The monetary policy for FY 2021/22 focuses on relief and recovery of economic sectors affected by the pandemic, helping affected enterprises by extending the deadline of paying loans, and offering subsidized loans and refinancing facilities. This will support manufacturing businesses to sustain their operations. The provision of the Credit to Core capital plus Deposit (CCD) ratio, which was revised to 80% from 85%, has been scrapped for this fiscal year. This limits the amount which BFIs will be allowed to issue as loans, potentially interrupting operations of manufacturing industries.

# TOURISM

Tourist arrival has taken a massive plunge with the onset of the second wave and the lockdown that ensued. While the number of tourist arrivals in 2021 has improved compared to 2020, it is still down by 80%–98% from the pre-pandemic level. The first four months of 2021 saw a gradual pick up in the inflow of international tourists; however, the nationwide lockdown that was imposed in May 2021 due to the onset of the second wave brought down the arrival number by a striking 98%.

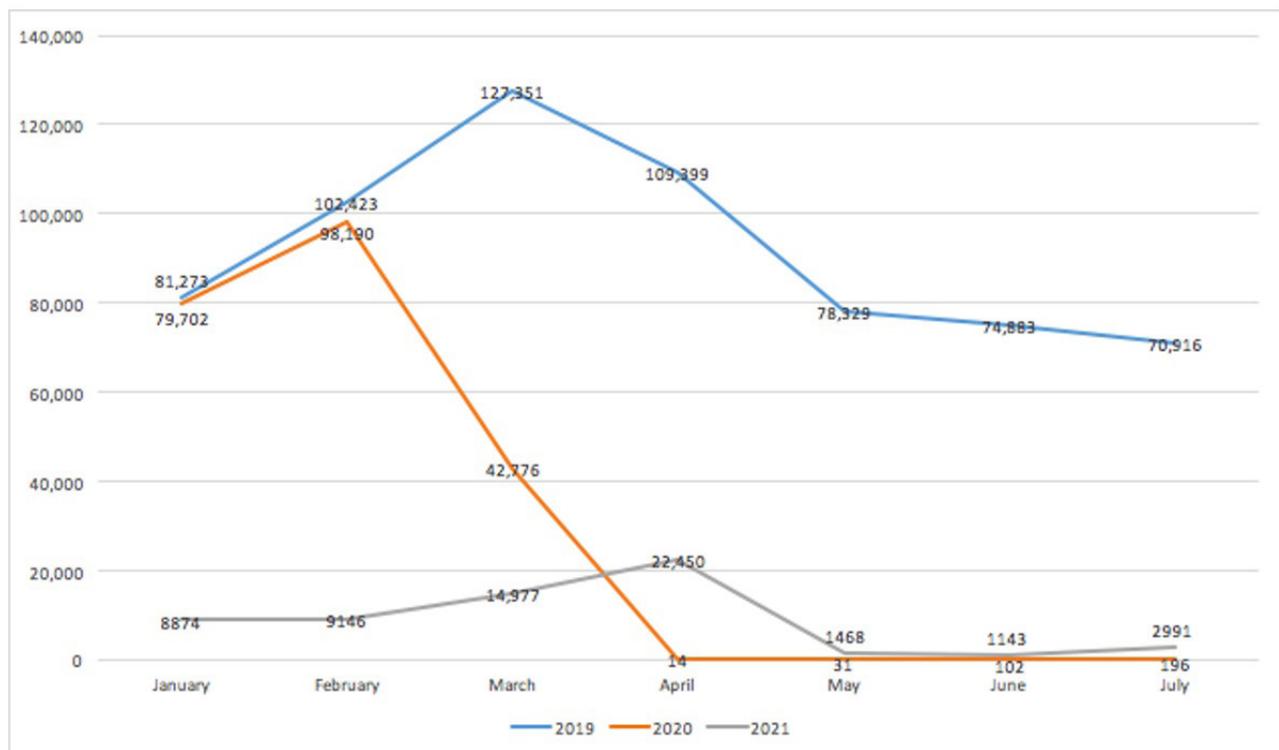
## TOURISTS ARRIVALS

**International tourist arrival continues to dwindle amid the pandemic:** COVID-19 has been a huge blow to the tourism industry with lockdown and safety measures substantially reducing the number of incoming tourists. As per the Nepal

Tourism Board (NTB),<sup>221</sup> around 61,049 international tourists arrived in Nepal over the last seven months. While the inflow of tourists seemed to gain momentum in March 2021 (14,977) and April 2021 (22,450), the number has plunged significantly from May 2021 (1,468) onwards. In June 2021, during the nationwide

lockdown, the number of arrivals went down to 1,143, while July 2021 saw a slight pick-up with the number reaching 2,991. The decline in tourist arrival is largely due to the imminent threat of a third wave of COVID-19 in Nepal.

**Figure 14. Tourist arrival from January to July in 2019, 2020 and 2021.**



Source: "61,000 int'l tourists visited Nepal in past seven months", August 8, 2021, Republica

A majority of the international tourists arriving in Nepal are from India, who accounted for 1,105 (37%) tourist arrival in July 2021. Similarly, the United States accounted for 819, the United Kingdom for 185, and Turkey for 165. Twenty-five thousand Nepali citizens also returned from foreign countries in July 2021. On the other hand, around 25,034 people left the country during the same period, among which 21,877 were Nepali citizens.<sup>222</sup>

## TOURISM INVESTMENTS

**Relief for the tourism sector:** The Sustainable Tourism for Livelihood and Recovery Project (STLRP), initiated by the joint effort of NTB and United Nations Development Programme (UNDP), aims to provide relief to individuals working in the country's tourism industry. The project is expected to mobilize a sum of USD 2.05 million (NPR 244.2 million), with NTB contributing USD 1 million (NPR 199.1 million) and UNDP USD 1.05 million (NPR 125.06 million), in a span of two and a half years. Around 5,000 workers in the tourism sector are estimated to benefit from the project through the creation of short-term employment. Furthermore, NTB is planning to generate employment for more than 2000 people by partnering with local governments across the country.<sup>223</sup>

**Foreign investment in tourism:** China was again the biggest foreign investor in Nepal for Fiscal Year (FY) 2020/21 and the largest share of its foreign direct investment (FDI)—USD 125 million (NPR 14.9 million)—went to the country's tourism sector.<sup>224</sup> According to the director general of the Department of Industry, Chinese investors have been showing a keen interest in Nepal's hotel and restaurant industries. The

total investment pledges in tourism amounted to USD 153.7 million (NPR 18.31 billion) for 101 different projects; the sector received the highest amount of investment.<sup>225</sup>

**USD 67.2 million investment in a five-star hotel:** The first member hotel of the Hilton Hotel chain is currently under construction in Naxal, Kathmandu with an investment of USD 67.2 million (NPR 8 billion). Shankar Group is overseeing the construction and the five-star hotel is expected to be completed by the end of 2022.<sup>226</sup>

## POLICIES AND REGULATIONS

**Monetary policy prioritizes tourism businesses:** On August 13, Nepal Rastra Bank (NRB) publicized the monetary policy for FY 2021/22. Similar to the previous fiscal year, the policy has largely focused on reviving COVID-19 affected sectors by helping them gain easier access to financial resources. Stimulus packages and credit programs entail loan refinancing, rescheduling, and restructuring as well as liquidity maintenance through flexible monetary policy. One of the sectors that will be benefiting from the targeted credit programs is the tourism industry, which has undertaken a massive blow from the pandemic.<sup>227</sup>

## PROGRAMS, EVENTS AND CAMPAIGNS

**The way forward for the NTB:** During a virtual session organized by the NTB on June 28, 2021, regarding the board's budget for FY 2021/22, the former governor and former tourism secretary urged the federal government to extend financial assistance in the form of grants to the NTB to help revive the tourism sector, which has been hit hard by the

pandemic. Other experts also advised the board to align its annual budget with that of the federal, provincial, and local levels and to carry out programs and activities by making the best use of limited resources. According to an expert, by revisiting the past programs, the current budget and tourism promotion programs could be formulated in a coordinated manner with the three levels of the government. Budget catered to promote domestic tourism was also suggested as a rational move given that the prospect of immediate increase in international tourist arrival is still bleak.<sup>228</sup>

Likewise, tourism experts and entrepreneurs stressed the use of digital marketing for the recovery of the sector. They pointed out the need for Nepal to keep people in foreign lands constantly updated about the country's tourism activities. They also emphasized the indispensability of vaccination in bringing health security and revitalizing tourism activities.<sup>229</sup>

## HOSPITALITY INDUSTRY UPDATES

**Hospitality sector in Province 2 experiences COVID impact:** Amid the ongoing pandemic, over 25,000 people working within the hospitality industry have lost their employment in Province 2. Almost 5,000 hotels across the eight districts of the province have been compelled to cease their operation in compliance with the lockdown protocols. As a result, the industry has been incapable of paying wages and retaining their staffs. Even basic expenses such as rents, electricity bills, and water bills have been difficult to cover given the closure of businesses. One of the business owners cited that using the hotel premises as quarantine centers could not only help hotels sustain but also curtail the cost incurred by the

state in establishing new facilities from scratch.<sup>230</sup> In Nepal, the hospitality industry as a whole had been thriving prior to the COVID-19 crisis, and it was employing around 0.24 million people. But with the COVID-19 surge, restriction on movements, and lack of tourist arrivals, the subsector is witnessing a deep plunge.

## “ OUTLOOK

The re-emergence of new coronavirus variants has kept the tourism industry at a perpetual standstill. With the looming threat of the third wave, the prospect of speedy recovery for Nepal's tourism sector has dampened. That said, the arrival of festival season in the next quarter could lead to a surge in domestic tourism during the long public holiday. Furthermore, September to November is generally the peak tourist season given the favorable climate during this period for trekking. Last year, airlines and hotels had offered special packages to promote domestic tourism around the same period. The same can be expected for the upcoming quarter, which could stimulate the tourism industry through increased domestic tourists.

However, even the revival of domestic tourism will largely depend on the country's capacity to contain the third wave. Judging from the slow responsiveness of the government during the first two COVID-19 outbreaks, it is improbable that the spread of the Delta variant would be controlled in time. Hence, even the partial restoration of the tourism sector in the next quarter through domestic tourism, if it were to happen, will likely be temporary.

Meanwhile, substantial investment pledges in tourism combined with the stimulus packages announced in the recent monetary policy could help the sector cope with the third wave in the upcoming quarter.

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MARKET  
**REVIEW**

# FINANCIAL MARKET

Fiscal Year (FY) 2020/21 has indicated an economic recovery from COVID-19 as the operating profit and net profit of commercial banks have been showing an upward trend against the previous few quarters. Operating profit and net profit increased by 19.8% and 15.8%, respectively. The monetary policy for FY 2020/21 has complimented the agenda of digitization of banking services. Access to digital finance has also been increased as payment service providers and payment system operators will be encouraged to provide electronic payment services to the customers of Micro-Financing Institutions (MFIs). Additionally, a national payment switch will be set up this year for Nepal's own payment card. Nepal Rastra Bank (NRB) is also going to implement digital Know-Your-Customer (e-KYC) by ending the system of having to go to the bank to submit and update the personal details of the customers for processes like account opening and loan applications.

## KEY INDICATORS

Some of the key macroeconomic indicators as per the macroeconomic and financial situation report based on the annual data of the FY 2020/21 published by NRB are highlighted below:

### Deposit and Credit Mobilization:

In the review period, the deposits at Banks and Financial Institutions (BFIs) increased by 21.4% as compared to a growth of 18.7% in the corresponding period of previous year. Of the total deposits, the share of demand, saving, and fixed deposits stood at 10.4%, 34.2% and 47.0%, respectively. As of mid-July 2021, institutional deposits stood at 42.7%, whereas it was 44.3% in the same period last year.

Similarly, private sector credit from BFIs increased 27.3% in the review period compared to a growth of 12% in the previous year. Private

sector credit from commercial banks and development banks increased 27.8% and 30.5%, whereas finance companies decreased by 6.3%. Out of the total outstanding credit, 66.1% is against a collateral of land and building and 12.7% against collateral of current assets (agricultural and non-agricultural products).

Loans of BFIs to agriculture, industrial, construction, transportation, communication and public, wholesale and retail, and service sectors all increased by 43.6%, 20.6%, 18.4%, 20.4%, 26.2%, and 20.9%, respectively.

In terms of credit exposure, the term loan increased by 29.7%, overdraft loan increased by 29.8%, and demand and working capital loan increased by 25.4%. Also, real estate loans, which include residential personal loans, increased by 15.8%, and margin loans increased by a whopping 110.8% due to increased activity in the secondary

market. Import loan also increased by 48.7%. However, hire purchase loan decreased by 7.7%.

**Liquidity management:** In the review year, NRB, Nepal's central bank mopped up NPR 303.29 billion (USD 2.54 billion)—of this, NPR 109.54 billion (USD 0.91 billion) was through reverse repo auction and NPR 193.75 (USD 1.62) was through deposit collection. In the previous year, NPR 78 billion (USD 654.91 million) was mopped up.

Additionally, NRB injected a liquidity of NPR 428.54 billion (USD 3.59 billion) through the net purchase of USD 3.62 billion from foreign exchange market. Liquidity of NPR 492.24 billion (USD 4.13 billion) was injected through the net purchase of NPR 501 billion (USD 4.21 billion) in the previous year.

**Foreign Exchange Reserves and Adequacy:** In the review period,

gross foreign exchange reserve stood at NPR 1,399.03 billion (USD 11.74 million), decreasing by 0.2% from NPR 1,401.84 (USD 11.77 million) in mid-July 2020. Of the total foreign exchange reserves, reserves held by NRB increased 1.5% to NPR 1,244.63 billion (USD 10.45 billion) in mid-July 2021 from NPR 1,226.12 billion (USD 10.29 billion) in mid-July 2020. Reserves held by BFIs other than NRB decreased 12.1% to NPR 154.39 billion (USD 1.29 billion) in mid-July 2021 from NPR 175.71 (USD 1.47 billion) in mid-July 2020.

The share of Indian currency in total reserves stood at 24% in mid-July 2021.

Based on annual imports of FY 2020/21, the foreign exchange holdings of the banking sector are sufficient to cover the prospective merchandise for 11.2 months, and merchandise and service imports for 10.2 months. The ratio of reserve-to-Gross Domestic Product (GDP), reserve-to-imports and reserve-to-Money and quasi money (M2) stood at 32.8%, 84.7%, and 27.1%, respectively in mid-July 2021.

**Interest rates:** The weighted average 91-day Treasury Bill Rate remained at 4.55% in mid-July 2021 as against 1.27% in the corresponding month a year ago. Furthermore, in mid-July 2021 the weighted average inter-bank transaction rate among commercial banks stood at 4.12% as against 0.35% in mid-July 2020. The average inter-bank rate of BFIs, which was considered as operating target of the monetary policy, stood at 4.14% in the review month.

In addition, the average base rate of commercial banks fell to 6.86% in mid-July 2021 from 8.5% a year

ago. In mid-July 2021, weighted average deposit rate and lending rate of commercial banks stood at 4.65% and 8.43%, respectively, as compared to 6.01% and 10.11%, respectively, a year ago in the same review period.

**Balance of Payments:** The current account registered a deficit of NPR 333.67 (USD 2.78 billion) in the review period, whereas, the current account deficit was NPR 33.76 billion (USD 282.03 million) last year in the corresponding period. The overall BOP improved, registering a surplus of NPR 1.23 billion (USD 10.27 million) compared to a surplus of NPR 282.41 billion (USD 2.35 million) in the previous year.

**Fourth Quarter Performance Analysis of Commercial Banks:** As per the unaudited annual results of commercial banks of FY 2020/21, as shown in Table 8, the operating profit of commercial banks increased by 19.8%, while the net profit also grew by 15.8%.

At the end of the FY 2020/21, Nabil Bank bagged the highest net profit of NPR 4.50 billion (USD 37.59 million), followed by Global IME Bank and Rastriya Banijya Bank, both booking NPR 4.12 billion (USD 34.41 million) and NPR 3.79 billion (USD 31.66 million), respectively, as net profits. Also, during the review period average Non-Performing Loans (NPL) stood at 1.4% as compared to 1.7% in the same period previous year. Furthermore, average cost of funds was 4.9% against 6.3% in the corresponding period previous year. This indicates that borrowings have become cheaper, which could be attributed to efforts to revive the COVID-19 hit economy.

Similarly, the average base rate stood at 6.9% during the end of the annual

year, the highest being 7.8% of Civil Bank and Century Commercial Bank.

## KEY DEVELOPMENTS

Some of the key developments that transpired in the financial market are as follows:

**Directives for BFIs on short-term investments:** Nepal Rastra Bank (NRB) has issued directives preventing BFIs from selling shares and debentures of listed companies within a year of purchase. In a financial year, BFIs can only sell investments of up to 1% of their primary capital after a year of their purchase. BFIs are also prohibited from investing in shares of microfinance companies from May 26, 2021, except for the calculation of Deprived Sector Loan. If any shares of microfinance companies were purchased before that date, they are required to sell it by mid-January 2022.

**Key changes for BFIs in monetary policy:** The monetary policy for FY 2021/22 requires BFIs to maintain a Credit-Deposit (CD) ratio of 90%; CD ratio has replaced Credit to Core-capital plus Deposit (CCD) ratio. Previously, BFIs needed to maintain a CCD ratio of 85%. The CD ratio should not exceed 90% until mid-July 2022.

The Repo rate has been increased to 3.5% from 3%. The Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) has remained steady at 3% and 10%, respectively.

## “ OUTLOOK

The FY 2020/21 has been relatively successful for consolidation of banks, which was NRB's agenda since FY 2019/20. From 28 commercial banks (Class A), 32 development banks (Class B) and 24 finance companies (Class C) in 2019, the numbers have come down to 27, 18 and 20 respectively. Allowing BFIs to decide on their merger and acquisition plans has been the optimal strategy to adopt and it should remain the same.<sup>231</sup>

Furthermore, the monetary policy emphasized on digital banking services and the scope of its expansion. With the aim of minimizing cash payment, celebration of FY 2021/22 as Digital Payment Promotion Year will be a welcomed initiative. The revenue received by the government and all types of payment, including social security allowance, pension, etc., will be made through banks' digital payment methods. However, necessary infrastructure needs to be set up for its implementation.<sup>232</sup>

**Table 8: Fourth Quarter Results Of Commercial Banks - Unaudited As On FY 2020-2021 (FIGURES IN NPR TEN MILLION)**

BANK	PAID-UP CAPITAL	RESERVE & SURPLUS	DEPOSIT			LOANS AND ADVANCES			OPERATING PROFIT			NET PROFIT			NPL (%)			COST OF FUND (LCY)			BASE RATE (%)
			FY 20/21	FY 19/20	% CHANGE	FY 20/21	FY 19/20	% CHANGE	FY 20/21	FY 19/20	% CHANGE	FY 20/21	FY 19/20	% CHANGE	FY 20/21	FY 19/20	% CHANGE	FY 20/21	FY 19/20	% CHANGE	
	4 QTR	4 QTR	4 QTR	4 QTR	4 QTR	4 QTR	4 QTR	4 QTR	4 QTR	4 QTR	4 QTR	4 QTR	4 QTR	4 QTR	4 QTR	4 QTR	4 QTR	4 QTR	4 QTR	4 QTR	
Nabil Bank	1,348.0	1502.3	22,347.8	19,080.6	17.12	19,810.7	14,823.1	33.6	643.5	509.7	26.3	450.4	356.7	26.3	0.8	1.0	4.4	5.5	(1.1)	5.9	
Nepal Investment Bank	1,625.7	1,424.9	17,455.8	16,636.2	4.93	15,689.2	13,545.7	15.8	525.5	363.6	44.5	365.1	257.1	42.0	2.5	2.9	4.0	5.8	(1.8)	5.7	
Standard Chartered bank	857.2	591.1	8,756.4	9,846.7	(11.07)	6,240.5	5,391.1	15.8	203.1	284.1	(28.5)	140.1	198.4	(29.4)	1.0	0.4	3.1	5.8	(2.7)	5.5	
Himalayan Bank	1,068.4	658.6	14,102.1	12,526.4	12.58	12,602.9	10,165.3	24.0	430.8	334.9	28.6	299.8	254.2	17.9	0.5	1.0	4.6	6.2	(1.6)	6.8	
Nepal SBI Bank	949.3	499.8	10,623.8	11,044.6	(3.81)	9,683.1	8,961.5	8.1	135.7	219.6	(38.2)	96.1	153.1	(37.2)	0.2	0.2	5.3	6.8	(1.5)	7.4	
Nepal Bangladesh Bank	900.5	476.5	8,712.8	6,643.5	31.15	6,848.5	5,896.6	16.1	320.9	180.1	78.2	229.2	124.4	84.2	1.5	2.9	5.5	6.4	(0.9)	7.4	
Everest Bank	893.4	914.8	16,022.0	14,354.5	11.62	12,768.1	11,219.5	13.8	261.7	357.2	(26.7)	261.7	357.2	(26.7)	0.1	0.2	4.5	6.1	(1.6)	6.0	
Bank of Kathmandu	965.9	546.8	10,341.3	9,210.3	12.28	9,358.1	7,591.5	23.3	225.6	211.5	6.7	153.6	147.5	4.1	1.7	2.3	5.1	6.7	(1.6)	7.4	
NCC Bank	1,031.4	351.7	10,666.7	7,378.7	44.56	9,453.7	6,510.7	45.2	187.2	174.2	7.5	127.1	113.1	12.4	1.8	2.8	5.6	6.4	(0.8)	7.6	
NIC Asia Bank	1,156.4	717.4	28,682.1	20,163.0	42.25	24,881.1	16,018.5	55.3	479.9	446.7	7.4	325.1	312.1	4.2	0.5	0.7	5.3	5.5	(0.2)	6.8	
Machhapuchhre Bank	905.3	255.7	13,161.8	10,409.9	26.44	11,357.1	9,233.6	23.0	247.4	190.5	29.9	228.5	184.6	23.8	0.6	0.5	5.3	6.7	(1.4)	7.2	
Kumari Bank	1,387.8	388.9	14,869.4	11,654.7	27.58	13,799.8	11,109.3	24.2	285.2	175.2	62.8	200.1	122.6	63.2	1.1	1.4	5.6	6.8	(1.2)	7.9	
Laxmi Bank	1,069.6	440.8	11,460.3	10,086.4	13.62	10,601.5	8,944.0	18.5	217.9	214.7	1.5	154.1	148.5	3.8	1.2	1.0	4.6	6.2	(1.6)	7.1	
Siddhartha Bank	1,096.2	803.3	18,092.4	13,960.9	29.59	15,854.2	12,344.8	28.4	413.6	306.5	34.9	283.6	209.3	35.5	1.2	1.6	5.0	5.6	(0.6)	7.2	
Global IME Bank	2,163.2	820.5	26,843.4	21,231.5	26.43	22,889.4	18,938.9	20.9	586.2	440.5	33.1	412.6	308.8	33.6	1.4	1.8	4.7	6.2	(1.5)	6.6	
Citizens Bank International	1,257.7	441.8	14,063.8	8,851.6	58.88	11,857.1	7,916.9	49.8	215.3	145.5	48.0	159.9	111.6	43.3	2.8	1.5	5.9	7.1	(1.2)	7.5	
Prime Commercial Bank	1,608.3	506.4	15,415.0	11,944.2	29.06	13,537.7	11,045.4	22.6	469.9	327.0	43.7	325.5	229.3	42.0	1.2	1.5	5.7	7.1	(1.4)	7.2	
Sunrise Bank	948.8	368.7	10,643.2	9,022.3	17.97	10,049.3	8,104.0	24.0	231.0	197.2	17.1	150.3	139.3	7.9	1.4	1.9	4.7	6.5	(1.8)	6.7	
NIMB Bank	1,632.6	538.3	16,440.8	13,166.0	24.87	15,099.8	11,570.3	30.5	383.4	243.5	57.5	273.1	227.1	20.3	2.3	2.7	5.8	7.0	(1.2)	7.3	
Prabhu Bank	1,134.7	445.8	16,483.2	12,849.4	28.28	13,517.1	9,969.2	35.6	296.3	209.3	41.6	201.2	136.7	47.2	1.7	2.8	4.7	6.1	(1.4)	6.9	
Mega Bank	1,465.5	382.6	13,689.3	12,789.5	7.04	13,731.9	11,060.4	24.2	327.0	215.4	51.8	230.2	152.0	51.4	1.3	1.2	5.3	6.9	(1.6)	7.6	
Civil Bank	864.4	150.9	8,863.5	5,751.2	54.12	7,906.1	5,151.3	53.5	90.20	67.40	33.8	55.9	45.7	22.3	1.0	2.4	6.5	7.9	(1.4)	7.8	
Century Commercial Bank	903.4	142.2	9,349.7	6,534.0	43.09	7,809.7	5,804.4	34.5	103.4	122.9	(15.9)	75.0	90.6	(17.2)	1.9	2.2	5.7	6.9	(1.2)	7.8	
Sanima Bank	968.1	349.9	12,842.6	10,683.6	20.21	11,898.8	9,056.6	31.4	324.9	241.9	34.3	227.6	170.3	33.6	0.2	0.5	4.7	6.7	(2.0)	6.3	
<b>Public Sector Banks</b>																					
Nepal Bank	1,263.7	1,514.8	16,274.3	14,211.4	14.52	13,453.6	10,458.8	28.6	449.3	356.6	26.0	306.5	255.6	19.9	2.1	2.6	3.6	4.2	(0.6)	5.7	
Rastriya Baniya Bank	1,018.5	1,511.8	26,407.7	23,082.8	14.40	17,857.2	15,080.8	18.4	509.8	603.3	(15.5)	379.5	445.2	(14.8)	3.1	4.1	3.2	3.7	(0.5)	5.4	
Agriculture Dev. Bank	1,642.3	1,161.8	16,267.7	14,364.8	13.25	15,286.2	12,305.2	24.2	522.7	446.0	17.2	369.4	346.8	6.5	1.8	2.7	4.7	6.4	(1.7)	7.1	
<b>Total</b>	<b>32,126.3</b>	<b>17,908.1</b>	<b>408,878.9</b>	<b>337,478.7</b>	<b>21.2</b>	<b>353,842.4</b>	<b>278,217.4</b>	<b>27.2</b>	<b>9,087.4</b>	<b>7,585.0</b>	<b>19.8</b>	<b>6,481.2</b>	<b>5,597.8</b>	<b>15.8</b>	<b>1.4</b>	<b>1.7</b>	<b>4.9</b>	<b>6.3</b>	<b>(1.3)</b>	<b>6.9</b>	

# CAPITAL MARKET

During the review period, the secondary market witnessed new milestones in its history. The benchmark Nepal Stock Exchange (NEPSE) index reached its all-time high of 3198.60 points on August 18, 2021, increasing by 38.28 points. A total of 36.50 million shares of 228 companies traded on the same day resulting in a turnover of NPR 21.31 billion (USD 177 million). Additionally, according to NEPSE, the government collected tax revenue worth NPR 13.33 billion (USD 111.7 million ) during mid-July 2020 and mid-June 2021, a record high amount from NEPSE in around three decades of its inception. The amount is more than double the amount collected in the past five years from the share market.<sup>233</sup>

**Secondary Market:** During the review period, NEPSE index increased by 16.16%, closing at 3180.78 points. The total market capitalization amounted to NPR 4,323 billion (USD 36.29 billion), while the total floated market capitalization reached NPR 1,532.59 billion (USD 12.86 billion).

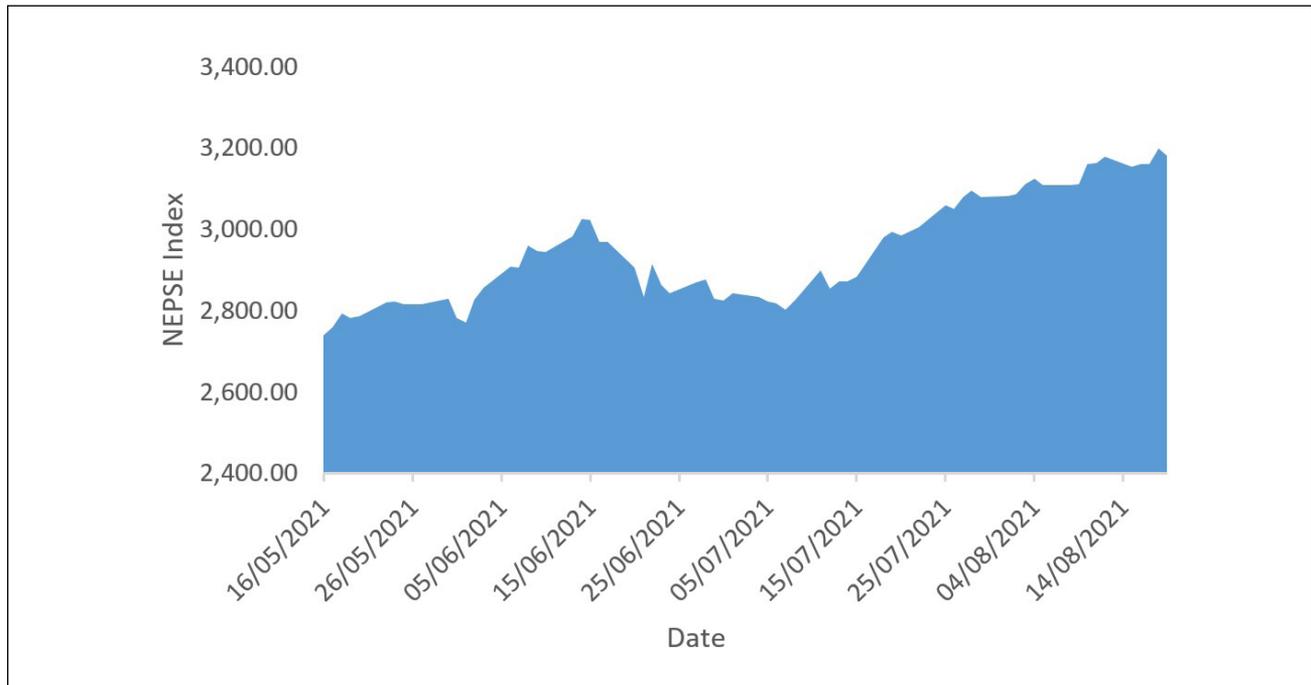
As indicated in Table 8, during the review period, a majority of the indices landed in the green zone as the market has remained bullish with high levels of transaction. The highest gainer was the finance sub-index (129.33%), followed by development bank sub-index (102.92%), and hydropower sub-index (38.43%). The only sub-

index to land in the red zone was the Other's sub-index with a decrease of 5.46% in the review period.

**Table 9. Key indicators**

	16-May-21	19-Aug-21	% Change
<b>NEPSE Index</b>	2,738.29	3,180.78	16.16%
<b>Sub-Indices</b>			
<b>Commercial Bank</b>	1,812.64	2,081.63	14.84%
<b>Development Bank</b>	3,021.09	6,130.44	102.92%
<b>Hydropower</b>	2709.69	3751.1	38.43%
<b>Finance</b>	1,363.01	3,125.82	129.33%
<b>Non-Life Insurance</b>	14,242.47	14,775.76	3.74%
<b>Others</b>	2193.92	2074.15	-5.46%
<b>Hotels</b>	3,269.20	3,606.59	10.32%
<b>Microfinance</b>	5572.23	5991.01	7.52%
<b>Life Insurance</b>	17,915.99	18,222.01	1.71%
<b>Manufacturing &amp; Processing</b>	6,047.45	7,455.38	23.28%

Source: Nepal Stock Exchange (NEPSE)

**Figure 15. NEPSE Movement Index**

Source: Nepal Stock Exchange (NEPSE)

**Primary Market:** In the public issue front, during the review period, Initial Public Offering (IPO) of Nyadi Hydropower Limited, Sahas Urja Limited, and Buddha Bhumi Nepal Hydro Power Company worth NPR 405 million (USD 3.4 million), NPR 1.05 billion (USD 8.91 million) and NPR 120 million (USD 1 million), respectively, was approved. For Sahas Urja Limited, NIBL Ace Capital has been appointed as the issue manager.

Eight IPO issues have been added by Securities Board of Nepal (SEBON) in the pipeline, mostly comprising of hydropower and microfinance institutions. Some of them are Three Star Hydropower Limited, River Falls Power, Upakar Microfinance, and Rastra Utthan Microfinance.

## KEY DEVELOPMENTS

**51 companies found overvalued by SEBON:** On June 15, 2021, SEBON

published a list consisting of 51 listed companies in NEPSE that appear risky in terms of their current market value. As per the statement, the stock prices of some of the listed companies have increased by more than 300%, while their Price Earnings Ratio (P/E) ratio is over 100. Likewise, some stocks have negative Earning Per Share (EPS) and net worth, suggesting abnormality and irregularity in their trading. Securities Board of Nepal (SEBON) also added that there were indications of insider trading, circular trading, and cornering among the mentioned companies. Out of the 51 companies, 22 are hydropower companies, 5 life insurance companies, 5 non-life insurance companies, and 4 finance companies.<sup>234</sup>

**Range for fluctuation of pre-open prices reduced by SEBON:** SEBON has revised the pricing range of stocks in the pre-open market session of the secondary market to 2% from the

existing 5%. This has been done in an attempt to check the excess rise in share prices on daily trading in the secondary market. Additionally, SEBON has also reduced the minimum price change of stocks in each transaction from NPR 1 to 10 paisa per share.<sup>235</sup>

**Limit set on margin lending:** The Monetary Policy for FY 2021/22 has set limits on the amount of margin loan available to an entity or an individual. Individuals and entities can now only take margin loans up to NPR 40 million (USD 335,852) from one financial institution and NPR 120 million (USD 1 million) in total. The permissible margin lending percentage has remained unchanged at 70% of the value of the shares.

## “ OUTLOOK

The rise in margin debt in the country is also signal that investors' risk appetite has gone up. As of mid-June 2021, banks and financial institutions had issued NPR 94.6 billion (USD 794 million) in margin loans, up from NPR 45.4 billion (USD 381 million) as of mid-July 2019, indicating a bull market. Banks have been aggressively expanding their margin loan book as loan demand in other sectors of the economy has softened. In other mature markets, as margin debt rises, there is a concurrent increase in other risk metrics particularly the issuance of corporate debt. Thus along with margin debt, it is important for Nepal to develop other tools to go both bulls and bears. Securities Board of Nepal (SEBON) should also focus on improving the composition of the secondary market, which currently comprises mostly (two-thirds) of banks and insurance companies. It should welcome companies from sectors like manufacturing and agri-business sectors as it will be the better for the overall investing environment.

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**SPECIAL SECTION:**  
**INTERNATIONAL RELATIONS FOR ECONOMIC GROWTH**

# DIPLOMACY AND DEVELOPMENT ASSISTANCE FOR GROWTH: THE WEFT AND WARP OF AUSTRALIA'S FOREIGN POLICY AND DEVELOPMENT ASSISTANCE

**Felicity Volk**

Australian Ambassador to Nepal

At the heart of government efforts to promote growth through diplomacy and development assistance is always the intimate story of an individual. Muna Odh's is a great illustration of Australia's approach in Nepal.

A Dalit resident of Baitadi, Muna joined a "Start and Improve Your Own Business Workshop" under the Australian-funded United Nations Development Programme (UNDP)/Government of Nepal Micro-Enterprise Development Programme (MEDEP), after spending most of her working life as a household helper. "The work was hard and the pay meagre, and people didn't treat us very well," she said, "I wanted to break out of this cycle."

Micro-Enterprise Development Programme (MEDEP) gave Muna the skills as well as the financial and technical support to establish the Manakamana Vegetable Production Group. Manakamana's vegetables were sold in local markets and business quickly boomed with each member making a profit of NPR 32,000 a month. As Muna's circumstances improved, she was able to send her children to school and employ family members in her enterprise.

Alongside her financial gains, Muna's self-worth and ambition grew, and

she decided to contest municipal elections as a candidate under the Dalit quota. "It's only if people like me are able to enter these kinds of decision-making positions that we can finally break free of the hold of the caste system and reach our true potential."

Muna's experience is a microcosm of the way diplomacy and development assistance work hand in hand to achieve economic and social growth at the personal, community, and state levels.

The line between what was traditionally understood as diplomacy and development assistance has long been blurred though purists in either camp might regard their objectives and modus operandi as distinct. For Australia, any residual gap between the two closed in 2013, when our government announced the integration of its aid agency, AusAID, with the Department of Foreign Affairs and Trade.

Explaining this restructuring of both policy and bureaucratic architecture, then Foreign Minister Julie Bishop said, "The government's approach of economic diplomacy brings our aid program together with our foreign and trade policy priorities in the pursuit of broader economic development, which will not only support prosperity

and growth in Australia but of course in the wider region."

Foreign aid inevitably has a strategic dimension with poverty recognized as a source of geopolitical insecurity. Just as traditional diplomacy seeks to promote peace (a prerequisite for sustainable growth), economic diplomacy seeks to promote prosperity.

Where economic development has been uneven, aid is a vehicle to reestablishing and supporting viable, functioning states. Underinvestment in women and girls, weak governments, low education, and poor health all constrain the ability of economies and communities to grow. But the need created by poverty is always going to dwarf the available bucket of overseas development assistance.

With a particular focus since 2013, Australia's approach has been that the greatest tool for poverty alleviation is broad economic development and the promotion of a rules-based order that provides the long-term trust, certainty, and confidence necessary for all countries to thrive. Transparent rules, accepted norms, and international institutions provide fairness and predictability. From such solid foundations can grow initiatives to build livelihoods, provide jobs,

and grow economies. These, in turn, support sustainable communities, functioning states, and a strong private sector.

Together, Australia's diplomacy and development assistance tackle poverty and the deficiencies in global practices (for example, the World Trade Organization [WTO] reform) and national infrastructure that hinder developing economies from fully engaging in global markets. Together, they support these economies to address bottlenecks in productivity and accountability, facilitate the conditions for job creation, access global supply chains and consider innovative financing options.

The impacts of COVID-19 have underlined the imperative of effective diplomacy as well as development assistance functioning as an effective tool of diplomacy. Vaccine cooperation and equitable access are a case in point; so are the broader pandemic response and recovery.

As COVID-19 upended lives and livelihoods, Australia pivoted our development program to where we can make the biggest difference through our development strategy, Partnerships for Recovery: health security, stability, and economic recovery. In Nepal, this has included an emergency assistance package

that assists the health and economic response, including work with local non-governmental organizations (NGOs) to support education needs and economic recovery. Our livelihoods support is addressing findings in United Nations Children's Fund's (UNICEF) Child and Family Tracker that 33% of households surveyed across Nepal in July 2021 had lost earnings or livelihoods.

We know that COVID-19 has had a disproportionate impact on vulnerable communities, including women. There is a risk that COVID-19 will reverse hard-won gains in women's health and safety, in their economic empowerment, and their leadership and resilience—with implications for overall prosperity, stability, and security. Accordingly, Australia has placed women's leadership and participation at the core of its recovery efforts. We are also making sure our work to end violence against women and girls in the Indo-Pacific region is as effective as possible in the COVID-19 context.

Earlier this year, Australia successfully concluded its 15-year, AUD \$49 million, partnership with MEDEP, which saw Muna's life transformed. Of over 172,000 micro-entrepreneurs created by the program, 84% are women, 23% are from the Dalit community, and 80% are young

people from diverse ethnicities. Of those who completed the program, 79% graduated out of poverty. In addition, MEDEP developed a legal and policy framework that embeds the micro-enterprise model countrywide.

Now, Muna's future, that of her family, of her Dalit community, the future of every Nepali, and every Australian relies on a successful recovery from the pandemic and our shared efforts to achieve a stable, prosperous, and secure region. Australia's vision for our region is that it is open, inclusive, and founded on trust because as global challenges mount, trust is an increasingly important commodity.

The character of the regional and international order that emerges from the pandemic will determine the security and the prosperity of both Australia and Nepal over the course of this century. And security and prosperity are most assured when poverty is alleviated, when all people are engaged in the common good, and when the movement of goods and services, people and information is as open and free as possible. Australia's diplomacy and development assistance—carefully interwoven, like weft and warp—support this vision and are underpinned by the conviction that together we are stronger.

# INTERNATIONAL TOURISM FOR NEPAL'S PROSPERITY

**Lisa Choegyal**

New Zealand Honorary Consul to Nepal and investor in Tiger Mountain Pokhara Lodge

The concrete corridors of Singha Durbar echo with government gravitas, their office windows soberly shrouded in net curtains. Kathmandu diplomats calling on Nepali ministers are familiar with the regular request to “please encourage your country’s private sector to invest in Nepal.”

Despite the polite rhetoric, official efforts to stimulate growth in international business and even to implement the existing foreign investment regulations have been less than half-hearted even since before Covid laid waste to Nepal’s economy and tourism.

Today’s ambassadors are likely to be all too aware of the perils of foreign direct investment in Nepal. Many are sadly familiar with issues that their nationals have faced, having heard a litany of complaints and frustration in navigating the labyrinthine permit processes, inexplicable delays, uncertain tax assessments, local partners running amok, and banking holdups—not only repatriation of profits but even remitting funds into Nepal is not straightforward. The Single Window Service Centre envisioned as per the revised Foreign Investment and Technology Transfer Act remains an empty promise.

The current environment for entrepreneurs is in danger of being as difficult and uncaring as never before. The 2021 US Embassy Investment Climate Statement usefully summarized overall FDI

issues in Nepal last month citing “political instability, widespread corruption, cumbersome bureaucracy, and inconsistent implementation of laws and regulations” as being deterrents to potential investors<sup>236</sup>. In contrast, a recent International Finance Corporation report on cultural tourism in the Annapurnas was unhelpfully steeped in wishful thinking and seemed rooted in some bygone era.<sup>237</sup>

### **Role of foreigners in Nepali tourism:**

Tourism started in the 1950s when Boris Lissanevitch converted a royal palace into a heritage hotel, brought the first tour group, and introduced fine food and liquor. Colonel Jimmy Roberts invented trekking with Mountain Travel Nepal in 1964 and supported mountaineering expeditions to employ Sherpas and share his passion for the mountains. John Coapman, Jim Edwards, and Chuck McDougal brought global attention to Chitwan’s wealth of wildlife with the creation of Tiger Tops, which opened with a four-room treetop lodge in 1965. Air travel was ponderous in those days, roads were scarce and communication was basic. When I arrived in 1974, we still depended on telex, telegrams, and an unreliable crackly telephone line for reservations.

The first foreigners may have been an eccentric and colorful bunch, but they did understand international tourism. As guests in this country, they realized that nurturing local people and

protecting the historic culture and natural environment was good both for Nepal tourism and their business. They left a legacy that still resonates in a very different world today.

### **Struggles of international**

**investments in tourism:** Tourism is intrinsically international by nature. At one time, Nepal cleverly extracted the best out of foreign investors, exploiting their know-how and networks, and made sure that they contributed to Nepal’s tourism priorities, enriched the local economy, and provided tangible advantages for Nepalis. Early investors helped put Nepal on the map as one of the most exciting and hospitable nature-culture-adventure destinations in the world, and made Nepal a leading sustainable tourism example in Asia. While these external factors have motivated tourists to visit Nepal, the country needs to work on its internal dynamics if it is to leverage the opportunities forged by the early investors’ branding.

Nepal needs to be realistic and pragmatic about what is needed to create favorable conditions to attract international investment if the country is serious about playing a tourism role on the world stage. There are currently ample examples of struggling foreign investors in the tourism sector. The first stop of any potential foreign investor is to consult with the experience of those who went there before them. Private sector operators get nervous when they hear

stories about goalposts moving, policy fluidity, trial by media, and a fickle judiciary. Wedged between the two largest nations on earth, perhaps just beneath the surface of the national psyche, there is a distrust of outsiders and a preference to rely on family and cartels.

So, whilst the diplomatic community encourages their compatriots to visit the enduring beauty of Nepal, until things change, it remains hard for them to genuinely recommend Nepal as a focus for new tourism business investment.

**Exercising diplomacy for tourism:**

Nepal has exemplary resources to offer foreign visitors, including the high Himalaya, a rich living culture, exquisitely built heritage, and intact biodiversity. The healthy outdoors,

mountains, adventure, nature, and wildlife will appeal to pent-up demand from the post-pandemic source markets once tourism restarts if we can get our positioning and product packaging right. Nepal boasts models of regenerative and responsible tourism practices that surveys consistently indicate will be highly ranked as new normal essentials by discerning future travelers.

The highly experienced Nepali tourism sector has demonstrated that, on our own, we have been unable to lift Nepal tourism out of its pre-Covid negative spiral of increasing numbers of visitor arrivals but decreasing daily expenditure and reliance on low-cost neighboring segments. Nepal can consider using high-quality brands, international partners, and foreign expertise to better compete in

tomorrow's world and attract the sort of tourism that would best benefit the people of Nepal.

We need to attract new markets, lengthen visitor stays, and increase the yield from tourism revenue by creating fresh attractions, upgrading current ones, and promoting new destinations with local people around the country. This will respond to post-Covid tourist needs rather than the current building boom of mid-range hotels in Kathmandu (and elsewhere) with no apparent market demand or thought as to who will be sleeping in all those new rooms or what they will be prepared to pay.

# FOREIGN EQUITY INVESTMENTS FOR NEPAL'S PROSPERITY

**Siddhant Raj Pandey**  
Chairman and CEO of Business Oxygen

Foreign equity investments in Nepal have been both in green field investing and brown. A green-field investment is where a parent company creates its subsidiary from the ground in a different country, whereas a brown-field investing is where an entity purchases existing facilities to begin new production in another country. Joint venture investments in banks would be an example of green-field investing and investments in hotels, hydropower, cement etc. would be examples of brown-field investing. In the past decade, the concept of Private Equity (PE) investing in Nepal would be considered a bit of both as it includes many approaches to investing.

**Regulations on foreign equity investment, associated challenges, and avenues for improvement:** The Nepal Rastra Bank (NRB) Foreign Direct Investment (FDI) and Loan Management Bylaw 2021 has introduced an automatic route that has helped onshore investment companies to receive blanket approval (Off Shore PE funds are not exempt from this). This means the companies do not have to wait for the approval from the central bank for each investment to be sanctioned once they receive permission from the Department of Industries (DoI) or the Investment Board of Nepal (IBN) or other government authorities. However, each investment still requires approval

from the Department of Industry, making the process cumbersome. One of the ways to mitigate this challenge is by providing annual progress reports or information. The greatest lag for any investment seeking FDI approval in Nepal is the time taken by the authorities to approve the investment. There have been cases where the capital increment in FDI has taken over two years.

The recent regulation allowing FDI in an investment company has simplified PE/Venture Capital (VC) to start operations onshore. Earlier, Business Oxygen was the only company in this structure. A minimum of NPR 1 billion as corpus of the fund has to be declared to commence operations. Since this requires each investment to be approved by the Department of Industry (DoI) it is time consuming; otherwise, this is a start towards institutionalizing PE/VC investments in Nepal although much can be done in future to making it commensurate to international best practices.

Moreover, the Industry and Investment Promotion Board (IIPB) needs to approve investments above NPR 5 billion (USD 42 million). The Public Private Partnership (PPP) and Investment Bill 2019 requires investments over NPR 6 billion (USD 50.37 million) to be approved by the IBN. This creates further inconvenience to FDI's greater than

NPR 6 billion (USD 50.37 million) as they need to be approved by two entities instead of just one. The IIPB could be replaced by the IBN to make this process simpler. This brings us to the major challenge, the governing system. It should be more result-oriented rather than the current process-driven system. Currently, approval is required for almost every process in investment, divestment, and return of sale proceeds, thus resulting in increased cost and time for decision making. Until the system is result-oriented, these anomalies will continue to deter FDI in the country. The other underlying problem here is that each bureaucrat has their own interpretation of the law that delays the entire process.

In addition, COVID-19 added a huge economic insecurity, where the PE's inability to provide risk capital comes at a time when businesses with high debts are left vulnerable due to COVID-19. A major way to promote PE transactions is to remove double taxation at exit. In the absence of a Double Taxation Avoidance Agreement (DTAA), both foreign investors of a local PE fund as well as offshore PE funds investing in Nepal have to pay tax at 25% on any gains from sale of investments in Nepal. Meanwhile domestic investors are subject to capital gains tax of only 5% (for sale of listed entities) and 10% (for sale of unlisted entities)<sup>238</sup>. Some

DTAA would require foreign investors to be taxed exclusively at the country of residence, while other DTAA would require foreign investors to be taxed at source but at preferential rates compared to local investors. This would encourage FDI in Nepal. More specifically, we need to amend Section 57 of the Income Tax Act if we are to do away with this constraint. Section 57 of the Income Tax Act states that if the ownership of any entity changes by 50% or more within a period of three years, then such an entity is considered to have disposed of its asset and liabilities. So, any gain on such transaction is subject to tax at the rate applicable on their business income. Private Equity funds would benefit greatly if portfolio companies receive specific waivers from Section 57 of Income Tax Act. This waiver can be similar to those provided to Banks and Financial Institutions (BFIs) to encourage mergers and acquisitions.

Furthermore, we need digitization of processes. Until now the need for digitization has only been realized but not implemented. As an FDI investor in PE, Business Oxygen has

assisted Securities Exchange Board of Nepal (SEBON) in drafting the Specialized Investment Fund (SIF) regulation. The SIF has somewhat streamlined the approval process by allowing FDI in PE funds from bilateral and multilateral organisation and recognizing both investment committee and advisory committee as per international practice. However, SIF still needs to address the double taxation of PE funds and waiving of blacklisting provision for onshore PE funds.<sup>239</sup> We have realized and have continuously tried making SEBON aware of the balance required between the SIF regulation and the prevailing acts that will assist in addressing the problems that international PE faces in Nepal. Without this, SIF will be another layer of hassle on top of what we have to go through at the DoI. There are chances that SIF might work for local firms but for us, it needs to be revised before subscribing to it. The existing Company Act provides only two financial instrument options. Unless SIF regulation breaks its silence and talks about debentures, blacklisting provision for PE, mezzanine financing and the likes, it

might be hard to subscribe to SIF.

**Scope of PE in Nepal:** There are various sectors that have the potential for PE investments. Due to COVID-19, in recent times, we have seen that information technology-related companies are doing well and so are companies related to renewable energy and health sectors. Agriculture also has enormous potential, but the government has placed it in the negative list for FDI and, as a result, we are barred from investing in it. In agriculture, FDI could help modernize the sector and facilitate technology transfer in areas of higher-yielding crops, genetically modified organisms, processing facilities, and cold storage. Foreign Direct Investments (FDIs) could help prevent the waste of surplus food and dairy products by using the surplus to produce different product variants as well as using cold storage facilities to keep produce fresh for longer periods of time. Ironically, Nepal imported NPR 321 billion (USD 2.78 billion) of agricultural goods in the last fiscal year.

# NEPALI DIASPORA INVESTMENT FOR PRIVATE SECTOR GROWTH

**Jiba Lamichhane**

Founding member and Former President of NRNA

**Pattern of investments:** Nepali Diaspora have a deep attachment to the community they grew up in. Generally, the diaspora with the means tend to contribute back to their local community and then later look into specific industries with high potential for investment and returns. Overall, however, the diaspora community has made investments across a wide range of different industries and it is certainly not industry-specific. These range from hydropower, banking, insurance, manufacturing, tourism and hospitality, and other sectors. It is difficult to pinpoint one common theme across the investments made by the diaspora community but one thing that they always do is to try to bring the best of what they have seen in the industries of other countries to the same industries in Nepal. This includes organizational practices, technical knowledge, and business expertise to help modernize the same industries in Nepal.

Initiatives such as NRN Nepal Development Fund launched in April 2021 and NRN Africa Ventures Limited help to build and grow Nepal's profile for foreign investment, not just for other NRNs who will continue to see Nepal as a good place to invest, but also other investors who will hopefully also see the appeal of investing in Nepal. Overall, the partnership of government, NRN and private enterprise in the Development Fund is very promising since this is the

sort of partnership which will allow the country to pull forward in the same way more advanced countries have. NRN Africa Ventures Limited is an example of a tight-knit group of NRNs uniting and creating a fund to invest in Nepal's development. The advantage of having regional NRN funds is that the participants in the fund can easily gather together in local meetings. We will soon see similar funds entering the scene from NRNs in USA, Japan, Korea and other countries. Such initiatives throughout the global NRN community can contribute significantly to the future growth of the economy.

**Challenges in investments and recommended measures:** The government of Nepal through the Foreign Investment and Technology Transfer Act has created provisions for Non-resident Nepalis whereby they can invest in Nepal and can own 100% of the businesses. Even then, Nepal is one of the countries with the least inflow of foreign direct investments (FDI). One of the factors limiting such investments is the minimum threshold for FDI, USD 450,000 for FDI which is far too high for a developing country like Nepal. Countries with much larger economies such as Sri Lanka, Japan, and South Korea have lower thresholds. This shows that the barrier to entry for FDI is too high considering the smaller size of the Nepalese economy. Other important

factors needed are sovereign credit ratings of the country, BIPPA and DTA agreement with more countries.

Since our country currently lacks high class infrastructure and a strong rule of law, other incentives may be needed in the short term to attract foreign investment. Following the example of Singapore, it might make sense to introduce tax incentives and other specific benefits, perhaps conditional on employing a minimum number of Nepalese people, in order to attract more foreign investment, at least in the short term. Unless such measures are introduced, the positive impact of FITTA may not be realized as intended.

In other countries a large number of business and bureaucratic processes are now conducted online which saves both the government agencies and business people time, money, and effort. An example is the Indian FDI framework. In Nepal we are lagging in this technological factor in many different ways - sometimes there is simply no online option whereas in other times the websites are poorly designed or confusing. It is important to bridge this technological gap so we can eliminate or reduce the time businesspeople waste today, while also streamlining the process. This is especially important for NRNs who may not always be in Nepal during the process of registering and running a company; it is therefore even more

important to have more options to conduct business in Nepal from abroad. This will save time, effort, and resources.

While we can understand the role of government to keep some bureaucracy to ensure that rules are being followed and that the government also sees some benefit through taxes and fees, in order to allow business to flourish the government should always reduce red tape and bureaucracy as much as possible. This means lowering the risk of doing business for the investor who is already taking a substantial

risk, but which if it pays off, will help the government far more in the long term.

Right now, the licensing fees and paperwork need to pass through numerous channels. This makes it extremely hard to facilitate business procedures in a timely manner; there needs to be a single-window policy. In developed countries, for example, a digital upload of documents is sufficient, and the same rule applies to all people due to the functioning of the rule of law. It is surprising that in countries such as Rwanda, it takes

just one week to start a company and bring it into operation. Developing countries like Rwanda are able to implement these minimizations of bureaucracy; this is proof that it can work in Nepal as well. Of course, having companies solely dedicated to helping out with these processes may make a difference in the short-term but from a macro perspective it is simply more efficient to cut out the mediator and have the government ease these processes for all businesses.

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# NEF PROFILE



NEPAL  
ECONOMIC  
FORUM

Nepal Economic Forum (NEF) is a premier private sector-led economic policy and research organization that seeks to redefine the economic development discourse in Nepal.

Established in 2009 as a not-for-profit organization under the beed umbrella, NEF is a thought center that is working on strengthening the Nepali economy through various activities that promote the growth of 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 since 2016.

Over the past decade, NEF has produced seminal work across many areas. Some of its widely quoted work are around Political Economic Analysis and Economic Impact Assessment after the 2015 Earthquake and 2015-16 Blockade. NEF's reports on the Cartel Economy have led to rethinking of how government and society engages with the private sector. NEF pioneered policy discourse around business opportunities through Doing Business in Federated Nepal, and produced a map tracing opportunities throughout Nepal. NEF also successfully generated awareness and promoted public discourse on key issues of Nepali economy through Business Policy Research Centre, NEF's core program.

NEF has a strong social media presence with higher number of followers and engagement across Facebook, Instagram, LinkedIn, and Twitter compared to similar institutions in Nepal.

NEF is led by Founder Chair Sujeev Shakya, who is regarded as one of Nepal's leading thought leaders and go to person to understand the complex relations of Nepal's business, economy, politics and society. The organization functions under the guidance of an advisory board comprising of eminent people and also supported by honorary Senior Distinguished Fellows and Senior Fellows. The NEF Fellowship Program is a sought after one year fellowship program that enables young people to pursue further studies in educational institutions of repute and careers in esteemed organizations

## 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 private sector, BPRC has been working to generate awareness and promote public discourse on key issues of Nepali economy. The products of BPRC are as follows:

Nefport: Quarterly economic analysis publication

Neftake: Periodic blog that covers wide range of issues

Neftalk: Platform for policy discourse

Weekly Economic Update: Weekly overview of major economic headlines in Nepal

Did You Know: Factual overview of relevant economic activities in Nepal



**Himalayan Circular Economy Forum (HiCEF)** is one of the functional outcomes of the Himalayan Consensus Summit that aims to mainstream alternative development paradigms. HiCEF intends to initiate and foster discourse on the concept of circular economy, explore existing circular economy practices and investment opportunities for knowledge dissemination and replication, identify policies related to the circular economy and sustainable businesses and identify ways for its effective implementation, create a repository of such information and disseminate the information events and to create an inventory of sustainable initiatives working with the potential of replication in the Himalayan region. For this, the focus area will be predominantly Nepal but also look at initiatives in Bhutan and Himalayan India.



**Renewable Energy Centre (REC)** aims to be the premier platform for mainstreaming renewable energy issues by engaging multiple stakeholders to articulate discourse that will shape national-level energy politics. Engage strategic stakeholders in Nepal, from the concerned sectors towards thinking and acting towards promoting the use of renewable energy, conduct discussions in the public space relating to renewable energy.

#### **Centre for Private Sector Development (CPSD):**

The Centre for Private Sector Development (CPSD) will focus on private sector-led development by supporting the growth of small and medium enterprises. For this, CPSD will work in the areas of skills development, capacity development, financial management, providing business development services for private enterprise's operation and growth. Similarly, it will also focus on reforms that are required at the policy level and administrative level of the government to facilitate the ease of doing business in Nepal.

#### **Global Nepali Network (GNN):**

Through the Global Nepali Network (GNN), NEF plans to connect Global Nepalis across the world irrespective of their citizenship. This will be a platform to share ideas, thoughts and connect to professionals and entrepreneurs that do not enjoy the political organizations, elections, and speeches but love their connection to Nepal or Nepalis. GNN envisages work on providing a platform for knowledge exchange, to share employment and business opportunities, host network events physically and virtually and develop programs for creating knowledge repository, disseminate information on Nepal especially relating to art, culture, literature, history, and matters of common interest.

Centre for Digital Transformation:

#### **Center for Digital Transformation (CDT):**

The Center for Digital Transformation (CDT) will address cross-cutting themes related to digital adoption and revolution in emerging and frontier markets of Asia and Africa. The main purpose is to create a platform for dialogue among technologists, policymakers, academics, businesses, regulators, financiers, and more. Some of the cross-cutting themes that we will address include: digital innovation and transformation, governance and politics, resources and finance, law and society, and security and privacy.

#### **Nepal and the World (NaW):**

Nepal and the World will operate to study Nepal's foreign policy and diplomacy in the context of a globalized world and support public debates in the field of foreign affairs especially in relations to the economy. It focuses on analyzing Nepal's foreign policy making and diplomatic practices to map out the areas/actors of significance to its international relations that will push economic growth and transformation.

**Doing Business in Federated Nepal (DBFN):**

Nepal Economic Forum has been engaged in the discourse of federalism in Nepal since 2009. It has conducted multiple policy discourses, done assessments and produced publications on doing business in Nepal in the context of federalism. Hence, through the Doing Business in Federated Nepal (DBFN) vertical, NEF shall continue to engage itself in fostering a conducive business environment in the federated structure, supporting local businesses and empowering local bodies in governance. For this, NEF intends to open national chapters in each of the seven provinces of Nepal to promote localized efforts.



NEF operates in domain of Development Consulting (devCon) 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, sectorial 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](mailto:info@nepaleconomicforum.org)



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