SPECIAL REPORT ON COVID-19

COVID-19 and Nepal

A quick study of sectoral impacts and suggested way forward

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Introduction

The COVID-19 pandemic has brought the world to a standstill. The spread of the disease, which has infected 3.8 million individuals and killed 265,962 as of 10 May 2020, continues.[1] With no cure in sight yet, the best possible measures to contain the contagion, at present, are non-pharmaceutical interventions such as 'social' distancing and restricting movements by imposing partial or full lockdowns. As developed countries accounted for the majority of the fatalities, developing countries like Nepal, in spite of lower infection rates, have imposed the lockdown more stringently, realizing the vulnerability posed by the limited capacity of their public healthcare services. Worldwide, shops are shuttered, airports are closed, highways are barricaded, schools are closed, and people are confined to their homes. This has not only frozen the lives of the people but has shuttered economic activities as never before. No doubt, the lockdown, although necessary, is set to wreak havoc on the economy, cause job and income losses on an unparalleled scale, and push tens of millions of people into poverty.

The pandemic-induced economic shocks are exceptionally different from external economic shocks brought by natural disasters, whose impacts are short-lived and local in nature.[2] The restricted movements and lockdowns across the world constitute both a demand-side shock and a supply-side shock. The sudden and drastic containment measures necessary to stem the spread are expected to contract the global economy by 3 percent in 2020, according to the International Monetary Fund (IMF).[3] The IMF has called this a 'crisis like no other' with expected output losses due to medical emergency and containment measures dwarfing the losses during the global financial crisis. And the uncertainty about the duration and intensity of the shock creates further ambiguity.

Limited production base, excessive dependence on workers' remittances, pervasive informality in employment, insufficient social protection and a weak healthcare system make it doubly challenging for a least-developed country like Nepal to fight the potential significant spread of COVID-19 while preventing economic collapse brought about by containment measures in Nepal coupled with an adverse external economic environment. As of 9 May 2020, Nepal has detected 109 cases of COVID-19 patients.[4] While the number of infections is not high yet, health concerns are no doubt of primary importance. Yet, considering that low to moderate levels of infections may be around for many more months as part of a new normal, a calibrated relaxation of lockdown measures is needed to reactivate the economy. This should be backed by a thorough plan for economic revival, absorbing returnee migrants and helping those in economic distress over a longer term, as external demand conditions for especially foreign employment and tourism are expected to be sour for a while.

These call for sectoral research and analysis to inform policies and strategies. One needs to know the status and salient features of a sector, the observed impact on it thus far due to the pandemic and the future outlook for it, before venturing into the difficult task of planning relief and recovery measures. This quick study is an attempt to fill this need, albeit partially. It does not offer any number for a stimulus package as a percentage of GDP. One reason is that costing entails an exercise beyond the time available for this research, which is timed for the preparations for the budget for FY 2020/21, to be unveiled in May-end. In any case, the government is better positioned to do so, taking into account the needs of the whole economy, something this study does not claim to address, although it does cover major sectors. The other reason is that our emphasis is on providing sector-specific recommendations that are concrete, yet flexible enough to be tailored or adapted to the financial constraints of the government. We believe that in the midst of broad recommendations, including stimulus figures, doing the rounds in the media, the government will also benefit from insights from sectoral studies.

Some limitations of the study are in order. We have studied the status of different sectors in relation to, *inter alia*, output, value addition, investment, import and export flows, employment, revenue, profit, and loans from banks and financial institutions (BFIs), based on data from various sources such as the Economic Survey, National Labour Force Survey, National Economic Census, Census of Manufacturing Establishments, Current Macroeconomic Situation updates of Nepal Rastra Bank, periodic trade updates by Department of Customs, media reports, and industry sources. We have found some inconsistencies in data drawn from various sources. We have tried to reconcile them as far as possible within the limited timeframe but could not engage in this extensively. To understand the current impact of the pandemic on the sectors, we combined information from industry sources with media reports (which, in turn, rely mostly on industry sources). The number of respondents from industries was low due to time constraints. We feel that the stated impacts may be overestimated in some instances but are unable to verify them further. While providing recommendations, we have tried to base them on information that appears most plausible.

Despite agriculture being an important sector, we have not studied the impact on primary agricultural activities because of the difficulty in getting data on primary agriculture in a limited period of time. Moreover, it appears that primary agriculture is being relatively less affected, so far, by the current pandemic and lockdown. However, we have covered dairy, poultry and vegetable production and trade within the sections on manufacturing, wholesale and retail, and micro, cottage and small enterprises, as relevant.

The rest of the report is organized as follows. Section A, spread over five sub-sections, presents an overview of lockdown measures and partial relaxations announced by the Government of Nepal (GoN); an overview of the impact of lockdown measures in Nepal; a summary of policy responses across the world, with a focus on South Asia and China; and measures taken by GoN. Section B contains the sectoral studies: B1 on manufacturing, B2 on tourism, B3 on international merchandise trade, B4 on construction and real estate, B5 on hydropower, B6 on wholesale and retail, B7 on micro, cottage and small enterprises, B8 on banking, B9 on insurance, B10 on cinema, B11 on transportation and B12 on poultry.

NOTES:

[1] The World Health Organization's update, available at https://covid19.who.int/

[2] Ludvigson, S., S. Ma, and S. Ng. 2020. "Covid-19 and the macroeconomic effects of costly disasters". COVID Economics: Vetted and Real-time Papers Issue 9. Geneva: Center for Economic Policy Research.

[3] IMF. 2020. World Economic Outlook, April 2020: The Great Lockdown. Washington DC: International Monetary Fund. https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020
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A. Lockdown measures, overview of impact, and policy responses

A1. Overview of lockdown measures

In January and February of this year, when the disease spread across China and East Asian countries, Nepal started to take precautionary measures such as screening temperature and other common symptoms of the disease among international arrivals at the Tribhuvan International Airport. Similarly, land ports with China were closed. By the end of February, screening desks were placed also at domestic airports and at the border points with India. By mid-March, Nepali government suspended issuing on-arrival visas for tourists and suspended issuing labour permits to migrant workers seeking jobs in foreign countries as well as stopped issuing no-objection-certificates for students going abroad for studies. Similarly, India closed most of the border entry points to stop movements of non-Nepali and non-Indian nationals between Nepal and India. On 19 March, the government asked schools, cinema halls, gymnasiums, museums and cultural centres to close down and banned the gathering of more than 25 people in public spaces, including places of worship. Effective from 23 May, it shut the land borders with China and India to both vehicular and passenger movements. The government announced a nation-wide lockdown from 24 March, now extended to at least 18 May, shutting down all businesses, banning all public movements and allowing local retail stores selling essential items to open for a couple of hours daily. In the beginning of April, the government decided to allow industrial plants to operate provided the factories ensure health standards are met.[1] However, only a small fraction of the factories are operating on a full scale as they suffer from labour, raw material and packaging material shortages.[2]

During the latest extension of the lockdown announced on 6 May 2020, the government has decided to partially open up some economic activities.[3] These include businesses related to food and agriculture, healthcare services, textbook publishers, retailers, construction projects related to infrastructure development, industries producing construction materials, and export-oriented industries, among others. They will be allowed to operate, provided the operators take sufficient protective measures.

A2. Overview of impact on the economy

Considering the impact of COVID-19, the national statistical agency, the Central Bureau of Statistics, has projected GDP growth rate for fiscal year (FY) 2019 to fall to 2.28 percent[4], against the government's initial target of 8.5 percent, which was revised to 7.01 percent considering the tepid prospects of the agriculture sector. The biggest brunt of the slowdown will be experienced by the hotels and restaurants sector, which is estimated to contract by 16.3 percent. The World Bank has also downgraded the overall GDP growth to 2.8 percent, reflecting lower remittances, trade and tourism, and broader disruptions caused by the COVID-19 outbreak.[5] It has also warned that 31.2 percent of the population faces significant risks of falling into poverty due to reduced remittance, foregone earnings and job losses.

Nepal's economy was struggling even before the COVID-19 outbreak and the introduction of containment measures. Both the World Bank and the Asian Development Bank had projected GDP growth for Nepal for FY 2019/20 to be around 6 percent. The mid-term monetary policy review by the Nepal Rastra Bank (NRB) also indicated that the agriculture sector would not perform well while the capacity utilization of the industrial sector had also diminished.

The impact of the coronavirus' spread was first felt by the tourism sector. Tourist arrivals in January 2020 were lower than the figures in January 2019.[6] The drop was mainly attributed to the COVID-19 outbreak in China. However, as the disease spread, Nepal had to cancel the Visit Nepal 2020 campaign, which had aimed at bringing two million tourists to Nepal in the year 2020. Even before the lockdown, the closure of the China-Nepal border had caused direct supply disruptions of consumer goods, including agricultural goods, readymade garments, electronic appliances, as well as industrial inputs, such as machinery parts, pipes, raw silk, telecommunication equipment and television equipment and parts. The subsequent lockdown continued to stall cross-border movement, although the Tatopani border point restarted its operations after five years to carry medical supplies from China.[7] The spread of COVID-19 to Europe has created uncertainty among producers of major export items regarding the financial health of their buyers. As the disease spread to Europe in the beginning of March, many exporters—including those who manufacture and export products like carpets, pashmina and felt products to Europe and the US—faced issues related to delayed payment processing and uncertainty regarding consignment delivery, bringing a slowdown in their factory activities.

Besides the slowdown in domestic economic activities, Nepal is set to face the arrival of hundreds of thousands of migrant workers. According to the World Bank's Migration Brief, Nepal could see remittance income contracting by as much as 14 percent this year due to global economic fallout.[8] The CBS has projected an 18.5 percent slump in remittances this fiscal year, to NPR 716 billion.[9] As the destination countries—mostly in West Asia—are also under lockdown with shops and restaurants closed and construction activities suspended, migrants are likely to lose jobs and return home. Likewise, these countries are facing historically low oil prices, dimming their economic outlook for the coming months. Usually, when the going gets tough countries tend to cut foreign-worker jobs in favour of their own citizens. At the level of households, this will mean losing income, which could further hit consumer demand. The consumption, health and education outcomes at the household level will be adversely impacted. At the macroeconomic level, Nepal's balance of payments will come under strain as remittances are the most important source of foreign exchange. The ranks of the unemployed will swell, if the returnees are not absorbed into gainful employment. The fiscal imbalance will widen as revenues shrink (due to reduced economic activities and imports) and government expenditures expand (on account of a relief and recovery package).

The shutting down of businesses has affected internal migrants immensely. As the lockdown extended into the third week, many internal migrants, who were engaged mostly in daily wage-earning jobs, were seen leaving for their homes on foot from Kathmandu. According to the Third Nepal Labour Force Survey 2017/18, about 2.6 million people have migrated from their homes in search of better economic or educational opportunities in Nepal.[10] Most of these migrants are engaged in informal jobs—mostly in construction, manufacturing or wholesale and retailing jobs. Some 84.6 percent of the total labour force—about six million people—are engaged in informal employment, with no safety nets.[11] Besides agriculture, construction, manufacturing and wholesale and retail trade are the sectors with pervasive informality.

A3. Policy responses across the world

Governments worldwide introduced relief measures and attempted to protect jobs and businesses reeling from the lockdown measures. All of the countries worldwide increased their budgetary allocation to public healthcare to detect infections and provide better medical care to the infected patients. Regarding economic support to households and individuals, the most common approach was providing unemployment benefits, direct cash transfers to offset declines in income, and deferred payments of taxes, mortgages and other monthly interest payments. Likewise, businesses were allowed deferred payments of taxes, interest payments and social security payments, and were provided with wage subsidies to maintain employment. Bond purchases, direct credit provisions and equity injections were some other forms of support provided to businesses. In addition, governments decided to forgo the fiscal deficit caps to increase public spending and the central banks also reduced interest rates sharply. Developed and developing countries have adopted different forms of these broad approaches.

The European Union (EU) member countries have launched a targeted and coordinated fiscal stimulus to alleviate the impact of the pandemic on the economy and the livelihoods of the people. The countries in the EU already have countercyclical support in the form of automatic stabilizers that provide cuts in direct taxes when taxpayers' incomes suffer, unemployment and housing benefits to the unemployed and social security contributions. According to an estimate by the Organisation for Economic Cooperation and Development (OECD), on average automatic stabilizers absorb around 60 percent of a specific negative shock to market income across countries.[12] Likewise, EU member countries have committed about 16 percent of EU GDP to provide liquidity support for sectors facing disruptions through public guarantee schemes and deferred tax payments. On the monetary front, the European Central Bank launched a EUR 750 billion Pandemic Emergency Purchase Programme (PEPP) to support member countries' liquidity.

Among EU members, Germany has expanded access to its famous 'Kurzarbeit', a subsidy for short-time work, to preserve jobs. The scheme, introduced in 2009, allows affected companies to reduce working hours of workers or send them home, but keeps them officially employed, with the state funding around two-thirds of their salary.[13] Other European countries, like Denmark, Sweden and Norway, have also introduced similar programmes. Spain, under its Temporary Employment Adjustment Schemes, allowed workers temporarily laid off due to the COVID-19 pandemic to draw 70 percent of their salary with no requirement for prior minimum contribution or reduction of accumulated entitlement. The United Kingdom also announced its job-retention scheme to cover up to 80 percent of the wage bill of the workers who are temporarily suspended due to lockdown.[14] Likewise, to support small businesses, the UK government has launched Bounce Back Loan Scheme, under which small and medium enterprises (SMEs) can borrow between £2,000 and £50,000 for over a six-year period, the first year of which will be interest free.

The UK government has also introduced government backed loans for larger businesses. The United States is making a one-time direct cash transfer to households of up to US$1,200 per adult for individuals whose income is less than US$99,000 a year. Likewise, the Small Business Paycheck Protection Program provides small businesses and self-employed individuals with funds to pay up to eight weeks of payroll costs including benefits. Funds can also be used to pay interest on mortgages, rent, and utilities.[15]

Box 1 summarizes China's response and recovery.

China's response and recovery

China imposed a lockdown on Wuhan City, where the outbreak started, on 23 January 2020. Later, other cities in Hubei Province were also brought under lockdown. The travel restrictions put in place within China meant millions of migrant workers who had returned home during the annual holiday to celebrate the Chinese New Year were not able and/or willing to return to urban centers. China's shutdown sent supply shocks to the world as production lines in factories came to an abrupt halt.

China announced fiscal measures of upto 2.5 percent of GDP to increase spending on epidemic prevention and control, production of medical equipment, accelerated disbursement of unemployment insurance and extension to migrant workers, tax relief and waiver of social security contributions. In addition, the government took measures such as an increase in the ceiling for special local government bonds of 1.3 percent of GDP, improvements of the national public health emergency management system, and automatic stabilizers. China also cut interest rates and imposed measures to ease liquidity, including measured forbearance to provide financial relief to affected households, corporates, and regions facing repayment difficulties.

China's National Bureau of Statistics reported a 6.8 percent fall in GDP in the first quarter of 2020 while unemployment level was at 5.9 percent.[16] China started lifting the lockdown from the first week of April and the Chinese economy is gaining its lost footing. For example, manufacturing is reported to have risen to about 80 percent of usual levels, as factories reopen and workers emerge from isolation.[17] Similarly, China's exports in April rose by 3.5 percent from a year earlier, reversing the 6.6 percent fall in March and much better than the combined minus 17.2 percent collapse in January and February.[18] Moreover, consumer sentiments too seemed to be peaking as demonstrated by 85 million domestic tourist trips taken in the five-day May Day holiday which started 1 May, generating a total of US$ 4.97 billion in tourism revenue.[19]

A4. South Asia's economic stimulus

All of the countries in South Asia have announced monetary and fiscal measures to fight the pandemic. The primary priority was to increase their public healthcare outlays to strengthen their capacities to provide medical care to the infected patients. Similarly, countries also reduced taxes and duties on the import of necessary personal protective equipment and other necessary medical equipment necessary to keep off infections. As the lockdowns were extended, South Asian government announced packages targeted at helping households in need and providing short-term relief to businesses that were affected. Table 1 summarizes the policy measures announced by countries in South Asia (excluding Nepal, discussed in the next sub-section).

Table 1: Policy measures announced in South Asia

Country	Fiscal measures	Monetary measures
Afghanistan	• Government decided to provide free bread to about 2.5 million needy and poor people in Kabul • Tax payment deferred by two months	• Da Afghanistan Bank (DAB) has suspended administrative penalties and fees, postponed the implementation of accounting standards to June 2021 • DAB has frozen loan classifications at the pre-pandemic cutoff of end-February
Bangladesh	• US$ 588 million stimulus package for exporting industries and benefits to four million workers for a three-month period • Interest payment on working capital loans to be subsidized by the government • Government has also announced housing scheme for the homeless, health insurance for government employees most at risk. • Taxes and duties on imports of medical supplies, including protective equipment and test kits have been suspended.	• The stimulus package for exporting will be administered through Bangladesh Bank's refinance scheme • The repo rate was lowered from 6 percent to 5.25 percent • The Cash Reserve Ratio (CRR) was reduced from 5 percent to 3.5 percent • Export Development Fund was raised to US$5 billion, with the interest rate now fixed at 2 percent • Bangladesh Bank also announced a refinance scheme for agriculture, under which borrowers can utilize loans at 5 percent interest repayable within 18 months including 6 months' grace period.
Bhutan	• Payment of sales tax and customs duty on essential items have been deferred for March-June 2020 • Rent and other charges by tourism-related business entities leasing government properties have been waived for March-June 2020.	• Working capital loan at 5 percent interest for wholesale distributors for a period of three months • Interest on loans for three months have been waived and monthly loan instalment repayment has also been deferred by three months • Tourism-related companies can avail working capital loans at 5 percent to assist with payroll expenses • Small industries can receive loans at interest of two to four percent.
India	• Direct benefit transfer in-kind (food; cooking gas) and cash transfers to lower-income households and farmers • Wage support to low-wage workers • Employees who contribute to the Employees Provident Fund can	• Reduction of policy repo rate by 75 basis points • Reserve Bank of India to conduct auctions of Targeted Long Term Repo Operations of up to three-year tenure of appropriate sizes for a total amount up to US$ 13 billion at a floating rate, linked to policy repo rate

	withdraw up to 75 percent of the account balance or 3 months' basic salary and dearness allowance, whichever is lower • The government will pay the employee provident fund contribution, both of the employer and the employee, for April 2020 to June 2020 • Deferral of tax filing and compliance • Exporters importing goods under Advance Authorization/Export Promotion Capital Goods scheme and imports made by an export-oriented unit, were granted exemption from levy of Integrated Goods and Service Tax and Compensation Cess up to 31 March 2021	• CRR of all banks to be reduced by 100 basis points, MSF (marginal standing facility) raised from 2 percent of Statutory Liquidity Ratio to 3 percent with immediate effect till 30 June 2020
Maldives	• Government announced plans to reduce recurrent expenditure by 1.1 percent of GDP • Provide subsidy of 40 percent of electricity bills and 30 percent of water bills for the months of April and May • Provide special allowance to those who lose their jobs due to COVID-19 • Provide working capital loans to businesses through banks	• Reduction of the minimum required reserves up to 5 percent as and when required • Short-term credit facility to financial institutions as and when required • A six-month moratorium on loan repayments for those impacted by the current situation
Pakistan	• Elimination of import duties on emergency health equipment • Cash disbursements to 6.2 million workers • Cash transfers to low-income families • Accelerated tax refunds to the export industry • A credit risk sharing facility for the banks offering financial loans to SMEs has been announced.	• State Bank of Pakistan has cut policy rate to 9 percent • Reduction in the capital conservation buffer to 1.5 percent • Increase in the regulatory limit on extension of credit to SMEs by 44 percent • Relaxation of the debt burden ratio for consumer loans from 50 percent to 60 percent • Allowed banks to defer clients' payment of principal on loan obligations by one year • Relaxation of regulatory criteria for restructured/rescheduled loans for borrowers who require relief beyond the extension of principal repayment for one year • Suspension of bank dividends for the first two quarters of 2020 to shore up capital.

		• Refinancing facilities to stimulate investment in new manufacturing plants and machinery, and to incentivize businesses to avoid laying off their workers during the pandemic
Sri Lanka	• Cash transfer payments totalling around 0.1 percent of GDP to vulnerable groups • Tax payments deferred • Price ceilings on essential food items • Concessional loans and food allowances for low-income consumers	• Central Bank of Sri Lanka has reduced monetary policy rates by 50 basis points, required reserve ratio on domestic currency deposits of commercial banks has been lowered by one percentage point • Debt repayment moratorium for a six month on bank loans for the tourism, garment, plantation and IT sectors, related logistics providers and SMEs, with reduced rate working capital loans and investment-purpose loans for these sectors • Lower capital conservation buffer requirements and a relaxation of loan classification rules • State-owned financial institutions will invest in treasury bonds and bills to stabilize the money market interest rate at 7 percent

Sources: IMF and individual countries' official websites.

A5. Nepal's effort towards relief and recovery

The Government of Nepal has also announced relief measures to ease the distress of households and businesses through fiscal and monetary measures.[20] The first announcement, made in the first week of the lockdown, was targeted towards immediate relief. A second package targeted at businesses was announced in the fifth week. The government announced a waiver of customs duty on imports of masks, sanitizers and surgical gloves for the time being.

Measures targeting households:

- Local bodies were directed to distribute food and essentials to the needy;
- Local bodies were directed to employ the unemployed informal workers in the activities undertaken by local, provincial or federal government. Such employed workers will be paid through different government programmes such as the Prime Minister Employment Programme, Prime Minister Agriculture Modernization Project and other local development programmes;
- Employers were directed to pay the full salaries of their workers for the period of the lockdown;
- Government decided to deposit workers' contributions to the Social Security Fund for Chaitra (mid-March to Mid-April) that were to be deposited by employees and employers;
- Deferred a deadline for filing tax returns and payment of taxes by about a month;

- Nepal Electricity Authority was directed to provide a 25 percent discount on electricity tariffs on monthly usage of up to 150 units for the lockdown period, while consumers with monthly consumption up to 250 units will get a 15 percent discount;
- Provide 10 percent discount on the essential food items being sold by Salt Trading Company;
- Internet Service Providers were asked to provide a 25 percent discount on internet charges;
- Local bodies were directed to provide a 25 percent subsidy to the transportation charge for vehicles hauling essential foods items;
- Private schools were directed to forgo tuition fees for one month.
- Landlords were requested to forego a month's rent of tenants who were unable to pay the rent due to loss of income.

Measures targeting businesses:

- NRB will mobilize its refinance fund to aid affected businesses and its size has been increased to NPR 60 billion (government has directed the NRB to increase the size of the fund to NPR 100 billion);
- NRB has directed banks to reduce interest rates by two percentage points for the fourth quarter (mid-April to mid-July). However, this rule will not be applicable to loans provided to the business related to food items distribution, soap and chemicals, medicine distribution, tobacco and liquor producers, internet service providers and hydropower companies;
- Microfinance companies will have to lower their (lending) interest rates by up to three percentage points;
- Banks and financial institutions have been directed to waive any late fees, and fees on electronic transactions.
- Banks and financial institutions have been directed to provide additional working capital loans of up to 10 percent of the existing loan amount to businesses affected by the COVID-19 containment measures, such as hotels, restaurants, resorts, travel and trekking agencies, commercial transport, SMEs, exporting firms, entertainment industry, hospital, and poultry farms. This working capital loan is also eligible to receive refinancing facility from the NRB;
- Banks and financial institutions have been directed to defer interest repayment deadline until the end of fiscal year;
- Banks, financial institutions and cooperatives have been directed to provide 10 percent discount on accrued interest for the month of Chaitra;
- Employers who are unable to pay salaries of their workers will be provided with subsidized loans against suitable collateral. The loan amount will be refinanced by the NRB;
- NRB reduced Cash Reserve Ratio to 3 percent and bank rate to 5 percent to release liquidity into the financial system; band for interest rate corridor was also reduced;
- NRB increased repayment term of short-term loans by 60 days;
- Banks and financial institutions are instructed to provide loans to tourism and hospitality sector firms and SMEs as a priority;
- NRB will refinance SME loans, including working capital loans, provided by banks and financial institutions;
- Employers can deposit their portion of social security contribution for their employees for the month of Baisakh (mid-April to Mid-May) by mid-July. The government has deposited the contribution for the previous month from its coffer.
- Deferred annual report filing at the Office of Company Registrar by a month;
- Deferred a deadline for filing tax returns and payment of taxes by about a month;

- Nepal Electricity Authority has been directed to come up with a plan to provide relief to closed businesses.

The government is mobilizing foreign aid. For example, the World Bank has approved US$29 million in concessional loans[21], the International Monetary Fund approved US$214 million in concessional, emergency loans under its Rapid Credit Facility[22], and the Asian Development Bank has pledged to provide medical goods worth US$300,000 as a grant, and concessional loans worth US$250 million as budgetary support.[23] The IMF has also provided a debt relief for six months to Nepal along with 24 other countries.[24]

The government's Coronavirus Control and Treatment Fund has also accumulated funds worth NPR 2.2 billion based on donations made by individuals and businesses as of 9 April.[25]

NOTES:

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B. Sectoral studies

B1. Manufacturing

Manufacturing sector in Nepal has been an ailing sector long before the outbreak of COVID-19—its contribution to nation's GDP has steadily declined from 9 percent in 2000/01 to 5.59 percent in 2018/19. Although the manufacturing sector is in a frail state, its importance to the national economy is immense, particularly because it employs a significant chunk of the population—15.1 percent of the total workforce, according to Nepal Labour Force Survey 2017/18 (NLFSIII), and 15.8 percent of the total number of persons engaged in economic establishments, according to Nepal Economic Census (NEC).[1] Furthermore, the nation's aspiration to tread the path of sustainable development significantly relies on the development of this sector.

According to National Economic Census (NEC) 2018, there are 104,058 manufacturing establishments.[2] This is a much higher number than the 2,976 manufacturing industries registered at the Department of Industries (DoI). There are a couple of reasons for this large discrepancy. First of all, NEC 2018 also records manufacturing units that are not registered. Second, a large number of manufacturing industries are either of indigenous nature or small, and hence registered at the Department of Cottage and Small Industries (DoCSI).

A large share of manufacturing sector in Nepal operates informally. According to NEC 2018, 51.3 percent of manufacturing establishments, employing 104,514 persons, are not registered at the concerned government agencies. Hence, a large number of manufacturing establishments, by virtue of being informal, are at risk of being devoid of government support and hence risk being more vulnerable by current challenges emanating from the disruption of economic activities.

Manufacturing sector represents a significant share of annual sales by businesses in the country. NEC 2018 finds that manufacturing sector's annual sales stood at NPR 673.6 billion, which accounts for 23.1 percent of annual sales made by all the enterprises in the country—the highest among all industrial categories. In terms of profit, manufacturing sector's annual profit of NPR 98.8 billion accounts for 11.6 percent of annual profit of all establishments. Annual sales per manufacturing entity was NPR 6.5 million and the annual profit per manufacturing establishment stood at NPR 958,000. However, major discrepancies between registered and unregistered (informal) manufacturing enterprises are visible in terms of their revenues and profits. Annual sales per entity for registered manufacturing establishments stood at NPR 13 million and annual profit per manufacturing entity was NPR 1.9 million. Annual sales per entity for unregistered manufacturing industries was only NPR 458,000, with profit per manufacturing entity being NPR 84,000.

Manufacturing sector also has significant private investments and consequently significant portion of outstanding loans of banks and financial institutions is directed towards manufacturing industries. According to Nepal Rastra Bank (NRB), outstanding credit of banks and financial institutions (BFIs) in manufacturing sector as of mid-March 2020 was around NPR 533 billion (Annex, Table 2).[3] This represents 20.7 percent of total loans made by banks and financial institutions in all the businesses (industrial sector)[4]. Only 'wholesalers and retailers', at 25.6 percent of total outstanding loans to businesses, has more loans from BFIs than the manufacturing sector.

Our informal survey of firms, commodity associations, and study of secondary sources find that except for some industries located at the industrial estates and except for some industries producing essential products, all other manufacturing industries have been compelled to stop their production since the lockdown started. Even the few essential industries and the ones in industrial estates are operating at low capacity and are challenged by supply chain disruptions (Annex, Table 3). For instance, in normal conditions, the industries in 10 industrial estates in Nepal were operating around 75-80 percent capacity utilization rate, but currently they are operating at around 49 percent of their capacity utilization rate.[5] While there were 5,190 persons engaged in these industries before the lockdown, there are only 1,602 persons currently working.

Thus, the current pandemic and the lockdown imposed to contain the contagion are posing significant challenges to the manufacturing sector—lockdown has resulted in temporary shutdown of many industries, putting at peril their production, sales and export, revenues, employment, etc. Even after the lockdown is removed, the industries will have a hard time starting their operations because of shortage of workers, disruption in import of raw materials and intermediate inputs, barriers to internal transportation, etc. Furthermore, the economy will not be running at its full potential because of demand-side shocks resulting from reduction in remittance receipts, reduced discretionary spending, low investments, and a state of uncertainty. Hence, some support from government seems necessary to keep these industries afloat and to prevent many from being unemployed.

Below, we look at some important manufacturing sub-sectors—food products, pharmaceuticals, garment and textiles, and construction materials (cement and iron & steel)—to have a clear understanding of the impacts of COVID-19 crisis on Nepal's manufacturing sector.

Food industries

Overview: This sub-sector includes milling industries such as rice, wheat, pulses, flour, and oil and food processing industries such as dairy processing, tea processing, noodles, fruit juices, etc. Census of Manufacturing Establishments (CME) 2011/2012, which covered all the manufacturing establishments engaging 10 or more persons, found that 26.3 percent of all the manufacturing establishments operating in Nepal, which equals 1,071 industries, were engaged in food and beverages production. Similarly, the sector employed 36,991 persons at the time. NEC 2018 finds 25,499 establishments engaging 93,806 persons in manufacture of food and beverages, indicating a possible increase in the number of industries in the sub-sector since 2011/12, but most importantly signifying a large presence of small firms engaged in the manufacture of food products as CME 2011/2012 captures all the relevant industries having 10 or more employees. A large share of food manufacturing establishments, according to NEC 2018, is occupied by manufacturing of grain mill products (18,310 establishments) followed by manufacture of dairy products (2,222 establishments) and processing and preserving of meat (1,197 establishments).

Food industries occupy the most important place in Nepal's manufacturing sector in terms of contribution to manufacturing value added. With a share of 34 percent in manufacturing value added, it has the highest contribution in manufacturing value added according to CME 2011/12. The manufacturing census (CME 2011/12) found that the sub-sector exported 5.7 percent of its output at the time and its exports constituted 22.2 percent of total manufactured exports.

There is significant private investment in food industries. Food production (packaging and processing) alone, excluding processing of tea, coffee, ginger, fruits, and primary processing of domestic agro products constitute outstanding loans from BFIs of around NPR 53 billion, which is around 11.8 percent of total loans made by BFIs to the manufacturing sector.

Current impact: Food products such as rice, wheat, flour, pulses and oil are essential consumption and hence related milling industries are allowed to operate even when many other economic activities are brought to a complete halt.[6] For instance, according to a Ministry of Industry, Commerce and Supplies (MoICS) report, milling industries along the four major industrial corridors (Morang-Sunsari, Bara-Parsa, Bhairawa, and Nepalgunj) are operating at 50 percent capacity utilization rate.[7] However, according to Association of Nepalese Rice, Oil and Pulses Industries (ANROPI), most of the milling industries remain closed and the ones operating are running at reduced capacity. Following are the current impacts on milling industries according to ANROPI:

- Only around 30 percent of essential food industries are in operation after the lockdown. However, they are operating at a reduced capacity utilization rate of around 40 percent compared to their pre-lockdown levels of 70-80 percent.
- Around 80-85 percent of revenues have been foregone because of the lockdown. Similarly, difficulties in collecting money from past sales made on credit have exacerbated their cash flows.
- Only around 15 percent of employees are currently working.
- Imports of raw materials have decreased by about 20 percent.
- Repayment of loans, payment of wages, reduced import of raw materials, rent payments, and collection of previous sales are major problems.

Besides the milling industries, other food-related industries such as food processing, dairy industries, tea industries, drinking water industries, and sugar industries are also in limited operation. For instance, the MoICS report notes that as of 13 Baisakh (25 April), along the four major industrial corridors, food processing industries were operating at 50 percent capacity utilization rate, dairy industries at 40 percent, and tea industries at 50 percent. However, no data is available regarding what percentage of total food-processing industries are currently functional. Informal interviews with firms and commodity associations as well as media account suggest that most of the food-processing industries are not operating and bearing huge losses; even the ones operating are running at much lower capacity utilization rates. For instance, according to an estimate by the Dairy Association on 3 Baisakh (15 April), milk and dairy products worth NPR 2 billion had gone bad and dairy products worth NPR 5 billion were on the verge of being deteriorated.[8]

The current situation is especially challenging for manufacturers of non-essential processed food products. According to a sugar confectioneries manufacturer, their production as well as sales have completely stopped, resulting in loss of revenues of around NPR 220 million (as of 24 Baisakh). Their export was around NPR 20 million annually, but it has come to a halt after the lockdown started. They believe that demand will be low for quite some time and hence they will be severely impacted for the next 5-6 months.

Future impact: As long as the lockdown remains or even if lockdown is relieved to some extent, shortage of workers, barriers in internal transportation, lack of retail activities, etc. will hinder the operation of essential food industries. Producers of essential food products believe that it will take around 2 months after the lockdown is completely removed for them to begin operating at previous level. However, manufacturer of other non-essential food products such as confectioneries believe that it will take them much longer to come back to pre-lockdown scenario. Reduced private spending resulting from reduction in remittance receipts, drop in tourism inflows, possible unemployment, reduced international demand, and a general state of uncertainty will lead to reduced demand for non-essential food items.

Pharmaceuticals

Overview: Pharmaceutical industry is another thriving sector that has been growing impressively over the last decade. According to a 2016 news article based on interviews with representatives of pharmaceutical industries, around NPR 18 billion was invested in pharmaceutical industries in Nepal.[9] The article reports that the sector had been growing at 18-20 percent annually over the last 7-8 years.

According to the Association of Pharmaceutical Producers of Nepal (APPON), there are currently 62 pharmaceutical producing industries in operation and around 20-25 are in the pipeline, expecting to start their operation soon. APPON estimates the investment in the sector to have increased to NPR 25 billion. According to NRB, the sector has an outstanding loan of NPR 19.5 billion from the BFIs. The sector is believed to provide direct employment to around 9,000-10,000 persons and indirect employment to much more, which includes chemists, wholesale and retail suppliers, transport operators, etc.

According to APPON, the current domestic market for pharmaceutical products is around NPR 45 billion per year–around NPR 20 billion catered by domestic industries and around NPR 25 billion served through imports.[10] Around 80 percent of import is sourced from India according to the import data for the years 2016-2018 provided by Trade and Export Promotion Centre (TEPC). However, with more industries in the pipeline, APPON believes that domestic industries are well on the path towards meeting most of the domestic demand given the right policy support.

Nepali pharmaceutical producers are mostly dependent on India for their raw materials. Around 70 percent of their raw materials are imported from India and the rest comes from China according to APPON.

After the potential impacts of the pandemic started to surface, APPON had declared that there is enough stock of medicines for about 6-7 months.[11]

Current impact: Pharmaceutical manufacturing industries, being producers of essential commodities, are allowed to operate during the lockdown. MoICS notes that pharmaceutical industries along the four major industrial corridors were operating at 50 percent capacity utilization rate (as of 25 April). Even though pharmaceutical industries are allowed to operate, our study suggests that not all of them are currently operating and even the ones that are operational are operating at reduced capacities because of the disruptions created by lockdown.

According to APPON, following are the highlights of impact on the pharmaceutical production sector[12]:

- Not all the pharmaceutical manufacturers are in operation; some have temporarily halted production because of difficulties created by the lockdown. The total output of the sector is estimated to have gone down by 50 percent after the lockdown.
- The sector has seen a surprising reduction of sales by around 60-70 percent, which, according to APPON, is because of limited access to hospitals and clinics, limited operation of retail shops, inability to collect past credits, and barriers in internal transportation. Furthermore, there was a sharp rise in sales of many common medicines before the lockdown as the fear of crisis compelled people to maintain a large stock of necessary medicines, which very likely contributed to current reduction in sales.
- While the industries could not import any raw material during the first phase of lockdown, partly because of export bans on some 26 types of medicines and raw materials by India, the ban has been mostly lifted and import of raw materials for pharmaceutical industries has resumed. The import of raw materials is at around 60-70 percent of the normal level according to APPON.
- Around 70-80 percent of employees engaged in the sector are still working; the rest are not working because of inability to join work due to the lockdown or out of fear of catching the contagion. However, some firms have been using workers on a rotational basis such that each worker works every other day. This has resulted in reduced capacity utilization rate.

Major challenges: According to APPON, most of the pharmaceutical producers are severely cash strapped. Since the sector has significant investment in the form of bank loans, payment of loans is their primary concern. Hence, the sector anticipates government support in the form of soft loans of around 2-5 crores per industry.

Future impact: While disruptions created by lockdown has reduced the output and sales of pharmaceutical producers, the sales is expected to come back to normal once the lockdown is discontinued. However, according to APPON, there are 7-8 sick industries in the sector, and hence if the lockdown extends further, they will be severely challenged to remain operational.

Furthermore, one future impact could be in the procurement of raw materials. Prices of raw materials are increasing because of current supply disruptions and hence the pharmaceutical producers in Nepal might have to reduce their import of raw materials if they remain cash strapped.

Textiles and garments

Although textiles and garment industries saw rapid decline after the expiry of Multi Fibre Agreement in 2005, the sector is still important in terms of their contribution to absorbing unskilled labour and for their foreign exchange earnings. There is decent private investment in textiles and garments in Nepal. According to the NRB, BFIs have outstanding loans of around NPR 19.7 billion in 'textile productions and readymade clothings'.

Textiles

Overview: According to Nepal Textile Industries Association (NTIA), there are currently around 250 textile manufacturing establishments, most of them small. Only around 15-20 establishments, mostly located around Birgunj, are large enterprises. NTIA estimates direct employment provided by textile industries to be around 40,000. CME 2011/12 had found 288 textiles manufacturing establishments in the country at the time, employing 22,500 persons. However, according to NEC 2018, textile manufacturing sector is comprised of 1,932 establishments and the sector provides direct employment to 26,764 persons.[13] The discrepancies in number of textile manufacturing establishments indicate a large presence of informal establishments and enterprises that employ less than 10 persons.

According to CME 2011/12, the sector exported 59.7 percent of its production at the time, accounting for the highest contribution to total manufactured exports at 26.2 percent. However, according to NTIA, exports of textiles are in decline and now constitutes only about 20 percent of total textiles production.

The textile sector was already witnessing significant challenges after the government decided in 2018 to withdraw VAT rebates provided on the sale of textiles.[14] According to a textiles manufacturer, annulment of VAT refund scheme reduced the industry's capacity utilization rate from around 25 percent to 10-12 percent. The sector is further hurt by significant informal imports of cloth—around 80 percent of textiles in the Nepali market enter informally from India according to NTIA. This has had a serious negative impact on the competitiveness of textiles industries in Nepal. To support the textile industries, the government had announced a concessional loan facility of NPR 50 million at 5 percent interest rate for textile industries[15]. However, according to NTIA, the industries have not been able to avail that facility. Similarly, a cabinet decision in 2018 provided textile industries with a 50 percent reduction in electricity bill; however, that too remains mostly unimplemented as even the industries located inside the industrial estates have not been able to access that concession according to NTIA.

Current impact: Following are the highlights of the impacts of COVID-19 and the lockdown on the textile industries[16]:

- The textile industries were already operating at a low capacity utilization rate after the cancellation of VAT rebate facility accorded to them. Now, the capacity utilization of the sector has reached zero as textile industries have completely halted their productions since the lockdown. Even the industries located inside the Industrial Estates are not operational because of inability to procure raw materials and shortage of workers.
- Around NPR 70 million has been lost in the form of revenues foregone as sales have completely stopped.
- Textile exports (accounting for about 20 percent of production) have come to a halt after the lockdown.
- All the employees are unable to work. However, there is no clarity as to whether the employees will be paid for the duration of the lockdown and to what extent.

Future impact: The NTIA paints a dire picture of the impact of COVID-19 on the textiles sector. The industries can be operational only after 10-15 days of removal of lockdowns as it will take time for import of raw materials to resume and for workers to make it back to factories. Around 45 days of total halt of production and sales has already put a major dent on their pockets. Furthermore, the association believes that it will take at least 6-7 months, under relatively optimistic scenario, for demand to come back to normal as private consumption will decline. Moreover, since global demand for apparels will also be affected, domestic garment industries—major purchasers of domestic textile production—are likely to cut down on their purchases for a few months. The association believes that there will be only 15-20 percent of the normal demand for the next 5-6 months. If lockdown is extended further, production does not resume, and demand takes longer to recover, the whole of next fiscal year will be difficult to manoeuvre for the sector. In that scenario, around 25 percent of workers might be laid off. Even worse, around 75 percent of the establishments in the sector, might struggle to survive the challenging times ahead, and permanently exit the sector.

Garment

Overview: According to the Garment Association of Nepal, an association of garment exporting firms, there are currently 54 such firms operating in Nepal (all of them SMEs), providing employment to around 5,000 contractual workers. CME 2011/12 had found 74 garment industries at the time employing 2,616 persons. However, NEC 2018 finds that 36,103 establishments encompassing 76,223 persons are engaged in manufacture of 'wearing apparel, except fur apparel', implying that a significant number of garment establishments belong to the informal sector. Furthermore, since CME covered manufacturing establishments engaging 10 or more persons, the discrepancy indicates that many of the garment manufacturing establishments operating in Nepal employ less than 10 persons.

According to CME 2011/12, garment industries exported around 45 percent of their apparel production, accounting for 3.2 percent of total manufactured exports at the time. According to GAN, an estimated NPR 6.34 billion worth of garments was exported in FY 2018/19.

An estimated NPR 5 billion is invested in 54 garment industries affiliated to GAN. Regarding the sector's exposure to loans, GAN estimates the current level of bank loans in 54 industries affiliated to GAN to be around NPR 500 million, procured at an average interest rate of 10 percent.

Current impact: Preliminary findings highlight the following impacts[17]:

- The sector's output has reduced by 95 percent. While the capacity utilization rate of the sector was around 85 percent during the normal period, it has plummeted to 5 percent after lockdown started.
- Because of cancellation of orders and difficulties in exporting because of the lockdown, the sector had witnessed a loss in revenue of more than NPR 1 billion by 15 Baisakh (27 April). If the lockdown extends for two more months, GAN estimates the loss in revenue to be around NPR 3 billion.
- Loss in exports in FY 2076/77 due to the lockdown is estimated to be more than 30 percent of their exports under normal scenario. Around NPR 1.25 billion has been lost by garment exporters (as of 24 Baisakh/6 May) after the lockdown started because of cancelled orders and orders that are ready to ship but could not be exported.
- Import of raw materials are stranded at various ports.
- All the employees are currently unable to resume their work at the factories.

Major problem: Based on our informal survey, paying wages to employees has emerged as the most pressing financial problem for garment manufacturers due to the cash shortfall created by the lockdown. Similarly, repayment of bank loans is the next major financial distress faced by the sector, followed by rent payment.

Future impact: Since the countries most affected by the pandemic are the major markets of Nepali garments, the impact is here to remain for long, even after the lockdown is lifted in Nepal. Since the advanced countries are reeling with recessions, there is going to be a severe reduction in consumer spending, which will have some impacts on the demand of Nepali garments as well. Thus, GAN estimates challenges to persist in the sector for 12 months. If the lockdown continues, and if it takes long for the situation to come back to normal, both domestically and globally, GAN estimates loss in revenue of up to 80 percent and loss in employment of around 50 percent. Furthermore, since most of the garment manufacturing industries seem to be operating informally, a long period of lockdown might exacerbate their current liquidity problems, making them unable to operate again.

Construction materials

Construction contributes significantly to Nepal's GDP against the background of increasing infrastructure projects and rapid urbanization. For instance, construction contributes 7.62 percent to nation's GDP[18] and uses around 35 percent of the government's budget[19]. Construction activities have further increased after the devastating earthquake of 2015. For instance, value added by construction activities (in real terms) has increased by 12.43 percent (in FY 2016/17), 10.02 percent (in FY 2017/18), and 8.05 percent (in FY 2018/19).[20] Increased construction has led to increased demand for essential construction materials such as cement and iron & steel.

Manufacturing of construction materials also represent significant private investment. Cement and iron & steel manufacturing alone represents outstanding loans of around NPR 211.8 billion, which constitutes roughly 40 percent of total outstanding loans to manufacturing sector by the BFIs.

Cement

Overview: Given the presence of an estimated 1.25 billion metric tons of best cement grade limestone deposits[21], rising demand owing to a rapid rise in infrastructure projects and urbanization, and the thrust provided by Industrial Policy 2010, cement manufacturing has been a rapidly growing sector in Nepal. However, the current COVID-19 crisis has put the sector in major financial distress.

There are currently 114 cement industries registered at DoI[22], out of which 61 are in operation[23]—21 are integrated (producing both clinkers and cement) and 40 are clinker mills (using purchased clinkers to produce cement). Out of the 114 registered industries, 73 are large, 40 are medium, and 1 is small. The sector provided direct employment to 16,589 persons in FY2018/19[24], but is also a source of significant indirect employment such as loaders, truck drivers, wholesale and retail, etc.[25]

Impressive growth of the cement industry is visible in rapidly increasing production, going from high import reliance to being almost self-reliant. While domestic industries produced 278,516 metric tons (MT) of cement in FY 2011/12[26], the production level has sharply risen to 4.5 million MT in FY 2018/19 (accounting for 90 percent of domestic demand)[27]. The steadily increasing domestic production has led to a tremendous reduction in import of cement over the years—the import of ordinary portland cement (OPC) has gone down from 500,207 metric tons in FY 2011/12 to 100,520 metric tons in FY 2018/19.[28] While the cement industries currently only cater to domestic demand, few are trying to access export markets, particularly the bordering areas in India.

Housing and real estate account for 62 percent of the total cement demand, followed by infrastructure development at 30 percent and commercial and industrial development at 8 percent.[29]

Total investment in the sector is estimated to be more than NPR 125 billion according to the Cement Manufacturers' Association[30]. According to NRB data, around 103 billion of investment is in the form of loans obtained from the BFIs. This shows that cement industries are heavily leveraged, putting the sector at a high financial distress during these difficult times.

Current impact: Preliminary findings highlight the following impacts:

- Cement factories were operating with capacity utilization of around 75 percent before the lockdown[31], which has now plummeted to zero percent as the production has come to a halt after the lockdown.
- The import of raw materials (gypsum, fly ash, coal, clinker, etc.) are currently suspended; some orders have been cancelled and some are stranded at the customs.
- Current sales of cement are very insignificant as most of the construction activities have come to a halt. Some cement factories are selling trivial amount (10-15 thousand sacks) to some infrastructure projects such as hydropower construction that are operational during

the lockdown. According to the Nepal Cement Manufacturers' Association, the sector has lost more than NPR 22 billion in revenues in the five weeks of the lockdown.[32] The impact on sales of cement is particularly exacerbated by the fact that around 70 percent of cement consumption occurs during the months of Falgun – Asar (mid-February to mid-July). These are the months when many development projects are on full swing, owing to the imminent closure of fiscal year.

- Since the production has come to a complete halt, none of the employees engaged in cement production establishments are currently working. However, they have not been furloughed either.

Major challenges: Since the sector is heavily leveraged, repayment of loans is the primary challenge of the sector. The next grave challenge is payment of wages and social security contributions. Around 70 percent of establishments in the cement sector contribute to the Social Security Fund, according to the Association.

Future impact: With construction subsiding, it will take some time for demand to come back to normal. Thus, the cement industries will be in financial distress for some time. Since most of the directly employed people are essential to the establishments, only around 10 percent will be potentially laid off if the distress continues longer. However, the greater risk is that some establishments, unable to bear the financial challenges, might have to shut down their operation completely. The Cement Manufacturers' Association estimates that around 10 establishments might have to shut down their operations. Even under the assumption of moderate effects of the pandemic, the whole of the next fiscal year 2020/21 is believed to be challenging times for the sector.

Iron and Steel

Overview: Steadily increasing demand, partly because of construction boom, has made iron and steel a successful industry in Nepal. Besides, iron and steel products also carry major export potential and were prioritized by the Nepal Trade Integration Strategy 2010. Although iron and steel exports constitute only about 2 percent of the total production of iron and steel products, the sector's annual average export is significant at around NPR 3-4 billion.[33]

According to the Nepal Steel Rolling Mills Association (NSRMA), there are around 50 iron and steel industries in Nepal, 40 of which are large enterprises and 10 medium-size. The sector is believed to provide direct employment to around 20,000-25,000 persons.

The current domestic demand for steel and iron products is estimated to be around 2 million metric tons. According to NSRMA, the iron and steel manufacturing industry currently caters to a market worth around NPR 170 billion.

The industry was operating at around 50-55 percent capacity utilization rate before the lockdown.

Current impact: Preliminary findings highlight the following impacts[34]:

- There has been a complete halt in production starting 24 March when the lockdown started.

- Although there have been some sales to government's construction project since around 29 April, that amount is insignificant relative to the sector's sales during normal times. According to the estimate made by NSRMA, iron and steel industries have lost around NPR 20 billion in revenues foregone during the lockdown. Additional costs include demand charge in electricity, wages for the month of Chaitra, interest payments, rents, and other administrative costs.
- Since the lockdown started, there has been a complete halt in their exports.
- Import of raw materials has reduced by 100 percent.
- All the employees are currently out of work; however, they have not been laid off yet. Moreover, there is uncertainty as to whether to pay the wages for this month of lockdown, and to what extent.

Major challenges: Since the sector has significant outstanding loans from BFIs (around NPR 108.8 billion according to NRB data), interest payment is the primary challenge faced by the sector according to NSRMA. The second challenge is the payment of wages, followed by utility payments.

*Future impact***:** NSRMA believes the next two years to be challenging for the sector. It believes the demand in construction to drop by 40-50 percent. Among other factors, drop in remittance receipts and dismal tourism prospects will lead to reduced spending, causing sharp reduction in construction activities. The state of uncertainty will also contribute to that. This will cause the iron and steel industry to operate at a level way lower than their potential. While they were operating at around 50-55 percent capacity utilization rate 3 months before the lockdown started, they are expected to operate at around 30 percent capacity utilization rate for a long time after the lockdown is removed because of the reduction in demand. According to an estimate by NSRMA, the industry could end up furloughing around 20-30 percent of their workers if there is no support from the government.

Policy support to the manufacturing sector

Our preliminary findings indicate that many industries are compelled to entirely shut down their operations during the lockdown. Even in the sub-sectors related to the manufacturing of commodities deemed essential, not all of them are in operation, and the ones in operation are performing at a lower capacity owing to shortage of workers and difficulties in procuring raw materials and intermediates. While demand for essential manufactured commodities such as food products and medicines can be expected to quickly come back to normal or even increase because of pent-up demand, for many industrial commodities demands are expected to be subdued for the next few months. Hence, government support is necessary to mitigate the impacts of the crisis on the manufacturing sector—to keep the otherwise viable industries afloat and to prevent layoffs of workers solely because of COVID-19 impacts.

The major challenge for industries according to our preliminary findings is shortfall of cash as their revenues have completely dried up or dropped substantially. Hence, measures to provide liquidity to these industries, such as increase in working capital loan, providing credit at reduced rates, deferring the payment of loans, etc., seem necessary. The next challenge for the industries is to keep paying the workers despite the loss of revenues and possible reduction in future demands. Hence measures are needed to ensure that firms will retain their employees. Another challenge is to re-establish supply chains (for both imports and exports) that have been disrupted. Likewise, supporting the industries manufacturing non-essential commodities where demand will be subdued for at least the next few months is also a challenge. Some measures to stimulate private demand and some changes in industrial and trade policies could be used to help industries cope with these challenges.

Finally, a large share of manufacturing establishments operates informally. According to NEC 2018, 51.3 percent of manufacturing establishments (53,458 manufacturing industries) are not registered and they employ 20.5 percent of the workforce (104,514 persons) engaged in the manufacturing sector. These establishments do not have access to formal lending channels and workers engaged in these establishments do not have basic employee protection. These establishments and workers will thus be cut off from the usual government support such as credit guarantee, forbearance of bank loans, tax breaks, wage subsidies, etc., and hence the cash flow challenges, if the lockdown persists, might very well lead to their insolvency. Hence, special measures are required to keep these establishments afloat and to support the livelihoods of informal workers.

Following are some suggested possible government support to minimize the impacts of the COVID-19 pandemic to the manufacturing sector.

General policy support for the manufacturing sector

- **Ensure that the otherwise viable industries have access to liquidity**. Policy measures such as concessions on debt payments (reduced interest rates for debts incurred during the lockdown period), access to increased working capital loans, provision of further loans at concessional rates, deferral of debt obligations and tax payments, are crucial in solving cash flow problems that the industries are witnessing. Nepal Rastra Bank (NRB) has already introduced some related relief measures such as reduction in interest rate for the fourth quarter by 2 percentage points (exempting some industries), deferral of loan payment periods, increase in the size of loan refinancing facility (from NPR 50 billion to NPR 60 billion), possible increase in working capital loan to affected industries by 10 percent, etc. However, some of the provisions such as deferral of short-term loan payment by 60 days and increase in working capital loans are left to the discretion of banks. The government should coordinate with banks to ensure that these measures are implemented so that the affected industries get access to the much-needed liquidity in an easy manner. Furthermore, most of the industries claim that these relief measures are not adequate and maintain that the government should provide additional loans at concessional rates, provide deferral of debt payments (incurred for the duration of the lockdown) for longer periods, increase the size of NRB's refinancing facility, make it easier to access refinancing facility, and that the working capital loan should be increased by about 40 to 50 percent.[35] Hence, there is a need to provide further concessions to the most affected industries, to the extent possible. Lastly, micro and small industries are more vulnerable and hence they should be prioritized through provisions such as setting up 'small business funds' that cater exclusively to micro and small businesses and provides loans at concessional rates.

- **Policy measures to maintain employment are necessary**. One way to maintain employment could be by providing government facilities such as loan at concessional rates and extended working capital loan with a precondition that the receiving industries cannot layoff their workers. Furthermore, government can provide concessional loans to industries for payments of salaries. However, some cost sharing mechanisms might be needed to support the micro and small industries. For instance, the industries could contribute a portion of the wages with a portion of staff salaries coming from the government so that the workers make at least the minimum wage. Furthermore, the government could continue to contribute employers' contributions to Social Security Fund (SSF) for affected industries or make it optional for the next couple of months.
- **Implement the relief measures introduced by the government**: The government has already proposed many measures such as ensuring that employees are paid through access to concessional loans (if needed), increasing the size of NRB's refinancing facility to NPR 100 billion, reducing the interest rate of loans provided through NRB's refinancing facility, providing working capital loans to cottage and small industries at concessional rates, etc.[36] Ensuring that these proposed measures are implemented in a timely and non-discriminatory manner, and without procedural obstacles, and with the necessary flexibilities (for instance, by making the conditions for accessing refinance facilities less stringent by increasing the payback period for the more affected firms to three to five years) will be crucial in minimizing impacts.
- **Other Support**:
    - Waive demand charge (minimum electricity charge) for industries that are shut down due to the lockdown for the period they are not in operation.
    - Provide concessions on utility payments for the micro and small industries and deferrals for medium industries.
    - Adjust oil (fuel) prices to reflect current decrease in international prices so that increase in consumer savings leads to increased private spending and hence increase in demand of manufactured commodities. This will also result in reduced cost for manufacturing industries through reduced energy cost (in the use of diesel generators), reduced delivery cost, etc.
    - Increase export incentives and provide export financing mechanisms.
    - Waive detention and demurrage charges regarding the currently stranded import of raw materials and intermediates.
    - Reduce import duties on raw materials for affected industries on a temporary basis.

Support for unregistered (informal) manufacturing firms and workers

- Direct cash transfers or in-kind reliefs will be the best measure to support unregistered manufacturing establishments and informal workers. Local governments should identify such establishments and workers and provide relief. Also, measures such as blanket concessions on utility charges such as electricity fees and water fees until the severe constraints on economic activities are lifted are more likely to provide relief to informal

establishments and workers. Furthermore, the government has encouraged landlords to waive rent payments for the period of the lockdown. This could be an important step to support informal industries, but to what extent will this be implemented remains to be seen.
- The government had declared a provision of providing employment to the unemployed informal workers through different government programmes such as the Prime Minister Employment Programme and Prime Minister Agriculture Modernization Project. Ensure this provision is quickly implemented through coordination with provincial and local governments. Similarly, ensure that these workers have access to food packages distributed by the government to the needy.
- Provide one-time grant that covers rent payments, utility payments, and small working capital as incentives to formalize the currently unregistered manufacturing establishments.

Some specific sectoral support

Food products

- Nepal Rastra Bank's circular exempted food manufacturing industries from the two-percentage points reduction in interest rate for the fourth quarter. However, since only few food industries are operating, and at a lower capacity utilization rate, the food manufacturing industries should also qualify for some concessions on the interest rate for the fourth quarter loan payment.

Textiles

- Implement the 50 percent reduction in electricity bills for the textiles industry approved by the cabinet decision in 2018.
- Implement the earlier decision regarding providing concessional loan facility for textile industries at 5 percent, perhaps increasing the facility amount from the originally endorsed NPR 50 million.
- Provide VAT refunds to textile industries, as used to be the case till 2018, until the demand resumes to normal.

Cement manufacturing

- Reduction in import duty of coal, which is extensively used in cement production, could be a way of supporting the cement factory until the effects of the pandemic subside and demands are back to normal. Currently, import duties of 5 percent and 10 percent are levied on two different types of coal imported for cement production. Cement manufacturers have long been demanding that the tariff be reduced to 1 percent so that they can become competitive to enter the export market. Reduction in tariffs applied to coal until construction activities come back to normal seems a reasonable measure to keep cement factories afloat.

Annex

Table 2: Outstanding credit of banks and financial institutions to manufacturing sub-sectors (as of

Heading	Outstanding credit as of mid-March 2020 (in NPR million)
Outstanding credit to 'Productions'*	**532,850.10**
Food Production (Packing and Processing)	62,791.13
Agriculture and Forest Production	24,994.50
Drinking Materials (Bear, Alcohol, Soda, etc.)	24,934.96
Alcohol	17,302.55
Non-Alcohol	7,632.42
Tobacco	566.31
Handicrafts	10,609.38
Textile Production and Ready Made Clothings	19,719.84
Log and Timber Production / Furniture	21,850.75
Paper	10,600.33
Printing and Publishing	10,489.88
Medicine	19,470.90
Processed Oil and Charcoal Production	3,409.36
Raisin and Tarpin	1,172.06
Rubber Tyre	1,048.14
Leather	1,181.07
Plastic	25,294.46
Cement	103,030.77
Stone, Soil and Lead Production	16,952.94
Metals - Basic Iron and Steel Plants	108,779.79
Metals - Other Plants	7,567.21
Miscellaneous Productions	58,386.32
Total credit to all the industrial sectors^	2,578,235.12

**Processing of Tea, Coffee, Ginger and Fruits and primary processing of domestic agro products included in Agriculture from October 2017.*

^Includes Agriculture; Mines; Productions; Construction; Metal Productions, Machineries, and Electrical Tools and Fitting; Transportation Equipment Production and Fitting; Transportation, Communications and Public Services; Wholesaler and Retailers; Finance, Insurance, and Fixed Assets; and Service Industries. Excludes other categories: Consumable Loan, Local Government; and Others.

Source: Current Macroeconomic Situation (8 months) 2019/20, Nepal Rastra Bank

Annex

Table 3: Capacity utilization rates of industries along the four major industrial corridors (Morang-Sunsari, Bara-Parsa, Bhairawa, and Nepalgunj) as of 25 April

S.N.	Sub-sector	Average capacity utilization rate (in %)
1	Milling industries (rice, lentils, wheat, flour, oil, etc.)	50
2	Food Processing	50
3	Dairy industries	40
4	Tea industries	50
5	Drinking water industries	70
6	Pharmaceutical industries	50
7	Oxygen plant industries	100
8	LPG gas refilling industries	100
9	Feed industries	40
10	Brick industries	20

Source: Ministry of Industry, Commerce and Supplies, Government of Nepal.

NOTES

[1] There are some methodological discrepancies between NLFSIII and NEC 2018. A major difference between the two is that NEC doesn't cover unregistered agriculture, forestry, and fishery economic activities, and Section O of NSIC-2018 (Public administration and defense; compulsory social security). This explains the difference in the number of employed persons in the two—around 7.1 million in NLFSIII compared to 3.2 million in NEC 2018—to some extent but doesn't account for difference in number of persons engaged in manufacturing sector. While NLFSIII estimates 1.07 million persons engaged in manufacturing, NEC 2018 finds 510,523 persons engaged in the manufacturing sector. This discrepancy is likely explained by the fact that NLFSIII also considers household-level manufacturing activities [Section-T (97) of NSIC-2018: Activities of households as employers of domestic personnel] whereas such household-level manufacturing activities do not fall under the scope of NEC 2018. Furthermore, since NEC 2018 is a census and more representative of manufacturing establishments, we rely on NEC 2018 for our figures related to the manufacturing sector.

[2] CBS. 2020. *National Economic Census 2018 National Report on revenues/sales, expenses, and profit and loss.* Kathmandu: Central Bureau of Statistics, GoN

[3] The amount is higher if we consider processing of tea, coffee, ginger and fruits and primary processing of domestic agro products under manufacturing sector, which NRB lists under the heading 'Agriculture'.

[4] The categories considered are: Agriculture; Mines; Productions; Construction; Metal Productions, Machineries, and Electrical Tools and Fitting; Transportation Equipment Production and Fitting; Transportation, Communications and Public Services; Wholesaler and Retailers; Finance, Insurance, and Fixed Assets; and Service Industries.

[5] Ministry of Industry, Commerce and Supplies bulletin published on 27 April 2020. https://moics.gov.np/media/EBulletin/notice/consolidated_report_udhog_baisakha_13.pdf

[6] According to Association of Nepalese Rice, Oil and Pulses Industries (ANROPI), there are around 225-250 industries engaged in the manufacture of mill products. According to NEC 2018, 39,261 persons are engaged in the manufacture of grain mill products, indicating that many of them operate informally.

[7] Ministry of Industry, Commerce and Supplies bulletin published on 27 April 2020. https://moics.gov.np/media/EBulletin/notice/consolidated_report_udhog_baisakha_13.pdf

[8] Nepali Sansar. 2020. "COVID-19 Inflicts NPR 2 Bn Loss on Nepal Dairy Industry!". *Nepali Sansar* 15 April. https://www.nepalisansar.com/business/covid-19-inflicts-npr-2-bn-loss-on-nepal-dairy-industry/

[9] Tripathi, A. 2016. "The Health of Nepali Pharma Industry". *New Business Age* 29 February. https://www.newbusinessage.com/MagazineArticles/view/1433.

[10] According to the data obtained from Department of Customs, Nepal imported pharmaceutical products worth NPR 27.3 billion in FY 2074/75(2017/18) and NPR 30.1 billion in FY 2075/76(2018/19).

[11] New Spotlight Online. 2020. "Nepal Has Enough Stock Of Medicines: Pharmaceutical Association Nepal". *New Spotlight Magazine* 6 March. https://www.spotlightnepal.com/2020/03/06/nepal-has-enough-stock-medicines-pharmaceutical-association-nepal/

[12] The effect on pharmaceutical producers seems to be disparate across firms. For instance, a survey respondent associated with pharmaceutical production reported effects that are less severe than sector-wide impacts reported by APPON. The pharmaceutical producer reports 10 percent reduction in output due to the effects of lockdown. The capacity utilization rate, which stood at 95 percent 3 months prior to the lockdown, has dropped to 85 percent after the lockdown. While imports of essential raw materials have reduced by 20 percent because of the lockdown, around 90 percent of its staff are still working. It had lost around NPR 30 million in revenue foregone (as of 15 Baisakh), which is approximately 4.6 percent of its average annual revenue. It expects the revenue foregone to increase to around NPR 80 million if the lockdown extends to 15 Jestha (28 May). Similarly, under the assumption of minimal effect, it expects the impact in terms of revenue loss as well as loss in employment to be 10 percent. However, under the assumption of severe effects, both the impacts are estimated to be around 30 percent.

[13] The figure is obtained by adding number of establishments/persons engaged in the following: preparation and spinning of textile fibres; weaving of textiles; finishing of textiles; manufacture of knitted and crotcheted fabrics; manufacture of made-up textile articles, except apparel; manufacture of carpets and rugs; manufacture of cordage, rope, twine and netting; and manufacture of other textiles n.e.c.

[14] A VAT rebate of 70 percent was provided on the sale of synthetic textiles and 100 percent on the sale of cotton textiles.

[15] Dhakal, M. 2019. "Lack Of Definition Impedes Textile Industries Getting Loans". *The Rising Nepal* 16 December. https://risingnepaldaily.com/main-news/lack-of-definition-impedes-textile-industries-getting-loans

[16] Based on consultation with Nepal Textile Industries Association

[17] Mostly based on consultation with Garment Association of Nepal (GAN).

[18] National Accounts 2020, CBS

[19] World Bank. 2020. *Dirty Stacks, High Stakes: An Overview of Brick Sector in South Asia*. Washington, D.C.: World Bank.

[20] CBS. 2020. Press Release on the National Accounts situation of 2019/20. Kathmandu: Central Bureau of Statistics, GoN. https://cbs.gov.np/wp-content/upLoads/2020/04/CBS-GDP-Press-Release-2077-1-17-new.pdf .

[21] Investment Board Nepal's Manufacturing Sector Overview. https://ibn.gov.np/opportunities/sectors/manufacturing/

[22] Department of Industry. 2019. *Detailed Study of Cement Manufacturing Industry*. Kathmandu: Government of Nepal.

[23] According to the Nepal Cement Manufacturers' Association, there are 61 cement industries in operation as of 4 May 2020.

[24] Interview with a representative of Nepal Cement Manufacturers' Association.

[25] The Nepal Cement Manufacturers' Association estimates indirect employment to be around 100,000

[26] DoI. 2019. *Detailed Study of Cement Manufacturing Industry*. Kathmandu: Department of Industry, GoN.

[27] Economic Survey 2018/19, Ministry of Finance.

[28] Data obtained from the Department of Customs.

[29] DoI. 2019. *Detailed Study of Cement Manufacturing Industry*. Kathmandu: Department of Industry, GoN.

[30] Prasian, K. 2018. "Domestic cement output continues to grow steadily". *The Kathmandu Post* 28 October. https://kathmandupost.com/money/2018/10/28/domestic-cement-output-continues-to-grow-steadily

[31] DoI. 2019. *Detailed Study of Cement Manufacturing Industry*. Kathmandu: Department of Industry, GoN.

[32] Dhungana, N. 2020. "Cement Udhyogiko Daabi: 22 arba BAdhiko Karobar Gumyo". *Online Khabar* 29 April. https://www.onlinekhabar.com/2020/04/859572

[33] The figures are derived from consultations with the Nepal Steel Rolling Mills Association.

[34] Mostly based on consultation with the Nepal Steel Rolling Mills Association.

[35] The government has directed NRB to increase the size of the refinancing facility to NPR 100 billion; the increase has not been yet announced by NRB.

[36] Press release issued by Ministry of Communication, Information and Technology on 30 April. https://mocit.gov.np/categorydetail/covid-19-relief-package

B2. Tourism

Tourism is an important sector in Nepal in terms of employment, revenue generation and foreign exchange earnings. Tourism involves travel; hence, the sector is also categorized as 'travel and tourism'. Since the outbreak of COVID-19 in December 2019, there have been reductions in both international and domestic travels all over the world. Reductions in travels have been significant, or rather almost halted, especially after countries started banning international flights and imposing lockdowns within countries. This has seriously impacted the tourism sector globally, and Nepal is no exception. Even worrying is the fact that travel and tourism might not return to pre-COVID-19 times anytime soon, at least until vaccine against COVID-19 is available. Therefore, governments are challenged with developing appropriate policy responses to mitigate the short-, medium- and long-term threats to the sector. Based on the data and information that we could gather in a relatively short period of time, in this study we analyse the impacts of the COVID-19 pandemic on Nepal's travel and tourism sector and suggest appropriate policy responses. We cover hotels and restaurants, airlines and travel and tour operators as the sub-sectors within the travel and tourism industry in our study.

Sectoral profile

According to the 2018 report of the World Travel and Tourism Council (WTTC), the travel and tourism sector's direct contribution to Nepal's GDP in 2017 was 4 percent, or about NPR 100 billion, while its total contribution (direct and induced) was 7.8 percent of GDP, amounting to NPR 195 billion.[1] Regarding employment, according to the report, in 2017 the sector directly created 497,500 jobs, while in total it created 1,027,000 jobs. Moreover, the tourism sector, especially hotels and restaurants, have strong backward linkages with other sectors of the economy such as food and beverages, agriculture, electricity, gas, water supply, transport, etc. For instance, NPR 35 of output in food and agriculture goes directly into NPR 100 of output in hotels and restaurants.[2]

The WTTC report also states that Nepal's visitor exports in 2017 generated NPR 72.5 billion, which was 28 percent of Nepal's total exports of goods and services.[3] While this is an important contribution to Nepal's economy, the contribution of domestic tourism is even higher. Of the total visitor spending in 2017, foreign visitor spending was 43 percent while domestic tourism spending was 57 percent.

Until fiscal year 2018/19, tourism enterprises registered with the Department of Industry numbered 1,732, with a proposed total capital of NPR 140 billion and 67,811 proposed employment.[4] Similarly, 2,187 service-related enterprises, which includes tourism-related establishments, were registered with a proposed total capital of NPR 150 billion and 123,621 proposed employment.

Below we briefly describe the profiles of the tourism sub-sectors mentioned above.

Hotels and restaurants

According to the National Economic Census 2018, the number of establishments in accommodation and food services was 130,540, which was 14.14 percent of all the establishments.[5] The sector engaged 346,273 people, that is, 10 percent of the total people engaged in all establishments. Of the total number of people engaged in the sector, 57 percent were male and 43 percent female. 63.3 percent of the establishments in the accommodation and food services sector were unregistered, and 60.8 percent had no accounting records.

Regarding hotels in particular, as of mid-January 2019, there were 1,254 hotels with 40,856 beds.[6] Of these, 129 were star hotels with 11,146 beds and 1,125 were non-star hotels with 29,710 beds.

Similarly, according to media reports, as per the data provided by officials of the Restaurant and Bar Association of Nepal (REBAN), depending on standard and scale, there are 2,000-4,000 restaurants in the country.[7] Fifty percent of the restaurants are in Kathmandu valley and 50 percent outside Kathmandu.[8] The total number of people employed in restaurants throughout the country is about 60,000, who are paid NPR 140-150 million in salaries per month.[9] It is estimated that total investment in the restaurant sector in Nepal is NPR 25 billion, of which NPR 4-5 billion is bank loan.[10] Restaurants in Nepal serve around 60 percent of domestic customers and 40 percent of foreign tourists.

Gross output of the hotel and restaurant sector in FY 2018/19, at current price, was NPR 196 billion, while the gross value added was about NPR 63 billion.[11] The sector's contribution to the country's GDP was 2.05 percent. Annual sale of accommodation and food services activities in 2018 was NPR 237 billion, from which the profit earned was NPR 37 billion.[12]

According to Nepal Rastra Bank data, loans to the hotel industry provided by banks and financial institutions (BFIs), as of Mid-March 2020, stands at NPR 107 billion.[13]

Airlines

The number of establishments of passenger air transport in Nepal, according to the National Economic Census 2018, was 53.[14] In these establishments 2,750 people were engaged, of which 2,221 were male and 529 female, suggesting extremely low engagement of female in the airlines sector. However, according to the Airlines Operators Association of Nepal (AOAN), Nepal's airline companies have employed 4,500 regular staff and 500 daily wage staff.

Nine fixed wing and six rotor wing domestic airlines serve the Nepali market. Of these, eight fixed wing airlines are owned by private companies. Of the 30 international airlines serving Nepal, three are Nepali companies, including two owned by private companies.

According to the Nepal Rastra Bank, BFI's loans for aircrafts and aircraft parts, as of mid-March 2020, was NPR 9 billion.[15] AOAN states that BFI's loans to the airlines industry is more than NPR 12 billion, with an average interest rate of 12 percent. It also states that total investment in the airlines sector in Nepal is around US$430 million (around NPR 47 billion).

As per AOAN data, the average revenue of all the airlines in Nepal of the past three years was more than NPR 18 billion, of which 70 percent was derived from domestic passengers and 30 percent from international passengers.

Travel and tour operators

According to the National Economic Census 2018, the number of travel agency establishments in Nepal was 2,664 and tour operating establishments were 333.[16] The Ministry of Culture, Tourism and Civil Aviation (MoCTCA) puts the number of travel agencies in 2018 as 3,508.[17] The number of people engaged in travel agencies were 13,223, of which 10,637 were male and 2,586 were female (CBS 2018).[18] Similarly, in tour operations 1,754 people were engaged, of which 1,390 were male and 364 were female.

Also, as of 2018, there were 2,649 trekking agencies in Nepal (MoCTCA 2019). Similarly, there were 4,126 tourist guides and 16,248 trekking guides.

Tourism (trekking, mountaineering, resort, rafting, camping, etc.) sector had an outstanding loan of NPR 27.1 billion to Nepal's BFIs as of mid-March 2020.[19]

Current impacts

In 2019, a total of 1,197,191 tourists visited Nepal, of which 995,884 came by air and 201,307 via land ports. This was a marginal increase of 2.05 percent compared to the number of tourist arrivals in 2018.[20] In the first two months of 2020, the number of tourists was less compared to the corresponding months last year. This could be because the COVID-19 epidemic had already started in December 2019 affecting international travels. In March 2020, the reduction was significant even when compared to the previous month. From 101,400 tourists' arrival in February 2020, the number sharply reduced to 34,025 tourists in March 2020, a significant drop of 73 percent.[21] When compared with 127,351 tourists that came to Nepal in March 2019, the reduction is alarming (see Table 4). After Nepal banned international flights from the midnight of 20 March and enforced a complete lockdown in the country from 24 March, one can safely assume that the number of international tourist arrivals since then is almost zero.

Table 4: Number of tourist arrivals in Nepal

	2019	2020
January	81,273	79,686
February	102,423	101,400
March	127,351	34,025

Source: CEIC database.

According to AOAN, the airline industry has already lost about NPR 3 billion in revenue, and it expects that the revenue loss will be NPR 4.5 billion if the lockdown extends until 15 Jestha and NPR 6 billion if the lockdown extends until the end of Ashadh. The industry expects to lose US$8-16 million in foreign exchange. The most significant problem the industry is facing currently is paying staff wages and social security charges and repaying loans. It has laid off or plans to lay off 30 percent of its employees. It is also facing problems with paying the aviation insurance premium.

Star hotels and high-end resorts in Nepal mainly cater to international visitors. But they also generate revenues from domestic sources such as domestic visitors, different activities such as wedding parties and conferences, etc. Lower-end hotels and restaurants mainly cater to domestic customers. The ban on international visitors from coming in and the lockdown throughout the country has brought all the activities of all the hotels and restaurants, airlines, travel agencies and tour operators to a standstill. With the revenue almost completely dried up, entrepreneurs in these sectors are faced with the difficulty of providing staff salaries and paying interests on the loans they have taken from financial institutions.

It is estimated that the loss to the hotel and restaurant sector will be NPR 50 billion.[22] Similarly, according to a Past President of the Nepal Mountaineering Association, the expedition sub-sector alone has already lost NPR 20 billion.[23]

As stated above, the tourism sector's total contribution to Nepal's GDP in 2017 was NPR 195 billion. Since the National Accounts does not provide growth rates of the tourism sector overall, taking the average GDP growth rate of the hotel and restaurants sector—8 percent—as a proxy, the total value added by the tourism sector in FY 2019/20, had there been no COVID-19 pandemic, would be around NPR 245 billion. The Central Bureau of Statistics of Nepal has recently estimated that in FY 2019/20, the growth rate of hotel and restaurant sector would be the lowest, in fact negative, at -16.3 percent. Again, taking this as a proxy for the tourism sector overall, the sector's value addition this FY could be less by about NPR 40 billion. That is, this could be the loss from the tourism sector until mid-July. Therefore, the industry sources' claims that the airlines, hotel and restaurant and other tourism sub-sectors have lost more than NPR 70 billion appears to be high.

Future impacts/challenges

According to the World Tourism Organization (UNWTO), international tourist arrivals globally could decline by 20-30 percent in 2020, and there could be loss in the tune of US$300-450 billion in international tourism receipts.[24] The Asia-Pacific region has seen the largest decline in the hotel industry, measured as change in revenue per available room (RevPAR), at -67.8 percent in March 2020. Moreover, future check-in dates from end-March 2020 for the remaining part of this year is almost flat.[25]

Similarly, the International Air Transport Association (IATA) has estimated that global airline passenger revenue will drop by US$314 billion in 2020, which is a 55 percent decline compared to 2019.[26] It also states that airlines in Asia-Pacific will see the largest revenue drop of US$113 billion in 2020, and a 50 percent fall in passenger demand in 2020 compared to 2019. These estimates are based on a scenario of severe travel restrictions lasting for three months, with a gradual lifting of restrictions in domestic markets, followed by regional and intercontinental. In the case of Nepal, the IATA estimates that, passenger demand will fall by 51 percent and impact US$522 million in revenue and 229,900 jobs. This revenue and employment loss is probably of all the airlines, Nepali and international, catering to Nepal, in which Nepali airlines have a tiny share.

AOAN expects that Nepal's airline industry will remain severely impacted for one year and minimally impacted for three years. In three years, it expects to lose about NPR 14 billion in revenue. There will also be a 10-30 percent reduction in employment.

As we saw, there is discrepancy in data drawn from various sources. However, a closer look and cross-checking of the data reveals that, depending on how long the COVID-19 pandemic restricts international travels and how long Nepal imposes lockdown, Nepal's tourism industry could face revenue loss of NPR 40-150 billion. Also, up to 400,000 direct jobs and one million total jobs, including a large number of female employees, could be at risk. While impact to the tourism sector will affect other sectors of the economy with which the tourism sector has strong backward linkages, part of the BFIs' loan exposure of around NPR 150 billion to the sector is also at risk.

Tourism is going to be affected for a long time to come, at least until vaccine against COVID-19 is available. It will take a while for people to gain the confidence that the situation has normalized and thus for tourism to gain pace. If Nepal is not affected much by the pandemic and so it can gradually open up domestically while continuing to close international borders and restricting international travels, domestic tourism could gradually begin. This would be a big respite since, as stated earlier, the share of domestic tourism spending is higher than foreign visitor spending in Nepal. However, there is less possibility that this will happen in the immediate term since people will be hesitant to travel even domestically until they gain full confidence that situation has turned normal to pre-COVID times. Moreover, domestic tourism might provide some cushion to establishments that cater to this section of tourism but not to high-end ones. HAN has said that without government support, many hotels will likely close as had been the case between 2003 and 2005 when well-established and renowned hotels in Kathmandu pulled their shutters because they could not manage their costs in the absence of government support.[27] Therefore, it is imperative to provide support to the tourism sector to the maximum extent possible so as to safeguard the investment made in the sector, and consequently to jobs and livelihoods dependent on it.

Policy recommendations

According to media reports, the government is planning to announce a relief package worth NPR 20-25 billion for the tourism sector.[28] This would be 8-10 percent of the tourism sector's total contribution to GDP; hence, a good support. The Tourism Board has also recommended that the amount collected from the 10 percent service charge levied in hotels and restaurants should be used to address the problems faced by employees in this sector.

The Nepal Chamber of Commerce has suggested inviting tourists from China in the coming tourist season of Sep-Oct since the situation in China is returning to normal. This is a good suggestion if the pandemic comes under complete control by then in both Nepal and China. It has also suggested tourism enterprises to introduce competitive packages and regularly disinfect planes, hotels and vehicles. Providing additional loans, loan guarantee, support from the government or Nepal Rastra

Bank on corporate bonds, providing reliefs in taxes, airport charges, and other fiscal support are additional suggestions of the Chamber.[29]

Promoting domestic tourism by providing paid vacations to employees in the organized sector is another suggestion put forward by the Chamber. Media reports suggest that the government has been planning on this front.[30] While a good idea, it should also be borne in mind that all the sectors are suffering from the current crisis and many are unable to provide even staff's regular salaries. In such a situation whether they will be able to implement this plan is a question to ponder upon.

The government is also making plans to engage tourism sector employees in alternative means of employment in the sector, e.g., engaging them in cleaning mountain areas, constructing foot trails, and so on. While this could be a possibility for tourism sector workers who are into related jobs such as mountaineering and trekking, this might not be a viable option for the large number of workers who are engaged in other tourism sub-sectors such as hotels and restaurants.

HAN has proposed the government to allow it to close hotels completely for six months.[31] Stating that hotels need to spend about 40 percent of their revenues in managing human resources, it has proposed that it will pay only 12.5 percent of staff salaries during the period of closure. HAN further says that the remaining salary can be paid by creating a job retention fund drawing in money from the social security contributions[32] that employees have made for many years. This proposal has been rejected by both the government and workers' associations.[33]

The MoCTCA has also conducted a study to assess the impact on the tourism sector and provide suggestions for relief measures to incorporate in the upcoming budget for FY 2077/78. According to media reports, the study has recommended creating an NPR 20 billion tourism revival fund to, among other things, provide concessional loans to tourism enterprises.[34] For the hotel sector, the study has also recommended not to provide approvals for investments in new hotels for three years. For airlines, it has recommended reducing parking and landing fees and some fees charged by the Civil Aviation Authority, and not to allow entry of new airlines for three years. Similarly, it has suggested managing investments and workers in mountaineering, trekking, casinos, restaurants, rafting, tourism transport, etc.

In light of the problems faced by the tourism sector and the suggestions and proposals put forward by different entities, the table below provides a few measures that can be taken to address the challenges. We suggest categorizing tourism enterprises into three groups to devise differentiated measures: 1) dependent mostly on international tourism; 2) dependent mostly on domestic tourism; and 3) dependent on both almost equally.

General suggestions applicable to all tourism sub-sectors			
Dependent mostly on international tourism	**Dependent mostly on domestic tourism**	**Dependent on both almost equally**	**Remarks**
Provide deferrals for payments of bank interests and principals and taxes until Chaitra 2077 (mid-April 2021).	Provide deferrals for payments of bank interests and principals and taxes	Provide deferrals for payments of bank interests and principals and taxes until Poush	Assess the situation as it evolves and make changes accordingly.

	until Ashwin 2077 (mid-October 2020).	2077 (mid-Jan 2021).	
Enforce the 2 percentage-point reduction in interest rates on existing bank loans, as already mandated by Nepal Rastra Bank through a circular, for the period Baisakh-Asar 2077 (mid-April to mid-July 2020). Provide an additional 1 percentage-point reduction in interest rates on existing bank loans for six months from Shrawan 2077 (mid-July 2020).	Enforce the 2 percentage-point reduction in interest rates on existing bank loans, as already mandated by Nepal Rastra Bank through a circular, for the period 2077 (mid-April to mid-July 2020).	Enforce the 2 percentage-point reduction in interest rates on existing bank loans, as already mandated by Nepal Rastra Bank through a circular, for the period 2077 (mid-April to mid-July 2020). Provide an additional 0.5 percentage-point reduction in interest rates on existing bank loans for six months from Shrawan 2077 (mid-July 2020).	Assess the situation as it evolves and make changes accordingly.
Provide interest-free loan as working capital until Chaitra 2077 (mid-April 2021) with the condition that workers will not be laid off.	Provide interest-free loan as working capital until Ashwin 2077 (mid-October 2020) with the condition that workers will not be laid off.	Provide interest-free loan as working capital until Poush 2077 (mid-January 2021) with the condition that workers will not be laid off.	Assess the situation as it evolves and make changes accordingly.
Establish a committee comprising of relevant private sector representatives, government representatives and trade union representatives to discuss the modality of salary restructuring until Chaitra 2077 (mid-April 2021). Perhaps the government, enterprise and staff can shoulder 40 percent, 40 percent and 20 percent of the salaries, respectively.	Establish a committee comprising of relevant private sector representatives, government representatives and trade union representatives to discuss the modality of salary restructuring until Ashwin 2077 (mid-October 2020). Perhaps the government,	Establish a committee comprising of relevant private sector representatives, government representatives and trade union representatives to discuss the modality of salary restructuring until Poush 2077 (mid-	Assess the situation as it evolves and make changes accordingly. The government can use the fund collected through the one percent social security contribution

	enterprise and staff can shoulder 40 percent, 40 percent and 20 percent of the salaries, respectively.	January 2021). Perhaps the government, enterprise and staff can shoulder 40 percent, 40 percent and 20 percent of the salaries, respectively.	for this purpose.
Encourage organizations that are in a position to do so to provide a week-long paid leave to employees for domestic tourism purposes when normalcy within the country is restored.	Encourage organizations that are in a position to do so to provide a week-long paid leave to employees for domestic tourism purposes when normalcy within the country is restored.	Encourage organizations that are in a position to do so to provide a week-long paid leave to employees for domestic tourism purposes when normalcy within the country is restored.	Government can provide some incentives, such as some exemption in taxes, for this purpose.
Additional suggestions for hotels, restaurants, trekking, rafting, etc.			
When normalcy within the country is restored, provide some tax exemptions to enterprises to attract domestic tourists and domestic functions by providing discounts.			
Additional suggestions for airlines			
• Provide exemptions to airlines in various airport charges such as parking and landing. • Reduce aviation fuel price.			
Additional suggestions for unregistered establishments and informal workers			
A large number of establishments are unregistered, such as small homestays in rural areas and small eateries, and a large number of workers are in unorganized/informal work, such as porters and local guides. Provide cash relief to these establishments and workers. Also, cover these workers under the Prime Minister Employment Programme.			

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B3. International Trade

Exports and imports of goods amounted to 3.15 percent and 45 percent of GDP, respectively, in FY 2018/19.[1] Exports amounted to NPR 97.1 billion and imports NPR 1,418.5 billion in FY 2018/19. Based on 2011 data, the import content of Nepali merchandise exports is about 42 percent in the aggregate.[2] In the first seven months of FY 2019/20, exports of goods grew by 22.4 percent, driven largely by exports to India, which expanded by 38 percent. The growth was less than the 12.5 rate recorded in the same period in FY 2018/19. Exports to China fell by 12.7 percent while exports to the rest of the world fell by 2.4 percent. Exports to India were in turn driven by exports of palm oil. Excluding palm oil from the export basket, the growth of exports is far less spectacular: exports to India grew by 6.5 percent and total exports rose by 3 percent. In terms of Broad Economic Classification categories, food and beverages made up 46.4 percent of Nepal's exports and industrial supplies (basically, intermediate goods used by industries) accounted for 31 percent of its exports. The rest were consumer goods. Exports in the latter category had contracted by nearly 15 percent, with exports to India falling by close to 19 percent—possibly a reflection of India's economic slowdown. Food and beverages mostly go to India while consumer goods mostly go to rest of the world. In short, at a fundamental level, export performance even in the first seven months (up to Magh) was not encouraging. While India accounted for 65 percent of Nepal's exports in FY 2018/19, the US absorbed 11 percent, key European nations 10 percent, Turkey 3.05 percent, and China 2 percent.

Imports account for a quarter of intermediate consumption—essentially used by industries during production.[3] Imports meant for final consumption make up about 41 percent of the total expenditure on final goods by households.[4] India supplies about two thirds of Nepal's imports, and China about 14.5 percent, with the rest of the world supplying the rest. As per data for the first seven months of 2019/20, India and China account for at least three fourths of Nepal's imports of industrial supplies, fuels and lubricants, capital goods (excluding transport equipment), transport equipment, and other consumer goods. China supplies 50 percent of imports of capital goods (excluding transport equipment) and 15 percent of industrial supplies. India and the rest of the world are the source of the bulk of food and beverages imports, about half each. Moreover, India accounts for over 90 percent of cereal imports (Chapter 10 in HS classification), nearly 50 percent of vegetable imports, 43 percent of fruit and nut imports, and 84 percent of pharmaceutical product imports. Among three major medicine categories, India has a 98 percent share in two and a 72 percent share in one. Note that the import penetration rate (as indicated by data from 2013) is non-trivial for several key food commodities, including rice (13 percent), maize (10 percent), wheat (6.2 percent), soybean oil (over 100 percent, likely due to re-exports), pulses (16.5 percent) and potatoes (7.7 percent).[5]

Trade with China takes place by land, sea and air, and trade with the rest of the world by sea and air. About 57 percent of exports to China take place overland, via Rasuwagadhi and Tatopani customs points. Over a third of exports to China and over two thirds of exports to the rest of the world take the air route. Carpets, shawls, other apparels, felt products, statuettes and other handicraft products are among the major items major items exported by air. Export-oriented MSMEs specialize in the export of some these items, such as handicrafts, and rely a lot on the air route. In 2018/19, 96 percent of exports by air were bound for markets other than China and India. MSMEs account for about a quarter of manufacture exports.[6] Overall, 11 percent of Nepal's imports take place by air, mostly on passenger flights. The land customs points, mainly Rasuwagadhi, account for about 20 percent of imports from China. Air cargo accounts for a fifth of Nepal's imports from China (the source of 13.4 percent of Nepal's total imports), and over a third of Nepal's imports from the rest of the world (the source of 22 percent of Nepal's imports). The air route supplies 12.5 percent of Nepal's imports of industrial supplies; 24 percent of its imports of capital goods (except transport equipment) and parts and accessories thereof; and 19 percent of its imports transport equipment and parts and accessories thereof.

A significant portion of Nepal's trade with other countries takes place through the sea route and hence transits through India. About 30 percent of exports to the rest of the world use Indian sea ports, as do between 60-66 percent of imports from China and the rest of the world (data for FY 2018/19).

Between 70,000 and 100,000 people are estimated to be directly employed in the manufacturing export sector. The range is arrived at multiplying the number of persons engaged in the manufacturing sector, as obtained from the National Economic Census (year 2018), by the share of exporting firms in manufacturing sector employment (upper bound) and that share weighted by the exports-to-sales ratio of exporting manufacturing firms (lower bound), as obtained from the World Bank's Enterprise Survey for Nepal (year 2013). Cardamom, tea and ginger are major employers in the agriculture export sector.[7] Daily wage employment is the predominant form of employment in the primary agricultural export sector. Based on a quick survey of exporters, past field work at SAWTEE and anecdotal evidence, we surmise that in the manufacturing export sector, including the making of apparels, hosiery items, carpets and felt products, monthly salary-based work coexists with piece rate-based work. The latter constitutes informal employment, whereas the former is partly formal and partly informal employment. There are also micro enterprises, usually not registered, that receive orders from bigger firms, which in turn receive orders from buyers abroad.

As per exporters that we contacted, they are getting loans at 11-14 percent interest rate.

Current impact

The lockdown in Nepal, in force since 24 March, the closure of Nepal-China and Nepal-India borders, and the suspension of international flights have taken a heavy toll on its international trade. As of writing this report, the latest trade data available from the Department of Customs are for the month of Chaitra (14 March to 12 April). During Chaitra, which saw a lockdown in Nepal from 24 March and in India from 25 March, exports fell by 54.5 percent (compared to the same period last fiscal year), with exports to India falling by 44 percent, to China by 96 percent and to the rest of the world by 73 percent. Overall imports fell by nearly 50 percent, as did imports from India and China, while imports from the rest of the world fell by 37 percent. Export and import growth turned negative or fell more sharply in Chaitra (mid-March to Mid-April) than in Falgun (mid-February to mid-March). Of the 30 days in Chaitra, the first 10 were without a lockdown, so the fall in international trade during the last 20 days—which saw a lockdown—must have been even sharper than what these figures for the whole month suggest.

Trade with China had been affected even before the lockdown, as reflected in the trade data for Falgun. Exports to China fell by 81.7 percent in Falgun, as opposed to the 12.7 percent reduction witnessed in the first seven months of FY 2019/20. Imports from China, which had recorded a nearly 10 percent growth in the first seven months, plunged by 23 percent in Falgun. The closure of Nepal-China border points in Rasuwa and Tatopani to cargo movement beginning in late January hit trade with China. Imports from Tatopani were gradually allowed in from the last week of Chaitra onwards—medicines were allowed in on 26 Chaitra (9 April), and apples and onions on 18 Baishakh, while the border point was opened to all imports on 25 Baishakh (7 May), as per the Ministry of Industry, Commerce and Supplies (MoICS).[8]

Exports came to a grinding halt during the lockdown, with exporters unable to ship goods ready for departure. Production for exports has come to a halt in most sectors. The picking of first-flush tea in east Nepal was also delayed by at least 15 days. For some in the handicrafts industry, the lockdown has coincided with the season of sending samples to buyers. Because of their small volumes, samples are usually sent by air. The suspension of international flights has made that almost impossible. The few exporters who did manage to ship their cargo on flights chartered for COVID-19-related emergency purposes found the fare had risen sharply—three-fold, according to one respondent.

Imports were largely confined to those of fuels, food grains and pulses, vegetables and fruits, and medicines (including raw materials of the pharmaceutical industry).[9] Import cargoes are piling up at Birgunj dry port in Nepal, waiting to be cleared for their onward journey to their destinations in Nepal. Imports of even essential items such as food and fuel could not take place through Kakarbhitta customs point as the government of the adjoining state of West Bengal in India banned vehicular movement. Media reports point to consignments of imports of fertilizers and equipment used in hydropower projects, along with other import cargoes (including those used as raw materials and intermediate goods by exporting and other industries[10]), being stranded at Kolkata and Vishakhapatnam ports, and considerable amounts of cargoes being stranded on the way to Nepal due to Birgunj customs and dry port running out of space for additional cargoes.[11]

As of late April 2020, export orders have been cancelled or postponed, as per exporters who responded. The cardamom sector has seen cancellations worth NPR 530 million. The ginger sector, which exports about 80 percent of its output, has seen a 60 percent reduction in output during the lockdown. In manufacturing, the felt goods sector has seen a cancellation of orders worth about NPR 1 billion (or a third of its annual exports), and the readymade garments sector has witnessed cancellations worth at least NPR 1.25 billion.

Paying wages to employees, repayment of loans, and cancelled orders from buyers are some of the most pressing problems, as reported by exporters in the cardamom, ginger, readymade garments and felt industries.

Future outlook and challenges

Besides being impacted by the suspension of international flights, trade with China and rest of the world stands to be affected also by any significant changes in the operation of Kolkata and Vishakhapatnam ports in India, on which Nepal exclusively relies for its transit needs. It will also be affected by any adverse changes to the availability of transportation and logistics services in India. The latter would, of course, also impact Nepal-India trade. The fact that the lockdown in India has impeded the movement of cargoes to and from Nepal implies that the lifting of a lockdown in Nepal may not automatically lead to a full resumption of Nepal's international trade through its border with India, as long as there is a lockdown in India. However, part of the reason why import cargoes are not able to arrive in Nepal is the piling up of cargoes at Birgunj customs and dry port, which have run out of space.

Traders foresee an increase in air cargo prices when international flights into Nepal resume.

If the lockdown extends till Asar (mid-July), industry sources project export losses of NPR 3 billion for readymade garments, NPR 230 million for the felt industry, and NPR 183 million for cardamom.

We consider three scenarios to quantify possible impact of on international trade, with a focus on the duration of lockdown: a month-long lockdown, a 90-day lockdown, and longer containment measures for nine months, until December-end.[12] Merchandise export losses, in value added terms, could range from US$65 million, or 0.2 percent of GDP, under the first scenario to US$375 million, or 1.3 percent of GDP, under the third scenario. Imports are expected by fall by 70 percent in a short lockdown and 60 percent in a prolonged lockdown, with import facilitation assumed to improve slightly from the experience of the initial month-long lockdown. The fall in imports will impact government finances as taxes collected at the border—mostly on imports—accounted for about 42 percent of total revenue in FY 2018/19 (revised estimates).[13]

With production almost freezing in the manufacturing sector, manufacturing exports are likely to take a hit even after the lockdown is lifted in Nepal. Exports of tea, for example, are set to be adversely impacted due to a fall in demand for orthodox tea from overseas buyers and because the plucking of first-flush tea leaves—tea from which fetches premium price—was delayed by 15 days due to the lockdown. The lockdown also paralyzed the internal supply chain of primary agricultural goods, which made up 14 percent of Nepal's exports in FY 2018/19, besides that of processed food products, which made up 23 percent of total exports. Most of these exports are absorbed by India, and the lockdown there meant exports were almost nil. The lockdown in India will be a critical determinant of the fate of Nepal's exports as it absorbs two thirds of them.

Exporters foresee job losses of 30-35 percent even under a moderate-effect scenario.

Even if the lockdowns in Nepal and India were to be significantly relaxed to allow production and transportation of goods, and Nepali producers were to have the usual access to imported inputs, Nepal's exports stand to be depressed by a weakening demand in key destination markets. The economies of all of Nepal's major export destinations face expected to shrink or grow by less than 2 percent in 2020. While India accounted for 65 percent of Nepal's exports in FY 2018/19, the US absorbed 11 percent, key European nations 10 percent, Turkey 3.05 percent, and China 2 percent. The United Kingdom and Italy, two European countries among the worst-hit by COVID-19, absorbed 2.7 percent and 1.2 percent of exports, respectively.

Table 5: GDP growth projections for major export markets of Nepal

Countries	GDP growth rates 2020	2021	2020 Q4
India	1.9	7.4	NA
US	-5.9	4.7	-5.4
EU (excluding UK)	-7.1	4.8	NA
Germany	-7	5.2	-5.2
UK	-6.5	4	-5.3
Turkey	-5	5	NA
China	1.2	9.2	NA
Bangladesh	1	8.5	NA
Japan	-5.2	3	-3.2
Canada	-6.2	4.2	-5.4
Australia	-6.7	6.1	-7.2
Switzerland	-6	3.8	-7.4

Source: GDP growth from IMF, World Economic Outlook, April 2020

Among the major export markets, all except India, China and Bangladesh are projected to witness their economy shrink in 2020, including in the last quarter of the year (Table 5). These three countries are expected to experience a sharp slowdown in 2020, and rebound strongly in 2021. It must be noted that these projections of the International Monetary Fund (IMF) should be taken as conservative estimates of the negative impact on growth rates of the pandemic. Moreover, the World Trade Organization (WTO) projects world mechanise imports to fall by 13 to 32 percent in 2020, with the reduction in imports by North America, Europe and Asia lying broadly within that range (Table 6). Country-specific projections are not yet available. The World Bank projects India's imports of goods and services, in real terms, to fall by 3 percent in FY 20120/21 (ending March 2021), and rise by 1 percent in FY 2021/22. As per the World Bank's projections, Nepal's exports of goods and services, in real terms, could fall by 14.6 percent in FY 2019/20 (ending mid-July 2020) and rise by 3.2 percent in the next fiscal year. Assuming that economic activities will start to perk up from Jestha (mid-May), the Central Bureau of Statistics (CBS) projects annual imports of goods to fall by 4.5 percent and exports of goods to increase by 9 percent in the current fiscal year (2019/20) ending mid-July (as opposed to the 13.5 percent and 20.5 percent growth in imports and exports, respectively, in FY 2018/19).

Table 6: Import growth projections (%)

	Optimistic scenario (2020)	Pessimistic scenario (2020)	FY2020/21	FY2021/22
North America	-14.5	-33.8	NA	NA
Europe	-10.3	-28.9	NA	NA
Asia	-11.8	-31.5	NA	NA
World	-12.9	-31.9	NA	NA
India	NA	NA	-3	1

Note: India's import refers to imports of goods and services. Others' import refers to imports of goods.
Source: WTO (https://www.wto.org/english/news_e/pres20_e/pr855_e.htm#fntext-1) except for India (World Bank, South Asia Economic Focus, April 2020)

Among the seven Broad Economic Classification categories, food and beverages dominate exports to India (60 percent), while consumer goods dominate exports to the rest of the world and China (60 percent). Yet, if one inspects exported products at a finer level (HS 8-digit), exports to India are relatively diverse, comprising food and beverages and raw materials besides other consumer goods such as footwear, while exports to the EU, the US and the UK are mostly in the segment of consumer goods such as garments, carpets, shawls and handicrafts, spending on which is likely to be discretionary. This, together with the bleaker economic outlook for the US and Europe, suggests that for the rest of 2020 Nepal's exports to the US and Europe are more at risk than exports to India. But given the two-thirds share of India in Nepal's exports, overall export performance hinges on exports to India, which will contract. Exports to China lie somewhat between exports to India and the EU in terms of the importance of discretionary-spending items. Exports to Turkey and Bangladesh are extremely concentrated, in one or two products—yarns (Turkey) and lentils (Bangladesh). Yarns are intermediate goods while lentils (food) are basic consumption goods and perhaps less sensitive to a recession or an economic slowdown.

Consider a scenario where there is no lockdown in Nepal and India from July onwards but where external demand is extremely weak. Exporters project gross exports to fall by at least one third. If Nepal's gross exports fall by a third during July-December 2020, export losses in value added terms during that period will be NPR 8.9 billion (or, NPR 15.3 billion in gross exports). If we compare the projected exports to what they would have been if the growth observed in the first seven months of FY 2019/20 were to continue during July-December 2020, the losses would be even higher, at NPR 10.9 billion in value added terms (or, NPR 18.8 billion in gross exports). The losses in value added terms would be about 0.32 percent of GDP of FY 2018/19.

Policy recommendations

- Expedite clearance of cargoes piling up at customs points on Nepal-India border, by facilitating transportation of cargoes to factories and warehouses in Nepal. Facilitate the movement of export consignments to the Nepal-India border.

- Ask India to allow trade through Kakarbhitta customs point (where all cargo movement has been blocked as of the last week of April). Promptly take up issues of delays in the release or movement of Nepali cargoes in India, including at its sea ports.

- Introducing appropriate protocols, in coordination with China, reopen the border with China to cargo movement. Accord top priority to infrastructure development and upgradation at the northern border points, and Galchhi-Rasuwagadhi road and other north-south corridors (Koshi, Kali Gandaki and Karnali).

- Given that the disease is in the course of being under control in China, the government together with the private sector should explore the option of importing critical supplies from China by air and land (Rasuwa and Tatopani), including stuffs previously imported from elsewhere, if the lockdown in India continues and intensifies and/or other import sources are in a similar state.

- Waive detention and demurrage charges for exporters and importers for seven days after the end of the lockdown, besides the lockdown period. Request India for similar waiver in its seaports.

- Subject to feasibility, facilitate imports and exports through chartered flights, using jet aircraft of Nepal Airlines and private sector Nepali airline companies. Some subsidy may be needed.

- Develop and enforce a protocol, in collaboration with the private sector, to allow export-oriented production units to resume operations in a calibrated manner.

- Provide a 100 percent discount on the demand charge component of electricity tariffs during the lockdown period, for micro, small and cottage export-oriented firms.

- Depending on the length of the lockdown, extend the deadline for the submission of tax details and payment of taxes, as has been already done up to Jestha-end.

- Allow the deferral of the payment of interest and principal on loans taken by export-oriented firms to Poush, without any penalty.
- Allow extension of the period for the payment of principal and interest on working capital loans to up to 120 days for export-oriented firms.

- Banks and financial institutions of classes A, B and C to reduce interest on loans to export-oriented micro, small and cottage firms by 2 percentage points for the period Baisakh-Poush.

- Extend till Asar (mid-July 2020) the decision by the government to exempt all employers and employees who had contributed to the Social Security Fund as of Falgun (mid-March 2020) from making the contributions for Chaitra (mid-March to Mid-April 2020), and to deposit the amount from state coffers. Depending on the crisis, for a few more months, employers and employees may be exempt from contributing the amount—without any compensating deposits to be made by the government.

- Increase the allowed duration of concessional loans under the refinancing facility to up to 4 years. Relax the conditions for utilizing the facility, but without jeopardizing financial sector stability. Borrowers have to prove they were sound borrowers last year. Set aside NPR 10 billion of the refinancing fund for export-oriented firms. Of the NPR 10 billion, set aside NPR 2.5 billion for micro, small and cottage export-oriented firms. Accord priority to the provision of working capital loans, under the refinancing facility, to export-oriented micro, small and cottage enterprises at 2 percent interest rate. Provide similar loans to medium-size export-oriented firms at 4 percent interest rate. Provide the same to large export-oriented firms at 6 percent interest rate. Make the provision of concessional working capital loans conditional on firms not laying off staff or a cap on lay-offs. A cost sharing mechanism between employers, workers and government may be needed to help firms avoid lay-offs.

- Increase the duration of the concessional export credit under the existing export refinancing facility to up to 1 year. Prioritize micro, small and cottage industries. Relax the conditions for utilizing the facility, but without jeopardizing financial sector stability. Borrowers have to prove they were sound borrowers last year.

- Increase the corpus for the export cash incentive programme to NPR 1 billion. Allocate NPR 100 million under the export cash incentive programme exclusively for micro, small and cottage industry exporters. Simplify the application and release procedures. Extra cash incentive of 1 percentage point for exporters that export to a new destination and/or export a new product in FY 2020/21 (destination that they did not export to or product that they did not export in FY 2018/19 and FY 2019/20).

- To directly help piece-rate workers and micro enterprises (usually informal) who are dependent on work subcontracted by bigger exporters and may face a loss of orders and hence income, it will be critical to deliver food aid to them and implement some of the policy measures suggested in the sections on the manufacturing sector and micro, cottage and small enterprises in this report.

- Waive taxes on domestic material inputs used in production for exports.

- Waive or relax the requirement of advance payments (from foreign buyers) for exporters for FY 2020/21.

- Digitalize to the extent possible customs procedures and formalities. Coordinate with India/China.

- Each province to prepare an export strategy. Federal government to provide a conditional grant to each province for this purpose.

- Operationalize Clause 50 of the Industrial Enterprises Act 2076 to facilitate contracting and subcontracting of production, including export-oriented production. To operationalize Clause 50(2) of the Act so as to provide incentives, discounts, concessions and facilities to producers that produce under such arrangements for exporters.

- Operationalize Industrial and Investment Promotion Fund (provided for in the Industrial Enterprises Act 2076, Clause 51), and set aside at least 20 percent of the fund for export-oriented micro, small and cottage enterprises.

- Waive all taxes on raw materials, domestic and imported, used in the production of sanitizer, hand wash and disinfectant—to encourage domestic production of these items.

- Provide an income tax discount of 50 percent for three years on income earned from the production of face masks, sanitizer, hand wash and disinfectant.

- As external demand conditions for food and beverages are likely to be less adverse than those for other products, this industry should be accorded priority through an export lens, along with an overall emphasis on agriculture. When prioritizing, take into account domestic value addition and employment creation. To create employment opportunities in agriculture, negotiate a revision to the Nepal-India Trade Treaty to remove primary agricultural products from the list of products getting customs duty-free entry into Nepal. Provide incentives to agriculture-based manufacturing industries to source raw materials domestically.

- Expedite the construction of Special Economic Zones in all seven provinces. Effectively operationalize (and consider expansion of) Bhairahawa SEZ with provision of adequate human resources and basic infrastructural services.

NOTES:

[1] Calculated from NRB's Current Macroeconomic and Financial Situation (2018/19 annual data).
[2] Calculated for the year 2011 from the World Bank's Export Value Added Database, available at https://datacatalog.worldbank.org/dataset/export-value-added-database. Note that foreign content also includes services.
[3] Calculated from 2017 data from Asian Development Bank's Nepal: Input-Output Economic Indicators, https://data.adb.org/dataset/nepal-input-output-economic-indicators. Intermediate consumption includes both goods and services.
[4] Calculated from the same database as in the previous footnote.
[5] Calculated from FAO's Food Balance Sheet, http://www.fao.org/faostat/en/#data/FBS (accessed 24.07.2019).
[6] Calculations based on World Bank's Enterprise Survey for Nepal (year 2013), with SMEs being defined as enterprises with less than 100 employees.
[7] Tea processing is considered as part of manufacturing, though.
[8] Ministry of Industry, Commerce and Supplies, Government of Nepal, "Current supply situation (8 May 2020)".
[9] Ministry of Industry, Commerce and Supplies, Government of Nepal, "Current supply situation (8 May 2020)".
[10] As also reported by Ministry of Industry, Commerce and Supplies, Government of Nepal, "The situation of operation of industries and the initiatives taken by the Ministry of Industry, Commerce and Supplies during the lockdown", 26 April 2020.
[11] For example, Tiwari, Y. 2020. "Lockdownka karan Sirsiya sukkah bandargahamai thankiye container". *Naya Patrika* 29 April. https://www.nayapatrikadaily.com/news-details/42332/2020-04-29; Adhikari, A.2020. "Godaamma malko chang, kisanlai abhab sahakarisamma dhuwani nahuda kisanle payenan". *Naya Patrika* 19 April. https://www.nayapatrikadaily.com/news-details/41573/2020-04-19; Naya Patrika. 2020. "Nirman samagri abhable purbadhar aayojana prabhabit, utpadan ra apurtima sarkarkei abarodh". *Naya Patrika* 22 April. https://www.nayapatrikadaily.com/news-details/41809/2020-04-22.
[12] The underlying methods and assumptions are described in Kharel, P. 2020, "A quick study on the impact of Covid-19 on Nepal's international trade", Background Paper by SAWTEE for Economic Policy Incubator.
[13] Calculation based on Budget Speech for FY 2019/20, available at https://mof.gov.np/en/.

B4. Construction and real estate

The construction sector contributed 6.2 percent of gross value added (GVA) in FY 2018/19. Construction includes residential construction, non-residential construction and heavy construction works (highways, bridges, etc.). As discussed in the section on hydropower, the value addition during the construction phase of hydropower projects is also attributed to the construction sector. The exact contribution of the real estate sector to GVA is not available from national accounts data. A broader category that includes real estate—real estate, renting and business activities—contributed 7.7 percent of GVA in FY 2018/19. Two thirds of that contribution is from real estate, on the basis of the composition of the broad category in 2010/11.[1] Real estate includes imputed rent for owner occupied buildings.

Fuelled by post-earthquake reconstruction activities, the construction sector's GVA grew by 10.15 percent on average in the three years to FY 2018/19, higher than the overall GVA growth of 6.85 percent. The growth of the real estate, renting and business activities sector averaged 5.68 percent in the same period.

The construction and real estate sectors are tightly linked: every NPR 100 of output in real estate draws NPR 17.5 of output (direct and indirect) from construction.[2] Construction has a higher-than-average backward linkage with the rest of the economy.[3] In particular, every NPR 100 of output in construction draws NPR 29 of output (direct and indirect) from two manufacturing sectors—non-metallic minerals, and basic metals and fabricated metals.[4]

The National Economic Census (NEC), 2018 records a total of 1,608 establishments in the construction sector, with 14,750 persons engaged. About 93 percent of these establishment are registered. The NEC data does not capture construction workers not tied to any construction firm. As per Nepal Labour Force Survey 2017/18 (NLFS III), the sector employs about 1 million people. About 98 percent of the workers are in informal employment, as per NLFS III. The same survey records 17,000 people as being employed in the real estate sector, with 88 percent of them in informal employment. Media reports quoting construction industry representatives put the total number of workers in the construction sector at 2 million to 3 million.[5] About 1 million foreigners, mostly Indians, are estimated to work in the sector.[6]

There are about 5,000 major construction projects worth NPR 800 billion.[7]

Capital expenditure by the government, a significant source of demand for the construction sector, remains dismal. The federal government spent 27 percent of its annual budget for capital expenditure in the first nine months and two weeks of FY 2019/20 (as of 29 April 2020). Subnational governments do not fare better, either. In the first six months of FY 2018/19, provincial governments were able to spend 13 percent of their total capital budget. Corresponding data are not available for local governments.[8] Among 666 of the 753 municipalities for which data on the rate of overall spending are available, 23 percent of the total budget was spent in the first six months.[9]

Most (about 98 percent) of the residential buildings constructed in Nepal are built by individuals (private landowners), while the remaining is built by 200-plus housing developers.[10]

Table 7: Credit from commercial banks, development banks and finance companies to construction and real estate sectors (as of mid-March 2020)

	NPR million	Share in total credit (%)
Sector-wise credit (construction and real estate)		
Construction	345199.48	10.74
Residential	277083.62	8.62
Non Residential	17150.16	0.53
Heavy Constructions (Highway, Bridges, etc.)	50965.70	1.59
Real Estates	110475.06	3.44
Product-wise credit		
Residential Personal Home Loan (Up to Rs. 15 million)	259183.09	8.07
Real Estate Loan	157810.83	4.91
a. Residential Real Estate except Residential Personal Home Loan Up to Rs. 15 million	36126.03	1.12
b. Commercial Complex & Residential Apartment Construction Loan	15850.24	0.49
c. Lending on Income Generated Commercial Complex	8843.28	0.28
d. Other Real Estate (Including Land Purchase & Plotting)	96991.28	3.02
i. Land Purchase and Plotting Loan	21268.99	0.66
ii. Loan of 5M or and above without specified purpose (P/L,M/L and Flexi Loan etc.)	57941.41	1.80
iii. Others	17780.88	0.55
Total credit (all sectors)	3213199.08	100.00

Source: Nepal Rastra Bank.

Banks and financial institutions regulated by Nepal Rastra Bank have a significant exposure to the construction and real estate sectors (14.18 of total outstanding credit as of mid-March 2020), as shown in Table 7. They have extended about NPR 345.2 billion to the construction sector (10.74 percent) and NPR 110 billion to the real estate sector (3.44 percent). Of the construction sector loans, over 80 percent (or NPR 277 billion) have gone to residential construction. At the product level, NPR 259.2 billion worth of loans have been extended as residential personal home loans (each up to NPR 15 million). Real estate loans, excluding residential personal home loans of up to NPR 15 million, amount to NPR 157.8 billion. Savings and credit cooperatives are also believed to have a significant exposure to residential and other real estate.

Impact

All infrastructure projects have come to a halt except for some 200 projects, as of April-end.[11] Most projects are without workers, who have gone home. Indusries producing construction materials such as cement and rods have enough stocks to meet immediate demand, but the delivery of materials to construction sites remains mostly blocked. Imports of materials and equipment have also been disrupted. A lack of coordination between the Home Ministry and the District Administration Offices is preventing the resumption of work even in projects that have raw materials and workers, with DAOs not allowing work to resume. The High-level Coordination Committee to deal with the pandemic has at least twice decided to ensure the supply of raw materials, but the decision remains largely unimplemented as of late-April. The lockdown has also impacted the construction of private homes, apartments and business complexes.

Future outlook and challenges

Even under a scenario where economic activities will start to perk up from Jestha (mid-May), the Central Bureau of Statistics (CBS) projects the construction sector's GVA to contract by 0.31 percent in the current fiscal year (2019/20) ending mid-July, compared to a projected overall growth in GVA of 2.37 percent.

Given the high prevalence of informality in this sector, losing their work has, and will, hit construction workers especially hard.

Housing companies will be affected both by the stoppage in construction work and, over the long term, a reduction in demand and a possible fall in property prices.

The expected fall in workers' remittances (from abroad) will affect bank lending to housing and real estate, as well as demand.

The stoppage of construction works has occurred during the main season of the industry (Falgun-Jestha). Certain works have to be completed by monsoon to avoid significant losses.

Work cannnot resume without allowing, and encouraging, workers to return to the sites, and allowing the delivery of construction materials to the sites.

As construction material-producing factories remain closed, there could be a shortage of materials once construction projects resume in full swing.

Key infrastructure projects, mainly those with Chinese involvement, could be delayed further due to delays in the return of Chinese staff who had gone home to celebrate the Chinese New Year.

The feasibility of resuming work in the construction sector, with the requisite social distancing and other related safety measures, is much greater than that in most other sectors.

The sector, including hydropower during the construction phase, has the potential to absorb some of the Nepali migrants working in Malaysia and West Asia who are likely to be forced to return home on account of the pandemic. Although firm and conclusive figures are not available, there is evidence that many migrants work in the construction sector abroad.[12]

As of 6 May 2020, the government had entered into a subsidy agreement with 781,622 identified beneficiary households for the construction of houses damaged or destroyed by the 2015 earthquake.[13] 643,439 households had received the second tranche of the subsidy, and 552,157 households had received the third tranche of the subsidy. Nearly all of those with whom an agreement had been signed had received the first tranche. Expediting the verification process and the release of the second and third tranches of subsidy will contribute to production and employment in the construction sector, and industries producing construction materials. Assuming that all the people with whom an agreement has been reached will apply for the second and third tranches, there is a potential to disburse an additional NPR 44 billion.

Reconstruction of government office, public school and health institution buildings and archaeological heritages destroyed by the earthquake is yet to be completed. This is another avenue for providing a fillip to the construction sector and related industries.

Expediting the construction of national pride projects—progress on which has remained lacklustre this year too—would provide a significant stimulus to the construction sector and associated industries.

Policy recommendations

Immediate relief to construction sector workers

- Make arrangements to ensure that food aid being distributed by local bodies reaches construction workers (besides other unorganized sector/daily wage workers) who do not have identity cards or who are temporary residents.

Infrastructure projects/public works

- Subject to a health protocol, declare public construction projects as allowed to operate even during lockdown, and thereby facilitate the movement of materials to construction sites, prioritize/facilitate/expedite imports of materials and equipment by the projects. Introducing a protocol, allow the importation of materials and equipment from China via Rasuwagadhi and Tatopani.

- Facilitate the resumption of domestic production of construction materials, by introducing a Covid-19 protocol.

- Introduce a protocol for billeting workers at construction sites, where feasible, and a protocol for the resumption or continuance of work at these sites.

- Arrange for, in collaboration with the private sector, bringing back to work willing workers who can be contacted, by issuing special passes for the transportation of workers to the construction sites. Contractors to provide personal protective equipment to workers. Contractors to provide workers with medical insurance covering Covid-19, with a 50 percent subsidy on the premium to be paid by the government.

- Allow foreign managerial and technical staff to enter Nepal and return to the sites, after being subject to appropriate testing.

- Consider extending the contract period of severely affected public construction projects, through a dialogue between government and private sector.

- Prioritize the hiring of Nepali workers in view of, *inter alia*, the bleak prospects for foreign employment and the imperative to provide work to returnee migrants.

- Expedite the reconstruction of government office, public school and health institution buildings and archaeological heritages destroyed by the earthquake.

- Expedite the construction of national pride projects.

- Transfer the Prime Minister Employment Programme to local bodies as a conditional grant, with conditions such as the number of workdays generated; spending on local infrastructure development such as the construction of local roads, health centres, schools; eligibility of the beneficiaries.

Housing/real estate/other construction

- Introducing a protocol, allow other construction projects to resume work in a calibrated manner.

- Expedite the verification process and the release of the second and third tranches of the subsidy under the post-earthquake house reconstruction programme.

- Assess the exposure of savings and credit cooperatives to housing and real estate, prepare a corrective course of action if needed, and bring these organizations under the supervision of Nepal Rastra Bank.

NOTES:

[1] Calculation based on Central Bureau of Statistics (Government of Nepal), Supply and Use Tables of Nepal for the year 2010/11.
[2] Calculated from Asian Development Bank's Nepal: Input-Output Economic Indicators (https://data.adb.org/dataset/nepal-input-output-economic-indicators).
[3] As per Asian Development Bank's Nepal: Input-Output Economic Indicators (https://data.adb.org/dataset/nepal-input-output-economic-indicators), the electricity, gas and water sector has a forward linkage value of 1.05, with the average forward linkage value, across all sectors, normalized to 1.
[4] Calculated from Asian Development Bank's Nepal: Input-Output Economic Indicators (https://data.adb.org/dataset/nepal-input-output-economic-indicators).
[5] Karobar. "Editorial: Nirman kshetralai gatishil banau". *Karobar* 30 April. https://www.karobardaily.com/news/editorial/31630 ; Naya Patrika. 2020. "Corona trasle 15 lakh nirman majdoor ghar farke". *Naya Patrika* 17 March. https://www.nayapatrikadaily.com/news-details/38865/2020-03-17.
[6] Naya Patrika. 2020. "Corona trasle 15 lakh nirman majdoor ghar farke". *Naya Patrika* 17 March. https://www.nayapatrikadaily.com/news-details/38865/2020-03-17.
[7] Karobar. "Editorial: Nirman kshetralai gatishil banau". *Karobar* 30 April. https://www.karobardaily.com/news/editorial/31630.
[8] Report on the mid-term review budget for FY 2019/20 (Ministry of Finance, Government of Nepal).
[9] *ibid*.
[10] As per Nepal Land and Housing Developers' Association, quoted in Prasain, K. 2017. "Real Estate Sector: A Victim of Inconsistent Policies". *New Business Age* 19 June.

https://www.newbusinessage.com/MagazineArticles/view/1821.
[11] Karobar. "Editorial: Nirman kshetralai gatishil banau". *Karobar* 30 April. https://www.karobardaily.com/news/editorial/31630.
[12] See, for example, MoLE. 2018. *Labour Migration for Employment: A Status Report for Nepal: 2015/16-2016/17*. Kathmandu: Ministry of Labour, Employment and Social Security, GoN.
[13] http://nra.gov.np/np/mapdistrict/datavisualization (accessed 6 May 2020).

B5. Hydropower

The contribution of the hydropower sector, or the overall electricity sector, to GDP is not available from the national accounts. However, the national accounts data indicate that the electricity, gas and water (EGW) sector made a combined contribution of 2.3 percent to gross value added (GVA) in FY 2018/19. The growth of the EGW sector averaged 13.08 percent in the three years 2016/17-2018/19, nearly double the overall GVA growth. This was largely driven by increased electricity production.

During their construction phase, hydropower projects have high backward linkages with the rest of the economy, particularly the manufacturing sector that supplies them with construction materials. The value added during the construction phase is attributed to the construction sector in the national accounts. During their operation/generation phase, electricity projects have significant forward linkages with other sectors[1], a fact belied by data on their direct contribution to GDP by way of value addition.

The number of people employed in the sector “Electricity, gas, steam and air conditioning supply”, as recorded in the Third Nepal Labour Force Survey 2017/18, is 34,000. The National Economic Census, 2018 records 1,242 establishments in the “Electricity and gas” sector, with 20,170 persons engaged. The hydropower sector’s contribution to employment generation is much higher during the construction phase. It is for this reason that when assessing the implications of the pandemic for the construction sector (see section on construction and real estate), the hydropower sector as a source of demand must also be borne in mind.

Installed electricity capacity rose from 1,220 MW to 1,343 MW in the first six months of FY 2019/20—an addition of a little over 100 MW. The government, through the Economic Survey of 2018/19, had projected the generation of an additional 1,007 MW of hydroelectricity during FY 2019/20. The government has a goal of Nepal producing 15,000 MW of electricity by 2028.

Nepal Electricity Authority (NEA) has signed power purchase agreements (PPAs) with 341 independent power producers, including some NEA-involved subsidiary companies, for a total power generation of 5,978 MW.[2] These are mostly hydropower projects. Of these, 93 projects are already in operation, contributing 651 MW of installed capacity to the national grid. NEA’s installed capacity from its own projects is 635 MW, including the idle thermal capacity of about 53 MW. Imports from India accounted for 37.25 percent of the total available energy in FY 2018/19. The private sector is constructing about 117 power projects, mostly hydropower, which when completed will add 2,837 MW to the national installed capacity. These projects have an iinvestment of about NPR 300 billion.[3]

Thirty-six projects with a capacity of 1,500 MW are in the final stage of construction.[4] Twelve projects (227 MW) had seen 95 percent of their work completed before the adverse situation created by the pandemic.[5]

There are some 131 projects with 2,490 MW of planned installed capacity that are yet to achieve financial closure, although the NEA has arleady signed PPAs with them.

Banks and financial institutions have extended credit amounting to NPR 142.5 billion to the electricity sector (as of Mid-March 2020).

Impact

Projects under construction

Construction of hydropower projects has been hampered by disruption of supply of construction materials[6] and a shortage of workers, domestic and foreign (who had gone home).[7] About 90 percent of workers have gone home, bringing construction work to a halt in most projects.[8] Transportation of materials to the project sites has witnessed obstructions by locals.

Some 65 hydropower projects are directly or indirectly connected to Chinese contractors, while at least five power transmission projects are being constructed by Chinese contractors.[9] Chinese nationals, including managers, working in those projects who had gone home to celebrate the Chinese new year have been stuck in China. IPPs have mostly hired Chinese contractors.[10]

Imports have also been disrupted. Imports of construction materials from China halted with the closure of the Nepal-China border to all types of traffic beginning in February. Following the lockdown in Nepal and India in the last week of March, imports from India, China and third countries have been disrupted. For example, consignments of hydromechanical and electromechanical equipment purchased from India and other countries by about two dozen private sector-developed projects remain stranded in India.[11]

In contrast to the government's initial target of adding about 1,000 MW in installed capacity from 50 new projects by the end of FY 2019/20, NEA's revised estimation, taking into account the probable impact of the pandemic, projects that 30 projects with 355 MW might come on stream by the end of the curent fiscal year.[12]

Installation of transmission lines and and substations has also been disrupted.

Projects in generation stage

Electricity consumption has fallen by 25 percent. As a result, NEA is facing a monthly revenue reduction of about NPR 1.8 billion. NEA's liqudity has also been strained by not receiving payments from consumers on time due to the lockdown and the government's instruction to allow deferral of payments. NEA is the sole purchaser of power produced by IPPs. It has had to issue a notice to IPPs stating that payments against their monthly invoices will be delayed under the force majeure clause of the PPAs.[13] The lockdown has also impacted repair and maintenance.

Future outlook and challenges

For twelve projects (227 MW) where 95 percent of the construction work is already over, there will be significant losses if they are not completed before monsoon (June/July).

For projects where headworks are yet to be built, it is essential to complete the construction of headworks before the onset of monsoon (June/July), failing which much of the completed work will have to be redone, adding to time and cost.

Some 131 projects with 2,490 MW of planned installed capacity that were struggling to secure financial closure even before the viral outbreak are likely to face further difficulties in arranging funds due to the uncertainty created by Covid-19.

If the lockdown continues beyond May, the liquidity crunch faced by NEA will severely impact the operation of some 93 projects already generating electricity. This will also adversely impact their ability to make interest and principal repayments on loans taken from banks and financial institutions.

Restoring work in under-construction projects to almost pre-COVID-19 levels requires the return of workers from different parts of the country to the construction sites, the resumption of production and delivery of construction materials, and the resumption of imports of construction materials and equipment. For projects being constructed by foreign contractors, the return of foreign managerial staff to their workstations will be necessary for their smooth operation.

The feasibility of resuming the construction of hydropower projects, with the requisite social distancing and other related safety measures, is much greater than that in most other sectors.

The sector, during the construction phase, has the potential to absorb some of the Nepali migrants working in Malaysia and West Asia who are likely to be forced to return home on account of the pandemic. Although firm and conclusive figures are not available, there is evidence that many migrants work in the construction sector abroad.[14]

In a (quite optimistic) scenario where economic activities will start to perk up from Jestha (mid-May), the Central Bureau of Statistics (CBS) projects the electricity, gas and water sector to grow by 28.75 percent in the current fiscal year (2019/20) ending mid-July, higher by an order of magnitude than the overall growth in GVA of 2.37 percent.

Policy recommendations

- Declare the hydropower sector, including under-construction projects, as a sector allowed to operate even during lockdown, and thereby facilitate the movement of materials to construction sites, prioritize/facilitate/expedite imports of materials and equipment by the projects. Introducing a protocol, allow the importation of materials and equipment from China via Rasuwagadhi and Tatopani for hydropower projects.

- Facilitate the resumption of domestic production of construction materials, by introducing a Covid-19 protocol.

- Introduce a protocol for billeting workers at construction sites, where feasible, and a protocol for the resumption or continuance of work at these sites.

- Arrange for, in collaboration with the private sector, bringing back to work willing workers who can be contacted, by issuing special passes for the transportation of workers to the construction sites. Project developers to provide personal protective equipment to workers. Project developers to provide their workers with medical insurance covering Covid-19, with a 50 percent subsidy on the premium to be paid by the government.

- Allow foreign staff to enter Nepal and return to the sites, after being subject to appropriate testing.

- Allow deferral, without any penalty, of payment of interest and principal on bank loans, by projects that are in generation phase, to mid-October 2020 if the lockdown continues till mid-June.

- Allow deferral, without any penalty, of payment of taxes by projects that are in generation phase to mid-October 2020 if the lockdown continues till mid-June.

- Extend the deadline for the construction phase by at least six months.

- Enforce the 2 percentage-point reduction in interest rates on bank loans to under-construction hydropower projects, as already mandated by Nepal Rastra Bank through a circular, for the period Baisakh-Asar 2077 (mid-April to mid-July 2020).

- Provide a 1 percentage-point reduction in interest rates on bank loans to under-construction hydropower projects for six months from Shrawan 2020 (mid-July 2020).

- Set up a fund to tide NEA over the liquidity crunch, and thereby also help IPPs dependent on cash flows from NEA.

- Help projects that have signed PPAs with NEA achieve financial closure. To increase to 7.5 percent the minimum proportion of bank credit that must go to the hydropower sector.

- Conduct a massive campaign to promote the use of induction (electric) cooking stoves by raising awareness of its cost-effectiveness. Waive value added tax on the imports of such stoves by considering them essential goods.

- Resolve the impasse over the Budhigandaki hydropower project and get it going. Expedite the Upper Tamakoshi Hydropower Project and national-pride transmission-line projects.

- Impart further clarity to the hedging rules, necessary to minimize foreign exchange risks, to attract foreign direct investment in the construction of hydropower projects.

NOTES:

[1] As per Asian Development Bank's Nepal: Input-Output Economic Indicators

(https://data.adb.org/dataset/nepal-input-output-economic-indicators), the electricity, gas and water sector has a forward linkage value of 1.41, with the average forward linkage value, across all sectors, normalized to 1.

[2] This paragraph draws largely on Adhikari, P. (NEA spokesperson). 2020. "COVID-19 in Nepal's power sector". *The Himalayan Times* 7 April. https://thehimalayantimes.com/opinion/covid-19-in-nepals-power-sector/

[3] Baduwal, A. 2020. "Coronale jalbidyut nirmanma lagayo brake, lakshya hajar megawatt thane, teen say puryauna kathin." *Bizmandu* 1 May https://bizmandu.com/content/20200501152602.html

[4] i*bid*.

[5] *ibid*.

[6] Kamali, S. 2020. "Nirman samagri nahuda jalbidyut aayojana anyoalma." *Naya Patrika* 21April. https://www.nayapatrikadaily.com/news-details/41737/2020-04-21 and Naya Patrika. 2020. "Nirman samagri abhable purbadhar aayojana prabhabit, utpadan ra apurtima sarkarkei abarodh". *Naya Patrika* 22 April. https://www.nayapatrikadaily.com/news-details/41809/2020-04-22.

[7] See also Baduwal, A. 2020. "Coronale jalbidyut nirmanma lagayo brake, lakshya hajar megawatt thane, teen say puryauna kathin." *Bizmandu* 1 May https://bizmandu.com/content/20200501152602.html

[8] Baduwal, A. 2020. "Coronale jalbidyut nirmanma lagayo brake, lakshya hajar megawatt thane, teen say puryauna kathin." *Bizmandu* 1 May https://bizmandu.com/content/20200501152602.html

[9] Republica. 2020. "Covid-19 outbreak hampering slew of infrastructure projects". *Republica* 10 March. https://myrepublica.nagariknetwork.com/news/covid-19-outbreak-hampering-slew-of-infrastructure-projects/

[10] Giri, A. and S. Prasain. 2020. "Crucial meetings and projects with China pushed back after coronavirus outbreak". *The Kathmandu Post* 6 February. https://kathmandupost.com/national/2020/02/06/crucial-meetings-and-projects-with-china-pushed-back-after-coronavirus-outbreak

[11] See, for example, Naya Patrika. 2020. "Nirman samagri abhable purbadhar aayojana prabhabit, utpadan ra apurtima sarkarkei abarodh". *Naya Patrika* 22 April. https://www.nayapatrikadaily.com/news-details/41809/2020-04-22

[12] Adhikari, P. (NEA spokesperson). 2020. "COVID-19 in Nepal's power sector". *The Himalayan Times* 7 April. https://thehimalayantimes.com/opinion/covid-19-in-nepals-power-sector/

[13] *ibid*.

[14] See, for example, MoLE. 2018. *Labour Migration for Employment: A Status Report for Nepal: 2015/16-2016/17*. Kathmandu: Ministry of Labour, Employment and Social Security, GoN.

B6. Wholesale and retail

The 2018 National Economic Census surveyed economic establishments across economic activities such as registered agriculture and forestry, mining and excavation, financial services, industrial production, construction, wholesale and retail trade and transportation among others.[1] Covered in the census were not only fixed establishments but also those that were movable as well as mobile (such as street vendors).

Of the 923,356 establishments—as of April 2018—the wholesale and retail sector establishments accounted for over 50 percent at over 498,000 establishments (including vehicle repair shops). Furthermore, there are roughly 34,000 street businesses and nearly three quarters of such businesses are into wholesale and retail trade. Of the total establishments, over 394,000 or over 40 percent, were established after April 2015 and are classified as new establishments. Nearly 60 percent of these new establishments fall under the wholesale and retail sector. The sector is indeed among the principal economic activities including in employment terms.

While 3.22 million (of which 1.2 million or 38 percent are females) are employed across all economic establishments, over 988,000, or over 30 percent are engaged in the wholesale and retail sector. Manufacturing and education are a rather distant second and third major employers at about roughly 15 percent. Wholesale and retail sector employs, on average, about 2 persons per establishment compared to about five in manufacturing and twelve in financial services. The Third Nepal Labour Force Survey 2018 puts wholesale and retail sector employment at over 17 percent making the sector among the top employers.

Signifying the extremely modest scale of operations, over 99 percent of the 988,000 workers in the sector are employed in single unit establishments with no branches. This is predictable as over 900,000 of 923,356 economic establishments are single proprietorships. Moreover, over 97 percent are single unit operations. Over half of the establishments in the sector are unregistered, meaning that those engaged are informally employed. Predictably and reflecting modest scale of operations and incomes, over half the establishments in the sector maintain no accounting records. In terms of employment, informal non-agriculture activities such as wholesale and retail provide employment to 40 percent of the labour force.[2] Non-agricultural sectors like wholesale and retail and construction, registered as well as unregistered firms, mostly employ informal workers.[3] For instance, in the wholesale and retail sector, over three-quarters are informally employed (overall, over 80 percent of the employed labour force is informally employed).[4]

Over 30 percent of the establishments in the wholesale and retail sector are owned by females, which is greater than the overall female ownership rate. That the sector engages more women than average is also evidenced in the Third Nepal Labour Force Survey 2017/18 – there are about 40 percent women employed in the sector compared to under 35 percent overall.

According to the Economic Survey 2018/19, the sector is the second highest contributor to GDP at about 15 percent after agriculture and forestry. Among the largest sectors, wholesale and retail absorb, as of mid-March 2020, over 20 percent of the loans made by banks and financial institutions (or the sector's share in overall private sector credit made by BFIs). It is important to highlight that only about a fifth of all economic establishments borrow from banks and financial institutions.[5] Another roughly a fifth—slightly over 95,000 firms—borrow but do so from either cooperatives or from personal sources.[6] Indeed, about 60 percent of the establishments in the sector do not borrow at all which could be due to their informality (as indeed, over half the units are unregistered) as well as extremely small size.[7]

Sectoral impact

Reports in early-March—or well before the lockdown was imposed on 23 March—suggest that the wholesale and retail sector was already experiencing disruptions in supplies. The supplies had gone down because imports from China were down significantly since February while the shipment charges for supplies coming from China had risen.[8] With the lockdown, the supply chain via which the sector obtained supplies including essentials such as medicines and fuel, were significantly obstructed. A respondent associated with the operations at Sirsiya Dry Port suggested that while imports were somewhat smooth, moving the goods inland were a challenge. Compared to normal times, there were a fraction of loaders and drivers while most repairshops and roadside eateries were closed making it difficult to supply goods to distributors and retailers in the sector.[9] This respondent added that although authorities—such as in the local administation—were supportive, coordination issues among various agencies has been a hurdle in smooth movement. Nevertheless, Nepal's Ministry of Industry, Commerce and Supplies, providing regular updates on the supply situation, claims that imports of essential items have been regular and there is enough stock of such items in the country.[10]

Although it was stated in the lockdown regulations that the value chain actors (including wholesalers and retailers) into producing and supplying essentials—such as food grains, fuel, vegetables and medicines—could carry on operations with precautions and after permission from authorities, reports indicate that in the intial weeks of the lockdown, almost all shops, including those into essentials, were shut.[11] Issuance of passes and other modalities were not clearly spelled out. While the pass issuance process stands streamlined after the initial disruptions—electronic passes are now being issued—the problem of reduced hours of operation has continued till the time of writing this report given, in large part, the unchanged modalities of the lockdown.[12] A representative of the Nepal Retailers' Association highlighted that only a fraction of units supplying essentials are open and those that are open are operating at under a third of the usual capacity due to the restricted hours of operation.

Because of restricted public and private transportation, it is mostly the wholesalers and retailers living close to their businesses that have been able to operate.[13] Furthermore, we find from our informal survey that owing to significantly less number of drivers and loaders, local transportation was, and continues to be, disrupted. Predictably, the cost of transportation has nearly doubled raising operational costs. Since many distributors and wholesalers have not been able and/or willing to transport the goods owing to high costs and absence of workers, they are asking retailers to arrange for transportation themselves. The scenario being such, most retailers of essentials as well as wholesalers have not been operational. Units that are operating are facing high costs. This representative from the association added that since the additional costs cannot be entirely borne by the unit, some of it is being passed on to consumers. This has instead resulted in complaints in some instance and subsequent penalties and action on units; essentially a double whammy of sorts. Upon tracing instances of overcharging, the association representative suggested that no warnings were given as such and the units were made to pay heavy fines.

While one of the respondents surveyed here suggested that imports from India are mostly normal, there have been multiple reports highlighting disrupted imports, including of essentials. Twenty days into the lockdown, a report suggests that while exports have been completely stalled, imports too have declined, including that of essentials.[14] The report notes that fuel imports stood disrupted and that paying customs was not being facilitated. Another report from eastern Nepal highlighted how, despite bilateral commitments to not let trade in essentials hindered, there were disruptions in importing food and vegetables into Nepal due to restrictions by the state government in India.[15] One driving factor in disruption of imports has been the fear of spread of the virus from imported commodities. Reports have highlighted how residents in border towns have protested agants imports of commodities with the local governments resulting in some obstruction.[16] Disruption in supplies including in essentials stem not merely from obstructed imports. Reports have highlighted how, since the lockdown, the wholesalers dealing in foodgrains have been facing major hurdles in supplying commodities to retailers due to problematic transportation.[17] The report adds that the transportation costs have gone up because vehicles are having to return empty from Kathmandu.[18]

Amid these disruptions, many large retailers in Kathmandu and in some other urban spaces, have started e-commerce operations (offering home delivery of essentials like foodgrains and medicines) but are having to function with limited capacity given that workers have moved to their respective districts.[19] Moreover, these large platforms also have been operating physically as well albeit for limited hours. Recent reports note that while larger firms continue to operate across various mediums, an average retailer runs the risk of displacement.[20]

After over a month of disrupted flow of trade, Tatopani border has been regularized—since late-April—via initiatives from the local government and essentials and medicines had started coming. Given the pandemic, health check posts were set up on both sides of the border.[21] However, average monthly imports in March and April, it is being reported, have declined by nearly 50 percent, resulting also in decline in revenues from trade. Much of this has been linked to disruptions in inland movement.[22] Recent reports suggest that movement of goods from Birgunj Dry Port to others parts in the country has been problematic.[23] There are far fewer trucks (and drivers) and loaders to load the container contents on to trucks. Furthermore, repair shops, only a few are functional meaning that breakdowns are not getting repaired on time. Implications of this, along with disruption in supplies to the sector, also is steep rise in transportation costs and hence supply prices.[24] Such hurdles in transportation are not just in moving the goods from the border to inland areas or moving supplies from wholesalers to retailers. Even farmers are not able to send the produce to the markets and rerailers.[25]

The representative from the Retailers' Assocation highlighted that an overwhelming majority of those into retail and to lesser extent, some wholelasers, are on the verge of collapse; that units into essentials which have been permitted to operate somewhat are only one section of the units. It is important to highlight that trading in essentials is only one of the activities in the wholesale and retail segment. According to 2018 Economic Census, it appears that between 30 and 40 percent of the establishments in the sector are into retailing of non-essentials such as clothing and footwear

(11 percent) and others (such as books).[26] It is important to highlight that most establishments are potentially non-specialised units—the Economic Census takes note of this—selling a wide assortment of items (both essentials and non-essentials). The representative stated that with the exception of a few units, most will struggle to pay rent, taxes and interest/installment to BFIs. According to the representative, profit margins for an average unit are rather small as are the scale of operations and revenues. The representative highlighted that the units barely have reserves as such, although the National Economic Census 2018 shows that the annual profit ratio to sales in 'wholesale and retail trade; and repair of motor vehicles and motorcycles' is 43 percent. The representative also highlighted how the units are incurring financial losses from a host of different ways. One such financial cost emanates from expiration of items; that while in normal circumstances, distributors accepted the expired items (usually between 5 to 7 percent of the order value), the current level stands at almost 40 to 50 percent. He added that there is uncertainty as to who will bear the cost. Furthermore, both the distributors and wholesalers have started demanding cash payments for transactions that have traditionally been on credit. This esentially means significant negative impact on all the value chain actors such as distributors, producers, banks and retailers. All of these have borrowed from the BFIs while the transactions kept the monetary system functional. The sector is among the worst hit along with, for instance, transportation.[27] Given that the sector accounts for the largest amount of private sector credit from the BFIs—nearly a fifth—our informal survey with the Nepal Bankers' Association informs that the collapse of the sector will be a body blow to BFI health in Nepal. The representative emphasized that most units will go out of business if they are not supported via policy and this displacement will mean sliding of households into poverty. Considering that the sector is the biggest employer, a provider of livelihood—albeit a precarious one—and among the most significant economic activities, there is a need for concerted efforts to stop displacement and poverty of millions of people.

Recommendations

- The NPR 100 billion refinancing fund, reduction of Cash Reserve Ratio for additional liquidity, overdraft facility on existing working capital limit (upto 10 percent), extended interest/installment repayment window and concession on interest payments are welcome measures. It has been stated that SMEs or units borrowing NPR 1.5 million or less will be provided loan at 5 percent (refinancing provisioned at 2 percent). These announced measures need to be implemented well.

- Only about a fifth of the units in the wholesale and retail sector borrow from banks and financial institutions while another fifth accesses credit from either cooperatives or personal networks. Hence it is important that cooperatives too have adequate liquidity. A recent article reports that the liquidity requirements for cooperatives have been raised in the light of greater cash requirements.[28] A potential cause in not being able to borrow from banks and financial institutions perhaps concerns informality. To address the issue of non-registration, incentives may be devised, although after the formation of local governments, there have been efforts at registering firms given that local governments get to levy local business taxes on economic activities.

- Cooperatives will require greater resources to provide additional credit when businesses start functioning upon gradual easing of the lockdown. Cooperatives' membership-based coordinating body, Nepal Federation of Savings and Credit Cooperative Unions (NEFSCUN), has directed members to not charge penalty on delayed payments of interest and instalment. It has also ruled concessions on timely payment.[29] It is important that these measures are effectively implemented.

- Waiver on local level business taxes—levied by local governments—may reduce the financial costs for the small retailers.

- In the light of transportation-related disruptions, reduced presence of transporters and surging transportation costs, provisions have been made to incentivizing producers and transporters to carry essential commodities to the nearest markets or to Kathmandu. The producers will be provided a grant equal to 25 percent of the transportation costs to transport the essential commodities to markets.[30] Effective implementation of the incentive is necessary.

- The NRB has instructed microfinance institutions—or the so called D class BFIs—dealing in retail credits to provide 3 percent concessions on interests in the fourth quarter of the current FY. This needs to be monitored and implemented.

- The sector involves a high degree of interpersonal contact. Ensuring safety after the gradual loosening of the lockdown is critical. Regulations and ways to make them effective need to be devised.

- There is a possiblity of major decline in loss of purchasing power among the masses (more so, those engaged in informal units). While the wholesale and retail sector will require purchasing power among consumers so that there is demand, many in the sector will lose purchasing power themselves. Fiscal measures such as temporary work programmes that are being planned under the management of local governments (which identify and map unorganized sector workers and other vulenrable groups) may be useful for the many vulnerable in the sector.[31]

- Speedy customs clearances are required so that there are no delays on obtaining supplies.

- Delayed payment of utility bills—electricity, water and telephone—by end-Ashad without penalty will provide good relief.

- While formal firms can borrow at concessional rates to provide 50 percent of the salary to staff, the same does not apply to informal ones. Such concessions (and other relief measures) may incentivize towards registration. Perhaps availing the concession can be made conditional upon registration.[32]

- The provision allowing extended time for firm renewal is welcome and will provide formal firms some respite.

- Provision allowing extended VAT repayment as well as extended date for VAT refund claim application (time till Jestha 2077 end) will also aid formal and relatively large firms.

[1] Economic activities defined as production, distribution, marketing or sales of goods and services for profit or own consumption. These activities contribute to value added in national economic output. The unit of analysis in the census is an establishment or a single entity based in a specific location and engaged in one line of activity (such as a shop, mine or a factory workshop).
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B7. Micro, cottage and small enterprises

Micro, cottage and small enterprises (MCSEs) play a significant role in the Nepali economy (See Table 8 for the classification of MCSEs). In a country with about only 1,100 large industrial enterprises that are estimated to generate direct employment of about 150,000, it is the small firms that drive the economy.[1] These include small bakeries that supply bread and buns to the local grocery stores, those grocery shops, the pick-up van operator that drops vegetables to those stores, the vegetable wholesaler, the vegetable growers who have leased hectares of land in the outskirts of the city, the pashmina factory that weaves exquisite scarves and stoles to be sold in the boutiques in Europe, the organic tea estate that exports NPR 2,000 per 100 gram tea, the fancy restaurant in the most happening part of the town, the travel agency that helps arrange flights for mountaineers, the designer shoes and bags maker whose starting range starts at least NPR 10,000, the software company which provides support to multinational firms in the US, and so on. These are just a few examples of the MCSEs that are in operation and are providing goods and services. Since the COVID-19 outbreak and the resultant lockdown, most of these firms are left struggling to pay wages to their workers, pay rent and utilities and/or pay interest to the bank. Supporting MCSEs in times of need will not only help protect businesses but save livelihoods of hundreds of thousands of workers and protect the economy from a downward spiral.

Table 8: Classification of MCSEs in the Industrial Enterprises Act 2076

Industry category	Characteristics
Micro Enterprise	• Maximum fixed capital of NPR 2 million excluding property. • Owned and managed by the same person • Maximum number of employees should not exceed 9 • Annual turnover should be less than NPR 10 million • The energy consumption by machinery used should not exceed 20 kilowatts.
Cottage Enterprise	• Based on traditional technology and skill. • Labour-intensive and based on a special skill or using local raw material, local technology, art and culture. • The energy consumption by machinery used should not exceed 50 kilowatts.
Small Enterprise	• Excluding the micro and cottage enterprise, any enterprise with the fixed capital of up to NPR 150 million.

Source: Industrial Enterprises Act 2076.

Government documents mention that SMEs contribute 22 percent to the gross domestic product (GDP) and employ around 1.7 million people, although the basis for the numbers is not clarified.[2] There were 5,124 registered small enterprises until mid-July 2019, according to the Industrial Statistics released by the Department of Industry.[3] These enterprises are estimated to provide employment to about 281,000 workers. In addition, there are 268,934 firms registered at the then Department of Cottage and Small Industries and at the district level offices of the Cottage and Small Scale Development Committee.[4] These firms tend to be micro and cottage enterprises that use locally available resources and traditional skills with hands-on involvement of owners. However, these figures do not reflect the actual number of such small businesses in operation. A large number of these firms tend to avoid being registered and thus operate as, what is known to be, informal enterprises.

According to the National Economic Census 2018 (NEC) conducted by the Central Bureau of Statistics, there are 923,356 commercial establishments in Nepal (including both registered and non-registered) that provide employment to 3.2 million individuals.[5] According to the report, 49 percent of the enterprises in Nepal are not registered at any government authority. The recently published Second Volume of the Economic Census Report shows that 45.5 percent of the businesses operate as home-based and street businesses, which are most likely to be micro and small enterprises.[6] The prominence of small businesses in Nepal's economy could be reflected in the data that 99.8 percent of the total establishments are the firms that employ 1 to 99 workers. Further, among the total enterprises, 96 percent employ less than 10 workers. These less-than-10-employee firms—micro enterprises—engage about 60 percent of the total employed individuals. Further, 52.4 percent of the businesses do not maintain an accounting record. These figures indicate the extent of informality persistent among small businesses. Depending on the workflow, MCSEs tend to hire informal workers on a daily wage basis. Thus, MCSEs payroll comprises a large number of informal workers who will be left without any safety nets if they lose jobs. Thus, supporting small businesses will also protect livelihoods of the workers.

Current impact

It is evident that lockdown has disrupted all economic activities, denting the revenue stream of all kinds of businesses. Such income shock is detrimental to MCSEs that are completely dependent on regular cash flow to run the firms. In our rapid survey, representatives of the small business associations stated that not many micro and small firms are able to weather the effects of the lockdown even if the government lifts the lockdown immediately. A little better placed MCSEs, mostly dealing with export commodities such as carpet, felt and handicrafts, also said that they can stay solvent for up to three months. Since MCSEs do not have substantial working capital, they are quite dependent on the payments made by buyers. The small business owners say that besides the loss of revenues due to the lockdown, they are facing difficulties in receiving payments from past sales. While smaller firms are fighting for survival, larger firms –enterprises with a turnover of about NPR 50 million – are facing difficulty to pay wages and rent and will not be able to get back on their feet without help from the government.

The most affected firms at present are the agri-businesses such as vegetable, poultry and dairy farmers. The shutdown has reduced the demand for their products drastically. Moreover, the largest consumers of these products are hotels, restaurants and catering businesses, which are completely closed. Even the businesses that are able to carry out distribution of their products to market centres during lockdown perceive that the present level of household consumption will not be able to make up for the fall in demand by their commercial consumers such as hotels, restaurants and caterers. The poultry sector has seen a 30 percent decline in the demand for meat and eggs, making the sector face loss worth NPR 215 million per day.[7] The farmers have to spend as much as NPR 250,000 to feed 1,000 chicken and the shortage of feed due to the lockdown has further added pressure on the whole industry. Likewise, dairy farmers and processors are also in similar bind due to the crash in demand. In Kathmandu alone, the demand has slumped by 30 percent as dairies say that daily demand in the capital currently is around 280,000 litres from the usual 400,000 litres. Likewise, disruption in transportation and shutting of market centres have impacted vegetable farms. These sectors face relatively higher running costs as animals need to be fed and tended to, lease of the land has to be paid and the already planted vegetable crops also require tending irrespective of the sales volume.

For service-oriented businesses such as retailers, restaurants and beauty parlours, the biggest problem at present is the payment of rent. Since most of these businesses fall under non-essential categories, they are also worried about consumer sentiment once the lockdown is lifted. There might be a short-lived immediate surge in expenditure on dining-outs and personal grooming, in a situation which is being called as 'revenge spending' as the consumers try to make up for the pent up demand.[8] However, if the economy fails to gather pace and reality sets-in, such flash-in-a-pan surge will not help the business to recover losses accrued during the lockdown.

Production-oriented businesses such as carpets, felt products and food industry, which need to have a sturdy workforce, are struggling to manage funds to pay wages to workers. The government has instructed businesses to pay workers' salaries and wages for the lockdown months too. According to the entrepreneurs, they have a difficult time managing the finances for wage payments but they also cannot shirk from paying wages as they need to retain the workers for the time when production restarts. One of the biggest concerns for the manufacturing MCSEs is the threat of collapse in demand for their products even after the threat of virus is lifted. The export-oriented industries like felt and carpet, that are novelty and luxurious items, are expecting at least a 30 percent slump in demand for their products in foreign markets.

Future outlook and challenges

The government's recovery policies have specifically tried to address the difficulties faced by MCSEs due to the lockdown. For example, providing additional 10 percent of the outstanding loan amount to a firm as working capital loan against existing collateral. Likewise, banks and financial institutions have been instructed to prioritize SMEs for loans under the NRB's refinance scheme. These measures will help small businesses by preventing immediate demise. Small businesses are highly dependent on cash flows and have reserves to maintain for only less than three months.[9] Therefore, without additional liquidity infusion, they may not be solvent for long. However, a large number of MCSEs, especially micro and small enterprises, are informal firms, which are not registered anywhere and hardly maintain proper bookkeeping practices. Hence, they have not borrowed from any bank to start and maintain their businesses, making the monetary measures operated through banks futile for them. In a research done by NRB, only 50 percent of the surveyed SMEs (formally registered firms) were found to have borrowed from financial institutions ever.[10]

This figure indicates that even if the refinancing instrument becomes successful, it will be of help to only half of the businesses.

At the same time, entrepreneurs have pointed out the lack of coordination between banks and regulators for effective implementation of announced measures. The banks and financial institutions were found to have deducted the interest amount automatically from the borrowers' bank accounts at the end of the third quarter (mid-April) despite clear instructions from the NRB and the government to allow interest repayment deferral till the end of the fiscal year.

Likewise, even the firms that are eligible for subsidized loans may not have the capacity to repay loans if their business does not earn revenue once the normality resumes. For example, hospitality and tourism businesses may take time to bounce back. Also, in a system of collateral-based financing, not all MCSEs can afford to pledge collateral, shutting out the upgrading of vast number of firms. Evidence shows that MCSEs tend to be more susceptible to cyclical fluctuations and experience larger swings in revenue, that is do worse when the economy is in downturn. This is so because smaller firms lack the support system—financial and institutional—that are afforded to larger firms.[11] Thus, MCSEs may require a longer period of handholding from the government.

In countries like Nepal, remaining informal is a way to avoid costs involved in registration and resultant taxes and other fees. However, for smaller businesses, registration has been made easier not taking more than a couple of days while the latest Industrial Enterprises Act 2076 has made micro enterprises exempt from income tax. But, there are other reasons such as perceived cost and benefits by the entrepreneurs to remain informal that allows the enterprises to not toe the line with government regulations.[12] However, remaining informal means the firms will be excluded from potential government incentives and most importantly be shut out of formal financial channels. Thus, efforts from the government should be to address the reasons for these firms to remain informal.

Likewise, the country cannot stay locked down for an indefinite period until the vaccine or cure for this strain of the coronavirus is developed. There is a high chance that the lockdown will have to be lifted with businesses and consumers operating with utmost caution. These measures will require taking constant precautions to avoid possible infections, requiring constant disinfections, temperature monitoring, wearing protective gears, among others. This will increase the cost of operation of the businesses and smaller firms that are hardly surviving and therefore will need government assistance to implement these measures.

Recommendations

Despite their contribution to the economy, the MCSEs in Nepal are in need of greater policy support from the government. The relief and recovery measures launched to support these businesses could be implemented with a vision for improving the overall small business eco-system in Nepal. The pandemic response could be taken as an opportunity to find ways to support the thousands of unregistered enterprises too.

Immediate measures:

- NRB can allow banks and financial institutions, on their discretion, to increase the additional working capital loan assistance. There should be a provision to allow banks to extend the term of working capital loans to multiple years based on the impact on the sector. Similarly, the term of refinanced loans should at least be two years.
- NRB needs to monitor the banks and financial institutions' engagement with MCSEs to see if the businesses in need are able to access the facilities announced by the government.
- Government needs to include the savings and credit cooperatives that also finance small businesses into its refinance programme. Since cooperatives are under the jurisdiction of local and provincial governments, the fund could be set up by the provinces depending on the need. This will help in setting up a proper regulatory mechanism as well.
- To help the affected agri-businesses that are not able to pledge collateral to receive finances from formal financial institutions, government (federal and/or provincial) can provide them capital by financing the agricultural cooperatives that such businesses and farmers are affiliated with, for a short-term.
- Provisions for the existing self-employment loans scheme targeted at youth and women need to be simplified so that affected businesses can avail this loan. Small amount loans less than NPR 500,000 could be provided collateral free to the COVID-19 affected firms through financial institutions.
- Through local authorities, the government can launch a campaign to bring unregistered businesses into the formal net by simplifying the registration process and documentation requirements. The relief measures can be an incentive for the firms to get registered.

Long-term measures:

- A special purpose small businesses funding vehicle has to be launched to meet short- to medium-term financing needs of the businesses fighting the impact of COVID-19 lockdown. This fund should target to help the businesses that typically do not have access to formal financial channels. Such MCSEs development investment fund could also be useful in the future for enterprise development in Nepal. The COVID-19 response could be an opportunity to overhaul existing support systems for small businesses.
- Setting-up of angel investing and private equity firms to invest in MCSEs with viable business models regardless of their current financial health should be facilitated. Policies to provide fiscal incentives such as tax exemption when the distressed businesses start making profit could be of help.
- To increase registration of informally operating micro and cottage enterprises, the government can exempt them from excessive regulatory compliance. For example, accountancy compliance burden could be relieved by making mandatory annual reporting requirements simple and to be submitted to local bodies.
- MCSEs' access to information should be enhanced so that entrepreneurs can receive required information on business opportunities, ways to strengthen their creditworthiness and avoid resorting to personal loans at high interest rates.

NOTES:

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[10] NRB. 2019. *SMEs Financing in Nepal*. Kathmandu: Nepal Rastra Bank.
[11] Theng, L.G. and J.L.W. Boon. 1996. "An exploratory study of factors affecting the failure of local small and medium enterprises". *Asia Pacific Journal of Management* volume 13: 47–61.
UNCTAD. 2018. *The Least Developed Countries Report 2018: Entrepreneurship for Structural Transformation – Beyond Business as Usual*. Geneva: The United Nations Conference on Trade and Development.
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B8. Banking

There are currenly 27 commercial banks, 23 development banks, 22 finance companies and 89 microfinance institutions.[1] Presently, there are 9,640 banks and financial institution (BFI) branches spread across the seven provinces. While there are 4,219 commercial bank branches, 1,213 branches pertain to development banks. Further, there are over 4,000 branches of microfinance institutions. 746 of the 753 Local Governments (LGs) now have BFI branches compared to 713 in early-2019. Although consolidation has meant that the number of BFI has gone down over the past few years, the number of branches has consistently gone up given Nepal Rastra Bank's (NRB) policy to expand outreach. Nearly a quarter of these branches are located in Province 3 while Karnali has the lowest number of stations at 399. Incrementally growing Gross Domestic Savings levels have been attributed partly to expanding outreach of the BFIs. In terms of overall BFI deposit base, Province 3 accounts for over two-thirds.[2] Over half the financial assets and liabilities are held by commercial banks. Banks have extended nearly NPR 2,800 billion credit to the private sector. Sectors like agriculture account for roughly 10 percent of the total private sector credit.[3] The sectoral contribution of financial intermediation, according to the Economic Survey 2018/19, is about 6.5 percent or nearly twice of what it was a decade ago.

According to the 2018 Economic Census, financial and insurance services employed over 207,000 workers—over 6 percent of the 322,300 persons engaged across all economic establishments. Nearly 45 percent of those employed are females – significantly higher than the 35 percent average overall. The number of persons employed per establishment in the sector is over 12. Excluding the informal agriculture sector, financial and insurance space is among the largest employers after wholesale and retail (30 precent), education (15.90 percent), manufacturing (15 percent) and accommodation and food services (10.73 percent).[4]

Of the 207,000, roughly 197,000 (or 94 percent) are engaged in central banking and other banking intermediation-related activities.[5] Predictably, nearly all engaged are formally employed and associated with registered entities.

Sectoral impact

It is important to highlight that the significance of the financial system is substantially greater than what the figures like the overall employment generation or its contribution to the GDP suggest. The financial system is in fact among the most important policy levers for the government.

After the lockdown started on 24 March, NRB issued a nine-point circular, valid for the lockdown period, to BFIs. The regulations—keeping ATMs functional, fee waiver on interbank transfer, opening of branches on rotation and relaxed reporting requirements, among others—are primarily aimed at facilitating financial transactions.[6] Although not much has been analyzed regarding the sectoral impact of the lockdown, an informal survey of senior executives from the banking sector (including those from the Nepal Bankers' Assocation), which we conducted for this assessment, brings to light a number of relevant and important issues including the financial costs of the lockdown.

1. Nearly all the non-interest income (or fees income emanating from various services offered such as issuance of bank guarantees) has dried up for commercial banks. Typically, fees income, in the recent years, has accounted for nearly a fifth of the total income generated by commercial banks. Since the lockdown, much of the fees income—sufficient to cover annual staff expenses—has dried up.

2. The banks are operating at 20 percent capacity. The volume of transactions is less than a tenth of what it was prior to the lockdown.

3. The lockdown has seen greater cash withdrawals compared to normal times. All of a sudden more cash is being held by customers.

4. With delayed interest and instalment payments from a significant proportion of borrowers and assuming that repayments will be made in Ashad end, over a dozen commercial banks are potentially set to make an operating loss this year.

5. Remittance flows, a major source of funds for the banks, has been a third of the normal times in March and April.

6. The health of the financial sector depends on other sectors and given the negative impact on tourism, hotels and poultry among other sectors, it is necessary that adequate measures, including monetary stimulus are provided. If economic sectors are rescued well and they recover, banks will automatically get back to normal.

7. There is a high probability that asset prices may drop and which will stress bank lending and balance sheet. Both fixed as well as current asset prices may drop which, in effect, means reduction in value of collaterals – often an increase in default possibilities. Slightly over 63 percent of all loans have land and building as collateral while under 15 percent are guaranteed by current assets—both agricultural and non-agricultural. With current asset collateral, over 93 percent are non-agricultural current assets.[7]

8. Liquidity injection and monetary stimulus may not be helpful if the lockdown is prolonged. Halted economic activities may result in a slowdown leading to a longer than usual decline in demand for credit.

9. Among the major financial costs, interest payment and staff expenses were highlighted as most prominent.

Recommendations

It has been suggested that effective measures to inject liquidity need to be taken. Initiatives have been taken on this front as a week into the lockdown, NRB announced additional liquidity injection of NPR 35 billion via reduced Cash Reserve Ratio (CRR). It also stipulated extended repayment period without penalties (interest as well as term loan) and a 10 percent concession in interest if repayment was made as per schedule. To ensure liquidity, the NRB measures include additional short-term working capital loans on reduced bank charges for highly-affected sectors like tourism and transport. Such loans are to be processed. On its 65th anniversary, NRB announced a NPR 60 billion refinancing fund and streamlined refinancing procedures, extended interest repayment window and concession on interest payments made on time.[8] The government has asked the NRB to expand the refinancing fund to NPR 100 billion and to prioritise SMEs in providing refinancing loans from the fund.

In this context, we provide the following recommendations for the banking sector:

- The liquidity injection measures instituted need to be effectively implemented to ensure adequate liquidity during the lockdown and as the lockdown gets loosened.

- Rescheduling of loans extended to affected sectors as well as an extended repayment window of interest and installment aids banks as well as the sectors. While extended repayment window has been instituted, there have been no regulations on rescheduling of loans extended to affected sectors. Among banks, there is an expectation that such an exercise will have to be carried out.

- That any classification of loans as NPA and subsequent provisioning can be withheld till Ashad 2077 is a welcome step and frees up funds according to banks.

- Through a directive, the NRB has instructed the A, B and C class of banks to provide 2 percent concession on interest payment for the quarter. The concession applies to the affected sectors and units that remain shut due to the lockdown (in sectors like tourism).[9] In this, the directive excludes units into food processing, units trading in essentials, internet, medicines and medical equipment production and trading. Our informal survey suggests that there should be mechanisms where the able and willing do not avail unnecessary concessions. Such blanket concessions, banks executives suggest, impose significant cost on banks. This said, devising targeted mechanisms may be difficult.

- Through its circular number 18/076/77, NRB has required banks to digitize tasks that have mostly required physical visits. Instructions for tasks such as card renewal and password reset in internet banking are to be taken electronically during the lockdown period. Extending such contactless mechanisms beyond the lockdown will potentially aid digitization. Further digitization—whether it is interbank transfer, clearance or other functions—and cashless transactions are to be incentivized by the NRB.

- Smooth movement of bank personnel and vehicles must be ensured especially outside of Kathmandu and in this, coordination with local governments is critical.

- Health of banks is intricately connected to health of the real sectors whether it is tourism, food processing or wholesale and retail. Furthermore, purchasing power among masses is equally critical if banks are to retain funds for further mobilization. All monetary and fiscal measures need to be taken to ensure economic activity. On part of the banks, we learn that they, as well as the NRB, have the liquid resources that can be tapped.

- Much of the discussion around monetary stimulus has focused on liquidity but one major impact of high liquidity levels is a potential decline in interest rate for depositors. Institutional as well as retail depositors stand to lose in such an arrangement. For instance, interest income is a major source of revenue for insurance companies as well as others like senior citizens. Insurers have already been complaining that banks have consistently cut interest rate on deposits which negatively impacts the revenue levels. NRB should institute a mechanism where BFIs do not haphazardly cut interest rates and in this effective enforcement of the spread limit is one potential measure.

NOTES:

[1] NRB Monthly Statistics from March 2020. https://www.nrb.org.np/contents/uploads/2020/05/Monthly-Statistics-_-2076_11-Mar-2020.pdf
[2] MoF. 2019. *Economic Survey 2018/19*. Kathmandu: Ministry of Finance, GoN.
[3] *ibid*.
[4] CBS. 2019. *National Economic Census 2018 National Report 1-1*. Kathmandu: Central Burueau of Statistics, GoN.
[5] *ibid.*
[6] NRB circular no 18/076/77 and 21/076/77 (https://www.nrb.org.np/contents/uploads/2020/04/Notice-ABCD.pdf).
[7] NRB Monthly Statistics from March 2020. https://www.nrb.org.np/contents/uploads/2020/05/Monthly-Statistics-_-2076_11-Mar-2020.pdf.
[8] NRB Governor's speech delivered on 27 April 2020. https://www.nrb.org.np/contents/uploads/2020/04/Governors-Speech-Commitment-20770114.pdf
[9] NRB circular no 14/076/77 (https://www.nrb.org.np/contents/uploads/2020/04/Circular-for-ABC-1.pdf).

B9. Insurance

There are 40 insurance companies currently of which 19 are life insurance companies, 20 are non-life insurance companies and one is a reinsurance company. The total financial resources in insurance business stands at over NPR 313 billion wherein NPR 230 billion is of the life insurance segment.[1] The sector, both life and non-life, has had double-digit growth in recent years, meaning that not only the number of insured has grown—currrently at over 18 percent of the total population—but the premium income has expanded by over 300 percent since FY 2013/14.[2] Insurance premium currently amounts to nearly 2.6 percent of GDP (FY 2017/18 data), compared to 1.57 percent in FY 2014/15.[3] In FY 2017/18, taxes paid by insurers amounted to NPR 3.88 billion. Nearly 60 percent of this was contributed by life insurance companies.[4]

Given the sector's rapid growth, its investible resources have more than doubled from NPR 110 billion in 2014/15 to NPR 258 billion in FY 2018/19. Data from the Economic Survey 2018/19 suggests that the insurance sector held over 5 percent of total financial assets and liabilities in the financial sector. There are currently over 2,000 branches of insurance companies in which over 60 percent branches are that of life insurance companies. When it comes to the geographic spread, insurance, like banking, is concentrated in Province 3, where a quarter of the roughly 2,000 branches are located.

According to the 2018 National Economic Census, around 8,000 persons are employed in the insurance sector, which is a little under 4 percent of the number of people engaged in the financial sector.[5] Over 65 percent of those in the insurance sector are in the life insurance segment, the rest being associated with the non-life insurance segment. Overall, two-thirds of the persons employed in insurance are males. Predictably, nearly all engaged are formally employed and associated with registered entities.

As per the Beema Samiti (Insurance Board)—the sector's regulator—in the life insurance segment, there were 2.7 million new policies issued in FY 2017/18 including over 963,000 fixed term policies for foreign employment. Along with new policies, premium (on existing policies) and interest income are the main components of insurance revenue. The number of new policies issued per year has seen sizable growth as the same was 1.9 million policies issued in FY 2014/15. The total stock of life insurance policies stands at over 5.1 million, meaning that under a fifth of the population is covered by some form of life insurance.

While direct employment in the insurance sector is small compared to the overall financial sector employment, the scenario changes significantly when we take into account the number of agents that are engaged in the life insurance segment. These agents are not on the company rolls and earn a commission based on number of policies sold and premuim realized. It is pertinent to highlight that the non-life segment does not employ agents as such. There are currently over 98,000 active agents in the life insurance segment.[6]

Sectoral impact

Almost immediately after the lockdown was imposed, the Beema Samiti asked insurance companies to not charge interest and penalties on late payment of premiums owing to the lockdown.[7] Along with relaxation in payment of premiums, the insurance sector regulator has stipulated that licenses (of agents and purveyors) that expire during the lockdown will be allowed extended time for renewal of application.[8]

Early on into the lockdown, reports show that despite being classified as an essential service, much of the insurance sector, unlike the banks, could not operate.[9] Informal survey we conducted with senior executives in the insurance sector suggests that while the security personnel allowed movement of bank personnel (and bank vehicles), those into insurance faced hassles. Such treatment continues at the time of writing this report.

It is important to highlight that there are differences as well as meeting points in the challenges and financial costs faced by the life and non-insurance segments.

Non-life insurance companies appear to be comparatively more digitized than life insurers and owing partly to this, several functions such as claims analysis and accounting are being carried out via work from home arrangements. Only a third of the staff is reporting for work while transactions have fallen by over half. Non-life insurers do not employ agents like life insurers and much of the marketing for new business is carried out by dedicated departments into marketing. Nearly all marketing activities have stopped and hence new policies—which often require interpersonal contact, physical inspections and often multiple field visits—have not been issued since the lockdown. While it was difficult to arrive at an estimate, surveyed executives suggest that not being able to sell new policies will hit the annual revenue by nearly 50 percent. On the other hand, a recently published article suggests that two-thirds of the annual business targets have been met for this year.[10] Perhaps the revenue loss is somewhere between the two figures. For instance, for the past two months or so, no travel insurance has been issued owing to ban on international movement. Further, real estate and construction-related insurance (such as engineering insurance or insurance of residential or commercial buildings) has completely stopped because of disrupted construction and financial sector activity. Motor vehicle insurance is another affected area. All of these products were high growth segments and hence the impact on revenue is going to be significant. Problematically, there is pessimism in the sector due to the expectation that revival could take several months. While there are no plans to lay off staff and there is some capacity to tolerate the disruption, it was highlighted that no new hiring will take place till the near future. Staff salaries have not been deducted.

The life insurance segment appears significantly less digitized compared to non-life insurers. Furthermore, life insurance requires greater interpersonal interaction whether it is in the marketing and counselling required in selling new policies or in processing claims. Hence, life insurers have been more significantly hit by the lockdown with operating capacity under a third. When it comes to selling new policies, this has completely stopped since the lockdown. Furthermore, premiums on existing policies are not being deposited in the past 30 days, according to reports.[11] Our informal survey finds that, like non-life insurers, most employees in life insurance will potentially escape unaffected from an additional couple of months of lockdown. However, life insurance agents are already facing precarity; that with a prolonged lockdown, the predicament of agents is going to become worse.[12] A media report notes that in the life insurance segment, significant proportion of the premium income is derived in the last quarter but with the lockdown and stalled economic activities, premiums as well as the agents' commission that comes with it, have not been realised.[13]

As in non-life, new policies are a major source of revenue for both life insurers and more crucially, the agents', but the lockdown has meant that marketing activities and visits cannot be carried out. A sizable proportion of marketing—and hence new business—in the life insurance segment is carried out by commission agents who are often associated with multiple life insurance companies. Another potential challenge to the life insurance segment is the loss that could emanate from the possible return of a large number of migrant labourers.

Along with the above challenges and costs, there are also opportunities for the insurance sector in the form of, for instance, new products, both life and non-life, covering pandemics.[14]

Recommendations

It appears that the insurance sector is relatively less affected by the pandemic and the lockdown compared to many other sectors that are severely affected. Insurance agents could possibly have been affected to some extent because of the disruptions in economic activities and closure of businesses. Providing them some tax relief based on their commission income can supplement their purchasing power. This is also a demand of the life insurance agents' association.[15] Also, there might be some agents who may require income support programs for subsistence.[16] Companies as well as regulators, along with the agents' bodies, must trace and assist such agents.

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[1] MoF. 2019. *Economic Survey 2018/19*. Kathmandu: Ministry of Finance, GoN.

[2] Insurance Board. 2019. "Beema kshetrako bartaman awastha". Kathmandu: Insurance Board. http://nib.gov.np/wp-content/uploads/2019/07/Insurance-Report_2075.pdf

[3] *ibid*.

[4] *ibid*.

[5] Beema Samiti puts this number, as of May 2019, at 7,000 but this excludes those employed by regulatory bodies.

[6] Media articles put the number at over 500,000, but according to the Beema Samiti, active number of agents stands at around 98,000.

[7] Insurance Board. 2019. "Beema kshetrako bartaman awastha". Kathmandu: Insurance Board.http://nib.gov.np/wp-content/uploads/2019/07/Insurance-Report_2075.pdf

[8] *ibid*.

[9] Onlinekhabar. 2020. "Banks are open, but insurance companies are not during Nepal lockdown". *Online Khabar* 24 March. https://english.onlinekhabar.com/banks-are-open-but-insurance-companies-are-not-during-nepal-lockdown.html

[10] Bhattarai, H. 2020. "COVID-19 le jeevan bema kshetrama pareko prabhabharu". *Insurance Khabar* 20 April. https://insurancekhabar.com/2020/04/80264/

[11] *ibid*.

[12] Insurance Khabar. 2020. "Panch lakh bema abhikartako awastha jati bandai…". *Insurance Khabar* 1 May. https://insurancekhabar.com/2020/05/80928/

[13] *ibid*.

[14] Insurance Khabar, 2020. "Beema abhikartaharule yasaru garnuhos lockdownma taayri" *Insurance Khabar* 12 April. https://insurancekhabar.com/2020/04/79799/. Similar views were expressed by executives surveyed.

[15] Insurance Khabar. 2020. "Panch lakh bema abhikartako awastha jati bandai…". *Insurance Khabar* 1 May. https://insurancekhabar.com/2020/05/80928/

[16] *ibid*.

B10. Cinema

One of the most affected businesses from the coronavirus infection threats and the subsequent lockdown is the film industry. As the fear of contracting COVID-19 became prominent in Nepal from late February, people had started to avoid closed and crowded spaces such as movie theatres. Even before the nationwide lockdown was imposed from 24 March, government had asked public places such as malls and movie halls to be shut down. The Nepali film industry, which consists of production, distribution and exhibition of movies, is considered to provide employment to about 30,000 individuals.[1] The ongoing lockdown has brought the production and exhibition activities to a standstill.

Nepali film industry was officially inducted into the list of industries identified as of national priority in the Industrial Enterprise Act 2076.[2] According to the Film Producers' Association of Nepal, in 2076 (mid-April 2019 to mid-April 2020), the making of 72 films was completed and 57 movies were released. Nepali film industry produces about 100 movies a year. There are about 200 movie halls in operation all over Nepal with 40 percent of them being multiplexes that employ about 20 staff each on an average, depending on the size of the establishment.

Despite mobilizing investment worth NPR 2.5 billion,[3] the film industry can be characterized as a predominantly informal industry. Besides the small number of staff employed by theatres, all of the personnel hired during film production are either self-employed or daily wage earners. Moreover, lack of recognition of the film industry as a viable economic sector has resulted in woefully limited database maintenance. This makes inferring the true financial impact of the sector extremely difficult. The memorandum submitted by the Film Producers' Association of Nepal to the Ministry of Finance admitted to the discrepancy in the account books of film producers, distributors and exhibitors used to calculate the revenue generated by a film.[4]

Current situation

The shutdown of theatres has suspended the release of 15 films that have been completed. Likewise, about 32 movies are either shooting, in a post-production stage or about to start shooting.[5] Completing one film requires hiring about 260 personnel, of which 60 (including artists, writers and technicians), are hired for a full-schedule of 60 days while an additional 200 personnel, such as dancers and fighters, are hired on a short-term contract for up to 15 days. The lockdown has particularly hit the blue-collar workers that are hired on a daily-wage basis the most. In the absence of regular work, this is the segment of workers who are in a dire situation.

Movie producers finance the movies from their own money or by taking loans. Since banks and financial institutions never provide project-based loans, filmmakers usually resort to expensive personal loans or pledge their properties to finance the films. The budget of one feature film in Nepal is about NPR 10 million, on an average. Moreover, there are other ancillary businesses such as music studios, equipment hire companies and post-production houses that are dependent on films being churned out for their survival. These establishments are also facing the same issue with rent and interest repayment.

Similarly, the cost of running a movie theatre runs between NPR 500,000 to NPR 4 million per month, depending on the location and amenities. Even while not running the theatres, fixed cost comes to about 40 percent of the amount, mostly in the form of lease or rent and interest payments to banks.[6] According to a representative of Nepal Motion Pictures Association—the trade body representing movie theatres—the initial investment of setting up a movie hall is about NPR 100 million. Prolonged shutdown has left film exhibitors without revenue.

Future concerns and challenges

The film industry is not optimistic that they can immediately get back to their feet once the lockdown is lifted. First, the number of footfalls in the halls is expected to be low. As social distancing is going to be the norm, film theatres will not be able to sell the tickets for all the available seats. There is a high chance that movie theatres will be required to fill only the alternate seats to minimize the risk of transmission of the virus. Operating movie theatres below their full capacity will dent the revenue substantially. Moreover, Nepali films are already less popular than Hindi-language movies in the theatres in Nepal. The big Indian blockbusters in the pipeline for release after the lockdown will further dent the box office earnings of Nepali films. Likewise, the rise of movie-streaming platforms such as YouTube, Netflix and others are also contributing to the decline in viewership of Nepali films.

Film making is also expected to be affected by the social distancing measures. As shooting a film requires substantial number of people, social distancing measures may make shooting a difficult task. Likewise, producers are also concerned that once the lockdown is lifted, they may not resume the shooting and postproduction work immediately as there will be many films competing to book the dates from artists and technicians.

Films have just started to get the film production project insured by an insurance company by paying 1 percent of the total film budget as a premium.[7] However, not many filmmakers have bought into this concept.

Apparently, movie business accounting practices are quite opaque according to industry insiders. The movie theatre owners do not share the actual information about the revenue in spite of installation of digital ticketing system—known as box office—at the film halls, making the information on the revenue earned from a movie unavailable.[8]

Recommendations

- Make available working capital loans and refinance facilities for at least two years to production houses, movie theatres, equipment hire companies and post-production studios.
- Provide deferrals and discounts on repayment of loans for up to one year and in the case of larger distress, banks should be allowed to restructure these loans easily.
- The government can subsidize the premium for the film project insurance for the films being made in this year so that filmmakers are encouraged to start production.
- The government can levy additional duty, such as on entertainment tax, on foreign language films which will encourage price-sensitive audiences to choose Nepali movies.

- The discontinued subsidy scheme on the purchase of film negatives (the technology became obsolete after film making became digitalized) could be reintroduced to provide subsidy on the cost of shooting etc.
- Provincial governments can introduce incentive packages for the films to be shot in their province which will promote domestic tourism in the region as well.

[1] Based on conversation with film industry representatives.
[2] GoN. 2020. Industrial Enterprise Act 2076. https://bit.ly/3fwKkQN
[3] Memo submitted by Film Producers' Association of Nepal to MoF on 24 April 2020.
[4] *ibid*.
[5] *ibid*.
[6] Based on conversation with film industry representatives.
[7] Nagarik. 2019. "Film nirmanma bema subidha". *Nagarik* 21 May. https://nagariknews.nagariknetwork.com/news/77496/
[8] Memo submitted by Film Producers' Association of Nepal to MoF on 24 April 2020 and based on conversation with film industry representatives.

B11 Transportation

Transportation of people and goods are indispensable parts of the modern economy. Road transportation is the most dominant form of transportation in Nepal for both passenger and cargo transportation, followed by air transportation. Rail transportation is limited to a 5 km freight transportation line from Raxaul (India) to Inland Container Depot in Birgunj (Nepal). The other railway line, Jainagar (India)-Janakpur (Nepal)-Bijalapur (Nepal), which spans about 53 km along the Nepal-India border, has long been out of operation and is poised to resume operations soon. Similarly, water transportation has a negligible presence. This section provides a rapid assessment of the impact of COVID-19 on road transportation—commercial passenger transportation and cargo transportation, excluding own-account transportation[1]—and excludes air transportation as it is covered in Section B2.

While data on the contribution of the transportation sector alone in the economy's value added is not available, the 'transport, storage and communications' group contributed 7.22 percent to Nepal's GDP in FY 2018/2019.[2] The 'transport, storage and communications' sector was growing at an average annual rate of 5.5 percent from 2012/13 to 2018/19; sub-par growth of 2.02 percent was recorded in 2015/16 when Nepal faced blockade along its borders with India. The Central Bureau of Statistics (CBS) projects a negative growth of 2.5 percent for the sector for FY 2019/20. However, the projection was made early into the lockdown and hence the growth of the sector might be more adverse than the CBS projection, especially given that the passenger transportation has come to a halt and cargo transportation has been limited to essential supplies for about two months now (as of 22 May).

A total of 49,318 buses; 25,595 mini-buses/mini-trucks; 90,411 cranes/dozers/excavators/trucks; 237,658 cars/jeeps/vans; 55,973 pick-ups; 7,658 micro-buses; 45,672 tempos; and 26,466 electric rickshaws (e-rickshaws) had been registered until Falgun 2075 (mid-march 2019), according to the Department of Transport Management (DoTM). However, this statistics also includes vehicles that were registered in the past but are no longer in operation. Furthermore, many own-account vehicles, especially cars/jeeps/vans included in the DoTM statistics, are not covered by the statistics on 'transportation and storage' sector[3], which is the scope of our study.

According to Nepal Labour Force Survey 2017/18 (NLFS III), 322,000 persons were engaged in transportation and storage sector. This accounted for 4.5 percent of the total workforce at the time. This sector employs overwhelmingly more males than females. 315,000 persons engaged in the sector are males, which accounts for 7.1 percent of the total male workforce, and 7,000 are females, accounting for only 0.3 percent of the total female workforce. 70,000 persons (68,000 males and 2,000 females) engaged in the sector had formal employment whereas 252,000 (247,000 males and 5,000 females) had informal employment. Thus, only 21.7 percent of the persons engaged in the transportation and storage sector had formal employment. Average monthly earnings in the sector was NPR 17,751, which is close to the national average monthly earnings of NPR 17,809.

According to Nepal Economic Census 2018 (NEC 2018), 3,182 establishments are engaged in transportation and storage sector.[4] 334 establishments, which account for 10.5 percent of total establishments in the transportation and storage sector, are not registered. Around 5.4 percent of the total persons engaged in the transportation and storage sector work at establishments that are not registered.[5]

The outstanding credits to transportation and storage sector, as of Mid-March 2020, are slightly below 1 percent of the total outstanding credit of banks and financial institutions (Table).

Table: Sector-wise Outstanding Credit of Banks and Financial Institutions (Mid-March 2020)

Heading	**NPR million**	**Share in total outstanding credit (%)**
Railways and Passengers Vehicles	16,343.0	0.51
Truck Services and Store Arrangements	15,319.8	0.48
Total (transportation and storage)	**31,662.8**	0.99
Total outstanding credit of BFIs	**3,213,199.1**	100.00

Source: Nepal Rastra Bank

Passenger transportation

According to the Federation of Nepalese National Transport Entrepreneurs Association (FNNTEA), the premier body of transport entrepreneurs, there are around 255,000 commercial passenger transport vehicles—buses, mini-buses, micro-buses, jeeps, taxis and tempos—currently in operation. All the 255,000 passenger transportation vehicles acquire membership at one of the 294 transportation committees that provide membership perks to the member vehicle entrepreneurs, primary of which is bearing costs related to accidents. In addition to the passenger transportation vehicles mentioned above, there are a few thousand e-rickshaws, which provide short-distance transportation in many towns. According to DoTM statistics there had been 26,466 e-rickshaws registered until mid-march 2019.

The passenger transportation sector, excluding e-rickshaws, is believed to provide direct employment to 1,027,350 persons.[6] This is a much larger number than the 322,000 persons estimated to work in transportation and storage sector as per the NLFSIII. Thus, either the FNNTEA's estimates regarding number of vehicles and number of people employed are overestimates or NLFSIII fails to capture many of the persons employed by transportation and storage sector, or both.

While the data on total investment in the sector is not available, FNNTEA believes a significant portion of total investment is in the form of loans from BFIs. Majority of the vehicles (around 85 percent according to FNNTEA) in operation have outstanding loans with the BFIs—50-60 percent of the loans are with banks procured at around 9 percent (but currently attracting an interest rate of 13 percent) and the rest are with savings and credit co-operatives obtained at a much higher interest rate of around 17 percent.[7] Furthermore, a common practice among transportation entrepreneurs is to make a down-payment of only 20 percent while remaining 80 percent of purchase is financed through credits obtained from the BFIs. The outstanding credit of BFIs to 'railways and passenger vehicles' stood at NPR 16.3 billion on mid-March 2020 (Table).

Tourism Transportation:

An important subset of passenger transportation sector in Nepal is the tourism transportation sub-sector, which offers luxury travel along the major tourist destinations. An estimated 5,800 vehicles in the passenger transportation sector are believed to be associated with tourism transportation according to our consultations. A good share of these vehicles are organized under two private sector bodies— Nepal Tourist Vehicle Association (NTVA) and Tourist Bus Association of Nepal (TBAN). NTVA, which covers a sizeable chunk of tourism transportation sector, encompasses 99 member companies representing 2,100 vehicles. Similarly, TBAN is comprised of 37 member companies representing around 100 tourist buses. The rest of the vehicles associated with tourism transport are owned by travel agencies or independent transport entrepreneurs.

According to NTVA, the total investment of its member companies is around NPR 2.8 billion, with outstanding loans of around NPR 1.3 billion; hence more than 46 percent of investment is in the form of loans from the BFIs.[8]

According to NTVA, its member companies provide direct employment to more than 3,000 persons; in addition to the owners and the supporting staff, the smaller tourist vehicles (constituting 75 percent of their total vehicles) employ one person (the driver) and the larger tourist vehicles (constituting 25 percent of their total vehicles) employ at least two persons (the driver and the assistant). Likewise, according to TBAN, each member company provides direct employment, on average, to 6 persons, and hence their tourist buses provide direct employment to around 222 persons.

Current impact:

All the different forms of passenger transportation have come to a halt since the lockdown started on 24 March. While the occupancy rates and revenues were declining before the lockdown, particularly for the tourism passenger transportation sub-sector, the lockdown has brought the operation to a complete halt.

Following is the highlight of the impact of ensuing lockdown on the passenger transportation sector[9]:

- All the vehicles are currently compelled to shut down their services. About 10 tourist buses overseen by TBAN were used for transporting stranded tourists, but it was a one-off operation.
- Some segments of passenger vehicles were already witnessing distress before the lockdown was imposed. The occupancy rates of tourist vehicles, particularly tourist buses overseen by TBAN, were declining since January amid reduced tourist inflows after COVID-19 contagion started to take off globally. Their average occupancy rate of around 70-75 percent had reduced to 30-40 percent right before the lockdown. The metered taxis were also seeing a dip in their usual business according to a taxi entrepreneur.
- The revenue of the sector has reduced by almost 100 percent since the lockdown. The few tourist buses which were used for rescue purposes had a turnover of around NPR 400,000-500,000; the average revenue of this tourism bus segment (around 100 buses overseen by TBAN) is estimated to be NPR 5.4 million-6 million per month. Thus, the revenue of the passenger transportation sector has taken a dip by close to 100 percent over this 2-month period.
- All the workers are currently unable to work. While all of them have been paid for the month of Chaitra, not all have been paid their wages for the month of Baisakh, mostly because the revenues have completely dried up, and partly because of the inability to handover worker's salaries because of the lockdown.

Major challenges: All the associations and entrepreneurs consulted cited payment of loans as their biggest concern by far. A big portion of passenger transport entrepreneurs have outstanding loans from the BFIs, with an interest rate in the region of 13-17 percent. Payment of wages have been cited as the next concern followed by rent payments (primarily the parking charges) and tax and insurance payments (annual vehicle tax, advance income tax, insurance premium, etc.).

Future outlook: The passenger transportation sector is likely to have challenging times ahead. The lockdown of 2 months has already made all the different segments of the sector cash-strapped. Even when the lockdown is relieved, their business will remain subdued for months as people will not want to get inside crowded vehicles amid fear of contagion. Furthermore, the government will likely impose some social distancing measures that will compel them to operate at reduced capacities. People's willingness to travel will also likely take a hit. This is more so in the case of tourism travel. The tourism transportation sector, which depends significantly on external tourists[10], will have a highly reduced occupancy rates for a long time. Hence, the passenger transportation entrepreneurs paint a gloomy picture of the days to come. According to FNNTEA, the transport entrepreneurs do not envision full resumption of their services at least until October; that too will depend upon relatively quick containment of the virus and support from the government. "Either the passenger transport businesses should be allowed to raise their prices, which will hurt the consumer, or the government has to subsidise the reduced occupancy until things come back to normal. Without a clear operating procedures for running the passenger transportation vehicles during these difficult times, we are not able to resume our services", said the representative from FNNTEA. Likewise, TBAN maintained that if the lockdown is extended by another month, they will have to lay off almost all the employees.

Cargo transportation

According to Federation of Truck Transport Entrepreneurs (FTTEN), there are about 70,000 cargo vehicles—85 percent of which are trucks, 10 percent tippers, and 5 percent mini-trucks—trucks henceforth, currently operating in Nepal. According to FTTEN, in about 50 percent of the cases, truck owners own a single truck; most of these single-truck-owners had previously spent several years working in the trucking industry and many of these single-truck-owners purchase second-hand trucks from their previous owners as they do not meet collateral requirements needed to obtain bank loans. A study which surveyed 1,000 trucks from different regions of Nepal using stratified random sampling methods has a similar finding: 59 percent of the truck owners are solo truck owners, with 70 percent of them previously working in the transportation industry.[11]According to the study, truck entrepreneurs are mostly small entrepreneurs as most of them own a single truck and, on average, own 2.4 trucks.[12] The cargo transport (excluding other intermediaries such as freight forwarding and transport agents) is believed to provide direct employment to roughly 210,000 persons.

The trucks can come into operation after registration at any of the Transport Management Offices (TMOs) of DoTM and then obtaining a route permit, also issued by a TMO. The transportation companies (registered at the Company Registrar's Office) operating trucking business is extremely rare according to FTTEN. However, most of the truck transport entrepreneurs acquire membership in truck transportation committees ('yatayat samitis' in Nepali), the non-governmental independent associations that cater to different needs of trucking entrepreneurs, primarily in dealing with the consequences of truck accidents.[13]

Although there are no available data on investment in the sector, FTTEN estimates that at least NPR 210 billion is invested in the sector, with a rough estimation that, on average, each truck transporter has at least NPR 3 million worth of asset in the form of a truck.FTTEN maintains that the sector is heavily leveraged as the general practice has been to make 20 percent down-payment, with 80 percent of funds for the purchase of truck coming in the form of loans from BFIs. The fact that the median truck in Nepal is 5 years old[14] implies that around 50 percent of the truck owners have outstanding loans (assuming a loan payment period of 5 years which is the common practice), which means the ensuing lockdown has put a significant burden of loan installment on many of the truck entrepreneurs. According to NRB, the outstanding credit of BFIs to 'truck services and store arrangements' stood at NPR 15.3 billion on mid-March 2020 (Table).

Current impact:

Although the government has lately allowed the cargo trucks to operate, FTTEN mentions that only a few of their vehicles are in operation, and that too in limited capacity, because of barriers in transportation, lack of delivery orders, and inability to find willing drivers. The cargo transportation is mostly limited to transportation of essential items such as foods and medicines.

Following are the highlights of the impact of lockdown on cargo transportation sector, according to FTTEN:

- Only 10 percent of the trucks are in operation and that too in limited capacities.
- The trucks were operating at an average capacity utilization rate of 60 percent— they were operating on 60 percent of the days out of the total possible days they were capable of running— before the lockdown. The capacity utilization of trucks that are in operation has reduced by about 50 percent because of the lockdown.
- The revenue of the sector—estimated to be around NPR 14 billion per month (NPR 200,000 per month per truck) before the lockdown— has reduced by around 95 percent because of the lockdown. The trucks that are in operation are making, on average, half the amount they were making during normal times.
- Only 10 percent of the employees are currently working, because of reduced operation as well as due to the fear of contagion. While the truck drivers and assistants are being paid their basic salaries, the drivers who are currently not working do not earn their allowances, which are important components of their earnings (for instance, a truck driver has a monthly basic salary of NPR 15,000 and makes an allowance of around NPR 1,100 per day during the days he is working).

Freight forwarding:

Another group related to cargo transport are the freight forwarders who play crucial supportive roles in the transportation of international shipments. Although the freight-forwarders do not provide transportation services of their own, they assume different responsibilities on the behalf of exporters/importers, including contracting third-party transportation services, for the movement of international freight. ISIC classifies forwarding of freight under 'support activities for transportation', a sub-classification of the heading 'transportation and storage'.

According to Nepal Freight Forwarders Association (NEFFA), there are about 200 enterprises engaged in freight-forwarding business, of which 130 are members of NEFFA. The sector provides direct employment to around 3,000 persons. Total investment in the sector is estimated to be around NPR 2 billion, with around 40 percent of that investment in the form of loans from banks and financial institutions (BFIs), according to NEFFA.

Current impact:

Current cross-border cargo movement, since the lockdown started, has been mostly limited to import of essential commodities such as medicines, medical equipment, and food. Hence, the freight forwarders have witnessed a shutdown-like scenario according to NEFFA. An overwhelming amount of shipments have been stranded at Kolkata port as well as Birgunj dry port.

Following are the highlights of the impacts of the lockdown on the freight forwarding sector, according to NEFFA:

- Only 2-4 freight forwarding agencies are operating at limited capacities and the rest are not able to come into operation because of barriers in transportation and difficulty in getting the workers to work amid fears of contagion.
- Export-related freight forwarding activities have reduced by more than 99 percent. Import-related freight-forwarding has reduced by more than 95 percent.
- Revenue has declined by more than 95 percent because of the lockdown.
- Most of the workers are unable to work because of disruptions created by the lockdown and the fear of catching the virus.

- While the companies have paid the workers for the month of Chaitra, they are having difficulties paying the employees for the month of Baisakh despite government's directive to do so.

Major challenges for cargo transportation and freight-forwarding: Payment of outstanding loan installments is the major challenge for truck entrepreneurs according to FTTEN. On average, a truck entrepreneur owes monthly loan payment of around NPR 60,000-70,000, which is a significant portion of their revenues. Since around 50 percent of truck entrepreneurs seem to have outstanding loans and that a majority of truck entrepreneurs are small entrepreneurs, payment of outstanding debts owed to the BFIs is a major challenge for many in the business, as the lockdown has compelled many of the truck entrepreneurs to shut down their operations.

The freight-forwarding sector also considers payment of outstanding loans (predominantly working capital loans) as their current major concern. The payment of wages is the next significant concern for them.

Future outlook for cargo transportation and freight-forwarding: With likely slump in commodity demand for months, the cargo transportation will see reduced activities even after the lockdown is lifted. According to FTTEN, the whole of next fiscal year (FY 2020/21) will be challenging for them and estimates loss in revenues of around 50 percent in the next fiscal year. With international trade likely to be subdued for months amid supply chain disruptions and reduced demand, freight forwarding sector will also see reduced business activities for at least a few months.

Recommendations

General measures for the transportation sector:

Provide for easy repayment of loans: The biggest challenge by far faced by the transportation sector is the repayment of loan installment accrued during the period of lockdown. Hence, appropriate policy measures such as loan restructuring, concession on loans (reduction in interest rate levied) accrued during the period of lockdown, and deferral of loan payment deadlines, etc. are needed to ensure the health of this sector. For instance, if the lockdown lasts for 3 months, duration of the loan (currently at 5 years) could be extended to further 3 months, with payment of first installment of loan (with some concessions on the interest levied) scheduled for a month or two after the lockdown.

Provide a one-time concessional loan: Since the transportation businesses have many pending payments such as insurance premiums, salaries of workers, rent payments, route permit charges, etc. a small one-off concessional loan, for instance through easy access to refinancing facility, could ease their current liquidity concerns.

Address employment concerns: Many of the workers associated with the transportation sector are low-wage workers. Hence, if the lockdown persists or transportation business remains severely subdued for a long time after the lockdown, a large number of low-wage workers risk being laid off who will encounter livelihood concerns. Allowing for partial wage adjustment and supporting the workers with strong relief (food) distribution mechanism by the government could temporarily allay the problem. However, the government should have concrete plans and stimulus/relief packages to address employment concerns of these workers, in case the lockdown and economic disruptions continue for a much longer period.

Extend the deadlines for payment of taxes and charges: Since the transport businesses have been deprived of any earnings for almost two months now, many entrepreneurs will potentially have difficulties in paying their taxes. Hence, the government should extend the deadlines for the payment of taxes and charges, particularly the annual vehicle tax, route permit charges, and advance income tax.

Other measures:

- Adjusting the oil prices to align with the current international prices could significantly reduce the operating costs of transportation businesses. Some sort of subsidies to reduce the oil prices for public passenger transportation and cargo vehicle, until the situation comes to normal, if the international prices rise again could be adopted.
- Since many workers are likely to be without pay if the lockdown is further extended, dutifully implement and monitor the implementation of employment schemes for informal unemployed workers introduced by the government.

Segment-specific measures:

Passenger transportation:

Formulate clear policies for operation of vehicles after the lockdown is lifted: Even after the lockdown is lifted, some sort of social distancing measures will remain in place for a long time. These distancing measures, either voluntary or imposed, will have an adverse impact on the occupancy rates of passenger transport vehicles. Hence, a clear guideline on working procedures to ensure safety of workers and passengers as well as on revision of prices and government support (tax incentives, reduced permit fees, etc.) is needed to ensure the sustainability of passenger transportation business.

Extend the deadline for transforming transport associations into companies: The government had directed the transport associations to register as companies. However, given the intricacies in converting them into companies, there had been delays in implementation and hesitation from the transport associations. Since these are challenging times for transport entrepreneurs, giving them extra time to register as companies, until things come back to normal, will allow the transport associations to expend their energies in providing support to their member transport businesses.

Implement tourism promotion measures: Promoting tourism, for instance through implementation of 'tourism leave' proposed by Nepal Tourism Board will alleviate the drop in demand in the passenger transportation sector, particularly in the tourism transportation segment.

Cargo transportation

Withdraw the implementation of VAT on transportation charges, at least temporarily: The government introduced the provision of VAT on freight transport charges in 2019, which would make registration in VAT system mandatory for all the truck owners. However, cargo entrepreneurs believed that this was impractical and would cause undue difficulties to their businesses, especially since many of the truck owners are small entrepreneurs. This provision had not yet been fully implemented. Hence, the government could withdraw this provision, at least until the economic activities come back to pre-covid levels.

Ensure smooth operations for cargo vehicles and freight forwarders: Trucks that are in operation still face transport barriers and harassments. Many trucks are compelled to shut down their operations because industries are not in operation and retail shops are not fully in operation. Many freight forwarders lack transport permissions (passes) to resume their operations. Hence, the government should introduce clear guidelines for smooth operation of cargo vehicles and freight-forwarding businesses and implement he same.

NOTES

[1] Own-account transportation, where people use their own vehicles (usually cars) for passenger transportation and industries use their own vehicles for cargo transportation, instead of third-party transportation services, are not included in the statistics of the transportation sector. The statistics for transportation sector is generally included under the heading 'transportation and storage'.
[2] 'Transport, storage and telecommunications' industry in Nepal's national accounts includes: land transport; water transport; air transport; supporting and auxiliary transport activities, activities of travel agencies; and post and telecommunications.
[3] International Standard Industrial Classification of All Economic Activities (ISIC), the international reference published by the United Nations, as well as the Statistical Classification of Economic Activities in the European Community (NACE), the European industrial classification, classify transportation sector under the heading 'Transportation and storage' sector [Section H], which includes: Land transport and transport via pipelines; Water transport; Air transport; Warehousing and support activities for transportation; and Postal and courier activities. Unlike the classification system currently used in Nepal's national accounts, 'Telecommunications' is classified under a different heading 'Information and communication' [Section J of ISIC]. Similar is the practice in North American Industrial Classification System (NAICS) which classifies transportation under the heading 'Transportation and Warehousing' and 'Telecommunications' is classified under a different heading 'information'.
[4] However, there is a sharp discrepancy in the employment figures reported by NLFSIII and NEC 2018. NEC 2018 records 20,027 persons engaged in the transportation and storage sector compared to 322,000 persons estimated by the NLFSIII. The likely reason for this discrepancy is that a large share of transport vehiclesare not covered by NEC 2018 as NEC covers only those establishments (economic units) that are under a single legal entity at a single physical location; in many instances, barring the cases of few transportation companies, most of the transportation vehicles are individually owned and without registration as an economic entity. Our consultations with the private sector representations suggests that the employment provided by transportation and storage is much bigger than the NLFSIII estimates.
[5] The fact that only 10.5 percent of the establishments are not registered and 5.4 percent of total persons in the sector work in these, but an overwhelming 78.3 percent of the persons engaged are in informal employment indicates, aside from discrepancies between NLFSIII and NEC 2018, a large share of persons engaged in formal establishments with informal employment (devoid of annual/sick leaves and no contribution to social security on their behalfs).
[6] According to FNNTEA, a passenger vehicle, on average, provides direct employment to the owner of the vehicle and three employees; a transport committee employs, on average, 25 persons.
[7] In 2019, Department of Cooperatives imposed a ceiling of 16 percent on new loans made by savings and credit cooperatives.
[8] The investment figures regarding NTVA was obtained through a survey of their member companies which was included in 'Nepal Tourism Board (NTB) Tourism Industry Survey Responses, 2076/77'.
[9] Based on consultations with FNNTEA, NTVA, TBAN, and a taxi owner.
[10] According to NTVA, 95 percent of their revenues is derived from foreign tourists.
[11] Poudel, Biswo. 2015. *Structure Of Nepal's Trucking Industry: Results from a Nationwide Survey*. DOI:http://dx.doi.org/10.12774/eod_cr.january2015.poudelb.
[12] Ibid.
[13] According to FTTEN, there are around 35 transportation committees in the cargo transportation sector.
[14] Poudel, Biswo. 2015. *Structure Of Nepal's Trucking Industry: Results from a Nationwide Survey*. DOI:http://dx.doi.org/10.12774/eod_cr.january2015.poudelb.

B12 Poultry

Sectoral Profile

According to the Nepal Commercial Poultry Survey 2073 (2016), the commercial poultry sector saw sharp growth in the 2004-2014 period when the number of commercial poultry units—defined as functional units operating for profit and having 500 or more chickens—grew from slightly over 1,200 in 2003 to 21,956 by 2015.[1] Meat production in poultry, for instance, has risen from slightly over 16,000 tonnes to 60,402 tonnes between 2003/04 and 2017/18.[2] According to the survey, 64 districts had commercial poultry units.

With sharp growth spanning nearly two decades, the sector has grown to be large and significant in several respects. The survey evidences that nearly 56,000 are directly employed while the units deploy additional labour for over 100,000 temporary mandays annually. Industry sources suggest that the employment figures are far greater than recorded by the survey. This is in part because the survey only includes commercial units. The industry sources put direct employment figures at between 150,000-300,000.[3] Private investment in the sector is reported to be in the NPR 120-160 billion range.[4] Interestingly, an FAO study puts private investment in poultry at NPR 22 billion in 2010/11.[5] The sector has catered well to the national demand as Nepal is self-reliant in poultry whether it is meat or eggs.[6] Touted as the least inexpensive source of protein, Nepal is only behind Sri Lanka and Pakistan in South Asia when it comes to per capita chicken consumption.[7] The sector has relatively greater linkages with other sectors (such as agriculture and hospitality).[8]

According to the survey, over 90 percent of the units produce broilers while around 6 percent raise layers (used to produce eggs). The rest of the units are either hatcheries (producing chicks) or into raising other indigenous and non-indigenous breeds. Districts with the highest number of units are Chitwan (over 2,000 farms), Dang, Kabhre, Dhading and Sunsari (around 1,000 units each). Chitwan alone produces a tenth of all broilers produced in a year, and over half of total eggs produced annually.

Nearly 60 percent of the sector's annual revenues are generated from meat while 30 percent are via sale of eggs (rest comes from sale of chicks and sale of manure; the latter accounting for about 1 percent).[9] Roughly 95 percent of meat production—measured in terms of weight of live chickens—annually is from broilers which account for 88 percent of total chickens raised in a year.

According to the survey, roughly 15 percent units are female owned. Under 10 percent of those owning and managing these units have university education. About 15 percent units are owned by returnee migrants. About 60 percent owners report that poultry farming is the main source of earning. For hatcheries, 90 percent report such phenomenon.

The survey reports that over three quarters of the total units are unregistered. Of the 5,040 registered firms, 3 percent are registered with Company Registrar's Office while the rest are registered with district livestock or district cottage office. In our quick survey with multiple actors in the poultry production chain, we find that the bulk of units remaining unregistered has to do with the fact that farms raising up to 5,000 chickens can operate without any form of registration including with the municipality/VDC. According to senior executives in the industry, this is so because poultry is classified as an agricultural activity. Furthermore, these units with up to 5,000 birds can borrow personal overdrafts up to NPR 10 million—listing income from poultry—from financial institutions without having to register. Borrowings beyond this limit require registration.

It is important to highlight here that only 2,290 units out of 21,956 commercial units have more than 5,000 chickens. According to industry sources, the 2,290 are medium and large units. Alternatively, nearly 90 percent units—with 5,000 or less chickens—are understood as small. The survey finds that only half of all the units have accessed loans. A third of these have borrowed from cooperatives, 20 percent from Agriculture Development Bank, 24 percent from other banks and financial institutions and the rest 25 percent from unspecified sources. Although most units are small, about 60 percent do want to/aim to expand but are constrained by credit as well as market size.

While according to the survey, expenses on feed account for over two-thirds of the operating expenses, industry sources say the figure is slightly greater than this. According to the survey, about 17 percent of the overall operating expenses go into buying chicks.

The survey excludes units that raise less than 500 chickens meaning that a vast number of extremely small entrepreneurs are excluded. According to media reports, there are over 500,000 units in the sector.[10] Our informal survey suggests that commercial units itself would currently number over 50,000. Furthermore, the production and supply chain of the poultry sector includes feed industries, cold storage units, wholesalers, retailers and distributors, institutional buyers, agro-vets and medicine dealers[11].

Impact of the lockdown

Early on into the lockdown, with markets shut and transportation obstructed without much planning, poultry producers as well as traders were not been able to clear stocks.[12] Reports, citing poultry sector entrepreneurs, suggested a significant decline in demand as schools, restaurants and marriage halls were shut while religious and social gatherings elsewhere were prohibited.[13] Industry sources suggest that when stocks did not clear, one implication was that poultry units were not able to source feed as distributors refused supplying feed on credit.[14] In our survey, respondents suggested that since most poultry entrepreneurs are operating with a small capital, feed inventory levels are mostly non-existent meaning that upon shortages and obstructed production and supply chain, they were bound to run out of feed. Expenses incurred on feed account for nearly 70 percent of total production costs in broiler production.[15] A report notes that in a few days of the lockdown, the daily demand of roughly 800,000 kilograms of chicken meat had dropped to virtually zero.[16] This article suggests that small as well as large firms—the latter with significant borrowing from banks and financial institutions (BFIs)—were facing major losses as mature chickens were no longer being demanded. Mature chickens consume more feed but without an increase in their weight. Further, there is a somewhat greater mortality rate among the mature ones. Within a week of the lockdown, reports started emerging that not only were units unable to source inputs but it was difficult to move output due to transportation obstructions.[17] Obstructions persisted even though transportation of livestock, eggs and feed was listed as essential service.[18] According to a report, daily demand for feed is 30,000 tonnes but under a third of it was available in the first two weeks of the lockdown, meaning that less than optimal quantum of feed was being supplied to chickens.[19]

Only a few days into the lockdown, it was being reported that the major poultry production hub of Chitwan had markets shut while movement as well as transportation of supplies stood disrupted.[20] More crucially, poultry entrepreneurs were already into distress selling (of both chicken and eggs) as well as euthanizing of chickens (and destroying eggs).[21] In our informal survey, a cold storage operator—a major actor in the supply chain in poultry—suggested that people have been circumspect about consuming chicken when in fact there is no evidence that chicken meat consumption spreads the virus. He added that the industry association as well as the relevant ministries should spearhead campaigns. As the lockdown was imposed and there were palpable fears of spread of the pandemic, retailers and distributors (including cold storage operators) were unable to sell their output. As a consequence, demand for chicks from hatcheries plunged.[22] Hatcheries are mostly large units with significant amount of capital invested, much of it borrowed from BFIs.[23]

While poultry units reported feed shortage, feed producers grappled with reduced orders as well as disruption in production primarily owing to hindrances in obtaining inputs such as maize, soya and medicines, much of which are imported. Over two-thirds of maize, 95 percent soya and over 75 percent of the medicines, all critical inputs into feed production, are imported.[24] It appears that while the imports did often reach the borders, it was difficult to transport the same into the interiors due to both significant lack of transporters and loaders and minimal, if any coordination, when it came to movement of essentials.[25] Feed producers reported reduced demand given that poultry entrepreneurs were not buying additional chicks, or buying less of it, meaning also that hatcheries were incurring losses (daily losses of NPR 40 million, as reported in one article).[26] It is chicks that consume much of the feed and that too in the early days.[27]

Two weeks into the lockdown, ground reports from several parts of the country report obstructions in transportation, reduced demand, distress selling and loss of livelihood and, in some cases, displacement. In the far west, poultry hubs like Kailali district saw a 90 percent decline in sales with entrepreneurs having to sell chickens at below production costs; even giving it away for free.[28] This was the preferred strategy over euthanizing the mature poultry. In Khotang district, hundreds of poultry units grappled with loss of revenue; much of it due to the perception among buyers that chicken might transmit the virus.[29] Reports have highlighted how the lack of coordination in transportation of poultry and its inputs has led to a combined loss of over NPR 220 million per day in the poultry sector.[30] An admission that there were such issues came from the MoALD itself.[31] Industry bodies reported euthanizing millions of chicks every week.[32] In slightly over two weeks of the lockdown, 30 million chicks were buried alive.[33] Predictably, while the losses for large units ran into millions, it was the small units that were reported to be under severe distress.[34] These were units raising under 500 chickens.[35] Furthermore, across multiple locations—from eastern Nepal to the far western belt—ready-to-market mature chickens were euthanized.[36] According to an estimate, the cost incurred in raising 2,500 chickens is NPR 700,000.[37] In the absence of transportation, poultry units did attempt to sell some of the output locally on their own (often on bicycles) at low prices but this was only a fraction of their output, meaning imminent losses.[38] Eggs, the daily demand for which is 4 million units, was seeing a fraction of sales and in large part because retailers and wholesalers were shut.[39] Production of eggs, for instance, dropped by nearly 30 percent from 3.2 million units per day to 2.5 million.[40] Even with lower production, units reported unsold stocks and hence losses (eggs have a less-than-30-day shelf life).[41]

Given the scale of losses and continued disruptions into the third week of the lockdown, the MoALD hinted at relief measures for the agribusiness sector as well as efforts to improve transportation-related issues.[42] MoALD commitments, however, did not improve and there was continued disruption to the transportation of chicks, chickens and eggs, and the feed sector continued to produce only at a third of its capacity.[43] Reports kept emerging of vehicles carrying live poultry being stopped,[44] live chickens sold at below production costs and starvation and death of chicks and chickens in the absence of feed.[45]

In the recent days and as the lockdown has been extended repeatedly, the plight of the sector appears to have become worse, although poultry activities—from rearing to distribution to sales—are listed as essentials repeatedly.[46] A report from Tanahun evidences that owing to the lockdown, there have been losses up to a million rupees even in small units.[47] These units have not been able to service loans and are producing, for instance, eggs at only half the capacity given low demand, are unable to replace chickens and face a shortage of feed; much of this due to loss of revenue and obstructed transportation. Most retail shops are shuttered, and units are having to sell much of the produce—both chickens and eggs—locally, mostly below production costs.[48] Another article on Nuwakot district notes that with limited opening times and curtailed transportation, chicken sales have dropped by 80 percent while production even for the existing demand level has been difficult.[49] A major challenge in production has been getting workers to work.[50] The report observes that all the 5,000 or so poultry entrepreneurs have incurred significant losses in part because many poultry units catered to orders from Kathmandu and other urban markets nearby. Much of the orders have dried up and due to reduced transportation services and greater transportation costs, completing orders at pre-lockdown prices has been difficult.[51]

A recent report indicates that driven by rising transportation costs, the production cost of feed has risen since the lockdown.[52] Furthermore, of the 100 or so feed units, only half are functional at present.[53] Districts like Siraha, Morang and Kailali sit on reduced demand for poultry while the existing demand is being met at significantly greater costs due to transportation challenges.[54] Most cold storage units in Morang are reported to be full and no longer procuring live chickens.[55] In the three districts, hatcheries continue to bury chicks (and destroy eggs that would have processed as chicks) due to lack of demand from poultry units while mature chickens are being euthanized.[56] The expectation is that if things do not improve, those left will die as well.[57] While most units have not been able to sell mature chickens, few poultry producers that have been managing to raise and sell chickens cannot access chicks or feed due to transportation issues.[58] Little wonder, many of these producers have told journalists that while demand has crashed, if there were functional coordination mechanisms for smooth movement and transportation, half of their losses could be curtailed.[59] Given such a scale of the impact, almost every actor in the production and supply chain has been negatively affected: poultry units, hatcheries, feed producers, distributors, agrovets as well as retailers. Predictably, banks are and will continue to be affected.[60]

To understand the impact and the current dynamics, we engaged in an informal survey of those operating/overseeing poultry, hatchery, cold storage and feed production units. Below are some of the key observations:

- Production and supply network stands broken and despite assurances, there is minimal if any improvement in coordination for better movement and transportation. For instance, recently feed as well as livestock vehicles moving between Province 5 and 6 were stopped for several hours until top officials were contacted. Trucks carrying maize and soya were prevented from moving. Cold storage units have not been able to supply processed meat as the demand has been 50 percent of the normal times. While there are hardly any formal coordination mechanisms and standard operating procedures so far, some local governments and officials have been helping informally.
- Of the nearly NPR 160 billion invested in the sector, sources tell us a quarter of this comes from BFIs. It is important to outline here that BFI exposure (or loans outstanding) in the animal farming sector which comes under agricultural credit head, is NPR 47.49 billion in July 2018 which is nearly 35 percent of overall agricultural credit.[61] While animal farming includes buffalo and pig farming along with chicken, the BFI exposure should be closer to the estimate presented in the interview for two reasons. Over half of the commercial units borrow from cooperatives and unspecified sources combined and hence this figure is not included in the BFI exposure. Moreover, from the industry sources, we understand that units raising 5000 chickens or less usually borrow loans from BFI as personal overdraft and not as agricultural credit. Debt servicing has not been happening since the lockdown while the Ashad repayment extension is no relief as such because neither interest payment nor installments will be paid in Ashad end. Furthermore, the 10 percent additional working capital support is far less than the requirements. Intriguingly and in potential contravention of recent NRB regulations, banks deducted Chaitra interest for the sanctioned limits if there were funds available in the respective accounts.

- Feed producers are potentially the relatively less affected. So far, many feed production units are operating, have retained staff as well as paying them salaries. This said, most poultry entrepreneurs owe feed producers significant sums as feed was purchased on credit in normal times and hence it is important that poultry units resume production to service the debt. That feed producers have stopped supplying feed on credit was validated in the interviews. Feed sales since the lockdown have been 20 percent of the normal times.
- Disrupted international trade has been extremely worrisome for the sector as poultry units have not been able to import parent chickens that come from countries in Europe and the US. Parent chickens as well as layers chicken need to be replaced periodically.
- It appears that most hatcheries are large and capital-intensive operations capturing sizable value in the chain (nearly 20 percent of the operating expenses in raising chickens goes into sourcing chicks)[62]. These units have so far retained staff and continued operations at lower scale. This said, these are also highly leveraged units, we learn from the industry sources. These units—as a grouping—being at risk puts BFIs at significant risk as well.
- Interest payment, rent and staff costs have been the three major burdens. Interest payment is an area that will require significant support.

Recommendations

- Refinancing fund, reduced CRR, 10 percent overdraft facility on existing working capital limit and extended interest/installment repayment window are welcome measures. However, it is important to highlight that borrowers still need to prove their creditworthiness which effectively means furnishing collaterals (either fixed or current assets). It is, hence, doubtful if all distressed units will be able to benefit from the liquidity measures. The collateral requirements need to be relaxed and partial guarantees from the government may be required if firms are not able to provide additional collateral. The 10 percent overdraft limit needs to be further expanded.
- Concessional loans to the smallest units to source chicks as well as feed will be useful in getting them back to production. Furthermore, poultry farmers may be provided waiver on interest as well as a discount on existing loan.
- According to the Nepal Commercial Poultry Survey 2016, only half the commercial units in the sector borrow. Since a third of all units that borrow do so from cooperatives (only a quarter borrow from BFIs), it is important that cooperatives have adequate liquidity in meeting customer obligations. Cooperatives' membership-based coordinating body, Nepal Federation of Savings and Credit Cooperative Unions (NEFSCUN), has directed members to not charge penalty on delayed payments of interest and instalment.[63] These measures need to be effectively implemented.
- In the light of transportation-related disruptions and surging transportation costs, provisions have been made to incentivizing producers and transporters to carry essential commodities to markets. In this, the producers will be provided a grant equal to 25 percent of the transportation costs.[64] Effective implementation of the incentive is necessary.
- Movement of workers as well as transportation of goods needs to be improved upon. While informal connections have helped many in the sector, formal procedures that are effective need to be devised so that those without connections can also function. Perhaps, functional partial lockdowns can be implemented with the help of local level task forces and monitoring units which can monitor and enforce operating procedures. Such units can be useful in monitoring whether the poultry units are adhering to distancing and other related guidelines. Industry-specific formal codes can be developed and in this the industry itself can develop such procedures.

- The feed sector has been finding it difficult to transport inputs from the border to the interiors. Obstructions exist in moving vehicles (carrying livestock as well as feed inputs) from one province to another. Better coordination mechanisms are required. Further, concessions on the agriculture development fee--on imports of maize and soya, for instance—may be a form of support to the feed sector.
- The industry as well as the relevant departments in the government must develop mechanisms to communicate that consumption of chicken and eggs, vital nutrition sources in the country, does not lead to Covid-19 infection. This has led to shrinking demand and potential loss of nutrition among the masses.
- According to the Nepal Commercial Poultry Survey 2016, nearly 60 percent of poultry units want to expand but cannot do so due to lack of credit and limited market size. Since relief in the form of food grains is being provided via local governments, eggs may be included in such meals. This has indeed been done in other parts of South Asia.[65]
- As poultry units have received less-than-production cost prices, retail meat prices have not gone down. Predictably, many poultry units want to reach consumers directly. Functional e-commerce platforms can be a way in this.
- The regulation that restaurants may function as take-away is useful and helps the sector but only a marginal number of eateries are functioning this way—this too, with extremely limited capacity—owing to poorly coordinated movement. There is a need to streamline the take-away and delivery with effective enforcement of anti-infection measures.[66]
- Delayed payment of utility bills—electricity, water and telephone—and that the same will not attract penalties and fine if paid by Ashad end will be helpful. Waivers can be considered for the smaller units.

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[9] Much of the information stated here is drawn from the Nepal Commercial Poultry Survey 2076. Where the source is not the survey, the same has been specified.
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