Leap to the Himalayas

A 10-point Agenda for a 5x Nepal

Nilanjan Ghosh, Debosmita Sarkar, Renita D'Souza, Soumya Bhowmick, Ambar Kumar Ghosh, and Shoba Suri
Contents

Executive Summary ................................................................. 4
Introduction .................................................................................. 8
Baseline Analysis: How Nepal Fares Today .................................. 12
Nepal’s Opportunities: Three Pillars, Six Priorities ..................... 17
  Human Capital: Harnessing the Demographic Dividend ............. 19
  Towards New-age Services ....................................................... 23
  Ecotourism for Sustainable Growth ........................................ 26
  Renewable Energy and Potential for Hydropower Production .... 28
  The ‘C+1’ Landscape and Economic Integration ...................... 30
  Strengthening Connectivity through the
  Bangladesh-India-Nepal Network ............................................. 32
Emerging Pressure Points ............................................................ 35
  Business Environment and the Political Economy ................. 36
  Agricultural Dependence and Climate Risks ............................ 37
  Remittance Earnings and the Evolving Global Economy .......... 40
Ten Steps to a 5x Economy: Priorities and Actions .................... 42
Endnotes ...................................................................................... 50
About the Authors ......................................................................... 58
Executive Summary

Nepal has immense untapped opportunities. The country aims to transition from a least developed country to a developing economy by November 2026. Despite such aspirations, Nepal’s per capita gross domestic product (GDP) remains significantly low, at US$1,208 in 2021, and poverty levels are highest among the smaller South Asian nations. While Nepal aspires to reach a per capita GDP of US$12,000 by 2043, this report presents a 10-point agenda for the country to create a development trajectory that will expand the economy by five times its present size, from US$39 billion in 2023 to US$200 billion by 2033. The 10-point agenda comprises several concrete steps:

“...”
Recommendation 1: Tread the path to economic diversification through IT-enabled transformations

- Nepal needs to diversify its economy by pursuing robust developments in its IT sector to support off-farm manufacturing and domestic services.

- Nepal’s gig economy is a growing sector that should receive the necessary emphasis in the country’s development policy actions. Backed by software and technology development, the sector can account for a significant portion of online freelance employment and help formalise a large section of the unorganised workforce.

Recommendation 2: Generate value by leveraging the demographic ‘window of opportunity’

- Nepal should capitalise on the unique opportunity to harness its demographic dividend and youth capital to accelerate its economic growth and create a prosperous future for its citizens over the next 10 years.

- Addressing gender disparities in the labour market can have significant economic benefits, including boosting national income, increasing productivity, and reducing poverty.

- Measures such as improving educational and skilling opportunities, creating a safe working atmosphere, increasing the availability of workplace daycare centres, enhancing women’s leadership and decision-making participation, and encouraging and supporting women’s participation in private enterprises can help correct the gender disparity.

Recommendation 3: Create workforce capabilities to respond to the evolving needs of the job market

- Nepal’s economic growth can be propelled by educating and strengthening the skills base of its working-age population, especially the youth, and prioritising technical, vocational, and professional education.

- Expanding health infrastructure, investing in community-based primary healthcare units and existing networks of community health workers, and strengthening the social health security system can also improve healthcare access and quality.

Recommendation 4: Harness the true potential of natural wealth through sustainable tourism and ‘ecopreneurship’

- Nepal can take advantage of its massive natural capital by promoting sustainable tourism, which includes participatory conservation, community-led tourism, the promotion of a circular economy, and local ecotourism. This can generate important benefits such as employment creation and skill development for the youth and women, thereby helping the cause of equity and distributive justice and promoting economic growth.

- With its vast natural wealth, Nepal is an ideal location to foster environmental entrepreneurship through ecotourism, green
construction, and waste management. Collaborating with the thriving startup sectors in India and Bangladesh can create opportunities to establish bridge projects in the region.

**Recommendation 5: Prioritise the renewables sector for improvements in energy security and protection against global volatility**

- The government can offer tax breaks and subsidies, streamline bureaucratic processes to break departmental silos and invest in developing the technical capabilities of local workers, create enabling business conditions, and encourage private sector investment in hydropower and renewables.

- Nepal must also explore exporting surplus energy to neighbouring countries and developing small- and medium-sized hydroelectric projects.

**Recommendation 6: Climate-proof traditional growth drivers for food and livelihoods security**

- Nepal needs to create better climate resilience through a multifaceted and integrated approach that involves government action, private sector engagement, community participation, sustainable land-use practices, climate-resilient farm infrastructure development, and strengthening institutional capacity to respond to climate risks.

- Malnutrition is also a significant public health issue in Nepal, with climate-related shocks exacerbating food insecurity and malnutrition among vulnerable communities. Possible solutions can involve the promotion of climate-smart agriculture with a gender-sensitive approach and crop diversification to promote the cultivation of more climate-resilient yet nutrition-rich varieties or species.

**Recommendation 7: Improve the business environment to encourage and secure a steady inflow of foreign investments**

- Nepal must establish political and governmental stability to ensure a coherent developmental policy for the economy.

- Nepal should improve access to finance by developing a robust financial sector, encouraging the use of technology in finance, and creating favourable policies that support entrepreneurship and innovation.

**Recommendation 8: Promote digital financial inclusion to enhance the savings base to advance domestic private investment, and promote the gig economy and digital entrepreneurship to reduce remittance dependency**

- Nepal needs to enhance its financial inclusion through digital technology, thereby increasing the formal savings base of the economy. This will help create a larger pool of “investable capital” from the domestic private sector, which will help the process of economic growth.
Nepal must embrace digital technologies and expand its gig economy to substitute its remittance incomes. The country should invest in digital infrastructure, encourage the adoption of digital technologies, and promote digital entrepreneurship.

**Recommendation 9: Promote regional cooperation and connectivity to strengthen the prospects of global economic integration**

- Nepal needs to work on developing the Bangladesh-India-Nepal economic corridor. Improved connectivity through resilient infrastructure systems can reduce trade costs and increase bilateral trade and investment flows.

- To reduce external-sector dependencies and protect against the uncertainties of a volatile global economy, Nepal should assert its presence in the global export market, particularly through partnerships with larger regional actors like India. As manufacturing units shift from China to countries with lower labour costs and less stringent regulations, Nepal can become a major service provider to the new emerging manufacturing hubs in its neighbourhood by supplying critical raw materials and intermediate goods to produce sophisticated finished products.

**Recommendation 10: Take advantage of the immense potential in the domestic service sector to emerge as a beneficiary of global corporations’ movements out of China**

- Nepal’s demographic dividend presents an opportunity to develop its service sector through the organic movement of the labour force away from agriculture. Global corporations’ shift out of China to diversify their value chain (China+1 strategy) can help Nepal indirectly. Global corporations have learnt that an overdependence on specific economies is bound to have cascading effects on the world economy because of the macroeconomic shocks they produce. While nations like India and Vietnam are emerging as beneficiaries of this China+1 strategy, Nepal can support the growing manufacturing hubs, especially in India, by providing certain intermediate services, including that of being a trading hub, given its unique strategic location between China and India.
Introduction
Nepal, located in the Himalayan foothills and covering parts of the Indo-Gangetic plains, is one of nine least developed countries (LDCs) in South Asia. The country is landlocked, with China to its north and India to its south. The landmass is narrowly separated from Bangladesh by the Siliguri Corridor in the Indian state of West Bengal, and from Bhutan by the Indian state of Sikkim. Nepal is endowed with a rich natural capital originating from its diverse geography, including the fertile Indo-Gangetic plains, subalpine forested hills, and eight of the world's 10 tallest mountains, including Mount Everest, the highest point on Earth. Nepal's rich culture is evident from its multiethnic, multilingual, multireligious, and multicultural social structure. Kathmandu, Nepal's political capital, is also its largest and most important city from a commercial perspective.¹

Nepal aims to transition to a developing economy from the LDC category by November 2026.² Since 2015, when it first met two out of three LDC graduation criteria,³ the country has continued to make sustained economic progress and build resilience against structural economic and environmental vulnerabilities. However, Nepal's per capita gross domestic product (GDP) remains significantly low, at US$1208 in 2021.³ Still, Nepal is the first LDC to be identified for graduation despite failing to meet the income graduation criteria for three consecutive reviews by the United Nations’ (UN) Committee for Development Policy Secretariat.⁴

Figure 1: Map of Nepal

Source: Worldometers⁵

---

a As of 2022, Nepal has satisfied two LDC graduation criteria, the Economic and Environmental Vulnerability Index (EVI) and Human Asset Index (HAI) scores. Nepal's EVI score remains below the threshold (32) at 23.8, and the country's HAI score of 76.5 is well above the threshold level of 66. The GNI per capita of Nepal, estimated at US$1197.8 in 2022, is lower than the graduation threshold of US$1242.
As Nepal continues dealing with the economic ramifications of multiple challenges, particularly the COVID-19 pandemic and the Ukraine-Russia conflict, sustained economic growth is a prerequisite for achieving its long-term vision of ‘Prosperous Nepal, Happy Nepali’. The 15th Periodic Plan released by Nepal’s National Planning Commission in 2020 sets out the ‘Long Term Vision 2043’, which attempts to integrate financing and the implementation of the 2030 Sustainable Development Goals (SDGs) Agenda and envisions a per capita income of US$12,000 by 2043. This is tantamount to the Nepal economy having a GDP of US$400 billion in the next 20 years.

Nepal’s economy is heavily dependent on primary-sector employment and remittance inflows from the unskilled workforce in India, West Asia, and East Asia. To address its transition challenges, Nepal should improve labour productivity and diversify its employment pattern from farm to non-farm employment, build domestic capacities by leveraging existing strengths and assets, reduce its dependence on remittance income, and diversify its export basket. But there is another critical factor that requires attention. Once Nepal graduates from the LDC category, it will lose access to international support measures. Given these developments, Nepal needs to carefully integrate into critical regional and global value chains (GVCs) in a manner that continues to favour its position in the international markets.

Figure 2: Nepal’s Long-Term Vision for Economic Growth

Source: Authors’ own
This report discusses a few key capability areas that Nepal can build on to reach a nominal GDP of US$200 billion economy by 2033—the halfway point to its Long Term Vision 2043—from its current GDP of US$39 billion, setting a strong ground for future economic growth. A 5x economic growth over current levels over the next 10 years will warrant a 17.7 percent compound annual nominal GDP growth rate. As per the authors’ estimates, this is tantamount to a real GDP growth rate of 8.7 percent per annum. Before the COVID-19 pandemic, average real GDP growth rate in Nepal was 7.7 percent over the 2016-2019 period. The economy contracted by 2.4 percent in 2020-21. At its current population growth rate of around 2 percent (over 2020-2022), a nominal growth rate of 17.7 percent annually appears plausible. Considering this leap in nominal terms based on the specific recommendations forwarded for a 5x growth in Nepal, a real annual growth of 8.7 percent and an annual inflation rate of 9 percent (on average) over the next 10 years is assumed. To achieve this, Nepal will also have to carefully navigate a few pressure points that can hinder sustained growth prospects. The analysis in this report is being conducted at a macroeconomic level, rather than a sectoral level. Therefore, the recommendations are on a macro scale, but take into consideration both macroeconomic variables and the sectoral forces of growth. This report delves into identifying feasible macroeconomic pathways amid the presently unfolding geostrategic scenario and has, therefore, deliberately abstracted from discussions on sectoral or industry-level details and specific policies. Each strategic recommendation and its constituent actionable steps can be explored in greater detail to develop more industry-specific transformation frameworks enabling a 5x growth for the Nepal economy.

“A 5x economic growth over current levels over the next 10 years will warrant a 17.7 percent compound annual nominal GDP growth rate.”
Baseline Analysis:
How Nepal Fares Today
Nepal has historically had slow economic progress despite embarking on a development pathway since the 1950s. At 7.03 percent, the Himalayan nation’s poverty rate is higher than that of the other small South Asian countries like Bhutan, Sri Lanka, and the Maldives. Moreover, the Nepal government has little control over inflation, which is currently at 8 percent (year-on-year). In addition, rising international prices for goods like fuel, fertilisers, and food, induced by the Ukraine-Russia war, have forced Nepal to procure these at higher costs, negatively impacting people’s well-being and livelihoods. The GDP growth rate of 4.1 percent in 2021, which is lower than its inflation rate, indicates the Nepali population’s reduced purchasing power. As such, the country has a long way to go to emerge as a high-performing economy in the region.

Domestic Economy

Nepal’s future growth projections fall short of the 7 percent growth rate required to attain the SDGs. Nepal’s service sector accounts for the largest share of the domestic economy, followed by agriculture and industries—in 2021, the service sector accounted for 52.58 percent of the GDP, agriculture contributed approximately 36 percent, and industries around 11 percent. In March 2023, Nepal’s trade balance depicted a deficit of US$969 million, a slight deterioration compared to the deficiency of US$870.4 million from the previous month. Econometric analysis shows that while investment drives economic growth in Nepal to a large extent, mobilising domestic savings into productive sectors has been a challenge. Nevertheless, Nepal’s languishing banking sector has the potential to expand financial access through mobile banking solutions, increase credit operations with strengthened balance sheets, and boost investment in infrastructure with long-term lending institutions.

Figure 3: Seasonally-Adjusted Growth Rate of Nepal’s Quarterly GDP (in percentage)

Source: Kathmandu Post, data from National Statistics Office
Business Climate

Nepal’s business environment is not entirely congenial to investment, with bureaucratic red tape, political instability, corruption, and insufficient infrastructure as the main impediments.\textsuperscript{22} An improvement in the laws regarding contract enforcement is also necessary to promote the business climate.\textsuperscript{23} Furthermore, labour reforms are critical for developing a favourable business environment, and Nepal will need to usher in a paradigm shift in labour management concerns.\textsuperscript{24} Since transitioning from a monarchy to a republic in 2008, Nepal has had 11 different governments.\textsuperscript{25} As a result of the political instability, and coupled with skilled labour shortages and low productivity levels, the country’s industries have struggled to thrive. Additionally, frequent power outages have meant Nepal’s energy production and consumption levels are inadequate.\textsuperscript{26} Harnessing renewable resources, especially the hydropower potential, is critical to alleviate the current energy crisis and achieve long-term energy security for the landlocked country.\textsuperscript{27}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{Figure4.png}
\caption{Nepal’s Ease-of-Doing-Business Rankings (out of 190 countries)}
\end{figure}

\textbf{Labour Force}

Nepal’s labour force participation rate reached a record low of 39.7 percent in 2021,\textsuperscript{29} with a large proportion of the population engaged in subsistence agriculture.\textsuperscript{30} Wage labourers account for around 20 percent of rural and urban employees, with the majority working in the informal sector. Moreover, although Nepal has a high female-to-male sex ratio (1.18, as of 2021), its female labour force participation rates remained low, at 28 percent in 2021 (see Figure 5).\textsuperscript{31} Unfortunately, the labour market is hindered by strict regulations and unionisation, which lead to high levels of unpaid work and discourage formal employment and job creation.\textsuperscript{32} These factors push many workers to seek employment opportunities abroad.
Figure 5: Nepal’s Labour Force Participation Rate, 1990-2020 (% of total population aged 15+)

Source: The World Bank

Overreliance on Remittances

Another fundamental obstacle Nepal faces is an overreliance on remittances. The country’s reliance on remittances has not only rendered it vulnerable to external macroeconomic shocks, such as the COVID-19 pandemic, but has also resulted in brain drain and labour shortages in the domestic sectors. In the first seven months of the fiscal year 2022-23, Nepal’s remittance earnings increased 27 percent to US$5.25 billion over the same period the previous year. The number of Nepali youths opting for foreign jobs continues to rise sharply, with about 482,500 workers leaving the country between mid-July 2022 and mid-February 2023. In 2018, Nepal’s policy of mandatory bank accounts for prospective migrants enabled at least 61 percent of Nepalis to open accounts in the country. Still, the ability of Nepali migrants to open accounts in the host countries is crucial for end-to-end access to digital channels, which will reduce the use of informal channels for remittances.
As such, there are several hurdles in Nepal's path to meeting its growth ambitions. However, the country possesses some assets that can be leveraged to overcome these obstacles. To achieve the targeted developmental objectives, Nepal must prioritise infrastructure development, easing out digital processes, investment promotion, and investment in education and skill development. Additionally, the country's natural capital, including water resources, minerals, and forests, offers significant potential for boosting the country's economy through power generation, mining industries, sustainable forestry, and ecotourism.
Nepal’s Opportunities:
Three Pillars, Six Priorities
Several factors have enabled certain global regions to emerge as centres of growth. These factors may comprise physical capital (such as location and infrastructure), human capital (including a skilled workforce and enterprises), and natural capital (such as raw materials and natural advantages). The combination and interaction of these factors can typically ease the movement of resources, generate investment opportunities that drive economic expansion, and create a space for renewed cooperation and collaboration among various actors. For Nepal, building domestic capacity through workforce transformation and expansion into new-age services, leveraging its natural wealth to promote a sustainable tourism model, creating the scope for energy security through renewables, and leveraging its strategic position at the crossroads of the ‘China+1’ landscape can create viable growth opportunities and lead to sustainable development.

Building domestic capacity through workforce transformation and expansion into new-age services, leveraging its natural wealth to promote a sustainable tourism model, creating the scope for energy security through renewables, and leveraging its strategic position at the crossroads of the ‘China+1’ landscape can create viable growth opportunities for Nepal and lead to sustainable development.

Figure 7: Nepal’s Opportunity Sectors

<table>
<thead>
<tr>
<th>Domestic Capacity Building</th>
<th>Capitalise on Natural Wealth</th>
<th>Navigate Regional Dynamics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workforce Transformation for harnessing the demographic dividend</td>
<td>Ecotourism for sustainable growth</td>
<td>Economic integration in the GVC’s</td>
</tr>
<tr>
<td>Moving towards new-age services in the IT sector and the gig economy</td>
<td>Renewable energy and potential of the hydropower sector</td>
<td>Strengthening connectivity through revival of BIN</td>
</tr>
</tbody>
</table>

Source: Authors’ own

b The ‘China+1’ (C+1) strategy marks a paradigm shift in the global trade landscape with businesses seeking to diversify their manufacturing and sourcing away from China by establishing alternative production bases in other developing and emerging economies to mitigate risks associated with concentrated supply chains and create access points to new and growing markets.
Human Capital: Harnessing the Demographic Dividend

Nepal entered a phase of demographic transition with a “window of opportunity” in 1980 that is expected to last till the 2030s. With 65 percent of the country’s population belonging to the working age group of 15-64 years, around 59 percent of the population below 30 years, and a shrinking but sizeable 29 percent of the population still under the age of 15 (all as of 2021), Nepal can leverage its demographic dividend to accelerate its economic growth and boost the national income. The country can invest in the well-being and capabilities of its working-age population and benefit from the productivity gains thereof. Building on the country’s human capital can improve its preparedness to harness opportunities presented by an ever-modernising, digitalising, and technologically-evolving global economy.

Figure 8: Population Pyramid for Nepal (2023)

“Building on the country’s human capital can improve its preparedness to harness opportunities presented by an ever-modernising, digitalising, and technologically-evolving global economy.”
• **Education and skilling**

Remittances from Nepalis working in foreign countries contribute nearly 25 percent to the country’s GDP. However, these remittances mostly come from unskilled workers engaged in low-wage employment in India and West Asia. In the domestic economy, despite existing opportunities for the expansion of green businesses and production diversification, the limited availability of skilled workers has constrained industrialisation and commercialisation. Educating and strengthening the skill base of its working-age population, especially the youth, can help propel Nepal’s economy. Indeed, Nepal can benefit immensely by aligning the structure and focus of its education system to the intended outcomes (economic development). For instance, the education system must prioritise providing technical, vocational, and professional skills required by the emerging sectors. This is especially important if the country is to remain competitive in a dynamic global economy. Several skills enhancement initiatives have already been implemented in Nepal, such as the ‘Skill Up! Strengthening Skills Development, Creating Future Perspectives’ project. The UKAid Skills for Employment Programme focuses on disadvantaged groups such as women, Dalits, and Janajatis and helps them avail employment opportunities either in Nepal or abroad, and boost employability and social protection in Nepal. The programme had co-designed and co-funded 13 market-led partnerships for skilling and job placement by July 2021, and is estimated to benefit 25,000 youth by 2022. Similar programmes can be designed and implemented by the Council for Technical Education and Vocational Training to leverage the vast pool of human capital employed within the agriculture sector to generate on-farm and off-farm jobs through agri-business development and increased participation in global agriculture value chains. Entrepreneurial skill development can support the expansion of the small and medium enterprises (SMEs) sector and lead to further growth.

“Educating and strengthening the skill base of its working-age population, especially the youth, can help propel Nepal’s economy.”
Investing in a healthy population

Nepal’s healthcare system is undermined by significant challenges to healthcare access, quality of services and professionals, supply-side shortages, poor private-sector regulation, and insufficient budgetary expenditure on health. Cost considerations and a lack of quality and affordable healthcare services preclude access to healthcare by the poor. Reforming the healthcare system can begin with targeted improvement in the quality of services, initiating measures to boost the motivation of healthcare workers, and leveraging technology to enhance healthcare systems’ efficiency. There is a need to significantly expand the health infrastructure to achieve universal health coverage in Nepal. The healthcare system in Nepal can invest attention in fortifying community-based primary healthcare units and the existing network of community health workers. Efforts can be made to strengthen the country’s social health security system and increase citizens’ awareness about health insurance.
Improving educational and skilling opportunities available to women, fostering a conducive and safe working atmosphere for women, increasing the availability of daycare centres at the workplace, enhancing women’s leadership and participation in decision-making, and boosting the participation of female workers in private enterprises are some ways to rectify the gender disparity.

Figure 10: Public Expenditure on Health in Nepal (as a share of GDP)

Figure 11: Gender Inequality Index, 1990-2021

Source: Authors’ own, World Bank Data

Source: Our World in Data

Addressing the gender disparities

According to the 2018 Nepal Labour Force Survey, the country had 125 women for every 100 men in the working-age population. However, only 59 women were employed for every 100 employed men. This gender disparity is also reflected in the significant pay gap between men and women.
Towards New-age Services

The emergence of the new techno-economic paradigm, with widespread digitalisation and 4IR technologies, has generated massive growth potential across sectors worldwide. Nepal is no exception. In recent decades, technology has boosted Nepal’s digital economy and sustainable development. While the country has made gradual improvements in the Network Readiness Index, ranking 118 out of 139 low-income countries in 2016, it struggles to keep up with the global pace of digitalisation.\textsuperscript{51} The rapid expansion of the digital economy relies on digital productivity, which refers to the capacity to leverage digital solutions to accelerate economic growth and progress. Nepal can address the factors impeding digital productivity by encouraging digital payments, utilising disruptive technologies effectively, bridging the rural-urban digital divide, and prioritising digital skills development.\textsuperscript{52} Establishing a sustainable e-governance structure requires addressing concerns about the seamless and effective delivery of public services, robust regulatory regime, political commitment towards developing information and communication technologies (ICTs), coordination between government bodies, equitable access and distribution of technology, and data protection and cybersecurity.\textsuperscript{53} By offering new-age services that leverage technology and innovation, Nepal can tap into global markets, increase productivity, and create new jobs. Diversification to e-commerce can help local businesses streamline operations, reduce costs, and increase global outreach, enabling the flow of inward foreign direct investments. Digital solutions can also reduce the market entry barriers for SMEs and create a favourable environment for the formalisation of informal employment in the country.

- **Enabling a robust IT sector**

Nepal’s IT industry has witnessed rapid growth in recent years, second only to tourism. The ICT sector contributes about NPR 80 billion (US$0.6 billion), accounting for about 2.3 percent of GDP.\textsuperscript{54} The Nepali Government has prioritised the promotion of the IT and BPO sectors and has recognised the export potential of these sectors by devising appropriate plans and policies. The ‘Digital Nepal Framework’ has been instrumental in boosting the country’s IT sector.\textsuperscript{55} As such, the IT sector can play a pivotal role in attracting investments and propelling the growth required to
achieve higher levels of development. The sector can gain immensely from establishing IT parks and data centres with appropriate tax concessions, subsidies for skilling and capacity building, dedicated infrastructure, and the duty-free import of equipment and software. Global private sector players such as WorldLink and Uber have planned investments worth over US$25 million to set up a robust data centre hub in Nepal.56 While the upfront costs for the set-up in the country are significantly lower than its South Asian neighbours, the government will have to invest in purpose-built infrastructure that supports this expansion. The government can also fortify the linkages between IT sector development and the growth of micro, small, and medium enterprises (MSMEs). It should also identify ways to arrest the growth of illegal businesses in the IT sector, and leverage the growth in know-how in niche IT sectors, such as artificial intelligence, cloud computing, and the Internet of Things, to expand other sectors, such as agriculture and tourism.

Figure 12: Projected Growth in Global ICT Market (US$ trillions)

Source: Authors’ own, data from Information and Communications Technology (ICT) Market Research Report 2021-202857

Nepal’s IT industry has witnessed rapid growth in recent years, second only to tourism. The ICT sector contributes about NPR 80 billion (US$0.6 billion), accounting for about 2.3 percent of GDP.
Unlocking potentials of the gig economy

The gig economy is gaining traction across the globe as it provides easy access to employment, decent earnings, and flexible working hours. Although Nepal’s gig economy is in its early stages, it has witnessed a rapid expansion since 2016. Those employed in software and technology development account for 43 percent of online freelance employment. Tootle (a ride-sharing platform inside the Kathmandu Valley), Pathao (a ride-hailing service provider in Kathmandu), Fiverr (an online market for freelance services), and Upwork (an online platform connecting businesses with skilled freelance professionals) are popular enterprises in Nepal’s gig economy.

The gig economy was particularly beneficial during the pandemic, helping workers cope with the loss of jobs and pay cuts. However, the prevailing policy regime in Nepal impedes the development of the gig economy. The country’s rules on foreign transactions make execution payments difficult for gig workers. Certain challenges confronting the physical gig economy in Nepal have affected the certainty and regularity of earnings. The success of the gig economy in the country is contingent on the government implementing laws that support employment creation, foster innovation, and align with the evolving business landscape. These laws need to focus on the classification of workers, employment benefits, and safe and productive working conditions, among others. The competition policy, taxation, and labour market policies should be aligned with the concerns of the gig economy.

Figure 13: Projected Growth in Global Gig Economy (US$ billions)

Source: Authors’ own, data from Market Watch

CAGR 14.2%

0 100 200 300 400 500 600 700 800 900 1000
2022 2030
Ecotourism for Sustainable Growth

Nepal has rich cultural diversity and abundant natural wealth, from forests to the Himalayas. As such, the country is characterised by competitive and comparative advantages that support the development of a thriving tourism sector. As a culturally diverse country, Nepal is home to several ethnic groups, languages, and religions, and boasts a rich cultural heritage. Indeed, a significant share of tourists visiting Nepal are attracted by its culture. Religious tourism, particularly Buddhist tourism, is important to Nepal’s tourism industry. The vibrant tourism industry contributed about 6.7 percent to Nepal’s GDP in 2019, and supported over one million direct and indirect jobs in the country. Following disruptions in international tourism due to the pandemic, the tourism sector’s share in the country’s GDP dropped to 3.6 percent, resulting in a significant loss of employment. Tourism revival has seen annual growth rise to 5.8 percent in 2021-22 after contracting to 2.37 percent in 2020.

![Figure 14: Nepal's International Tourism Receipts (2002-2020)](source: Authors' own, data from Our World in Data)

Nepal’s tourism industry needs to continue this revival to remain a primary driver of economic growth. Approximately 80 percent of the jobs in this industry are concentrated in resource-constrained regions, marked by substantial infrastructural bottlenecks. Investments in Nepal’s tourism industry can generate significant additional benefits, especially in securing local livelihoods. However, through this revival process, Nepal will need to address the critical challenges confronting this traditional industry. These include the growing burden of environmental degradation, rising infrastructure demand, issues related to waste management and adequate sanitation, and inclusive participation in the economic dividends generated from tourism. While Nepal’s traditional Buddhist tourism industry, which is driven by cultural linkages with India and China,
Nature-bound tourism in the Asia Pacific region contributes approximately 35 percent to the global ecotourism market. It cannot be ignored from the perspective of land-linked markets, mitigating the risks emerging from these activities remains imperative. A sustainable tourism approach can help address these challenges. The global ecotourism market, which stood at US$176 billion in 2020, is projected to grow tremendously over this decade.68

Nature-bound tourism in the Asia Pacific region contributes approximately 35 percent to the global ecotourism market. It is estimated that a heavy reliance on incomes from the tourism sector and aggravating climate risks in the region will propel the fastest growth of nature-bound tourism in this region.69

Nepal’s participatory conservation model in sustainable tourism has been globally lauded as an outstanding attempt to reconcile conservation and development.71 Nepal’s sustainable tourism enterprise can receive a boost by concentrating efforts on environmental preservation and biodiversity protection, directing development gains from tourism to enhance the lives and livelihoods of rural communities, community-led tourism, strengthening public health and governance, and promoting climate action and circular economy. Homestay tourism, in which

c Nature tourism, also known as nature-bound tourism, revolves around exploring the natural attractions of a region. It entails mindful travel encompassing the ideas of environmental safeguards and the well-being of local communities.
cultural and ecotourists stay as paying guests in the homes of indigenous people, has seen some success in these regions, highlighting the scope for further developments. Sustainable tourism can benefit from awareness efforts, prevention of illegal trading of locally produced commodities to tourists, employment creation and skill development for the youth and women, and promotion of local rural markets.

Renewable Energy and Potential for Hydropower Production

Nepal’s natural resources include an expansive network of 6,000 rivers and rivulets, presenting the country with a hydroelectric potential of 83,000 and 42,000 megawatts (MW), respectively. However, only 5 percent of Nepal’s economic hydropower potential, measuring about 2.1 gigawatts (GW), has been harnessed so far. Hydropower production, therefore, remains a large opportunity sector for economic growth and enhancing energy security in its extended neighbourhood. The global hydropower capacity is projected to increase by 17 percent between 2021 and 2030, with emerging and developing economies contributing a large share to this expansion. Nepal can contribute massively by harnessing about 95 percent of its remaining economic hydropower potential.

Nepal’s sustainable tourism enterprise can receive a boost by concentrating efforts on environmental preservation and biodiversity protection.

Figure 16: Projected Growth in Global Hydropower Capacity (in GW)

Source: Authors’ own, data from International Energy Agency

CAGR 1.75%
Hydropower generation can provide Nepal with the much-needed energy to fuel its economic growth and development, lessen its dependence on imported fossil fuels, and satisfy its population's expanding energy demands. Hydropower generation can alleviate the issue of power shortages and increase access to electricity in rural locations, boosting overall living standards.

The government has made several efforts to encourage the development of hydropower. The country launched the Nepal Renewable Energy Programme to "increase private sector investment to develop distributed renewable energy (RE) markets, primarily in commercial, institutional, and industrial market sectors; increase universal energy access, and a corresponding higher quality of life, to Nepali citizens living in remote regions and facilitate a policy, planning, legal construct, and regulatory environment conducive to both enabling and sustaining progress in RE market development and universal energy access". Nepal’s renewable energy subsidy policy is another fantastic initiative that attempts to grow the renewable energy sector and encourage low-income families to utilise renewables by giving subsidies for deployment.

However, the sector is confronting several problems impeding its potential for expansion. Lack of sufficient financing, cumbersome bureaucratic processes, a lack of technical experience, and issues procuring land for projects are just a few of the challenges. Furthermore, sector-specific issues such as a lack of sustainable financing mechanisms and an overreliance on subsidies must be addressed, as must broader contextual challenges such as decentralising authority to new provincial and local government units under Nepal’s federal transition. Solving these difficulties requires a collaborative effort involving the government, corporate sector, and development partners.

To alleviate the financial gap and invite private sector investments, the government must offer tax breaks, duty exemptions on equipment and materials, and subsidies to entice private sector participation. Similarly, reducing bureaucratic red tape and expediting project approvals can help accelerate project development. Furthermore, the government should develop local workers’ technical abilities to ensure they have the requisite skills and expertise to carry out hydroelectric projects. Developing local technical competence will not only help to alleviate the existing skills gap but will also boost the sector’s long-term sustainability.

In addition to tackling these issues, Nepal should investigate various hydropower development prospects. For example, the country might export...
Nepal should also consider developing small and medium-sized hydroelectric projects that are less expensive to build and have a shorter gestation period. Surplus energy due to its proximity to South Asia's booming energy markets, particularly India and Bangladesh. Hydropower production and exports can improve ties between the three countries and stabilise the entire subcontinent. Nepal should also consider developing small and medium-sized hydroelectric projects that are less expensive to build and have a shorter gestation period.

The ‘C+1’ Landscape and Economic Integration

Forex inflows from tourism and remittances have played a key role in supporting Nepal's trade relations in the face of rising trade deficits and dwindling forex reserves. Over the years, Nepal's imports have grown significantly faster than its exports, making the economy vulnerable to external shocks. To reduce the overreliance on remittance flows and protect itself from the uncertainties of the tourism industry while continuing its external economic engagements, particularly commodity trade and investments, Nepal will need to assert its presence more strongly in the global export market. The emerging scenarios within the C+1 landscape operating in the immediate neighbourhood provide Nepal with a ripe opportunity.

China is a significant trade and investment partner for almost every Indo-Pacific country, including Nepal and India. However, the overreliance on Chinese manufacturing and the devastating supply chain disruptions and resource crunches across sectors during the pandemic have led countries worldwide to look for alternatives to China's manufacturing bases. As countries like the US, Japan, and Australia, and the European Union (see Table 1) strive to strengthen Indo-Pacific links to contain the Chinese threat, intraregional partnerships have gained momentum in the South Asian neighbourhood. Countries like Bangladesh and Sri Lanka are also developing strong links with India and other Southeast Asian economies to lessen their reliance on China for trade and commerce. Nepal is situated at the crossroads of this ‘C+1’ geography and can benefit significantly by establishing a partnership with India as the country attempts to integrate itself into critical regional and GVCs.
Table 1: International Policy Signals

<table>
<thead>
<tr>
<th>Country</th>
<th>Examples of Policy Signalling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>In early April 2020, the government earmarked a stimulus package of US$2.3 billion to help its manufacturers shift production out of China to relocate to alternate locations or return to Japan.</td>
</tr>
<tr>
<td>US</td>
<td>Imposition of tariffs applied exclusively to Chinese goods worth US$550 billion between 2018-20. Multiple statements by former President Donald Trump suggested that American companies were to immediately search for bases other than China to avoid tariffs.</td>
</tr>
<tr>
<td>EU</td>
<td>In early 2020, the EU introduced the 5G toolbox to calibrate the member states’ adoption and inclusion of Huawei in their respective 5G rollouts and ensure a coordinated approach. In mid-2021, the EU also put forward trade defence instruments, such as anti-dumping and anti-subsidy measures, for Chinese firms operating within the single market to a level playing field for its competitors.</td>
</tr>
<tr>
<td>Australia</td>
<td>While Australia-China investment relations have remained traditionally limited, FDI inflows from Australia to China witnessed a significant 25 percent decline in 2020. Australia has also expressed reservations about negotiating China’s application to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.</td>
</tr>
</tbody>
</table>

Source: ORF

Like India, Nepal can benefit from shifting manufacturing units from China to countries with lower labour costs and less stringent regulatory frameworks. As production costs in China continue to rise owing to high wage bills, countries like India and Nepal are presented with an opportunity to become new manufacturing powerhouses by attracting global investments that can deliver growth and employment. As a relatively minor player reliant on light manufacturing exports, Nepal can supply critical raw materials and intermediate goods to India to produce sophisticated finished products that meet the demands of the global markets.

To diversify its integration into the global and regional value chains, Nepal can partner with larger regional actors like India to identify complementary sectors (based on their comparative advantages) for the joint production of goods. This will help reduce production costs and make India’s and Nepal’s export prices competitive globally. The two countries can also work jointly to promote investments in sectors that exhibit trade complementarities and attract foreign investors looking to move away from China. To enable both developments, Nepal and India must take a few concrete steps to ensure more effective economic partnerships. Non-tariff barriers such as customs procedures, technical regulations, and standards can hinder trade between Nepal and India; the countries will need to reduce these barriers and simplify trade procedures. They also need to encourage private investments in sectors with trade complementarities through tax incentives, regulatory reforms, and other measures that promote trade-related investments. The National Planning Commission’s draft concept note,
‘Vision 2030 for Nepal Towards a Just and Lasting Prosperity’, states that it is critical to adopt practices like corporate governance, human resources management, and audit mechanisms to address the global competitiveness of Nepal’s light manufacturing sector and ensure a healthy stream of returns for these private investments. Lastly, Nepal and India need to strengthen institutional mechanisms such as joint committees and trade forums to promote dialogue and cooperation on trade-related issues to help resolve trade disputes, enhance trade relations between the two countries, and create more feasible opportunities for integration into the GVCs.

Strengthening Connectivity through the Bangladesh-India-Nepal Network

As a developing country with severely constrained resources amid the ongoing global economic turmoil, Nepal can leverage its bilateral and multilateral relations across platforms to achieve its economic goals. A key to such developments lies in establishing strong regional connectivity with Bangladesh and India, facilitating physical and digital exchanges. Connectivity is crucial for regional economic integration and the sustainability of economic growth in Nepal. Confronted with significant challenges, such as a lack of adequate and quality infrastructure, a mostly unskilled workforce, and excessive trade and investment dependence on China, Nepal needs to utilise its international ties to promote its domestic development priorities.

The Bangladesh-Bhutan-India-Nepal (BBIN) construct aimed to establish a regional subgrouping for connectivity and trade facilitation. However, it has not been successfully envisioned due to the lack of political will and commitment from member countries, slow implementation of agreements and protocols, infrastructure and connectivity gaps, inadequate trade facilitation measures, and non-tariff barriers. These challenges have hindered the initiative’s progress, highlighting the complexities involved in regional integration and cooperation. The Bangladesh-India-Nepal (BIN) is an important alliance group that seeks collective economic growth of the three countries and their immediate neighbours. It is essential to strengthen physical and digital connectivity between India and Nepal, extending to Bangladesh, to achieve the potential benefits of the BIN initiative.

Transaction costs, including natural costs such as distance and unnatural costs, such as logistical hurdles or trade barriers, influence the success of commercial ties. Establishing and strengthening connectivity networks can reduce these trade
costs and increase bilateral flows. As supply chain disruptions threaten to overturn China's gains, the BIN countries can substitute China in the GVCs by enhancing physical and digital connectivity, diversifying trade networks, and building resilient communication and infrastructure systems. The optimal scope of such a market within GVCs, potential linkages, and trade arrangements must be identified, and trade-offs and synergies between national and regional goals must be considered. However, the primary focus should be on establishing physical and digital connectivity to lower trade costs.

Table 2: Alternative Trading Partners for the West, by GDP (current US$, 2021)

<table>
<thead>
<tr>
<th>Trading Partner</th>
<th>GDP (US$ trillions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td>17.18</td>
</tr>
<tr>
<td>US</td>
<td>23.32</td>
</tr>
<tr>
<td>China</td>
<td>17.73</td>
</tr>
<tr>
<td>BIN (India, Bangladesh, Nepal)</td>
<td>3.64</td>
</tr>
</tbody>
</table>

Source: World Development Indicators

The construction of transportation infrastructure, such as roads, trains, and waterways, is a primary focal area for improving connectivity. This can improve the movement of goods and people, lower transportation costs, and promote trade between the three countries. Another critical issue is building cross-border energy and power infrastructure, such as cross-border electricity transmission lines. This can assist Nepal and Bangladesh in overcoming their energy deficits while allowing India to export surplus power. India is well-poised to serve as a medium for connectivity between these two nations. The Nepal Electricity Authority has already sought approval from the Indian authorities to export 40-50 MW of electricity to Bangladesh through India's existing transmission infrastructure. Another important facet of regional connectedness is the advancement of digital connectivity. The development of high-speed internet access and digital platforms for trade and commerce can make it easier for firms to connect, lowering transaction costs, and enhancing efficiency. This can increase the BIN initiative's potential benefits.

Developments in connectivity can necessitate close coordination and cooperation among the governments of the three nations. This can be assisted by forming joint committees and task groups to monitor progress, identify obstacles, and offer solutions. In 2022, India, Bangladesh, and Nepal finalised a memorandum of understanding to boost trade and connectivity. The private sector can also be important in increasing connectivity through infrastructure and trade investments. Improved implementation of connectivity projects is critical to the BIN's economic success and necessitates a comprehensive approach.
The implementation of connectivity projects is critical to the BIN’s economic success and necessitates a comprehensive approach that includes the development of transportation, energy and digital, as well as tight collaboration between governments and the private sector. Nepal needs to effectively leverage its unique strengths at regional economic forums, such as BIN, and negotiate favourable terms for trade and investment. To achieve these goals, Nepal should prioritise conducting thorough research, building strong negotiating teams, and utilising relevant platforms for the country’s benefit. By implementing these strategies, Nepal can enhance its economic growth and development through regional cooperation and partnerships.102

The BIMSTEC Master Plan for Transport Connectivity to improve the subregion’s transport linkages and human resource development in the connectivity sector can also play a key role in regional economic integration, aiding Nepal’s domestic priorities in the long run.103 Nepal also leads BIMSTEC’s ‘people-to-people contact’ sector of cooperation, including tourism and culture.104 Nepal can expand efforts to facilitate an exchange of ideas and create a deeper understanding of individual and regional socioeconomic realities by establishing BIMSTEC forums for parliamentarians, universities, academics, research institutes, cultural organisations, and the media community. This will serve to market its tourism sector and better prepare its workforce for movements abroad.
Emerging Pressure Points
Business Environment and the Political Economy

Nepal has a protracted history of turbulent politics. The Himalayan kingdom state had been under monarchical rule for many years. A prolonged mass movement for democracy, armed insurgency by Maoists, and decades-long civil war are the major developments that shaped Nepal’s politics before it was declared a democratic republic state in 2008. After a period of political differences over the constitution-making process, the constitution was enacted in 2015, shaping Nepal as a multiparty federal democracy with seven provinces.

Though Nepal has successfully adopted the democratic system of governance, major political threats remain. Most importantly, Nepal’s ruling parties and coalitions have been marred by severe personality clashes, factional rifts, and differences over key policy decisions. This has made the country’s ruling regimes extremely fragile and unstable. Since abolishing the monarchy in 2008, the country has had national governments led by 10 different leaders (see Table 3). As the ruling coalition remains unstable, addressing identarian demands has been an internal governance challenge for Nepal.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name of Prime Minister</th>
<th>Tenure of Office</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.</td>
<td>Baburam Bhattarai</td>
<td>29 August 2011 - 14 March 2013</td>
</tr>
<tr>
<td>7.</td>
<td>Sushil Koirala</td>
<td>11 February 2014 - 12 October 2015</td>
</tr>
<tr>
<td>8.</td>
<td>KP Sharma Oli</td>
<td>12 October 2015 - 4 August 2016</td>
</tr>
<tr>
<td>9.</td>
<td>Pushpa Kamal Dahal</td>
<td>4 August 2016 - 7 June 2017</td>
</tr>
<tr>
<td>10.</td>
<td>Sher Bahadur Deuba</td>
<td>7 June 2017 - 15 February 2018</td>
</tr>
<tr>
<td>11.</td>
<td>KP Sharma Oli</td>
<td>15 February 2018 - 13 July 2021</td>
</tr>
<tr>
<td>12.</td>
<td>Sher Bahadur Deuba</td>
<td>13 July 2021 - 26 December 2022</td>
</tr>
<tr>
<td>13.</td>
<td>Pushpa Kamal Dahal</td>
<td>26 December 2022 - Present</td>
</tr>
</tbody>
</table>

Source: Official Website of Office of the Prime Minister and Council of Ministers, Government of Nepal
Furthermore, the COVID-19 pandemic and its impact on Nepal's thriving tourism sector have adversely affected the economy and growth prospects. Without political stability, a coherent policy for precipitating economic growth and curbing unemployment remains extremely challenging. Due to the lack of stability in government, business groups and investors remain reluctant to and face hindrances in investing in Nepal’s economy. Many studies have long suggested that frequent changes in governments and ruling coalitions lead to alterations in administrative policies. This often results in unpredictability in governmental economic policies, which is not conducive to robust investments. As such, policy instability emanating from political instability remains an impediment to Nepal’s growth story.

The dominance of cartels or economic groups composed of powerful multilateral lenders due to their long-drawn nexus with the country's political elite is another obstacle to Nepal’s economic growth. However, the hold of such cartels appears to be waning as an aspirational population increasingly seeks economic reforms for growth. Efforts to rein in vested economic interests must be effectively controlled to push the much-needed reforms.

Agricultural Dependence and Climate Risks

Agriculture is an important sector for the Nepal economy, accounting for 23.95 percent of GDP and employing more than 60 percent of the population, as of 2021-22. This also highlights that Nepal’s economy, much like those of many of its neighbours in South Asia, faces a structural weakness where the largest component of the workforce contributes to a less-than-proportional component of the national income. This also indicates surplus labour in the agricultural sector with very low or even negative productivity, who can be more productively employed in the secondary or the tertiary sectors (i.e., services) through reskilling.

“Due to the lack of stability in government, business groups and investors remain reluctant to and face hindrances in investing in Nepal’s economy.”
Additionally, climate risks also pose a significant threat to Nepal’s agriculture and food security, as the sector is highly dependent on rainfall and susceptible to extreme weather events. With time, the impacts of these risks are likely to exacerbate. Climate risks can reduce crop yields, impact soil erosion and degradation, and cause food price volatility, increasing food insecurity. This will likely affect the entire farm value chain, including small-scale farmers, rural communities, and women. Climate change can negatively affect farmers’ ability to produce food and generate income, particularly for those who rely on rain-fed agriculture. Agricultural land in Nepal is under pressure from various factors, including overuse, deforestation, and erosion. Although Nepal’s overall per capita water availability is high, it is subject to inequitable distribution over space and time. Temporal scarcity in the Himalayan regions will only worsen amid climate change and population growth. This will affect life and livelihoods.

On the other hand, malnutrition is ubiquitous and poses a significant public health threat in Nepal, particularly among children and women. According to the 2016 Demographic and Health Survey, around one-third of children under five in Nepal are stunted, and around 10 percent of children are wasted. There is also a high prevalence of anaemia (41 percent) and delivering low birth weight babies (12 percent) among women in Nepal. While several underlying factors contribute to malnutrition in Nepal, climate-related shocks, such as droughts, floods, and landslides, can aggravate food insecurity and malnutrition.

Addressing these challenges requires a multifaceted and integrated approach involving government action, private sector engagement, and community participation. This may include measures such as improving access to information and resources, promoting sustainable land use practices, investing in climate-resilient farm infrastructure development, and strengthening institutional capacity to respond to climate risks (see Table 4). The Nepal government has already taken steps to help farmers adapt to climate risks through climate-smart agricultural practices, like using drought-resistant crops and soil conservation techniques, and also providing farmers with weather-related information and insurance schemes. In addition, the government

> Although Nepal’s overall per capita water availability is high, it is subject to inequitable distribution over space and time. Temporal scarcity in the Himalayan regions will only worsen amid climate change and population growth.
is investing in infrastructure development, such as irrigation systems, to improve the resilience of Nepal's agricultural sector to climate risks.\textsuperscript{126} Sustainable development, climatic resilience, and social inclusivity are all incorporated into the Green Resilient and Inclusive Development (GRID) approach. Implementing the GRID can aid in promoting sustainable agricultural practices, boosting climate resilience, and ensuring inclusivity across various social groups in the context of Nepal's dependency on agriculture.\textsuperscript{127}

<table>
<thead>
<tr>
<th>Type of Institution</th>
<th>Capacity Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Forest User Groups</td>
<td>Training on landslide and erosion control, and income-generating activities for community forest areas; promoting skills in nursery cultivation, forest conservation and management, and afforestation; raising awareness on the impacts of climate hazards on people's lives and livelihoods; financial transparency for governance; fodder and fruit tree plantations in erosion-prone areas; forest resource-based income generation; rotational grazing; integrated approaches to the use of common property resources</td>
</tr>
<tr>
<td>Water User Associations</td>
<td>External resource mobilisation for weir construction/rehabilitation and canal lining; equitable water distribution; plantations around springs and in upper catchments; awareness raising on the impacts of climate variability and change</td>
</tr>
<tr>
<td>Farmers’ groups</td>
<td>Skills training in fertiliser application, pesticide handling, variety selection and soil fertility management; integrated pest management; management of sprinkle irrigation; easy access to agricultural inputs; awareness raising on the impacts of climate variability and change; organisation of farmer field schools; skills training in improved farming and optimum use of available resources; provision of crop and livestock insurance</td>
</tr>
<tr>
<td>Savings and credit groups</td>
<td>Training in group management, credit mobilisation and income-generating activities (off-season); mobilisation and management of revolving funds; awareness raising on the impacts of climate variability and change; organisation of visits to other groups for experience and knowledge sharing</td>
</tr>
<tr>
<td>Cooperatives</td>
<td>Market linkages (inside and outside the district); management of agricultural inputs; training in cooperative management; identification of potential areas for investment to enhance people's livelihoods; facilitating investments in off-farm activities; improved marketing linkages; improved farming (vegetable, meat, and milk production); small-scale technology transfer</td>
</tr>
<tr>
<td>Mothers’ groups</td>
<td>Raising awareness on improved farming; training for income generation from goat rearing, vegetable production and small-scale cottage enterprises; training in fertiliser, insecticide and pesticide use</td>
</tr>
<tr>
<td>Youth clubs</td>
<td>Campaigns for disaster risk management, ecological conservation, watershed management and biodiversity conservation; community mobilisation for the repair and maintenance of basic infrastructure (water resources, roads, schools, irrigation canals, forest conservation); awareness raising on the impacts of climate hazards</td>
</tr>
</tbody>
</table>

*Source: R. Selvaraju (2014)*\textsuperscript{128}
However, much more must be done to address the impacts of climate risks on food security in Nepal. This may include investments in sustainable land use practices, improved access to markets and credit for small-scale farmers, and promoting gender-sensitive climate-smart agriculture. By addressing these challenges, Nepal can improve the resilience of its agricultural sector and ensure that vulnerable populations have access to sufficient and nutritious food.

**Remittance Earnings and the Evolving Global Economy**

Over the last decade, remittance revenues have been a powerful engine of the Nepal economy, accounting for about a quarter of its GDP. However, remittance-induced Dutch disease effects and policy laxity to improve Nepal’s investment climate are prominent. The influx of foreign currency from remittances can cause domestic currency appreciation, making exports more expensive and less competitive in global markets. Furthermore, it can lead to a decline in domestic industries and the loss of jobs, exacerbating the cycle of economic inequality, migration, and remittance dependence, which can be detrimental in the long run. International remittances have resulted in a substantial increase in non-food expenditures, particularly in education. However, despite increased spending on education, international remittances have not improved educational outcomes.

The global economy is fast changing, and Nepal must adapt to ensure that its remittance earnings remain sustainable in the long run. The COVID-19 pandemic and changing geoeconomic dynamics, resulting primarily from the Ukraine-Russia conflict, have demonstrated the fragility of this structure. Being the world’s fifth-most remittance-dependent economy, Nepal must take action. In addition, the rising import bill and depletion of forex reserves have been a concern for the country. The World Economic Forum suggests that Nepal could follow the example of Bangladesh’s central bank, which has raised the ceiling on the 2 percent “cashbacks” it offers remittance senders.131 There is a need to provide incentives to convert informal remittances to formal remittances in Nepal, such as strict customs enforcement and NAN investments. Furthermore, the under-invoicing of imports has disrupted the country’s industrialisation process and limited employment growth.132

The growing use of digital technologies and the emergence of the gig economy are key trends in the global economy. These advances have opened new avenues for Nepali workers to make money via internet platforms and remote labour, which could replace the traditional remittance dependency of the domestic economy. Therefore, Nepal must embrace digital technologies and create rules that encourage the expansion of the gig economy. Initiatives to enhance...
digital literacy and access to technology and regulations to protect workers’ rights and provide fair compensation are essential in this domain.

Changing global political perceptions is another critical factor influencing Nepal’s remittance earnings. Protectionist policies and anti-immigrant attitudes have increased in many countries recently, potentially reducing the demand for Nepali migrant workers. In addition, the rise of anti-immigration political parties in Europe has led to the perception that immigration will be a point of contest for the European polity in the years to come. Nepal can lessen its reliance on remittances and develop a more stable economy by encouraging domestic entrepreneurship and new job opportunities in diverse economic sectors. Investment in renewable energy, tourism, and IT services will be crucial for the Himalayan country.
Ten Steps to a 5x Economy: Priorities and Actions
Nepal’s economy is currently at a critical juncture. The country has a remarkable opportunity to revolutionise its economy and guarantee steady development, employment, and prosperity. To achieve this objective, Nepal should emphasise a transformation led by productivity growth, sustainable investments, and the careful navigation of the evolving global economy. Drawing on the preceding analysis of Nepal’s current strengths and global trends, this report presents 10 recommendations that can serve as a roadmap to assist the country in attaining its economic objective of 5x growth to become a US$200 billion economy by 2033.

Figure 17: 10 Steps to 5x Growth for Nepal

10 steps to 5x growth

- DEMOGRAPHIC DIVIDEND
- SUSTAINABLE TOURISM AND ECOPRENEURSHIP
- CLIMATE-PROOF AGRICULTURE SECTOR
- RENEWABLES SECTOR FOR ENERGY SECURITY
- DIVERSIFICATION THROUGH IT-ENABLED TRANSFORMATIONS
- WORKFORCE CAPABILITIES
- IMPROVE BUSINESS ENVIRONMENT FOR FDI INFLOW
- PROMOTE DOMESTIC SAVINGS AND INVESTMENTS THROUGH DIGITALISATION
- STRENGTHENING CONNECTIVITY THROUGH REGIONAL COOPERATION
- SERVICE SECTOR AND GLOBAL

Source: Authors’ own
Recommendation 1: Tread the path to economic diversification through IT-enabled transformations

- Nepal needs to diversify its economy by pursuing robust developments in its IT sector to support off-farm manufacturing and domestic services. The emergence of new techno-economic paradigms with widespread digitalisation has generated massive growth potential worldwide, including in Nepal. Nepal’s IT industry is rapidly growing and is second only to tourism. The government can support the IT sector by establishing IT parks with tax concessions, subsidies for skilling and capacity building, dedicated infrastructure, and the duty-free import of equipment and software.

- The IT sector can play a pivotal role in attracting investments and propelling the growth required to achieve higher levels of development by establishing linkages between IT sector development and MSME growth and leveraging the growth in knowhow in the niche sectors of the IT industry to expand traditional sectors such as agriculture and tourism.

- The gig economy in Nepal is another growing sector. With software and technology development, the sector can account for a significant portion of online freelance employment and increase the formalisation of the unorganised workforce.

Recommendation 2: Generate value by leveraging the demographic ‘window of opportunity’

- Nepal has a unique opportunity to harness its demographic dividend and youth capital to accelerate its economic growth and create a prosperous future for its citizens in the next 10 years. With a sizable youth population and a large working-age group, Nepal must capitalise on its demographic dividend by promoting entrepreneurship, innovation, and technology-driven transformations.

- Nepal can create more job opportunities, increase productivity, and enhance its competitiveness in the global market to address some key challenges, such as high youth unemployment and unbalanced regional growth. As leaders of the future, increased investments towards nurturing its young population can deliver social and political development across the country.

- Gender disparities remain a persistent challenge in Nepal, limiting women’s access to education, healthcare, and economic opportunities. Despite a favourable population sex ratio, Nepali women are less likely to participate in the labour market and are more likely to work in low-paying informal jobs. Addressing these gender disparities in the labour market can have significant economic benefits, including boosting national income, increasing productivity, and reducing poverty.
Measures such as improving educational and skilling opportunities, creating a safe working atmosphere, increasing the availability of workplace daycare centres, enhancing women's leadership and decision-making participation, and encouraging and supporting women's participation in private enterprises can help correct the gender disparity.

Recommendation 3: Create workforce capabilities to respond to the evolving needs of the job market

Creating workforce capabilities that can respond to the evolving needs of the job market is critical to ensure sustainable economic growth and social development. As technology advances, new industries emerge, and global competition intensifies, the skills and knowledge required to succeed in the job market constantly change. Nepal's economic growth can be propelled by educating and strengthening the skill base of its working-age population, especially the youth, and prioritising technical, vocational, and professional education.

Transitioning from healthcare expenditures to healthcare investments also has a critical role in augmenting the income-earning potential of the working-age population. Significant challenges undermine Nepal's healthcare system and require reform with targeted improvements in service quality, boosting healthcare worker motivation, and leveraging technology. Expanding health infrastructure, investing in community-based primary healthcare units and existing networks of community health workers, and strengthening the social health security system can also improve healthcare access and quality.

Recommendation 4: Harness the true potential of natural wealth through sustainable tourism and 'ecopreneurship'

Nepal's tourism industry is concentrated in resource-constrained regions, and must confront challenges such as environmental degradation, infrastructure demand, waste management, and non-inclusive economic participation. Sustainable tourism, which includes participatory conservation, community-led tourism, the promotion of a circular economy, and local ecotourism of rural markets, can help address these challenges while generating additional benefits such as employment creation and skill development for youth and women.

Climate-induced risks have led to a need for green growth, fostering structural transformations, inclusive development, and environmental sustainability. In Nepal, encouraging the growth of eco-entrepreneurs
can play a vital role in driving such growth, highlighting the need for innovation in existing business models. With its vast natural wealth, Nepal is an ideal location to foster environmental entrepreneurship through ecotourism, green construction, and waste management. Collaboration with the startup sectors in neighbouring India and Bangladesh can create opportunities to establish regional bridge projects.

With its vast natural wealth, Nepal is an ideal location to foster environmental entrepreneurship through ecotourism, green construction, and waste management.

Recommendation 5: Prioritise the renewables sector for improvements in energy security and protection against global volatility

- Nepal has vast potential for hydropower generation, but only 5 percent of its economic hydropower potential has been harnessed. The government has launched initiatives to encourage private sector investment and promote renewable energy, but the sector faces challenges such as a lack of funding, bureaucratic red tape, and a skills gap. To address these issues, the government can offer tax breaks and subsidies, streamline bureaucratic processes to break departmental silos and invest in developing the technical capabilities of local workers.

  - Hydropower generation is a significant opportunity for Nepal’s economic growth and energy security. Hydropower can reduce the country’s reliance on imported fossil fuels, meet the growing energy needs of its population, and improve living standards by increasing access to electricity in rural areas. Nepal can also explore exporting surplus energy to neighbouring countries and developing small- and medium-sized hydroelectric projects.

Recommendation 6: Climate-proof traditional growth drivers for food and livelihoods security

- Nepal’s agricultural sector is vulnerable to climate risks. The impacts of these risks are likely to exacerbate with time, particularly for vulnerable populations such as small-scale farmers, rural communities, and women. Addressing the challenges will require a multifaceted approach that involves government action, private-sector engagement, and community participation to promote measures such as sustainable land-use practices, investing in climate-resilient farm infrastructure development, and strengthening institutional capacity to respond to climate risks.
Malnutrition is also a significant public health issue in Nepal, with climate-related shocks exacerbating food insecurity and malnutrition among vulnerable communities. Possible solutions can involve the promotion of climate-smart agriculture with a gender-sensitive approach and crop diversification to encourage the cultivation of more climate-resilient and nutrition-rich varieties or species. These actions can enhance the climate resilience of Nepal's agricultural sector and ensure that vulnerable groups have enough nutritious food.

Recommendation 7: Improve the business environment to encourage and secure a steady inflow of foreign investments

- Political instability and the lack of a coherent policy for economic growth and employment opportunities have deterred business groups and investors from investing in Nepal's economy. This also hinders the focused development of crucial sectors like health and education, and the smooth implementation of the 2015 constitution. Therefore, Nepal must address its political crisis and establish governmental stability to ensure a coherent developmental discourse.

- Promoting policies and regulations that create a business-enabling environment in Nepal is necessary at this juncture of its development. Access to finance is a key constraint for many businesses, especially SMEs. Nepal should improve access to finance by developing a robust financial sector, encouraging the use of technology in finance, and creating favourable policies that support entrepreneurship and innovation. Foreign investment can bring this much-needed capital, technology, and expertise.

Nepal must address its political crisis and establish governmental stability to ensure a coherent developmental discourse.
Recommendation 8: Promote digital financial inclusion to enhance the savings base to advance domestic private investment, and promote the gig economy and digital entrepreneurship to reduce remittance dependency

• Nepal needs to enhance its financial inclusion through digital technology, thereby increasing the formal savings base of the economy. This will create a larger pool of “investable capital” from the domestic private sector, which will help the process of economic growth.

• Nepal must embrace digital technologies and expand its gig economy to substitute its remittance incomes. The country should invest in digital infrastructure, encourage the adoption of digital technologies, and promote digital entrepreneurship.

Recommendation 9: Promote regional cooperation and connectivity to strengthen the prospects of global economic integration

• Nepal needs to work on developing the BIN economic corridor with India and Bangladesh. Nepal can improve its economy by establishing strong regional connectivity with Bangladesh and India physically and digitally. Improved connectivity through resilient infrastructure systems can reduce trade costs and increase bilateral trade and investment flows. The construction of transportation infrastructure, cross-border energy and power infrastructure, and high-speed internet access are critical for this development. Close coordination and cooperation among the governments and private sector of the three nations will play a key role in facilitating regional economic integration through improved connectivity.

• To reduce external-sector dependencies and protect against the uncertainties of a volatile global economy, Nepal should assert its presence in the global export market, particularly through partnerships with larger regional actors like India. As manufacturing units shift from China to countries with lower labour costs and less stringent regulations, Nepal can become a
new manufacturing powerhouse by supplying critical raw materials and intermediate goods to India to produce sophisticated finished products. The two countries can also identify complementary sectors, reduce non-tariff barriers, encourage private sector investments, and strengthen institutional mechanisms to promote dialogue and cooperation on trade-related issues.

**Recommendation 10: Take advantage of the immense potential in the service sector to emerge as a beneficiary of global corporations’ movements out of China**

- Nepal’s demographic dividend provides immense opportunity to develop its service sector through an organic movement of the labour force from agriculture. Global corporations’ movements out of China to diversify their value chain from getting concentrated within the Chinese economy (the China+1 strategy) can help Nepal indirectly. Global corporations have learnt that an overdependence on specific economies is bound to have cascading effects on the world economy because of the macroeconomic shocks they produce. While nations like India and Vietnam are emerging as beneficiaries of this China+1 strategy, Nepal can support the growing manufacturing hubs, especially in India, by providing certain intermediate services, including that of being a trading hub, leveraging its unique strategic location between China and India.

As Nepal prepares for its graduation from the LDCs list, the 10 recommendations comprising 22 concrete steps can help Nepal achieve 5x growth over the next decade while navigating the stormy oceans of the global economy.
Endnotes


9. "Monitoring of countries graduating and graduated from the list of LDC category: Nepal"

10. "GDP (current US$)-Nepal"


20 Amod Rajbhandari, "2 ways to revamp Nepal’s economy", World Economic Forum, January 23, 2015, https://www.weforum.org/agenda/2015/01/2-ways-to-revamp-nepals-economy/\#DAG=3&gclid=CjwKCAjw6liiBhAOEiwALNqncYzBGKIlOkMs17KmzK0WLYQHeEklreaBTVMb4z4LtFSeYwGcd3lbrOCA0kQA0 DwE


33 "Labor force participation rate, total (% of total population ages 15+) (modeled ILO estimate) – Nepal"


42 Dhungel, “Trapped in migration and remittance”

43 “About”, Skill Up!, http://skillupnepal.org/about/

44 “About”, Skill Up!


93 “Monitoring of countries graduating and graduated from the list of LDC category: Nepal”

94 Shakya, “Nepal economic vision 2030: Leveraging private sector growth and investments”


96 Shomik Mehndiratta and Erik Nora, ”What will it take to connect the Bangladesh, Bhutan, India, Nepal (BBIN) sub-region?”, World Bank Blogs, January 24, 2022, https://blogs.worldbank.org/endpovertyinsouthasia/what-will-it-take-connect-bangladesh-bhutan-india-nepal-bbin-sub-region


102 Shakya, ”Nepal economic vision 2030: Leveraging private sector growth and investments”


104 ”People-to-People Connect”, BIMSTEC, https://bimstec.org/people-to-people-contact/#:%7E:text=Nepal%20is%20the%20lead%20country%20for%20the%20coordination%2C%20which%20happened%20on%2031%20July%202004%20in%20Bangkok%2C%20Thailand.


About the Authors

**Nilanjan Ghosh** is the Director of the Centre for New Economic Diplomacy (CNED) and the Kolkata Centre at the Observer Research Foundation.

**Debosmita Sarkar** is a Junior Fellow at the Centre for New Economic Diplomacy at the Observer Research Foundation.

**Renita D’Souza** is a PhD in Economics and a Fellow at the Centre for New Economic Diplomacy at Observer Research Foundation, Mumbai.

**Soumya Bhowmick** is an Associate Fellow at the Centre for New Economic Diplomacy, Observer Research Foundation.

**Ambar Kumar Ghosh** is an Associate Fellow at the Centre for New Economic Diplomacy, Observer Research Foundation.

**Shoba Suri** is a Senior Fellow with ORF’s Health Initiative at the Centre for New Economic Diplomacy at the Observer Research Foundation.

Acknowledgements

The authors thank Sujeel Shakya, Swarnim Wagle, Nirvana Chaudhary and Binod Chaudhary for their helpful comments on a previous draft of this report.