

RAPID ASSESSMENT OF SOCIO ECONOMIC IMPACT OF COVID-19 IN NEPAL



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**RAPID
ASSESSMENT
OF SOCIO ECONOMIC
IMPACT OF COVID-19
IN NEPAL**

PREPARED BY

IIDS | Institute for Integrated
Development Studies • 1979



ACRONYMS

ADB	Asian Development Bank
ADO	Asian Development Outlook
AOAN	Airlines Operators Association of Nepal
BoP	Balance of Payments
CBS	Central Bureau of Statistics
CCRT	Catastrophe Containment and Relief Trust
COVID-19	Corona Virus Disease 2019
DoC	Department of Customs
DoFE	Department of Foreign Employment
EU	European Union
FDI	Foreign Direct Investment
FHAN	Federation of Handicrafts Association of Nepal
FY	Fiscal Year
GDP	Gross Domestic Product
GEP	Global Economic Prospects
HAN	Hotel Association of Nepal
IMF	International Monetary Fund
IOM	International Organization for Migration
JHU	Johns Hopkins University
JITCO	Japan International Trainee & Skilled Worker Cooperation Organization
KYC	Know Your Customers
MoCTCA	Ministry of Culture, Tourism and Civil Aviation
MoF	Ministry of Finance
MSEs	Micro and Small Enterprises
MSMEs	Micro, Small and Medium Enterprises
NAFEA	Nepal Association of Foreign Employment Agencies
NATTA	Nepal Association of Tour and Travels Agents
NDCs	Nationally Determined Contributions
NEA	Nepal Electricity Authority
NEC	Nepal Economic Census
NFDN	National Federation of the Disabled Nepal

ONLYNYS

NLFS	Nepal Labour Force Survey
NPC	National Planning Commission
NPI	Nepal Policy Institute
NPR	Nepali Rupee
NRB	Nepal Rastra Bank
NRNA	Non-Resident Nepali Association
NST	Nepal Standard Time
NTB	Nepal Tourism Board
NWC	National Women Commission
OECD	Organization for Economic Co-operation and Development
PDNA	Post Disaster Need Assessment
PERC	Public Expenditure Review Commission
PMEP	Prime Minister's Employment Programme
PNP	Projects of National Pride
PPE	Personal Protective Equipment
PSP	Payment Support Operators
PSP	Payment Support Providers
REBAN	Restaurant and Bar Association of Nepal
SDGs	Sustainable Development Goals
TAAN	Trekking Agencies Association of Nepal
UAE	United Arab Emirates
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNWTO	United Nations World Tourism Organization
US	United States
USD	US Dollar
VNY	Visit Nepal Year
WEO	World Economic Outlook
WHO	World Health Organization
WTO	World Trade Organization
WTTC	World Travel and Tourism Council



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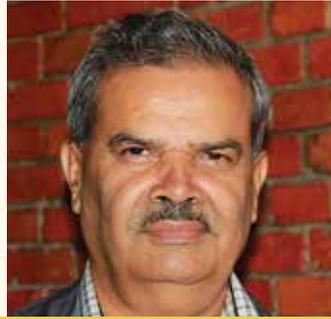
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FOREWORD



The COVID-19 pandemic is the biggest human crisis since the Great Depression, causing simultaneous health and socio-economic suffering all over the world. More than 12 million people have tested positive for the virus, with half of a million people having lost their lives. The world economy has been stalled for several months, leading to the loss of hundreds of millions of jobs.

The Government of Nepal enforced a lockdown, beginning 24 March, to slow the spread of virus. Till now, more than 16 thousand people have tested positive and 38 among them lost their lives in Nepal. While the lockdown was successful in slowing infection rates, it has resulted in significant socio-economic impact. With thousands of people without jobs and lost income, the country's economic growth rate is projected to decline to 2.3% and supposed to be decline further. With many interlinked and changing variables, assessing the impact of the COVID-19 pandemic and appropriate response measures is a substantial challenge. In this context, this Rapid Assessment of Socio-Economic Impact of COVID-19 in Nepal — commissioned by UNDP — is very useful and timely.

The Report builds on a survey, providing evidence-based analysis of those areas most impacted by this crisis, namely, travel and tourism, foreign employment, migrations and remittance and labor. The Report also analyzes the specific impact on vulnerable groups, including women, poor, and small

and medium-sized enterprises. Finally, the Report provides comprehensive policy options to address the stated challenges. I believe these recommendations will be very useful across government entities and development actors.

The Government of Nepal has — and will continue — to implement various measures aim to support those affected by the crisis. In this vein, the national budget for fiscal year 2020/21 introduced several policies and programs to jumpstart economic activities, focusing first on job creation.

The National Planning Commission (NPC) has also initiated a study to assess the socio-economic impact of COVID-19 in Nepal. This rapid study conducted by UNDP would be reference and certainly substantiate the study conducted by NPC. I would like to thank UNDP for this initiation and will eager to work together in future endeavors.

A handwritten signature in black ink, appearing to read 'P. Kadel', written over a horizontal line.

PROF. PUSPA RAJ KADEL, PH.D
VICE-CHAIRMAN

FOREWORD



Nepal, like many countries in the region, has been hit hard by the unprecedented health and economic impact brought on by the unfolding COVID-19 pandemic. As of today, over 16,000 people have tested positive to the virus, a rather steep increase compared to March 2020, when strict country-wide lockdown measures were first introduced. The latter further exacerbated horizontal and vertical inequalities in Nepal by disproportionately impacting the most vulnerable: women, informal sector workers, migrant returnees, internal migrants, day laborers, those, particularly women involved in micro and small enterprises (MSMEs). Crucially, from a longer-term perspective, this crisis, harder than those crisis Nepal faced previously, is widely recognized as severely inhibiting Nepal's development gains over years, and the ambition of graduating from the status of Least Developed Country in 2021, meeting the Sustainable Development Goals (SDGs), and becoming a middle-income nation by 2030.

As early as March, with just a handful of positive cases in Nepal, strict lockdown measures brought the economy to a virtual standstill. It became promptly apparent that a rapid assessment was needed to gauge the socio-economic impact to inform policy responses. UNDP Nepal commissioned Institute for Integrated Development Studies (IIDS), one of Nepal's leading economic research centers, to conduct a rapid survey-based assessment across the 7 provinces focusing on the country's most vulnerable and marginalized groups. The research team of 12 experts from the IIDS discussed with many policy makers, conducted survey and analyzed the responses of some 1100 respondents, in the survey results, which are captured in this report, that give us early insights into ground realities and propose relevant policy and programmatic responses.

From a macro-perspective, this report reminds us that COVID's evolving socio-economic consequences in Nepal will depend on three key elements: First, Nepal's dependence on tourism, trade, and foreign employment. Second, the ability of the weak health infrastructure to withstand the spread of the pandemic, and the future availability of antivirals or a vaccine; and third, the levels of contagion on India and China, given Nepal's heavy geo-economic reliance on these two countries.

The assessment has shaped UNDP Nepal's understanding of the crisis particularly in regard to the cumulative impact on trade, tourism and remittance shocks – as well as the negative economic externalities they trigger in allied sectors. Accordingly, it provided the evidence base to repurpose UNDP's

ongoing programmes and has informed UNDP Nepal's short to medium-term livelihoods recovery response. Further, the report was effective as UNDP was to provide technical lead to the UN country team, while contextualizing UN framework for the immediate socio-economic response to COVID-19 in Nepal.

As in all crises, UNDP Nepal is mindful of the transformative opportunities that this crisis presents particularly in the agricultural sector and in up-skilling Nepal's labour force to reap demographic dividends and to be better prepared for post-COVID economy. To this end, we remain committed and focused on both the short and long-term and on inclusive and green response to COVID-19 to support Nepal's trajectory to a more resilient and sustainable future.

Going forward, UNDP will engage on the following three fronts: livelihood recovery focusing on skills training for migrant returnees and laid-off informal workers; supporting Nepal's federalism structure by reinforcing capacity at the local governments to combat COVID-19 to foster localized and contextualized development; and green response since this crisis is a reminder of the fragility of the people and the environment and the imperative to invest in resilience.

Against this backdrop, I would like to take this opportunity to thank the National Planning Commission (NPC), the Ministry of Finance, the Ministry of Culture, Tourism and Civil Aviation, Nepal Tourism Board, Nepal Rastra Bank, business associations and federations, civil society organizations, independent researchers and other partners for all their support to the research team during the consultation process to make the analyses and the recommendations of this study relevant to the evolving national priorities in the context of COVID-19.

Last but not the least, I would like to thank Balazs Horvath, Bishwa Tiwari, Mohammad Younus, Sanny Ramos Jegillos, and Shakeel Ahmed from UNDP Bangkok Regional Hub; Bernardo Cocco, Binda Magar, Dharma Swarnakar, Vijaya Singh, Yam Nath Sharma and Yanki Ukyab from UNDP Nepal, Usha Mishra from UNICEF Nepal and Santosh Acharya from UN Women for their reviews and contributions to the report.

A handwritten signature in black ink, appearing to read 'Ayshanie'.

AYSHANIE MEDAGANGODA-LABÉ
UNDP RESIDENT REPRESENTATIVE

ACKNOWLEDGEMENT

UNDP would like to express special thanks to all those partner organizations and individuals who extended their generous support during different stages of the study. The report would not have come to fruition without valuable insights from all the representatives of stakeholders consulted by the study team. We would therefore like to acknowledge the contribution of following partners and stakeholders for sparing their precious time in responding to the research team and their calls for consultation:

NAME	DESIGNATION, ORGANIZATION
Yuba Raj Khatiwada, PhD	Finance Minister, Ministry of Finance
Puspa Raj Kandel, PhD	Vice Chair, National Planning Commission
Kewal P. Bhandari	Secretary, National Planning Commission
Gunakar Bhatta, PhD	Executive Director, Research Department, Nepal Rastra Bank
Danduraj Ghimire	Director General, Department of Tourism; Ministry of Culture, Tourism and Civil Aviation, Government of Nepal.
Kumar Prasad Dahal	Director General, Department of Foreign Employment (DoFE), GoN
Bhisma Bhusal, PhD	Former Director General of DoFE, GoN
Prem Upadhyaya	Section Officer, Ministry of Labour Employment and Social Security (MoLESS)
Rameshwor Sapkota	CEO, Prabhu Remit
Rishi Ram Paudel	CFO, City Express
Yuma Shrestha	Remittance Head, Himal Remit
Suman Pokharel	CEO, IME Group
Kamal Dev Malla	2nd Vice President, Nepal Association of Foreign Employment Agencies (NAFEA)
Khagendra Dhakal	Convenor, Nepal Policy Institute
Surendra Bhai Shakya	President, Federation of Handicraft Association of Nepal (FHAN)
Dharma Raj Shakya	Immediate Past President, FHAN
Raju Basnet	General Secretary, National Federation of the Disabled-Nepal (NFDN)
Mitra Lal Sharma	President, NFDN
Om Devi Malla	Senior Vice Chairperson, National Cooperative Federation of Nepal (NCFN)
Min Raj Kandel	Chairman, NCFN
Rameshwar Thapa	President, Airlines Operators Association of Nepal (AOAN)
Khum Bahadur Subedi	President, Trekking Agents Association of Nepal (TAAN)
Shanta Bir Lama	President, Nepal Mountaineering Association (NMA)
Kedar Tamang	President, Tourist Guide Association of Nepal (TOUGAN)
Ishwar Sharma	President, Tourist Bus Association of Nepal (TBAN)
Achyut Guragain	President, Nepal Association of Tour Operators (NATTO)
Ganga Prasad Nepal	President, Nepal Association of Rafting Agencies (NARA)
Ashok Pokharel	President, Nepal Association of Tour Operators (NATO)
Shishir Khanal	General Secretary, Nepal Association of Rafting Agencies (NARA)
Mani Lamichhane	Director, Nepal Tourism Board (NTB)
Santosh Panta	Director, Nepal Tourism Board (NTB)
Ramesh Parajuli	CEO of Samsara Holidays

CONTINUE: ANNEX 3: LIST OF STAKEHOLDERS CONSULTED

NAME	DESIGNATION, ORGANIZATION
Binayak Shah	1st Vice President, Hotel Association Nepal (HAN)
Sunil Sharma	Senior Manager, Nepal Tourism Board
Yuba Raj Shrestha	Executive Member; Hotel Association of Nepal (HAN); Hotel Crown Plaza
Arniko Raj Bhandari	President, Restaurant and Bar Association Nepal
Uttam Prakash Sharma	General Secretary, Events and Venue Association Nepal.
Pralhad Dahal	General Secretary, Nepal Dairy Association (NDA)
Vishnu Kumar Agrawal	Senior Vice President, Confederation of Nepalese Industries (CNI)
Rajesh Kumar Agrawal	Vice President, Confederation of Nepalese Industries (CNI)
Birendra Raj Pandey	Vice President, Confederation of Nepalese Industries (CNI); Technical Expert Advisor, Federation of Contractors' Association of Nepal (FCAN)
Anand Subedi	President, Youth Community for Nepalese Contractor (YCNC)
Rabi Singh	President, Federation of Contractors' Association of Nepal (FCAN)
Uday Bahadur Bohara	Deputy Director, Federation of Nepalese Chambers of Commerce
Janak Chaudhary	Secretary General, General Federation of Nepalese Trade Unions (GEFONT)
Tejendra Poudel	Executive Director, Kalimati Fruits and Vegetable Market Development Board
UttamAryal	Vegetable Farmer

UNDP would like to acknowledge and extend special thanks to Institute for Integrated Development Studies (IIDS) for taking up the task of carrying out the study and presenting the report in a short period despite difficult circumstances. Under the overall guidance of Swarnim Wagle, PhD (Executive Chair, IIDS), the preparation of this report was led by Biswash Gauchan, PhD (Director for Economic Policy, IIDS). The core team consisted of researchers from IIDS as well as its sister institution, the Nepal Institute for Policy Research (NIPoRe) as follows: Dhruva Bhandari, PhD (Senior Economist, IIDS), Dharmendra Lekhak (Senior Statistician, IIDS), Pramod Rijal (Senior Economist, IIDS), Binisha Nepal (Economist, IIDS), Abyaya Neopane (Economist, IIDS), Anuj Bhandari (Systems Analyst, IIDS), Prabin Dhakal (Statistician, IIDS), Ojeshwini Singh (Social Affairs Officer, IIDS), Jaya Jung Mahat (Director and Co-Founder, NIPoRe), Santosh Sharma (Co-founder, Cluster Lead- Foreign Affairs, NIPoRe) and Anusha Basnet (Research Associate, NIPoRe).







EXECUTIVE SUMMARY

The uncertain impact of the COVID-19 pandemic on Nepal's social economy will magnify depending on how events unfold on three fronts: first, its dependence on tourism, trade, and foreign employment – and the consequences that will propagate through the services and industrial landscape; second, if or when the spread of the pandemic overwhelms a grossly inadequate health infrastructure and antivirals or vaccine become available; and third, Nepal's heavy geo-economic reliance on India and China, and the nature of contagion in those countries.

Based on a painstaking survey of 700 businesses and 400 individuals, and consultations with over 30 private sector organizations and government agencies, conducted tenaciously during the lockdown, we find that the COVID-19 pandemic has disrupted supply chains, shut or threatened the survival of small and informal enterprises, and made people highly vulnerable to falling back into poverty through widespread loss of income and jobs.

Accommodation and food; arts, entertainment and recreation; and transport are the three most affected sectors of the economy. Given the international travel restrictions and fall in discretionary disposable incomes worldwide, tourism receipts in Nepal are projected to decline by 60 percent in 2020 resulting in a loss of foreign currency earnings worth US\$400 million. Similarly, the fall in remittances is likely to range between 15 and 20 percent this fiscal year. The cumulative impact of trade, tourism and remittance shocks – as well as the negative economic externalities they trigger in allied sectors – Nepal's projected pre-COVID-19 GDP growth rate of 8.5 percent will plunge to well below 2.5 percent in 2019-2020, and severely constrain a rebound in 2020-2021.

Both formal and informal MSMEs are hit hard as they tend to have low cash-to-asset ratios. We find that three in five employees have lost their jobs in the micro- and small businesses that were surveyed. Those businesses have seen a fall of 95 percent in average monthly revenue. They can sustain for only around

two months if the lockdown continues.

Cash subsidies from the government was ranked as the most important form of support expected from economic stimulus, followed by subsidies on interest rates, concessional loans, and rental waivers by landlords. Subsidies on utility payments were considered the least important support needed by small and informal businesses.

The impact on labour differs by the nature of contract. Permanent workers face either pay cuts or an unpaid hiatus, backed by strong labour laws that discourage layoffs. Seasonal and informal workers in both the formal and informal sectors represent almost 85 percent of the labour force and face job cuts and losses. Temporary workers, internal migrants, and day labourers were among the most vulnerable based on income, and their ability to sustain themselves through the slowdown. An inability to find an alternative source of income is judged to be the main impact of the crisis on those already vulnerable or otherwise engaged in precarious work.

The crisis has affected women, especially

from lower income groups, differently than men. Women typically work in industries that are less tele-commutable, such as hospitality, wholesale and retail, keeping them out of work and lowering the overall female participation in the labour force. The survey results indicate that 28 percent of men lost their jobs during the lockdown, compared to 41 percent of women. While 31.5 percent of the total workers have lost their jobs, 74 percent have not been paid since the lockdown started. Increased responsibility at home due to closure of schools and day care affects working mothers. Gender pay gaps compound the inequality – in Nepal, for every 100 rupees that a man earns, a woman earns only 70 rupees.

How will the COVID-19 pandemic affect Nepal's long-term development goals of graduating from the status of Least Developed Country in 2021, meeting the Sustainable Development Goals (SDGs) and becoming a middle-income nation by 2030? We posit that, because Nepal's eligibility for LDC graduation rests firmly on non-income criteria comprising major 'stock' indicators



that are cumulative in nature, it can still expect to graduate in 2021 and go through a three-year transition period until 2024. The preparatory period may be longer than three years, during which period LDCs continue to benefit from special support measures. Nepal can also expect to reach a respectable lower middle-income level by 2030.

The attainment of the SDGs, however, will become a greater challenge, particularly if Nepal's base of revenue and foreign grants shrink while competition for concessional foreign borrowing stiffens over the next few years. Nepal already has a glaring financing gap (of 12.8 percent of GDP) in its average annual SDG investment needs between 2016 and 2030. Indeed, as the government feels the pressure to spend much more to salvage people's livelihoods and restore the motions of the economy – while ensuring debt sustainability – a useful filter of reprioritization is afforded by the SDGs, balancing economic, social and environmental imperatives. The trade-off between these is less implicit if the policy horizon is lengthened to a decade-long SDG era. This reinforces one lesson of the

COVID-19 crisis: that the post-COVID-19 path has to be about returning to a 'new normal' of greater inter-generational equity and sustainability.

Nepal being highly vulnerable to climate change risks, the impacts of COVID-19 pandemic combined with those of climate change will hardly hit the most vulnerable people, particularly those who draw their livelihood from climate sensitive sector such as agriculture and natural resources.

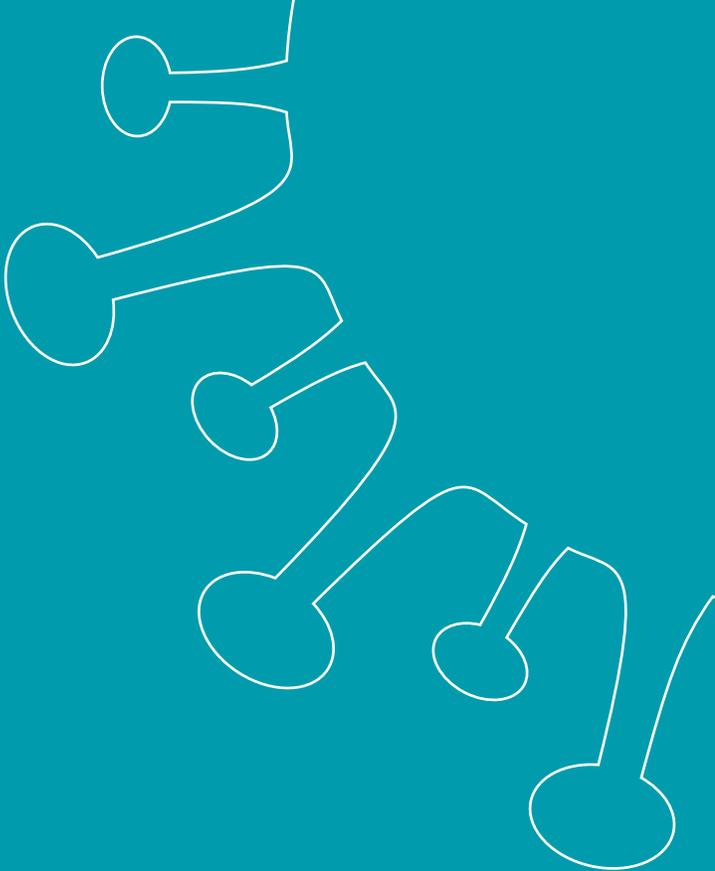
The recommendations in this rapid assessment are clustered around three broad development imperatives in the immediate aftermath of the negative social and economic impacts wrought by the pandemic in Nepal.

First, it is vital to guard against vulnerabilities including those induced by climate by strengthening social protection, building climate resilient infrastructure and sustaining livelihoods. This should be done by ramping up guaranteed employment schemes and skill academies, harnessing the equity and talent of migrant returnees, universalizing

safety nets and expediting labour-intensive infrastructure projects.

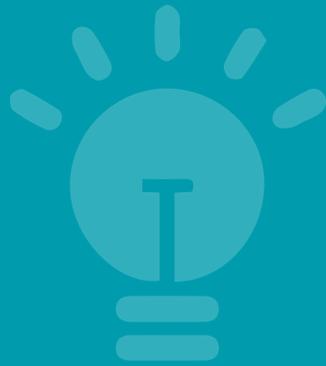
Second, Nepal's pattern of public finances must be oriented to augmenting human capabilities to safeguard development gains and build economic resilience. This should be done across all tiers of government by redirecting existing fiscal allocations, freeing up resources through efficiency and austerity, and exploring new borrowing and partnerships for sustained recovery of the economy.

Third, the government needs to introduce measures to save bankruptcies of firms and foster new sources of job creating growth and self-reliance. Lowering economy-wide rates of lending, injecting liquidity into the banking sector are some monetary policy options while boosting agri-businesses, creating green productive assets and nudging Nepal's budding experimentation with digitalization to take-off in a manner that outlasts the COVID-19 crisis form part of our menu of policy suggestions.



Chapter 1

INTRODUCTION



1.1. BACKGROUND

The COVID-19 pandemic, the greatest global challenge faced since World War II, has spread across 213 economies, infecting over three million people with more than two hundred thousand deaths. The countries are racing to flatten the curve by testing and treating patients, tracing contacts, quarantining citizens, promoting social distancing, and in some cases – as in Nepal – resorting to weeks-long national shutdowns. The mobility of over one-third of the world population is under some form of restriction as governments scramble to contain the spread of the SARS-CoV-2 virus.

The outbreak was first announced by China on 31 December 2019. Neighbouring Nepal discovered its first case on 24 January 2020. While the rest of the world struggled to cope with the exponential growth of the outbreak, Nepal came across its second case only two months later. By 30 April 2020, Nepal had zero deaths, 58 people who tested positive, and 16 recoveries.

Apart from the unprecedented onslaught on the global health system, COVID-19 has pushed the world into an economic crisis, with the International Monetary Fund (IMF) officially declaring a recession. The flows of goods and people have been severed and economic activities stalled. The virus has taken its toll on public health; but it is evolving to be economically contagious as well through disrupted supply chains, immobile labour, and loss of investor confidence. The COVID-19 pandemic is unique. Predicting its full impact will be contingent on a range of scenarios for the endgame.

The extent of the pandemic’s impact on Nepal’s social economy can be understood on three significant fronts: first, its heavy

FIGURE 1.1. STATUS OF COVID-19 GLOBALLY

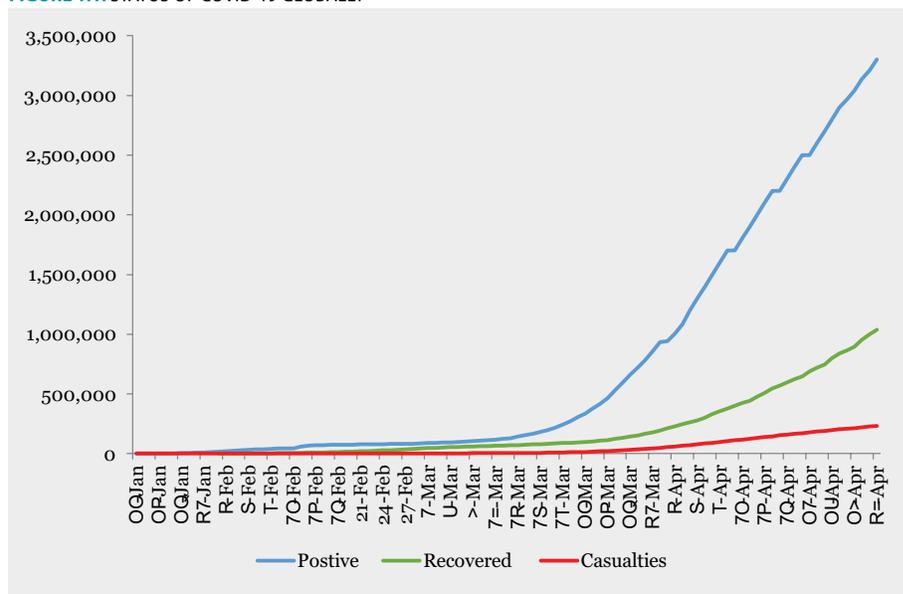
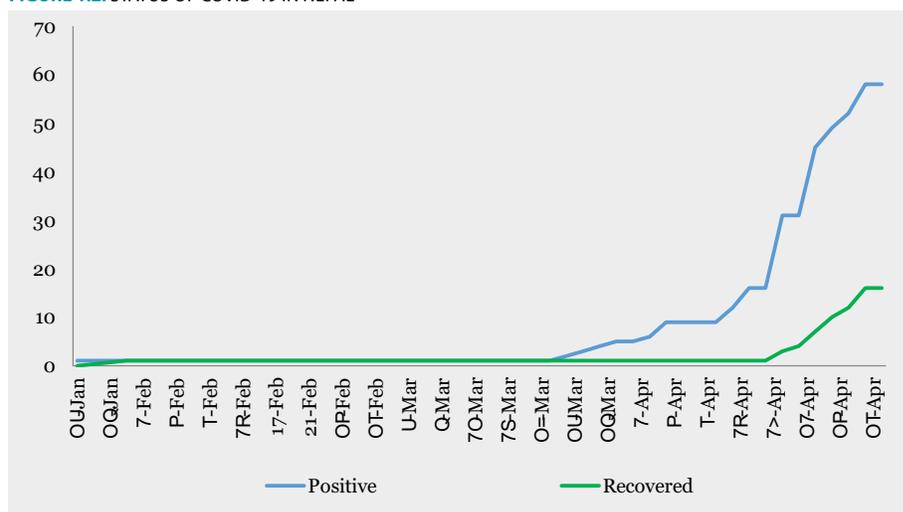


FIGURE 1.2. STATUS OF COVID-19 IN NEPAL



geo-economic reliance on India and China; second, its dependence on tourism, foreign employment and remittances for economic stability and strength, and third, Nepal’s insufficient preparedness and weak health infrastructure to fight a likely outbreak. Given the enormous and immediate health risks and the potential pressures on the Nepali health sector, the government announced a

nationwide lockdown from 24 March 2020, which was then extended until May 18. With no exception, given the global economic lockdowns and widespread disruptions, the socio-economic consequences for Nepal, as for the rest of the world, may be the worst in recent memory.



This assessment is closely coordinated with relevant government departments, as well as potential stakeholders that are currently involved in discussions around response and recovery.

1.2. OBJECTIVES OF THE STUDY

The main objective of this assignment is to assess the socio-economic impact of COVID-19 on the severely affected sectors of the economy, including travel and tourism and the associated informal economy. The emphasis is on the poor and on groups made vulnerable by the crisis. The study intends to inform targeted measures to be taken by the government to mitigate the effects and to enhance community resilience transitioning to a green growth and sustainable recovery.

This assessment is closely coordinated with relevant government departments, as well as potential stakeholders that are currently involved in discussions around

response and recovery. The assessment is rapid in nature to enable swift design and delivery of response measures to reduce the negative impacts at the household and community levels.

1.3. METHODOLOGY OF THE STUDY

The methodology for the assessment is four-fold: literature review, secondary data analysis, primary data collection and rapid impact assessment.

LITERATURE REVIEW

The pandemic has triggered a deluge of academic papers in recent months that identify and quantify the socio-economic damage brought about by COVID-19 and underpins the need of recovery packages that will pave the way to long-term

resilient development.. This recent string of literature is referred to for a greater understanding of the possible socio-economic costs. Public policy practitioners have also started to discuss a diverse menu of relief and stimulus packages. This has guided our assessment of what would be appropriate recommendations based on Nepal's fiscal, monetary and executive capacity.

SECONDARY DATA ANALYSIS

Both qualitative and quantitative data were used in this assessment. Possible variables of interest include latest figures such as tourist arrivals, total earnings from tourism, employment in travel and tourism, remittance receipts, along with macroeconomic variables such as inflation, gross domestic product (GDP), interest rates, international trade, among others. The data for these variables were drawn from relevant ministries, Nepal Rastra Bank and several multi-lateral organizations. Additionally, owing to the lack of data on the informal economy, collection was supplemented by qualitative channels such as newspaper articles, further validated during interviews, FGDs and stakeholder discussions. Data gaps were subsequently identified and addressed during primary data collection. To the extent that data could be disaggregated by gender, region and other dimensions along which horizontal inequities manifest, they were.

PRIMARY DATA COLLECTION

The aims of primary data collection were three-fold. First, it sought to fill the data gaps identified during the secondary data analysis; second, to verify and supplement conclusions from other methods used; and third, to identify new insights on the possible impact of COVID-19 on the targeted sectors and groups. The study considers survey as the most effective means of reaching the most vulnerable



and unorganized groups. This exercise was important in drawing insights on their livelihoods, social safety nets, dependents, crisis management, and support from state or non-state actors. The survey questionnaire was developed using insights gained from consultations with stakeholders. The outcome of the survey is expected to be instrumental in informing the government, stakeholders and donor agencies on measures that are necessary to address threats to people's livelihoods posed by the pandemic in the short and medium run.

Two decades of massive foreign employment (mainly by young males) has made Nepali women increasingly responsible for the management of their households and enterprises. The Nepal Economic Census (NEC) 2018 shows that 30 percent of all micro-enterprises are owned and managed by women. Women are also emerging as traders in Nepal. Of the 19 export products prioritized in the National Trade Integration Strategy of 2010, women are the primary producers of more than half, from woollen products and pashmina to medicinal herbs, tea and jewellery.¹

¹ NPC (2015)

SURVEY DESCRIPTION

A total of 700 small and micro-entrepreneurs and 400 vulnerable community individuals across the country were surveyed by telephone, assisted by 15 enumerators. The data was collected digitally using tablets and smartphones. The survey lasted for four days, from 20 to 24 April 2020. The selection of districts, businesses and individuals within those districts, is based on purposeful and snowball sampling technique. For the

nationwide coverage of this study, three ecological regions and seven provinces, 27 districts, representing one-third of the country's districts, were selected to assess the impact of COVID-19 in Nepal. Before the telephone survey, as the first stage of creating a sampling frame of respondents, phone consultations were done with local representatives (mayor and ward chairperson) and members from local chapters of business associations. The survey team further requested businesses

and vulnerable groups surveyed, from the sampling frame, to provide details of businesses and individuals they were familiar with and/or shared similar characteristics. Contact details provided by those businesses and individuals were used to further expand the sampling frame. The details of the individuals and business surveyed across districts and provinces are listed in Table 1.1.

TABLE 1.1. ALLOCATION OF STUDY SAMPLE BY DISTRICT

S.N.	DISTRICT	PROVINCE	ECOLOGICAL REGION	MSES	INDIVIDUALS	TOTAL SAMPLE
1.	Illam	Province 1	Hill	25	12	37
2.	Dhankuta	Province 1	Hill	25	12	37
3.	Taplejung	Province 1	Mountain	25	13	38
4.	Morang	Province 1	Terai	25	13	38
5.	Dhanusha	Province 2	Terai	33	16	49
6.	Sarlahi	Province 2	Terai	33	17	50
7.	Parsa	Province 2	Terai	34	17	51
8.	Sindhuli	Bagmati Province	Hill	25	13	38
9.	Kathmandu valley	Bagmati Province	Hill	100	50	150
10.	Dhading	Bagmati Province	Hill	25	12	37
11.	Sindhupalchok	Bagmati Province	Mountain	25	12	37
12.	Chitwan	Bagmati Province	Terai	25	13	38
13.	Gorkha	Gandaki Province	Hill	25	12	37
14.	Kaski	Gandaki Province	Hill	25	12	37
15.	Baglung	Gandaki Province	Hill	25	13	38
16.	Mustang	Gandaki Province	Mountain	25	13	38
17.	Palpa	Province 5	Hill	25	12	37
18.	Rolpa	Province 5	Hill	25	12	37
19.	Rupandehi	Province 5	Terai	25	13	38
20.	Banke	Province 5	Terai	25	13	38
21.	Dailekh	Karnali Province	Hill	13	12	25
22.	Surkhet	Karnali Province	Hill	13	12	25
23.	Jumla	Karnali Province	Mountain	12	13	25
24.	Kalikot	Karnali Province	Mountain	12	13	25
25.	Dadeldhura	Sudurpashchim Province	Hill	16	16	32
26.	Darchula	Sudurpashchim Province	Mountain	17	17	34
27.	Kanchanpur	Sudurpashchim Province	Terai	17	17	34
Total				700	400	1100

CONSULTATIONS WITH STAKEHOLDERS

The study required a series of consultations with stakeholders. They included representatives of interest groups relating to the most affected sectors. The purpose of these consultations was to gather information on how and to what extent their businesses were affected by the pandemic. The consultations also assessed those groups' expectations of the state to address their concerns. In this regard, the Hotel Association of Nepal (HAN), representing probably the most adversely

affected sector of the economy, provided a list of measures that the government should consider in addressing their problems.

Dozens of associations that the study team contacted are from the most affected groups (Annex 1). Consultations with them helped us identify informal sectors associated with these sectors as part of their supply and value chain. The meetings with the Minister of Finance and the Vice-Chair of the National Planning Commission informed the study on thinking at the highest level of policy planning. Additional

consultations are expected to take place after the lockdown is lifted.

1.4. LIMITATIONS

Given the nationwide lockdown with restrictions on travel and in-person interactions since the start of the study, this report is a product of virtual and telephone analysis and interactions. The rapid nature of the study means it was severely constrained by time to explore issues in depth. The unavailability of several historical data also restrained the endeavour's intellectual expanse.

TIMELINE OF SIGNIFICANT DEVELOPMENTS DURING THE PANDEMIC WITH SPECIAL EMPHASIS ON NEPAL

MARCH 2020

6th Mar: 100,000 plus case globally; one case in Nepal

8th Mar: Qatar temporarily bans entry of immigrants from 14 countries including Nepal putting travel of 40,000 Nepali workers with valid permits/visa on hold

11th Mar: WHO declared COVID-19 as a pandemic: the virus spread across 114 countries

JANUARY 2020

13th Jan: A case of COVID-19 was confirmed in Thailand-first case outside China.

24th Jan: First case COVID-19 was confirmed in Kathmandu, Nepal

30th Jan: WHO declared COVID-19 outbreak as a Public Health Emergency of International Concern (PHEIC)

DECEMBER 2019

31st Dec: China reported cases of pneumonia in Wuhan, Hubei Province.

MARCH 2020

12th Mar: GoN suspended online visa till 20th April; Visa on-arrival suspended between 14th Mar and 30th April.

18th Mar: GoN announces closure of education institutions, religious places gathering of more than 25 people, recreation facilities, and international flights from 22 March, among others.

APRIL 2020

2nd Apr: One million plus cases globally with over 54000 deaths; nine cases in Nepal

6th Apr: GoN extends lockdown till 15th April

8th Apr: Wuhan, the epicenter of the pandemic lifts lockdown after 2 months.

11th Apr: USA has maximum number of deaths; above 19,700 deaths in the country.

4th Apr: Two million plus cases globally with over 120,000 deaths; 16 cases in Nepal.

25th Apr: GoN extends ban on international and domestic flight till 15th May.

26th Apr: GoN extends lockdown till 7th May.

28th Apr: Over three million cases worldwide with over 220,000 deaths; 58 positive cases in Nepal with 16 recoveries & zero deaths.

MARCH 2020

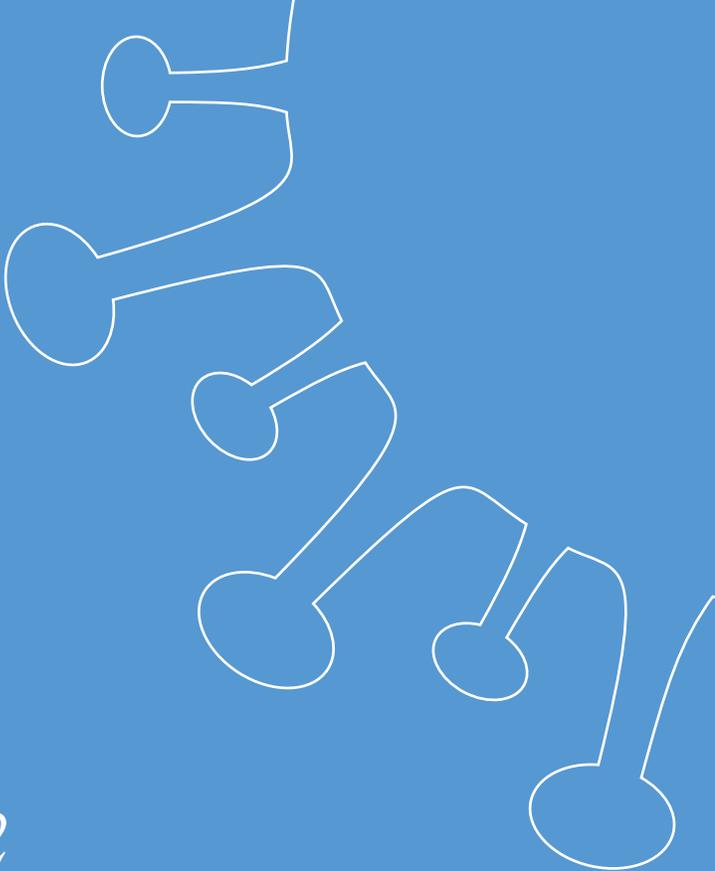
22nd Mar: GoN closes all borders with both India and China for one week beginning 23rd March to stop cross border movement of people: a fund worth NPR 500 million was created to fight COVID-19.

23rd Mar: GoN announces first nation-wide lockdown from 24th March to 31st March.

26th Mar: 500,000 plus cases globally: USA surged past China and Italy to become planet's most infected nation: three cases in Nepal.

29th Mar: NRB announces monetary stimulus, GoN extends lockdown until 8th April.

31st Mar: Ministry of Finance announces relief package.



Chapter 2

MACROECONOMIC OUTLOOK



The rate of economic growth since the April 2015 earthquake and blockade that followed has been robust, averaging 6.95 percent per annum in the three years to 2018-2019. The inflation outlook also remained favourable during this period, averaging a low of around 4.4 percent. This is the first time that the economic growth rate has remained above six percent for three consecutive years, with inflation contained below the rate of real output growth. Historically, Nepal has had South Asia's lowest rate of economic growth, averaging 4.2 percent over the last two decades.

For FY 2019-20, GoN set a goal of achieving an annual economic growth rate of 8.5 percent, creating new jobs for about 500,000 people and containing inflation within six percent. On 12 February 2020, during the mid-term review of the budget, the Ministry of Finance made a downward revision of both revenue and expenditure projections by 10 percent. Budget implementation has consistently been weak in the first half of the year. Despite several signs of economic slowdown,

the government remained upbeat about growth prospects. On 2 March, during the mid-term monetary policy review, NRB made no reference to the brewing slowdown in the economy. Decline in the growth rate of monetary supply, credit, and imports compared to same period of the preceding year clearly suggested an impending slowdown.

During the above reviews by the Ministry of Finance and the Central Bank, the COVID-19 epidemic was seen largely as an internal concern of China. However, on 11 March 2020, by when the virus had spread to over 114 countries infecting 118,000 people and killing 4,291 people, the World Health Organization (WHO) declared the outbreak of COVID-19 as a pandemic. Only then did the world, including Nepal, wake to the gravity of the situation.

Table 2.1 shows the economic outlook forecast made by various agencies before and after COVID-19. IMF's Article IV mission to Nepal in January 2020 suggested that the growth rate for the current year would moderate at around six percent

amid economic slowdown in India, slowing inflows in remittances and falls in agricultural production. The World Bank in its South Asia Economic Focus of October 2019 estimated a growth rate of 6.4 percent for the ongoing year based on the presence of a strong service sector, including increased construction activities and tourist arrivals along with higher public spending. The Asian Development Bank (ADB) in its September 2019 macroeconomic update forecast economic growth of 6.3 percent for the current year given that public capital expenditure and private investment had picked up, agriculture sector fared better, and tourist inflows remained robust.

Amid the pandemic, all the three agencies have made downward revisions of the global economic outlook for the current year. The IMF has labelled the current situation as the worst economic crisis since the great depression of 1929-1932 and anticipates the global output to shrink by three percent in 2020 with the loss of economic output worth nine trillion dollars, equivalent to the accumulated GDP of Japan and Germany.

TABLE 2.1. MACROECONOMIC OUTLOOK (PERCENT)

AGENCIES	NEPAL (2019/20) ²		INDIA (2020/21)		CHINA (2020)		WORLD (2020)	
	PREVIOUS	CURRENT	PREVIOUS	CURRENT	PREVIOUS	CURRENT	PREVIOUS	CURRENT
IMF ³	6.0	2.5	6.5	1.9	6.0	1.2	3.3	-3.0
World Bank ⁴	6.4	1.5 - 2.8	4.1 - 5.4	1.5 - 2.8	5.9	0.1 - 2.3	2.5	-
Asian Development Bank ⁵	6.3	5.3	7.2	4.0	6.2	2.3	-	-
Government of Nepal ⁶	8.5	2.3 ⁷	-	-	-	-	-	-

² The current financial year for Nepal ends on mid-July 2020 while the current year for India ends on 31 March 2021

³ The pre-COVID-19 forecast for Nepal is according to IMF Article IV mission held in January 2020; and for India, China and the World are according to IMF World Economic Outlook (WEO) January 2020. The current forecast is according to IMF WEO April 2020

⁴ The pre-COVID-19 World Bank forecast for Nepal and India; China; and the World are according to South Asia Economic Focus October 2019; East Asia and Pacific Economic Focus October 2109; and Global Economic Prospects (GEP) January 2020 respectively. The current forecast for Nepal, India and China are according to South Asian Economic Focus Update April 2020, and East Asia and Pacific Economic Focus Update 2020 respectively

⁵ The pre-COVID-19 forecast for Nepal, India and China are according to Asian Development Outlook (ADO) September 2019 and the current forecast are according to ADO April 2020

⁶ The pre-COVID-19 forecast by the Government of Nepal is based on the 2019/20 budget.

⁷ National Account Statistics, CBS (2020)

The World Bank now forecasts Nepal's GDP growth rate to hover between 1.5 to 2.8 percent. On 29 April, the Central Bureau of Statistics of the Government of Nepal predicted a growth rate of 2.3 percent for this fiscal year (ending mid-July 2020).

Globally, the International Labour Organization (ILO) in its ILO Monitor Updates of 7 April estimated 81 percent of the total workforce to have been affected by the lockdown, with loss of employment equivalent to 195 million full-time workers due to reduced working hours in the second quarter of 2020. In the weekly job update of 23 April, the USA reported jobless claims of roughly 26 million people

in the past five weeks, the worst stretch of American job losses on record. One in six workers has lost their job and about one-third of all the positions in the USA are vulnerable to COVID-19 related layoffs.

Most affected sectors in Nepal
The unprecedented lockdown enforced since 24 March has brought the economy to a standstill. It is severely affecting the livelihoods of a large number of people, particularly women, persons with disabilities, labourers and people from disadvantaged groups who have no formal social safety net.

ILO has classified different sectors based on the anticipated extent of impact of COVID-19 on the global economy. Based on our study, the impact of the pandemic on various sectors of Nepal's economy is different from ILO's global assessment as presented in Table 2.2. The table also includes information on the share of various sectors in economic output and employment, including the proportion of women's employment across sectors.

TABLE 2.2. SECTORS AT RISK GLOBALLY WITH SPECIAL FOCUS ON NEPAL

ECONOMIC SECTOR	GLOBAL ESTIMATES ⁸		ESTIMATES FOR NEPAL			
	IMPACT OF CRISIS ON OUTPUT	SHARE OF GLOBAL EMPLOYMENT (%)	IMPACT OF CRISIS	CONTRIBUTION TO OUTPUT ⁹	SHARE OF EMPLOYMENT (%) ¹⁰	SHARE OF WOMEN (%) ¹¹
Accommodation and food services	High	4.3	High	2.1	5.2	6.3
Real estate, business and administrative activities	High	4.7	Low	11.5	0.2	0.1
Manufacturing	High	13.9	Medium	5.6	15.1	13.4
Wholesale and retail trade; repairs of motor vehicles and motorcycle	High	14.5	Medium	14.5	17.5	20.6
Arts, entertainment and recreation, and other services	Medium-high	5.4	High	NA ¹²	0.5	0.1
Transport; storage and communication	Medium-high	6.1	High	7.2	4.5	0.3
Construction	Medium	7.7	Medium	7.8	13.8	4.2
Financial and insurance activities	Medium	1.6	Low	6.3	1.7	2.1
Mining and quarrying	Medium	0.7	Low	0.6	0.8	0.6
Agriculture; forestry and fishing	Low-medium	26.5	Medium	27.0	21.5	33.0
Education	Low	5.3	Low	7.1	7.9	9.6
Human health and social work activities	Low	4.1	Low	1.8	2.4	3.5
Public administration and defence; compulsory social security	Low	4.3	Low	2.7	1.9	1.1
Utilities/Others ¹³	Low	0.8	Low	6.0	7.0	5.1

⁸ ILO Monitor Second Edition: COVID-19 and the world of work, April 2020

⁹ CBS statistical bulletin, Vol. 121-122; # NLFS 2017-18

¹⁰ NLFS 2017/18

¹¹ NLFS 2017/18

¹² No separate data available on contribution to Nepal's GDP

¹³ All the remaining sections clubbed as others for Nepal

The degree of the pandemic's impact on various sectors of the economy is analysed using four important criteria of risk: (i) nature of shocks; (ii) extent of output loss; (iii) effect on employment; and (iv) effect on foreign exchange (FOREX) reserves. The sectors are then classified under three impact categories: high, medium and low. Table 2.3 presents an impact analysis matrix showing classification of sectors using the above criteria.

TABLE 2.3. IMPACT ANALYSIS MATRIX

ECONOMIC SECTORS	OVERALL IMPACT	TYPES OF SHOCKS	IMPACT ON ECONOMIC OUTPUT	IMPACT ON EMPLOYMENT	IMPACT ON FOREX
Accommodation and food	High	External shocks and			
Demand shocks	High	High	High		
Transport and storage	High	External shocks and			
Demand shocks	High	High	High		
Arts, entertainment and recreation	High	Demand shocks	High	High	Low
Agriculture – Dairy, Vegetable and Poultry	Medium	Demand shocks and			
Supply shocks	Medium	Medium	Low		
Manufacturing	Medium	Supply shocks	Medium	Medium	Low
Construction	Medium	Supply shocks	Medium	Medium	Low
Wholesale and retail trade; repairs of motor vehicle and motorcycles	Medium	Demand shocks and Supply shocks	Medium	Medium	Low (positive)

According to the impact analysis matrix, accommodation and food; arts, entertainment and recreation; and transport and storage are the most affected sectors. The severity of the impact on tourism, which includes accommodation and food, and transport is compounded by the external shocks emanating from global factors that determine the number of tourist inflows. The month of March has already experienced a sharp decline in tourist inflows of 73 percent compared to the same period last year. The decelerated tourist inflows from the beginning of the year, together with social distancing measures, COVID-19-induced economic anxiety; and a fall in disposable income curtails services' demand of these sectors. The public is also likely to continue social distancing measures for a considerable time even after the withdrawal of the lockdown. Consequently, travel, gatherings, and eating out will be limited. These sectors were affected much before the lockdown and the impact is expected to persist given that the recovery in these sectors is going to be slow and difficult. Hence the livelihoods of the large number of people who are employed in these sectors are



directly at risk. These three sectors together account for 7.8 percent of GDP and provide employment to 10.2 percent of the total employed population. Tourism is the fourth largest source of foreign exchange reserves and its diminution will adversely impact the balance of payments.

Manufacturing; construction; wholesale and retail trade; repairs of motor vehicles and motorcycles; and agriculture, forestry and fishing are the four sectors that are moderately affected by the pandemic. These four sectors are subject to supply shocks due to disruption in either external or internal supply chains. Most inputs to manufacturing, construction and furnishing materials for construction and tradable goods are imported and any disruption in the global supply chain will have a direct impact on these sectors.

The trade and agriculture sectors are further subject to demand shocks given that households avoid non-essential and discretionary purchases during crisis and demand for agricultural products from the accommodation and food sector is low. Although the agriculture sector as a whole is less affected, vegetable production, dairy production and poultry farming are adversely affected, because these goods are perishable and a disruption

in their supply chain cuts them off from their market. These four sectors employ a large number of workers on a daily wage and short-term basis without social protection and are a major part of the informal employment. Together they account for 53.3 percent of GDP and provide employment to 68 percent of the total employed population. The economic activities and employment in these sectors are likely to pick up without a significant time lag once the lockdown is lifted and operations resume.

Table 2.4 provides a comparative analysis of expected 2019/2020 economic output growth with the previous year 2018/2019. It is based on the eight months' economic outlook data published by Central Bureau of Statistics (CBS). The CBS data validate our assessment. The data show that hotels and restaurants; transport, storage and communications; manufacturing; and construction sectors are likely to register negative growth in the current FY 2019/2020. Hotels and restaurants are the worst affected sector and the output is expected to shrink from 7.33 percent growth in 2018/2019 to a startling 16.3 percent negative growth in 2019/20.

The second most affected sector – transport, storage and communications

– is expected to shrink from 5.9 percent growth to 2.45 percent negative growth in 2019/2020. Manufacturing is the third worst hit sector with output expected to shrink by 2.27 percent in 2019/2020 compared to a growth of 6.82 percent in the previous year. Construction is also expected to shrink by a marginal rate of 0.32 percent in the current FY from 8.05 percent growth in the previous year. Trade is likely to decline from 11.06 percent to 2.11 percent, while the agriculture sector is expected to decline from 5.05 to 2.48 percent in 2019/2020. However, both these sectors are likely to post marginal growth. Compared to the previous year all these sectors had slowed even before the COVID-19 outbreak.

Given the importance of remittances and micro and small enterprises (MSEs) to the country's economy, the assessment is extended to examine the impact of the pandemic in these two areas. Remittances have become the lifeblood of the country's economy during last two decades. The study shows that every second household in the country receives remittances from abroad. Remittances that account for more than 25 percent of GDP are the main source of the country's foreign exchange reserves, while earnings from other sources (such as exports) are dismally low.

TABLE 2.4. SPECIFIC SECTOR OUTPUT GROWTH BETWEEN 2018/2019 AND 2019/2020 (PERCENT)

HIGH IMPACT SECTORS	FY 2018/19	FY 2019/20	MEDIUM IMPACT SECTORS	FY 2018/19	FY 2019/20
Hotels and restaurants	7.33	-16.3	Manufacturing	6.82	-2.27
Transport, storage and communications	5.9	-2.45	Construction	8.05	-0.31
Arts, entertainment and recreation ¹⁴	NA	NA	Agriculture and Forestry	5.05	2.48
			Wholesale and retail trade	11.06	2.11

¹⁴ No separate data available

Remittance inflows are beginning to slow, with a drastic drop in April. Millions of Nepali migrants work in the Middle East and Malaysia where tough measures to contain the spread of the virus were introduced. The risk of mass repatriation from these countries is rising. The abrupt slowdown in remittance inflows and potential repatriation of a large number of Nepali migrants are likely to have multifaceted economic, social and political consequences. Almost 50,000 Nepalis who obtained work permits for foreign employment were restricted from leaving the country.

MSEs are the worst affected of all the country's businesses. Safeguard measures against major shocks are little available to MSEs, thereby making these enterprises more vulnerable. They are largely dependent on informal sources of financing. They play an important role in weaving different sectors of the economy. Estimates show that their contribution to GDP is about 22 percent. According to NEC 2018, trade (56.2 percent) and accommodation and food services (14.5 percent) are the two sectors with the largest number of micro-enterprises and

both were the worst hit by the crisis. Of the 3.5 million people engaged in all the enterprises in the country, 59 percent are engaged in micro-enterprises (those that employ up to nine persons) and 21 percent are engaged in small enterprises (employing 10 to 49 persons) – together accounting for 80 percent of the total number of people engaged in enterprises.

During the crisis, vulnerable groups such as women, elderly, marginalized and disadvantaged groups are disproportionately affected. More than 2.8 million people are already a part of the government's social benefit schemes. In a country where 18.7 percent of the total population is living below the poverty line, the impact of the current pandemic will be enduring.

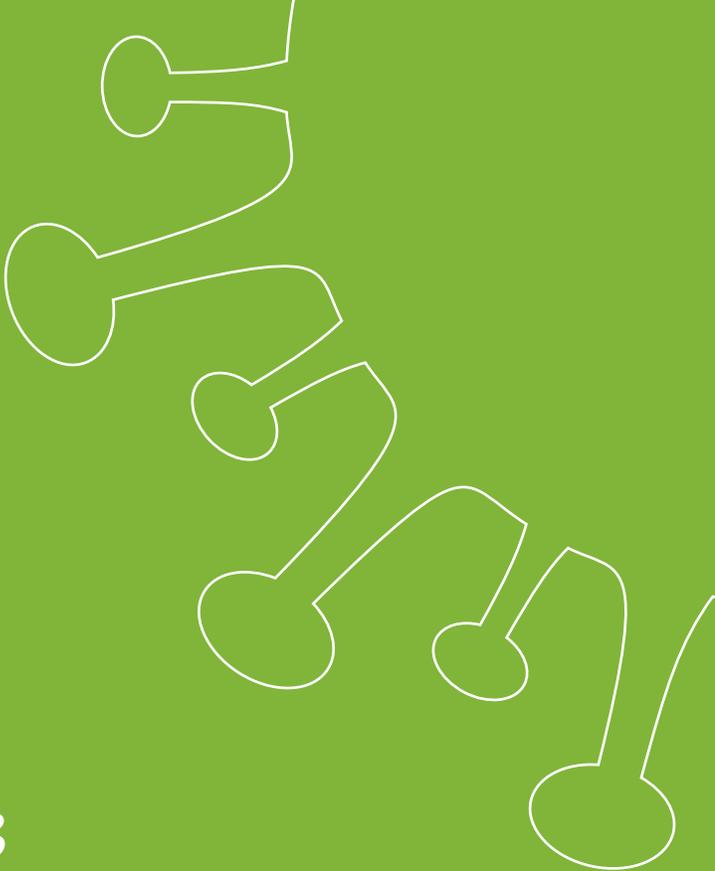
More than 500,000 youths enter the job market every year. The rate of unemployment is 11.4 percent, one of the highest in the region. Alternative sources of income for laid-off workers are limited. The government is handicapped by dwindling revenues and the economy is hit by decelerated remittance inflows, exports' earnings and tourism income. Progress

towards the SDGs will be seriously derailed if external assistance will not become available on a scale needed to fight the disease and its impacts. The country faces challenges typical of a low-income underdeveloped country, along with specific geopolitical challenges.

The recommendations in this report include a list of tangible and actionable policy measures aimed at coping with the crisis as well as providing strategic direction to the country's current and future recovery efforts. While planning for implementation of the recommendations, one should understand that short-term recovery should not damage natural environment that increases future risks and must contribute to building resilience to climatic shocks. These recommendations are particularly pertinent in light of the ongoing budget preparation process, as the budget's sole focus is expected to be on measures necessary to deal with the current crisis. The challenges are huge and unprecedented. They require a broad coalition of meaningful collaboration across all constituencies.



More than 2.8 million people are already a part of the government's social benefit schemes. In a country where 18.7 percent of the total population is living below the poverty line, the impact of the current pandemic will be enduring.



Chapter 3

**SOCIO-ECONOMIC
ASSESSMENT**





3.1. TRAVEL AND TOURISM

3.1.1. BACKGROUND

Global international tourist arrivals reached \$1.5 billion in 2019, a four percent increase over the previous year.¹⁵ With revenue of over \$8.9 trillion, travel and tourism accounted for almost one-third of global services' exports.¹⁶ The tourism sector contributed to one-tenth of global GDP and accounted for one in every 10 jobs around the world.¹⁷ The sector absorbed around \$1 trillion of investment, representing 4.3 percent of total investment in 2019 worldwide.¹⁸ In the light of global travel restrictions brought

about by the COVID-19 pandemic, the United Nations World Tourism Organization (UNWTO) estimates that tourist arrivals will fall by 20 percent to 30 percent in 2020, translating to a decline in international tourism receipts (exports) of \$300-400 billion globally. The World Travel and Tourism Council (WTTC) estimates around 50 million job losses worldwide, creating a dire period for workers engaged in tourism, especially those from vulnerable groups, such as women, who represent 54 percent of all tourism workers.¹⁹

3.1.2. CURRENT STATUS IN NEPAL

Nepal's diverse landscape, people and cultural heritage make it an attractive – if

still underutilized – tourist destination. In 2019, tourism contributed to 4 percent of GDP²⁰ and employed five percent of the workforce in accommodation and food services.²¹ The country earned foreign currency worth \$651 million dollars from foreign tourists travelling to Nepal in 2018/2019 (mid-July), while tourism receipts saw a growth of 12 percent to \$471 million in the first eight months of 2019/2020 (mid-March). Earnings from foreign tourists accounted for 72 percent of the total value of merchandise export, a quarter of the total value of goods and non-factor services and five percent of total foreign exchange earnings for Nepal in 2018.²²

¹⁵ UNWTO (2020)

¹⁶ WTTC (2019)

¹⁷ WTTC (2019)

¹⁸ WTTC (2019)

¹⁹ ILO(2020)

²⁰ World Travel and Tourism Council (WTTC) estimates the contribution on the higher end. It estimates that tourism contributed 6.7 percent of GDP and supported over a million jobs or 6.9 percent of the total.

²¹ NLFS (2018)

²² DoT (2019)

Nepalis spent \$383 million travelling abroad in 2018/2019 (mid-July), while in the first eight months of the current fiscal year, spending abroad decline by a 20.8 percent to \$219 million.²³

While there tourist arrivals saw robust growth in 2017 and 2018, with an annual average growth rate of 24.8 percent, arrivals grew by a mere two percent in 2019 despite reaching a historically high headcount of 1.2 million. This year, tourist arrivals declined by two percent in January, one percent in February and over 73 percent in March. In terms of arrivals by month, Nepal typically receives most tourists in October/November followed by February/March, which are considered to

be peak seasons in the industry.²⁴

In 2018, tourists stayed for an average of 12.4 days and spent an average of \$44 per day. Some 83 percent of the tourists arrived by air, while most travelled to Nepal for holiday/pleasure (60 percent), trekking and mountaineering (16 percent) and pilgrimage (14 percent)..

In 2018, there were a total of 129 starred hotels and 1,125 non-star hotels in Nepal, with a cumulative bed capacity of 40,856, while over 2,500 standard restaurants operated in Kathmandu, Pokhara and Chitwan alone. And 3,508 travel agency, 2,649 trekking agency, 73 rafting agency, 70 paragliding companies, and 77 tourist

transportation service were in operation. There were 4,126 tourist guides, 16,248 trekking guides, and 253 river guides.²⁵

In contrast to the global tourism industry, which employs more female workers, tourism in Nepal is predominantly a male-dominated sector. According to the Tourism Employment Survey 2014, four out of five employees in the sector are a male (DoT, 2014). The proportion is even higher for rafting and trekking. Homestay remains the only subsector that employs more females (57.3 percent) than males. Figure 3.1 summarizes participation by sex in various subsectors.

TABLE 3.1. STATE OF TOURISM

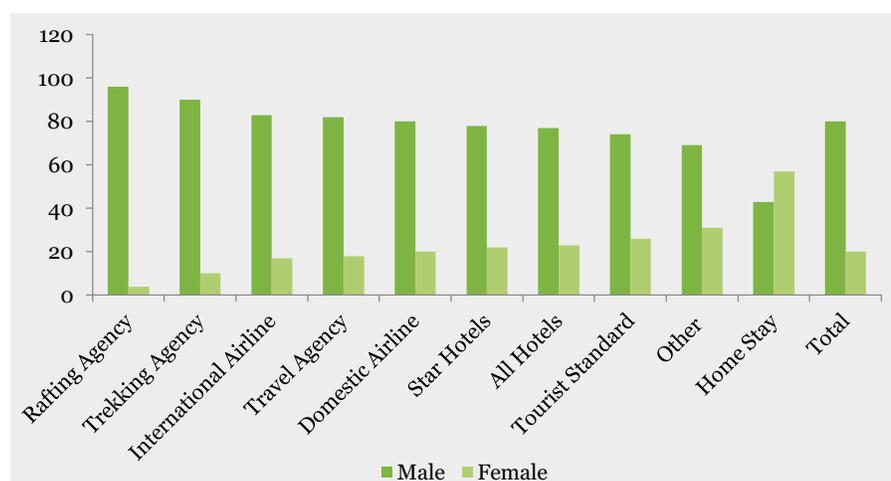
INDICATOR	VALUE
Average length of stay	12.4 days
Average money spent per day	\$44
Total earnings (\$ 000)	\$703,179
Mode of arrival	
Air	83 percent
Land	17 percent
Total	1,173,072
Sex	
Male	53 percent
Female	47 percent
Top three countries	
1	India
2	China
3	USA
Purpose of Visit	
Holiday/Pleasure	60 percent
Pilgrimage	16 percent
Trekking and Mountaineering	14 percent
Others	10 percent

²³ NRB (2020)

²⁴ DoT (2019)

²⁵ DoT (2019): the number of paragliding companies is from 2018.

FIGURE 3.1. EMPLOYMENT BY SEX IN TOURISM SUBSECTORS



Source: Department of Tourism, 2014

Most business establishments in Nepal's tourism sector are SMEs. The average number of employees in travel agencies (12), home stays (12), rafting agencies (15), paragliding/ultra-light/skydiving (20), and trekking agencies (29) are all below 30 (DoT, 2014). 70 percent of staff in the sector are regular employees, 23 percent are casual workers and seven percent are daily wage earners (DoT, 2014). Hence, 30 percent of the workforce is vulnerable to minor or short-term problems faced by the sector. Some subsectors, such as rafting and trekking agencies, employ significantly larger proportions on a casual basis (53 percent and 95 percent respectively). Therefore, the situation in these subsectors is particularly alarming. These are also the subsectors that employ the largest number of people from ethnic communities. The proportion of Janajatis in the trekking industry is 70 percent followed by 62 percent in rafting (DoT, 2014). They are disproportionately employed as 'casual workers' and are likely to be the most affected.

The DoT reports also found that the more than one-quarter of workers earn less than NPR10,000 per month. Another 27 percent of workers earn between NPR10,000 and NPR20,000 (DoT, 2014). Given that many workers are their households' sole earners and need to support their family, very few can afford to save even when they are working on a regular basis. Even minor disruptions in the business, and their work, is bound to lead to significant livelihood challenges.

Visit Nepal 2020 and COVID-19

The Government of Nepal launched GhumPhir Year in 2016 to promote domestic tourism. The government planned to celebrate the year 2020 as Visit Nepal Year 2020, with a target of welcoming two million foreign tourists.²⁶ This was in line with the 15th five-year plan in which the government had set an ambitious target of attracting 3.5 million tourists by 2025 and generating \$2 billion in revenues.

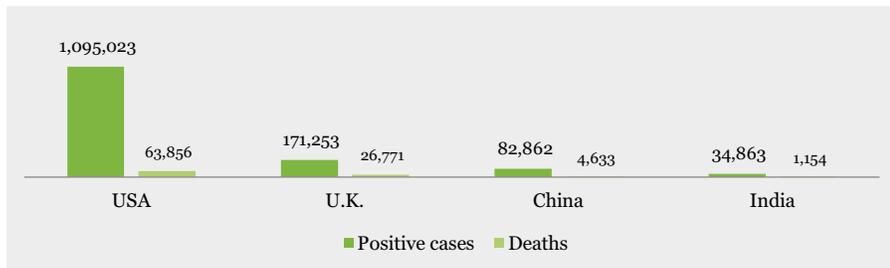
Tourism and ancillary industries invested heavily in the infrastructure expecting a major boost in foreign tourist arrivals. The total loan exposure of the tourism sector at the end of the eight months of the current financial year 2019/2020 is NPR134 billion, accounting for 4.2 percent of the total loan and advance of the country's banking sector. The equivalent sum for the entertainment industry is NPR 8 billion, accounting for 0.2 percent of the banking sector's total loan and advance. Against an overall private sector credit growth of 10.3 percent in the first eight months of the year, tourism registered a credit growth of 17.4 percent during the same period. Tourism saw a remarkable growth in credit in the last two years at an average annual rate of 34.6 percent. The corresponding growth for the entertainment sector is 50.4 percent.

The COVID-19 pandemic has created uncertainty, halted travel and tourism, and has put the jobs of more than five percent of working Nepalis at risk. The government has taken initiatives that affect the tourism sector. For instance, Nepal stopped issuing on-arrival visa and online approval of visas to tourists on 12 March 2020.

3.1.3. POSSIBLE IMPACTS IN NEPAL

How quickly the tourism sector in Nepal will recover from the COVID-19 crisis is a function of domestic policies, promotional activities and the global health and economic situation, most notably in China, India, USA and Europe – Nepal's top sources for tourists (Figure 3.2). But with international travel restrictions, fear of COVID-19 and falls in discretionary income, spending on travel and tourism is likely to decline even after restrictions are lifted.

²⁶ This was an ambitious target, almost doubling the numbers between 2019 and 2020. Even the National Tourism Strategic Plan 2016-2025 estimated the growth of tourism at 17 percent in 2020, reaching around 1.7 million.

FIGURE 3.2. COVID-19 TOTAL CASES AND DEATHS IN NEPAL'S TOP TOURIST EXPORT DESTINATIONS

Source: Worldometers (2020); Note: Data as of 30 April 2020

Shrinking tourism and multi-sector spill-overs

With the WTTC projecting a 20 percent to 30 percent fall in global tourism in 2020, and CBS estimating a fall of 16.30 percent for FY 2019/2020 in hotel and restaurants alone, tourism in Nepal will shrink. Businesses were at a complete halt during March and April. The Hotel Association Nepal (HAN) estimates a loss of at least NPR 3 billion, while the Restaurant and Bar Association Nepal (REBAN) estimates revenue loss of at least NPR 2.6 billion during the lockdown in the two industries.²⁷

The Federation of Handicrafts Association of Nepal (FHAN) says it is operating at a capacity of just 2 percent, while the Nepal Association of Tour and Travels Agents (NATTA) has seen all of its bookings cancelled well into the autumn. Even after the lockdown is lifted, those in tourism, like hotels, restaurants and trekking and travel agencies, expect a fall of over 50 percent

in revenue in the following months. Given the next tourist season is six months away, keeping businesses afloat will be challenging.

Under these circumstances, the private sector expects job losses of over 25 percent in this sector. It reckons that it will take at least one year – until March 2021 – to bounce back. The jobs of 1.5 million people, who are directly associated with trekking and mountaineering companies, are already lost and about 1,500 professional guides and 300 tourist bus drivers have become unemployed.²⁸ This blow can be softened with state support. In a recent survey by the Nepal Tourism Board (NTB), 26 percent of the respondents asked for interest subsidy, 15 percent demanded rescheduling payments of loans while 12 percent cited tax subsidy to help businesses survive the pandemic.²⁹ Assistance in paying rent and salaries for employees were demanded by 11 percent and 10 percent of respondents respectively.

Tourism, unlike other sectors, is considered to have a large multiplier effect since it is labour-intensive and has a strong link to agriculture, retail, and entertainment, among others. A fall in tourist arrivals does not only entail a fall in demand for hotel rooms, but also a decline in ancillary products, from vegetables and meat to outsourced laundry services. Consultations with stakeholders indicate that agriculture goods such as dairy, vegetables, and poultry represent up to 40 percent of the total cost of an average restaurant.³⁰ A fall in demand of meals at restaurants is affecting not only the income of restaurateurs but also retailers, logistics services providers and, more importantly, farmers.³¹ A shrinking tourism sector will also partially drag down demand for agricultural and livestock products.³²

Loss in tourism receipts

Low tourist earnings coupled with falling remittances are likely to lead to dwindling foreign exchange reserves, which is bad news for an import-dependent country. This can immediately strain the country's balance of payments, necessitating support from the IMF. Nepal aimed to earn \$2 billion from tourism receipts under the Visit Nepal Year (VNY) 2020 campaign from two million tourists that spent \$75 dollars a day. More importantly, with the travel ban imposed during March and April – the two months that Nepal receives a significant share of tourists³³ – loss of earnings is likely to be more pronounced. Given the ban on

²⁷ Based on consultation with the Hotel Association Nepal (HAN) and Restaurant and Bar Association Nepal (REBAN) and. Lost revenue is an estimation for the time period 24th March to 7th May assuming no business is done.

²⁸ Personal Communication with Mr. Khum Bahadur Subedi (President, TAAN), Mr. Shanta Bir Lama (President, NMA), Mr. Kedar Tamang (President, TOUGAN) & Mr. Ishwar Sharma (President, TBAN)

²⁹ Based on consultation with Santosh Panta, Nepal Tourism Board. The survey by NTB is ongoing. The results were based on data collected until 25 April 2020, representative of 10 percent of the industry.

³⁰ Based on consultation with Restaurant and Bar Association Nepal (REBAN). Other share of costs: 15-20 percent salary, 7 percent rent, 3-5 percent interest payment and 4-5 percent depreciation cost.

³¹ There have been reports of burying of poultry and discarding of milk and dairy products as demand has fallen (Rising Nepal, 2020).

³² NLFS (2018)

³³ Nepal receives 20 percent of annual tourists on average during March and April (based on moving average of four years).



international and domestic flights until 15 May 2020, even if Nepal were to earn the same amount as last year, it has already lost a minimum of \$141 million of potential earnings from tourism between mid-March and mid-May.³⁴

In addition, based on arrival data for January to March, along with extrapolation of tourist arrivals for the remaining months of 2020, the number of tourists in Nepal is expected to decline by 33 percent in FY 2019/2020 and 62 percent in the calendar year 2020. Tourism receipts are likely to fall by 28 percent in FY 2019/2020 and by 60 percent in 2020. The foreign currency loss from the decline in tourist inflows is expected to be \$185 million in FY 2019/20 and \$400 million in 2020.³⁵

Labour, Employment and Social Security

A complete halt of business leading to low liquidity and business uncertainty has made it challenging for businesses to pay their workers. This gives businesses three options – send workers on un/paid hiatus, cut salaries, or lay off. Restaurant

owners had already started to send their employees on weeks-long hiatus before the lockdown, the industry now looks at pay cuts and layoffs in the following months. In the aviation industry where profit margins are minimal (four to five percent during peak seasons), permanent staff have been asked to take unpaid leave from mid-April. With the spring season over with limited tourist arrivals, aviation companies might not be able to make up for the losses during off season; therefore, extending pay cuts and even lay-offs.

Preliminary results of a survey of the tourism sector by NTB indicate that 42 percent of the firms cite they will resort to unpaid leave, while 37 percent were thinking of cutting salaries, while 20 percent were planning on terminating their employees. Part-time and informal workers associated with the tourism industry are hit harder. For example, there are around 2,000 formal employees and close to 8,000 informal employees in companies associated with aviation.³⁶ FHAN claims that around one million people work directly or indirectly in businesses related

to handicrafts, while some 10,000 people work in rafting and affiliated businesses. The Trekking Agencies Association of Nepal (TAAN) claims there are 0.7 million people directly and indirectly associated with trekking, an activity that predominately caters to foreign tourists. According to the Ministry of Culture, Tourism and Civil Aviation (MoCTCA) (2014), 95 percent are seasonal workers, while 57 percent of all workers in the trekking industry are self-employed. Some 70.6 percent of people employed in trekking agencies are Janajatis, further exposing an already vulnerable group to greater risk.³⁸

Private sector associations representing the tourism industry report that merely 10 percent of workers are enrolled in social security schemes – of whom most are permanent staff – leaving informal and part-time workers exposed to income shocks. To hedge against these risks, informal and part-time workers had been working abroad during peak seasons or were involved in secondary employment in Nepal (such as in agriculture). Given the idiosyncratic shock of the pandemic these hedging mechanisms are now defunct, leaving those people further exposed to poverty and vulnerability.

Domestic Tourism

One silver lining from this pandemic in Nepal is the possibility that domestic tourism might pick up greater momentum once the lockdown is lifted. As foreign countries have put tight travel restrictions in place and with fear of COVID-19 still looming large, Nepalis who would have otherwise visited foreign countries might have to make do with taking holidays

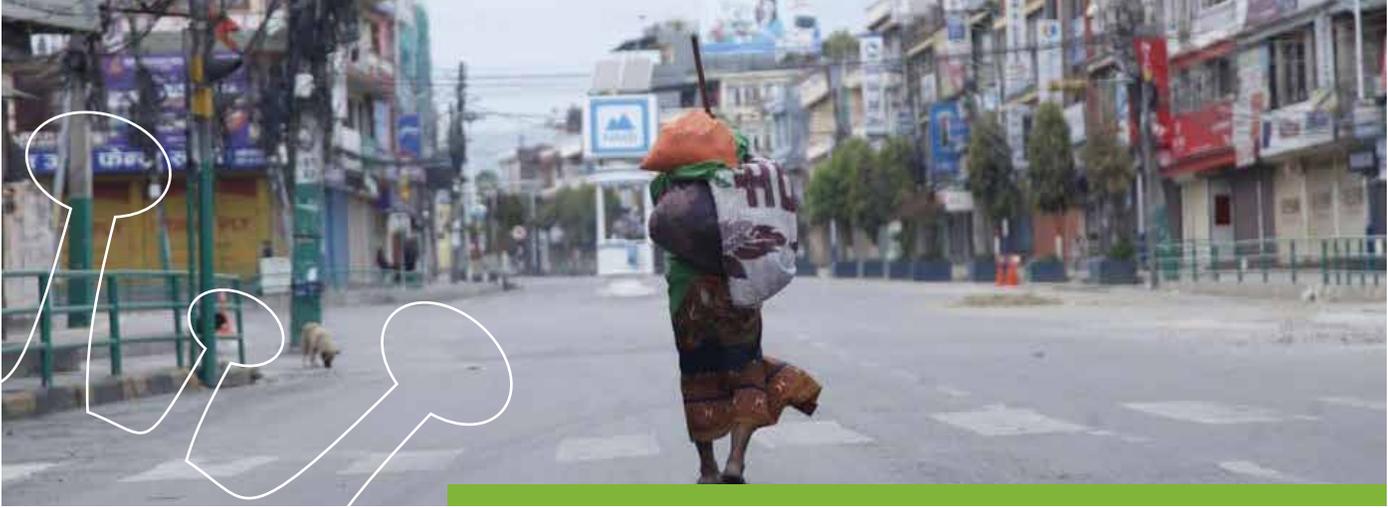
³⁴ Based on Quarterly Economic Bulletin by NRB (2019)

³⁵ See Annex for a detailed estimation.

³⁶ Personal communication with Mr. Rameshwar Thapa, President, Airlines Operators Association of Nepal (AOAN) on 20th April 2020.

³⁷ While some of this represents over-estimation (none of the associations had cumulative figures, so these are estimates) on the part of the associations to overstate their 'importance', there is no doubt that the businesses under these associations contribute greatly to Nepali employment.

³⁸ MoCTCA (2014).



within Nepal. In 2018/2019, \$383 million was spent by Nepali tourists abroad.³⁹ This is more than half of what Nepal earned from foreign tourists in 2018 (\$651 million). If that entire amount were to be spent in Nepal, recovery of the tourism industry would arguably be easier. This would not be a new venture, as earlier campaigns such as Ghumphir Year in 2016 and PahileDeshAniBidesh in 2018 both yielded positive results. The COVID-19 pandemic presents this new opportunity, but it should be supported by grander promotions along with improvements in tourism-related infrastructure, such as roads, transportation services, and airports, among others.

Anecdotal evidence and consultations with the private sector indicate domestic tourist spending contributes significantly to the tourist industry in Nepal – although no official estimates are available. Wedding functions, casual Friday nights, as well as domestic travel including treks, pilgrimage and leisure is equally common among Nepalis. Diverting Nepali tourists who would otherwise have visited foreign countries towards home destinations would provide great succour to a struggling yet vital industry.

3.2. FOREIGN EMPLOYMENT, MIGRANT WORKERS AND REMITTANCE

3.2.1. BACKGROUND

According to the World Migration Report 2020 (International Organization of Migration (IOM), 2019),⁴⁰ there were an estimated 272 million international migrants (3.5 percent of the world's population, or one in every 30 people) in the world in 2019. The most recent data from 2017 indicate that almost 70 percent of international migrants comprise migrant workers (IOM, 2019).⁴² About 68 percent of all migrant workers live in high-income economies, about 29 percent in middle-income countries and about 3.4 percent in low-income countries. In 2017, there were 28 million more male migrant workers than females and represented 58 percent of total global migrant workers (96 million out of 164 million).

These migrant workers sent home \$689 billion in remittances in 2018 (IOM, 2019).⁴³ That year, India, China, Mexico, the Philippines and Egypt were the top five remittance-receiving economies. However, in terms of remittances as a percentage of

GDP, Tonga (35.2 percent), Kyrgyzstan (33.6 percent), Tajikistan (31 percent), Haiti (30.7 percent) and Nepal (28 percent) topped the list. Of the total global remittance in 2018, almost 77 percent (\$530 billion) went to low and middle-income countries (LMICs) (World Bank, 2019).⁴⁴ While this was more than three times the volume of official assistance to LMICs, it was also higher than foreign direct investment flows into these countries. High-income countries have remained the top sources of remittances for years. In 2017, US, UAE, Saudi Arabia, Switzerland, Germany, Russian Federation, China, Kuwait, France and the Republic of Korea were the top 10 remittance-sending economies (IOM, 2019).⁴⁶

The COVID-19 pandemic has not only affected the global public health system, but has also hit international migrant labourers hard. According to IOM, as of 7 April 2020, almost 46,000 mobility restrictions have been put in place by governments worldwide, thus affecting the overall movement of people across borders (IOM, April 2020)⁴⁸. According to an ILO estimate, as of 7 April 2020, lockdowns across the world have affected 2.7 billion workers (almost 81 percent of the world's workforce), with an estimated 1.23 billion

³⁹ United Nations Conference on Trade and Development (UNCTAD) (2020)

⁴⁰ International Organization for Migration (IOM). 2019. World Migration Report. Last accessed on 25 April 2020

⁴² *ibid.*

⁴³ *ibid.*

⁴⁴ World Bank. 2019. Leveraging Economic Migration for Development: A Briefing for the World Bank Board. Washington, DC: World Bank. Last accessed on 25 April 2020

⁴⁶ International Organization for Migration (IOM). 2019. World Migration Report. Last accessed on 25 April 2020

⁴⁸ International Organization for Migration (IOM). April 2020. IOM Global Strategic Preparedness and Response Plan - Coronavirus Disease 2020. Last accessed 25 April 2020

workers (28 percent of global workforce) employed in retail trade, accommodation and food services, and manufacturing sectors being affected the most (ILO, April 2020)⁵⁰. Earlier in March, in an initial assessment of the impacts of COVID-19 on the global job market, ILO predicted that the ongoing pandemic may force about 25 million individuals to lose their jobs (ILO, March 2020)⁵².

The World Bank Group, releasing the Migration and Development Brief 32 on 22 April 2020, estimated global remittances to contract sharply (Ratha, et al., 2020)⁵⁴. Europe and Central Asia, Sub-Saharan Africa, South Asia, Middle East and North Africa, Latin America and Caribbean, and East Asia and Pacific regions are projected to lose remittance inflows by 27.5 percent, 23.1 percent, 22.1 percent, 19.6 percent, 19.3 percent and 13 percent, respectively in 2020. Overall, remittance flows to LMICs are estimated to fall by 19.7 percent to just \$445 billion in 2020. As a result, more than 1 billion people have been projected to be affected globally and many are likely to fall back into poverty.

3.2.2. CURRENT STATUS IN NEPAL

Recent Trends in Nepalis' Foreign Employment Practices: According to the Department of Foreign Employment (DoFE, 2019), of the 110 countries opened by the Government of Nepal for Nepali agencies to recruit and mobilize migrant workers, only five (Malaysia, Qatar, Saudi Arabia, United Arab Emirates and Kuwait) have remained as the key destination countries

for Nepali workers, with Malaysia and Qatar alone accounting for more than 60 percent of foreign employment opportunities.

According to the Nepal Labour Migration Report 2020 (MoLESS), five countries alone (Malaysia, Qatar, UAE, Saudi Arabia and Kuwait) employed more than 92 percent of Nepali migrant workers in FY 2017/2018. However, the share of these countries declined to 88 percent for FY 2018/2019. Similarly, 74 percent of Nepali female migrant workers went to UAE, Qatar, Malaysia, Kuwait and Jordan in FY 2017/2018 while for FY 2018/2019, 77 percent went to UAE, Qatar, Saudi Arabia, Kuwait and Cyprus. In terms of the origin of migrant workers in Nepal, Province 1 topped the list with 24.4 percent in FY 2018/2019 followed by Province 2 (24.2 percent), Bagmati Province (15 percent), Province 5 (16.8 percent), Gandaki Province (13.8 percent), Karnali Province (3.2 percent) and Sudurpaschim Province (2.6 percent). In terms of age, as per the 2018/2019 data, the mean and median ages of Nepali migrant workers are 29 and 28 respectively. Youths (aged between 18 and 24 years) comprised 36 percent of all such workers, a decline of 3 percent from the previous year. While the workers aged 45 years and above accounted for the smallest share of Nepal's total migrant workers, those aged between 25 and 35 (same trend for men and women) made up the largest share of the workers. The top destination for women and men youth migrant workers vary – for women, UAE has been the top destination country for

2017/2018 and 2018/2019, while for men, Qatar became the top destination for 2018/2019 after Malaysia for 2017/2018.⁵⁵

As per the reclassification of the occupational categories of the Nepali migrant workers in 2020, about 55 percent of Nepali migrant workers are employed in elementary occupations (cleaning and laundry; packaging, loading, shipping and delivery; specified (5.3 percent) and unspecified (33 percent) low-paying labour), followed by 18 percent in service- and sales-related work (e.g. bakeries, coffee shops, hotels and restaurants, beauty and fitness, retails, tailors and security agencies), more than 9 percent in construction (as carpenters, painters and steel fixtures among others), about 7.1 percent as drivers and machine operators, about 5 percent as electrical and mechanical technicians, and about 2 percent in manufacturing.

The share of migrant workers in mid-career to senior level positions is low. For example, in 2018/2019, only 0.9 percent of workers worked as supervisors and foremen in service industries, while this share for those with managerial and similar roles was just 0.5 percent. During this time, 1.3 percent of Nepali migrant workers had formal jobs as office and administrative associates. Finally, the share of Nepali workers in the aviation and cruise sector was 0.5 percent, and just 0.2 percent were employed in the agriculture, fishery, poultry, animal husbandry and gardening sectors combined.

⁵⁰ International Labour Organization (ILO). April 2020. ILO Monitor: COVID-19 and the world of work. Second edition (Updated estimates and analysis). Last accessed on April 25, 2020

⁵² International Labour Organization (ILO). March 2020. COVID-19 and the world of work: Impact and policy responses (ILO Monitor 1st Edition). Last accessed on 25 April 2020

⁵⁴ Ratha, Dilip K.; De, Supriyo; Kim, EungJu; Plaza, Sonia; Seshan, Ganesh Kumar; Yameogo, Nadege Desiree. 2020. COVID-19 Crisis Through a Migration Lens (English). Migration and Development Brief; no. 32. Washington, D.C.: World Bank Group. Last accessed on 25 April 2020

⁵⁵ These data exclude unrecorded migrants –migrants to India who require no labour approval (due to 1950 Nepal-India Treaty of Peace and Friendship, which allows free movement of people between the two countries) and other migrant workers travelling through irregular channels

India remains one of the most popular destinations for Nepali migrant workers. As per available data (IOM, 2019)⁵⁶, there were about 374,769 Nepali migrant workers (93 percent of Nepal's total absentee population – 402,977) in India in 1981. By 2011, this had reached 720,560 (37.5 percent of total absentees). Although the proportion of the absentee population living in India has been falling over decades, their overall number rose in the same period. This fall in proportion can be attributed to Nepalis going for employment opportunities in countries other than India.

Nepal's recruitment agencies play an important role in mobilizing migrant workers. During FY 2018/2019 (MoLESS), while only 9 percent of such agencies deployed more than 500 workers, more than 52 percent of agencies were able to send less than 100 workers abroad. About 12 percent of agencies deployed 100–149 workers, and 27 percent of agencies mobilized between 150 and 499 workers.

Government data show that, in FY 2003/2004, the number of migrant permits issued by the Department increased by almost 30 percent and reached 106,660 (MoLESS, 2020). Over the next 10 years, this increased to 519,638. The Department of Foreign Employment (DoFE) issued 508,828 labour permits during FY 2019/2020. Nepal's international migration is male-dominated (80 percent in FY 2017/2018). Over the years, the inflow of remittances has increased from \$2.54 billion in FY 2010/2011 to \$879 billion in FY 2018/2019: 25.4 percent of Nepal's GDP. As per the latest data release by Nepal's central bank, remittance inflows to Nepal increased by 1.8 percent to NPR 592.42 billion in the review period of the current year compared to a rise of 23.4 percent during the same period the previous year (NRB, April 2020)⁵⁸.

Policy Responses

The Foreign Employment Policy (2012), Foreign Employment Act (2007) and Foreign Employment Rules (2008) are the three key policy documents that guide Nepal's foreign employment regime.

In addition, the Directive for Sending Domestic Workers for Foreign Employment (2015) and a MoLESS High-Level Foreign Employment Coordination Committee play a supportive role. The Government of Nepal has signed the following bilateral agreements and memoranda of understanding to better coordinate the government's efforts to make international migration for Nepalis safe and dignified.

Two days after WHO recognized (WHO, March 2020)⁵⁹ COVID-19 as a pandemic on 11 March 2020, the Department of Foreign Employment (DoFE) issued (DoFE, March 2020)⁶⁰ a public notice to immediately suspend labour permit issuance for an indefinite period.

COVID-19 Conditions in Nepali Migrant Workers' Key Destination Countries: India and the other top seven destination countries for Nepali migrant workers have reported COVID-19 confirmed cases and related human casualties (JHU, 2020). To better prevent and contain the virus, all these economies have applied strict

TABLE 3.2. LIST OF BILATERAL AGREEMENTS AND MOUS SIGNED BY GON

YEAR	DESTINATION	AGREEMENT TYPE
2005	Qatar	General Agreement
2007	Republic of Korea	Memorandum of Understanding
2007/19	United Arab Emirates	Memorandum of Understanding
2008	Bahrain	Memorandum of Understanding
2009/19	Japan	Japan International Trainee & Skilled Worker Cooperation Organization (JITCO) Agreement/ Memorandum of Cooperation for Specialized Skilled Workers
2015	Israel	Joint Pilot Program
2017	Jordan	General Agreement
2018	Malaysia	Memorandum of Understanding
2019	Mauritius	Memorandum of Understanding

⁵⁶ International Organization for Migration (IOM). 2019. Migration in Nepal: A COUNTRY PROFILE 2019. Last accessed on 25 April 2020

⁵⁸ Nepal Rastra Bank (NRB). April 2020. Current Macroeconomic and Financial Situation of Nepal (Based on Eight Months' Data of 2019/20). Last accessed on 25 April 2020

⁵⁹ World Health Organization (WHO). March 2020. WHO Director-General's opening remarks at the media briefing on COVID-19 - 11 March 2020. Last accessed on 25 April 2020

⁶⁰ Department of Foreign Employment, Government of Nepal. March 2020. Notice Regarding Suspension of Issuance of Labor Permits. Kathmandu, Nepal. Last accessed on 25 April 2020

TABLE 3.3. STATUS OF COVID-19 IN NEPALI MIGRANT WORKERS' KEY DESTINATION COUNTRIES

COUNTRY	NUMBER OF PERMITS (DOFE) ⁶³	1ST CASE REPORTED	TOTAL INFECTIONS	TOTAL CASUALTIES	TOTAL RECOVERED	ACTIVE CASES
Malaysia	1,391,304	25-Jan	5,945	100	4,087	1,758
Qatar	1,062,885	29-Feb	12,564	10	1,243	11,311
Saudi Arabia	872,614	2-Mar	21,402	157	2,953	18,292
UAE	526,978	29-Jan	11,929	98	2,329	9,502
Kuwait	101,511	16-Jan	3,740	24	1,389	2,327
Bahrain	36,672	21-Feb	2,869	8	1,370	1,491
Oman	23,074	21-Feb	2,274	10	364	1,900
India	NA	30-Jan	33,062	1,079	8,437	23,546

travel restrictions by banning international and domestic passenger flights (Oxford University, 2020)⁶².

On 8 March 2020, the Government Communication Office of Qatar issued a notice suspending the entry of all types of passengers from Nepal and 13 other countries (Government of Qatar, March 2020)⁶⁵. The UAE Ministry of Human Resources warned on 12 April 2020 that it would impose strict measures and restrictions on its recruitment of migrant workers from key countries of origin, including Nepal and other South Asian countries, if they refuse to take back their citizens given they wish to return to their home countries (Khadka, 2020)⁶⁷.

As of 25 April 2020, the Non-Resident Nepali Association (NRNA) announced a total of 1,500 confirmed COVID-19 cases

among Nepalis living abroad. Of these, 29 have lost their lives. Available data suggest that about 1,700,000 Nepalis have been working as migrant labourers in the Gulf countries and in Malaysia (Ghimire, 2020)⁶⁹. By 24 April 2020, more than 150 Nepali workers had been infected with COVID-19 in these countries, including 71 in the UAE, 49 in Bahrain, 31 in Kuwait, four in Saudi Arabia, three in Malaysia and two in Qatar. Of the total COVID-19-infected Nepalis, two died in the UAE and seven have recovered (three in Saudi Arabia, and two each in the UAE and Malaysia).

As the ongoing crisis creates further public health and economic havoc, global institutions have taken initiatives, such as IOM issuing guidance (IOM, April 2020)⁷⁰ for employers and businesses to protect workers during the crisis, and the

Migrant Forum in Asia and allies releasing a statement (Migrant Forum in Asia, April 2020)⁷¹ urging both origin and destination countries to take all precautionary steps to protect migrant workers during the ongoing emergency period. As per the details shared by ILO (ILO, April 2020)⁷² and IMF (IMF, April 2020)⁷³, as of 16 April 2020, Nepal had not announced policy measures that aim to support Nepali migrant workers directly. But some policy measures aim to support these workers indirectly.

As the concerned government authorities and key stakeholders in Nepal remain busy discussing and finalizing policy measures to minimize overall risks from COVID-19 to Nepali migrant workers and their families, they have been working on other aspects of relief.

⁶² University of Oxford. 2020. Coronavirus Government Response Tracker. Last accessed on 25 April 2020

⁶³ Ministry of Labour, Employment and Social Security (MoLESS), Government of Nepal. 2020. Nepal Labour Migration Report 2020. Kathmandu, Nepal

⁶⁵ Government Communications Office, Council of Ministers, Government of Qatar. March 2020. Statement by the Government Communications Office on the temporary suspension of entry of those arriving from certain countries as a preventive measure, due to the spread of Coronavirus (COVID-19) worldwide. Last accessed on 25 April 2020

⁶⁷ Khadka, U. April 2020. UAE warning to send back workers, including Nepalis. Nepali Times. Last accessed on 25 April 2020.

⁷⁰ International Organization for Migration (IOM). April 2020. IOM Releases Guidance for Employers and Businesses on Protection of Migrant Workers During the COVID-19 Crisis. Last accessed on 25 April 2020

⁷¹ Migrant Forum in Asia. April 2020. Uphold Migrants' Rights in Times of Crisis Situations. Last accessed on 25 April 2020

⁷² International Labour Organization (ILO). April 2020. COVID-19 and the world of work: Country policy responses (Nepal). Last accessed on 25 April 2020

⁷³ International Monetary Fund (IMF). April 2020. Policy Responses to COVID-19 (Nepal). Last accessed on 25 April 2020



Between 31 December 2019 (when China officially reported the first case of COVID-19 in Wuhan City) and mid-March 2020, DoFE issued about 180,000 labour permits; 117,000 permits in the 58 days before suspension of labour permits by the department alone; for 104 countries and workers have already left for 96 countries. About 50,000 workers who have remained in Nepal have seen their visa and job contracts expire. The Department used to record daily arrivals of about 1,500–2,000 migrant workers to Nepal from destination countries (for, e.g., permit renewal, visa expiration, work termination and complaints among others). Since mid-March 2020, DoFE has worked with key government officials, foreign diplomatic missions in Nepal and outside, foreign employment agencies and NRNA community to minimize the risks from the ongoing crisis to Nepali migrant workers abroad as well as at home.

The NRNA, a global association of 70,000 non-resident Nepalis (NRNs) and 81 national committees, has also been working on its own and also with the

Government of Nepal and private sector stakeholders to support the government to manage issues of COVID-19 in the Nepali diaspora. To make institutional efforts more effective, NRNA has formed a High-Level Committee on COVID-19 Pandemic Mitigation under the coordination of its president and has appointed focal persons for 41 nations. The NRNA has also released the NRNA Strategic Plan to Manage Impact of Pandemic COVID-19: March 2020, and a COVID-19 Emergency Plan to guide the NRNA's overall efforts. It has also proposed the establishment of a relief fund with initial capital of NPR 200 million to be used to distribute relief to Nepali communities in trouble abroad. Of the total fund, NRNA would contribute NPR 50 million and the Government of Nepal is expected to deposit NPR 150 million.

The Nepal Policy Institute (NPI), a policy-institute promoted by NRNA and headquartered in the Netherlands, has been working to advise the Government of Nepal on policy issues related to the Nepali diaspora since its establishment. NPI has collaborated with the NRNA Executive

Team, NRNA national committees across 81 countries, grassroot-level institutions of Nepali diaspora across COVID-19-affected countries and the Government of Nepal to recommend how to minimize risks from the ongoing crisis on the diaspora. On 17 April 2020, NPI presented 13 early policy recommendations. Ensuring return of Nepali migrant workers and special relief packages for daily wage earners; stimulus for MSMEs; prevention and control of domestic violence; social discrimination; physical and psychological abuses; and sexual assault during the lockdown are among its key recommendations.

The Nepal Association of Foreign Employment Agencies (NAFEA) has also coordinated with key government authorities in Nepal and outside, and with the association's 854 members, to undertake activities aimed at minimizing risks from the crisis on Nepali migrant workers and their families and also on the overall activities of Nepali recruitment agencies. Nepal's diplomatic missions abroad have also been involved in a variety of operations related to COVID-19 (Ghimire, April 2020).⁷⁴

The NRNA has also released the NRNA Strategic Plan to Manage Impact of Pandemic COVID-19: March 2020, and a COVID-19 Emergency Plan to guide the NRNA's overall efforts.

⁷⁴ Ghimire, N. April 2020. SwasthyaKhabar. Last accessed on 25 April 2020

3.2.3. POSSIBLE IMPACTS IN NEPAL

The most visible and immediate impacts of the ongoing COVID-19 pandemic on Nepal are likely to be felt in two key areas – a decline in remittances to Nepal, and a return of Nepali migrant workers from key destination countries. As early as 7 March 2020, two weeks before Nepal imposed a lockdown, Nepal witnessed a fall in outgoing migrant workers by almost 75 percent, lower than the decline the country witnessed immediately after the 2015 earthquake (Khadka, March 2020)⁷⁶. The decision of Qatar on 8 March 2020 to temporarily suspend entry of passengers from Nepal and 13 other countries forced between 35,000 and 40,000 Nepali migrant workers with valid visas and permits. To complicate matters, on 15 April 2020, Amnesty International accused Qatari authorities of forcefully expelling Nepali migrant workers amidst COVID-19 pandemic (Amnesty International, April 2020)⁷⁸. The latest developments show that Saudi Arabia, UAE and Qatar have begun indirectly pressurizing Nepal to bring back about 70,000 Nepalis working in those three countries due to ongoing lockdowns and the global fall in oil price in recent months. As the crisis deepens

further across key destination countries, even key government authorities in Nepal have acknowledged that Nepal may have to rescue thousands of documented and undocumented migrant workers from countries in the Middle East and Southeast Asia.

Four key remit companies in Nepal have reported sharp declines in their businesses since mid-March. However, they have seen lower declines in their businesses from USA, South Korea and Japan due to highly developed FinTech and other digital platforms in those countries. The IME Group, which has an estimated market share of about 30 percent in Nepal's remittance industry, has witnessed a decline in the company's transactions volume by more than 65 percent since 22 March 2020. Prabhu Remit previously reported about 10,000–12,000 daily transactions before the lockdowns. That figure has now declined to a mere 2,000–2,500 transactions per day, a fall of some 50 percent to 60 percent since mid-March. The City Express, which has a market share of about 17 percent to 18 percent in Nepal's remittance industry, has witnessed a fall of around 75 percent in their daily remittance transactions since 24 March. Himal Remit has also seen a rapid decline in company's

daily transactions of almost 60 percent. Thamel Remit, whose client base is largely in the USA and is fully digital, has reported a decline of only around 30 percent in remittance inflows between late-March and late-April.

The National Accounts Statistics, published by CBS on 29 April 2020, estimate that the share of remittances in Nepal's GDP will fall sharply to 19.01 percent in the current fiscal year.

Remittances sent by Nepali migrant workers during FY 2018/2019 stood at NPR 8.8 trillion, against Nepal's trade deficit amount of NPR 13.2 trillion (Khadka, March 2020)⁸⁰. As per the World Bank's preliminary estimates, remittances to Nepal are projected to fall by 14 percent in 2020 resulting in an overall decline of NPR 145 billion as remittances into Nepal (World Bank, April 2020)⁸². NPI, meanwhile, has estimated Nepal's remittances to fall by 40 percent in 2020.

The first eight months of FY 2019/2020 saw a marginal increase in remittances of 1.7 percent to \$5.2 billion. The remaining four months are expected to witness a significant fall of about 50 percent. Our estimates predict a decline of 15.6 percent

TABLE 3.4. PROJECTIONS OF REMITTANCE FLOWS TO NEPAL IN 2020

PARTICULARS	2018/19	2020
As per BoP (in \$ million)	7,790	-
World Bank estimate of remittance loss (in USD million)	-	14 percent
Remittance loss in 2020	-	1,091
NRNA's Nepal Policy Institute estimate of remittance loss (in \$ million)	-	40 percent
Remittance loss in 2020	-	3,116

Source: World Bank and Nepal Policy Institute (NPI)

⁷⁶ Khadka, R. March 2020. Outbound migrant worker numbers down 75 percent amid COVID-19 fears: Officials. Republica Daily. Last accessed on 25 April 2020

⁷⁸ Amnesty International. April 2020. Qatar: Migrant workers illegally expelled during COVID-19 pandemic. Last accessed on 25 April 2020

⁸⁰ Khadka, R. March 2020. Outbound migrant worker numbers down 75 percent amid COVID-19 fears: Officials. Republica Daily. Last accessed on 25 April 2020

⁸² World Bank. April 2020. Migration and Development Brief 32: COVID-19 Crisis Through a Migration Lens. Last accessed on 25 April 2020



worth \$1.2 billion in FY 2019/2020, i.e. from \$7.8 billion to \$6.6 billion.

During our recent meeting, the DoFE informed us that it has received incidents of small and service sector companies in the key destination countries either laying off Nepali workers or asking them to take unpaid leave.

With lay-offs and unpaid leave, Nepali migrant workers and their families are likely to suffer from immediate economic and socio-psychological problems. From the sudden and rapid decline of remittances, indefinite suspension of issuance of labour permits, key stakeholders in Nepal are expected to lose substantial revenue while private sector stakeholders in particular may also have to lay off their staff in Nepal offices. If Nepali migrant workers are forced to return to Nepal over the remainder of the year, it would shake up the domestic labour and financial markets, as well as public finances. In the medium-term, if the government fails to scale-up Nepali workers' existing skills, they are likely to remain unemployed in Nepal. That, of course, will bring socio-political consequences.

3.3. LABOUR AND EMPLOYMENT

3.3.1. BACKGROUND

The economic impact of the COVID-19 pandemic brought by lockdown measures is idiosyncratic across sectors. The demand for essential goods, such as food and medicine, has increased sharply while demand for non-essentials has declined sharply. On services, demand for health care has increased rapidly whereas that for hotels, tourism and travel, among others, has collapsed. There have been severe disruptions to the supply chain as a result of restricted mobility of transport and labour.⁸³

Globally, according to the ILO, the number of jobs lost due to COVID-19 nears 190 million. Workers and sectors that have experienced the most drastic effects and falling production are: food and accommodation (144 million workers), retail and wholesale (482 million); business services and administration (157 million); and manufacturing (463 million). Together, they add up to 37.5 percent of global employment.⁸⁴ ILO's updated report, to account for the impact of COVID-19 on the world of work, also puts accommodation, food and services, manufacturing,

wholesale retail, and trade/repair at high risk in terms of loss of output.⁸⁵

3.3.2. CURRENT STATUS IN NEPAL

According to the NRB's annual report, the contribution of agriculture, forestry and fishing, industry and the service sector to GDP is 27 percent, 15.2 percent (of which manufacturing is 5.6 percent and construction is 7.8 percent), and 57.8 percent (of which hotel and restaurant is 2.05 percent) respectively for 2018/2019.⁸⁶ The shares of those sectors' contributions to GDP does not correspond to their shares of employment. Agriculture has the highest share of employment at 21.5 percent, followed by wholesale/retail and repair. Manufacturing and construction follow, at 15.1 percent and 13.8 percent, respectively. Sectors such as accommodation and food services (which have direct connections to tourism) and manufacturing are receiving first attention as the most impacted sectors. However, it is important not to ignore agriculture, construction, and wholesale and retail. In terms of the proportion of establishment in the country, wholesale and retail has the highest share of 53.9 percent and employs 17 percent of the workforce. A summary of employment by industry is presented in Table 3.5.

⁸³ Barua, S. (2020)

⁸⁴ UN News (2020)

⁸⁵ ILO (2020)

⁸⁶ NRB annual report 2018/19

TABLE 3.5. EMPLOYMENT BY INDUSTRY

INDUSTRY	NUMBER EMPLOYED (IN '000)	PERCENTAGE EMPLOYED	AVERAGE HOURS OF WORK IN A WEEK	PROPORTION OF ESTABLISHMENT BY SECTORS ⁸⁷
Agriculture, forestry and fishing	1523	21.5	36	
Manufacturing	1072	15.1	45	11.3
Construction	978	13.8	50	
Wholesale, retail and trade, repair of motor vehicles and motorcycles	1240	17.5	46	53.9
Accommodation and food service activities	371	5.2	53	14.1
Education	558	7.9	40	
Human health and social work activities	171	2.4	46	

Source: Nepal Labour Force Survey 2017/2018 and National Economic Census 2018

Employment in Formal and Informal Sectors

In terms of the 7.1 million employed in Nepal (according to the NLF5, 2018), the informal non-agriculture sector accounts for 41 percent of all jobs, whereas formal non-agriculture accounts for 36.5 percent of total employment. Informal employment is higher among rural dwellers (90.9 percent) compared to urban residents (81.8 percent). Province 2 has a higher

proportion of informal employment with 91.9 percent.⁸⁸are Those with informal employment are especially vulnerable due to lack of formal contracts and fixed monthly salaries. Other characteristics of the informal economy in Nepal include: low level of fixed investment; difficulty in separating business, personal and household expenses; range of production from petty commodity to small factories; lack of

entrepreneurial skills; vulnerability to risk; lack of access to training leading to low productivity; labour relations based on verbal contracts and casual employment; lack of capacity to identify and reach specific markets; lack of social protection; and low trades union coverage.⁸⁹ A summary of employment in the formal and informal sectors, and the number of establishments, are presented in Table 3.6. and Table 3.7.

TABLE 3.6. EMPLOYMENT IN FORMAL AND INFORMAL SECTORS

SECTOR OF EMPLOYMENT	NUMBERS (IN THOUSANDS)	PERCENTAGE
Formal agriculture	90	1.3
Informal agriculture	1434	20.2
Formal non-agriculture	2586	36.5
Informal non-agriculture	2904	41.0

Source: Nepal Labour Force Survey 2017/18

TABLE 3.7. NUMBER OF ESTABLISHMENTS BY REGISTRATION STATUS

	NUMBERS ⁹⁰	PERCENTAGE
Registered	462,605	50.1
Un-registered	460,422	49.9
Total	923,356	100
New establishment	394,219	42.7

Source: National Economic Census, 2018.

⁸⁷ Remaining 20 percent of establishment is categorized as others in the economic census

⁸⁸ Nepal Labour Force Survey 2018/19.

⁸⁹ The informal economy and works in Nepal, ILO (2004).

⁹⁰ Excluding unregistered agriculture, forestry and fisheries, public administration, defense and compulsory social security, Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use and Activities of extraterritorial organizations and bodies

⁹¹ New establishments mean which started business between April 2015 and April 2018

Labour Union and Labour Laws

The Labour Act (2017) allows any entity⁹² with 10 or more employees to form a collective bargaining committee. The committee can be formed as authorized by a trade union or by signature of 60 percent of workers in lieu of a trade union. The committee is authorized to submit collective demands and negotiate with the employer. The major trades unions in the country are the General Federation of Nepalese Trade Union and the Nepal Trade Union Congress. The General Federation of Nepalese Trades Unions had 19 affiliated unions and represented around 445,014 members in 2018. Informal organized workers make up around 64 percent of the total membership. Cumulative women's membership in affiliated unions increased from 20 percent in 2014 to 31 percent in 2018. The Nepal Trades Unions Congress has 25 affiliated national organizations with 425,014 members. Around 29 percent of all members are women, and 26 percent are workers affiliated with the informal economy.⁹³

Social Security Scheme

A contribution-based social security scheme was introduced in Nepal in 2018. The scheme is funded through contributions made by workers and their employers. Legal provisions for the scheme are: Labour Act (2017); Labour Regulation (2018); Contribution Based Social Security Act (2017); and Contribution Based Social Security Regulations (2018). As per the law, all employers are required to register with Social Security Fund. Upon enrolment by the employers, they are required to enrol their employees within three months of the date of registration of the employers. Both employees and employers are required



to contribute proportionally based on the workers' basic salary — 11 percent for the employee and 20 percent for the employer. The contribution of 31 percent is to be utilized in various schemes as follows: one percent for medical treatment, health protection and maternity scheme; 1.40 percent for accidents and disability; 0.27 percent for dependent family plan; and 28.33 percent for pension or old-age security scheme. The social security fund has registered 156,945 employees to date and the total contribution currently amounts to NPR 900 million.⁹⁴ As part of the relief package, the Government of Nepal announced that it would cover the contributions to SSF for the month of Chaitra (worth NPR 180 million).

Government Initiatives

The Government of Nepal has begun to provide, albeit haltingly, relief packages

to mitigate the economic shock of COVID-19. Efforts include: distribution of food to the needy; mandate for employers to pay salary to their employee during the lockdown (can use welfare funds); mandate for tourism enterprises to pay wages for month of Chaitra (mid-March to mid-April); short-term loans for tourism and aviation enterprises; extension of tax deadlines; and contributions to the social security scheme by the government.⁹⁵ These efforts do not cover all affected sectors (e.g. manufacturing), including informal businesses and people working in the informal sector (agriculture or non-agriculture). The government has also diverted NPR 136 billion away from land acquisition and vehicle procurement towards disease control.⁹⁶

⁹² The Labour Act (2017) defines entity to include company, private firm, partnership firm, cooperatives, association or other organization ("entity") in operation, or established, incorporated, registered or formed under prevailing laws to undertake industry or business or provide service with or without profit motive.

⁹³ DTDA (2019). Labour Market Profile 2019

⁹⁴ Social Security Fund (2020)

⁹⁵ Ministry of Finance cited in Nepal Macroeconomic Update, ADB (2020).

⁹⁶ Kathmandu Post (2020)

3.3.3. POSSIBLE IMPACTS IN NEPAL

To stop the spread of the virus, GoN took decisive steps on 24 March, suspending flights, closing schools and offices, sealing borders, and halting ground transport. The economic impact of this lockdown has been immediate. Domestic and international trade has substantially slowed; supply of goods and services has plunged. The ADB estimates that the economic loss in industry ranges from NPR 1.7 billion to NPR 4.2 billion, while for the service sector the economic loss ranges from NPR 5.7 billion to NPR 9.98 billion. Estimated economy-wide loss ranges from NPR 8.5 billion to NPR 16.9 billion.⁹⁷ The World Bank estimates growth to decelerate by between 1.5 percent and 2.8 percent in 2020, and by between 1.2 percent and 2.9 percent in 2021, citing the effect of COVID-19 on lower remittance inflows and slowing trade and tourism, with a further deceleration or contraction in services and industrial production in the event of a prolonged outbreak.⁹⁸

There are no estimates of loss of employment in the affected sectors in these reports due to lack of data at regular intervals about job creation and loss in Nepal, difficulty for employers in Nepal to get rid of their workers due to, for example, labour laws and strong presence of labour unions, and lack of provision of unemployment benefits.

The stakeholders consulted were key persons from associations representing the private sector and labour unions: The Federation of Contractors' Association Nepal (FCAN); Confederation of Nepalese Industries (CNI); Federation of Nepalese Chambers of Commerce and Industry (FNCCI); Nepal Chamber of Commerce; General Federation of Nepalese Trades



Unions (GFNTU); and Nepal Trades Unions Congress (NTUC). The discussion mainly focused on the impact on these sectors due to the lockdown and measures required from government as well as the business community to mitigate the pandemic's impact and develop with strategies to return to a pre-COVID-19 level of economic activity.

The overall impact of lockdown is zero revenue generation, hence no cash flow. At the same time businesses are incurring fixed costs such as rent, interest, labour and utility costs. The short-term strategy consists of adapting to new social distancing measures to safely re-open the sectors, such as monitoring of temperature, use of masks and sanitizers. The medium-term strategy consists of financial strategies, such as soft loans; refinancing of existing and new loans; government fiscal stimulus and relief packages to support businesses and to stimulate demand; tax relief; cost reduction measures, such as waiving energy charges and reduction of

energy tariff; and provisions to reduce the cost of labour, such as paying half of the salary during the period of lockdown and changes in labour laws to allow workers to be laid-off and operations to be downsized. On the labour side, workers with fixed monthly salaries are being paid during the lockdown and hence are not affected. Most informal sector workers, daily wage workers, and seasonal workers have lost their jobs.

To stop the spread of the virus, GoN took decisive steps on 24 March, suspending flights, closing schools and offices, sealing borders, and halting ground transport.

⁹⁷ Nepal Macroeconomic Update, ADB (2020).

⁹⁸ South Asia Economic Focus, Spring 2020: The Cursed Blessing of Public Banks.



3.4. VULNERABLE GROUPS

3.4.1. WOMEN

Background

The current crisis affects women differently than men. In global downturns, such as the recession of 2008, job losses were more pronounced for men than women. One reason is that men typically work in industries that are affected by standard downturns, such as construction and manufacturing, while women mainly work in areas that are considered less cyclical, for instance education and health care. But unlike a typical recession, the COVID-19 crisis has affected all sectors, including services, hospitality and restaurants –

sectors where women’s employment share is similar to that of men. Women are affected more, because they tend to work in areas that are less tele-commutable, such as hospitality, wholesale and retail. The closure of schools and day care has also increased childcare needs, which largely affects working mothers.

Gender pay gaps compound this inequality – not only are women losing jobs and have increased responsibility at home, they are also paid less to begin with. In Nepal, for every 100 rupees that a man can spend on daily necessities during this crisis, women can spend only 70 rupees.⁹⁹ According to NLFS 2017/2018, 90.45 percent of working women in Nepal are engaged in informal employment. A significant proportion of

women (85 to 100 percent) are informally employed across construction works, agriculture, forestry and fishing, wholesale and retail trades, education, non-essential service industries such as food chains, accommodation and hospitality (Table 3.8).

The economic impact of the pandemic is likely to more severely affect women as most women are engaged in low-paying, informal and insecure jobs. Self-employed, domestic workers and those in temporary agency employment are at particular risk of losing work due to COVID-19. The extended lockdown of over a month has overburdened women and adolescent girls with disproportionate informal care, consequently limiting their work and shrinking economic and education opportunities.

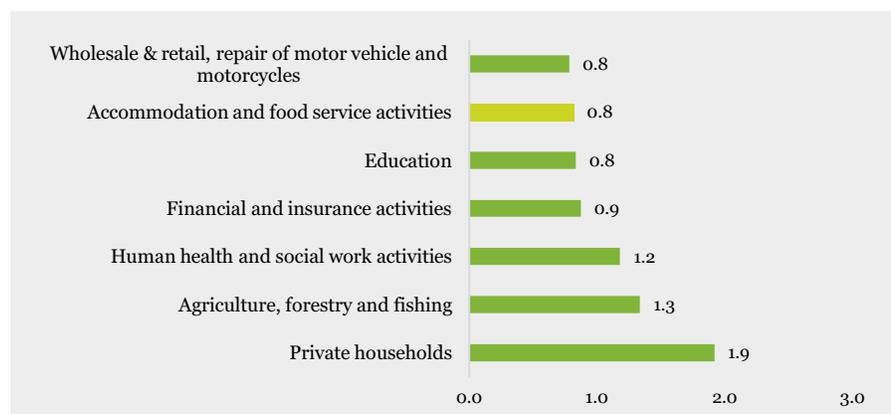
According to NLFS 2017/2018, 90.45 percent of working women in Nepal are engaged in informal employment.

TABLE 3.8. WOMEN WITH FORMAL AND INFORMAL EMPLOYMENT ACROSS SECTORS (PERCENT)

SECTORS	FORMAL EMPLOYMENT	INFORMAL EMPLOYMENT
Construction	0.00	100.00
Agriculture, forestry and fishing	1.26	98.74
Manufacturing	5.38	94.62
Accommodation and food service activities	10.18	89.82
Wholesale and retail trade; repair of motor vehicles and motorcycles	14.68	85.32
Education	14.96	85.04
Total	9.55	90.45

Source: NLFS 2017/2018

⁹⁹ NLFS (2018)

FIGURE 3.3. FEMALE TO MALE LABOUR FORCE PARTICIPATION RATE

Source: Nepal Labour Force Survey (2018)

Tourism is among the few sectors where the share of females in employment is comparable to males. Figure 3.3 illustrates the sectors where female to male participation rate is greater than 0.8. Some 45 percent of workers in accommodation and food services activities are female, which is 6 percent of all working females. The rise in female labour force participation over the last two decades has lowered gender inequalities at home and in the workplace in line with SDG-5. In 1990, the share of women in non-agriculture sectors was 18 percent, today it is 32 percent. In an economy where only 37 percent of women work, loss of income and jobs for women in sectors with relatively higher participation is likely to lower female employment overall impacting their agency and empowerment at home and in society. The impact is more severe for unmarried female entrepreneurs, who need additional capital to reinvest in their enterprises because the BFIs do not provide loans based on parental property as collateral like male proprietors, and the existing rules of the central bank do not allow investment in ideas.¹⁰⁰

Survey Results

Among the 400 individuals surveyed by this study, 25 percent of respondents were female. According to the survey, 26 percent have formal employment, 21 percent and 18 percent are self-employed in agriculture and non-agriculture sectors respectively, while 20 percent and 11 percent are day labourers in agriculture and non-agriculture sectors respectively (Table 3.12.). Compared to 42 percent of male respondents, 46 percent of female respondents save less than NPR 5,000 per month (Table 3.13). Only 10 percent of female respondents save more than NPR 25,000 monthly.

The mean score of severity of impact of COVID-19 for females is high due to their inability to find alternative source of income (3.84) which is followed by incapacity to pay loans (3.30), psychological problems (3.21), incapability to find a new job (mean score of 3.17), and inadequacy to purchase food (3.14). However, the pattern is slightly different for male respondents. The mean score of severity of impact depends more on their inability

to find alternative source of income (3.74), followed by incapacity to find another job (3.55) and incapability to repay loans (3.34). The severity of not being able to travel to permanent home was found to be relatively severe for male (3.92) than female (2.38) since higher percentage of men tend to migrate from their permanent home to other places to earn. These outcomes are detailed out in Table 3.14.

Respondents have resorted to several strategies such as reducing meal and borrowings to cope up against the impact of lockdown. Twenty percent of the female and seven percent of male reduced number of meals per day. Similarly, as compared to 14 percent of male, 31 percent of female borrowed food. Twenty nine percent of female borrowed money from formal/informal sources while seven percent sold non-productive animals in relation to 34.3 percent and two percent of male, respectively. Neither men nor women respondents in the sample have gone a whole day without a meal. (See table 3.15.)

As shown in Table 3.16., about 46 percent of male and 59 percent of female respondents ranked monthly ration of food as the most anticipated support during and after lockdown. The men subsequently prioritized healthcare support (17 percent) and loan waiver (12.7 percent) while the women expected healthcare support (14 percent) and monthly financial support (12 percent) to follow.

3.4.2. MICRO, SMALL ENTERPRISES (MSES) AND INFORMAL ECONOMY

The informal sector consists of enterprises that are neither incorporated nor formally registered. It is considered a stepping-

¹⁰⁰ Personal Communication with Ms. Ritu Gyamdan, Cofounder, Nepal Female Guide Ltd on 5 May 2020

stone towards formal sector employment, providing stop-gap recourse to livelihoods for vulnerable groups, including women, people with little or no education and those who have lost hope of finding work in the formal sector. It serves as an alternative entry to employment when formal sector jobs are difficult to find (Blaauw, 2005). The most vulnerable section of the workforce are people involved in the informal sector and those employed informally – the unskilled, the low-paid, those with vague or no employment contracts and those lacking health and social security insurance.

The ILO defines informal employment as “the total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households, or as the total number of persons engaged in informal jobs during a given reference period” (ILO – 17th ICLS, Geneva, 24 November–3 December 2003). According to NLFS 2017/18, informal employment

includes “employers, own-account workers and contributing family workers who are employed in informal sector establishments, as well as employees and paid apprentices/interns who do not have paid annual leave or sick leave benefits and whose employers do not contribute to their social security”.

Of the formal sector workforce, 59.2 percent are employed with no formal contracts, lacking job and social security schemes in Nepal (Table 3.9). Cumulatively, 84.6 percent of the total working population are engaged in informal jobs, hence they are vulnerable and exposed to risks associated with the informal economy. They remain beyond governmental oversight, regulations and control and are thus unexposed to provisions and protections specially designed for crisis situations like the global pandemic. According to the National Economic Census, 2018, 99.81 percent of enterprises in Nepal represent MSMEs where micro-

enterprises (organizations with up to nine employees) alone constitute 95.40 percent. However, almost 50 percent of the total enterprises remain unregistered and are therefore informal. While 94.7 percent, 96.10 percent and 97.50 percent of small, medium and large enterprises respectively are registered, 52.10 percent of micro-enterprises remain beyond the purview of formalization. Micro-enterprises are a source of employment to 58.80 percent of the country’s total workforce (Table 3.10).

MSMEs dominate the economic landscape and generate three-quarters of Nepal’s formal jobs. In tourism, according to Nepal Economic Census (2018), 94 percent of formal establishments under accommodation and food services are micro-enterprises and five percent are small enterprises, while less than one percent are medium and large enterprises (Figure 3.4.).

TABLE 3.9. DISTRIBUTION OF FORMAL AND INFORMAL EMPLOYMENT ACROSS FORMAL AND INFORMAL SECTORS IN NEPAL (IN PERCENTAGE)

OCCUPATION	FORMAL EMPLOYMENT	INFORMAL EMPLOYMENT	TOTAL
Formal Sector	40.86	59.18	100
Informal Sector	0	100	100
Total	15.42	84.59	100

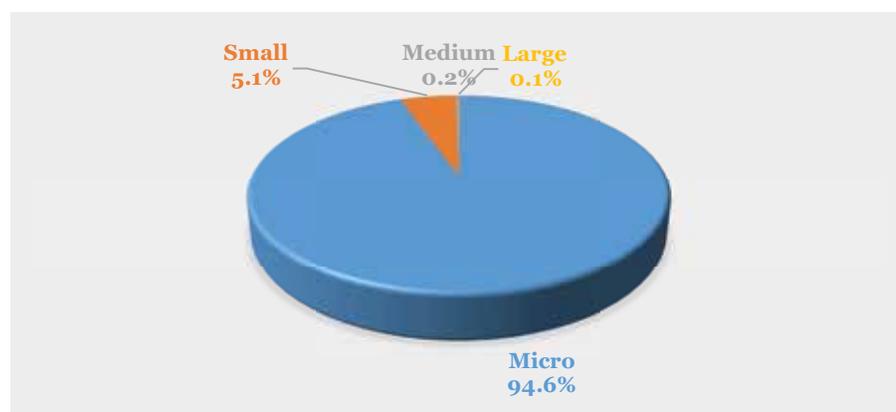
Source: NLFS 2017/18

TABLE 3.10. STATUS OF MSMEs IN NEPAL (PERCENT)

	TOTAL	REGISTERED*	UNREGISTERED	EMPLOYMENT SHARE
Micro-enterprises	95.40	47.90	52.10	58.80
Small Enterprises	4.20	94.70	5.30	21.30
Medium Enterprises	0.24	96.10	3.90	4.60
Large Enterprises	0.19	97.50	2.50	15.30

Source: The National Economic Census, 2018

FIGURE 3.4. SHARE OF ENTERPRISES BY SCALE



Source: Nepal Labour Force Survey (2018)

Micro and small enterprises are often characterized as having a low cash-to-asset ratio, entailing high dependence on their business to remain afloat. A complete halt of cash-flow brought about by the pandemic is likely to affect the survival of micro- and small businesses in this industry.¹⁰¹ Since micro- and small enterprises typically have poor access to finance, they resort to informal channels such as informal money lenders and fall prey to usury. For such borrowers, the provisions such as the moratoria placed on payment of interest and principal by NRB do not apply. This means they not only have to pay their rent and salaries, but must also service debt at a time when they do not even breakeven.

Survey Results

To assess the socio-economic impact of COVID-19 on small and informal businesses, the study team conducted an exhaustive phone survey of 700 businesses covering all provinces and ecological

regions in the country using a structured questionnaire between 20 April and 24 April 2020. The break-down of the sample is presented in Table 3.21. The questionnaire covered types of businesses, start-up capital, volume of transactions, impact of lockdown, coping mechanisms and expected assistance from the government. This section illustrates preliminary findings of the survey.

Among the surveyed businesses, across all provinces trade made up 53.4 percent followed by food and accommodation (13.1 percent); agriculture (11.1 percent); and dairy and livestock (5.4 percent). Except for agriculture, close to 80 percent of businesses in the sample were registered and had start-up capital ranging from NPR 0.5 million to NPR 1.8 million (Table 3.22). The impact of COVID-19 on small/informal business is measured in terms of changes in the number of paid workers, number of days operated and changes in their monthly revenue. Due to the lockdown,

businesses have reduced the number of paid workers by an average of between 50 percent and 60 percent. These businesses previously employed an average of one to five workers.

The lockdown has impacted the days of operation. The number of working days before the lockdown was 29 to 30 on average. But the lockdown has reduced the number of operating days to between one and 17. The most affected businesses were in the food and accommodation; trade; and repair and maintenance sectors. Businesses are also seeing an impact in terms of reduced revenue. Prior to the lockdown, monthly sales revenue ranged from NPR 100,000 to NPR 500,000. During lockdown, monthly sales revenue ranges between NPR 833 to around NPR 73,000. Manufacturing; repair and maintenance; transportation; and food and accommodation sectors have faced drastic falls in monthly revenue. While dairy and livestock are still earning reasonable revenues, these have decreased drastically from NPR 1.9 million to NPR 73,000. If the lockdown were to continue, these small businesses can sustain themselves only for 1.5 to 3.5 months (Table 3.23.). The top-three impact of lockdown to these businesses is lack of raw materials; reduction of sales; and lack of access to transport.¹⁰²

When asked if businesses can cope with the shock of the lockdown on their own, 77 percent answered no. The response was higher for accommodation and food (84.8 percent); dairy and livestock (84.2 percent); and manufacturing (94.1

¹⁰¹ NATTA claims their liquidity is so poor that they would not be able to pay their workers without government assistance. Similar claims were made by other private sector associations.

¹⁰² Tables not presented

percent). This indicates these business need combinations of external assistance and changes in strategy. According to the survey, 99.4 percent of businesses are yet to receive external support to cope with the lockdown.

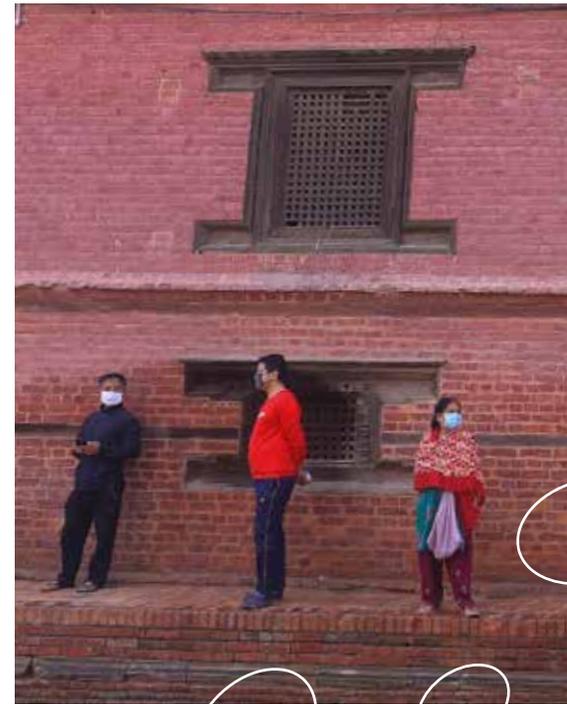
The choice of strategies in light of COVID-19, such as cutting operating cost, laying off workers, borrowing, and closure of businesses varied across sectors. For example, agriculture favoured cutting operating costs, while dairy and livestock cited laying off workers. Trade favoured cutting operating costs and closure of business, and accommodation and food preferred closure of business (Table 3.24). These businesses were asked about the kind of support they need to mitigate the shock and sustain their businesses during and after lockdown. Government cash subsidies was ranked the most important kind of support, followed by interest rate subsidies, concessional loans, and rental waivers by landlords. Subsidies on utility payments was considered the least important form of support needed by small/informal businesses. It might not be practical at this point to provide cash subsidies, but support to these businesses in terms of concessional loan/soft loan, interest rate subsidy, and rental waivers will likely help mitigate the impact of the pandemic. A summary of support needed to small/informal businesses is presented in Table 3.25.

3.4.3. THE POOR

Nepal has made tremendous progress in poverty reduction in recent decades. Poverty when measured by headcount rate under the national poverty line currently

stands at below 19 percent, a decline of over 23 percentage points since 1990 when it stood at 42 percent.¹⁰³ These improvements have moved in tandem with a decline in the intensity of poverty. In 2015, it met the first MDG of halving absolute poverty in the country; its current goal is to bring poverty to well within the low single digits by 2030.¹⁰⁴ The world has committed itself to eradicating absolute poverty by 2030 (SDG 1). It has, however, long been recognized that bringing it under 3 percent requires concerted efforts, because extreme poverty has multiple forms: transient poverty, a result of poor risk markets and institutions; chronic poverty, a result of remoteness or historical legacies of exclusion;¹⁰⁵ or the persistence of dynamic poverty traps. A pro-poor approach cannot rely on growth of market incomes alone; it also needs an active redistributive effort. The COVID-19 pandemic amplifies these challenges in Nepal.

Nepal's poor are also highly vulnerable to idiosyncratic shocks. When we use a higher threshold of \$2 a day as a measure of poverty – a measure internationally benchmarked for moderate poverty – Nepal's poverty incidence more than doubles.¹⁰⁶ For example, in 2010/2011, poverty rate (when measured using the poverty line of \$1.25 per day) stood at 24.8 percent, but when the threshold is increased to \$2 per day, poverty rate expands to 57.3 percent. This means that any kind of shock – natural, political, economic, health or any combination of these (such as the COVID pandemic) – is likely to push a large proportion of Nepalis towards poverty. During the earthquake



of 2015, at least 700,000 people were estimated to have fallen back into poverty in central Nepal alone.

The lockdown brought by the pandemic has affected the welfare of the poor and the vulnerable through several channels. First, and most obvious, is through the loss of incomes and jobs of working adults. The poor often rely on labour income and live hand-to-mouth. However, halt of businesses, unpaid hiatus, pay cuts and job losses increase the probability of falling back into poverty. For every two Nepalis that escape poverty, one falls back into it.¹⁰⁷ As the economy is currently stagnant, it will take several months before businesses return to normal, let alone start hiring – reducing incomes opportunities for the poor.

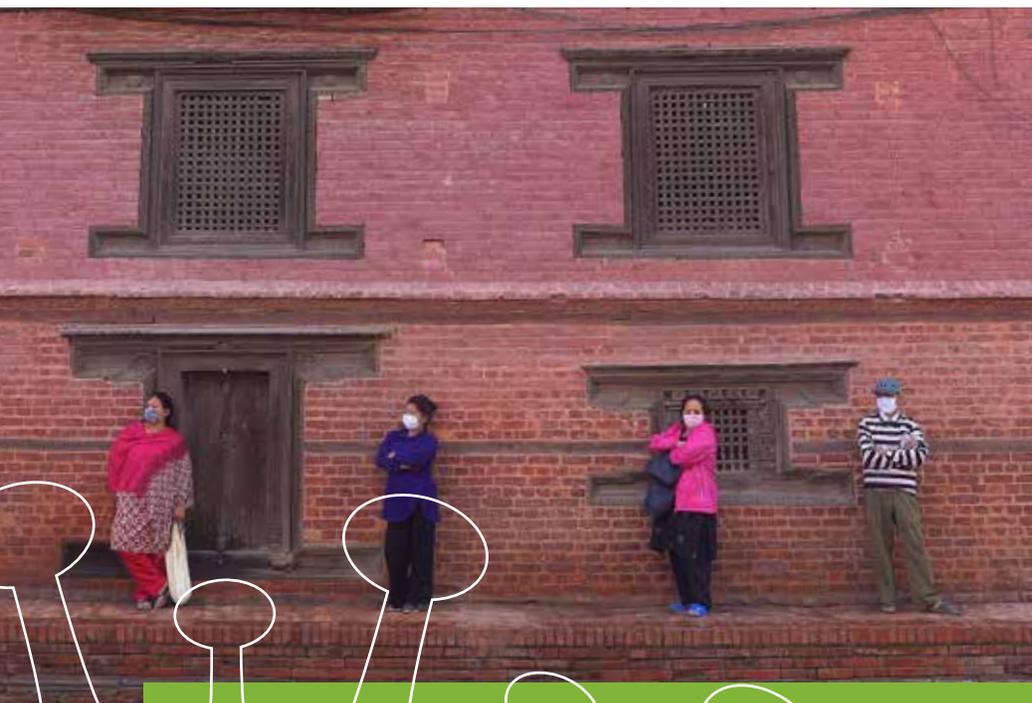
¹⁰³ See NPC (2020), 15th Plan; NPC (2015), MDG Status Report

¹⁰⁴ Nepal SDG, Status and Roadmap 2016-2030 (NPC, 2017)

¹⁰⁵ According to Ravallion (2020), Malaysia's "USD 1.90 a day" poverty rate reached 2.9 percent in 1984. Yet 32 years later, it was still not quite zero (0.1 percent). This pattern is similar across East Asia.

¹⁰⁶ Tiwari (2015). Note on "Poverty impact of the earthquakes in Nepal: Results from preliminary simulations."

¹⁰⁷ World Bank (2016) Moving up the ladder: Poverty reduction and social mobility in Nepal (Vol. 2). Poverty and Equality Global Practice. Washington, D.C.: World Bank Group.



Second, with income cuts and job losses, the poor are likely to sell assets to cope with shocks and to smoothen consumption. While these assets were bought to reduce the impact of such shocks, it would not be able to sustain them forever. Even when the situation gets back to normal, it will take a long time until they recuperate and buy back such assets. Third, the income sources of poor and the vulnerable groups offer useful insights about the channels through which their livelihoods might be affected. Income profiles of the poor and vulnerable (the poorest quintile) show a heavy dependence on non-farm income (40 percent), followed by farm income (36 percent) and remittances (13 percent). The share is similar to Nepal's average: 37 percent from non-farm income, 27 percent from farm income, 17.2 percent from remittances and 15 percent from housing rent. The share of income earned from housing rent is higher for urban households (almost 40 percent in the Kathmandu Valley). The poorest quintile earns 42 percent of its income through self-employment, while 34 percent is earned

through wage employment. The shrinking of the market for agricultural produce through disruption in supply chains, along with a decline in work opportunities, is likely to hit this group hard.

In terms of the method of payment, 98 percent of vulnerable people working in paid agriculture are daily wage earners, while this number is 78 percent for workers in non-agriculture sectors. This means a significant share of the poor did not earn any income during the lockdown. This translates to an income loss of NPR 17,578 per worker in the 34 working days of the lockdown (24 March to 30 April) assuming these workers earned a minimum wage of NPR 517 per day.

Fourth, the children of the poor largely rely on the state education system. Because of COVID-19, the government has shut all schools for at least a few months. While some private schools are capable of shifting classes online, government schools lack that capacity. There are infrastructure bottlenecks and financial constraints – the poor do not have digital access to the

internet or laptops and smart phones. This is likely to have a long-term impact on the ability of the poor to invest in human capital, making poverty more persistent. Even the internet-enabled work-from-home concepts do not apply to the poor who have to show up in person to perform their tasks.

Migration and remittances have been the backbone for Nepal for over a decade. Remittances have lifted households out of poverty and enabled them to invest in productive assets, including education and health. In normal times, remittances provided income to families of migrant workers across Nepal, more so in western Nepal, where remittances account for 21 percent of household income. The COVID-19 pandemic has restrained that flow, reducing the income of a significant number of households. About half of the households have at least one migrant, of which 23 percent are domestic migrants and 32 percent are international migrants (Table 3.11). The ratio of working members to household size is 0.42, while the ratio of non-working age members to working age members is 1.19, indicating that there are more dependents in a standard Nepali household. If female-headed households are taken as an indicator of a degree of vulnerability, the share in Nepal is 25 percent.

In terms of the method of payment, 98 % of vulnerable people working in paid agriculture are daily wage earners, while this number is 78 percent for workers in non-agriculture sectors.

TABLE 3.11. DEPENDENCY STRUCTURE AND MIGRATION WITHIN POOR AND VULNERABLE HOUSEHOLDS IN NEPAL

INDICATOR	VALUE
# Working members/HH Size	0.42
# Working men/HH Size	0.18
# Non-working age members/Working age members	1.19
% of Female headed households	25.0
% of households with no migrants	50.0
% of households with domestic migrants	23.3
% of households with foreign migrants	32.7

Survey Results

To assess the socio-economic impact of COVID-19 on vulnerable groups, the study team conducted a phone survey of 400 individuals covering all provinces and all ecological regions in the country using a structured questionnaire, between 20 April 2020 and 24 April 2020. Details of individuals by province and gender is presented in Table 3.26. The questions covered demographic information, earnings, types of payments, impact of COVID-19, coping mechanisms, and assistance needed.

The sample consisted of 300 male and 100 female respondents. Average household size in the sample was five with two members earning a living in the family. Some 69 percent of respondents owned a place of residence and the rest rented. Almost one-third – 32 percent – of respondents were aged between 20 and 29, and 37 percent were between 30 and 39. The sample also covered a wide range of ethnicities: 51.8 percent were Brahmin/Chhetri, 26.8 percent were Janajati, and 14.3 percent were Dalit.¹⁰⁸

Savings of individuals in the sample – most were self-employed and day labourers – ranged from less than NPR 5,000 per month to more than NPR 25,000 per month.

Around 43 percent saved less than NPR 5,000 per month followed by 16.3 percent saving between NPR 5,000 and 10,000 each month. In terms of earnings, 24.5 percent of individuals earned between NPR 10,000 and NPR 15,000 and 18 percent earned between NPR 15,000 and NPR 20,000 per month. Individuals earning more than NPR 20,000 made up 9.5 percent of the sample.¹⁰⁹

It was found that respondents could cope the shock on their own for one to eight months. Internal migrants, day labourers in agriculture, and day labourers in non-agriculture, were among the most vulnerable as they could cope with this shock for just one or two months. 93 percent of respondents had not received any support to cope with the shock (Table 3.27).

Because of the lockdown, 28.3 percent of males and 41 percent of females in the sample lost their jobs. Only 26.3 percent were receiving a salary (Table 3.28).

The impacts of COVID-19 range from loss of job to difficulties in purchasing food and an inability to find alternative sources of income for vulnerable groups. The study team listed potential impacts of COVID-19 and asked respondent to rank them in order of severity (Table 3.29.). Not being

able to find another job and not being able to find alternative source of income were ranked as the most severe impacts by the respondents. This was followed by not being able to repay loans, not being able to purchase food, and not being able to travel back to their permanent home.

Monthly ration of food was ranked as the most important support for vulnerable groups during the lockdown. This was followed by healthcare support, loan waivers, rent waivers, and monthly financial support (Table 3.30). For vulnerable groups, monthly ration of food combined with loan waiver might be a practical solution to mitigate the impact of lockdown.

Individuals surveyed are using various strategies to cope with the shock of lockdown. Mechanisms include reducing the number of meals; borrowing food; and borrowing money, either from formal or informal sources.

From the total response regardless of the type of employment, 9.7 percent of respondents reduced the number of meals per day, while 90.3 percent respondents did not. 18.6 percent of respondents borrowed food; 81.4 percent did not. 31.8 percent borrowed money to cope with shock; 68.2 percent did not. Only 0.8 percent of respondents had to sell their assets (such as radio, furniture and animals) to cope with shock, while 99.2 percent did not. Borrowing food and money are popular coping strategies among the individuals surveyed (Table 3.31). Looking at the breakdown of strategies by the type of employment, more day labourers have resorted to coping mechanisms than others. In the sample, 39.5 percent of agricultural day labourers have reduced the number of meals per day compared

¹⁰⁸ Tables not presented

¹⁰⁹ Tables not presented

to 12 percent of those outside agriculture. 48.8 percent of day labourers in agriculture borrowed food compared to 21 percent of those not in agriculture. Compared to an average of 68.2 percent, internal migrants (100 percent), returnee migrants (87.5 percent) and transport workers (69.2 percent) have been using an above-average money borrowing strategy. 62.8 percent of day labourers in agriculture and 62 percent of those outside agriculture borrowed money from formal/informal sources. According to the survey, none of the respondents migrated, sold productive assets, or sold their land. These responses are consistent with short-term coping mechanisms observed elsewhere.

3.4.4. PERSONS WITH DISABILITIES

The data from the World Report on Disability, published jointly by the WHO and World Bank, show that there are more than one billion people around the globe who experience some form of disability.¹¹⁰ The report also states that the people with disability face discrimination in all facets of their life. Children with disabilities are less likely to get an education, are more likely to be unemployed, and are often paid less even when they are employed. In some countries, they also face restrictions in getting married and having children. With COVID-19 being declared a pandemic by the WHO, the organization has urged stakeholders around the globe to take measures to ensure that people with disability have adequate protection and measures to get help. A report published

by WHO states that reasons such as barriers to maintaining basic hygiene, need for additional support, institutionalization, and pre-existing health conditions put people with disability in a high risk of contracting the virus.¹¹¹ The International Disability Alliance has also raised the issue of healthcare providers discriminating against disabled people with regard to providing treatment for the coronavirus.¹¹² Research conducted by Handicap International shows that in a crisis situation, persons with disabilities experience direct physical impact, face higher rate of physical, sexual and emotional abuse, and see diminished and/or loss of access to medical treatment.¹¹³

According to the 2011 census, there were 513,321 or 1.94 percent of people with disability in Nepal¹¹⁴. While the government has made laws to ensure that people with disability get equal rights, they are modestly implemented. The National Federation of the Disabled Nepal (NFDN) is an umbrella organization for people with disability in Nepal. The organization has worked to ensure that persons with disabilities are able to lead a quality and productive life without facing exclusionary barriers. NFDN has raised awareness of the additional difficulties that may arise for persons with disabilities as a result of the pandemic. A total of 331 organizations all over Nepal fall under the NFDN umbrella.

NFDN has published general guidelines with information about the COVID-19 for stakeholders, has worked to create

accessible materials for persons with disabilities (such as creating videos that include sign language, and audio narration) and has created a committee of representatives from the provinces to support persons with disabilities.¹¹⁵ The organization has also worked to provide relief materials to persons with disabilities, particularly those living alone. The organization has also attended meetings with the government to list their demands for protection of persons with disabilities.¹¹⁶ NFDN has been working with the federal government, too, to demand import of medicines for patients suffering from diseases like haemophilia. The government has worked to make information – such as the speech delivered by the Prime Minister and COVID-19 updates delivered by MoHP – accessible by having a sign language translator in the video.¹¹⁷ NFDN is aiming to create a research project to better understand the issues faced by persons with disabilities during this pandemic and to find solutions that are accessible to all.

According to the survey, none of the respondents migrated, sold productive assets, or sold their land.

¹¹⁰ World Health Organization (WHO). December 2011. World report on disability. Last accessed on 25 April 2020

¹¹¹ World Health Organization (WHO). March 2020. Disability considerations during the COVID-19 outbreak. Last accessed on 25 April 2020

¹¹² International Disability Alliance. (n.d.) Resources and Tools for Action. Last accessed on 25 April 2020

¹¹³ Handicap International. July 2015. Disability in Humanitarian Contexts Views from affected people and field organizations. Last accessed 5 May 2020

¹¹⁴ Code for Nepal. July 2016. Interactive map of disabled population in Nepal. Last accessed on 25 April 2020

¹¹⁵ National Federation of the Disabled- Nepal. March 2020. A General Guidelines for Persons With Disabilities and All Stakeholders on Disability Inclusive Response ¹¹⁵ ¹¹⁵ Against COVID-19 Pandemic. Last accessed on 25 April 2020

¹¹⁶ National Federation of the Disabled- Nepal. March 2020. Advocacy Efforts on behalf of the federation for persons with disabilities. Last accessed on 25 April 2020

¹¹⁷ National Federation of the Disabled- Nepal. April 2020. Press Release about including sign language video in Prime Minister's National Address. Last accessed on 25 April 2020

3.5. DELICATE SECTORS

3.5.1. DAIRY

Dairy products contribute 3.3 percent to GDP and represent 12.4 percent of the agriculture sector (CBS, 2018). Nepal produced 1.475 million metric tonnes of milk in the first eight months of FY 2018/2019 and exported milk, butter, cream and cheese to India, China, Japan and other nations worth \$1.71 million in FY 2018/2019 (Department of Customs [DoC], 2019). Comparison of the first nine months of FY 2018/2019 and 2019/2020 show that export of these items has been drastically reduced due to COVID-19. The foreign dependency on dairy products is significant, because Nepal imported \$7.35 million – four times more than the export in FY 2018/19 (DoC, 2019).

The lockdown has caused a loss of about 80 percent, amounting to \$30 million, in the privately-owned dairy industry, because of falling consumption and transport disruption. The market has contracted sharply due to the closure of restaurants, hotels and food outlets, and along with the mass migration of people from urban to rural areas has directly impacted the livelihoods of 0.5 million farmers and 10,000 staff who depend on the industry for employment. The difficulty in selling dairy products because of limited period of market opening has further increased loss as they are perishable; and cows and buffaloes need to be milked whether there is a market or not.

3.5.2. VEGETABLES

Vegetables contribute 2.6 percent to GDP and represent 9.7 percent of the agriculture sector (CBS, 2018). In FY 2017/2018, Nepal produced 3,958,230 metric tonnes of

vegetables and exported \$1.23 million worth of vegetables to India, but imported \$146.09 million worth of vegetables in FY 2018/2019 (NRB, 2019). Vegetable exports plummeted in the first nine months of FY 2019/2020, as Nepal exported vegetables of only \$13.3 thousand compared to \$10.05 million in same period of FY 2018/2019, owing to COVID-19 disruptions. The farmers are forced to either distribute vegetables free of cost to less fortunate people or leave it decaying in the field as local agents have stopped collecting crops due to limited demand in urban centres.¹¹⁸ Farmers are unable to plant paddy and other crops, while tomatoes, onions and broccoli are left to ripen in the field. This is likely to lead to a fall in agricultural production in the future season.

3.5.3. POULTRY

The Nepal Commercial Poultry Survey 2014-2015 conducted by the Central Bureau of Statistics found that there were 21,000 poultry farms in Nepal, employing 56,000 people including permanent and contract staff. Around 98 percent of farms were small-scale, rearing less than 10,000 chickens a year. They produced 114,058 metric tonnes (live weight) of chicken a year, and 1.2 billion eggs.

The production of chicken and eggs increased in subsequent years. According to the Statistical Information on Nepali Agriculture 2019, Nepal produced around 60,122 metric tonnes (net weight) of meat and more than 1.5 billion eggs in 2017/2018 (MoALD, 2020). According to the President of the Nepal Poultry Federation, around 0.1 million metric tonnes (live weight) and 1.8 billion eggs were produced in 2019. He estimates that 1.3 million people are employed directly and indirectly

in the sector. The lockdown has led to a significant drop in the sales of chicken and eggs, with sales down by 80 percent and 50 percent respectively. The private sector expects a shortage of chickens and eggs, because the birds will outgrow their optimum production and producers will not be able to replenish their stock. The President of the Federation estimates that the entire industry is facing daily losses of \$2.2-2.5 million. If the lockdown continues until May, around a fifth of chicken farms (including hatcheries) will be forced to close. The Federation estimates that it will take at least 1.5 years to be back at the 2019 level, if appropriate interventions by the government are implemented. The private sector suggested that additional soft loans are provided at low rates of interest, that loan payments are restructured and rescheduled, and that government decisions at local and federal levels be synchronized to avoid confusion among poultry farmers.

3.5.4. HANDICRAFT

According to the Global Handicrafts Market Report, the global handicraft market was worth \$583.4 billion.¹¹⁹ The report also states that handicraft products such as woodwork, art metal ware, hand-printed textiles and scarves are among the most popular handicrafts products. Most handicrafts products are sold through mass retailers and North America is their largest buyer.¹²⁰ The WTO predicts that world trade will fall between 13 percent and 32 percent in 2020 due to the disruption of economic activities caused by COVID-19. The organization also states that the global economy is unlikely to bounce back quickly even in 2021 if swift action to protect vulnerable sectors is not taken.¹²¹ Handicrafts industries are bound

¹¹⁸ Anecdote shared by Mr. Uttam Aryal, a farmer of Dhading.

¹¹⁹ IMARC Group. 2019. Handicraft Market: Global Industry Trends, Share, Size, Growth Opportunity and Forecast 2019-2024. Last accessed on 25 April 2020

¹²⁰ *ibid.*

¹²¹ World Trade Organization. 2020. Trade Statistics and Outlook. Last accessed on 25 April 2020

to face losses due to reduced demand for handicrafts, difficulties in importing raw materials, and challenges in exporting finished products.¹²²

Handicrafts have been one of Nepal's major exports. Data show that handicrafts worth NPR 6 billion are exported annually.¹²³ There are 42 different groups of products classified as Nepali handicrafts, including metalcraft, pashmina products, handmade paper products, and gold and silver jewellery. These products are exported to around 85 countries with USA, Germany, Netherlands, China, and India the top five export destinations.¹²⁴ The FHAN in conjunction with other organizations, Kathmandu Metropolitan City and Lalitpur Metropolitan City organize the Handicraft Trade Fair and Craft Competition to promote the handicraft industry. FHAN has also run trade fairs in, for instance, Hong Kong, China and Malaysia in a quest to widen the market of Nepali handicrafts.¹²⁵ As the handicraft industry depends largely on exports for its survival, it is crucial for the government to create a plan to help the industry.¹²⁶ While there has been no relief package specifically created for the handicrafts industry, NRB has extended the deadline for loan repayment for businesses until mid-July.¹²⁷

The handicrafts industry has already begun to feel the brunt of the slowdown with recent monthly exports sum up to NPR one million to NPR 1.5 million.¹²⁸ The slowdown in orders started as the COVID-19 situation in China worsened. While some handicrafts products are still being made, production has slowed considerably



due to unavailability of raw materials. This is in addition to cancellations and postponement of orders that were posted before the pandemic began. All this may cause smaller- and medium-sized enterprises to close.

In the long term, there is a danger of big businesses being shut down and the knowledge and traditional skills of handicrafts production being lost. There are handicraft products made by people who learned their skills from previous generations and events like this lockdown may discourage them from continuing their family practice. Even when the lockdown ends and the markets open again, the handicraft industry might

struggle as demand for these products will depend on economic conditions in export destinations. The closure of markets will also create an unsold stock of products that may never attract buyers.

As a response to the pandemic, FHAN has worked to help the community combat the disease. The organization has made monetary donations to the Prime Minister's COVID-19 Relief Fund and has also donated Personal Protective Equipment (PPE) supplies to Patan hospital and to Kathmandu Metropolitan City. While a relief package for the handicraft sector has not yet been released, FHAN has been working to ensure that the government develops policies to support the sector.

¹²² Iyer, S., April 2020. Indian Handicraft Industry & Exports- Facing the COVID 19 Crisis. CrossSentence. Last accessed on 25 April 2020

¹²³ Shrestha, P. N. March 2020. Experts call for measures to ease the impact of coronavirus on the economy. Kathmandu Post. Last accessed on 25 April 2020

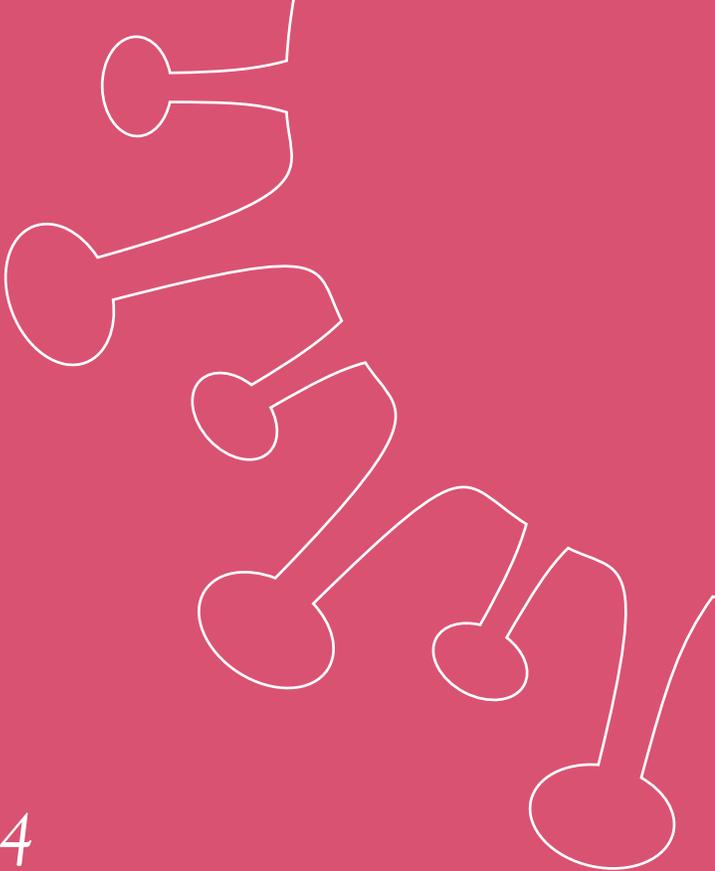
¹²⁴ Government of Nepal Trade & Export Promotion Centre. 2017. A Glimpse of Nepal's Foreign Trade. Last accessed on 25 April 2020

¹²⁵ New Business Age. September 2017. The Untapped Potential of Handicraft. Last accessed on 25 April 2020

¹²⁶ Khanal, R. September 2019. Booming business: Nepali felt handicraft. Kathmandu Post. Last accessed on 25 April 2020

¹²⁷ Republica Daily. March 2020. NRB cuts policy rates, defers all loan repayments until mid-July. Last accessed on 25 April 2020

¹²⁸ Shrestha, P. N. March 2020. Experts call for measures to ease the impact of coronavirus on the economy. Kathmandu Post. Last accessed on 25 April 2020



Chapter 4

**PROVINCIAL OVERVIEW
& SURVEY ANALYSIS**





BACKGROUND

PROVINCE 1

This is among Nepal's better performing provinces. Its Human Development Index is 0.504, GDP per capita is \$733 and the multidimensional poverty rate is 19 percent, all of which are above the national average.¹²⁹ The poverty rate of 7.4 percent (when measured using the international poverty line of \$1.90 per day, 2011 PPP), is the lowest of all provinces. With a Gini coefficient of 0.28, Province 1 is comparatively a more equal province. The share of households having access to a market centre within 30 minutes' walk is 46 percent, slightly higher than the national average of 44 percent. The literacy rate among 15 to 49 year-olds stands at 91 percent for men and 77 percent for women. Some 46 percent of people have access to piped water, while malnourishment stands at 42.6 percent. Although the province has made considerable improvements in health, its average life expectancy of 68.7 years is slightly below the national average of 68.8 years. With 43 primary health centres and 648 health posts, 56 percent of households are within 30 minutes' travel time to a health facility.

PROVINCE 2

With an income per capita of \$570, around 26 percent of the population live below the poverty line in Province 2. 47 percent of the population are multidimensionally poor and the provinces' HDI stands at 0.421. The literacy rate for the age group 15 to 49 years is the lowest of all provinces for both genders: 38 percent for women and 78 percent for men. The Gini coefficient stands at 0.29, which is below the national average of 0.32. The share of households with access to a market within 30 minutes' walk is 47 percent. The average life expectancy in Province 2 is 67.8 years: the second lowest of all provinces. But only a dismal five percent of households have access to piped water, significantly below other provinces in terms of WASH infrastructure. The province has only 34 primary health centres and 751 health posts, and 83 percent of the households have a health facility within 30 minutes of travel time.

BAGMATI PROVINCE

The HDI in Bagmati stands at 0.543, with the multidimensional poverty rate and poverty rate are 12 percent and 13 percent respectively. The GDP per capita is \$1,094, the country's highest. The literacy rate for males (15-49 years) is 93 percent and 81 percent for females. With a Gini coefficient of 0.35, Bagmati is the country's most unequal province. 57 percent of its households have a market centre within 30 minutes' walk, the highest among all provinces. It falls behind Gandaki province in terms of life expectancy at 70 years and behind Province 1 and Gandaki Province in the share of households with access to piped water supply (40 percent). The share of households within 30 minutes' travel time to a health facility is 69 percent, slightly above the national average. There are 42 primary health centres and 833 health posts in the province.

¹²⁹ Based on data from 2018. Nepal In Data (2018)

GANDAKI PROVINCE

Gandaki performs modestly in economic indicators. 11 percent of its people live below the poverty line, while 14 percent are multidimensionally poor. Both these figures are below the national average. Per capita GDP stands at \$760, while the HDI is 0.512. With a Gini coefficient of 0.34, Gandaki is one of the country's least equal provinces. One-third of households have access to a market centre within 30 minutes' walk, one of the lowest rates in the country. The literacy rate for the age group 15-49 years stands at 94 percent for men and 86 percent for female. The province has made considerable progress in its health indicators. For example, its average life expectancy is the highest of all provinces (71 years). The share of households within 30 minutes' travel time to a health facility is 53 percent. There are 27 primary health centres and 489 health posts scattered throughout the province. The percentage of people without access to piped water supply stands at 50 percent.

PROVINCE 5

With a per capita income of \$ 611, roughly 14 percent of the population live below the poverty line in Province 5. Its HDI stands at 0.468 while the literacy rate for the age group 15-49 years is 86 percent for men and 72 percent for women. The multidimensional poverty rate and the Gini coefficient stand at 29.9 percent 0.32 respectively, close to the national average of 28 percent and 0.32 respectively. Some 41 percent of households have access to a market centre within 30 minutes' walk. The average life expectancy of Province 5 is 69 years. 68 percent of the total population do not have access to piped water. The province has 29 primary health centres and 573 health posts; and 52 percent of households are within 30 minutes' travel time to a health facility.

KARNALI PROVINCE

Despite improvements in several development indicators, the province remains backward on many fronts. 40 percent of its people live below the poverty line with a per capita income of \$475. 51 percent of its people are multidimensionally poor and the province's HDI is 0.427. The literacy rate is 91 percent for men and 66 percent for women. The province has the lowest Gini coefficient (0.27), arguably due to the size of its economy. Average life expectancy is 66 years, the lowest in the country. Malnutrition among children under five years is 54.1 percent. 36 percent of the total population do not have access to piped water. There are only 13 primary health centres and 339 health posts, which makes up to 6 percent and 8 percent respectively of Nepal's total. The share of households within 30 minutes' travel time to a health facility stands at 46 percent.



SUDURPASHCHIM PROVINCE

This province fares among the worst by socio-economic indicators. 45 percent of its people live below the poverty line with a per capita income of \$685, substantially below the national average. The literacy rate for the age group 15-49 years is 66 percent for females and 91 percent for males. 33.6 percent of people are multidimensionally poor and the HDI is 0.431, both of which are below the national average of 28 percent and 0.49 respectively. The Gini coefficient of the province stands at 0.32. The share of households with access to a market centre within 30 minutes' walk is 38 percent. The average life expectancy in Sudurpashchim is 68 years: the third lowest of all provinces. A mere 21.3 percent of households have access to piped water. The province has only 16 primary health centres and 376 health posts. And just 44.5 percent of households have a health facility within 30 minutes' travel time.

Survey Results

Trade (retail) accounts for the highest share in the type of businesses surveyed, representing a substantial 61 percent in Province 1 and more than half in the remaining provinces except Province 5. Hosting major tourist destinations, Gandaki Province has a higher share of food and accommodation (28 percent), while Province 5 has a higher share of manufacturing, agriculture and livestock (Table 3.17.).

Overall, businesses' start-up capital ranges between NPR 0.7 million and NPR 2.2 million. Sudurpashchim has a higher average start-up capital at NPR 2.2 million, followed by Province 5 and Province 2 with NPR 1.2 million. The average number of workers in these businesses was highest in Sudurpashchim province (five) and

lowest in Province 1, Bagmati province and Karnali province. This, however, does not mean more people are employed in Sudurpashchim province, as data show the number of enterprises and share of total employment in Bagmati province and Province 1 is higher than Sudurpashchim province. Nevertheless, even during the lockdown, the businesses in Sudurpashchim province still recorded a higher average number of jobs (three). Small and informal businesses in Province 5 recorded the highest share of job losses – up to 100 percent. The average job losses across all provinces was 60 percent (Table 3.18).

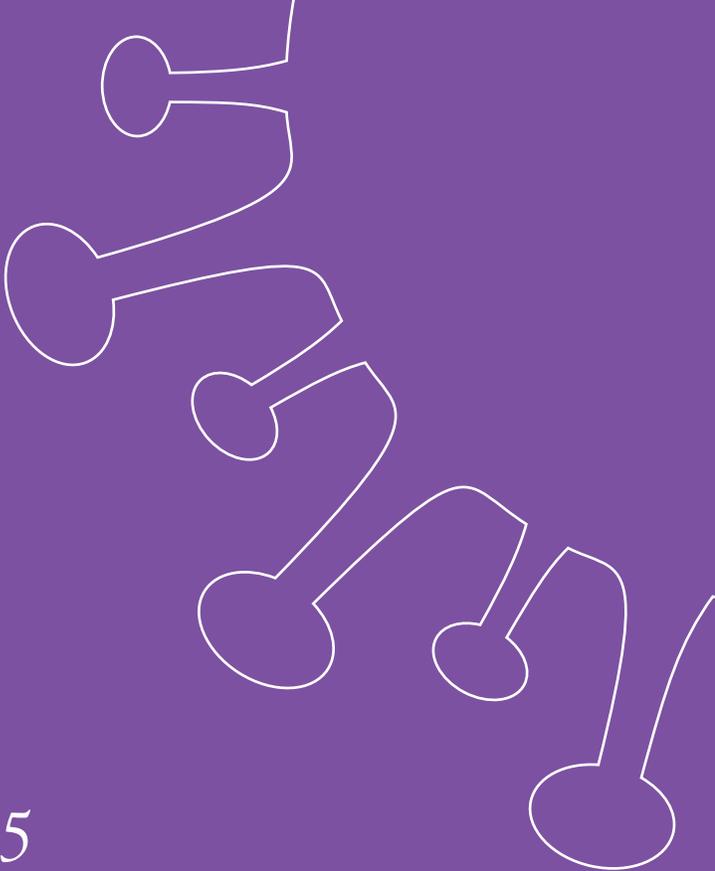
The businesses have seen a drop in sales revenue due to the lockdown. Before the lockdown, the average monthly gross revenue was NPR 275,961 across all provinces. Province 2 had the highest average monthly gross revenue of NPR 0.40 million, while Karnali Province had the lowest average at NPR 0.13 million. During the lockdown, Karnali Province still earned the lowest average revenue of NPR 1,600, which translated to a loss of 99 percent. While significant, Gandaki province and Province 1 lost around 83 percent of their average revenue during the lockdown – less than other provinces. Overall, losses during the month of lockdown range from NPR 0.12 million to NPR 0.39 million in absolute terms. Respondents said that their businesses could sustain themselves for an average of just two months. Sustainability was lowest in Karnali Province (0.9 months) (Table 3.19.).

Businesses across provinces are using strategies such as cutting operating costs, laying off workers, reducing pay, and borrowing, to survive during the lockdown. Strategies with a high response in general were cutting operating costs (531 out of 700) followed by borrowing (257 out

of 700) and laying off workers (126 out of 700). A breakdown of strategies by province shows that the preferred strategy of businesses in Karnali Province was to lay off workers, which is ideal given its fall in monthly revenue. Businesses in Gandaki preferred closure, due to a concentration of food and accommodation businesses and because the prospects for tourism in the immediate future are not encouraging. Businesses in Sudurpashchim preferred to enforce pay cuts to staff, while those in Province 2 preferred a strategy to sustain businesses during lock-down through borrowing (Table 3.20.).

During the lockdown, Karnali Province still earned the lowest average revenue of NPR 1,600, which translated to a loss of 99 percent. While significant, Gandaki province and Province 1 lost around 83 percent of their average revenue during the lockdown – less than other provinces.

¹²⁹ Based on data from 2018. Nepal In Data (2018)



Chapter 5

**STRUCTURAL
CHALLENGES & FAVOURABLE
CONDITIONS**



STRUCTURAL CHALLENGES

Like other developing countries, Nepal faces multiple challenges in accelerating inclusive economic growth and eliminating human poverty, moderating inequalities and reducing vulnerabilities. However, landlocked between two of the world's largest and most populous economies – China and India – the country also has a unique set of geo-economic constraints as well as opportunities.

1. The country lacks adequate healthcare facilities and infrastructure. Government investment in health care is suboptimal. In private hospitals, charges are high for the average person. There are also questions over the reliability and safety of medical treatment in the country. So those that can afford to often prefer to travel abroad (mainly to India) for treatment.
2. Nepal shares an open and porous land-border with India of more than 1,700 km. Communities either side of the border are closely linked socially and culturally. For this reason, Nepal has remained economically dependent on India. In recent decades, even essential goods and services that could otherwise have been produced locally are being imported. The open border has also given criminals and fugitives from both sides opportunities to escape the law.
3. Nepal has a history of low economic growth and high inflation. The economy is further strained by an unholy trinity of high prices, low productivity and high domestic consumption. It has lost its competitiveness in many important sectors, including agriculture and manufacturing. Domestic consumption is high – around 87.5 percent per annum in the last 10 years. It is because of remittances that the national savings rate is high, which in turn has supported capital formation. But gross capital formation in excess of national savings has led to a large current account deficit over the last three years putting pressure on the balance of payment. The inflow of foreign direct investment has also remained scant – averaging 0.4 percent of GDP per annum in the last 10 years.
4. Nepal's economy is largely agrarian in terms of number of jobs created (65% of total employment) and contributions to the GDP (27%). With decline in agriculture sector growth and loss in quality and abundance of environmental services because of overexploitation and climate change, livelihood of more than 65% of population is at stake. During the initial days of lockdown, an increase in illegal harvest of trees has been reported from many districts, which may have long-term impacts on ecosystem services. Though almost 80% of the populations have access to electricity, more than 75% still use solid fuels for cooking energy. Fast growing urban centers, including the metropolitan cities like Kathmandu face number of challenges, including acute shortage of water during dry months and increasing solid waste and air pollution. An alarming state of air pollution in Kathmandu and other cities caused mainly by vehicular emission and emission from brick kilns compounded with weak solid waste management practice, adds the vulnerability of the city dwellers on top of COVID-19 impacts. A surplus in energy supply and slight decline in air pollution have been observed during the initial days of lockdown because of closure of industries, businesses and transport. As the country returns to a normal situation, energy demand may overrun the supply with remaining energy gap to be fulfilled from imports or use of gensets using fossil fuels. Given fragile topographic conditions, Nepal's power sector often faces disruptions because of environmental challenges such as GLOFs, landslides and sedimentation.
5. The decade-long armed conflict that began in 1996 forced a large number of young Nepalis to seek employment in foreign countries. It also led to a sharp rise in domestic rural to urban migration. This hampered local production, and swelled Nepal's imports. In the process, the government became dependent on remittance-propelled imports for revenue. In 2019, the gross government revenue was about 25 percent of GDP, one of the highest in the region. Yet the resource for government spending is far from sufficient to meet the country's substantial development needs.
6. An overwhelming majority of Nepali migrant workers in foreign employment are low-skilled. The Economic Survey report of 2018/2019 shows that 74.5 percent of Nepalis who migrated for employment abroad are non-skilled and 24 percent are semi-skilled. Nepali migrant workers are concentrated in the GCC countries and Malaysia on time-bound contracts. Hence major events in the Middle East and Malaysia directly affect the state of the hundreds of thousands of Nepali migrants and the flows of funds they remit.
7. Nepal depends heavily on foreign assistance for capital expenditure. In the last 10 years, foreign assistance made up 76 percent of the country's total capital expenditure. However, the share of foreign grants in total foreign assistance is shrinking, thus putting pressure on external debt servicing and liabilities.
8. More than 5.5 million Nepalis live below the poverty line. And 4.41 million people – representing 62 percent of total employed workforce – work in the informal sector. Six million people (85

percent of the total employed) have informal employment. The rate of unemployment is high at 11.4 percent. This demonstrates the enormity of the challenges the country faces in providing relief packages to vulnerable sections of society whose livelihoods are at risk from the current pandemic.

9. Only one-third of all MSEs have access to finance. Of those, just half have access to finance from the formal banking sector. The other half take loans from cooperatives, personal contacts and other informal sources. Therefore, the benefits of the monetary stimulus that the central bank will announce in response to the pandemic will be limited to those who have access to finance from the banking sector.
10. The central bank's policy rate is largely ineffective in providing any monetary policy guidance to the economy. As a result, the interest rate remains high despite low inflation in the last three years. The banking sector is oversized with money supply exceeding the size of GDP. The economy is overleveraged (86 percent of GDP) with household debt at 37 percent of GDP, the highest in the region and much higher than that of peers. This amplifies the problem in terms of the financial health of households and of the private sector. The high credit growth and large banking sector have inflated the asset prices of real estate to a worrying level.
11. There has been continuous depreciation of the Nepali currency in recent years. The Nepali currency is pegged to the Indian Rupee. Since the start of this year the Indian currency has depreciated by 9 percent against the US dollar. This adds pressure to inflation as the country relies heavily on imports from India and other key trade partners.
12. There is a recurring issue of a large sum of government budget lying

unspent. Unused deposits often help create liquidity shortages in the banking system. This has called into question the capacity of the government to execute development work on time. Idling large amounts of government cash at the central bank is equivalent to pursuing a contractionary economic policy.

13. The formalization of the economy is a major challenge for any government and Nepal is no exception. Under-invoicing of imports financed by a hawala (hundi in local dialect) transactions is the major source of the shadow economy. There is also a prevailing culture of tax evasion practiced widely by individuals and firms. This is further accentuated by the fact that only few companies are listed on the stock exchange.
14. Lack of reliable disaggregated data is yet another bottleneck in the policy-making process. Subsectoral or granular data are non-existent in many areas. There is gross underinvestment in data production and dissemination. Conjectures rule the policy dialogue as far as the private sector is concerned. Transparency is generally not appreciated by market participants who are predominantly private firms and well-to-do households. There are few listed non-financial public limited companies. A major shift in the mindset of the private sector is necessary to make market participants become more responsible and transparent.
15. More than 2.8 million people in the country from different disadvantaged groups, such as women, the elderly, disabled, and socially and economically marginalized people receive some form of financial support from the government. In the current fiscal year 2019/2020, NPR 71 billion was allocated for social security protection, i.e., 2 percent of the country's total economic output. Any additional spending on social

security protection would entail a high opportunity cost of development budget diverted.

16. As the world grappled with the COVID-19 contagion, quarantine and home confinement were ordered to stop the spread of the virus. These extreme measures have forced a shift in the nature of work, from physical to virtual. However, such financially uninterrupted privileges can be bracketed only by those with sufficient resources and ambient support at home. With almost 85 percent of the working population in Nepal informally employed, such work avenues provide no significant assurance to the informal economy. Instead, it has possibly worsened poverty, put food security at risk, increased social tensions, and aggravated the state of mental health among informal workers as well as people living with disability.
17. COVID-19 is anticipated to exacerbate vulnerabilities especially among the poorest and the most marginalized households. The extended lockdown threatens not just the livelihoods of informal workers, but the very survival of communities. As seen in Udayapur District in Province 1, people resort to the infringement of confinement measures with possible consequences on mass public health.
18. Informal workers especially in rural areas are the major targets of misinformation campaigns. They have limited access to information about the virus and how it spreads. Poor and marginalized communities lack soap and/or clean water to wash their hands, basic protective gear for their essential and daily works activities, and are thus extremely vulnerable to contamination.
19. With migrant workers from rural and under-developed areas of the country overcrowding the few urban settlements, physical distancing is a far cry in overcrowded urban

neighbourhoods and informal settlements. Amid these precarious living conditions in cities, and constraints in accessing government provisions, despite the nationwide lockdown, thousands of informal workers have been compelled to make the long walk home, without food or proper drinking water.

20. With meagre daily incomes, informal sector workers lack substantial savings to stockpile food and other basic items for the lockdown. Further lack of digital bank accounts and/or access to mobile money transfers and restrictions on mobility make it difficult for informal workers to collect income support. While there have been efforts to distribute relief packages for the vulnerable and the poor, the chances of persons with disabilities slipping through the cracks are high.
21. The lockdown has increased harassment and domestic violence against women. According to the National Women Commission (NWC), as of 9 April, 2020, 42 complaints were received by them and 104 reports were registered with the police relating to cases of violence against women.

FAVOURABLE CONDITIONS

Despite many challenges, a degree of political stability during the last three years gave some optimism for sustaining a moderately high pace of economic development. Despite political troubles, Nepal's progress on basic social indicators has been acknowledged globally. There are also inherent strengths that the country has built over time, including a sense of national resilience and fortitude. Against this backdrop, the country hopes to endure the crisis and overcome the current challenge.

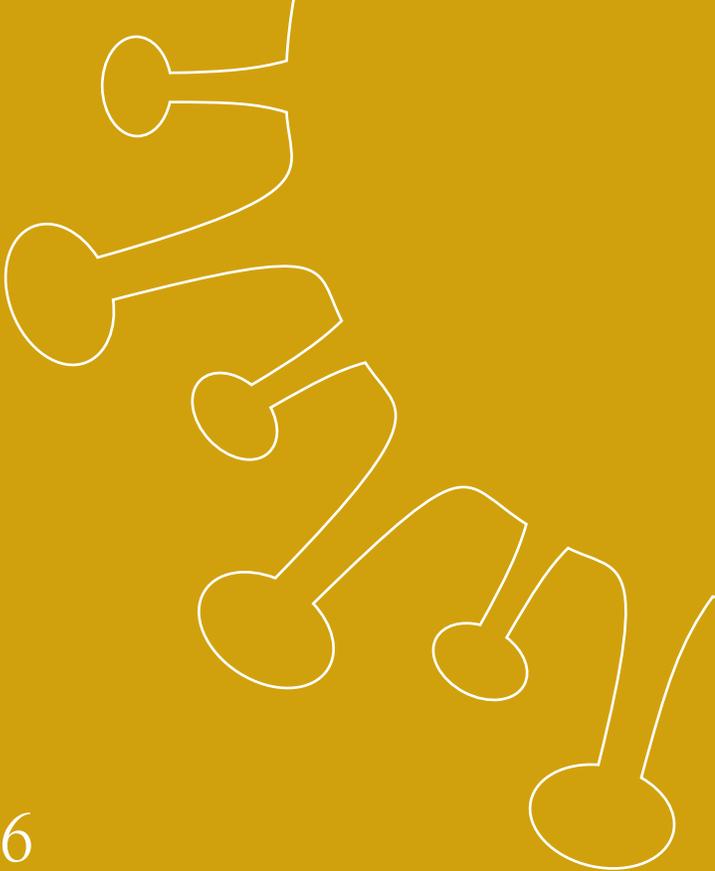
1. The first election (concluded end-2017) after the promulgation of the new Constitution gave the country a stable government for the first time

in nearly 25 years. This prepared the ground for bold socio-economic reforms that cannot be expected of short-lived governments.

2. In the last three years, the country has achieved a relatively high rate of economic growth and 'benign' inflation. This is the first time the country has achieved close to 7 percent economic growth for three consecutive years. It is also the first time when the rate of real economic growth has exceeded the rate of inflation for three consecutive years.
3. The economy is resilient on the back of strong foreign exchange (FOREX) reserves and low sovereign debt. Low income countries typically lack such a conducive economic condition. The country has robust FOREX reserves of nearly \$10 billion, sufficient to meet imports equivalent to 8.5 months of goods and services. Adequate FOREX reserves are essential to ensure financial and economic stability. The Asian financial crisis of 1997 taught this lesson the hard way. Developing economies around the world reoriented their economic policy to building strong FOREX reserves to safeguard themselves from external shocks. Nepal's external liabilities are low with long maturity and low interest rates. There is little commercial borrowing and no foreign portfolio investment (FPI). FPI is the major source of volatility in the capital market of emerging markets elsewhere.
4. Another important aspect of the Nepali economy is the low level of sovereign debt, which is only 30 percent of the GDP (comprising of 17 percent foreign debt and 13 percent domestic debt). These foreign debts are long-term owed mostly to the multilateral institutions such as the World Bank, IMF and ADB at low rates of interest. The domestic debts also bear low interest rates, and exhibit little to none of the 'crowding-out' effect. In fact, the interest rate is

lower than the rate of inflation, thus making the real effective interest rate on domestic sovereign debt negative. Additionally, debt monetization is also low at just 2 percent of GDP.

5. The government's revenue growth has been strong since the end of the armed conflict in 2006. In the last 13 years, the average annual revenue growth has been 21 percent. The revenue as a percentage of GDP has more than doubled from 12.1 percent in 2006 to 24.8 percent in 2019. The formalization of the economy will further augment revenues. The host of measures taken by the government, particularly the mandatory requirement of PAN registration aimed at formalizing the economy has resulted in a healthy 30 percent growth in income tax collection during the second half of 2019.
6. Nepal is a young nation with a median age of under 24 years and almost two-thirds of the population aged below 30. The demographic window of opportunity began in 1992 and is expected to span until 2047. Discounting the years lost to conflict and chaos, Nepal still has three more decades for rapid development catch-up, bolstered by a relatively young workforce.
7. In past two years, the government has given priority to systemically address the issue of climate change and disaster risk reduction through promulgation of climate change policy, long term disaster risk management strategy and legislation; setting up disaster information system and a national authority on disaster risk management. As a party to UNFCCC and Paris Agreement, Nepal has set its goals to enhance climate ambition through revision of Nationally Determined Contributions (NDCs) and by adopting a low carbon climate resilient development path.



Chapter 6

STRATEGIC RECOMMENDATIONS





The recommendations in this assessment are clustered around the following three broad development imperatives in the aftermath of that advocate for responding to the negative social and socio-economic impacts wrought by of the COVID-19 pandemic as follows an opportunity to transition towards a long-term sustainable recovery:

i. Guard against vulnerabilities by strengthening social protection and livelihoods.

ii. Reorient public finance to augment human capabilities.

iii. Introduce measures to save bankruptcies and create new sources of job-creating green growth.

Policy choices are being complicated by global and local uncertainty on whether, if, and when the COVID-19 pandemic will taper off. The crisis has had a disproportionately adverse impact on people engaged in the informal sector, the poor and the marginalized, the women, and the persons with disabilities, who are more vulnerable to climatic shocks as they lack of adaptive capacities. It has also laid bare the gender and class dimensions, accentuating the traditional fault lines of inequality in Nepal. With loss of income and jobs, society's more vulnerable

sections have suffered. We suggest that the following agenda, over the immediate and medium run, could help address emerging challenges.¹³¹

1. GUARD AGAINST VULNERABILITIES BY STRENGTHENING SOCIAL PROTECTION AND LIVELIHOODS

To confront the prolonged fallout from the negative income and health shocks of COVID-19, the government's primary responsibility is to guard against worsening the vulnerabilities of poor and marginalized people by i) revamping social protection schemes including employment guarantee programmes; ii) instituting skill academies across the country to absorb a large group of migrant returnees and laid-off informal workers; and iii) resuscitating rural agriculture by forging linkages with agri- and manufacturing businesses and fostering labour-intensive, low-carbon and resilient physical infrastructure.

RAMP UP GUARANTEED EMPLOYMENT SCHEMES AND SKILL ACADEMIES

In close coordination with local governments, the Prime Minister's Employment Programme (PMEP) can aid capital formation and help revive rural agriculture while providing a basic safety

net for up to 1 million people at a cost of NPR 30 billion. In 2019, Nepal launched the PMEP seeking to guarantee unskilled manual work for eligible adults earning 50 percent of the minimum national wage for up to 100 days per year. In the inaugural year, it was hamstrung by poor preparation. Suitably refashioned and resourced, PMEP has the potential to be scaled up into an effective social protection instrument.

Out of Nepal's 7 million employed and roughly 1 million unemployed people, 4.4 million work in the informal sector, of which 2.9 million are in the non-farm sector. Many have returned to their villages from urban centres. Issues that will demand specific attention to prevent abuse are targeting, selection, rationing, payment, and leakages. Several skill academies can also be set up to enrol and train young people in large numbers for up to 50 days per year. They could, in part, help displace the import of skilled labour.

HARNESS THE SKILLS AND EQUITY OF MIGRANT RETURNEES

Of the 49,450 foreign employment permits issued in Falgun 2076 (February–March 2020), an overwhelming majority (86 percent) were destined for the UAE, Saudi Arabia, Qatar and Malaysia, but now remain in the country.¹³² At least 1.5 million Nepalis are estimated to serve in Gulf countries at present. A comparably

¹³¹ These recommendations can be implemented across short term and medium term. Such categorization is illustrated in Annex 2

¹³² During 2075/2076, of the 508,828 permits issued, 80 percent were destined for Saudi Arabia, UAE and Qatar. Oil prices have plunged and will hit UAE and Saudi Arabia hard. Qatar is also an oil exporter, but is in better fiscal shape because it is also the world's largest exporter of LNG which is governed by long-term contracts.

large number of Nepalis work in India who are not accounted for because of fluid borders. If these countries go into recession and begin shedding workers, hundreds of thousands of Nepalis will return home. Nepal also provides employment to hundreds of thousands of Indian migrant workers particularly in the construction sector. Many of these have returned to India during the lockdown. According to the IMF bilateral remittance matrix, each year Nepal remits \$3 billion to India while Nepal receives \$1 billion from India, causing an annual remittance deficit of close to \$2 billion. Given the surge in COVID-19 cases in both Nepal and India, the borders between these countries are anticipated to remain shut for a significant period allowing no mobility of labour. Hence, the void created by a lack of skilled migrant workers from India provides opportunity for Nepali returnees to fill the gap. They need to be assisted by two mechanisms: employment guarantee schemes (like PMP or the Foreign Employment Welfare Fund); or, ii) concessional lending to returnees with proven skills to launch start-ups and MSMEs. If returnees are expected in large numbers, data collection to document specific skill sets need to be arranged either at the Nepali embassies before migrants fly back, or upon arrival at the airport. This would be necessary to introduce targeted initiatives and to map skill needs with supply over the next few years, aligned with the National Employment Information Management System (NEMIS).

SUPPORT WORKERS IN THE ORGANIZED SECTORS

The government should help enrol workers in the formal, organized sectors in the Social Protection Fund by subsidizing contribution that both employers and employees are mandated to put in for period of lockdown plus the following month. This provides a temporary relief to firms and their staff while formalizing a section of the workforce. Provisions in the Contributions-based Social Protection Act 2074 (2017/2018) also need to be availed,

including benefits to those enrolled that have now been laid off. This kind of support would particularly benefit struggling start-ups and SMEs.

UNIVERSALIZE THE SAFETY NET WHILE FORMALIZING THE ECONOMY

Universal Basic Income (UBI), by definition includes the entire nation, regardless of their personal or financial condition. Unconditional cash grants large enough to raise incomes to poverty line are being debated worldwide, and have been implemented in advanced countries during the current pandemic. However, implementing a policy that adheres to the strictest version of this definition is prohibitively expensive in an LDC, and would require abolishing many existing subsidies, tax exemptions and public distribution schemes. In Nepal, because of the impossibility of perfect targeting, a quasi-UBI at the household level is worth considering.

Nepal's past efforts at identifying the absolute poor through the Poor Household Identification and Identity Card Distribution Programme have not concluded successfully. This is partly

because poverty is not a static concept, with a large proportion of the people above the poverty line just a shock away from falling back into poverty. In the absence of well-identified and constantly updated lists of beneficiaries, universal cash transfer schemes lead to gross exclusion and inclusion errors where those eligible do not receive assistance and those ineligible often capture the benefits. In federal Nepal, local government must be allowed to identify the most vulnerable and poor within their jurisdictions and to provide assistance in a mode they deem appropriate -- cash or kind, conditional or unconditional. These should be locally envisioned and not federally prescribed. This includes building on and reaching out to the 2.8 million recipients (seniors, people living with disabilities, widows, single women, children) of some form of regular social security allowances. Their entitlements could be frontloaded as a social welfare buffer.

The social security component of recurrent expenditures in the federal budget is large, at 14 percent, and in urgent need of rationalizing, consolidating and economizing. Over the medium-term, therefore, an initiative akin to India's JAM



– Janadhan, Aadhar and Mobile scheme
– where every citizen has a bank account and a digital identity linked to their mobile phone, is worth emulating.

Formalization is critical in bringing more sectors of the economy into state purview, widening the government’s revenue base and ensuring the safety and social security of employees. Since the lockdown, there has been a growth in the registration number of social security scheme following government announcement to make contribution to the fund of both the employer and employees for enrolled entities. Formalization is likely to accelerate if the government extends the benefits to newly-enrolled entities and employees.

In recent years, Nepal has begun to make some headway in formalizing the economy. Mandatory PAN registration has led to a 30 percent increase in income tax within six months of implementation in 2019-2020. In the medium term, efforts would need to be made to universalize PAN by linking it with bank accounts (without further KYC to avoid duplication) and Director Benefit Transfer (DBT). This helps seamless integration of personal identification, tax history, social security status, cash transfer from government, foreign employment information, among others. It also helps to stop leakages in the distribution of public funds.

EXPEDITE LABOUR-INTENSIVE RESILIENT INFRASTRUCTURE PROJECTS

Should the threat from COVID-19 decline over the summer, one activity that can be

resumed with vigour is the construction and maintenance of roads and highways at the federal and local level. Only 20 percent of the 92,000 kilometres of road in the country are black-topped, and 23 percent are gravelled. In 2019/2020 the government prioritized roads and highways, (budgeting) NPR 130 billion (8.5 percent of the budget). Quick spending to upgrade earthen roads, and to maintain blacktopped ones will inject liquidity into the market, make travel and transit cheaper and enhance efficiency. For a landlocked country, connectivity is an urgent priority, also because once the track is opened by machines, road construction and maintenance are labour intensive with low import content.

Particularly at sub-national levels, where provincial and local governments make a significant amount of spending in civil construction, such as road upgradation and maintenance and irrigation canals, extra caution should be given to ensure the infrastructure do not damage natural environment and are resilient enough to absorb the shocks from floods, landslides and other hazard. This should be done following proper alignment and engineering norms adhering to green principles.

While it is unlikely that major projects can be re-started and expedited in the remaining two months of the fiscal year, on Projects of National Pride (PNP) where NPR 102.8 billion was allocated, only NPR 20.4 billion was spent as of January. Those nearing completion include Gautam Buddha airport, Upper Tamakoshi hydro-

electric project, and the Melamchi drinking water project, which can be expedited. Other construction projects that are deemed less urgent from the perspective of supporting jobs and livelihoods, could be paused for a few months to redirect resources to greater human development needs.

Infrastructure projects such as solar grids and solar water pumps for agro-processing and irrigation; and herb farm and agro-forestry plantations, which are green, labor intensive and can produce return over short time should be promoted.

OVERHAUL THE HEALTH INFRASTRUCTURE

An immediate priority is to ramp up the capacity to test, screen, trace and treat Nepalis for the virus. Assuming at least 12,000 Nepalis are tested per million at a cost of NPR 14,506 per person, Nepal needs to allocate at least NPR 5.1 billion for widespread testing.¹³³ Of those found positive, about 80 percent will be mild cases necessitating inexpensive treatment. About 5 percent may need oxygen therapy. Nepal, overall, does not have the capacity to cope with the demand for medical facilities if there is exponential growth in COVID-19. The country requires reliable health facilities, adequate infrastructure and health personnel to deal with these kinds of pandemic not only in the national capital, but also across all provinces. Given the indifference of private hospitals to provide medical service to the general public, there should at least be one modern hospital in each province with the number of beds set in proportion to population

TABLE 6.1. ROADS AND HIGHWAYS IN NEPAL (MARCH 2019)

	BLACKTOP	GRAVELLED	EARTHEN	TOTAL	PERCENT
Central Province	14,102	7,881	9,410	31,393	34.3
Province	3,946	13,151	43,066	60,163	65.7
Total	18,048	21,032	52,476	91,556	
In Percent	19.7	23.0	57.3		

Source: Ministry of Physical Infrastructure and Transport Management, 2019

¹³³ Tiwari et al. (2020)

headcount and density. To secure funding on a cost-sharing model between the central and provincial governments and to address the country's overall medical requirements, these hospitals can be developed into teaching hospitals. Seven new modern teaching hospitals across the country will provide a foundation to tackle future epidemics.

Many health facilities and birthing centers located in remote locations do not have access to reliable supply of electricity, which limit their capabilities to serve the population. This has curtailed citizens right to access to health services. An investment in installation of solar power systems to remote health facilities will expand the access of basic health services to the people living in those areas.

REORIENT PUBLIC FINANCE TO AUGMENT HUMAN CAPABILITIES

The first set of choices is about the sources of new finance to fight the direct consequences and negative externalities associated with the COVID-19 pandemic, and the second is about a judicious use of resources thus corralled. As the need for a proper economic stimulus package becomes more evident, Nepal can look for additional funding by: i) redirecting existing allocations; ii) freeing resources through efficiency and austerity; and iii) exploring new borrowing and partnerships. By cutting wasteful expenditures, and reorienting existing allocations towards human development priorities such as health, education, climate, energy, water and sanitation, decent employment and livelihoods, the country's economic choices can be given a human face. This would also provide an opportunity to rethink foreign

employment regimes to wean off heavy dependence on remittances. As customary sources of revenue and grants, especially import-based taxation shrink, Nepal's likely dependence on foreign loans would also need to be scrutinized from the perspective of concessionality, sector allocation, and the terms and tenure of repayment. With an absence of prudence, it can spiral out of control into onerous schedules of debt servicing and repayment, diverting vital resource allocations from sectors that augment human capabilities.

REDIRECT EXISTING BUDGET ALLOCATIONS

Several SDGs, and targets within, now fall under the remit of local government. Indeed, local government is the vanguard of the Nepali state not only to meet SDGs in education, health, poverty, rural works, water and sanitation, but also to fight emergencies like COVID-19 at the grassroots. Almost 60 percent of recurrent expenditures undertaken by the federal government involve grants (NPR 512 billion) including NPR 330 billion worth of equalization, conditional, matching and special grants to provincial and local governments. If foregone revenues are also added, the two tiers of government receive more than NPR 500 billion in transfers from Singha Durbar.¹³⁴ Yet, because of capacity constraints, only a small share is spent. The inter-province coordination council can revisit these allocations to make a more judicious use of them, taking the territory of Nepal as a single unit.

At the federal level, under-spending ministries must be forced to surrender funds. Following the six-monthly review of the budget, MoF has revised downwards its expenditure target by about 10 percent. The first step is to reprioritize and redirect

allocations from under-spent budget headings to emerging needs. As of 29 April 2020, capital expenditures worth only NPR 110.7 billion have been undertaken against a target of NPR 408.1 billion (27.2 percent).¹³⁵ Because only some eight weeks remain in the fiscal year, redirection can be sought as follows. Large allocations were made to infrastructure-driven ministries and the security apparatus. Reconstruction too was allocated a huge chunk of the budget in 2020; these can be rolled over to the new fiscal year. For example, of the NPR 157 billion allocated to the Ministry of Physical Infrastructure, only NPR 30 billion had been spent by January.

ENFORCE AUSTERITY AND CURB CONSPICUOUS CONSUMPTION

There will be a revenue shortfall in 2020, which needs to be matched by expenditure compression and reallocation. With remittance-propelled imports slowing,¹³⁶ and other economic activities adversely impacted for the rest of the fiscal year, tax revenue is certain to be lower than projected. The COVID-19 crisis presents an opportunity to 'right-size' a bloated public expenditure apparatus of the

As of 29 April 2020, capital expenditures worth only NPR 110.7 billion have been undertaken against a target of NPR 408.1 billion (27.2 percent).

¹³⁴ NPR 442 billion in 2018/2019 + NPR 51 billion (foregone revenue) = NPR 493 billion; NPR 465 billion in 2019/2020 + foregone revenue > NPR 500 billion in 2019/2020.

¹³⁵ Note that a large share of the recurrent expenditures that is transferred as grants to the provinces and local government are capital expenditures.

¹³⁶ World Bank predicts a 22 percent contraction in 2020 inflows into South Asia. This report expects a decline in remittance inflows by up to 40 percent in Nepal.

government, which has increased from about 22 percent of GDP to 36 percent of GDP in about seven years after 2013. Similarly, recurrent expenses increased from 17.3 percent to 23.2 percent of GDP; capital expenditures rose from only 5 percent to 9 percent of GDP (largely comprising building construction, land acquisition, vehicles). Part of this expansion was justified by the need to reconstruct after the 2072 earthquake; but time has come to rein in a bloated and profligate government. Together with the sunset clause for reconstruction coming into force, COVID-19 presents an apt opportunity for fiscal surgery.

The Public Expenditure Review Commission (PERC) 2075 identified several areas of reform. For example, of the 206 development committees, councils, commissions, and boards, only 83 have been recommended by PERC to be retained in a newly federated Nepal, while 123 can be dissolved or merged immediately. Furthermore, no major reform has been undertaken to revamp the public enterprise landscape, many of which continue to be a drag on the exchequer. These either need to be run by the government efficiently, or contracted out to private parties following several models of management without selling off public real estate. Liabilities continue to mount and impose crippling opportunity costs of scarce taxpayers' money.¹³⁷

As already announced, the government restrictions on expensive imports (vehicles, gold, liquor) need to be broadened at the same time widespread incidences of abuse and waste that occur in public offices on the use of fuel, vehicle maintenance, and other forms of procurement including consultancy services can be immediately disciplined. After the election of seven provincial and 753 local governments, the continued relevance of Local Infrastructure Development Fund for each of the 165 constituencies is being questioned.

As a drastic measure if the revenue crisis persists, civil servant salary increases could be paused for a few months. Over 16 percent of recurrent expenses are used for the payroll of close to 490,000 civil servants, army, police, and teachers. Exempting those on the frontline of the COVID-19 response, who need additional incentives, savings can be extracted from the government wage bill.

OPTIMIZE THE POOL OF CONCESSIONAL RESOURCES

Nepal's stock of outstanding debt, relative to the size of the economy, is 30 percent (of GDP), which is low relative to other low and middle-income countries. In 2020, GoN planned to borrow nearly NPR 500 billion, much of it aimed at large infrastructure. This has now been revised downward to NPR 405 billion. Under normal circumstances, a policy argument against heavy (domestic) public borrowing is that it would 'crowd out' private investment. At a time of crisis, when the private sector is itself inactive, and needs resuscitation, all options should be explored.

The World Bank has already issued \$29 million for immediate COVID-19-related treatment. Globally, the Bank has announced over \$150 billion of assistance over the next 15 months. ADB has also set aside \$20 billion. Nepal must be proactive in accessing as much concessional finance as possible, because this can help buffer likely shocks to the current account imbalance. There is a call for debt relief led by IMF, already endorsed by G20 countries. Debt relief for 2020 and 2021 will provide significant fiscal space (Nepal budgeted NPR 24.7 billion in the current FY 2019/2020 for external debt servicing). Domestically, GoN plans to borrow about 5 percent of GDP (NPR 195 billion) this year. Outstanding domestic debt stands at around 13 percent of GDP. But with a ratio of 7 percent of GDP, up to NPR 242

billion can be borrowed domestically. This will have consequences, however, and arguments against need to be weighed.

With the likelihood of remittances slowing, foreign grants drying, and in view of the chronic trade deficit, Nepal may soon face a balance of payments (BOP) difficulty. Directly related to COVID-19, IMF has given \$2.85 million under the Catastrophe Containment and Relief Trust (CCRT). Globally, it has prepared a pool of about \$100 billion in financing. Contingent on BOP worsening and swift depletion of foreign exchange reserves, IMF resources might eventually need to be tapped.

Nepal's major grant-giving partners include UK, US, Japan, Germany, EU and the United Nations. They should also be urged to reorient their priorities. As immediate neighbours and emerging powers, India and China are also among the largest bilateral donors, but they need to be approached differently than those who belong to the Organization for Economic Co-operation and Development (OECD) Development Assistance Committee. Indeed, China and India are in a position to not just give grants, but also to lend through their EXIM banks. Normally their terms are moderately more onerous than the IFIs, but concessional lines of credit in Chinese RMB or Indian Rupee can be a potent resource for Nepal during this crisis.

As a final resort, the government can borrow for 180 days an overdraft facility from the central bank up to NPR 44 billion (5 percent of last year's revenue), according to the NRB Act 2058, 75(5). More crucially, NRB currently holds only about 14 percent of GoN's domestic debt (NPR 65 billion); there is, therefore, an option for the NRB to be requested to monetize additional debt. This would entail acquiring government debt and injecting credit into the banking system.

¹³⁷ For example, it cost NPR 3 billion to settle claims of staff associated with Janakpur Cigarette Factory; Gorakhhali Rubber Udhog has demanded over NPR 1.6 billion.

ENSURE TRANSPARENCY OF PUBLIC PROCUREMENT

The procurement of emergency medical supplies in the early days of lockdown drew allegations of overpricing and mismanagement. The reliability of results using imported test kits were also questioned. This has stymied efforts to scale up response to the pandemic through isolate-test-treat-trace measures considered central to containing the spread of the virus. As part of a broader drive to improve governance, it is imperative to ensure full transparency in public procurement processes in line with the spirit of the Nepali Constitution. It is good practice to put procurement details including technical specification, quantity, price, amount and supplier in the public domain. In the current age of information and technology, the price and sources of the products can be easily tracked. Such measures are expected to assist in drastically reducing unfair practices existing in the public procurement system by ensuring transparency, accountability, competition and value for money.

3. INTRODUCE ECONOMIC MEASURES TO SAVE BANKRUPTCIES AND CREATE NEW SOURCES OF JOB CREATING GROWTH

The government agenda must now be reoriented to not just revive the economy, but also to take up ambitious economic reforms that would otherwise have been difficult in normal times. Nepal needs to be steered towards new sources of growth and job creation. A priority is to keep the thousands of firms afloat so that jobs can be retained and revenue streams can be preserved. Through a bold exercise of monetary policies, financial measures aimed at expanding concessional working capital and subsidizing interest obligations. Nepal must start planning for a post-COVID-19 roadmap where reforms lead to reduced costs, higher savings and investment (domestic and foreign). New sectors of dynamism within high-value

agriculture, niche manufacturing, clean energy adoption, and digitalization show promise.

LOWER ECONOMY-WIDE RATES OF LENDING

The 'policy rate' is a central bank's most important conventional policy tool. It has, however, failed to provide policy guidance in the economy. Borrowers are therefore paying high bank interest despite a period of comparatively low inflation in the last three years. Amid unhealthy competition, the commercial banks made a tacit agreement under the aegis of MoF and NRB to fix interest rate on term deposits. When the monetary policy rate was 4.5 percent before the recent revision, money market rate (treasury rate and interbank rate) was less than 2 percent, weighted average deposit rate was 6.8 percent and the weighted average lending rate was around 12 percent.

Firms that have borrowed formally need relief not only through deferred payment, but also through lower interest rates in general. In the tourism/entertainment and passenger travel sectors, the outstanding loan of the last eight months is NPR 174 billion. The annual cost of lowering the interest rate by 300 basis points (bps) is NPR 5.22 billion. BFIs can also lower interest to affected sectors without passing the cost to other sectors by 200 bps. Actions on the part of the NRB to lower lending rates must be pursued with vigour. This is the most important concern for enterprises that have borrowed. At the same time, those firms seeking to restructure or fold at this time should also be assisted with a conducive insolvency regulation.

NRB could introduce term repos of one to three years (based on an upper bound policy rate of five percent) with immediate effect to ensure effective monetary policy transmission aimed at easing the liquidity condition in the banking system and enabling BFIs to lower the lending rate. The volume of repo operation should be such that the overarching goal of lowering lending rate is achieved. In the last three years, the share of fixed deposit

(50 percent) on total deposit has gone up significantly thereby increasing the weighted average cost of deposit. Lower borrowing rate (if brought down to single digit) is the most effective means of monetary stimulus particularly during the crisis. The Reserve Bank of India (RBI) has also introduced one year and three years repos to ensure effective monetary policy transmission so that the banks are able to lower lending rate. Currently, the repo rate in India is 4.4 percent.

BFIs could play their part by reducing lending rate to the most affected and vulnerable sectors by up to 200 basis points without passing the cost to other sectors. Exposure to travel and tourism is limited to 5.4 percent of the total loan portfolio. The cost of such measures will not be more than NPR 3.5 billion for the entire year while the annual profit of banking sector is anticipated to be above NPR 75 billion in the current FY. A 3 percent interest rate subsidy from NRB and a 2 percent interest rate waiver from BFIs will together bring down the borrowing rate to around 7 percent – which will provide enormous support to the vulnerable and other adversely affected sectors.

INJECT LIQUIDITY INTO THE BANKING SYSTEM

Keeping a large amount of government cash with NRB is equivalent to undertaking monetary tightening, as it takes cash out of the banking system. Since the fund will eventually come back to the banking system, an automatic self-rechannelling system shall be instituted to ensure that fund remains within the banking system. The allocation can be made on the basis of government securities held by BFIs. BFIs own 84 percent of government debt, amounting to NPR 376 billion.

NRB has accumulated a large reserve and surplus balance of NPR 222 billion from its historical profits. Apart from statutory reserves of NPR 149 billion, there is NPR 73 billion worth of other reserves. The NRB Board could review the nature and purpose of non-statutory reserves to examine if part of them can be earmarked for specific relief

programs. Alternatively, it could also be distributed to the government in the form of interim cash dividend, which can be directed towards state relief programmes.

EXPAND THE BREADTH OF MORATORIA AND WORKING CAPITAL TO SMEs

Monetary policy should be oriented towards easing access to credit and preventing avoidable bankruptcies, but also to facilitating exit and restructuring. Firms, households and individuals should be allowed to defer payment of income tax, indirect taxes, fees, utilities until the end of the financial year. In the survey conducted by IIDS, this is the second most important demand of SMEs. Conditional concessional loans of up to 24 months can be offered to MSEs including start-ups, to help them avoid closure. IMF suggests a special purpose vehicle (temporary public entity tasked to issue new working capital loans to MSMEs). In Nepal, this can be implemented through BFIs. Only firms that were sound borrowers before the onset of COVID-19 would be eligible. Our preliminary estimate is that a package worth NPR 35 billion would provide an adequate cushion for concessional support to SMEs.¹³⁸

The Hotel Association of Nepal (HAN) has submitted to the government its demand for a special economic package to address difficulties faced by its members. There also was a joint appeal from the three major representative bodies of private sectors – FNCCI, CNI and NCC. The Confederation of Bank and Financial Institutions of Nepal (CBFIN) also submitted its suggestions. While some demands of the private sector appear to be fiscally onerous for a revenue-constrained government, its partnership with the private sector and civil society, overall, could be forged in ways that do not incur a financial liability, but create value and resources that serve as economic stimuli. This could involve innovative sources of financing, with the diaspora



and NGOs to also begin looking into other negative social and health externalities.

BOOST SMART AGRICULTURE AND AGRI-BUSINESSES

Government spending on agricultural infrastructure is critical at a time when people are beginning to explore livelihood opportunities in this sector. As more monetary stimulus will be directed at the agricultural sector to absorb people displaced in the non-farm informal sector, rehabilitate returnees from foreign employment, and to reverse migration from urban to rural areas, the fiscal stimulus must ease the infrastructural bottleneck and provide necessary incentives to set up enterprises. The government should provide in-kind incentives to start agri-businesses and livestock farming by providing seeds, fertilizers, materials required for, for instance, tunnel farming, technical assistance, and new breeds of animals.

The construction of large networks of irrigation canals across the country is vital in enhancing the agricultural productivity and reducing the large imports of the essential agricultural products such as rice, vegetables and fruits. Of the 1.8 million hectares of irrigable arable land in the country, only 1.47 million hectares have

access to some irrigation installation, but only a third of that (486,000 hectares) has access to water supply throughout the year. Rapidly installing 20,000 shallow tube wells (NPR 0.15 million per unit) and 1,000 deep tube wells (NPR 2 million per unit) would cost NPR 5 billion.

With a temporary tariff reprieve (protection of around 15-20 percent), many import-displacing products that can be produced with comparable cost and quality within Nepal should be encouraged, particularly in the agro-processing sector. In 2018-2019, Nepal's import bill for basic commodities such as rice, maize, soybean, potatoes, spices and fruits were high (Table 4.2.). With temporary protection and output-based subsidies, Nepal has immense potential in agricultural products with forward and backward linkages to agro-processing businesses.

¹³⁸ Nearly 50 percent of SMEs employing at least 1.7 million people have accessed finance from BFIs at an average interest rate of 12.51 percent. Total outstanding loans taken by SMEs are estimated to be around 335 billion in 2018/19. Assuming that working capital amounting to 10 percent of outstanding loans might be needed to navigate the present crisis.

TABLE 6.2. IMPORTS OF BASIC FOOD COMMODITIES (2018-2019, NPR BILLIONS)

	HS CODE	PRODUCT	VALUE
1.	100610xx	Rice	32.6
2.	100590xx	Maize	12.9
3.	120110xx	Soybean	5.9
4.	070119xx	Potato	7.3
5.	090412xx	Pepper	7.2
6.	09093xxx	Cumin	1.9
7.	070310xx	Onion	5.3
8.	080410xx	Banana	1.8

Source: Department of Customs

Given that Nepal is landlocked, it is not a natural candidate for manufacturing prowess. However, as an LDC, global trade policy has helped Nepal enjoy duty-free, quota-free entry into major markets while its large competitors often face interim anti-dumping remedies. It has an edge in reviving niche manufacturing that can leverage international trade concessions, have linkages with agriculture, and are labour-intensive and energy-intensive. Nepal is likely to witness surplus energy production from domestic generation from Asar to Mangsir of 2077 (June/July-November/December, 2020/2021) during off-peak hours, discounts on energy bills would help struggling firms while avoiding waste on the part of Nepal Electricity Authority (NEA).

A significant number of seasonal migrant workers from Far Western Nepal are mostly engaged in agriculture in India. Given the surge of COVID-19 cases, such workers who have returned and are anticipated to return to Nepal can be engaged in this sector if the country transitions into large-scale commercial farming. This will further assist in re-cultivating lands that remain barren due mainly to shortage of manpower.

LET DIGITALIZATION LEAPFROG

It is necessary to enact trade and industrial policies to boost specific sectors in a manner that outlasts the COVID-19 crisis. No sector embodies this better than Nepal's nascent digital industry, further accentuated by the lockdown and social distancing. This was, in any case, a vital strategy for a landlocked country like Nepal to render the burden of distance and weight less relevant to otherwise costly engagement with the world. Nepal has a vibrant emerging digital scene across 13 subsectors of IT-enabled technologies and businesses. These include e-commerce, BPOs (software, animation), offline and online remittance, e-learning, e-health, e-banking, e-lending, ride shares, and agri-tech.

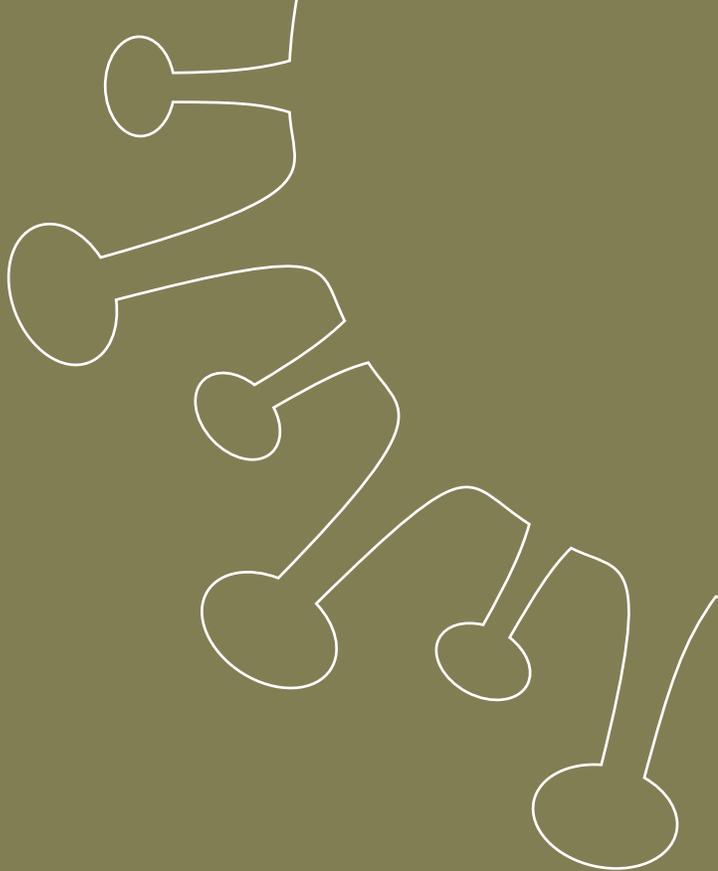
Many of these digital start-ups are struggling at present and need to be supported with a special programme. Over the medium-term, reforms may include:

- Allow seamless payments in the digital marketplace through interoperable Payment Support Operators (PSO) and Payment Support Providers (PSP)
- Formalize digital freelancing; create Foreign Direct Investment (FDI) and other incentives for digital content

creators (including Hollywood) and IT companies to locate in Nepal

- Enable banks to tie up directly with global financial institutions to send and receive payments
- Roll out digital ID and KYC to enable digital health; certify digital learning
- Use machine learning algorithms to assess creditworthiness of borrowers
- Allow ride-share platforms to boost supply chain logistics. Improve agriculture information system to include supply, demand and risks forecast
- Institute health care information system with provisions of health services, immunization, and insurances.

Supporting the above measures will help build a digital ecosystem, but that will still require an architecture to undergird it that involves payment settlement, artificial intelligence, digital signatures and contracts, localized maps (cheaper than Google Maps), local cloud hosting, internet security and a conducive taxation, legal and bureaucratic framework.



ANNEXES



ANNEX 1: FINDINGS FROM THE SURVEY (IN TABLES)

TABLE 3.12. EMPLOYMENT STATUS OF RESPONDENT BY GENDER

PARTICULARS	MALE		FEMALE		TOTAL	
	N	%	N	%	N	%
Self-employed in agriculture	42	14	21	21	63	15.8
Self-employed in non-agriculture	35	11.7	18	18	53	13.3
Day labour in agriculture	23	7.7	20	20	43	10.8
Day labour in non-agriculture	89	29.7	11	11	100	25
Transport worker	25	8.3	1	1	26	6.5
Formal employment	61	20.3	26	26	87	21.8
Returnee migrant from foreign employment	7	2.3	1	1	8	2
Internal migrants (from within country)	1	0.3	0	0	1	0.3
Others	17	5.7	2	2	19	4.8
Total	300	100	100	100	400	100

TABLE 3.13. DISTRIBUTION OF MONTHLY SAVINGS OF FAMILY BY GENDER

	LESS THAN 5,000		5,000 TO 10,000		10,000 TO 15,000		15,000 TO 20,000		20,000 TO 25,000		MORE THAN 25,000		TOTAL	
	N	%	N	%	N	%	N	%	N	%	N	%	N	%
Male	127	42.3	54	18	47	15.7	25	8.3	21	7	26	8.7	300	100
Female	46	46	11	11	18	18	10	10	5	5	10	10	100	100
Total	173	43.3	65	16.3	65	16.3	35	8.8	26	6.5	36	9	400	100

TABLE 3.14. SEVERITY OF IMPACT OF COVID-19 BY GENDER

	MALE			FEMALE			TOTAL		
	N	MEAN SCORE OF SEVERITY	STANDARD DEVIATION	N	MEAN SCORE OF SEVERITY	STANDARD DEVIATION	N	MEAN SCORE OF SEVERITY	STANDARD DEVIATION
Inability to find another job	112	3.55	1.570	52	3.17	1.700	164	3.43	1.617
Inability to purchase food and essential items	136	3.08	1.511	56	3.14	1.656	192	3.1	1.55
Inability to pay rent	70	3.31	1.389	24	2.21	1.444	94	3.03	1.477
Inability to pay school tuition fees for children	54	2.91	1.431	29	2.93	1.252	83	2.92	1.363
Inability to pay for health services	82	2.59	1.257	33	3.03	1.357	115	2.71	1.296
Inability to repay loan	122	3.34	1.504	37	3.30	1.175	159	3.33	1.431
Inability to find alternative source of income	92	3.74	1.540	31	3.84	1.485	123	3.76	1.521
Inability to travel back to permanent home	13	3.92	1.382	8	2.38	1.408	21	3.33	1.56
Illness	2	1.00	0.000	2	1.50	.707	4	1.25	0.5
Psychological problems (like stress and depression)	81	2.85	1.333	28	3.21	1.258	109	2.94	1.318

TABLE 3.15. COPING STRATEGY DURING THE LOCKDOWN BY GENDER (IN PERCENT)

PARTICULARS		GENDER		
		MALE	FEMALE	TOTAL
Reducing number of meals per day	Yes	7.0	20.0	10.3
	No	93.0	80.0	89.8
Go a whole day without a meal	Yes	0.0	0.0	0.0
	No	100.0	100.0	100.0
Borrow food	Yes	14.7	31.0	18.8
	No	85.3	69.0	81.3
Borrowing money from a formal/informal lender (bank, relatives, neighbours, among others)	Yes	34.3	29.0	33.0
	No	65.7	71.0	67.0
Selling more animals (non-productive) than usual	Yes	2.0	7.0	3.3
	No	98.0	93.0	96.8
Sell household assets/ goods (radio, furniture, refrigerator, TV, jewellery, bicycle, motorbike, among others)	Yes	1.0	0.0	0.8
	No	99.0	100.0	99.3
Sending household member away to eat	Yes	0.0	1.0	0.3
	No	100.0	99.0	99.8
Withdrawing children from school	Yes	0.3	1.0	0.5
	No	99.7	99.0	99.5
Harvesting immature crops	Yes	3.0	2.0	2.8
	No	97.0	98.0	97.3
Sell productive assets (agriculture tools, wheel barrow, power tiller, sewing machine, among others)	Yes	0.0	0.0	0.0
	No	100.0	100.0	100.0
Sell house or land	Yes	0.0	0.0	0.0
	No	100.0	100.0	100.0
Entire household migrated	Yes	0.0	0.0	0.0
	No	100.0	100.0	100.0
Selling last female animals	Yes	0.3	2.0	0.8
	No	99.7	98.0	99.3

TABLE 3.16. TOP THREE SUPPORTS RATED BY RESPONDENTS DURING AND AFTER LOCKDOWN, BY GENDER

	MALE						FEMALE					
	1ST RANK		2ND RANK		3RD RANK		1ST RANK		2ND RANK		3RD RANK	
	N	%	N	%	N	%	N	%	N	%	N	%
Monthly ration of food	138	46.0	22	8.2	16	7.5	59	59.0	4	4.2	4	5.0
Monthly financial support	26	8.7	101	37.7	29	13.7	12	12.0	49	51.0	11	13.8
Healthcare support	51	17.0	50	18.7	60	28.3	14	14.0	11	11.5	43	53.8
Loan waiver	38	12.7	40	14.9	58	27.4	5	5.0	11	11.5	9	11.3
Rent waiver	21	7.0	31	11.6	24	11.3	3	3.0	15	15.6	8	10.0
School tuition waiver	18	6.0	18	6.7	23	10.8	6	6.0	4	4.2	4	5.0
Others	8	2.7	6	2.2	2	0.9	1	1.0	2	2.1	1	1.3

TABLE 3.17. DISTRIBUTION OF RESPONDENTS ACROSS PROVINCE BY TYPE OF BUSINESS (PERCENT)

	PROVINCE 1	PROVINCE 2	BAGMATI PROVINCE	GANDAKI PROVINCE	PROVINCE 5	KARNALI PROVINCE	SUDURPASHCHIM PROVINCE	TOTAL
Agriculture	8	9.9	12.5	3	19.4	16	10	11.1
Dairy and Livestock	1	8.9	4.5	4	10.2	0	10	5.4
Trade	61	55.4	55.5	58.4	37.8	50	50	53.4
Accommodation and Food	15	8.9	11	28.7	6.1	16	6	13.1
Manufacturing	1	1	2.5	0	7.1	6	0	2.4
Repairs and maintenance	2	1	3.5	3	7.1	0	8	3.4
Transportation	1	1	2	1	4.1	4	2	2
Others	11	13.9	8.5	2	8.2	8	14	9
Total	100	100	100	100	100	100	100	100

TABLE 3.18. STATUS OF BUSINESS START-UP AND OPERATION BY PROVINCE

PROVINCE	AVERAGE START-UP CAPITAL (IN NPR)	AVERAGE NUMBER OF PAID WORKERS	AVERAGE NUMBER OF PAID WORKERS DURING LOCKDOWN	AVERAGE NUMBER OF OPERATION DAYS IN A MONTH	AVERAGE NUMBER OF OPERATION DAYS IN A MONTH DURING LOCKDOWN
Province 1	889,400	1	1	29	9
Province 2	1,028,812	2	2	28	3
Bagmati Province	706,890	1	0	28	5
Gandaki	830,297	2	1	29	5
Province 5	1,268,520	3	0	28	10
Karnali Province	874,640	1	1	28	2
Sudurpashchim Province	2,253,600	5	3	29	2
Total	998,307	2	1	28	6

TABLE 3.19. AVERAGE GROSS SALES/REVENUE AND BUSINESS EXPENSES A MONTH, BY PROVINCE

PROVINCE	AVERAGE MONTHLY GROSS REVENUE (IN NPR)	AVERAGE AMOUNT OF GROSS DURING LOCKDOWN (IN NPR)	CHANGE IN MONTHLY GROSS REVENUE DUE TO LOCKDOWN (IN NPR)	AVERAGE BUSINESS EXPENSES A MONTH (IN NPR)	AVERAGE BUSINESS EXPENSES A MONTH DURING LOCKDOWN (IN NPR)	CHANGE IN MONTHLY BUSINESS EXPENSES DUE TO LOCKDOWN (IN NPR)	AVERAGE MONTHS OF SUSTAINABILITY DURING LOCKDOWN (IN MONTHS)	RECEIVED SUPPORT (IN %)
Province 1	326,800	53,470	273,330	175,230	61,810	113,420	2.1	0
Province 2	404,703	10,119	394,584	53,574	29,644	23,930	1.5	0
Bagmati Province	171,110	10,765	160,345	87,895	25,985	61,910	2	1.5
Gandaki Province	368,000	67,921	300,079	125,317	60,871	64,446	2	1
Province 5	349,102	7,408	341,694	139,719	65,681	74,038	2	0
Karnali Province	130,000	1,600	128,400	29,060	14,360	14,700	0.9	0
Sudurpashchim Province	150,320	2,500	147,820	54,670	4,970	49,700	2.1	0
Total	275,961	23,304	252,657	101,499	39,890	61,609	1.9	0.6

TABLE 3.23. SUMMARY OF IMPACT OF LOCK-DOWN ON BUSINESSES

INDUSTRIES	AVERAGE START-UP CAPITAL (IN NPR)	AVERAGE NUMBER OF PAID WORKERS	AVERAGE NUMBER OF PAID WORKERS DURING LOCK-DOWN	AVERAGE DAYS OF BUSINESS OPERATION IN A MONTH	AVERAGE DAYS OF BUSINESS OPERATION IN A MONTH DURING LOCKDOWN	AVERAGE MONTHLY REVENUE BEFORE LOCKDOWN	AVERAGE MONTHLY REVENUE DURING LOCKDOWN	LENGTH OF SUSTAINABILITY IF LOCK-DOWN WERE TO CONTINUE
Agriculture	524,487	1	1	29	17	139,897	18,756	3.5
Dairy and Livestock	1,810,132	2	1	29	16	199,474	73,211	1.7
Trade	813,623	1	0	28	4	296,759	24,567	1.7
Accommodation and Food	1,181,630	3	2	30	1	242,446	2,315	1.5
Manufacturing	1,440,882	3	1	27	4	508,529	11,765	1.5
Repairs & maintenance	770,833	3	1	28	0	239,083	833	1.8
Transportation	1,113,571	3	1	29	1	213,786	5,357	1.8
Others	1,865,556	5	2	27	5	381,143	37,651	1.8

TABLE 3.24. CHOICE OF STRATEGY TO COPE UP FROM THE ECONOMIC SHOCK

INDUSTRIES	PERCENTAGE OF ENTERPRISES WHO PRESUME THEIR INABILITY TO COPE UP FROM THE SHOCK	CUT OPERATING COSTS		LAY OFF WORKERS		PAY CUTS TO STAFF		BORROW		CLOSE THE BUSINESS		OTHERS		TOTAL		PERCENTAGE OF ENTERPRISES WHO HAVE NOT RECEIVED SUPPORT
		N	%	N	%	N	%	N	%	N	%	N	%	N	%	
Agriculture	61.5	71	13.4	14	11.1	12	12.5	32	12.5	7	6.2	1	16.7	78	11.1	96.2
Dairy and Livestock	84.2	28	5.3	10	7.9	7	7.3	16	6.2	6	5.3	1	16.7	38	5.4	100
Trade	79.7	287	54	52	41.3	40	41.7	145	56.4	61	54	0	0	374	53.4	100
Accommodation and Food	84.8	55	10.4	19	15.1	9	9.4	28	10.9	24	21.2	2	33.3	92	13.1	98.9
Manufacturing	94.1	11	2.1	3	2.4	9	9.4	4	1.6	3	2.7	0	0	17	2.4	100
Repairs & maintenance	66.7	21	4	8	6.3	4	4.2	7	2.7	1	0.9	0	0	24	3.4	100
Transportation	71.4	10	1.9	3	2.4	4	4.2	4	1.6	4	3.5	0	0	14	2	100
Others	66.7	48	9	17	13.5	11	11.5	21	8.2	7	6.2	2	33.3	63	9	100
	77.1	531	100	126	100	96	100	257	100	113	100	6	100	700	100	99.4

TABLE 3.25. SUPPORT NEEDED TO SUSTAIN DURING AND AFTER LOCK-DOWN RATED BY RESPONDENT

PARTICULARS	1ST RATING		2ND RATING		3RD RATING	
	N	%	N	%	N	%
Cash subsidy from the Government	277	39.6	71	11.1	73	15.8
Subsidy on utility payments	17	2.4	82	12.8	51	11
Concessional loans	130	18.6	237	37.1	124	26.8
Interest rate subsidy	170	24.3	180	28.2	133	28.7
Rental waiver by landlord	100	14.3	60	9.4	75	16.2
Others	6	0.9	9	1.4	7	1.5
Total	700	100	639	100	463	100

TABLE 3.26. DISTRIBUTION OF RESPONDENTS BY PROVINCE AND GENDER

PROVINCES	MALE		FEMALE		TOTAL	
	N	%	N	%	N	%
Province 1	35	11.7	15	15	50	12.5
Province 2	43	14.3	7	7	50	12.5
Bagmati Province	71	23.7	28	28	99	24.8
Gandaki Province	38	12.7	12	12	50	12.5
Province 5	37	12.3	14	14	51	12.8
Karnali Province	41	13.7	9	9	50	12.5
Sudurpashchim Province	35	11.7	15	15	50	12.5
Total	300	100	100	100	400	100

TABLE 3.27. DISTRIBUTION OF MONTHLY SAVING OF FAMILY BY EMPLOYMENT STATUS

PARTICULARS	LESS THAN 5,000		5,000 TO 10,000		10,000 TO 15,000		15,000 TO 20,000		20,000 TO 25,000		MORE THAN 25,000		TOTAL		LENGTH OF SUSTAINING THE SHOCK BY SELF (IN MONTHS)	PERCENTAGE OF PEOPLE NOT GETTING ANY SUPPORT
	N	%	N	%	N	%	N	%	N	%	N	%	N	%		
Self-employed in agriculture	28	44.4	8	12.7	14	22.2	4	6.3	4	6.3	5	7.9	63	100	8.82	95.2
Self-employed in non-agriculture	18	34	9	17	9	17	7	13.2	5	9.4	5	9.4	53	100	5.7	94.3
Day labour in agriculture	21	48.8	5	11.6	12	27.9	4	9.3	1	2.3	0	0	43	100	1.36	93
Day labour in non-agriculture	60	60	11	11	11	11	8	8	6	6	4	4	100	100	2.46	88
Transport worker	9	34.6	4	15.4	7	26.9	1	3.8	5	19.2	0	0	26	100	4.15	92.3
Formal employment	27	31	25	28.7	9	10.3	8	9.2	3	3.4	15	17.2	87	100	5.03	97.7
Returnee migrant from foreign employment	2	25	0	0	2	25	2	25	1	12.5	1	12.5	8	100	5.13	100
Internal migrants (from within country)	1	100	0	0	0	0	0	0	0	0	0	0	1	100	1	100
Others	7	36.8	3	15.8	1	5.3	1	5.3	1	5.3	6	31.6	19	100	8.16	100
Total	173	43.3	65	16.3	65	16.3	35	8.8	26	6.5	36	9	400	100	4.76	93.8

TABLE 3.28. JOB LOSS AND PAYMENT OF SALARY BY GENDER

PARTICULARS	YES		NO		TOTAL	
	N	%	N	%	N	%
Male	85	28.3	215	71.7	300	100
Female	41	41	59	59	100	100
Total	126	31.5	274	68.5	400	100
Number/proportion of people getting paid during lockdown	105	26.3	295	73.8	400	100

TABLE 3.29. IMPACT OF COVID-19 ON INDIVIDUALS

PARTICULARS	N	MEAN SCORE OF SEVERITY	STANDARD DEVIATION
Cannot find another job	164	3.43	1.617
Cannot purchase food and essential items	192	3.1	1.55
Cannot pay rent	94	3.03	1.477
Cannot pay school tuition for children	83	2.92	1.363
Cannot pay for health services	115	2.71	1.296
Cannot repay loan	159	3.33	1.431
Cannot find alternative source of income	123	3.76	1.521
Cannot travel back to permanent home	21	3.33	1.56
Illness	4	1.25	0.5
Psychological problems (stress, depression, among others)	109	2.94	1.318

Note: Rank in the order of impact 5 to 1 of each of the options with 5 representing severe impact and 1 representing less impact

TABLE 3.30. SUMMARY OF SUPPORT FOR VULNERABLE GROUPS

PARTICULARS	1ST RANK		2ND RANK		3RD RANK	
	N	%	N	%	N	%
Monthly ration of food	197	49.3	26	7.1	20	6.8
Monthly financial support	38	9.5	150	41.2	40	13.7
Healthcare support	65	16.3	61	16.8	103	35.3
Loan waiver	43	10.8	51	14	67	22.9
Rent waiver	24	6	46	12.6	32	11
School tuition waiver	24	6	22	6	27	9.2
Others	9	2.3	8	2.2	3	1

TABLE 3.31. COPING STRATEGY DURING THE LOCKDOWN BY TYPE OF EMPLOYMENT

COPING STRATEGIES		SELF-EMPLOYED IN AGRICULTURE	SELF-EMPLOYED IN NON-AGRICULTURE	DAY LABOR IN AGRICULTURE	DAY LABOR IN NON-AGRICULTURE	TRANSPORT WORKER	FORMAL EMPLOYMENT	RETURNEE MIGRANT FROM FOREIGN EMPLOYMENT	INTERNAL MIGRANTS (FROM WITHIN COUNTRY)	TOTAL
		Yes	4.8	1.9	39.5	12	3.8	3.4	0	0
Reducing number of meals per day	No	95.2	98.1	60.5	88	96.2	96.6	100	100	90.3
Go a whole day without a meal	Yes	0	0	0	0	0	0	0	0	0
	No	100	100	100	100	100	100	100	100	100
Borrow food	Yes	17.5	9.4	48.8	21	7.7	11.5	12.5	0	18.6
	No	82.5	90.6	51.2	79	92.3	88.5	87.5	100	81.4
Borrowing money from a formal/informal lender (bank, relatives, neighbours etc.)	Yes	28.6	32.1	37.2	38	30.8	26.4	12.5	0	31.8
	No	71.4	67.9	62.8	62	69.2	73.6	87.5	100	68.2
Selling more animals (non-productive) than usual	Yes	4.8	0	14	2	3.8	1.1	0	0	3.4
	No	95.2	100	86	98	96.2	98.9	100	100	96.6

CONTINUE: TABLE 3.22. PROPORTION OF TYPE OF BUSINESS BY PROVINCE AND REGISTRATION STATUS (PERCENT)

COPING STRATEGIES		SELF-EMPLOYED IN AGRICULTURE	SELF-EMPLOYED IN NON-AGRICULTURE	DAY LABOR IN AGRICULTURE	DAY LABOR IN NON-AGRICULTURE	TRANSPORT WORKER	FORMAL EMPLOYMENT	RETURNEE MIGRANT FROM FOREIGN EMPLOYMENT	INTERNAL MIGRANTS (FROM WITHIN COUNTRY)	TOTAL
Sell household assets/ goods (radio, furniture, refrigerator, TV, jewellery, bicycle, motorbike etc.)	Yes	1.6	1.9	0	0	0	1.1	0	0	0.8
	No	98.4	98.1	100	100	100	98.9	100	100	99.2
Sending household member away to eat	Yes	0	0	0	0	0	1.1	0	0	0.3
	No	100	100	100	100	100	98.9	100	100	99.7
Withdrawing children from school	Yes	0	0	0	1	0	1.1	0	0	0.5
	No	100	100	100	99	100	98.9	100	100	99.5
Harvesting immature crops	Yes	4.8	1.9	4.7	2	0	2.3	12.5	0	2.9
	No	95.2	98.1	95.3	98	100	97.7	87.5	100	97.1
Sell productive assets (agriculture tools, wheelbarrow, power tiller, sewing machine etc.)	Yes	0	0	0	0	0	0	0	0	0
	No	100	100	100	100	100	100	100	100	100
Sell house or land	Yes	0	0	0	0	0	0	0	0	0
	No	100	100	100	100	100	100	100	100	100
Entire household migrated	Yes	0	0	0	0	0	0	0	0	0
	No	100	100	100	100	100	100	100	100	100
Selling last female animals	Yes	0	0	0	1	0	2.3	0	0	0.8
	No	100	100	100	99	100	97.7	100	100	99.2

ANNEX 2: RECOMMENDATIONS CLASSIFIED ACROSS SHORT-TERM AND MEDIUM-TERM

SHORT-TERM RECOMMENDATIONS	SHORT-TERM RECOMMENDATIONS
Support workers in the organized sectors	Ramp up guaranteed employment schemes and skill academies
Universalize the safety net while formalizing the economy	Harness the skills and equity of migrant returnees
Expedite labour-intensive infrastructure projects	Enforce austerity and curb conspicuous consumption
Overhaul the health infrastructure	Optimize the pool of concessional resources
Redirect existing budget allocations	Lower economy-wide rates of lending
Ensure transparency of public procurement	Inject liquidity into the banking system
Lower economy-wide rates of lending	Expand the breadth of moratoria and working capital to SMEs
Inject liquidity into the banking system	Boost agriculture and agri-businesses
Expand the breadth of moratoria and working capital to SMEs	Let digitalization leapfrog
Boost agriculture and agri-businesses	
Let digitalization leapfrog	

Note: The recommendations that can be implemented within a year are classified as short-term, and those that can be executed within five years are classified as medium-term. The concurrent recommendations are categorized under both headings.

ANNEX 3: SAMPLE QUESTIONNAIRE

Survey questionnaire to assess the impact of the pandemic on vulnerable groups

Demographic Information of respondent:

Name of Respondent:

Contact number:

Age:

Sex:

Caste ethnicity:

Education:

Is respondent household head? Yes No

Permanent address: District/Municipality/Ward/Tole

Temporary address: District/Municipality/Ward/Tole

Questions for individual:

Current Place of residence?

- 1) Owns place of residence
- 2) Rents place of residence

Disadvantage groups?

1. No
 2. Single woman earner
 3. Senior citizen with no support
 4. Disabled
 5. Dalit
 6. Others
-

Number of family members

Number of family members that earn a living?

Savings per month of a family:

- 1) Less than 5,000
 - 2) 5,000 to 10,000
 - 3) 10,000 to 15,000
 - 4) 15,000 to 20,000
 - 5) 20,000 to 25,000
 - 6) More than 25,000
-

Status of respondent

- 1) Self-employed in agriculture
- 2) Self-employed in non-agriculture
- 3) Day labor in agriculture
- 4) Day labor in non-agriculture
- 5) Transport worker
- 6) Formal employment
- 7) Returnee migrant from foreign employment
- 8) Internal migrants (from within country)
- 9) Others_____

Types of payments:

- 1) Fixed monthly salary
- 2) Fixed weekly salary
- 3) Daily per hour of work
- 4) Payment for job/task
- 5) In kind payment
- 6) No payment
- 7) Others _____

Wages/salary of respondent (monthly in NPR)

- 1) 5,000 to 10,000
- 2) 10,000 to 15,000
- 3) 15,000 to 20,000
- 4) 20,000 to 25,000
- 5) 25,000 to 30,000
- 6) More than 30,000

Number of days worked in a month (respondent):

Days worked in a month in general:

During lockdown:

Have you lost your job due to lockdown?

1. Yes 2. No

Are you getting salary during lockdown?

1. Yes 2. No.

How has lockdown impacted you and your family?

(Note: Rank in the order of impact 5 to 1 of each of the options with 5 representing severe impact and 1 representing less impact)

Options

- 1) Cannot find another job (Rank___)
- 2) Cannot purchase food and essential items (Rank___)
- 3) Cannot pay rent (Rank___)
- 4) Cannot pay school tuition for children (Rank___)
- 5) Cannot pay for health services (Rank___)
- 6) Cannot repay loan (Rank___)
- 7) Cannot find alternative source of income (Rank___)
- 8) Cannot travel back to permanent home (Rank___)
- 9) Illness (Rank___)
- 10) Psychological problems (stress/depression etc.) (Rank___)
- 11) Others: _____

Has your household had to adopt the following coping mechanisms during the lockdown: read out strategies adopted
(note: enter either yes or not for each of the options)

- 1) Reducing number of meals per day (Y/N)
- 2) Go a whole day without a meal (Y/N)
- 3) Borrow food (Y/N)
- 4) Borrowing money from a formal/informal lender (bank, relatives, neighbours etc.) (Y/N)
- 5) Selling more animals (non-productive) than usual (Y/N)
- 6) Sell household assets/ goods (radio, furniture, refrigerator, TV, jewellery, bicycle, motorbike etc.) (Y/N)
- 7) Sending household member away to eat (Y/N)
- 8) Withdrawing children from school (Y/N)
- 9) Harvesting immature crops (Y/N)
- 10) Sell productive assets (agriculture tools, wheelbarrow, power tiller, sewing machine etc.) (Y/N)
- 11) Sell house or land (Y/N)
- 12) Entire household migrated (Y/N)
- 13) Selling last female animals (Y/N)

How long can you sustain yourself and your family during the lockdown? (in months)

Have you received any support during lockdown?

A) Yes B) No,

If Yes,

What kind of support:

What kind of support would you need to sustain during and after lock-down?

(Note: Rank these options in order of importance)

- 1) Monthly ration of food
- 2) Monthly financial support
- 3) Healthcare support
- 4) Loan waiver
- 5) Rent waiver
- 6) School tuition waiver
- 99.Others:

Do you experience any kind of discrimination due to your gender/cast/religion/ethnicity/social level during lockdown

- 1) Yes
- 2) No
- 3) If yes specify.....

Do you experience any kind of violence due to your gender/cast/religion/ethnicity/social level during lockdown

- 1) Yes
- 2) No
- 3) If yes specify.....

Survey questionnaire to assess the impact of the pandemic on the informal sector/small businesses

Demographic Information of respondent:

Types of respondent: a) Establishment b) Individual

Name of owner:

Contact number:

Age:

Sex:

Caste/ethnicity:

Education:

Address of business/activities: District/Municipality/Ward/Tole

Business establishment questions:

Nature of business:

1. Agriculture
2. Dairy and Livestock
3. Trade
4. Accommodation and Food
3. Manufacturing
4. Repairs & maintenance
5. Transportation
6. Others

In what year this business was established?

In what type of premise do you conduct business:

1. Home
2. Rental Place
3. Street
4. Traditional Market
5. Others _____

Is your business registered in any local or central government agency?

- 1) Yes
- 2) No
- 3) In process of registering

Number of workers including yourself: (please specify total number of workers and total number of paid workers)

In general: Total _____ Paid Workers: _____

During lock-down: Total _____ Paid workers _____

Number of days business operated in one month:

In general:

During lockdown:

What was the start-up capital? (in NPR)

What was your source of financing?

1. BFI
2. Micro Finance
3. Cooperatives
4. Personal
- Others

Total amount of gross sales/revenue:

Monthly revenue in general:
During Lock-down:

Business expenses a month:

In a month in general:
In a month during lockdown:

How long can you sustain your business if lock-down were to continue? (in months)

Can you cope this shock on your own?

- a) Yes b) No

How has COVID-19 lockdown affected your business activities:

(note: rank these options in order of severity)

- 1) Lack of Supply of raw materials
- 2) Lack of labor supply
- 3) Reduction of Sales
- 4) Lack of access to transport
- 5) Lack of access to banking services
- 6) Lack of spaces
- 7) Lack of equipment
- Others:

How are you planning to support your business during lockdown?

- Cut operating costs
- Lay off workers
- Pay cuts to staff
- Borrow
- Close the business
- Others

Have you received any support?

- A) Yes B) No

If Yes,

What kind of support: _

What kind of support do you need to sustain during and after lock-down?

(Note: Rank these options in order of importance)

1. Cash subsidy from the Government
2. Subsidy on utility payments
3. Concessional loans
4. Interest rate subsidy
5. Rental waiver by landlord
- Others

Questionnaire for the Private Sector

1. Total number of members:
 2. Total staff of the Association (full-time, part-time and on contract combined):
 3. Association's annual volume of transaction (in NPR):
 4. Total employment generated by your sector (formal and informal):
 5. Contribution of your sector to GDP (in percent terms):
 6. Total loan of your sector from the banking sector:
 7. How much your association represents in this sector in terms of the:
 - Capacity of the industry in percentage:
 - Number of total firms/companies in percentage:
 - Volume of business/revenues in percentage:
 - No. of employees (both regular and on contract) in percentage:
-

Percentage of the members of the association who have enrolled into Social Security Scheme and percentage of total employee covered:

Since when was your sector affected by the COVID-19 considering nation-wide lockdown of 24 March

Rate the health related measures taken by the government to control the spread of virus and treat the patients on a scale of 1-5 given,

- 5 - Very Satisfied:
 - 4 - Satisfied:
 - 3 - Neither Satisfied nor dissatisfied:
 - 2 - Dissatisfied:
 - 1 - Very dissatisfied
-

Rate the economic stimulus announced by the Ministry of Finance to help your sector (5 to 1)

Rate the monetary stimulus announced by Nepal Rastra Bank to help your sector (5 to 1)

Considering two probable scenarios:

- Lockdown to remain until the end of April
 - Lockdown to remain until the end of May
-

	LOCKDOWN TO REMAIN UNTIL APRIL END FOLLOWED BY ONE MONTH OF TRAVEL RESTRICTIONS		LOCKDOWN TO REMAIN UNTIL MAY END FOLLOWED BY ONE MONTH OF TRAVEL RESTRICTIONS	
	CURRENT FY	NEXT FY	CURRENT FY	NEXT FY
Capacity utilization				
Projected fall in gross revenues in percentage				
Staff lay-off				
Staff pay cut				

How long will it take for your industry/sector to spring back to pre-COVID-19 level once the lockdown is over and what is the breakeven? Is there any provision of issuing insurance for companies, customers and employees linked with your association in this kind of situation? If yes, please explain.

Subjective questions:

1. Does your association have any sort of relief fund for workers supposed to provide in this situation? If yes, please explain.
2. What sort of stimulus package from local, provincial and federal governments does your sector need in the short-term, medium-term and long-term to reduce loss from this crisis?
3. Did your sector have growth plans before COVID-19? Do you still intend to forward with the plan after things settle down?
4. Do you have any idea about cancellation or postponement of any planned investment in the company due to the COVID-19 outbreak?
5. What measures should the industry/sector take to keep it solvent or to cope with the current situation (such as mass lay off, pay cuts, sell off etc.?)
6. Specific measures that the NRB shall undertake to revive your sector:
7. Any specific informal sectors as part of your value/supply chain that require special attention from the state
8. Status of fresh investment in your sector in post covid-19 phase
9. Confidence and resilience of your sector in the post covid-19 period
10. Prospects of this industry/sector in the post covid-19 period
11. How would your community contribute to the country's fight against covid19?
12. Any specific ways that the donor agencies such as IMF/World Bank/UN can help your sector during and post covid-19 endemic to quickly recover from the current downturn.

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