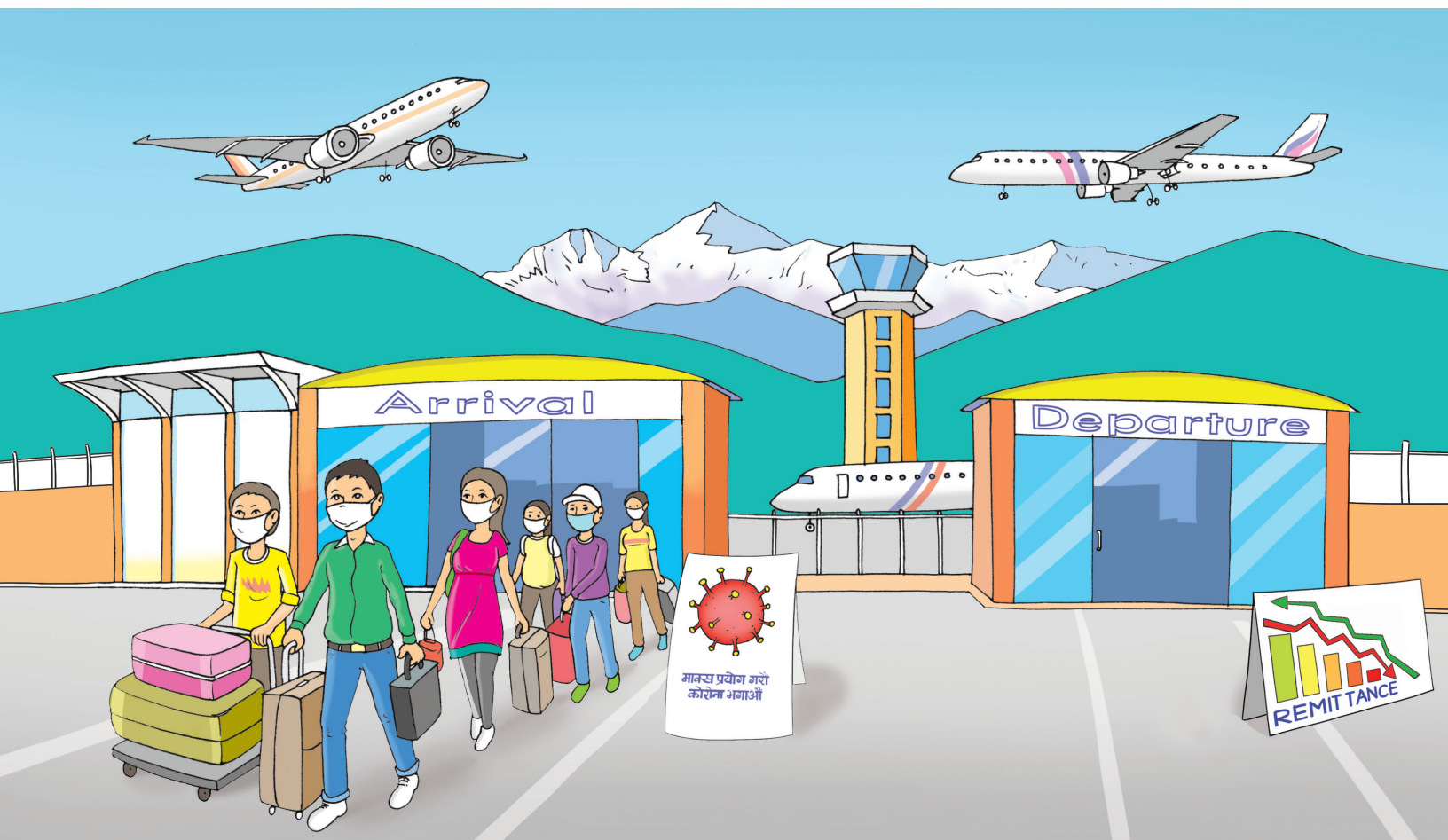


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A STUDY REPORT

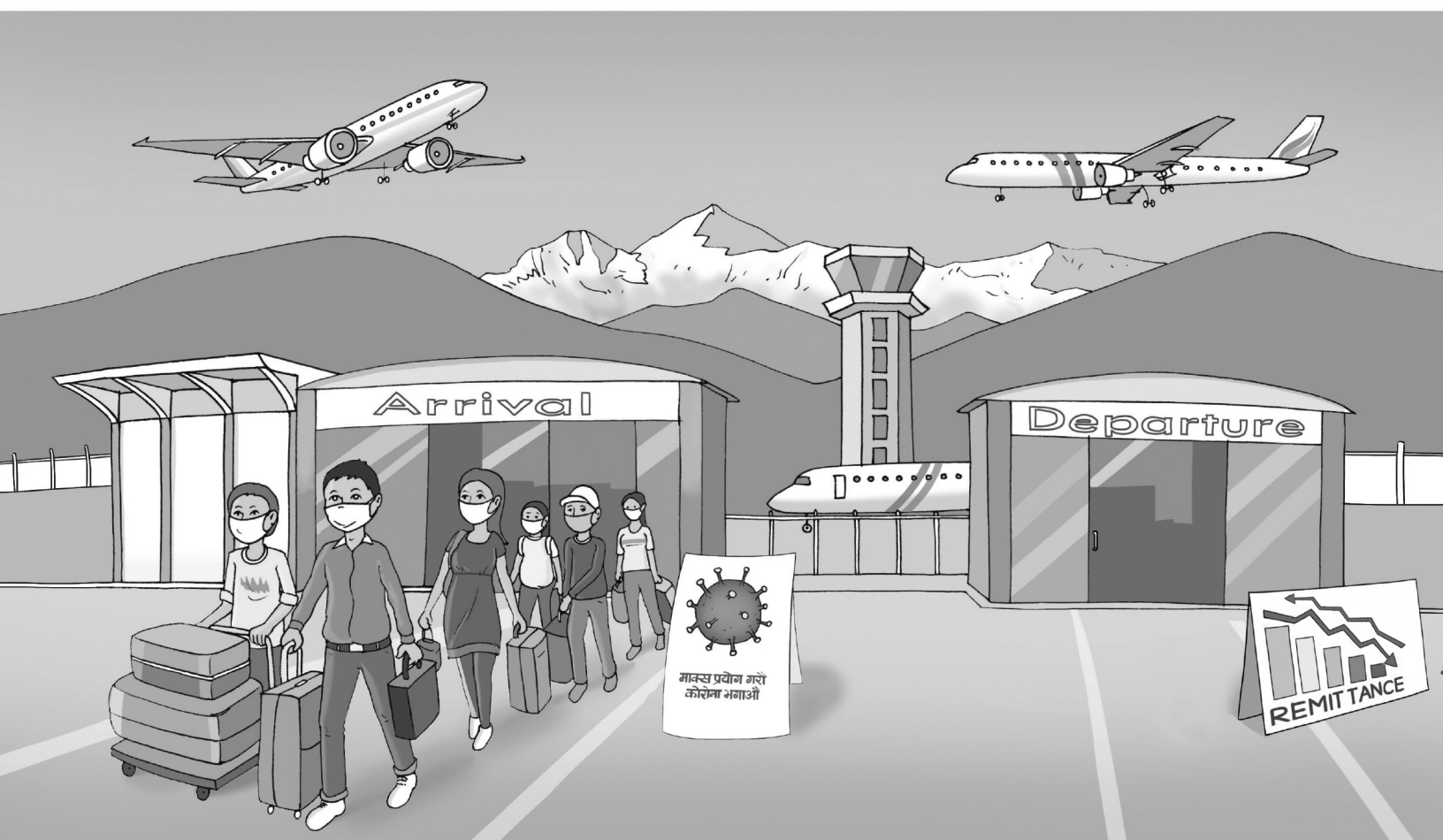


GOVERNMENT OF NEPAL
NATIONAL PLANNING COMMISSION
KATHMANDU, 2020

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NATIONAL PLANNING COMMISSION
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The Effects of COVID-19 Pandemic on Foreign Employment and its Impact on the Economy of Nepal

A steering committee led by Honorable Dr. Ram Kumar Phuyal, consisting of five senior officials (As member of the team from MoFA, MoLESS, MoF, MoHA and NPC) of government of Nepal guided the whole process and production of the Report.

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FOREWORD

It is my immense pleasure to write few words regarding the publication of the study report on “The Effect of COVID-19 Pandemic on Foreign Employment and its Impact on the Economy of Nepal”. The COVID-19 pandemic is the biggest global crisis of the 21st century. It has spread across 185 countries and infected a significant portion of the global population. In Nepal, many people have tested positive and some have lost their lives. In economic perspective, the impact of this pandemic is visible in almost all of the economic sectors. Among all, the foreign employment is expected to be suffered massively, resulting a heavy decline in the country’s remittance inflow. This study has examined the impact of COVID-19 on Nepalese migrants and inflow of remittances. It has also studied the effect and impact on the macroeconomic situation of the nation.

The report has included analytical overview on Nepalese foreign labor migration, potential returnees, job losses due to pandemic, effects on earnings and social security benefits of the migrant labors, as well as the remittance inflow to Nepal. Analyzing available data and information, it has included very insightful findings and provided valuable policy recommendations. The report also

has deeply analyzed the macroeconomic effects and impacts based on available real time data using various statistical and mathematical methods. I am hopeful, the results and recommendations incorporated in this report will serve as a base for the reliable and timely policy inputs geared towards the economic stimulation and revival in response to COVID-19 pandemic.

In spite of the fact that very short duration amidst the pandemic and limitations caused by the reliable data, the study team has performed an appreciable task. On behalf of the National Planning Commission, I would like to extend my sincere thanks to Honorable Member Dr. Ram Kumar Phuyal who lead and steered the whole process of this study, and I would also like to thank all the members of his study team for their valuable effort to bring this report in time.

My heartiest thanks goes to all the invitee members and supporting staffs of the National Planning Commission. Further, I would also like to thank all the individuals who directly or indirectly contributed in the study through their efforts on supplying necessary data and information.

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Prof. Dr. Puspa Raj Kadel
Vice Chairman



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NEPAL

ACKNOWLEDGEMENTS

Beyond the adverse health impact, the COVID-19 global pandemic, and its subsequent containment measures including the lockdowns, curfews and various other health and safety-related restrictive measures have divested economic activities and employment, and livelihoods of large-section of Nepalese people. The pandemic has affected adversely more to the vulnerable sections of the society, women, children, elderly population, informal sector workers, migrant workers and their dependent families back home. As a leading remittance-based economy in the world, it is important to know various consequences of this COVID-19 on Nepali migrant population, their employment opportunities, and the pathways of the pandemic impact on the economy and societal well-being.

This study has assessed major change on employment status of migrant Nepali workers in destination countries because of the COVID-19 and derive a best guess on loss of remittance inflow and its consequences on major macroeconomic framework in the Nepalese economy. The study findings provide valuable policy measures to the Government of Nepal in order to manage the repatriation process back home, designing kind of relief and welfare supports to the returnee migrant workers, and to implement various options to mitigate the adverse effects of the COVID-19 in terms of losses of income and employment of millions of less privilege section of the population in the economy.

This report has been prepared by adopting a very practical and participatory mode of consultative process across the stakeholders, the study team compiled a number of pertinent suggestions and inputs for addressing consequences of the pandemic, including various roles and functions of three tiers of governments

and their entities, foreign migrants workers, missions of the government of Nepal across the countries, NRNA, and development partners.

The steering committee of six members set up by the Government of Nepal, formed under the Honorable member of National Planning Commission (NPC), provided constant feedback and guidance to the technical team to prepare and finalize the study report. The members of steering committee was represented by senior officials of Ministry of Foreign Affairs (Mr. Harishchandra Ghimire-Joint Secretary), Ministry of Labour Employment and Social Security (Mr. Babu Ram Adhikari-Joint Secretary), Ministry of Finance (Mr. Yam Lal Bhoosal-Joint Secretary), Ministry of Home Affairs (Mrs. Indu Ghimire-Joint Secretary), and NPC (Mr. Kishor Joshi -Joint Secretary). I would like to duly acknowledge their feedback and suggestions, efforts and inputs to facilitate the process and completion of this report.


My sincere appreciation also goes to representatives of different organisations who provided very valuable inputs and suggestions to the study team, they include: ED of research division of Nepal Rastra Bank Dr. Gunakar Bhatta, Director General of Department of Foreign Employment Mr. Kumar Dahal, ED of Foreign Employment Promotion Broad Mr. Rajan Prasad Shrestha, and DDG of Central Bureau of Statistics Mr. Hem Raj Regmi for their institutional supports, and valuable technical comments and suggestions to refine the policies recommended by the study.

Under the overall guidance of the steering committee, a technical team comprising of development planning experts namely Dr. Madhusudan Bhattarai, Dr. Ganesh

Gurung, Mr. Pushpa Lal Shakya, and technical experts; Mr. Damodar Gnwali, Yadu Nath Acharya, Ms. Prakriti Thami, and Ms. Upasana Khadka contributed substantially in preparing an initial draft of this report. I duly recognize and acknowledge the painstaking hard-work of the technical team for their sincere efforts in preparing an excellent report and bringing the report in its present shape. Likewise, the technical teams also got very valuable inputs and supports from other senior government officials of the sectoral ministries, scholars from professional associations, and relevant private sectors, all of their contributions and inputs are also dually recognized and acknowledged. Likewise, I would like to recognise valuable support, technical input and time of development partner stakeholders such as ILO/ Nepal, UNICEF, NRN, IOM/Nepal, WB, UNDP and anonymous officials and scholars within the country and abroad.

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Most importantly, I would like to thank the Government of Nepal, NPC, and COVID-19 Crisis Management Center (CCMC) which provided us this opportunity to prepare a comprehensive study document consisting data and information from various sources. I would like to express my sincere gratitude to Prof. Dr. Puspa Raj Kadel, Honorable Vice Chairman, and I am thankful for all other Honorable members (Dr. Krishna Prasad Oli, Dr. Usha Jha, Dr. Dil Bahadur Gurung, and Mr. Min Bahadur Shahi), chief secretary Mr. Shanker Das Bairagi, and member secretary of the NPC Mr. Kewal Prasad Bhandari for their valuable feedback and reviewing earlier draft document of the study, providing inputs at the different level of meetings and workshops, and brain-storming sessions while finalizing the report.



Ram Kumar Phuyal, Ph.D.

Member

National Planning Commission

ABBREVIATIONS AND ACRONYMS

BoPs	Balance of Payments
CBS	Central Bureau of Statistics
CNI	Confederation of Nepalese Industries
COVID-19	Corona Virus Disease-2019
CSOs	Civil Society Organizations
DDG	Deputy Director General
DoFE	Department of Foreign Employment
ED	Executive Director
FEIMS	Foreign Employment Information Management System
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
GCC	Gulf Cooperation Council
GoN	Government of Nepal
ILO	International Labour Organisation
IMF	International Monetary Fund
IOM	International Organisation for Migration
LGOA	Local Governance Operation Act
MoALD	Ministry of Agriculture and Livestock Development
MoCTA	Ministry of Culture, Tourism and Civil Aviation
MoEST	Ministry of Education, Science and Technology
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoHA	Ministry of Home Affairs
MoICS	Ministry of Commerce, Industry and Supplies
MoLESS	Ministry of Labour, Employment and Social Security
MoLMPA	Ministry of Land Management, Cooperatives and Poverty Alleviation
MoFAGA	Ministry of Federal Affairs and General Administration
MoPIT	Ministry of Physical Infrastructure and Transport
MoWCSC	Ministry of Women, Children and Senior Citizen
MSME	Micro Small and Medium Enterprises
NGOs	Non-Governmental Organizations
NLFS	Nepal Labour Force Survey
NLSS	Nepal Living Standard Survey
NPC	National Planning Commission
NRB	Nepal Rastra Bank
NRNA	Non-Resident Nepalese Association
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OLS	Ordinary Least Square
OPMCM	Office of the Prime Minister and Council of Ministries
PMEP	Prime Minister Employment Program
SaMi	Safer Migration
TIA	Tribhuvan International Airport
TVET	Technical and Vocational Education and Training
UNDP	United Nations Development Programme
WB	The World Bank

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EXECUTIVE SUMMARY

The COVID-19 pandemic is one of the biggest global crisis faced by humanity in the contemporary world especially within last one hundred years. Its first case was detected in China in early 2020 and till the end of June 2020, it has already spread across 185 countries, infecting over 16.8 million people and resulting the death of over 662 thousand human lives¹ within the last 4-5 months when the virus related death record was initiated globally. Besides the health impact, COVID-19 and its subsequent containment measures, including the lockdowns, curfews and other restrictions have adversely impacted the national and global economy, mostly with informal sector workers, migrant population and vulnerable people impacted disproportionately and Nepal is not an exception.

As of 31st July 2020, the number of COVID-19 infected cases in Nepal has surpassed 19,547 with the infection spreading across all 77 districts and death toll has reached to 52. However the 14,248 cases got recovered out of the infections. With a large number of Nepalese migrant workers scattered globally ---primarily in the Gulf Cooperation Council (GCC) countries, Malaysia and in India, the adverse impact of the pandemic on Nepalese society has been transcended across the boundaries of the country.

As of July 25th, of 2020, over 31,150 Nepalese residing abroad in 36 countries were already tested positive, among them 29,243 have recovered while there have been 161 deaths.² In addition, a large number of migrant population of Nepali have already been displaced from their jobs abroad because of the economic

meltdown in the destination countries. A large percentage of them also expecting for their repatriation support from the Government of Nepal, or support from their employers. This situation has adverse effect in the inflow of remittance in the country. The decline in remittance inflow, equivalent to over a quarter of the annual GDP in normal time, will have far reaching direct and indirect adverse effects on Nepalese economy and livelihood of people which reduces households' income. In consideration to this, a study was carried out to examine the impacts of the COVID-19 pandemic on Nepalese migrant populations working abroad and its consequences on the Nepalese economy. As per the nature of the study and its coverage, the study has been divided into two major components specifically focused as below:

- i. Impact on Foreign Employment – which deals with the impact of COVID-19 pandemic on Nepalese migrant workers; and
- ii. Economic Impact - which deals with the effects of COVID-19 pandemic on remittance inflows, and its consequences on the Nepalese economy.

Section I: Impact on Foreign Employment

A quick survey shows that a large number of Nepali migrant workers residing outside the country is spread over 125 countries. However, majority of them are concentrated in a few countries such as India, Qatar, Saudi Arabia, UAE, Malaysia, Kuwait, USA, UK, and

The decline in remittance inflow, equivalent to over a quarter of the annual GDP in normal time, will have far reaching direct and indirect adverse impact on Nepalese economy and livelihood of people which reduces households' income.

¹ Globally, as of 10:00 AM CEST, 30 July, 2020, there have been 16,812,763 confirmed cases of COVID-19, including 662,095 deaths, as reported on the WHO dashboard.

² This is based on data collected by the Non-Resident Nepali Association (NRNA).

Australia that are top in the list. Because of job losses, a large number of migrants are currently stranded globally who are facing uncertainty socio-economic and psychological problems. It is anticipated that a significant number of them will be returning to Nepal, as the Nepal and other countries gradually ease the lockdown and lift international travel restrictions.

It is yet unknown about the nature and severity of the adverse effect of the COVID-19 pandemic on employment and livelihood opportunities of migrant populations working across 125 countries. This includes uncertainty regarding continuation of ongoing employment contracts as well as increasing numbers of new restrictions being imposed in the destination countries on migrant workers to leave the country, and/or, discouraging to immigrate in those countries. Despite important contribution of migrant workers in the national economy, there is no accurate data available on total stock of migrant Nepali workers working across the countries for their income and livelihoods. Hence, this study derives the best estimates of the size, distribution and characteristics of Nepalese migrant populations residing globally.

The major objective of first section of the study is to estimate total number of migrant Nepali workers who are abroad at present, assess impact of the COVID-19 upon them and suggest policies and programs to their rehabilitation in the country. The specific objectives are listed below.

- 1) To assess and quantify effect of the COVID-19 on foreign employment opportunities for Nepalese migrant workers in major destination countries;
- 2) To derive best estimates of the total number of migrant workers and other groups of Nepalese abroad likely to return

to Nepal within the next couple of months due to COVID-19 and various other factors related to the pandemic and

- 3) To provide policy measures to effectively manage repatriation process of the migrant workers and other stranded Nepalese and their possible alternate means of employment and livelihoods back in the home country.

This study uses a rapid assessment methodological framework to compile available data on migration from various sources, followed by a mixed method approach to summarize the results. This involves use of combination of both quantitative and qualitative data and using both primary and secondary information compiled from various agencies including Government of Nepal, Nepalese diplomatic missions abroad, Department of Immigration, Non-Government sources including Non-Resident Nepalese Association (NRNA), Nepal Association of Foreign Employment Agencies, association of NGOs and CSOs, other reliable sources, professional associations and so on. A set of questionnaire was sent out to Diplomatic Missions via the Ministry of Foreign Affairs that included questions on the total stock of migrants, the number of migrants in distress due to the pandemic and the expected number of returnees. Information was received from 112 countries. These data series and information were triangulated with experts through Key Informant Interviews (KIIs), discussions and consultations with experts, policy makers, academia, scholars, stranded and returnee migrants, where it was feasible.

While discussing about the arrival from destination countries excluding India, a time series analysis of data shows that 1,200 Nepalese left the country on an average while 500 returned on a daily basis prior to the

COVID-19 pandemic. The data from the first eight months of FY 2019/20 shows that on an average 23,800 workers migrated out of the country each month for employment.

The results show that, at present, over 3,210,848 Nepalese are residing across 125 countries for various purpose of work. The five major destination countries of Nepali migrant population include: India, Malaysia, Qatar, Saudi Arabia and UAE, which together comprise of over 70% of Nepali migrant population working abroad.

As of 22nd March 2020 to July 31st, 37,424 Nepalese were repatriated from third countries. It is estimated that about 618,700 migrants out of 3,210,848 (i.e., 19.3% out of total) would likely to return to Nepal within a year; out of them over 360,000 will be returning sooner. In fact, even in the absence of the COVID-19, a significant share of migrant workers would

have come back home after completion of their employment contracts abroad, due to expiration of their visa or other similar reasons. Our analysis shows that this category of workers would account for 40% of the returnees, whereas the remaining 60% i.e., over 255,000 out of 618,700 are estimated to be returning due to COVID-19. Considering the immediate needs and diversity of requirements of returnee migrant workers for relief, rescue and restoration of livelihoods, this study has also provided some recommendations for the Government to respond to the crisis adequately.

A rapid survey was conducted among 1000 Nepalese migrant workers who previously worked in 25 countries excluding India. Over 80% of them were found to be returned to Nepal in last five years reported that in terms of their employment after return, 23% of them engaged in self-employment, 20% in agriculture, 18% wages employment, and a

The five major destination countries of Nepali migrant population include: India, Malaysia, Qatar, Saudi Arabia and UAE, which together comprise of over 70% of Nepali migrant population working abroad.

NEPALI MIGRANT WORKERS (AND OTHER NEPALESE) RESIDING IN FIVE MAJOR DESTINATION COUNTRIES AND THEIR POTENTIAL ARRIVAL NUMBERS WITHIN A YEAR.

SN	Country/Territory	Migrant population outside of Nepal	Expected returnees to Nepal within one year	Expected returnees to Nepal, who may come soon
1	India	976,625\$	280,000	250,000\$
2	Qatar	360,000	100,000	50,000
3	Malaysia	325,000	30,000	7,000
4	Saudi Arabia	320,000	100,000	20,000
5	UAE	275,000	55,000	12,000
6	Other countries	954,223	53,700	21,621
	Total	3,210,848	618,700	360,621

Source: Adapted the data by combining information from the NLF5 2017/18 (CBS) with cross-countries data compiled by MoFA with support of its diplomatic missions abroad in May 2020.

Notes:

- 1) Countries are listed here based on the potential returnees who may come to Nepal from the respective countries immediately, once the lockdown is lifted.
- 2) These countries comprise a subset of 112 countries/territories where Nepali population are currently residing. Nepali residing in 41 countries have expressed their immediate concern and shown their interest to return to Nepal immediately due to the COVID-19 Pandemic related factors.

Migrants without the intention to re-migrate have diverse aspirations for economic engagement in Nepal in self- and wage-employment activities.

high share 39% reported not being employed currently. A high share of workers i.e., 81% reported that the skills acquired abroad has not been useful in Nepal with the main reasons being mismatch between skills and available work and lack of opportunities that facilitated the transfer of skills.

A similar survey was also conducted among the sample of 1999 recent returnee migrant workers who returned to Nepal after the onset of pandemic in the Government's special repatriation flights or over land from India. Over 50% of them who were surveyed reported that they intended to migrate again. The desire to return was notably high among those returning from India (54%) and South Korea (71%). Among those with return intentions, the driving force for remigration was lack of employment opportunities (57%) and poverty (28%) in Nepal.

Migrants without the intention to re-migrate have diverse aspirations for economic engagement in Nepal in self- and wage-employment activities. There are also variations in the aspirations of returnees from India versus other countries. India returnees expressed interest in services (43.8%), agriculture (21.5%) and daily wage (17.9%). On the other hand, for returnees from other countries, the priority areas were agriculture (45%), services (18.2%) and daily wage employment (16%).

Returnee migrants are expecting the Government to help them reintegrate in Nepal. They stated that the government could help by creating a conducive environment including appropriate laws and easy legal procedures (44%), by financial support including soft loan, seed money and grants (40%) and in

developing network for the business and entrepreneurship they undertake (8%).

While looking the impact on the domestic front, it is estimated that about 708000 individuals have lost their jobs either temporarily or permanently due to COVID-19. This is in addition to the unemployed population (900,000) as well as the large number of new labour market entrants (500000), Nepalese migrant workers returning to Nepal (255,000), workers unable to go for foreign employment due to shrinking global demand (75000) have put pressure in the Nepalese labour market. The study shows that approximately over 24,00,000 new jobs are required to be created this year. In this context, proactive initiatives will need to be taken by the large number jobs creating relevant ministries and sectoral agencies of the government rigorously.

As of late March, over 75,000 persons had secured working visas from the targeted countries but were stranded in the country due to travel restriction, and various other restrictions associated with the COVID-19 pandemic. In addition to the increased pressure due to an unprecedented volume of COVID-19 induced returnees, the pandemic may also reduce the global demand for migrant workers. This means that aspiring migrant workers who would have otherwise opted for overseas employment are unable to do so. Both the unprecedented return of migrants as well as the inability of aspiring migrants to join overseas employment can translate to increase pressure in the domestic labour market. The seasonal migrants from India is excluded in the study, and the analysis is based on the data compiled by MoFA. Among the arrival of 3,66,153 Nepalese (22nd march 2020 to 15th July) through border from India, majority of

them were the seasonal migrants who entered through almost two dozen border entry points.

Therefore, the pressure for job creation is very high in the domestic labour market, which is a challenging task at a time of global pandemic. With the pandemic, if youth do not have the option to migrate for overseas employment due to the contracted overseas market, they will have to be absorbed in the domestic labor market. In this context, four different scenarios i.e. normal, low, medium, and high variants (if global demand for labour decreases by 0%, 10%, 20% and 30%) are considered in making the prediction for possible loss of employment and remittance in the COVID-19 and post-COVID period.

The pandemic has also produced heterogeneous impact on migrant workers which varies by time as well as by structure of population. This also needs different policy response such as immediate, medium and longer-term policy responses to ensure safe rescue, repatriation and rehabilitation of the migrant workers.

Based on the preceding analysis and discussion with key stakeholders, this section makes recommendations for government on policies and support programs to address the needs of migrant workers, distinguishing between three phases:³ They are as summarized below, and details are provided in the last section of the Report.

- i. Immediate Rescue and Relief Policy Response (1 to 3 months)
- ii. Survival and Recovery Strategy (3 to 12 months)
- iii. Rebound and Revival Strategy (1- 3 years)

Selected major recommendations and policy responses under these three phases

are listed below. Record keeping of both current migrants, especially those in distress, and returnee migrants for repatriation and reintegration initiatives in the domestic labour markets.

- Clear communication strategies by various agencies of government including arrangement of repatriation by the foreign missions of Nepal in the dynamically evolving context and to ease the administrative process of repatriation for migrants.
- Extend support to vulnerable workers who may need financial support to afford the costs associated with their repatriation including airfare and adequate access to food, accommodation and healthcare until they are repatriated.
- Extend labour diplomacy with countries of destination of Nepali migrant workers to ensure the labour right and minimum social security. Need to ensure that migrants are accorded protection during the pandemic and to implement redeployment or regularization programs.
- Comprehensive analysis of labour demand and supply sides need to be conducted to get precise information for self and wage-employment programs. Employment Service Centers need to be strengthened considerably to guide jobseekers, while implementing wage and self-employment programs.
- The coverage of skill trainings, testing and certification programs need to be expanded and ramped up the pace of training so that diverse sets of migrant returnees can get their experience certified whereas jobseekers can get both the foreign and local labour markets.
- Need to establish a better system of data collection and reporting in CBS and

This also needs different policy response such as immediate, medium and longer-term policy responses to ensure safe rescue, repatriation and rehabilitation of the migrant workers.

³ These strategies and policies are grouped into three broad categories (and in three phases), along with the responsible line agencies based on the nature and type of the support program.

A nationally representative survey on returnee migrants to be conducted by the government soon to better understand their constraints, socioeconomic and institutional factors responsible for migration, their skills and aspirations.

- in MoLESS to produce high frequency quality labour force data by establishing labour market information system and setting up procedures and funding for high frequency surveys data on these variables.
- A nationally representative survey on returnee migrants to be conducted by the government soon to better understand their constraints, socioeconomic and institutional factors responsible for migration, their skills and aspirations. This survey will provide valuable information to design effective national reintegration policies for the migrants taking into consideration of long-term perspectives.
 - Research and support systems on migration needs to be expanded with establishing a research wing in MoLESS responsible for conducting frequent labour market analysis of common and new destination countries. Further, the local labour market need analysis to be conducted for making timely and effective policy and regulation on labour migration topic.
 - More emphasize to be given by the MoLESS and the other government agencies for recovery of backlog wages and benefits of migrants from the destination countries, even to those who have already returned in the country.
 - Initiate the establishment of “National Employment Promotion Authority (NEPA)” to integrate various employment generation programs initiated by the various agencies of the governments in the recent past, and also for single-window services to the unemployed labor forces in the country.
 - A comprehensive Human Resource Development Plan (HRDP) should be formulated to match the demand and supply of the labour forces, including the skill and competency of the labor forces needed by the various segments of the national/sectoral labor markets, and such plan (HRDP) to be dynamically updated by the government in each of the 5 years.
- In the short-run, the Department of Foreign Employment (DOFE) and diplomatic mission need to increase efforts to diversify the countries and skills that migrant workers are engaged in via dialogue, bilateral labor agreements and pilot schemes. More extent of diplomatic initiatives needs to be taken for searching new destinations as well as skilled and professional level employment opportunities within the existing destinations, in the short to medium term. However, the government of Nepal also simultaneously needs to formulate a long-term strategy and policy for generation of employment within the country, and gradually reducing the over dependency of government revenue on remittance.
 - Introducing new policies and programs to reintegrate returnee female domestic workers in the national labor market even by enacting new laws to formalize these sectors with social security benefits to employees in housekeeping, caregiver or similar sectors in urban areas.

Section II: Economic Impact

The global COVID-19 pandemic has devastated economic activities across all countries – with millions of workers experiencing loss of income and employment opportunities. Even with several months into the pandemic, there is still a lot of uncertainty about the extent of economic toll that the pandemic will take in the national economy and to the various segments of the economy (and sectors). For Nepal, the COVID-19 has created a situation of dual peril. As the country struggles to keep

its economy afloat, it also has to deal with the mass repatriation of large numbers of economic migrant labor force in a short window of time. Hundreds of thousands of Nepali migrant workers and other professionals including students have lost their employment abroad, due to the COVID-19 related lockdowns, slow-down of economic activities and disruptions in supply chains of various goods and services. This in turn has an adverse impact on inflow of workers' remittances in Nepal, which could be easily over a quarter of the annual GDP in next couple of years. The loss of remittance inflow into Nepal will have direct and indirect adverse consequences on Nepal's economy, affecting daily livelihoods of millions of people across a large section of the Nepali society.

Understanding the nuances of the economic implication of a negative shock out of the reduced inflow of the remittance, a crucial source of income for millions of households, is a paramount important and urgent task now. Therefore, the main objectives of the second section of this study report is to document findings related to effects of the COVID-19 pandemic on the inflow of remittances in Nepal, and its implications on various economic indicators of the economy.

The specific objectives of the second component of the study report are:

1. To assess effects of the COVID-19 pandemic on the employment of Nepali workers in major destination countries and its subsequent impact on remittance inflows to Nepal.
2. To assess impact of the COVID-19 induced loss of remittance inflow on the Nepali economy, particularly on key macroeconomic sub-sectors (indicative variables) such as GDP growth, consumption level, import and revenue,

balance of payments (BoPs), foreign reserves, savings, and investment level in the economy.

3. To suggest alternate policy measures (with action points) that the Government of Nepal can adopt to mitigate the adverse effects of the reduced remittance on loss of income and employment in the economy.

The second part of the study relies largely on secondary data and information, published and unpublished, from the National Planning Commission, Ministry of Finance, Nepal Rastra Bank, Central Bureau of Statistics, and various other government agencies. A combination of various methods; literature review, descriptive statistical and inferential analysis based on simple and multivariate regression-methods have been used to examine, analyze, and quantify the degree of impact that the COVID-19 pandemic might potentially have on the economy now, and on economic health down the road.

A recent study by the IMF (2020) projects that the global economy will contract by about 5% in this year due to the COVID -19 pandemic factor alone. Nepal's economy is even more vulnerable to external shocks due to its heavy reliance on inflow of remittance. Almost all the major destination countries for Nepali migrants such as the members of Gulf Cooperation Council (or GCC countries such as Qatar, Saudi Arabia, Emirates, UAE), Malaysia, India and South Korea have been hit massively by the global pandemic. GCC countries are looking at a 10.4% increase in their trade deficits in 2020. Malaysia's GDP is projected to decline by over 3% in 2020, South Korea's GDP to decline by over 2% in 2020. Likewise, the largest migrant destination for Nepali workers, India, is also looking at about 4.5% contraction of its economy in 2020, and with massive scale of rise

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on unemployment level in northern states of India, bordering to Nepal. While these countries have implemented various fiscal and monetary policy measures in an attempt to ameliorate the negative effects of the pandemic, it is still likely to experience a significant negative blow to their economies. Hence, Nepal is looking at a future with reduced migrant labour demand from its major labour destination countries and consequently, a reduction in inflow of remittance fund in the economy.

The factors by which remittances will reduce remains difficult to estimate. Nonetheless, in the first three months of the pandemic alone, the country witnessed a 15.33% reduction in its average monthly inflow of remittance. Moreover, the remittance inflow of 875.03 billion in FY 2020/21 marks a huge reduction from the pre-COVID estimates of NPR 922.4 billion for this year. It should be noted, however,

that after the massive initial shock in mid-April (Chaitra) at the onset of the pandemic, amount of remittance inflow did recover significantly in the months between mid-May to mid-July (June and July). Nonetheless, the pervasiveness of the economic slowdown across the countries means that there will be a decrease in the demand for foreign migrant workers in the major destination countries (developed nations), as well as in the earning potential of the migrant workers.

The sharp reduction in remittance inflow in March to May 2020 is of a concern as it is a vital source of income and livelihoods for hundreds of thousands of households in the country. In fact, our estimate here suggests that a 15.33%⁴ reduction in the remittance inflow could correlate to a 2.5% reduction in the growth rate of consumption. In addition, remittances are used predominantly to sustain basic household

REMITTANCE INFLOW IN NEPAL BY MONTH TO MONTH BASIS OF COMPARISON IN RS. MILLION

Month	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	2071/72	2072/73	2073/74	2074/75	2075/76	2076/77
mid-Jul to mid-Aug (<i>Shrawan</i>)	42,193.5	53,272.4	51,940.2	55,552.8	73,954.2	75,401.5
mid-Aug to mid-Sept (<i>Bhadra</i>)	42,285.4	54,396.0	62,799.6	59,998.9	80,247.7	78,331.2
mid-Sept to mid-Oct (<i>Ashwin</i>)	49,711.0	58,752.7	57,057.1	60,772.0	87,969.8	76,510.5
mid-Oct to mid-Nov (<i>Kartik</i>)	46,151.4	48,966.8	60,340.9	52,626.0	70,087.2	74,722.3
mid-Nov to mid-Dec (<i>Mangsir</i>)	46,862.4	55,983.3	55,526.4	56,531.0	64,332.1	72,019.7
mid-Dec to mid-Jan (<i>Poush</i>)	48,755.7	52,321.3	54,569.3	55,062.8	66,773.3	70,273.3
mid-Jan to mid-Feb (<i>Magh</i>)	44,975.2	51,463.3	52,333.6	60,805.6	72,190.5	65,954.3
mid-Feb to mid-March (<i>Falgun</i>)	50,060.9	52,217.2	55,424.5	70,506.4	66,636.6	79,208.7
mid-March to mid-April (<i>Chaitra</i>)	55,194.40	54,312.70	61,939.90	68,521.50	70,996.60	34,500
mid-April to mid-May (<i>Baishakh</i>)	62,879.00	57,187.70	55,040.30	66,303.10	72,108.90	53,900
mid-May to mid-June (<i>Jestha</i>)	62,673.30	60,076.80	66,447.90	73,051.00	73,719.60	94,000
mid-June to mid-Jul (<i>Ashad</i>)	65,536.60	66,114.00	62,032.70	75,327.60	80,254.80	100,209
Annual Total	617,278.80	665,064.20	695,452.40	755,058.60	879,271.30	875,030

Source: NRB monthly publications (2019/2020)

⁴ The decline of remittance inflow from informal channel would be much higher than the estimated level from formal sector, however, there is no data available of remittance from informal sector in the country. In the case of lockdown in the economy and break down in the traditional supply chain (and hundi system), it is likely that large share of informal sector of remittance might have channeled through formal sector of the remittance.

needs, household consumption has strong inter-linkage effects with other sectors of the economy. Therefore, the shock of reduced remittance inflow is likely to propagate through various sectors, and ultimately, have a pervasive impact on the larger economy. In fact, in Nepal, the trend in inflow of remittance has very strong co-movements with key indicators for macroeconomic aggregates (such as the final consumption, expenditure and Gross National Savings), which can produce a spiral chain effects in contraction of the economy, and a cause of concern for all segment of the society.

Moreover, through its impact on consumption, investment and saving, even a small percentage fall on remittance will have a huge adverse consequence on the country's real sectors. The GDP growth for the FY 2019/2020 is projected to be 2.27% compared to 7% growth in the previous year. Reductions in consumption and investments in the aggregate economy also have a direct bearing on government revenues.

In the same way, as indicated by the results, reductions in remittances in this year would also reduce the amount of deposits in the economy (both household and the bank deposit), and with a negative impact on the broad money supply in the country. The reduction in money supply can increase a concern about access to liquidity across the business entities, ultimately increasing in interest rates and decrease in availability of bank credit lines to business firms. Further, the reduction in remittance, a key source of foreign currency in a year, will have a direct negative effect on the foreign exchange reserves in the country. The findings of the study suggest that a 15.33% decrease in remittance inflow in a year could correlate to a 17.7% decrease in the growth rate of the change in foreign exchange reserve (FOREX) in the country. This raises concerns about potential aggravation of trade deficits and its implications on the balance of payments.

In light of this, the policy measures and recommendations to mitigate the sudden fall in remittances and its adverse ramifications on the economy are divided into two broad categories, namely:

- (i) Intermediate Policy Action for Humanitarian Relief and Economic Stimulus, and
- (ii) Policy Response for the revival of the economy.

As suggested by the findings, selected important Intermediate Policy Actions for Humanitarian Relief and Economic Stimulus are as follows:

- Arrangement to be made urgently to obtain information about the skills of the returnee migrant workers and their job requirements.
- Gradual relaxation of restrictions on economic activities in the domestic economy and easing up of the lockdown with public safety and social distancing norms in place.
- Supporting the agricultural sector in all aspects of value chain systems namely, in production, marketing, storage and transport. This is for expansion of agricultural production, agricultural business, and generating more income and employment in the sector. Strengthening agricultural value chain system in the economy is critically important also for reducing reliance on imports level in the economy.
- Encourage the expansion of online/digital activities, making the online transaction more reliable, including with regards to processing labor permits and remittance inflows using the online gateways or even mobile gateway system.
- Relief, facilitation and stimulus package needs to be announced for various sectors of the economy that are adversely affected by the COVID-19 pandemic.

The policy responses (or recommendations) for the revival of the economy are categorized

The findings of the study suggest that a 15.33% decrease in remittance inflow in a year could correlate to a 17.7% decrease in the growth rate of the change in foreign exchange reserve (FOREX) in the country.

based on the nature of the services. The related sectors are: fiscal measures, monetary and financial measures, balance of payment and exchange rate measure, and other sectoral policy measures. Selected important policy responses are summarized below:

Fiscal measures:

- Effective and targeted relief and economic stimulus packages need to be designed to revive various sectors of the economy.
- Fiscal sector needs to be reformed to mobilize resources and ensure effective public expenditure. Further, the monitoring and evaluation mechanism needs to be strengthened to ensure effective budget implementation.
- New Initiative to be taken to mobilize multilateral aid for stimulus programs and other important programs and projects.

Monetary and Financial measures:

- Expansionary monetary policies (such as cutting interest rates, open market operations etc.) to be implemented by provincial/national government to increase liquidity and stimulate economic activity.
- Measures that stimulate business activities and investment (public as well as private) to be expanded such as provision of seed money, interest subsidy and review of interest subsidy to enhance its effectiveness in promoting business and industry need to be instituted.

Balance of Payments and Exchange Rate measures:

- A favorable situation of balance of payments to be maintained by encouraging exports, decreasing imports of essential goods and integrating remittance inflow with formal financial services.
- The current exchange rate pegged with the Indian currency needs to be revised thoroughly.

Other policy measures:

- Employment centric policy and programs that can generate more employment opportunities and absorb unemployed workers locally needs to be instituted. Skills testing and certification programs for returning migrant worker; employment generation training programs at large; and self-employment promoting programs for returning migrant workers need to be rolled out linking with banking and financial institutions. The massive network of cooperative financial institutions also need to be mobilized for financing self-employment programs (and projects), with least transaction costs in approval for grant and soft loan for this purpose.
- Supporting the agricultural sector as a core part of reducing reliance on imports by supporting low-transaction cost based soft loan and grants for promoting agribusiness and value chains of targeted commodities of small-farmers (group as well as individual based grant supports).
- Incentive and stimulate package to be developed and initiated by the government soon to revitalize the tourism industry across the country, where job and employment of over half a million workers is at a stake now (including returnee migrants' involvement in the sector).
- Such stimulate packages to be developed in wider consultation with the various direct and indirect stakeholders (hotel and restaurants) of the tourism industry and the measures to be based on economic incentive for sustaining and revitalizing the tourism industry namely, VAT exemption for limited period, soft loan and simplified procedures (company acts and regulations) for restructuring the industry, deferred payment of loan to bank, other BFIs and suppliers for limited period (in consultation with Nepal Rastra Bank).



SECTION I

IMPACT ON FOREIGN EMPLOYMENT



FOREIGN EMPLOYMENT

1.1. BACKGROUND AND CONTEXT

The impact of unanticipated global shock of the COVID 19 pandemic have been felt by both developed and developing economies with the economic, financial and livelihood losses, however the informal and service sectors of the developing world have been hit greatly. The impact of this pandemic has surpassed the devastation caused by the 1929 Great Economic Depression and the 2008 global financial crisis. Addition to the health impact, the subsequent containment measures to contain the spread of Coronavirus infections, including lockdowns and other restrictions, have adversely impacted the economy of Nepal. These measures have affected informal sector workers, daily wage-earners and migrant population more than the other sectors. Nepalese migrants scattered globally are adversely impacted by the pandemic and extent of the impact varies by geography and the sectors they are employed in.

Section 1 of this Report aims to provide information and estimation related to the total numbers of Nepalese population residing abroad the numbers of Nepali that potentially returning Nepal from abroad and impact of COVID-19 pandemic on Nepalese migrant population, especially temporary migrant workers currently residing abroad. Even in the situation of the dearth of reliable data on the current stock of migrants, the report has tried to estimate the total number of the population returning due to COVID-19 pandemic, which is very challenging work.

Moreover, it also provides policy measures that various Government agencies should consider to address the challenges associated with their smooth repatriation and reintegration.

As of July 31st, 2020, the number of COVID-19 cases in Nepal has surpassed over 20,000, with all 77 districts affected. In fact, A high share of cases in Nepal have been seen among Nepalese returning from abroad, especially from India, while the risk of community transmission is also on the rise. To contain the spread of COVID-19, the Government of Nepal has taken various preventive and curative measures. Since March 22, 2020, a nationwide lockdown was imposed to control the spread of the virus by curbing mobility and social interactions. Domestic and international commercial flights have been suspended.

However, the nation-wide lockdown was lifted on 21st June, 2020, and it was replaced by targeted localized lockdowns that respond to the needs of specific areas and since 10th June, Government has started operating special repatriation flights to bring back Nepalese stranded abroad.

As of July 31st, there were 37,424 Nepalese repatriated from third countries and 3, 66,153 Nepalese from India. A high number of migrants were then still stranded abroad and await for repatriation. Their safe repatriation is a key priority of the Government as it faces the monumental challenge of tackling the health and economic consequences of the pandemic.

Moreover, it also provides policy measures that various Government agencies should consider to address the challenges associated with their smooth repatriation and reintegration.

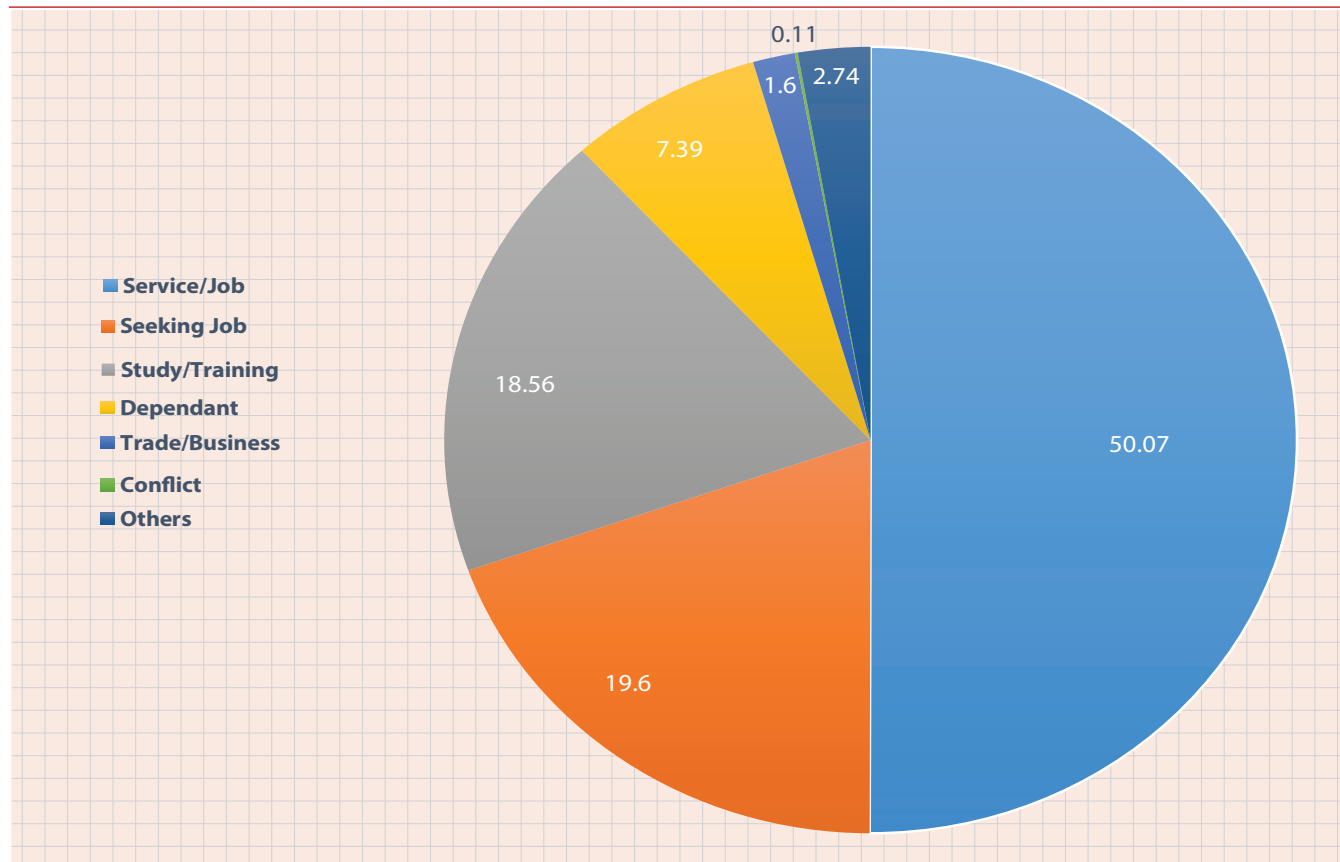
The main reason for most of the Nepalese are migrated abroad basically due to seeking new jobs. According to the Nepal Labour Force Survey (NLFS) 2017/18, almost two third of the respondent said that they are migrating for seeking jobs abroad. Other reasons for migration includes studies and businesses, which are summarized in Figure 1.

At present, Nepalese migrant workers are residing in over 125 countries of the world. Since 2008/09, over 4 million Nepalese workers have been given approvals to work abroad by the Department of Foreign Employment (DoFE). Between 2008/09 and 2013/14, there was a surge in the annual number of labour approvals. The number of labour approvals

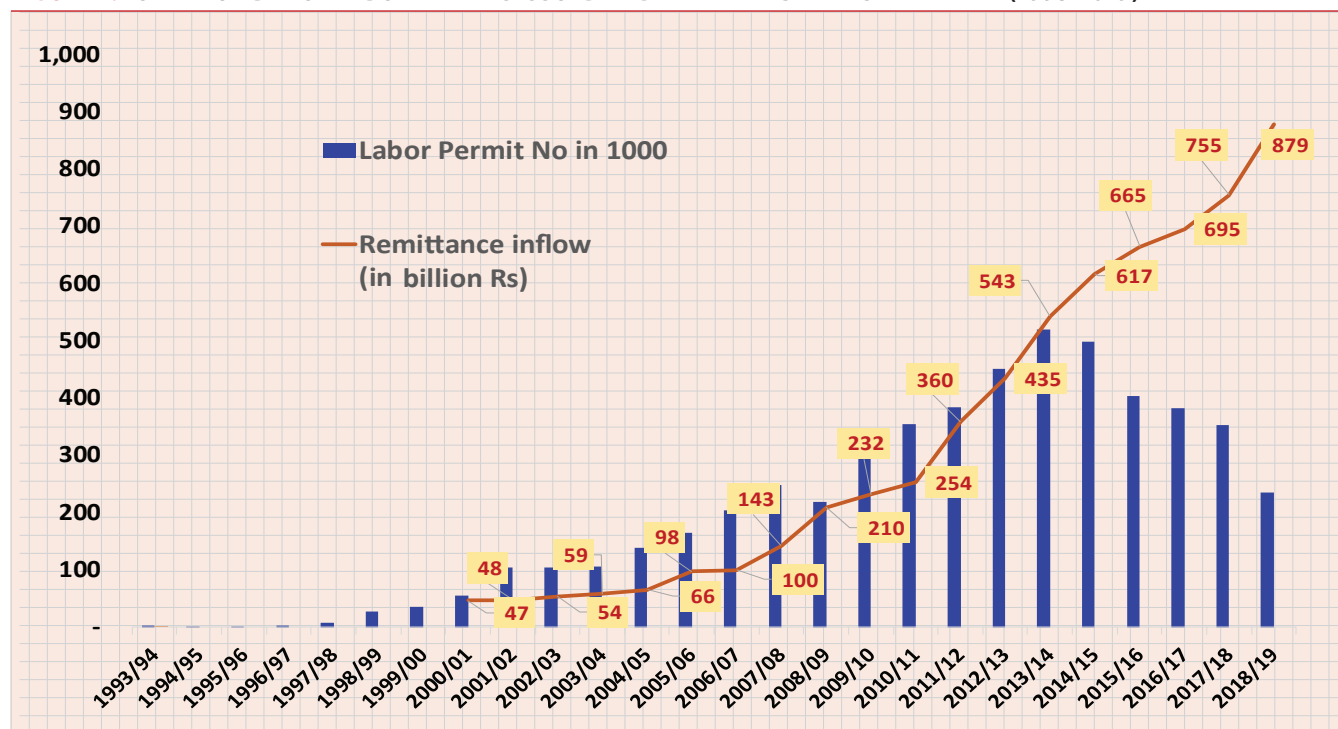
reached at the peak in 2013/14 which was over 500,000, then it started to decline steadily and reached its lowest in 2019/20 which was 190,453. Thus, even before the pandemic, the outflow of Nepalese migrant workers was on a declining trajectory. It is important to note that this figure excludes Nepalese migrant workers traveling to India, which are unrecorded, due to the open border between the two countries.

There are various factors responsible for the declining outflow of migrant workers. For example, the sharp decline in oil prices in 2014 and the nationalization policies adopted by many of the GCC region countries has led to decreased demand. Similarly, Nepal

FIGURE 1: MAIN REASONS OF MIGRATION OF NEPALESE LABOR FORCES



Source: NLFS 2017/18

FIGURE 2: TOTAL NUMBER OF LABOR PERMITS ISSUED AND REMITTANCE INFLOW IN NEPAL (1993-2019)

Source: Department of Foreign Employment and Nepal Rastra Bank, (2020)

Government's policy on temporary halting of outmigration to Malaysia in 2018 also impacted the annual outflow that year, as Malaysia is a key destination country for Nepal as mentioned in figure 3.

The lowest recorded outmigration in 2019/20, a 20% fall from the previous year which can be attributed to the COVID-19 related global pandemic factor. Because of the pandemic, the Government has suspended labour approvals for foreign employment from March 12, 2020 onwards. In addition, over 75,000 workers who had obtained labour approvals were unable to travel due to the suspension of international flights and are faced with the uncertainty of when they can resume their employment abroad. As will be discussed in detail in Chapter 3, the economic crisis induced by COVID-19 pandemic has put a high number

of current migrants who emigrated primarily for employment reasons at risk and also potentially impacting the future demand for aspirant migrant workers.

In the past remittances, however, was on an increasing trajectory, with the volume of NRs. 879 billion in 2018/19 (see Figure 2). As will be discussed later in this report, the pre-COVID-19 expectations for the remittance volume in 2019/20 was NRs. 992.4 billion but was later readjusted to NRs. 800-820 billion after the onset of COVID-19 (Figure 2). In terms of remittance-to-GDP ratio, which has been consistently over 25 percent. At the global comparison, Nepal falls in the top five countries in terms of remittance-to-GDP ratio, which signifies the importance of this external income source to the country's economy.

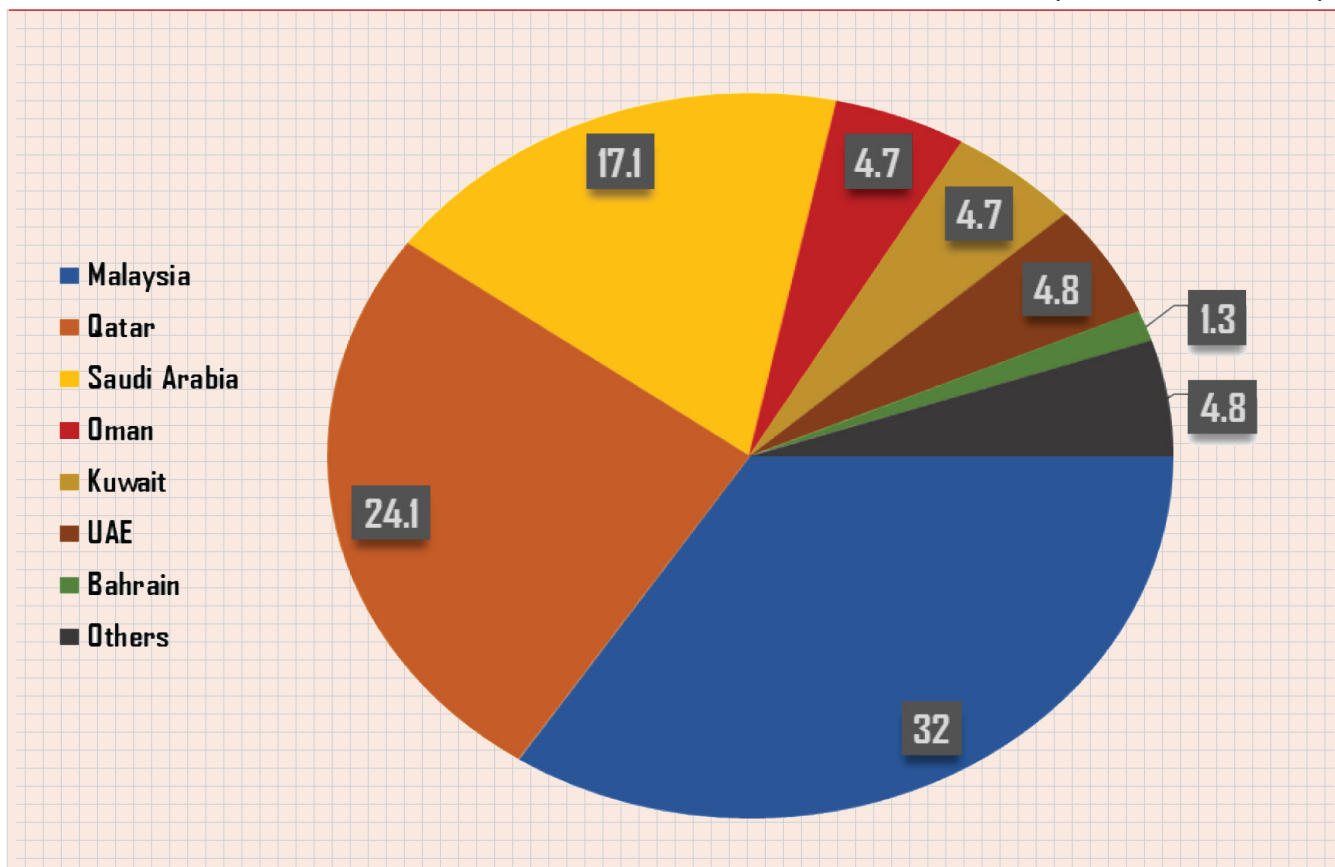
The lowest recorded outmigration is 190,453 in 2019/20, a 20% fall from the previous year which can be attributed to the COVID-19 related global pandemic factor.

Disaggregating the number of workers by nationality shows that a majority of workers are concentrated in a few countries. In 2019/20, for example, about 90% of the workers obtained labour approvals for the major five destination countries such as UAE, Saudi Arabia, Malaysia, Qatar and Kuwait. Then, the rest about 10% of the migrant workers have spread in other 110 countries. The same pattern was existed even in 2017/18 and in 2018/19, as well.

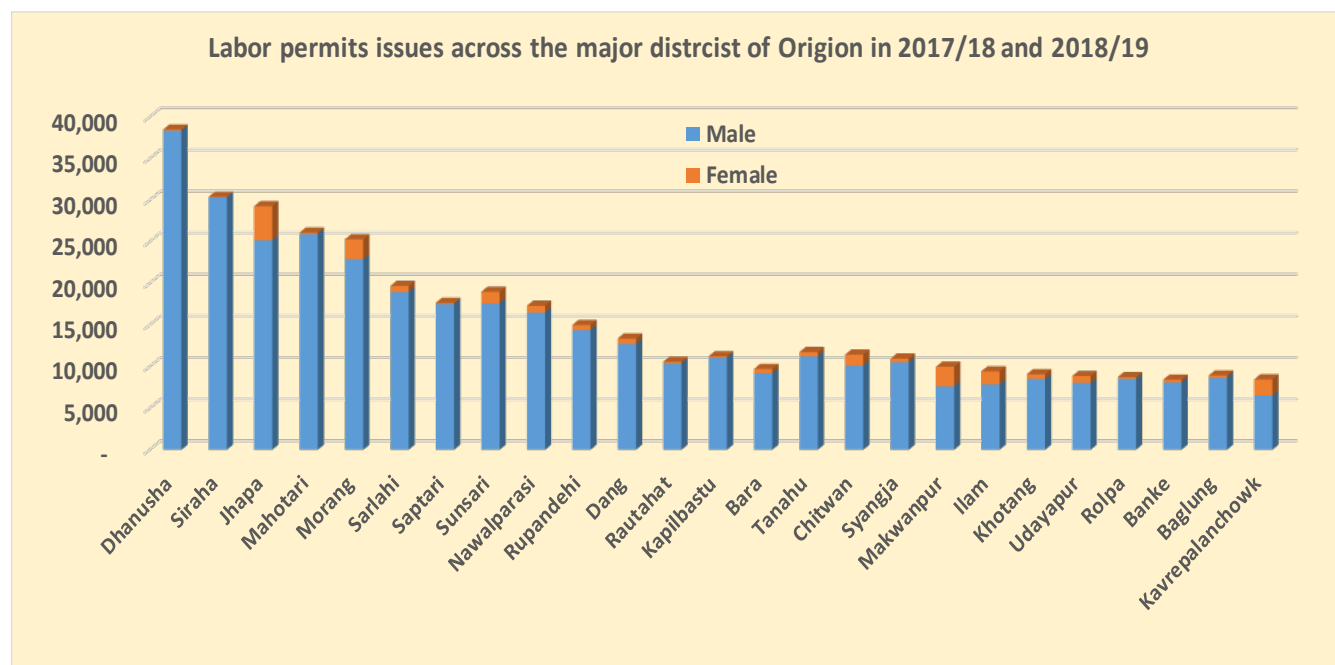
In terms of the origin of migrants, Provinces 1 and 2 supply the largest share of out-migrants to third countries excluding India. While the share of labour approvals from Province Karnali and Sudurpaschim are small, a higher share of migrants from these regions

head towards India, and their migration data is not maintained by MoLESS or any other government agencies of Nepal or India. In terms of origin districts, data from 2017/18 and 2018/19 show that the high out-migration districts include Dhanusha (over 38,000), Siraha (30,400), Jhapa (29,300), and then from Mahottari and Morang each with 26,100 and 25,300, respectively (see details in Figure 4). This has implications on the large pressure faced by these districts due to reverse migration in both the management of quarantine facilities as well as the local labour markets, and the socio-economic factors associated with reintegration of large number of returnees in a short time span.

FIGURE 3: TOP DESTINATION FOR FOREIGN EMPLOYMENT OF NEPALESE WORKERS EXCLUDING INDIA (JULY 2015 TO APRIL 2019)



Source: Adapted from MoLESS 2020 data & IOM 2019

FIGURE 4: MIGRANT LABOR BY DISTRICTS OF ORIGIN IN THE LAST TWO YEARS 2017/18 AND 2018/19

Source: MoLESS (2020)

Till 2019, about 72% of the migrant workers who received labour permits from DOFE have been either unskilled or low-skilled. Less than 0.1% were in the high-skilled or professional categories (Table 1). The rapid spread of COVID-19 and the subsequent economic slowdown due to social distancing and quarantine measures has had a heterogeneous impact on the employment of migrant workers abroad. For example, a large number of occupations considered “unskilled” fall in the essential category as they are necessary for the functioning of economies amid the lockdowns. Therefore, there are many migrant workers who have continued to do work throughout the pandemic. On the other hand, there are also many workers who have lost their jobs, while others have experienced reduction in working hours and salaries or are in paid or unpaid leaves. These workers are either in a wait-and-watch mode to see if they can resume their employment once the situation normalizes or

are intending to return to Nepal, especially if they have experienced job loss. The impact of COVID-19 is different across geographies and occupations. Consequently, there is a high level of uncertainty in gauging the full impact of COVID-19 on Nepalese migrant workers, which depends on various factors including, among others, the ability of the destination countries to contain the spread of the virus and the recovery of the sectors in which migrant workers are employed.

In addition to the uncertainty regarding their employment, the inability of hundreds of thousands of workers to return home due to the suspension of international commercial flights has also taken a psychological toll on Nepalese stranded abroad. As will be discussed later in the Report, a large number of migrants are waiting to return once the restrictions on international flights are lifted. What makes this crisis particularly challenging compared

These workers are either in a wait-and-watch mode to see if they can resume their employment once the situation normalizes or are intending to return to Nepal, especially if they have experienced job loss. The impact of COVID-19 is different across geographies and occupations.

TABLE 1: REPORT ON TOTAL FINAL APPROVED LABOR PERMITS TO WORKERS BY SKILL TYPES

S.N	Skill Type	Approved No of Men	Approved No of Women	Approved Total	In Percentage
1	High Skilled	2,642	128	2,770	0.04
2	Professional	3,331	670	4,001	0.06
4	Skilled	1,110,197	50,049	1,160,246	17.95
3	Semi-Skilled	1,668,885	84,601	1,753,486	27.13
5	Unskilled	3,392,962	149,098	3,542,060	54.81
Grand Total		6,178,017	284,546	6,462,563	100

Data source: MoLESS (2020)

Note: The data includes total labor permits issued by the DoFE, MoLESS, so far in the last 20 years or more. This includes also double and tripple labour permits issued to a same person over the period, and large numbers of them have already returned and settled back in the country in other occupations.

to previous shocks in destination countries is that it is not limited to specific regions, but has impacted most countries, albeit to different extents. The unprecedented return of migrant workers within a short span of time has to be managed with utmost precautions to lower the risks of conflagration as the country struggles to manage the twin challenge of curbing the health and economic costs of COVID-19. In addition to immediate repatriation of migrants stranded abroad, the smooth social and economic reintegration of returnees once they are in Nepal is also a pressing policy priority for the Government of Nepal.

1.2 OBJECTIVES OF THE STUDY

The main objective of Section I of this Report is to assess the job losses of Nepalese migrant workers abroad due to COVID-19, and resultantly, the potential volume of Nepalese expected to return to Nepal.

The specific objectives are as follows

- 1) To estimate the total number of Nepalese migrant population scattered across the countries.
- 2) To assess and quantify the extent of COVID-19 induced job-losses among Nepalese migrant workers in major destination countries, and to estimate total number of migrant workers and other migrants who are likely to return to Nepal in the near future due to COVID-19 and related factors.
- 3) To analyze and document the characteristics of returnees and their employment related aspirations and preferences in back home,
- 4) To provide policy measures in effectively managing the repatriation process of Nepalese abroad, and for their economic reintegration, including self-employment opportunities.

The remaining chapters of Section I is structured as follows: Chapter 2 discusses the methodology used in this study, including the

major assumptions. Chapter 3 discusses the main results of the analysis, including the population in major destination countries as well as the share expected to return. Chapter 4 presents a profile of returnee migrants in Nepal, along with their aspirations and preferences based on opinion survey. Chapter 5 discusses domestic labour market of Nepal while Chapter 6 makes policy recommendations based on preceding analysis. Chapter 7 provides conclusion.

1.3 LIMITATIONS OF THE STUDY

There are a number of limitations of the study. The primary constraint was the lack of reliable data on the stock of migrants that necessitated primary data collection via Nepalese diplomatic missions globally. It is important to remember that while data was collected from all diplomatic missions, the data maintained by them may also not be up-to-date and hence the margin of error remains high. However, the analysis is made by minimizing the possible errors from all prospectives adopting

other reliable data, information and facts. In addition, given the open border between Nepal and India, data estimated on Nepalese migrant population living in India, the estimation of their returning (and re-travel to India) is particularly noisy.

Similarly, the very short duration accorded for the completion of the study, in addition to the mobility restrictions due to the pandemic also posed a challenge in the data and information collection process as well as for consultations. However, significant resources and effort have been dedicated to overcome these challenges to ensure that comprehensive and accurate information is collected to the extent possible.

It is important to note that as a living document, many of the recommendations and analysis presented in section 1 have already been submitted to the Government at various stages of policymaking related to the repatriation and reintegration of returnee migrants, including during the preparation of the annual program and the budget of 2020/21.

However, significant resources and effort have been dedicated to overcome these challenges to ensure that comprehensive and accurate information is collected to the extent possible.





METHODOLOGY

It is quite difficult and challenging to estimate the extent of COVID-19 induced job losses among Nepalese abroad and the subsequent volume of returning population, owing to a number of unknowns such as the extent and duration of the spread of COVID-19 in the destination countries, the recovery path of their economies and the availability of the COVID-19 vaccine.

The study relies on a mixed approach that combines secondary data from a number of different sources (Central Bureau of Statistics (CBS), Ministry of Foreign Affairs (MoFA), Ministry of Labour, Employment and Social Security (MoLESS) and other Government agencies) with primary information obtained through opinion surveys, key informant interviews (KIIs) and consultations with various government agencies. Based on the findings of the study, a set of policy measures are recommended to effectively manage the foreign employment sector including the safe return of migrants, while creating mass employment opportunities domestically to ensure their smooth reintegration. It also makes recommendations for action-oriented research that will be needed to continuously evaluate the effectiveness of policies and programs in adequately responding to the needs of this rapidly evolving situation.

2.1 ASSUMPTIONS

There is much uncertainty about the exact number of Nepalese abroad. A commonly

cited number in several daily newspapers is 4 million migrant workers including in India. This assessment attempts to clarify the confusion surrounding the actual stock of migrants abroad, based on which we also estimate the extent of job-losses due to COVID-19 and the expected number of returning migrant workers. The extent of job-losses depends on the recovery path of the economies of the destination countries, which varies from country to country. Possible scenarios projected by the study are illustrated below in Figure 5.

2.2 METHODOLOGY

For this rapid assessment, the methodology comprised of literature review, data analysis of available secondary data, primary data collection and analysis, and stakeholder consultations.

Literature Review: After the onset of the pandemic, a number of studies have been conducted that explore how Nepalese migrant workers have been impacted by COVID-19 as well as the overall impact on both the domestic and foreign labour markets during this economic downturn.

Primary Data: For the purpose of this study, primary data was collected from Diplomatic Missions via MoFA as well as from returnee migrant workers as described below:

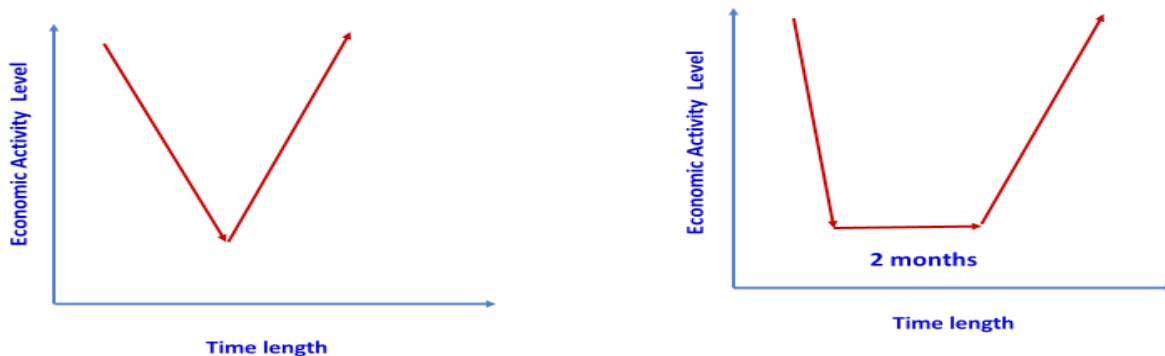
- A questionnaire was sent out to Diplomatic Missions via the Ministry of

This assessment attempts to clarify the confusion surrounding the actual stock of migrants abroad, based on which we also estimate the extent of job-losses due to COVID-19 and the expected number of returning migrant workers.

FIGURE 5: POSSIBLE SCENARIOS TO ANALYSE THE ECONOMIC IMPACT OF COVID-19 ON NEPALESE MIGRANT WORKERS

Major impacts of COVID-19 on Nepali Migrant Labor: 3 major scenarios

- 1) **Scenario A- with V shaped recovery** 2) **Scenario B- with U shaped Recovery curve**



Major assumptions on impacts of COVID-19 on Nepali Migrant Labor

- 3) **Scenario C & D with trapped recession for longer period**



Note:
 a) How long the economy of destination countries get trapped at the recession period, and how it effects on structure of sectoral production and employment availability in the destination countries.

Source: Developed by the Study Team (2020)

Foreign Affairs that included questions on the total stock of migrants, the number of migrants in distress due to the pandemic and the expected number of returnees. Information was received for 112 countries.

- Data from an opinion survey of 1000 pre-pandemic migrant returnee workers

on their aspirations and experience by MoLESS and 1999 returnees after the onset of COVID-19 by IOM.

Secondary Data: There are a number of scattered data sets on migrants including administrative databases and nationally

representative surveys that have been analyzed in the preparation of this Report:

- The administrative data maintained by the Department of Foreign Employment, Foreign Employment Information Management System (FEIMS), which records details on labour approvals granted to outgoing migrants.
- The Nepal Labour Force Survey (2017/18) conducted by CBS that includes a module on returnee migrants and absentee population.
- Data maintained by Department of Immigration on the departures and arrivals of Nepalese at the Tribhuvan International Airport.
- Nepal Rastra Bank's compilation of macroeconomic data, especially on remittance.
- Data compiled by other non-Government sources including Non-Resident Nepalese Association (NRNA), Nepal Association of Foreign Employment Agencies, association of NGOs and CSOs.
- The three possible scenarios will be observed to discuss on the major impacts of COVID-19 on Nepali Migrant Labour as indicated in Figure 5.

Stakeholder Consultations: KIIs with scholars, experts, private sector and civil society working in the foreign employment sector were conducted to complement the data analysis with qualitative insights from diverse stakeholders.





COVID-19 AND THE DOMESTIC AND FOREIGN LABOR MARKETS

This Chapter presents a snapshot of the domestic and foreign labour markets for Nepalese workers. The economic downturn caused by the pandemic has adversely impacted both labour markets, with a high volume of workers experiencing temporary or permanent job loss. The high volume of returnee migrants who have lost their jobs abroad, or the potential decrease in future overseas employment opportunities for aspiring Nepalese migrant workers, both put additional pressure on Nepal's domestic labour market, which is already reeling under the COVID-19 crisis. These issues will be discussed briefly in this section.

3.1 SIZE, STRUCTURE AND EMPLOYMENT CATEGORIES IN NEPAL

Nepal has a population of about 30 million, of which 46.5% is male and 53.5% is female. As per the NLFS 2017/18, the share of working age population in Nepal i.e., over the age of 15, is 71.5%. Over 40% of the working age population is between the ages of 15 and 34, indicating the dominance of the young population in Nepal. The labour force participation rate (LFP) is 38.5%, but varies significantly between male (53.8%) and female (26.3%). For every 100 male employed, there were only 59 employed females.

TABLE 2: SHARE OF EMPLOYMENT BY OCCUPATION

S N	Share of Employment by Occupation	Percentage of Workers	No of persons (in 1000)	Male (%)	Female (%)
1	Manager	1	85	87	13.2
2	Professionals	8	581	59	41
3	Technicians and associated professionals	4	312	69	31
4	Clerical Support Workers	3	220	61	39.3
5	Service and Sales Workers	24	1,686	57	43.4
6	Skilled Agri., forestry, and fishery workers	14	971	43	57.5
7	Craft and related traders workers	20	1,389	78	21.6
8	Plant/Machine Operators & assemblers	5	383	95	5.3
9	Elementary Occupation	20	1,438	59	41.5
10	Others	1	21	92	7.9
	Total	100	7,086	63	37

Source: Report on the Nepal Labour Force Survey 2017/18, CBS (2019). Out of total of 29 million populations, 13.5 million (46.5%) were male and 15.5 million (53.5%) were female.

Agriculture, industry and services contributed to 27%, 15.2% and 57.8% of the GDP respectively in 2018/19. In terms of the characteristics of the employed population, almost a quarter of the labour force is engaged in service and sales. This is followed by craft and related trades workers and elementary occupations (around 20% each), and skilled agriculture, forestry and fisheries category (14% each) as stated in Table 2. Managerial and professional occupational categories account for only 9.4% of the total employment.

In terms of the industrial classification, one in five workers is involved in agriculture, forestry and fishing sector. 18% of the workers are engaged in wholesale and retail trade, repair motor vehicle sectors, followed by 15% in manufacturing and 14% in construction sectors as mentioned in Table 3.

About 62% of the total employment is under informal sector. Similarly, 66.5% (or two-third of share) of women are engaged in informal sector of employment whereas this share is 60% for male

TABLE 3: EMPLOYMENT BY INDUSTRY IN 2017/18

SN	Industry	Total no (in 1000)	Percentage Share	Male (%)	Female (%)
1	Agriculture, Forestry and Fishing	1,523	21	15	33
2	Wholesale & Retail Trade, repair motor vehicles	1,240	17	16	20.6
3	Manufacturing	1,072	15	15.5	13.4
4	Construction	978	14	15	4.2
5	Transportation and Storage	322	5	6.5	0.4
6	Water Supply	42	1	6	0.3
7	Education	558	7.5	7	9.6
8	Accommodation and Food Services Activities	371	5	5	6.3
9	Human Health and Social Work Activities	171	2	2	3.5
10	Financial and Insurance activities	118	1.3	1	2.1
11	Other Service Activities	156	2	2	1.4
12	Public Administration, Defense, societal security	133	2	2	1.1
13	Mining and Quarrying	59	1	1	0.6
14	Private Households	73	1	1	1.8
15	Information and Communication	60	1	1	0.5
16	Administrative and Support Service Activities	64	1	1	0.2
17	Electricity, Gas, Steam, and Sir condition supply	34	1	1	0.3
18	Arts, Entertainment and Recreation	34	1	1	0.1
19	Professional, Scientific, and Technical activities	44	1	1	0.3
20	Real Estate Activities	17	-	-	0.1
21	Activities of Extraterritorial Organization & Bodies	18	0.2	-	0.2
	Total	7,087	100	100	100

Source: Report on the Nepal Labour Force Survey 2017/18, CBS (2019)

workers. Females are also disproportionately involved more in unpaid housework at 88% compared to 38.5% for male.

As per the NLFS, the national unemployment rate is 11.4%, with male and female unemployment rates are 10.1% and 13.8%, respectively. Unemployment is predominantly an urban phenomenon with 70.5% of the unemployed residing in urban areas. The unemployment rate is high especially among the younger population, 38.1% for the 15-24 age group and 31.1% for the 25-34 age group. The share of youth between the ages of 15 and 24 not in employment, education and training (NEET) is high (35.3%). The NEET rate is 46.6% for female youths and 21.5% for male youths. This share varies across provinces with the rate highest of 48.3% in Province 2 and lowest in Province 3 of 20.9%. This rate is higher in rural areas which is 43.3% compared to urban areas of 31.2%.

In this context, foreign employment presents an important source of employment for Nepalese job seekers as it relieves the pressure on the domestic labour market. However, as will be discussed in the next section, with an unprecedented increase in the number of returnee migrants as well as a potential shrinkage in future job demands, the domestic labour market is under pressure to absorb additional workers, as the country attempts to combat the economic repercussions of the pandemic.

As per a rapid assessment on the socio-economic impact of the pandemic (UNDP, 2020), the major sectors of the economy impacted by the pandemic are accommodation and food; arts, entertainment and recreation; and transport. These sectors account for 10.2% of the total employed population. Similarly, the impact on manufacturing; construction; wholesale

and retail trade; repairs of motor vehicles and motorcycles; and agriculture, forestry and fishing which provide account for 68% of the employed population has been moderate and likely to pick up as the lockdown is lifted and operations resume. According to the report, the impact was the greatest on formal and informal MSMEs who have a low cash-to-asset ratio and saw a 95% fall in average monthly revenue. According to the rapid assessment, 3 in 5 employees in the surveyed MSMEs have lost their jobs with the impact disproportionately on temporary workers, who were vulnerable to begin with.

Similarly, a recent study conducted by the Nepal Rastra Bank in August 2020 found that the lockdown has impacted firms in a number of ways. The five major challenges that were considered included operational costs (77.15%), sales and distribution (61.13%), decrease in demand (51.78), difficulties accessing raw materials (30.27%) and shortage of labour (25.22%). As per the survey, 4% of the businesses were in operation at full scale, 35% partially and the remaining 61% had completely halted operations. Real estate, hotels, restaurants, education, transportation, warehousing, storage were some of the major businesses that had halted operations and compared to the larger enterprises, it was the smaller businesses that have seen a disproportionate impact. 22.5% of the firms reported cutting down staff during the lockdown, with temporary/workers accounting for over two thirds of the workers. Hotels and restaurants saw the highest share of job cuts and layoffs. On average, worker wages were reduced by 18.2%, whereas other benefits such as allowances have also been cut. Workers in hotels and restaurants, transportation and storages, and education related businesses were disproportionately affected by such wage cuts.

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3.2 SIZE, DISTRIBUTION AND EMPLOYMENT CATEGORIES OF NEPALI MIGRANT WORKERS

A number of push and pull factors influence a high volume of Nepalese to migrate abroad for temporary overseas employment. The 2011 National Population and Housing Census (CBS 2011) indicates that almost 50% of the households in Nepal had at least one member who was either working overseas or had returned from foreign employment recently. According to FEIMS maintained by the Department of Foreign Employment (DoFE), till date over 6 million labour approvals have been issued to Nepalese workers, which excludes data on the migrants headed to India. However, there is no systematic database on returnees while there are also problems of multiple counting as a significant share of the labour approvals are granted to repeat migrants. Consequently, there is a lack of comprehensive data on the current stock of migrants abroad. During COVID-19, a crisis of global magnitude that has simultaneously impacted all countries worldwide, the lack of reliable data on stock of migrant population has

put a significant challenge for the Government in its repatriation efforts. Therefore, this study attempts to address the data gap.

Given the lack of reliable authentic data, the information on the current stock of Nepalese migrants is subject to wide variation in the public discourse. For example, a common misconception in media is using the number of labour approvals issued till date as the current stock of migrants, which is erroneous as that is just the cumulative number of labour approvals granted without taking into account of the returnees which is not recorded.⁵ In this study, we have created a database on current migrant workers in destination countries, relying on official sources which have been further validated and triangulated with available secondary datasets such as the Nepal Labour Force Survey 2017/18. In May, a questionnaire was sent out to all Diplomatic Missions in coordination with Ministry of Foreign Affairs that included questions on the total stock of migrants, the employment status of Nepalese workers and those who intend to return.

TABLE 4: VARIOUS TYPES OF NEPALESE MIGRANT POPULATIONS THAT MIGRATE TO INDIA

SN	Types of Temporary Nepalese migrants to India (less than six months)	Nepalese usual residents in India (living at least six month or more)
	(Colum_ A)	(Colum_ B)
1	Seasonal workers	Migrant workers
2	Pilgrims	Dependent
3	Tourists	Students
4	Patients (medical treatment)	
5	Visitors for specific purposes	
6	Businessman for business trip	
7	Others (short-term visitors)	

Obtaining data on the current Nepalese migrants in India is particularly a challenging, given the open border between the two countries and the subsequent unrecorded mobility of the people. As shown in the Table 4 below, Nepalese travel to India for a number of reasons including short- or longer-term work, studies, pilgrimage, tourism, business and medical treatment. This makes it difficult to estimate the number of Nepalese migrated to India at any given point. The number of returnees from India since the imposition of the lockdown has already exceeded the stock of

⁵ The MoLESS data base reports that over 6,462,563 labor permits have been issued by the Dept. of Foreign Employment, Government of Nepal, over the last 20 years' period. These newspapers and others might have been quoted the same labor permits statistics with the number of Nepali working outsidies.

migrants originally estimated by MoFA via the Nepalese mission. Therefore, here we estimate the total number of migrants in India relying on the NLFS 2017/18, where volume of the seasonal migrants is excluded, and is based on data compiled by MoFA. For the stock of migrants in other countries, the reliability is much higher because of the documentation of nature of migration. The destination countries also maintain data on all documented foreign workers.

It is estimated that a total of 3,210,848 Nepalese are currently residing in destination countries (Table 5). Among them, the five major destination countries such as India, Malaysia, Qatar, Saudi Arabia and UAE comprises over 70% of Nepalese migrants

abroad. This is not surprising given that the annual outflow of workers, as per FEIMS records, have been consistently concentrated in just a handful of countries in the Gulf Cooperation Council (GCC) countries and Malaysia. While migration to these countries is job related with all outgoing migrants obtaining labour approvals via DoFE, migration to other countries such as the USA, UK, Japan and Australia are different and also include a high volume of students, trainees, and dependents.

3.3 RETURNEES

Owing to job-losses in the destination countries, Nepal is experiencing an unprecedented reverse migration. Moreover, tens of thousands of workers have been

It is estimated that a total of 3,210,848 Nepalese are currently residing in destination countries. Among them, the five major destination countries such as India, Malaysia, Qatar, Saudi Arabia and UAE comprises over 70% of Nepalese migrants abroad.

TABLE 5: TOTAL STOCK OF MIGRANTS IN DESTINATION COUNTRIES

SN	Country/territory	Population	SN	Country/territory	Population
All Countries Total		3210848			
1	India	976625	22	China	7000
2	Qatar	360000	23	Singapore	7000
3	Malaysia	325000	24	Denmark	6000
4	Saudi Arabia	320000	25	Spain	5064
5	UAE	275000	26	France	5000
6	USA	205187	27	Maldives	4664
7	United Kingdom	150000	28	Turkey	4500
8	Japan	92804	29	Macao (China)	4200
9	Australia	80000	30	Cyprus	3757
10	Kuwait	69614	31	Malta	3000
11	Canada	50000	32	Thailand	2589
12	South Korea	42530	33	Afghanistan	2000
13	Bahrain	35000	34	Netherlands	2000
14	Hong Kong (China)	25000	35	Bangladesh	906
15	Oman	16116	36	Philippines	500
16	Iraq	15000	37	Sri Lanka	400
17	Jordan	14000	38	Pakistan	236
18	Germany	12000	39	Congo (DRC)	150
19	Lebanon	10000	40	Iran	28
20	New Zealand	9000	41	Armenia	20
21	Belgium	8000	42	Rest (other countries)	60958

Source: Nepalese Diplomatic Missions, MoFA(2020)

unable to return due to the disruptions in international travel and lockdown measures imposed to contain the spread of COVID-19. However, it is also important to note that even prior to the lockdown, migrants returned to Nepal was higher than out migration. To gauge the scale of return prior to the lockdowns, we examine data on arrivals and departures at the Tribhuvan International Airport (TIA) between January 1st, 2020 to March 22, 2020. In this period, a total of 85,703 Nepalese left TIA whereas 170,877 returned to Nepal. As shown in the Table 6, the departure and arrivals had already started declining in March due to the gradual restrictions being imposed across countries. The monthly arrivals and departures are summarized below in table.

Out of the total returnees, only data for 134,976 (79 percent) is used in this section which had complete information. Analysis of the data on arrivals between 1st January and 22nd March, 2020 shows that the average amount of time spent by migrants outside of

Nepal was 2.8 years. 29% of the arrivals spent 2-3 years abroad, whereas 23% spent 1 to 2 years. The share of migrants who had spent over 5 years abroad is around 10%. Detailed information about the distribution of 134,976 returnees' data, and by mean years of their stay in the destination countries are illustrated in Figure 6.

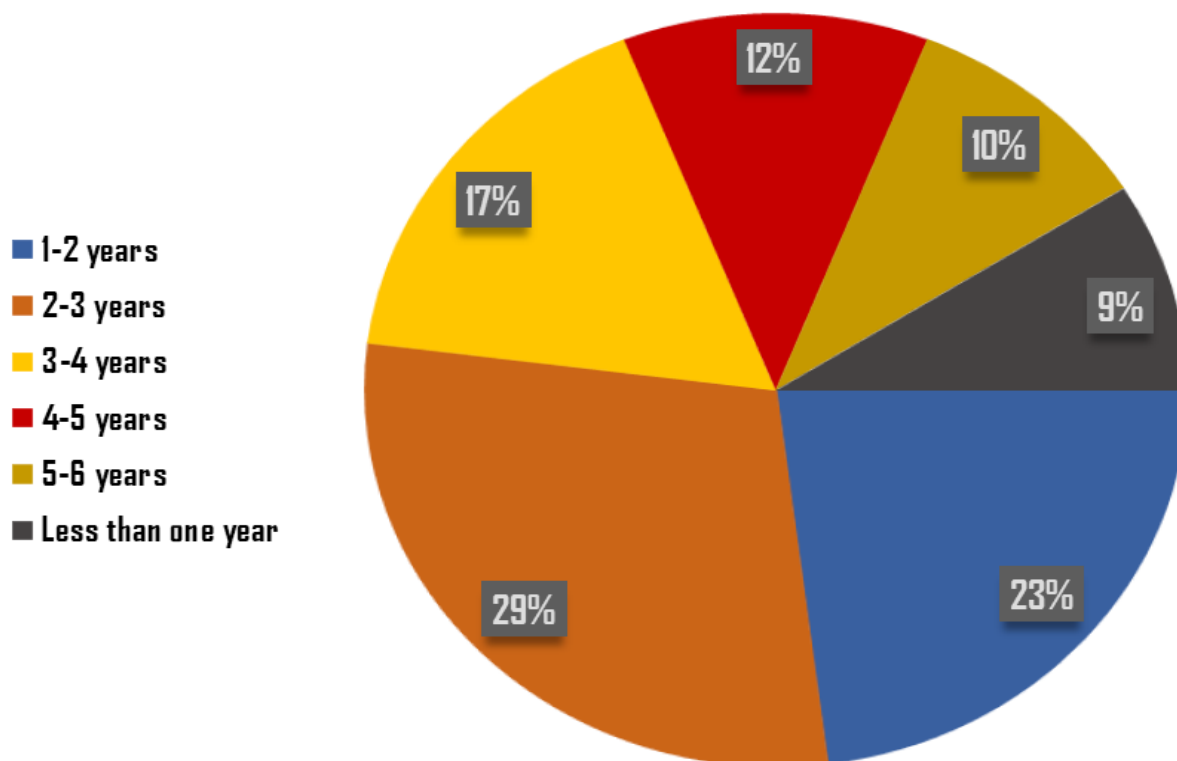
Most migrants typically stay abroad for about 2 to 3 years (29% of the returnee migrants). The percentage distribution of returnees by the duration of stay abroad is illustrated in Figure 6.

In early May, the Government also collected information via diplomatic missions from destination countries regarding the expected number of immediate returnees who would return within three months as well as those would want to return within a year. This data is helpful to gauge the number of returnees to Nepal, and to inform the planning of both repatriation (including logistics management

TABLE 6: ARRIVALS AND DEPARTURE BETWEEN JANUARY TO MARCH 2020

Country	January		February		March	
	Arrival	Departure	Arrival	Departure	Arrival	Departure
Saudi Arabia	14094	6329	13037	5288	5590	5861
Qatar	19622	5145	18851	4604	10219	3420
UAE	14444	6288	14036	5562	9706	7068
Malaysia	11820	7862	12153	8111	6911	8242
USA	109	43	108	38	43	35
Japan	684	104	575	99	330	192
Kuwait	3089	1242	6	1236	1449	1296
Bahrain	923	518	770	603	624	399
Oman	710	324	597	267	428	249
Others	2601	1802	2893	1522	1825	1954
Total	68096	29657	63026	27330	37125	28716

Source: MoLESS (2020)

FIGURE 6: RETURNEES BY DURATION OF STAY (%) FROM THE 3 MONTHS OF IMMIGRANT DATA

Source: Department of Immigration(2020)

of quarantines in Kathmandu and other municipalities) as well as reintegration programs to ensure their smooth social and economic reintegration. In the absence of reliable data on stocks of migrants or the expected returnees, this served as an important starting point for the planning of rescue and repatriation by the Government. In addition to this survey, all Diplomatic Missions also began to register migrants interested to return in Nepal based on which priority passengers for special repatriation flights were recommended.

In case of India-based returnees, the process was different as a significant proportion of them were returning using road or rail transport via the India-Nepal border which will be discussed below. Details on the repatriation are included in the next section. The initial estimates on the volume of returnees anticipated shows that 360,621 returnees were expected to return immediately i.e., within two to three months after the onset of the crisis, whereas 618,700 migrants were expected to return within a year as summarized in Table 7.

TABLE 7: ESTIMATED OVERSEES POPULATION AND POTENTIAL RETURNEES DUE TO THE COVID-19

SN	Country/territory	Population	Potential returnees within one year	Potential returnees who may come soon
	All	3210848	618700	360621
1	India	976625	280000	250000
2	Qatar	360000	100000	50000
3	Malaysia	325000	30000	7000
4	Saudi Arabia	320000	100000	20000
5	UAE	275000	55000	12000
6	USA	205187	1000	641
7	United kingdom	150000	500	100
8	Japan	92804	2000	1200
9	Australia	80000	1000	288
10	Kuwait	69614	15000	7000
11	Canada	50000	500	300
12	South Korea	42530	4530	2754
13	Bahrain	35000	7000	1500
14	Hong Kong (China)	25000	100	50
15	Oman	16116	2000	500
16	Iraq	15000	2000	1000
17	Jordan	14000	3000	1000
18	Germany	12000	200	50
19	Lebanon	10000	3000	500
20	New Zealand	9000	100	20
21	Belgium	8000	200	50
22	China	7000	500	200
23	Singapore	7000	300	100
24	Denmark	6000	-	15
25	Spain	5064	500	200
26	France	5000	100	100
27	Maldives	4664	4000	1000
28	Turkey	4500	1500	1000
29	Macao (China)	4200	100	50
30	Cyprus	3757	2000	500
31	Malta	3000	500	120
32	Thailand	2589	300	50
33	Afghanistan	2000	500	300
34	Netherlands	2000	50	20
35	Bangladesh	906	729	701
36	Philippines	500	50	25
37	Sri Lanka	400	150	50
38	Pakistan	236	105	105
39	Congo (DRC)	150	150	100
40	Iran	28	28	28
41	Armenia	20	4	4
42	Rest (other countries)	60958	4	-

Source: Adapted the data by combining information from the NLF5 2017/18 (CBS) with cross-countries data compiled by MoFA with support of its mission in May 2020.

Notes:

- 1) Countries are listed here based on the potential returnees who may come to Nepal from the respective countries immediately, once the lockdown is lifted.
- 2) These countries comprise a subset of 112 countries/territories in which Nepalese currently reside. Nepalese residing in 41 countries have expressed their immediate concern and interest in returning to Nepal immediately due to the COVID-19 Pandemic related factors.

Migration to India versus other countries varies significantly. In particular, Nepalese do not require labour approvals to work in India and hence, the migration to India has not been recorded. Similarly, the arrival of Nepalese migrants via land transport makes the repatriation process significantly different. Therefore, in this section, we separate the analysis of estimated numbers of Nepalese returning from India versus other countries. The data is based on primary information compiled by the Ministry of Foreign Affairs (MoFA) in May 2020.

3.3.1 Arrival of Migrant Workers from India

The porous and open border between Nepal and India has led to lack of reliable data in both countries on the numbers and types of Nepalese migrant workers in India. There are also some indirect estimates available via nationally representative surveys conducted by CBS such as the Nepal Labour Force Survey (NLFS) 2017/18. According to NLFS 2017/18, there were close to one million (976,625) Nepalese residing in India. This is based on the absentee population in India captured in the NLFS. However, definition of the absentee population variable here includes only Nepalese who have been living in India for at least six months, which means that seasonal migrants are unaccounted for. A high share of workers from Nepal is engaged in seasonal employment (for example, crop harvesting in Punjab, apple harvesting in Uttarkhand and Himachal Pradesh of India). These seasonal harvesting activities comprise less than six months of employment, and hence, are excluded from the standard definitions of migrants in surveys.

The volume of expected returnees from India is based on estimates by MoFA using available statistics and observing COVID-19 and health situation in India, consultation with various

stakeholders in Nepal, Nepalese association and communities in India, newspaper analysis and the Nepalese Diplomatic Mission in India.

The COVID-19 pandemic had led to both a health scare as well as slowdown of economic activities. Therefore, a large number of Nepalese migrants from India arrived at the border points in an attempt to enter Nepal. Consequently, local governments and the respective provincial governments had to set up quarantine facilities at the entry points of the borders as well as in the respective local municipalities facing reverse migration pressure to ensure the safety of the returnees as well as the communities.

Between the period from 22nd of March 2020 to July 15th ; 3, 66,153 Nepalese have returned to Nepal from India through almost two dozen border entry points including Ilam, Jhapa, Sunasri, Morang, Saptari, Siraha, Dhanusha, Sarlahi, Rautahat, Bara, Parsa, Mahottary, Nawalparasi (West), Rupandehi, Kapilbastu, Dang, Banke, Bardiya, Kanchanpur, Kailali, Darchula and Baitadi (MoHA, 2020). It is believed that over half of the returnees are short-term migrants including seasonal migrants, pilgrims and short-term visitors, whereas the rest are students and migrant workers and their dependents who had spent over six months in India.

3.3.2 Arrival from Destination Countries Excluding India

The MoFA Report (2020) identified 12 major destination countries (excluding India) for Nepalese migrant workers, where a large number of Nepalese are in distress due to the COVID-19 pandemic. The results are summarized in Figure 7. The distinction between returnees who need to be repatriated immediately versus within a year has implications on the planning and execution

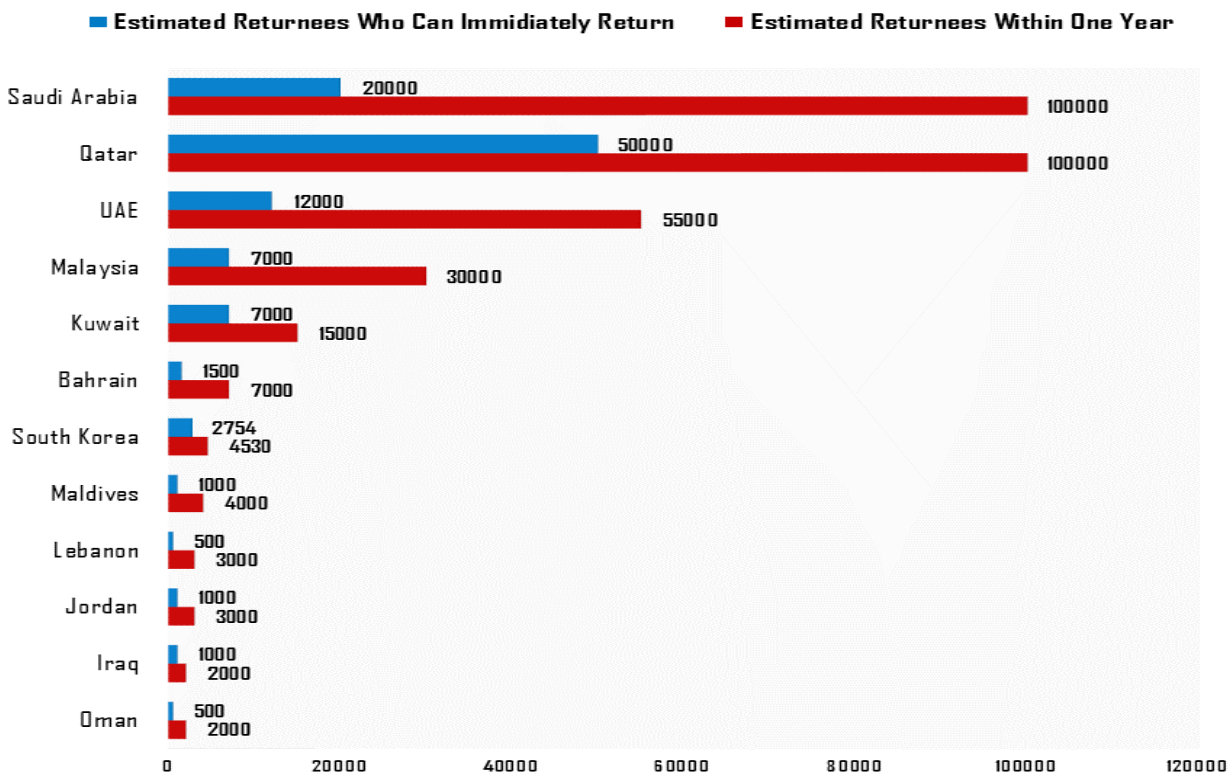
Consequently, local governments and the respective provincial governments had to set up quarantine facilities at the entry points of the borders as well as in the respective local municipalities facing reverse migration pressure to ensure the safety of the returnees as well as the communities.

of the repatriation and return management effort. For example, while those returning immediately will rely on the Government’s repatriation flights, amid the suspension of international passenger flights, those returning within a year will likely start returning once normal flights resume. Similarly, it also influences the management of logistics and accommodation to ensure returnees undergo the necessary quarantine, either in Kathmandu or in their native municipalities.

As per the Government’s Executive Order from May 25th, 2020 to facilitate the return of Nepalese citizens, migrants wishing to repatriate were categorized into different groups: i) migrants who have been granted general amnesty; ii) those in detention centers and

who have been permitted to return to Nepal; iii) those on expired visas; iv) those whose family members have died and need to return to conduct death rituals; v) those whose work permits have expired or those who have lost their jobs; vi) those facing severe health issues other than COVID-19; vii) pregnant women; viii) children, the elderly and the handicapped; ix) public servants who have gone for training or education; x) students who have finished their education; xi) students who have demonstrable urgency to come to Nepal; xii) those who went for family reunions; xiii) those who retain their jobs and are on leave; xiv) those employed in international organizations and need to return; and xv) those on tourist and business visas. To obtain exact details of the potential returnees and to facilitate the prioritization based

FIGURE 7: ESTIMATED NUMBER OF RETURNEES (WITHIN A YEAR) BY MAJOR DESTINATION COUNTRIES (EXCEPT INDIA)



Source: MoFA (2020)

on the aforementioned criteria, diplomatic missions started registration drives of those who wanting to return. Table 8 shows that 122,799 individuals registered to return, with majority from the UAE (47,349), Qatar (18,687), Malaysia (16,772) and Saudi Arabia (15,421). Based on the information collected, almost 37500 migrants have been brought to Nepal on special repatriation flights from as of July 31st, 2020. The volume of returnees

via the Government's special repatriation flights, disaggregated by country, are given below. The Foreign Employment Board has also issued a directive called "Repatriation of Stranded Nepalese Workers in the Course of Foreign Employment due to COVID-19" that sponsors the flights of stranded workers using the Foreign Employment Welfare Fund who are vulnerable.

Table 8 shows that 122,799 individuals registered to return, with majority from the UAE (47,349), Qatar (18,687), Malaysia (16,772) and Saudi Arabia (15,421).

TABLE 8: NUMBER OF RETURNEES WHO REGISTERED TO RETURN AND ACTUAL RETURNEES

S.N.	Countries	Individuals who Registered to Return	Actual Returnees (July end)
1	The United Arab Emirates	47349	8538
2	Bahrain	1172	980
3	Qatar	18687	3418
4	Kuwait	10320	6170
5	Saudi Arabia	15421	5611
6	Oman	1050	492
7	Israel	47	25
8	Cyprus	471	102
9	Australia	1300	795
10	Malaysia	16772	5384
11	Philippines	201	201
12	Indonesia	17	-
13	Myanmar	28	26
14	Cambodia	37	33
15	Singapore	264	264
16	Thailand	328	326
17	Vietnam	7	-
18	Laos	3	-
19	Bangladesh	865	841
20	Afghanistan	50	33
21	Sri Lanka	36	5
22	Maldives	724	709
23	Pakistan	125	72
24	China	208	208
25	Hong Kong and Macau	201	89
26	Guangzhou	7	-

S.N.	Countries	Individuals who Registered to Return	Actual Returnees (July end)
27	South Korea	2635	720
28	Japan	1500	756
29	United States Of America	1371	591
30	British Territory	56	-
31	Canada	115	38
32	Denmark	32	21
33	Estonia	2	0
34	Finland	20	19
35	Lithuania	1	
36	Norway	21	20
37	Sweden	13	13
38	Russia	50	-
39	Armenia	4	2
40	Azerbaijan	11	-
41	Germany	71	47
42	Poland	8	5
43	Romania	13	-
44	Czech Republic	2	2
45	Switzerland	12	5
46	Italy	65	39
47	Belgium	11	9
48	Netherlands	30	30
49	Luxembourg	1	-
50	Austria	3	3
51	Greece	39	39
52	Georgia	1	-
53	Spain	23	13
54	France	20	19
55	Portugal	27	5
56	Brazil	11	-
57	South America	18	-
58	United States	430	244
59	Malta	5	-
60	Uganda	6	6
61	Nigeria	20	4
62	Sweden	9	5
63	South Sudan	9	8

S.N.	Countries	Individuals who Registered to Return	Actual Returnees (July end)
64	Egypt	7	-
65	Jordan	1	-
66	Tunisia	2	2
67	Ethiopia	5	5
68	Somalia	1	1
69	Algeria	2	-
70	South Africa	31	-
71	Congo	15	-
72	Seychelles	20	-
73	Kenya	11	-
74	Tanzania	15	-
75	Mauritius	3	-
76	Ivory Coast	2	-
77	Zambia	1	-
78	Turkey	299	21
79	Iran	7	2
80	Kyrgyzstan	19	-
81	Uzbekistan	3	-
82	Switzerland	-	10
83	Central African Republic	-	68
84	South Sweden	-	250
85	India	-	80
86	Iraq	-	-
	Total	122799	37424

Source: MoFA (2020)

In addition to the challenge of repatriation of Nepalese migrants, an equally pressing concern is their reintegration into the domestic labour market. As discussed above, the share of workers estimated to return is around 19.27% of the stock abroad (618,700 out of 3,210,848). Out of them, based on secondary data analysis, 69% (i.e. 425,356) are assumed to be migrant workers who traveled for employment related reasons based on the NLFS 2017/18.

However, it is important to note that not all returnee workers are returning because of COVID-19. There are a significant number of workers who would have returned even in the absence of this pandemic due to various reasons, such as completion of employment contract given the temporary nature of employment of Nepalese migrant workers. A time series analysis of data on arrivals and departures from TIA, complemented having

TABLE 9 ADDITIONAL ENTRANTS IN THE DOMESTIC LABOUR MARKET

Labours/scenario	Average Per Months			Average Per Year		
	10%	20%	30%	10%	20%	30%
Estimated number of persons unable to migrate due to COVID-19	2380	4760	7139	28558	57115	85673

Source: Estimated by the Study Team (2020)

A 20% and 30% drop in labour demand would mean that the local labour market will need to absorb additional 4,760 and 7,139 workers per month respectively.

discussions with key informants including officials at the immigrants, shows that on a day to day basis prior to the pandemic, 1,200 Nepalese left the country on average while 500 returned. The ratio of outgoing Nepalese to returnees is, therefore, 41.5%. For the purpose of this analysis, we assume the ratio to be 40%, i.e., we assume that of the total returnees, 60% are returning due to COVID-19 whereas the others would have returned either way.

Therefore, looking at the volume of migrant workers who want to return, i.e., 425,356 workers, 60% are expected to be returning due to COVID-19 i.e., 255,213. This is a significant volume of returnees who will need to be accommodated in the domestic labour market in Nepal. In addition to the increased pressure due to an unprecedented volume of COVID-19 induced returnees, the economic downturn due to the pandemic may also reduce the global demand for migrant workers. This means that aspiring migrant workers who would have otherwise opted for overseas employment are unable to do so. Taking the data from the first eight months of FY 2019/20 (FY 2076/77), 190,388 migrants left for overseas employment. This means that on average 23,800 workers migrated out of the country each month for employment. With the pandemic, if youth do not have the option to migrate for overseas employment due to the contracted overseas market, they will have to be absorbed in the domestic labor market.

Four different scenarios are considered in making the prediction for possible remittance loss in the COVID-19 and post-COVID-19 period whilst considering the two aforementioned conditions:

- First, assumption is the normal situation where demand for migrant workers is unchanged, and the possible returnees within one year (MoFA, 2077 Baisakh) is 11.56 percent (constant scenario).
- Second, global labor demand decreases by 10 percent and the possible returnees within one year is 11.56 percent (Low variant).
- Third, global labor demand decreases by 20 percent and the possible returnees within one year is 11.56 percent (medium variant).
- Lastly, global labor demand decreases by 30 percent and the possible returnees within one year is 11.56 percent (high variant).

If we assume a 10% decrease in demand, this implies that 2,380 migrants who would have otherwise left for foreign employment are unable to do so. This means that annually, 28,560 additional workers would have to be accommodated in the domestic labour market. Similarly, a 20% and 30% drop in labour demand would mean that the local labour market will need to absorb additional 4,760 and 7,139 workers per month respectively, which translates to 57,115 and 85,673 migrants annually as estimated in Table 9.

RETURNEE REINTEGRATION

4.1 INTRODUCTION

As discussed in Chapter 3 above, Nepal is going to experience an unprecedented volume of reverse migration, which is estimated to exceed 618,700. Of which over 255,000 migrants are anticipated to be due to COVID-19 related reasons. In addition to immediate repatriation needs as was discussed in the previous Chapter, the crisis has also put the spotlight on the reintegration phase of the migration cycle so that policies and programs adequately address their aspirations, interests and needs to ensure their smooth socioeconomic reintegration in the country. The social remittances that returnee workers bring back including their skills, experience and technological know-how has long been recognized as an asset that can contribute to Nepal's development if channeled properly.

This Chapter discusses the various policies and programs in place which are targeted to returning workers. Relying on the returnee module in the Labour Force Survey 2017/18, it also presents the profile of returnee migrant workers in Nepal to better understand their employment outcomes. In addition, with the view that the voices of returnee workers need to be adequately reflected in reintegration policies and programs, it also presents insights on the aspirations and preferences of returnee workers based on opinion polls. This includes views of both returnees who returned to Nepal prior to the pandemic as well as those who returned after the pandemic.

4.2 MIGRANT WORKER REINTEGRATION: POLICIES AND PROGRAMS

While there isn't a separate reintegration policy in Nepal, the Foreign Employment Policy 2012 includes a section on returnee migrant reintegration that emphasizes on mobilizing their skills and technical know-how, and developing social and economic reintegration packages. Similarly, the the 15th Plan expands on the definition of remittances beyond financial remittances to include social remittances which includes skills, technological know-how and experiences and emphasizes on the need to provide migrant returnees with incentives to channel social remittances towards socioeconomic development. The Local Governance Operation Act 2017 also provides foreign employment management related mandate to local governments. In terms of reintegration, the LGOA 2017 gives mandates to the local governments on social reunification of returnee migrant workers and mobilizing the knowledge and skills gained during foreign employment.

A number of programs targeting returnee migrant workers are also in place. For example, the Foreign Employment Board (FEB), in coordination with the National Skills Testing Board (NSTB), tests and certifies the skills and experience acquired by migrants in foreign employment. Similarly, there is a soft loan program facilitated by the FEB in coordination with the Nepal Rastra Bank for returnee

The Local Governance Operation Act 2017 also provides foreign employment management related mandate to local governments.

migrant workers that provides returnees loans of up to NPR 1 million at subsidized interest rates. Every year, MoLESS also facilitates returnee entrepreneurs for their contributions to Nepal via their entrepreneurial ventures.

The FY 2020/21 budget has heavily focused on providing Nepalese youth with wage- and self-employment opportunities. The annual policies and programs for FY 2020/21 emphasized on offering seed money to aspiring entrepreneurs including returnee migrant workers to start new ventures, recognizing that the pandemic will further worsen unemployment in Nepal. The 2020/21 budget has put job creation and employment at the center. In particular, the Government has allocated a budget of NPR 11.60 billion to the Prime Minister of Employment Program (PMEP) to generate an additional 200,000 employment opportunities. Similarly, NPR 1 billion has been allocated to facilitate employment for 50,000 individuals through skills-based training. Finally, NPR 4.34 billion has been allocated to strengthen organizations providing technical, vocational and skills training to employ 75,000 individuals including returnee migrant workers. In addition, the budget has also emphasized job creation for 40,000 people through small farmers' credit; for 179,000 individuals through Youth and Small Entrepreneur Self Employment Fund; and for 50,000 individuals in the private sector. These initiatives rightly recognize that amid the economic fallout due to the pandemic, the domestic labour market is facing enormous pressure to absorb additional workers due to the pandemic's impact on foreign labour markets (including aspiring migrants who are unable to migrate due to reduced foreign employment

opportunities and migrants who return due to job-losses).

4.3 PROFILE OF RETURNEE MIGRANT WORKERS⁶

One important aspect of labour migration which has received scarce consideration, is the experience of the returnee labour migrants.⁷ While vast majority of discourse pertaining to labour migration has been focused on the outflow of migrants, the temporary nature of outmigration from Nepal makes their return an important part of the migration cycle. Therefore, it is interesting to examine how migrant returnees have been faring in the economy prior to the pandemic which can inform returnee reintegration policies as the country braces for an unprecedented reverse migration. To enhance understanding of this understudied population segment, this Section presents information on some key characteristics of the returnee migrants including their demographic and employment profiles (in Nepal and abroad). This section has been prepared using data from the Nepal Labour Force Survey 2017/18 (NLFS).

As per the NLFS, there are approximately 756 thousand recent working age returnee labour migrants in Nepal⁸ who comprise 2.61% of the total population of the country. Furthermore, 60% of this population resides in urban areas and approximately 60% reside in provinces 1, 3 and 5 collectively. The Gulf Cooperation Council (GCC) countries⁹ were collectively reported as being the last migration destination by 43.4% of the returnees. While 25.8% of

⁶ This section heavily relies on MoLESS (2020)

⁷ In this report, returnee is defined as an individual between 18-64 years of age who reported having travelled and worked abroad for a period of more than 3 months during the last 5 years in NLFS-III.

⁸ There are over 762 thousand returnee labour migrants of which approximately 756 are currently of working age (18+).

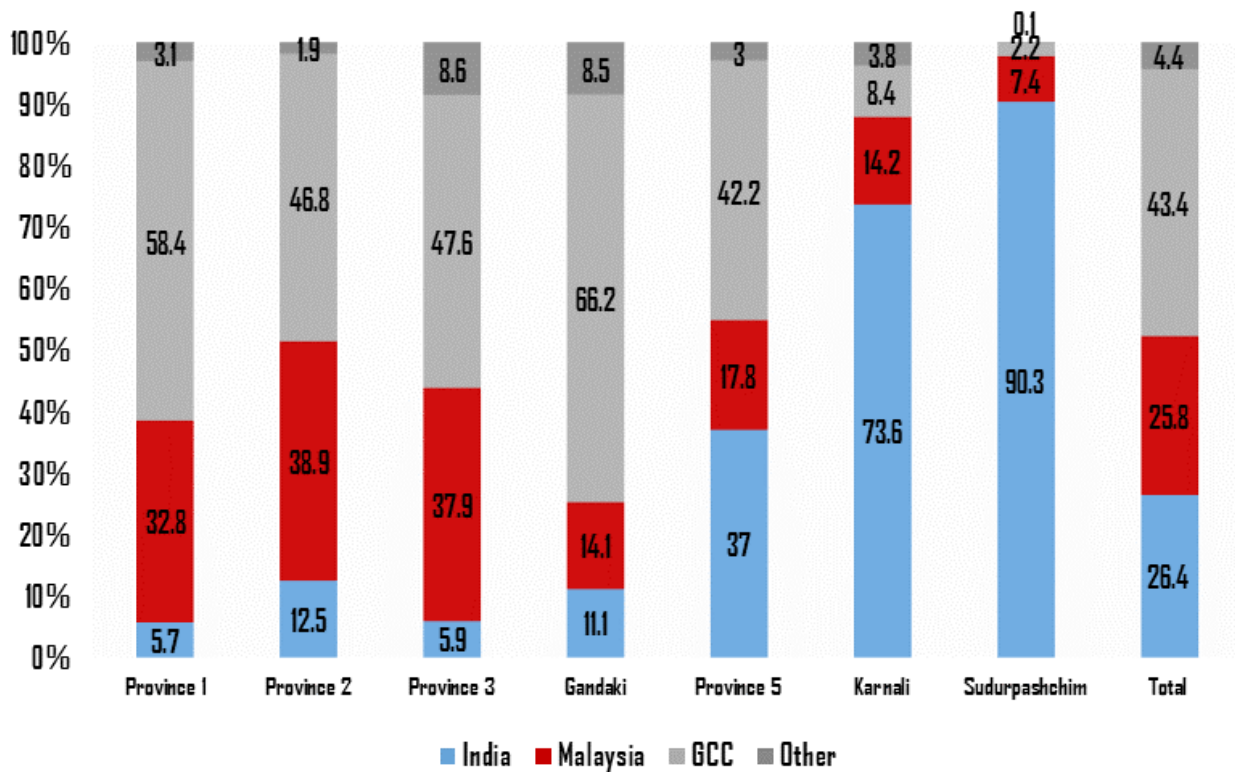
⁹ GCC countries include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

returnees reported Malaysia, 26.4% reported India and only 4.4% reported other countries¹⁰ as their last migration destination. In Karnali and Sudurpashchim Provinces, 73.6% and 90.3% of returnees, respectively reported India as their last destination whereas in other provinces, GCC and Malaysia comprised the last destination of majority of the returnees.

During the time of the national survey, 44.2% of the returnee migrants were employed, 14.3% were unemployed¹¹ and the remaining 41.5% were not participating in the labour force.

There is also considerable variation in returnee employment status when disaggregated by last migration destination (see Figure 8). For instance, while 50.8% of the Malaysian returnees are employed, only 37.1% of those from India are working. There is also significant variation when the population is disaggregated according to sex and last destination. In general, female returnees are more likely to out of the national labour force. It is, however, important to note that the intention to re-migrate is not captured in the NLFS 2017/18 which affects their employment decisions.

FIGURE 8: LAST MIGRATION DESTINATION OF RETURNEES BY PROVINCE (%)



Source: NLFS 2017/18

¹⁰ Other countries include Afghanistan, Australia, Bangladesh, Bhutan, Brazil, Canada, Macao, Cyprus, Egypt, Iraq, Israel, Japan, Jordan, Kenya, Korea, Lebanon, Maldives, Morocco, Norway, Russia, Singapore, South Africa, Sudan, Turkmenistan, United Kingdom.

¹¹ As per the criteria defined in the NLFS, here unemployed refers to individuals who are completely without work, currently available to work, and have taken active steps to find work.

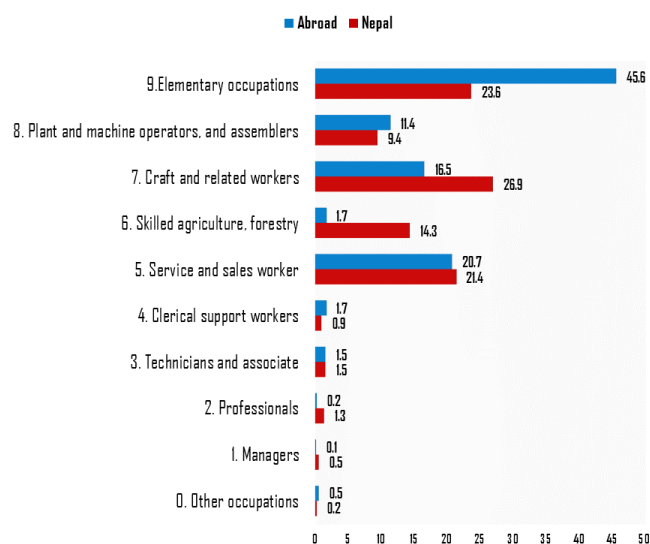
TABLE 10 EMPLOYMENT STATUS OF RETURNEES BY PROVINCE

Province	Employment Status			
	Unemployed	Employed	Outside labour force	Total
	(%)	(%)	(%)	(%)
Province 1	19.2	45.6	35.2	100
Province 2	21.9	45.1	33	100
Province 3	10.3	56.7	32.9	100
Gandaki	10.3	41	48.7	100
Province 5	12.5	44.9	42.6	100
Karnali	9.2	31.4	59.4	100
Sudurpashchim	15	26.6	58.4	100
Total	14.3	44.2	41.5	100

Source: NLFS 2017/18

Additionally, employment status by province of residence also exhibits enormous heterogeneity. For instance, while province 2 houses the largest proportion of unemployed returnees (21.9%), the Karnali province only 9.2% of returnees are unemployed. Similarly, while province 3 has the largest proportion of employed returnees (56.7%), in the Sudurpashchim Province it is only 26.6% of returnees are employed as shown in Table 10.

There is also variation in the occupational profile of the returnee migrant workers in Nepal versus in the destination countries. In particular, over 45.6% of the returnees reported working in “Elementary Occupations” while abroad, followed by “Services and Sales” and “Craft and Related Trades”. On the other hand, in Nepal, the largest occupational category of returnee migrant workers is “Craft and Related Trades” is highest at 26.9%, followed by “Elementary

FIGURE 9: OCCUPATION OF RETURNEES IN NEPAL AND AT THE DESTINATION COUNTRY

Source: NLFS 2017/18

Occupations” and “Services and Sales”. In both Nepal and the destination countries, the share of workers in Managers”, “Professionals” and “Technicians and Associate Professionals” categories is low and collectively account for only 3.2% abroad and 1.8% abroad in Nepal as mentioned in Figure 9. The most significant difference is seen in the “Skilled Agricultural, Forestry and Fishery Workers” category which accounted for only 1.7% of employment abroad and 14.3% of employment in Nepal.

As explained in Table 11, in Nepal, the top three sectors hiring recent returnee

migrant workers are construction (28.4%), agricultural, forestry and fishing industries (20%) and wholesale & retail trade, repair of motor vehicles & motorcycles (14%). Moreover, 76.8% of returnees are employed in the informal sector.¹² The proportion of returnees employed in the informal sector varies considerably by last migration destination. Returnees from India have the highest proportion of employment in the informal sector (86.0%) while returnees from “other” countries have the lowest proportion of employment in the informal sector at 31.2%.

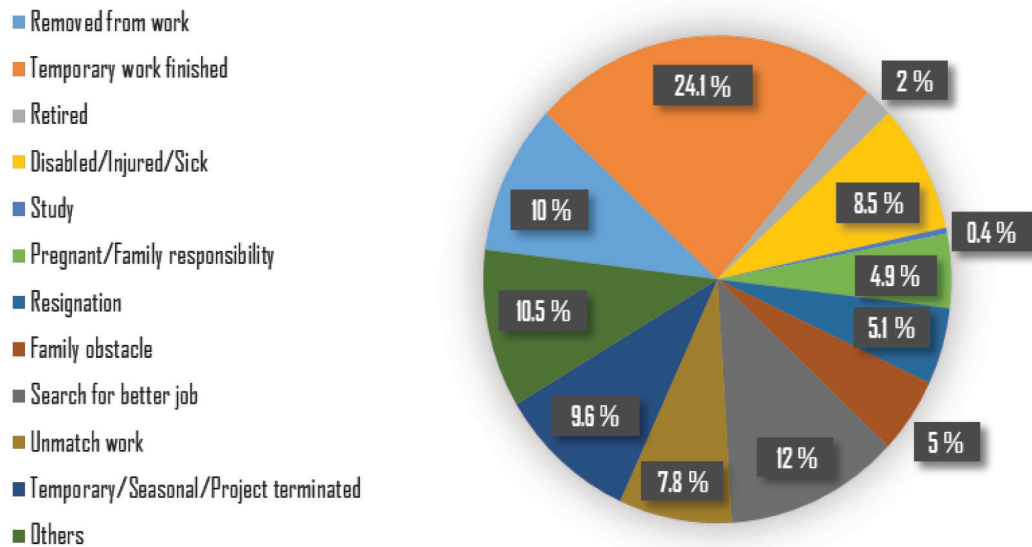
TABLE 11: INDUSTRIES THAT RETURNEE MIGRANT WORKERS ARE CURRENTLY ENGAGED IN (NEPAL)

Occupations	India	Malaysia	GCC	Other	All
	%				
Agriculture, forestry and fishing	28.6	21.7	15.2	13.3	20
Mining and quarrying	1.5	0	2.1	0	1.2
Manufacturing	14	12.4	12.8	11.8	12.9
Electricity, gas, steam and air conditioning supply	0.1	0.2	0.4	0	0.3
Water supply	0	0	0.1	0	0
Construction	30.1	23.3	31.9	18.1	28.4
Wholesale & retail trade, repair of motor vehicles & motorcycles	10.9	13.3	14.7	24.4	13.9
Transportation & storage	6.6	10	10.2	1.6	9
Accommodation & food service activities	5.5	10.2	5.4	0	6.6
Information & communication	0	0.8	0	0	0.3
Financial & insurance activities	0	0.1	0	0	0
Professional, scientific & technical activities	0	0.8	0	0	0.2
Administrative & support services activities	0.6	0	0.5	0	0.4
Public administration & defense; compulsory social security	0.5	0.2	1.3	1.5	0.8
Education	0.3	0.3	2	3.5	1.2
Human health & social work activities	0.5	0.6	0.8	16	1.3
Arts, entertainment & recreation	0	0	0.4	9.9	0.6
Other service activities	1	5.9	2.1	0	2.9
Total	100	100	100	100	100

Source: NLFS 2017/18

¹² In line with the criteria used in the NLFS-III, formal sector comprises those employed in government or state-owned enterprises or international organizations/foreign embassies. Informal sector comprises those employed in enterprises that are neither incorporated nor registered with authorities and employed in private households.

FIGURE 10: PERCENTAGE OF RETURNEE POPULATION BY REASON FOR RETURN



Source: NLFS 2017/18

Completion of a temporary appointment (24.1%) is the top most important reason behind why the migrants returned to Nepal. Searching for better job opportunities (12%) was the second most important reason. In contrast, only 2% of returnees moved back to Nepal as a result of retirement (Figure 10).

4.4 VOICES OF MIGRANT WORKERS

An opinion poll was conducted recently, using snowball sampling,¹³ of 1000 Nepalese migrant workers who previously worked in 25 countries (excluding India) by the study team in coordination with the Ministry of Labour, Employment and Social Security (MoLESS) to evaluate alternate reintegration programs and policies of the Government. Among the surveyed population, over 80% respondents were found to be returned to Nepal in the last five years. Majority of the returnees were from Malaysia and UAE (24% each), Qatar (20%)

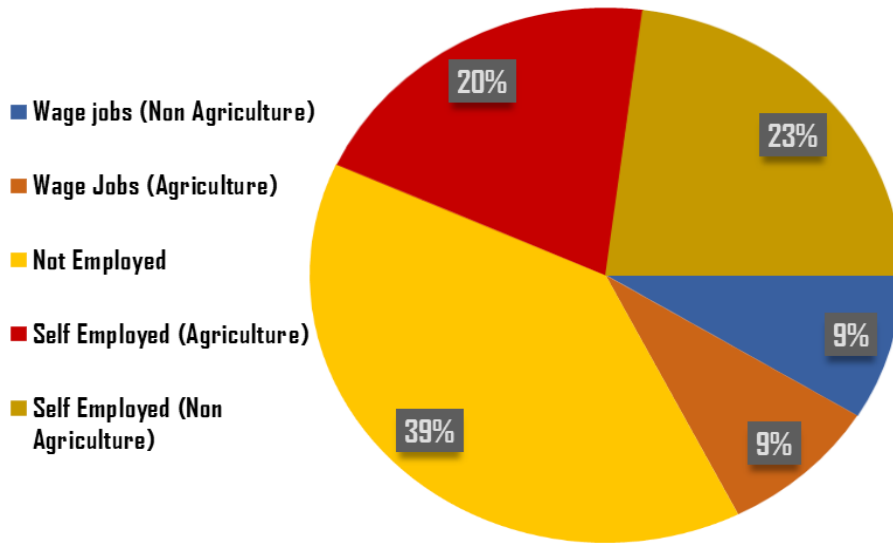
and Saudi Arabia (10.5%). This survey did not include returnees from India.

Likewise, among the sampled respondents, 15.6% of the participants had worked in the construction sector, 13.9% in the manufacturing, 13.3% in hotels and restaurants, 10.6% in security and 10% in retail. In terms of their employment after return, 23% reported being engaged in self-employment (non-agriculture) and 20% in self-employment (agriculture). A high share i.e., 39% reported not being employed currently (Figure 11). A high share of workers i.e., 81% reported that the skills acquired abroad has not been useful in Nepal with the main reasons being mismatch between skills and available work and lack of opportunities that facilitated the transfer of skills.

Likewise, among the sampled respondents, 59% of the migrants reported not having an intention to remigration, whereas 17% expressed an interest in migrating again (7.8%,

¹³ Snowball sampling is a technique in which survey participants are recruited through a chain of referrals. It should be noted that this sampling technique is not representative. Nonetheless, using this technique enabled the survey to incorporate the participation of both legal and illegal migrant workers, which would not have been feasible otherwise.

FIGURE 11: CURRENT ENGAGEMENT OF SURVEY RESPONDENTS (RETURNEE MIGRANTS)



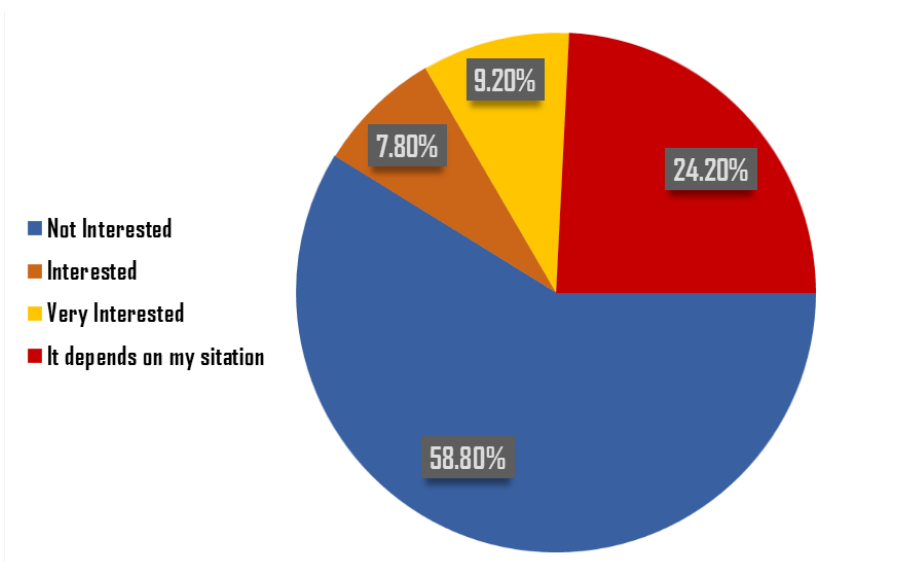
Source: Opinion Survey (2020)

9.2% were very interested). A quarter reported being uncertain and stated that it depends on the situation (Figure 12).

As indicated in Figure 13, in terms of challenges in access to wage employment, the three major challenges reported were: lack of skills, training and

experience (43%); lack of information on available opportunities (39%); and lack of networks (30%). In terms of challenges in self-employment, the major three challenges reported were: lack of finance (78.4%), lack of skills or training (45.5%), and lack of business development skills (33%) as indicated in Figure 14.

FIGURE 12: INTENTION TO RE-MIGRATE AMONG RETURNEES



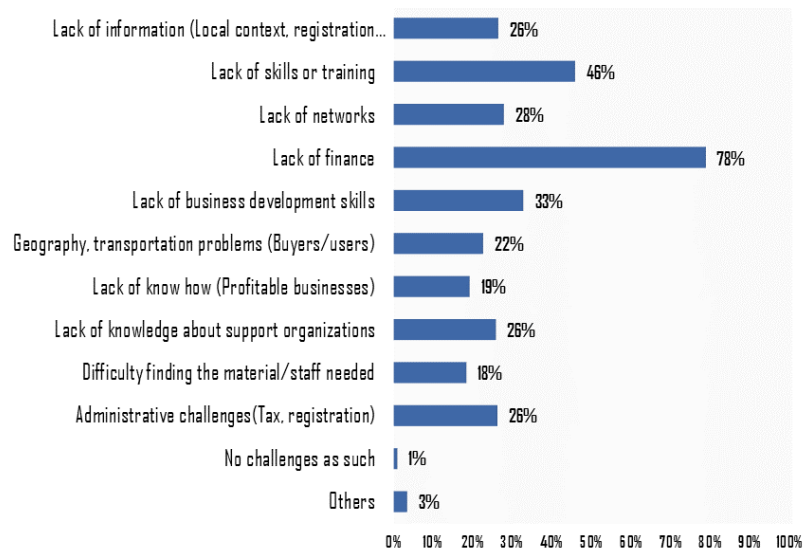
Source: Opinion Survey (2020)

FIGURE 13: CHALLENGES IN ACCESSING WAGE EMPLOYMENT



Source: Opinion Survey (2020)

FIGURE 14: ACCESSING SELF EMPLOYMENT

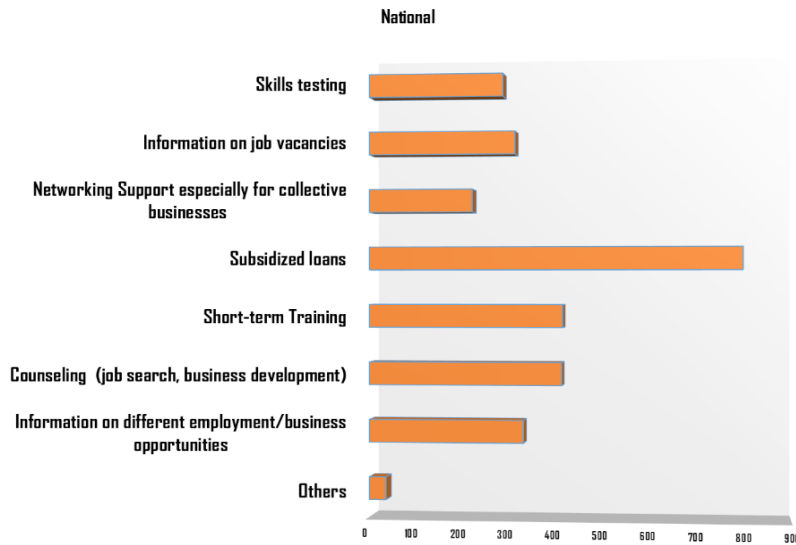


Source: Opinion Survey (2020)

Finally, among the sampled respondents, biggest support they believe they can receive from the government would be the financial support (over 80%), short-term skills training

(41.7%) and business development services (41.5%), information on potential business opportunities (33.3%) and information on job vacancies (31.5%) as mentioned in Figure 15.

FIGURE 15: EXPECTATION FROM GOVERNMENT

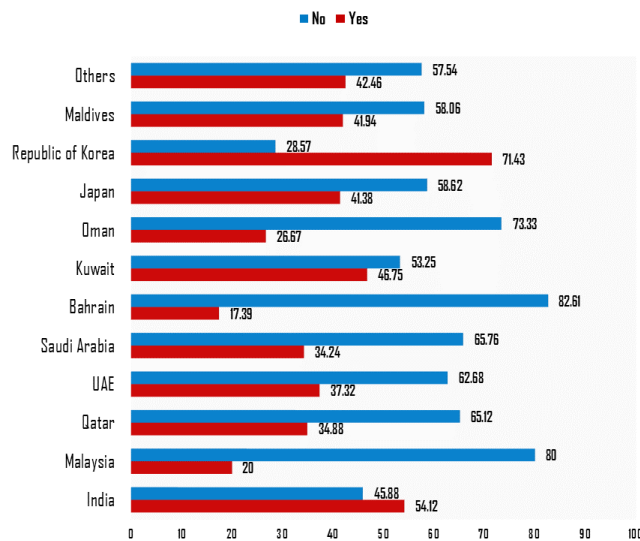


Source: MoLESS Opinion Survey (2020)

A similar survey was also conducted by the IOM in coordination with the National Planning Commission of the returnees who returned to Nepal after the onset of pandemic in the Government’s special repatriation flights or over land from India. Among those surveyed, 61% had stayed in the destination country for less than a year with half of them from India while the rest were from Kuwait (12%), UAE (11%), Saudi Arabia (9%)

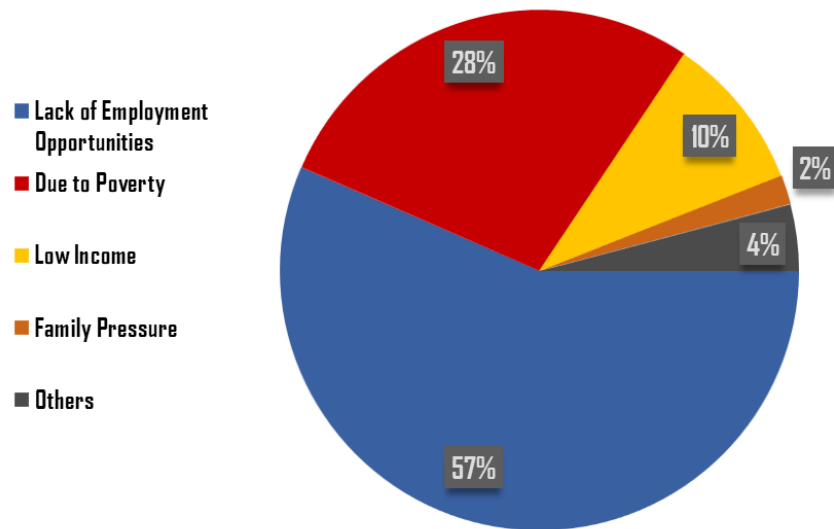
and Malaysia (6%). In terms of the origin, 36% were from Gandaki followed by Sudur Paschim (16%), Bagmati (15%), Province 2 (13%), Karnali (9%), Lumbini (6%) and Province 1 (5%). Among the sample of 1999 recent returnee migrant workers, close to 43% had worked in the service industry including hotels and restaurants, followed by 18% in the construction sector and 9% in the manufacturing sector.

FIGURE 16: INTENTION TO RETURN AMONG RECENT RETURNEES



Source: Opinion Survey (2020)

FIGURE 17: FACTORS BEHIND RETURN INTENTION



Source: Opinion Survey (2020)

Over 50% of the returnees who were surveyed reported that they intended to migrate again. The desire to return was notably high among those returning from India (54%) and South Korea (71%). Among those with return intentions, the driving force for remigration was lack of employment opportunities (57%) and poverty (28%) as shown in Figure 17.

Migrants without the intention to re-migrate have diverse aspirations for economic engagement in Nepal in self- and wage-employment activities. Figure 18 reveals that most recent returnee migrants (37%) want to engage in farming 19.7% in traditional farming and 17.2% in modern farming. This was followed by ‘self-employment/ entrepreneurship’ (31%). Moreover, while 18% aspired for ‘GOs/NGOs jobs’, only 8% of them wanted daily wage jobs. There are also variations in the aspirations of returnees from India versus other countries. India returnees expressed interest in services (43.8%), agriculture (21.5%) and daily wage (17.9%). On the other hand, for returnees from other

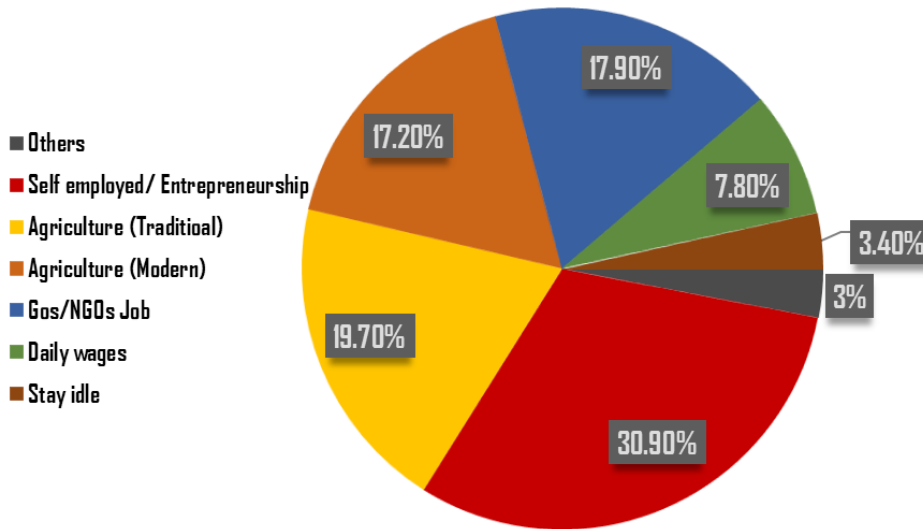
countries, the priority areas were agriculture (45%), services (18.2%) and daily wage (16%).

Among those who expressed interest to engage in the agricultural sector, among them about 41% had opted for traditional agriculture including seasonal farming, and pig and goat farming. In the service sector, most of the returnee (65.6%) wanted to be involved in five jobs, namely, tourism, restaurant, catering, fast food shop and travel agency. The “other” category within those interested in service sector (24.8%) included reception, service in government jobs and schools. Similarly, 16.9% of the respondents reported wanting to be involved in daily wage jobs.

More specifically, the major areas of work that returnee migrants given their priority to work are as follows:

1. Tourism, restaurants, catering, fast-food shop, travel agency
2. Daily wages, cleaning, and domestic work
3. Pig and goat farming
4. Poultry/fish/bee keeping, turkey farming

FIGURE 18: ASPIRATION OF RETURNEE MIGRANTS WHO DO NOT INTEND TO RE-MIGRATE



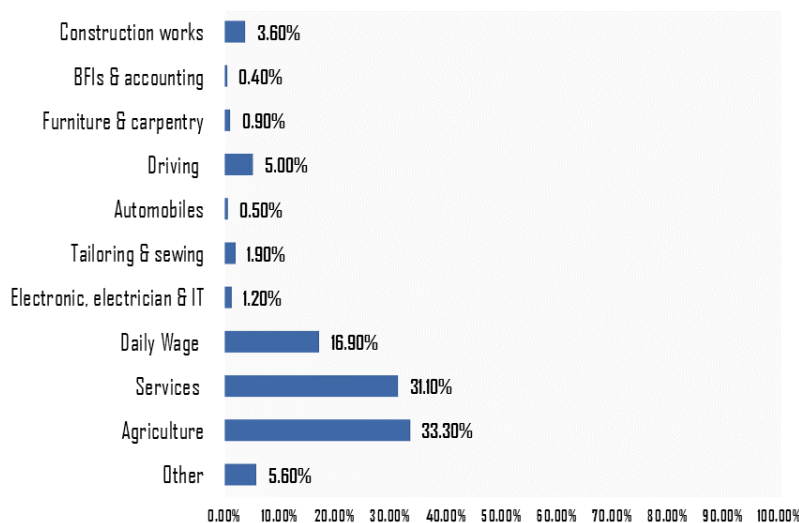
Source: Opinion Survey (2020)

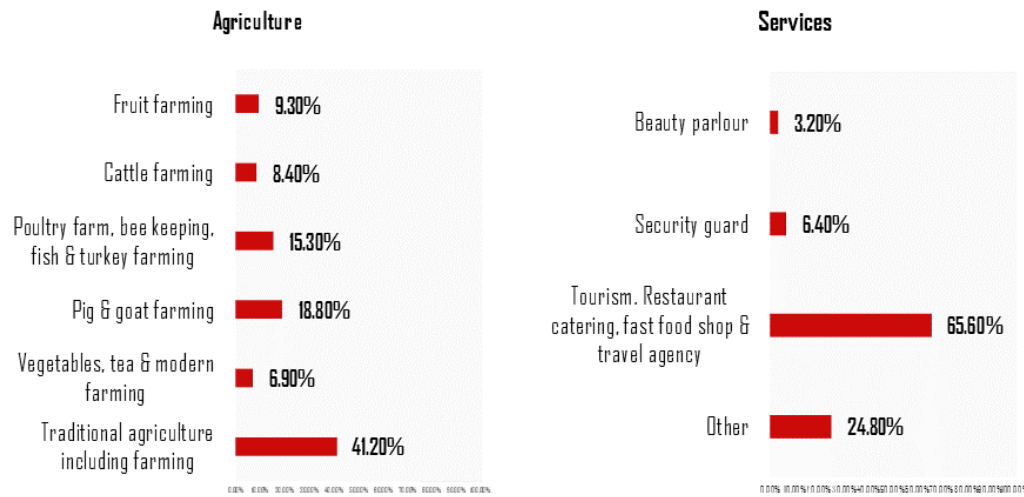
5. Driving

The first two were the major priority areas (hospitality and services) mentioned by the returnee migrants. As discussed above, these two are also the areas in which most of the returnee migrants were engaged in destination

countries. This indicates that returnee migrants want to continue the work they did in destination countries in which they have acquired skills, experience and familiarity as shown in Figure 19.

FIGURE 19: MAJOR PRIORITY SECTORS OF RETURNEE MIGRANTS



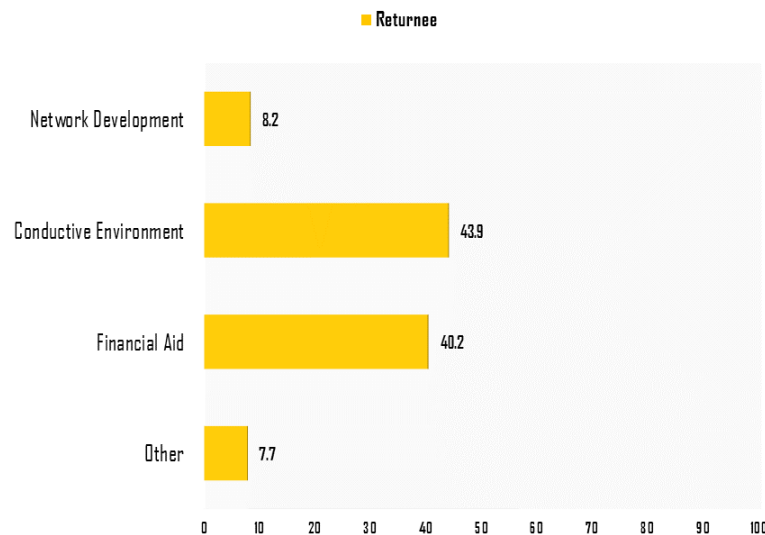


Source: Opinion Survey (2020)

Returnee migrants are expecting the Government to help them reintegrate in Nepal. They stated that the government could help them by creating a conducive environment including appropriate laws and easy legal procedures (44%), by financial support including soft loan, seed money and grants (40%) and in developing network for the business and entrepreneurship they undertake (8%) as mentioned below in Figure 20.

Despite the challenges, however, it is also important to see the reverse migration as an opportunity. Focusing on domestic job creation to engage youth in productive work will allow the country to reap the benefits of demographic dividends. Returnee migrant workers bring social remittances, technological know-how, skills, experiences, and networks that can immensely benefit the economy if utilized productively.

FIGURE 20: EXPECTATIONS FROM GOVERNMENT



Source: Opinion Survey (2020)



IMPACT ON THE DOMESTIC LABOUR MARKET

Both the unprecedented return of migrants as well as the inability of aspiring migrants to join overseas employment can translate to increased pressure in the domestic labour market. Moreover on the domestic front, it is estimated that due to COVID-19, about 708 thousand individuals have lost their jobs either temporarily or permanently (Ministerial Information sought by NPC in coordination with OPMCM). This is in addition to the unemployed population as well as the large number of new labour market entrants, both of which have put additional pressure in the Nepalese labour market even in pre-pandemic. The unemployment rate during pandemic has exacerbated. While the different categories of workers will have to be absorbed in the domestic labour market, the return of many foreign workers who were working in Nepal pre-pandemic, in particular from India, but have returned to their own countries after the onset of the pandemic relieves some pressure to allow for Nepalese workers to replace them. Therefore, the domestic labour market will need

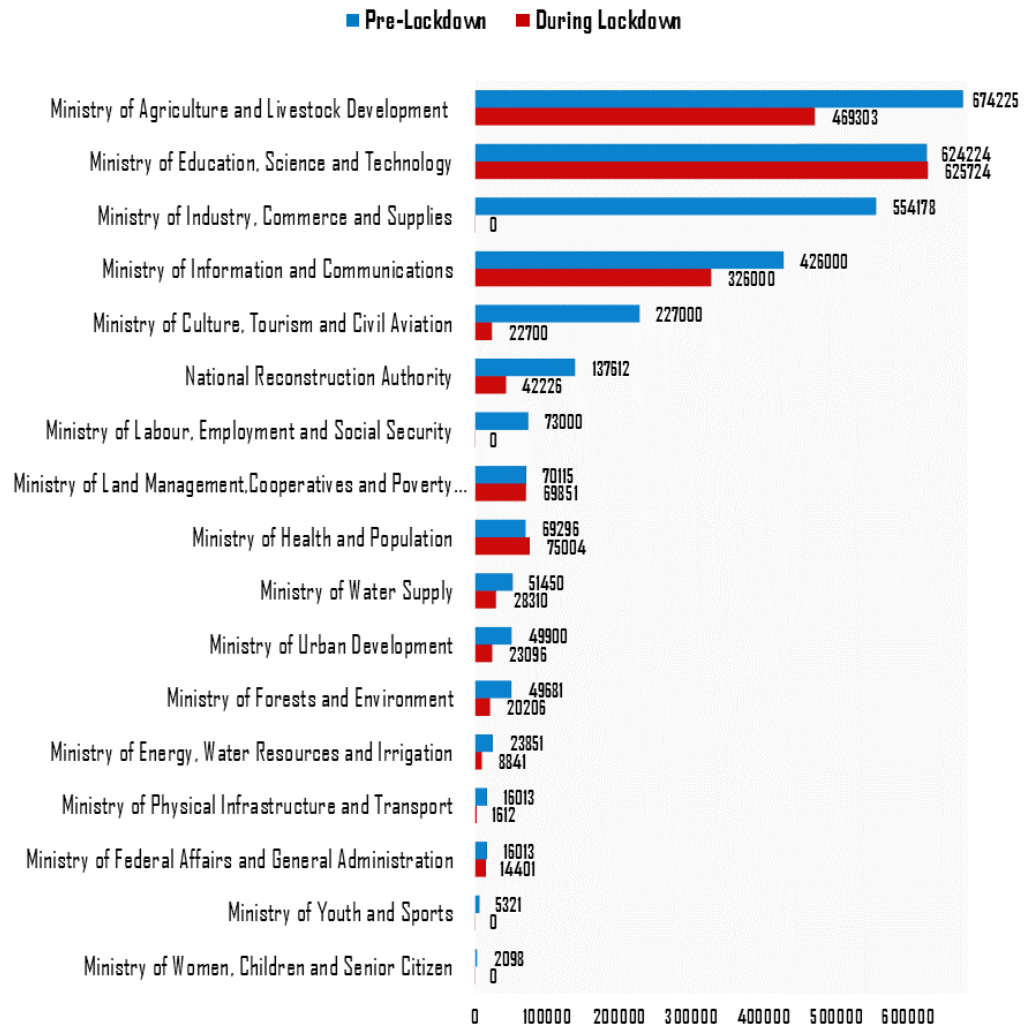
to adequately address the needs of different segments of the working age population.

As shown below in Table 12, the pressure for job creation is significant in the domestic labour market, which is challenging especially at a time when the pandemic has impacted Nepal's economy significantly. An analysis by the NPC in close coordination with the line Ministries shows that prior to the lockdown, an estimated 3,070,000 jobs were created in government sector. For job creation, the Ministry of Agriculture and Livestock Development, the Ministry of Education, Science and Technology, and the Ministry of Industry, Commerce and Supplies were associated with the highest volume of jobs, collectively accounting for over 60% of the number of individuals employed. However, as per the same analysis, the economic downturn because of the pandemic has led to a sharp decline of 23% in the number of jobs i.e., over 708 thousand individuals have lost their

TABLE 12: PRESSURE ON DOMESTIC LABOUR MARKET

Category	Estimated numbers
Unemployed population	over 900,000
New entrants in the labour market	over 500,000
Nepalese migrant workers returning to Nepal due to COVID-19	over 250,000
Workers in Nepal who have lost their jobs due to COVID-19	Over 700,000
Workers (aspirant migrant workers) unable to go for foreign employment due to shrinking global demand	Over 75000 depending on the situation of the global demand

FIGURE 21: PRE-PANDEMIC AND DURING PANDEMIC EMPLOYED INDIVIDUALS BY LINE MINISTRY

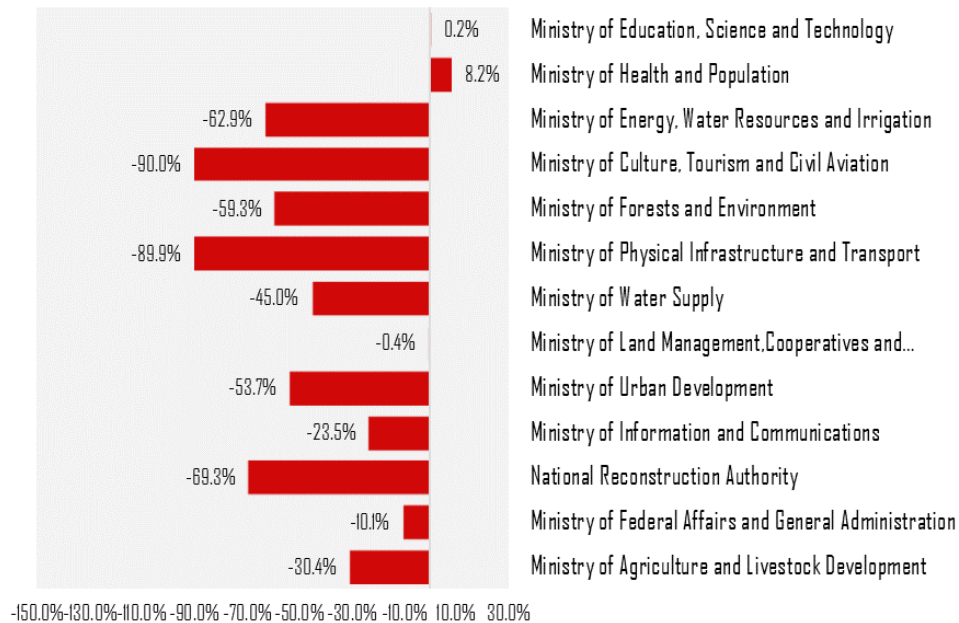


Source: National Planning Commission (data on jobs during lockdown not available from Ministry of Labour, Employment and Social Security, Ministry of Industry, Commerce and Supplies, Ministry of Youth and Sports, Ministry of Women, Children and Senior Citizen)

jobs either temporarily or permanently (NPC, 2020) as presented in Figure 21.

As per the finding of the recent study of NPC (2020) shown in Figure 22, the jobs associated with the Ministry of Culture, Tourism and Civil Aviation and the Ministry of Physical Infrastructure and Transport have been the most

impacted. This is expected that since March, in an effort to contain the spread of COVID-19, international and domestic passenger flights have been suspended, tourism has come to a halt and the strict lockdown measures within Nepal have led to the reduction in internal mobility. Given the health crisis, there has been an increase in the jobs demand associated with

FIGURE 22: PERCENTAGE REDUCTION IN JOBS DUE TO COVID-19

Source: National Planning Commission 2020 (Note: data on jobs during lockdown are not available from Ministry of Labour, Employment and Social Security, Ministry of Industry, Commerce and Supplies, Ministry of Youth and Sports, Ministry of Women, Children and Senior Citizen)

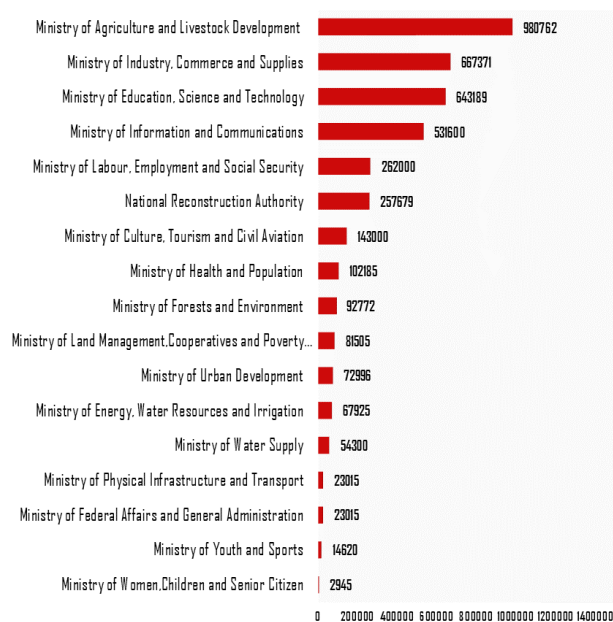
the Ministry of Health and Population as the demand for health workers at all skills levels has increased in the fight against the pandemic.

Taking into account the urgency to create jobs to ensure that no one falls through the cracks, the Government has set an ambitious program for job creation. It plans to create a total of 4 million jobs this year, which is a 30% increase from the pre-pandemic volume of jobs, taking into account the additional pressure to create

jobs because of the pandemic and its impact on both the domestic and foreign labour markets.

The biggest job creating sectors as projected in Figure 23 are anticipated to be Ministry of Agriculture and Livestock Development, comprising almost a quarter of the employment, followed by Ministry of Industry, Commerce and Supplies and Ministry of Education, Science and Technology. Table 13 highlights the major areas of improvement to achieve these desired goals.

FIGURE 23: JOB CREATION PLAN BY THE GOVERNMENT OF NEPAL



Source: National Planning Commission (2020)

In order to meet target of creating over 4 million jobs, proactive initiatives will need to be taken by each Ministry. Some of the important measures that are under consideration by each Ministry are detailed below:

TABLE 13: PRIORITY INITIATIVES IN CONSIDERATION BY LINE MINISTRIES TO SUPPORT JOB GROWTH

Ministerial Agency	Major initiatives in consideration to support the growth of jobs
Ministry of Agriculture and Livestock Development	Allocating budget to convert agricultural farm centers to agriculture resource centers.
	Delegate the development of post-harvest centers and green-house to the local governments as it depends on the nature of the crops.
	Allocating budget to local governments to promote collective farming of fruits and vegetables in public lands left fallow.
Ministry of Federal Affairs and General Administration	Providing employment to skilled and low-skilled workers on road development. Conducting training programs for them.
	Identification of local human resources from the community and involving them in different activities including skills training. Providing group loans to enable operation of small- and cottage businesses.
	Establishing a record-keeping system to register the skills and experiences of returnee migrant workers, and disseminate information on available training and employment experiences.
National Reconstruction Authority	Guarantee the availability of transportation and living place for workers.
	Make progress on reconstruction and preservation related tasks via users committee, and provide training for the development of artisan (kaligadh) for such tasks.
	Providing information regarding re-construction to the owners and performing the works rapidly. And generating skill among the workers on building earthquake resistance buildings and houses.

Ministerial Agency	Major initiatives in consideration to support the growth of jobs
Ministry of Youth and Sports	Conducting orientation training programs
	In the absence of capital, encourage youth to engage in collective entrepreneurship.
	Facilitate the engagement of youth in business development.
Ministry of Information, Communications and Technology	Establishing mobile phone assembling industries in the country.
	Increase the access of internet penetration to local communities to ensure growth of employment opportunities in e-commerce and e-agriculture.
	Banking and insurance services should be recommended in local units via digital services to promote business development.
Ministry of Urban Development	Updating the Standard Bidding Document to ensure that local labour (unless foreign workers are needed for specialized tasks) is utilized compulsorily in all new procurement decisions.
	Conducting construction related training programs to increase the rate of skilled workers in Nepal.
	Providing incentives such as tax deductions or waivers to construction businesses using Nepalese workers.
Ministry of Land Management, Cooperatives and Poverty Alleviation.	Focusing on labour intensive work in infrastructure development projects. Promote the utilization of available barren land for agriculture production.
	Record-keeping of skills and experiences of returnee migrant workers to engage them as per the local demand for workers.
	Public-private investment to promote agricultural productivity by expanding availability of manure, seeds, agricultural tools and equipment, agricultural storage etc.
Ministry of Water Supply	Maximum utilization of labor for pipeline related work.
	Providing training to skilled and semi-skilled manpower from national drinking water and hygiene council and mobilizing them.
	Maintaining proper social distancing and precautionary measures along with accommodation to engage local workers in projects.
Ministry of Physical Infrastructure and Transport	Prioritizing labour intensive work while implementing a shift system.
	Local Governments should play an active role in identifying unemployed local people and engaging them in construction related work.
	Identifying possible barriers that slow the progress on construction related projects and addressing them in a timely manner.
Ministry of Forests and Environment	Promote and facilitate the growth of forest-based industries in cooperation with public and private organizations.
	Local users committee should be mobilized to create employment opportunities for locals in the community.
	Maintain records of available manpower locally so that related organizations or departments mobilize them as per their needs.
Ministry of Culture, Tourism and Civil Aviation	Promoting domestic tourism opportunities targeting the Nepalese population.
	Alongside domestic tourism, also conduct necessary research and feasibility studies to promote adventure tourism while encouraging job growth in this area.
Ministry of Labour, Employment and Social Security	The coverage of Prime Minister Employment Program needs to be expanded, while workers required in public and private sectors need to be registered in the Employment Service Centers (ESC).
	The ESCs in every municipality should be strengthened.
	Upgrading and maintaining the national employment information management system (NEIMS) to manage information related to the labour market.

Ministerial Agency	Major initiatives in consideration to support the growth of jobs
Ministry of Women, Children and Senior Citizen	Access to finance programs for female entrepreneurs.
	Co-ordination with the local government for the development of business development programs.
Ministry of Energy, Water Resources and Irrigation	Emphasize on policies promoting labor-intensive work rather than the use of machines.
	Ensure that to the extent possible, local citizens are mobilized and ensure they are adequately paid at least the minimum wage, labour camps are setup and health security and insurance are provided in a compulsory manner.
	The system for timely transportation and delivery of necessary construction materials for operation of projects should be simplified by the local government, administration and security department by following the minimal health arrangement for the workers.
Ministry of Health and Population	Examining and restructuring existing organization.
	Expansion of health institutions and services.
	Creating new employment positions and ensures that all vacant posts are filled in a timely manner.
Ministry of Education, Science and Technology	Infrastructure development projects of schools and educational institutions can lead to seasonal job creation at the local level.
	Through close coordination between CTEVT, NARC and the Ministry of Labor, Employment and Social Security, develop technical and business related training opportunities in local level for agriculture development to create employment opportunities.
	Organize skills testing and certification programs in coordination with the skills council targeting returnee migrant workers.
Ministry of Industry, Commerce and Supplies	Helping in the growth of small scale businesses to medium scale industries.
	Increasing technology transfer.
	Prioritizing the development of businesses that rely on local raw materials.

POLICY RESPONSE

The following Tables lists a series of specific policy recommendations along with action points under each cluster. In addition, it also assigns the appropriate lead agency as well as the supporting agencies that are best placed to address them. It is important to note that this Report is a living document and the recommendations from all three sections are in the implementation phase, can be reviewed and adjusted based on the context as explained in Table 14, Table 15 and Table 16 below.

TABLE 14: IMMEDIATE RESCUE AND RELIEF POLICY RESPONSE

Policy Response	Action Points	Lead Ministry/ Agency	Supporting Ministry/ Agency/ Partners	Remarks
1. Continuously update database of migrant workers in destination countries, especially those in distress who require support including for repatriation, on a biweekly basis.	1) The data compilation covers information on the employment and health status of migrant workers abroad and their intention to return, which is necessary to update frequently given the rapidly evolving situation of COVID-19.	MoLESS and diplomatic missions (in each of major destination countries)	MoFA, NRNA, and other volunteer associations abroad.	
2. Prepare a rescue guideline urgently to bring distressed and stranded Nepalese (migrant labour and others) from abroad, on a priority based on their vulnerability and urgency, need, etc.	<p>1) Priority to workers on government sponsored repatriation flights should be on the most vulnerable ones (those with expired visa/work permit, women and children, disable or illnesses, detainees, students, short-term visitors etc.)</p> <p>2) Protocol to be developed to manage the repatriation process including quarantine and testing requirements. All returnees have to undergo proper quarantine either in the capital or in their home districts. Those who can afford to pay shall pay for hotel costs whereas free arrangement in Government facilities shall be arranged for those who cannot cover the expenses.</p> <p>3) A separate protocol for migrants coming via land boarder from India will be needed under the leadership of provincial and local governments. The respective provincial government should arrange for inter-district travel and movement guidelines and logistic arrangements of the returning migrants from India at each of the border sites. Over 60% of the financial costs for operating and managing the quarantine to be provided by the federal government.</p> <p>4) Organize motivational, health and business orientation programs for individuals in quarantine.</p>	MoLESS	MoFA/MoHA/ MoFAGA/ MoWCSC	

Policy Response	Action Points	Lead Ministry/ Agency	Supporting Ministry/ Agency/ Partners	Remarks
<p>3. Online registration of all returnee migrants, including from India, to ensure proper follow up, and livelihoods and skill improvement supports. Returnee data should be maintained by municipalities to inform reintegration support programs.</p>	<p>1) A separate module is to be added/adapted in Mobile Apps of MoLESS for making an integrated platform by all for simple registration, so that information is available in advance. 2) Pre-departure registration is for safety as well as proper logistic management in TIA and in holding center arrangement and transportation. 3) The data maintained by MoLESS in FEIMS needs to be synchronized with immigration data to ensure complete information on both outgoing and returning migrants. The registration of all returnees in their ward/ Palika needs to be emphasized based on a standardized format across all provinces. Data on contact, demographics, skills types, experiences, aspirations need to be captured.</p>	<p>MoLESS and record maintained by Respective Local Government</p>	<p>MoHA/MoFAGA Respective Provincial Govt. /District Administration, and Ministry of Home Affairs</p>	<p>Each of the local government units (Palikas) can also take active roles in registration of those returnees, who have already arrived in their respective communities.</p>
<p>4. Alternate measures to ensure smooth repatriation of undocumented workers needs to be explored.</p>	<p>1) A large proportion of stranded workers could be undocumented, and their rescue and travel related expenses need to be borne by the government.</p>	<p>MoFA, MoLESS</p>		
<p>5. Enhance diplomatic efforts on continued dialogue (labour diplomacy) in favour of Nepalese migrant workers during and after the pandemic.</p>	<p>1) Labor diplomacy to be initiated by MoFA and its missions abroad at accelerated pace to protect the jobs and employment of migrant Nepalese laborers abroad, to hold employers accountable for the migrant workers they are affiliated with and/or shifting of their jobs to other sectors in the same country via redeployment programs given the heterogeneous impact of the crisis.</p>	<p>MoFA and its Mission offices, especially mission office in major destination countries.</p>	<p>MoLESS</p>	

TABLE 15: SURVIVAL AND RECOVERY STRATEGY (3 TO 12 MONTHS)

Policy Response	Action Points	Lead Ministry/ Agency	Supporting Ministry/ Agency/Partners	Remarks
<p>1</p> <p>1. Comprehensive analysis of the labour demand and supply aspects to inform wage-employment and self-employment programs.</p>	<p>2</p> <p>1) Conduct a comprehensive mapping of available labour market opportunities at local level, potential areas for employment creation and available skills to inform the Government's employment and skills related policies and programs.</p> <p>2) The local Employment Service Centers need to be significantly strengthened for information dissemination regarding employment opportunities both in the local and foreign labour markets, available training schemes and self-employment related support programs.</p>	<p>3</p> <p>MoLESS in close coordination with local governments.</p>	<p>4</p> <p>MoFAGA, and provincial governments, MoF and other line ministries, federation of cooperatives, FNCCI and CNI.</p>	<p>5</p>
<p>2. Wage Employment: Emphasis on employment creation (e.g., cash for public work, food for work program in each municipalities).</p>	<p>1) Design livelihood programs such as cash for work and food for employment which can be the best options to absorb unemployed youth.</p> <p>2) Expand the Prime Minister Employment Program (PMEP) linking with federal, provincial, and local-level public development programs</p> <p>3) Integrate all local infrastructure and local development program/projects at the local level for effective utilization of available labour force.</p> <p>4) Focus on strengthening the Employment Service Centers (ESCs) for registration of unemployed youth as well as information dissemination regarding available job opportunities, training schemes and other employment related schemes at the local level. Priority should be given to the most vulnerable groups such as those who have lost their jobs, forced returnees with outstanding loans etc.</p> <p>5) Prioritize local-level leadership development and motivational programs to build a spirit of "Let's build our Village Ourselves" locally. Provide/extend psychosocial support to workers in distress including returnees through existing program like SaMi, PMEPE, etc.</p> <p>6) Develop standardized operation manuals and monitoring and evaluation guidelines for the effective implementation and evaluation of these programs.</p>	<p>MoLESS in coordination with provincial and local governments.</p>	<p>Various sectoral ministries to create related local infrastructure, so that community level users' groups can engage more for constructions and low skill work. Private sector industries and transportations sectors also to be coordinated properly by provincial governments for generation of more employments in the respective jurisdictions. .</p>	

Policy Response	Action Points	Lead Ministry/ Agency	Supporting Ministry/ Agency/Partners	Remarks
<p>1</p> <p>3. Self-Employment: Create a conducive policy and programmatic environment for self-employment including for returning migrants labour.</p>	<p>2</p> <p>1) Financial incentives including start-up grants, seed capital, and soft loans need to be provided to aspiring entrepreneurs along with financial literacy programs in coordination with private sector and civil society. Emphasize on self-employment opportunities to make the local municipalities self-reliant.</p> <p>2) Returnees to be provided business development support (BDS), counselling regarding the needs and available self-employment opportunities in the municipality.</p> <p>3) Company acts and other regulatory provision of the GoN need to be reformed and the process of starting up and closing businesses needs to be simplified. For example, areas to explore include VAT registration exemption, registration of business at ward/ municipality with cap on time and scale of operation, etc.) So that new entrepreneurs can start their businesses easily.</p> <p>4) Group guarantee bank loans and other support schemes need to be provided to unemployed, local entrepreneurs interested in self-employment. Concessional finance should not be concessional just in terms of capital costs, but the grace period of the loan also has to be generous.</p> <p>5) Seek innovative ways to bring modern cultivation practices to abandoned lands. Promote the role of district Agriculture Knowledge Center and municipality to promote profitable agribusiness activities. Promotion of commercial agriculture is important and incentives need to be provided to make agriculture attractive to Nepalese youth. Arrangement to allow fallow land that are widespread in rural areas to be used for high value and commercial agriculture needs to be made.</p> <p>6) Create economic environment and incentives to enable existing industries and factories to resume operations or run at maximum capacity.</p>	<p>3</p> <p>MolCS/MoLESS/& MoF</p>	<p>4</p> <p>NPC/MoF and respective ministry for making effective policy and programs to create more employment.</p>	<p>5</p> <p>This is a continuous activities for at least 2-3 years down the road.</p>
<p>4. Gradual ease in lockdown to resume economic activities while maintaining social distancing at work and enforcing strict a monitoring mechanism.</p>	<p>1) Initiate frequent consultation with relevant stakeholders to impose more targeted, localized lockdowns based on the COVID-19 spread, with gradual relaxation of lockdown in safer zones to resume economic activities.</p> <p>2) Protocols on maintaining safe-distancing at work, businesses (hotels, restaurants) should be set and strictly followed.</p>	<p>Directive Committee of COVID-19 Crisis Management Center / Cabinet</p>	<p>All the respective ministries at the federal, provincial level and local government as well as subject matter experts.</p>	

Policy Response	Action Points	Lead Ministry/ Agency	Supporting Ministry/ Agency/Partners	Remarks
<p>1</p> <p>5. Emphasize on skills training, testing and certification programs.</p>	<p>2</p> <ol style="list-style-type: none"> 1) Map out employment opportunities available at the local level and the skills in demand to help inform the design of skills related schemes. 2) Local government will provide accelerated support for skill – enhancement training locally based on the local demand to retain youth locally. Provide recognition of prior learning, bridge courses and linkages to loans and business development services. 3) Training modules need to be based on thorough assessment of local markets in each local levels that identify critical shortage of skills (such as motor mechanics, motor cycle repair, carpenter, mason labour, hair cutting, etc.). The skill programs need to be initiated by each municipality such that the labour demand in each district for all levels of skills are met locally. 4) For returnees, skills testing and certification programs to formally recognize their skills and experiences need to be provided at the local level by the municipality or under District Coordination Committee (DDC). Such programs can first be initiated at the districts facing high reverse migration including Dhanusha, Jhapa, Siraha, Darchula, Baitadi, Dadelhdura, Achham before rolling it out the program. 5) Motivation and informational talks on spirituality, jobs, businesses in the locality and available support services for start-ups. 	<p>3</p> <p>Provincial Govts/ Municipalities and various development related sectoral ministries</p>	<p>4</p> <p>CTEVT in supporting Municipality. The present regulation to getting CTEVT persimmons for petty-scale training programs to be reformed, and allow training institutes to be registered in municipality (and at District Level Cottage Industry office in each district)</p>	<p>5</p> <p>MoEST/ CTEVT to authorize municipality/ DCC for managing/ regulating local level skill enhancement as per local needs. Federal govt (or CTEVT) to prepare TOT for training manual/ modules so that the municipality can be benefited.</p>
<p>6. Conduct a nationally representative survey of returnee migrant workers.</p>	<p>A comprehensive migration survey should be conducted immediately to better understand the characteristics and aspirations of returnee migrant workers to inform the policies targeting their socioeconomic reintegration. It will cover different areas including their skills, experience, wage-employment and self-employment aspirations, and intention to re-migrate.</p>	<p>MOLESS</p>	<p>2) CBS, and NPCs 3) Provincial government; provincial level Planning Commission in each province 4) Local governments Other leading policy think tank universities. The study can be conducted province wise as per the pressing needs of a province.</p>	

Policy Response	Action Points	Lead Ministry/ Agency	Supporting Ministry/ Agency/Partners	Remarks
1	2	3	4	5
7. Update the Foreign Employment Policy to address the evolving context and priorities of Nepal.	There are several contradictory policy issues regarding overseas employment from Nepal. There is a need to harmonize and operationalize the policy in practical terms, with a clear policy vision and direction on foreign employment from Nepal.	MoLESS, FEB and DOFE.	NPC, provincial governments, and Nepalese Missions abroad.	
8. Effectively formalize the land bank, with clear policy framework.	Clear policy guidelines (acts) and framework to operationalize the Land Bank needs to be developed and discussed/shared with the key stakeholders;	MoLMPA	NPC/MoF/ MoLM/COPR/	
9. Establish a research wing at the Ministry of Labour, Employment and Social Security.	A separate research division at MoLESS that conducts frequent labour market analysis in both the national and international labour markets can help inform evidence-based policy. The research conducted should be done in close coordination with CBS, NPC and line ministries as well as labour research institutes.	MoLESS	NPC/CBS	
10. Emphasize the recovery of wages and benefits of migrant workers who have returned without being adequately reimbursed or are in the destination country.	In coordination with employers or recruitment agencies, proper measures will be taken to ensure workers are adequately compensated.	Diplomatic Missions and DOFE/Foreign Employment Tribunal (FET)		

TABLE 16: REBOUND AND REVIVAL STRATEGY (1-3 YEARS)

Policy Response	Action Points	Lead Ministry/ Agency	Supporting Ministry/ Agency/Partners	Remarks
1. Initiate the establishment of "National Employment Promotion Authority (NEPA)".	Establish NEPA to integrate various employment generation programs and entities in the country and to facilitate one-stop services to jobseekers.	MoLESS	NPC/MoF/ Cabinet MoPIT, MoICS, MoTCA, MoALD, and local governments	
2. A comprehensive Human Resource Development Plan should be formulated to match the demand and supply of the labour forces required for the next 5 years.	1) Based on information on both the labour supply and demand, a comprehensive HRD plan needs to be developed. 2) These should be reflected in the curricula of educational and training institutes to ensure relevant, demand based education and training programs are organised	MoLESS	NPC/MoEST/ Line ministries	To be done with focus on skilled employment and semi-skilled labor demand and supply situation.
3. Update the curriculum of secondary school to include vocational training so students are equipped with marketable skills relevant for the labour market.	Emphasis on market-oriented skills can increase youth employability so they can also engage in skilled opportunities in Nepal including in manufacturing, agribusiness and transportation that are currently occupied by foreign workers in Nepal.	MoEST	Provincial Government and Palikas to take more active roles, based on scale of the program activities. Inputs from private sector and their associations.	
4. Gradually increase the share of migrants in skilled and professional categories.	1). Emphasize on joint skills training initiatives with stakeholders of the countries of destination including Government and employers. Leverage current or new bilateral labour agreements to design such initiatives. 2) Market exploration for higher skilled opportunities in current and new destination countries	MoLESS/ Diplomatic Missions	MoFA/MoEST	
5. Introducing policy and program making housekeeping and caregiving into formal sector	1) Conducting a research and collect data of returnee female domestic workers 2) Introducing policy, program and law 3) Opening new institution or company for the management of making this sector formal	MoLESS/ provincial and local government authorities	MoF	



CONCLUSION AND WAY FORWARD

The COVID-19 pandemic and its subsequent disruption to economic activities and labour markets worldwide has adversely impacted individuals, with a disproportionate impact on vulnerable segments of the population including migrant workers, women and children globally.

With a high share of Nepalese migrants scattered worldwide, primarily in the GCC and Malaysia, the impact of the pandemic on Nepalese has transcended boundaries. Amid lockdowns and suspension in international travel, Nepalese migrant workers who are displaced from their jobs have not been able to return to Nepal. Their safe repatriation is a primary policy concern that rests on careful planning, coordination and execution. This report attempts to address a critical gap in the understanding of the stock of Nepalese migrants scattered in about 125 countries along with the share of expected returnees by relying on both primary and secondary data analysis.

Foreign labour migration has traditionally been a safety valve that reduces employment pressure on the domestic labour market. However, the unprecedented return of Nepalese migrant workers due to COVID-19 coupled with the potential reduction in future global demand for migrant workers relative to a non-COVID-19 scenario also puts additional pressure on the Nepalese labour market to absorb additional

jobseekers. However, with the right policies and programs to generate productive wage- and self-employment opportunities, it can also be an opportunity for the country to reap the demographic dividend. Returnee migrant workers bring back not only remittances but also experiences, skills, exposure and know-how that can contribute immensely to the national economy. Government programs in the future need to be tailor of focusing in better utilization of the social capital and enhanced capability of the returnee (social remittance) within the country with more of incentivized programs and policies that would provide opportunity to them to work and reintegrate into the national labor markets and to engage actively in the business activities as per their risk taking capacity.

The results of Section I of the Report highlights the measures that can be taken by the Government of Nepal to create productive employment opportunities in Nepal. It is important to note that a few of the recommended policy responses, particularly those under “Immediate Rescue and Relief”, have already been proposed and initiated by the Government as part of its repatriation efforts. In Section II, the emphasis will be on the impact of the potential reduction in remittances on various aspects of Nepal’s economy, with policy recommendations to minimize the adverse impact.

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SECTION II

ECONOMIC IMPACT



Arrival

Departure



माक्स प्रयोग गरौ
कोरोना भगाऔ

RE

INTRODUCTION

1.1. BACKGROUND AND CONTEXT

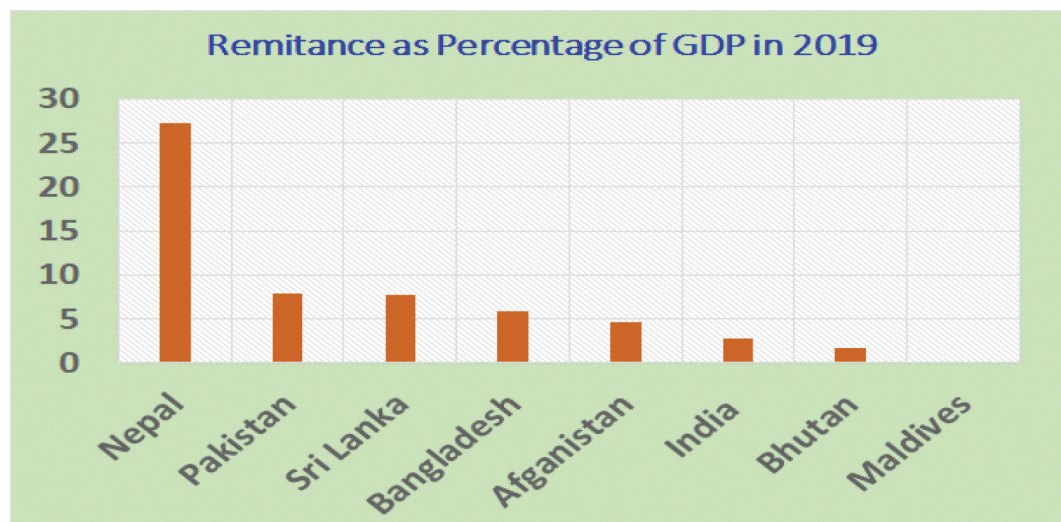
As the Coronavirus is spreading day by day, it may not be feasible yet to assess its full extent of the implications on Nepalese economy and how the impact varies across the sectors and sub-sectors, the provinces and regions of the country. As Nepal is heavily relied on the remittance inflows for foreign currency, it is almost certain that Nepal's economy is extremely vulnerable to external shocks and on any fluctuations on remittance and foreign grant supports. Moreover, the degree and the pervasiveness of spread of the virus within the country will also be a key determinant on the scale of the impact in the economy,

In Nepal, annual remittance inflow has been increasing consistently and reached 8.79 billion USD in 2018/19. Remittance-to-

GDP ratio has been consistently over 25%, placing Nepal among the top five countries globally, alongside Tonga, Kyrgyz Republic, Tajikistan and Haiti, and highest in South Asia. (Figure 24).

Remittance has both direct and indirect impact on the economy at the micro- and macro-levels as given detail in the Table 17. At the micro-level, with over 56% of the households in Nepal receiving remittances as per NLSS 2010/11, out of which over three quarters was from across borders, remittance has become an important source of income for families across Nepal. The Nepal Living Standards Survey (NLSS) 2011 suggests that two in every three families in the Terai region and one in every two families in the Hilly and Mountain regions receive remittances.

FIGURE 24: REMITTANCE AS A PERCENTAGE OF GDP IN SOUTH ASIAN COUNTRIES IN 2019



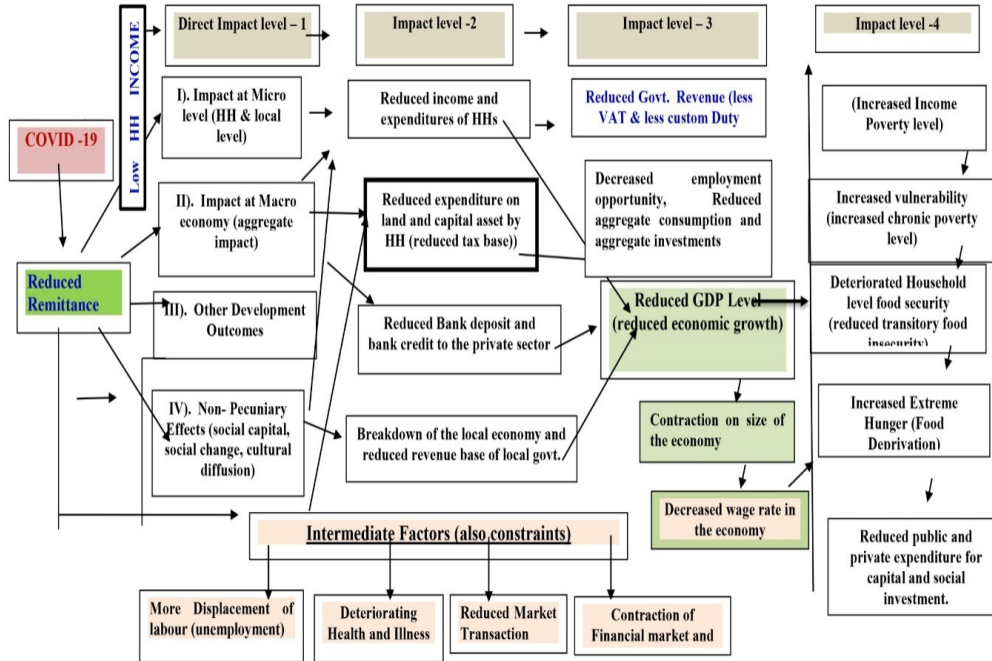
Source: World Bank (2020)

TABLE 17: SELECTED IMPACT OF REMITTANCE IN THE NEPALESE ECONOMY- BOTH MICRO AND MACRO LEVELS (CONCEPTUAL)

S.N.	I. Impacts at Micro level	II. Impacts at Macro level	III. Development Impacts	IV. Non-Pecuniary Effects
1	1.1. Remittance is an additional source of income, and as a means for consumption investment of large number of households, whose members are migrant workers.	2.1. Increase in bank deposit and bank credit in the private sector	3.1. Encourages entrepreneurship and creates business opportunities	4.1 Social remittance (cultural diffusion & social change)
2	1.2. Saving and investment for education of children, health care, etc.	2.2. Boosting of the local economy	3.2 Collective investment for development – building roads, bridges, schools, etc.	4.2. Provides opportunities for acquiring new skills and knowledge
3	1.3. Investment in small businesses and alternate livelihoods (impact on entrepreneurship)	2.3. Encouraging entrepreneurship		4.3. Increased social capital of migrant laborers via increased access to new economic opportunities and increased exposure to new experiences
4	1.4. Construction of houses or purchase of land or houses	2.4. Stimulation of consumption and investment		4.4. Remittances can also contribute towards ensuring pro-poor and inclusive growth and development
5	1.5. Social insurance (private safety nets for the migrant household)	2.5. Increase in domestic saving and improvement in financial intermediation		
6	1.6. Remittance provides option for increasing human capital level due to more expense on children' education and better schooling choices (in medium term)	2.6. Sustains national economic growth and generates more employment in the economy.		
7	1.7. Sending other family members abroad	2.7. Positive impact on GDP growth when the financial markets are relatively underdeveloped.		
8	1.8. Loan mortgage payment	2.8. Source of revenue for the local government		

Source: Developed by the study team (2020)

FIGURE 25: ADVERSE IMPACT OF REDUCED REMITTANCE INFLOW ON NEPALESE ECONOMY – THE INTER-LINKAGES AND THE IMPACT (CONCEPT)



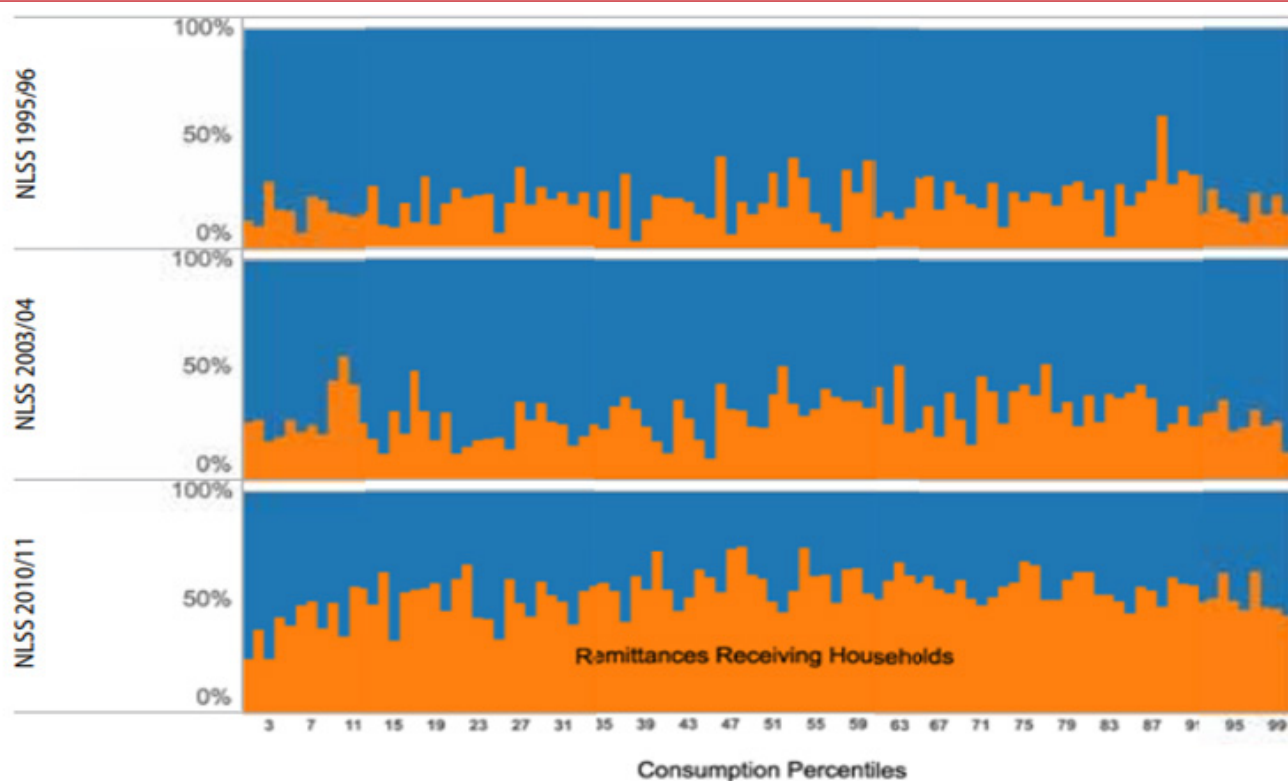
Source: Developed by the study team (2020)

Over the three rounds of NLSS conducted in 1995/96, 2003/04 and 2010/11, the share of households receiving remittances has been prominent. Further, as seen in Figure 26, this share has been increasing significantly across all consumption percentiles. For instance, while in 1995/96 around 10-15% of the bottom 1 consumption percentile and 15-20% of the top 99th consumption percentile of households were receiving remittances, in 2010/11 this increased to 25-30% and 40-45%, respectively.

Despite the decade long civil unrest in Nepal, there has been a steep drop in the poverty levels from 42% in 1995/96 to 25% in 2010/11. This development has been attributed largely to the inflow of remittances.¹⁴ With reduction in remittances, families experience reduced income and a large share of households may

even be pushed back into poverty without this lifeline. This will be reflected in social indicators pertaining to health, education, and food security. As per NLSS 2010/11, almost 80% of remittance is spent on consumption. The reduction in remittance will, therefore, not just impact the family's spending but will also have far reaching consequences on economic activities at the sub-national and national levels including government revenue, import levels and domestic savings (Figure 25 presents the micro and macroeconomic linkages in a flow chart). The sheer scale of remittance means that the aggregate impact will be significant at the macro-level. Therefore, this part of the Report focuses on the macro-level impact that a shock to remittance inflow might have on the Nepalese economy.

14 Lokshin, 2010.

FIGURE 26: REMITTANCE RECEIVING HOUSEHOLDS BY CONSUMPTION PERCENTILES

Source: The World Bank (2016)

Remittance receiving households by consumption percentile as shown in Figure 26, the inflow of remittance has been and continues to be vital to the Nepalese economy. Unfortunately, it is expected that remittances will take a substantial hit due to the COVID-19 induced economic downturn, especially in 2020/21 for the following reasons:

1. Thousands of Nepalese migrants have lost their jobs in the destination countries and they are returning home prematurely,
2. New labour approvals have not been issued since March 2020.
3. About 50,000 people, who have secured labour permits or were home on vacation, have not been able to travel to the destination country because of the suspension of international flights. It is uncertain whether they will be able to

resume or start their jobs once flights resume.

4. It is likely that the global demand for new workers will shrink due to the economic slowdown induced by the adverse macroeconomic shocks in the destination countries.
5. Due to the increased risk and uncertainty created by this pandemic, it is also likely that fewer people might opt for foreign employment compared to previous years.

A decrease in the inflow of remittance would have far-reaching direct and indirect adverse effects on the Nepalese economy. Understanding these effects is imperative to formulating effective policies that can help minimize and/or mitigate the negative impact. Therefore, this study aims to assess the effects of a negative shock to remittances on some key

macro-economic variables and provide relevant policy recommendations.

To this end, this section of the Report is structured as follows:

The remainder of this chapter presents the objectives and scope of the study and discusses its limitations. Chapter 2 presents the methodology and assessment techniques used, including the underlying assumptions, to derive the results. Chapter 3 presents an overview of remittance inflow along with projections of how the amount of inflow might be affected by the pandemic. Chapter 4 presents an analysis of how a shock to remittance inflow might affect the Nepalese economy. Chapter 5 contains policy recommendations whereas and Chapter 6 presents the conclusion.

1.2. OBJECTIVES OF THE STUDY

The aim of the second section of the study is to assess impact of COVID-19 on inflow of remittances, and in turn on the ultimate impacts on the Nepalese economy. The specific objectives are to:

1. Assess effects of the COVID-19 pandemic on employment of Nepalese migrant workers in major destination countries (abroad) and remittance inflow into Nepal.
2. Assess the effects of a reduction in remittance inflow due to COVID -19 on the Nepalese economy, particularly on macroeconomic indicators such as GDP, import and revenue, BoPs, foreign exchange reserves, savings, investment, etc.
3. Suggest alternate policy measures (with action points) for the Government of Nepal to mitigate the adverse economic effects of the COVID-19.

1.3. LIMITATIONS OF THE STUDY

This study is conducted to inform policy formulation and help mitigate the adverse economic effects of the COVID-19 pandemic. As part of this effort, the likely marginal impact on some macroeconomic indicators have been estimated using statistical methods. However, it should be noted that the focus of the study is on understanding broader trends in the relationship between variables rather than on making a precise forecast. The simple OLS regressions run to estimate correlation effects of remittances on macroeconomic variables should, therefore, be interpreted with caution, due to the indiginity among various factors associated with the remittances.

Second, the study restricts its attention to only a few key macroeconomic variables (namely, GNI, GDP, import and exports, BoPs, foreign exchange reserves, savings, etc.). While this list is by no means comprehensive, the variables selection was informed by a literature review of studies, conducted in Nepal and other South Asian countries, pertaining to remittance. It should also be noted that the macro-economic indicators' selection and analysis was constrained by the availability of data.

In the same vein, a very short duration accorded for the completion of the study and limitations caused by the lockdown has affected the data and information collection process. Nonetheless, it should be noted that a significant amount of resources and effort was put into ensuring that data and information collected is as accurate as possible.

METHODOLOGY

2.1 METHODOLOGY AND ANALYTICAL TOOLS

This study relies on a combination of literature review, descriptive statistical analysis and regression-based methods to assess the degree of impact that the COVID-19 pandemic induced shock to remittance inflow might potentially have on Nepal's economy. This section details the methods employed in this study.

a) Literature Review

Numerous reports exploring the socio-economic impacts of COVID-19 have been published since the onset of the pandemic. This study relies on information from several such reports published by the IMF, WB and OECD to substantiate the analysis and help provide a broader understanding of the situation.

b) Descriptive Analysis

This study presents descriptive statistics, such as averages, frequency tables, graphs, etc., to explain the implication of the change on remittance on selected important macro-economic variables. Historical data on trends in remittance and the targeted policy variables have also been plotted together to gain a better understanding of the trend between remittance and various policy variables.

c) Regression Analysis

In this study, a regression-based analysis is conducted using time series data on various macroeconomic indicators. The data covers a

span of 20 years from the FY 2058/59 to FY 2075/76 (FY 2001/2002 to FY 2018/2019). Simple OLS regressions are run to analyze the relationship between remittance inflow and each macroeconomic variable. The coefficients from the regressions are, then, used to calculate the impact that a shock in remittance will likely have on the policy variable (indicator) in concern. The general model used for this purpose is specified as:

$$Y = \alpha_0 + \alpha_1 * X + \alpha_2 t + \gamma * \text{Additional Control variables} + \epsilon$$

Where, Y is the dependent variable (i.e. the growth rate of the macroeconomic indicator), X is the explanatory variable (i.e. growth rate of remittance inflow, etc.) and "t" is the time trend. The additional control variables included were selected on the basis of review of literature and to isolate net effects of policy response variables from that of rest of other variables that also affect dependent variable (in question) simultaneously. .

Additionally, in dealing with time-series data it is good to test for stationarity. Regressing two non-stationary variables could lead to a spurious regression. It should be noted that all the level variables analyzed in this study were found to be non-stationary. The test results are presented in Annex Table 1. In this study, the growth rates of the variables, which were found to be stationary, have been used in all the regressions. Annex Table 2 presents the unit root test results for the growth rate of the variables.¹⁵

¹⁵ Further, the presence of a unit root in all variables of interest presents an opportunity for investigating for the existence of a stable long-run relationship (i.e. co-integration). However, the unit root testing process reveals our variable of interest, remittance inflow, is not integrated of the same order as the other variables being considered. The unit root tests were conducted using up to 3 lags. The limited number of observations constrained any further investigation. Therefore, the possibility of co-integration has not been considered in this study.

TABLE 18: CHANGE IN REMITTANCE INFLOWS

	Change in Remittance Inflow (%)	Average Monthly Remittance Inflow (in Million Rupees)
Baseline	-15.33%	60,800
Low Variant	-20%	57,445
Medium Variant	-25%	53,859
High Variant	-30%	50,268

The average monthly inflow of remittance in the three months preceding the onset of the pandemic (i.e. mid-December to mid-March) was NPR 71,812 million. The three-monthly average reduced by 15.33% to NPR 60,800 million three months into the pandemic (i.e., mid-March to mid-June). It is difficult to project the exact magnitude of reduction in remittance inflow that Nepal will face. However, it is certain that the COVID-19 pandemic induced economic slump will have an adverse impact on migrant labour demand as well as their earning potential.

Hence, the analysis in this study considers four potential scenarios:

- a baseline case assuming a 15.33% reduction in remittances,
- a low variant case assuming a 20% decrease in remittance inflow,
- a medium variant case assuming a 25% decrease in remittance inflow, and
- a high variant case assuming a 30% decrease in remittance inflow. Table 18 presents the projected average monthly remittance under each scenarios.

Similarly, the major impact of loss of remittance due to COVID-19, and alternative recovery process of economy after COVID-19 pandemic is also indicated (Annex Figure 1).

2.2 DATA SOURCES

This study relies on a combination of qualitative and quantitative data collected from both primary and secondary sources to analyze

the impact of the COVID-19 pandemic on remittance inflows and the Nepalese economy.

Primary Data: The following primary data sources were used.

- Data obtained from Key Stakeholder: Some data were obtained from selected scholars, experts, private sector, government officials and civil society members working in the remittance inflow and dynamics of foreign employment sector to supplement the data and information on the subject areas, and also to know the length and breadth of the contemporary issues on remittance.

Secondary Data: The large part of the analysis on remittance are from the secondary sources, published from various government agencies. More specifically, the following secondary data sources were utilized for deriving the results.

- The administrative data maintained by the Department of Foreign Employment (DoFE), Foreign Employment Information Management System (FEIMS), which records details on labour approvals granted.
- Data maintained by Department of Immigration on the departures and arrivals of Nepalese at the Tribhuvan International Airport.
- Nepal Rastra Bank's compilation of macroeconomic data.
- Reports and studies published by the International Monetary Fund (IMF), the World Bank (WB) and the Organization for Economic Co-operation and Development (OECD), among others.

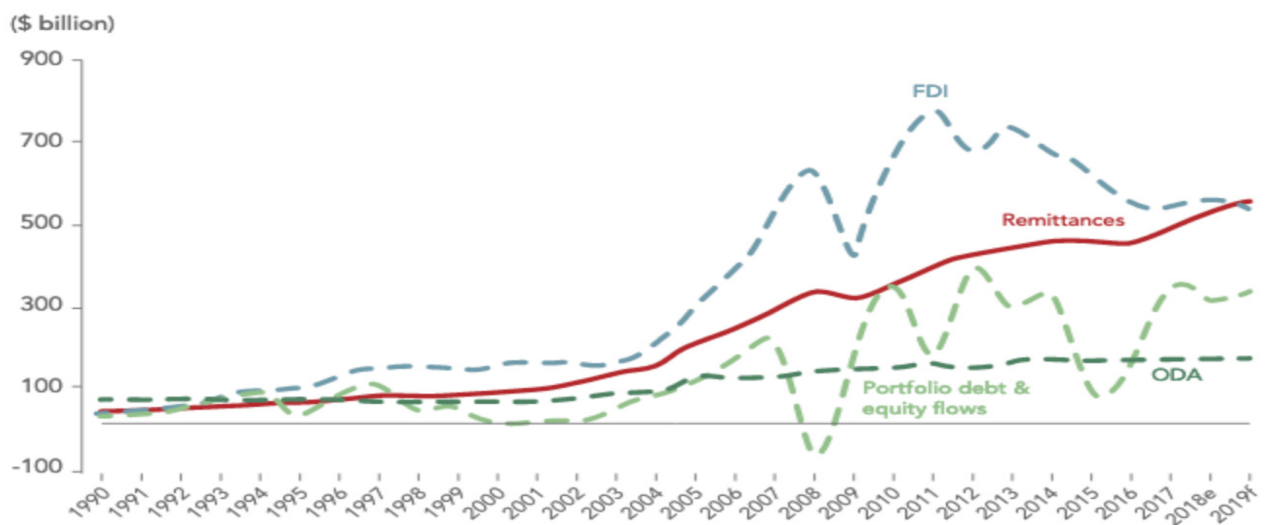
COVID-19 PANDEMIC AND ITS EFFECT ON REMITTANCE INFLOWS

3.1 GLOBAL CONTEXT

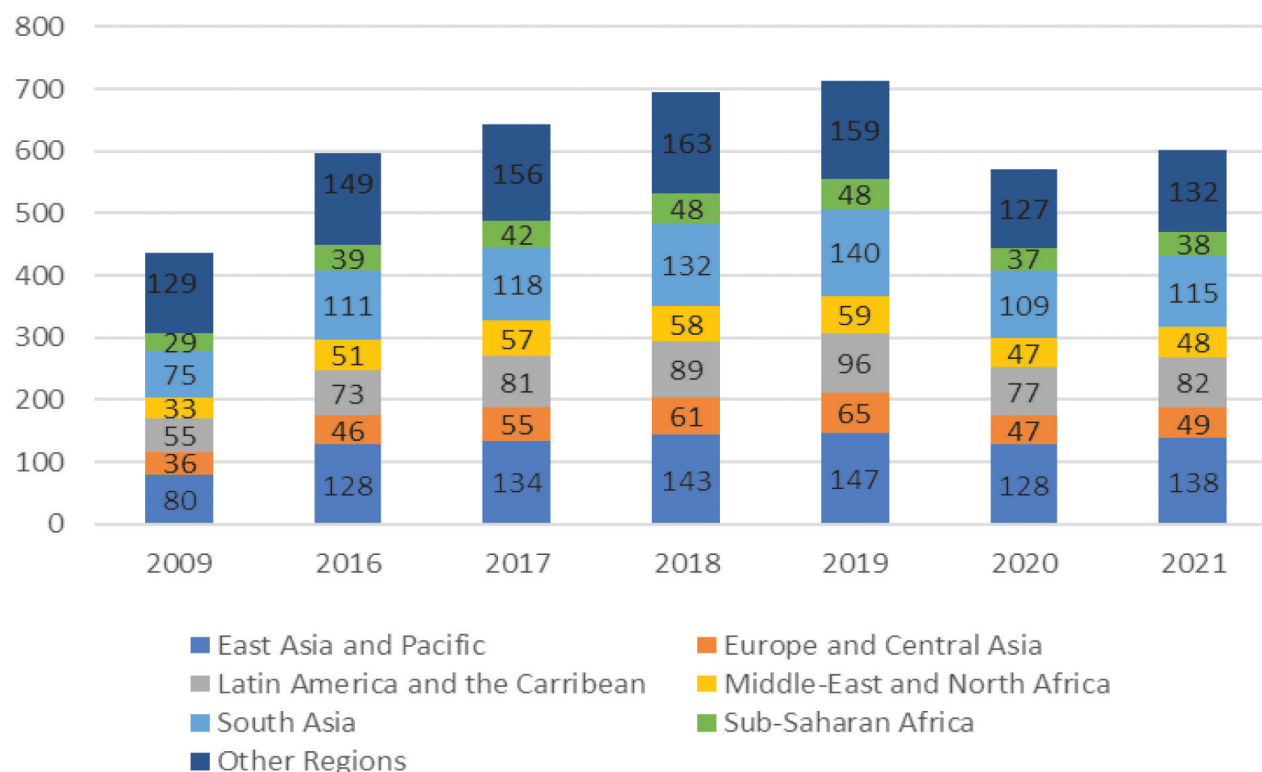
Remittance inflow is a steadily growing external source of capital for a large number of developing countries. In low- and middle-income countries (LMICs), inflow of remittance has in the last two decades been more stable than private capital flows and larger than official development assistance (Figure 27). In fact, with foreign direct investment (FDI) on a declining trajectory, remittance inflow has, in the last five years, become the largest source of foreign exchange earnings in LMICs, excluding China (WB, 2019).

As evident in Figure 28, remittance flow to countries has been on a steady increasing trajectory over time. Remittance inflow to various regions across the world increased from a total of USD 643 billion in 2017 to USD 694 billion in 2018 to a higher USD 714 billion in 2019. Moreover, this increasing trend has been pervasive in LMICs across all regions. Approximately 77.6% (USD 554 billion) of the total USD 714 billion remitted in 2019 went to LMICs. South Asia alone received USD 140 billion (around 19.6% of total global remittance) in remittances last year (WB, 2020).

FIGURE 27: REMITTANCE INFLOW, OFFICIAL DEVELOPMENT ASSISTANCE AND FOREIGN DIRECT INVESTMENT TO LOW- AND MIDDLE-INCOME COUNTRIES



Source: The World Bank (2019)

FIGURE 28: ESTIMATES AND PROJECTIONS OF REMITTANCE FLOWS TO LOW- AND MIDDLE-INCOME REGIONS

Source: The World Bank(2020)

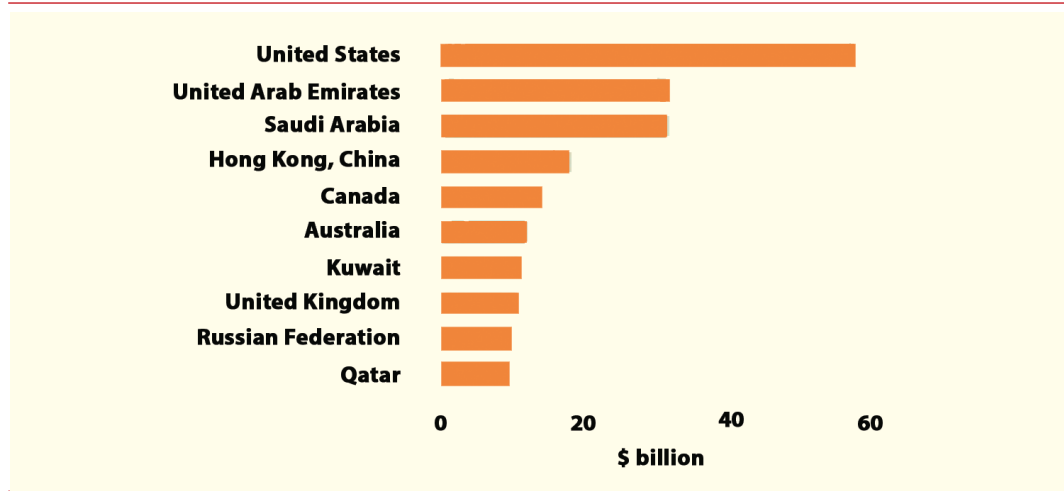
The growth rate of remittance inflow to South Asia, as with other regions in the world, has been positive over time. In fact, it almost doubled from 5.7 per cent in 2017 to 12.3 percent in 2018. This drastic increase in 2018 was attributed to the stronger economic conditions in high-income economies (particularly, USA) and strong prices for oil which is believed to have stimulated the outflow from some of the GCC countries. In 2019, the growth rate for remittance inflow to South Asia was 6.1% (WB, 2019).

Because of the slowdown in the global economy after the COVID-19 pandemic, the global remittances has been projected to decline by approximately 20% in 2020. This marks the sharpest decline in remittance growth rate in recent history. However, despite the projected decline, it is anticipated that remittances

will likely become an even more important source of external capital for LMICs, as FDI is projected to decline by an even larger 35% due to disruption in international trade and persistence of travel bans, among others (WB, 2020).

Remittance inflow to South Asian countries is projected to decline by 22% than the previous year. The economic slowdown will directly affect remittance outflow from high-income countries like the United States of America (US), United Kingdom (UK) and other European Union (EU) countries. Moreover, the falling oil prices are expected to have a negative impact on the outflow of remittance from Malaysia and the GCC countries (WB, 2020). These countries represent some of the largest sources of remittances for countries all Asian countries, at large (Figures 29).

FIGURE 29: TOP 10 SOURCES OF REMITTANCE TO ASIA 2018



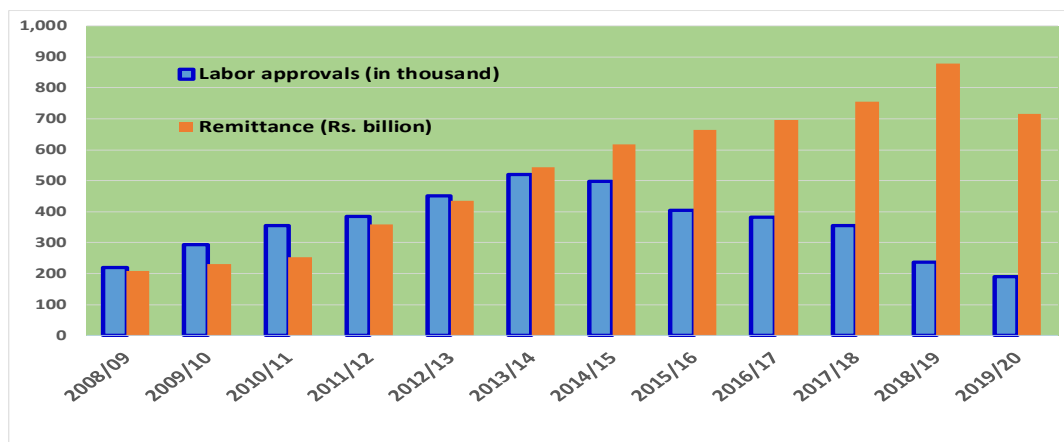
Source: ADB (2019)

3.2 REMITTANCE INFLOW PRIOR TO COVID-19 PANDEMIC IN NEPAL

Remittance inflow in FY 2000/01 was NPR 47.22 billion which is more than quintupled to NPR 253.55 billion in 2010/11 and further, more than tripled to NPR 879.27 billion in FY 2018/19 (MoLESS, 2020). Remittance has contributed positively in reducing poverty, improving human development indicators, increasing government revenue, and import levels. In fact, in Nepal the trends in consumption and savings have been very similar to the trends in increase in remittances in the last two decades.

As seen in Figure 30, despite the fall in the annual outflow of labour migrants since 2014/15, the inflow of remittance has been on a positive trajectory. This could be due to a combination of reasons, such as the rising stock of migrants abroad, the use of formal channels by an increasing number of migrants (including from countries like Korea where Hundi was more prevalent), currency depreciation against the US dollar and better earning opportunities among migrants

FIGURE 30: REMITTANCE INFLOW AND NUMBER OF PERMITS ALLOWED OVER THE YEAR (2000/01- 2019/20)



Source: Nepal Rastra Bank, 2020; <https://www.nrb.org.np/>; MoLESS, (2020); and WB (2020)

3.3 REMITTANCE INFLOW AT THE ONSET OF THE COVID-19 PANDEMIC IN NEPAL

The country received Rs. 34.5 billion remittances during between mid-March and mid-April 2020, about 55 percent less compared to the previous month of Falgun in the same year. The spread of COVID-19 and the subsequent lockdown measures to control its spread in both the destination countries and Nepal led to a sharp decline in the inflow of remittances between mid-March and mid-May. However, remittance inflow has increased significantly since mid-April, at Rs. 94 and Rs. 100.2 billion in mid-June to mid-July 2020, respectively.

The drastic increase in remittance since mid-June has been attributed to a number of factors including rise in the usage of digital remittance transfers, easing of lockdowns, reduction in informal transfers (Hundi) due to travel restrictions, and currency depreciation, as will

be discussed in greater detail in the following subsection.

3.4 REMITTANCE INFLOW AND ITS FORECAST

Using conservative estimates, the GoN had projected that remittance inflow in the FY 2019/20 would be between NPR 800-820 billion. The inflow of remittances grew at the average rate of 10.6 per annum in the last five fiscal years. This implies that, in the absence of the pandemic, remittances in the FY 2019/20 would have been approximately NPR 992.4 billion. Therefore, GoN had projected that the inflow of remittances for this fiscal year was going to be significantly lower than what it would have been in the absence of COVID-19. However, the surge in the inflow of remittance since mid-June has been unprecedented and as a result, remittance inflow in FY 2019/20 reduced by only 0.5% (Table 19).

TABLE 19: REMITTANCE INFLOW: MONTH TO MONTH COMPARISON (RS. IN MILLION)

Month	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	2071/72	2072/73	2073/74	2074/75	2075/76	2076/77
mid-Jul to mid-Aug (<i>Shrawan</i>)	42,193.50	53,272.40	51,940.20	55,552.80	73,954.20	75,401.50
mid-Aug to mid-Sept (<i>Bhadra</i>)	42,285.40	54,396.00	62,799.60	59,998.90	80,247.70	78,331.20
mid-Sept to mid-Oct (<i>Ashwin</i>)	49,711.00	58,752.70	57,057.10	60,772.00	87,969.80	76,510.50
mid-Oct to mid-Nov (<i>Kartik</i>)	46,151.40	48,966.80	60,340.90	52,626.00	70,087.20	74,722.30
mid-Nov to mid-Dec (<i>Mangsir</i>)	46,862.40	55,983.30	55,526.40	56,531.00	64,332.10	72,019.70
mid-Dec to mid-Jan (<i>Poush</i>)	48,755.70	52,321.30	54,569.30	55,062.80	66,773.30	70,273.30
mid-Jan to mid-Feb (<i>Magh</i>)	44,975.20	51,463.30	52,333.60	60,805.60	72,190.50	65,954.30
mid-Feb to mid-March (<i>Falgun</i>)	50,060.90	52,217.20	55,424.50	70,506.40	66,636.60	79,208.70
mid-March to mid-April (<i>Chaitra</i>)	55,194.40	54,312.70	61,939.90	68,521.50	70,996.60	34,500
mid-April to mid-May (<i>Baishakh</i>)	62,879.00	57,187.70	55,040.30	66,303.10	72,108.90	53,900
mid-May to mid-June (<i>Jestha</i>)	62,673.30	60,076.80	66,447.90	73,051.00	73,719.60	94,000
mid-June to mid-Jul (<i>Ashad</i>)	65,536.60	66,114.00	62,032.70	75,327.60	80,254.80	100,209
Annual Total	617,278.80	665,064.20	695,452.4	755,058.6	879,271.3	875,030.0

Source: NRB monthly publications of various months

TABLE 20: YEARLY REMITTANCE INFLOW AND FORECAST FOR FY 2019/20 AND 2020/21

2014/15	2015/16	2016/17	2017/18	2018/19	Average growth rate of past 5 Years	2019/20 Forecast	2019/20 Revised Estimate After COVID-19	2020/21 Target
2071/72	2072/73	2073/74	2074/75	2075/76		2076/77	2076/77	2077/78
in NRP billions								
617.3	665.1	695.5	755.1	897.3	10.6	992.4	800.1-820	700.2
in USD billions								
6.2	6.3	6.5	7.2	7.9	3.6	8.2	6.6 - 6.8	5.6

Source: NRB monthly publication

At the onset, of the pandemic when the stringent lockdown measures were first instituted, mobility restrictions made it impossible for many migrants to remit money. The drastic increase in remittance inflow in mid-June is most likely a consequence of the easing of lockdown measure.

The continued upsurge in mid-July, on the other hand, could be driven by a number of factors, such as easing of locked down after 2-3 months of stringent lock down measures, disruption of informal supply chain of fund flow (hundi chain) across the countries. Most importantly, it could be capturing the fact that, in this time of uncertainty, more migrants are choosing to transfer remittance using formal channels. Moreover, it has also been observed that labour migrants tend to increase the amount of money they remit during times of crisis, in a phenomenon more commonly referred to as the counter cyclicity of remittance.¹⁶ For instance, this phenomenon was observed in Nepal after the 2015 Gorkha earthquake when remittance increased by

20.9% compared to the growth rate of 3.2% in the preceding year.¹⁷ Further as many migrants have lost their jobs in destination countries, they might be transferring their savings back to Nepal prior to departing from the destination countries. It should also be noted that Nepal's currency depreciated 9.15% against the USD in mid-July (NRB 2020). Therefore, part of the increase can also be attributed to currency devaluation.

Nonetheless, a reduction in remittance inflow by 0.5%, even given that the first eight months of FY 2019/20 were spared of the economic repercussions of the pandemic, is a marked departure from its average growth rate of 10.6% per annum in the last five years. Moreover, given that many migrants have lost their jobs and the global economic slump points towards a reduction in migrant labour demand at large, remittance inflow will likely be reduced further in FY 2020/21. GoN has also set the targeted remittance inflow for FY 2020/21 at 700.2 billion (Table 20).

¹⁶ See Frankel, 2009.

¹⁷ Subedi, 2016.

TRIBHUVAN INTERNATIONAL AIRPORT



REMITTANCE INFLOW AND ECONOMIC IMPACT

4.1 GLOBAL CONTEXT

According to the IMF (June, 2020), the global economy is expected to contract by 4.9% due to the COVID-19 pandemic. While global growth is projected at 5.4% in 2021, overall, the 2021 GDP would still be some 6.5% lower than pre-COVID projections. Advanced economies have been hit harder and are projected to contract by 8%. The contraction in the emerging markets and developing economies, on the other hand, is projected at 3%. While there is substantial variation across individual economies, owing to the evolution of the pandemic, effectiveness of containment strategies, variation in economic structures, reliance on external financial flows etc., all regions are projected to experience negative growth in 2020.

As a labour exporting country, Nepal's economy is intertwined with that of the major destination countries. Hence, extent of economic and financial impacts of the pandemic on the destination countries are summarized here.

GCC: The GCC countries are expected to experience a drastic economic contraction in 2020 and in 2021 due to the pandemic related lockdown measures, business closures, travel restrictions, and supply chain disruptions

for long period. Resultantly, the retail, travel and hospitality sectors of these countries have also been devastated hard. Moreover, the drop in oil prices that was triggered by a reduced demand has also led to sharp reduction on the government revenues in these countries. In response, the governments of GCC countries have announced an economic stimulus package totaling \$97 billion (Kabbani 2020). Nonetheless, a recent IMF (2020) report predicts that the fiscal deficit in the Gulf countries will fall from 2.1% of GDP in 2019 to -10.4% in 2020 and to -8.1% in 2021.¹⁸ This economic contraction will likely force several governments in the GCC to cut back on public spending resulting in reduced public expenditure on social goods and infrastructure development. Hence, there will likely be a significant reduction in the demand for migrant labor in these countries.

Malaysia: According to a recent report by the WB (2020), Malaysia's GDP is projected to decline by 3.1% in 2020, which has already witnessed a 7.1% decline in exports of goods and services in the first quarter of the year—the largest declined in Malaysia since the financial crisis in 2009. The falling oil prices have added to the further downward pressure on government revenues. Nonetheless, the country's diversified economic structure, stable

¹⁸ Qatar's economy is projected to contract by 4.3 per cent, Bahrain's by 3.6 per cent, Kuwait's by 1.1 per cent, Oman's by 2.8 per cent, UAE's will contract by 3.5 per cent and Saudi Arabia's by 6.8 per cent in 2020. (IMF 2020).

financial system, proactive macroeconomic policies, and effective public health response place it in a better position for rapid recovery (WB 2020). Hence, the impact on the demand for labour migrants in Malaysia will likely be lower than that in the case of gulf countries (GCC).

South Korea: South Korea is one of the first countries to experience outbreaks of the virus outside of China in early 2020, however, its prompt and effective action enabled it to effectively contain the spread of the virus. The strong fiscal and monetary policy measures in its economy is projected to contract less than other developed countries in 2020 (OECD 2020). Nonetheless, South Korea's economy is projected to contract by 2.1% (IMF 2020). Moreover, the pandemic has adversely affected some key sectors such as transport, tourism, entertainment and exports. The economic slowdown in Korea is likely to have a significant adverse impact on the demand for migrant labour from Nepal.

India: The IMF (2020) report suggests that the Indian economy will contract by 4.5%

in 2020, while the WB (2020) expects the economic growth rate to fall by a lower 3.2%. This will have huge economic impact with the broad based implications. However, the Indian Ministry of Home Affairs (MoHA 2020) has identified retail, tourism and hospitality, among others, as being sectors that will likely to suffer more severely due to the pandemic, which are also the sectors that Nepalese migrant workers typically work in. Moreover, as India continues to struggle with containing the virus, the proximity and porous border also means an increased risk of cross border transmission of the virus.

Other South Asian countries: Among other South Asian countries, it is expected that Maldives will be hit the hardest given its heavy reliance on the tourism sector. WB (2020) projects that the economy in Maldives will contract by a massive 13% in 2020. Likewise, the economies of Afghanistan, Sri Lanka and Pakistan are also expected to experience significant contractions. Bhutan, Bangladesh and Nepal are the only three countries projected to have positive, albeit modest, growth rates in 2020 (Table 21).

TABLE 21: ECONOMIC GROWTH RATE PROJECTION FOR SOUTH ASIAN COUNTRIES (IN PERCENTAGE)

S.N.	Countries	2020	2021
1	Afghanistan	-5.5	1
2	Bangladesh	1.6	1
3	Bhutan	1.5	1.8
4	India	-3.2	3.1
5	Maldives	-13	8.5
6	Nepal	1.8	2.1
7	Pakistan	-2.6	-0.2
8	Sri Lanka	-3.2	0

Source: *The Global Economic Prospect Report, The World Bank (2020).*

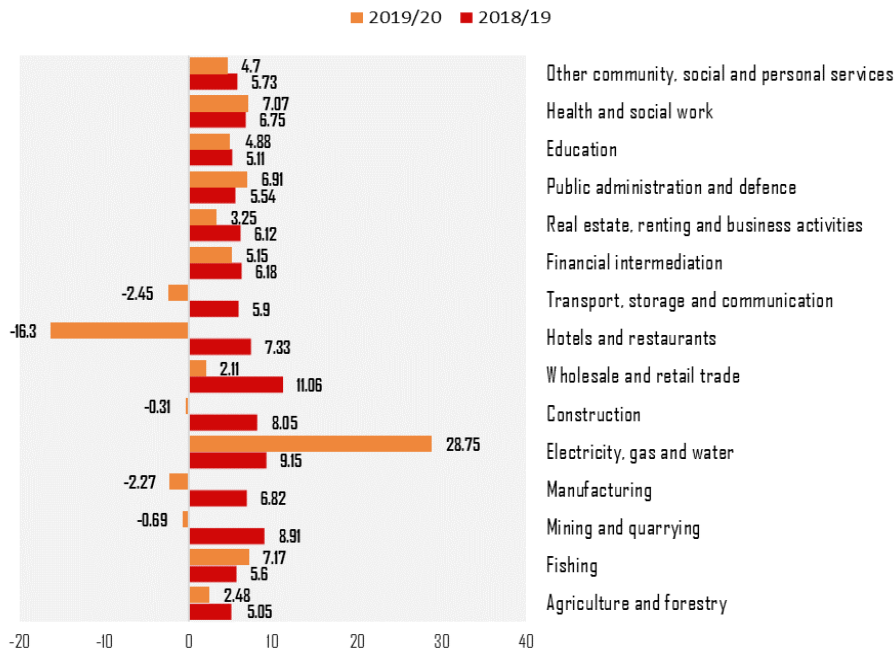
It is nearly impossible to accurately predict extent of the impact of COVID-19 pandemic on economy which will ultimately be determined by the duration of pandemic and scale of spread rate of the virus. The economic contraction in destination countries means a reduction in the demand for migrant workers which puts pressure on the already suffering Nepalese economy. But migrant workers are also engaged in sectors considered essential for an economy to function, which means demand in certain sectors will persist. While the extent of the impact on demand for migrant workers is difficult to predict, it is likely that there will be a severe slump in the economy compared to the pre-pandemic levels, which will have adverse economic costs on various sectors. However, proactive in economic planning and implementation of the stimulus policies could reduce the economic costs and suffering of the poor and vulnerable section of the society.

4.2 THE GDP GROWTH RATE SCENARIO IN NEPAL

The pandemic has affected all sectors of the economy. Growth rates have been 2.6 percentage points lower in the agricultural sector, 4.5 percentage points lower in the industrial sector and 5.3 percentage points lower in the service sector compared to the last fiscal year. In fact, the ADB (2020) has estimated that economic loss in industry will fall within the range of NPR 1.7 billion to NPR 4.2 billion, while the service sector's economic loss will be between NPR 5.7 billion to NPR 9.98 billion. It will likely that all sectors of the Nepalese economy will be affected adversely (See Annex Table 10 for GDP targets and achievements).

These effects will be particularly more severe on mining and quarrying, manufacturing, construction, hotel and restaurants and

FIGURE 31: SECTORAL GDP GROWTH RATE IN FY 2018/19 AND FY 2019/20



Source: National Planning Commission (2020)

transportation sub sectors (Figure 31). It is estimated that, the hotels and restaurants in the tourism sector will experience the largest contraction. This sector is estimated to contract by 16.30%. The transport and communication, and industrial sectors are also expected to experience large adverse effects. The transport and communication sector is projected to have negative 2.45% growth rate, the industrial sector a negative 2.27% and mining and quarrying a negative 0.69 percent growth rate, respectively. Further, it is likely that the contraction will be worsened should the lockdown be extended, and economic activities remain suspended.

However, it is likely that the agriculture sector, which comprises 27% of the GDP, will be less affected by the pandemic. Work in the agricultural sector tends to be seasonal in nature and the pandemic struck after most of the work for the FY 2019/20 had been completed. On the other hand, the construction sector, wherein most of the annual activities typically take place between April and June - will likely be contracted to sharply than in the previous year. Consumption has been restricted to basic necessities and consequently, the wholesale and retail trade sectors are likely to experience a sever contraction in 2020 than in the previous years.

Almost 50% of households in Nepal has at least one member who was either working abroad or had returned from foreign employment (CBS 2011), hence remittance is a vital source of income for Nepalese households. While

the magnitude of the economic impact of remittances in a country is determined by how recipient households choose to spend the money, these inflows do increase consumption in sectors that, in turn, have strong interlink with other economic sectors.¹⁹ Therefore, the impact of a shock to remittances will propagate through various sectors and ultimately, have a magnified impact on the entire economy (IMF 2019).

In light of the pandemic, it is paramount to assess the potential impact that the reduction in remittance inflow will likely have on the country's macroeconomic health. In this chapter, the potential impact of the pandemic on macroeconomic aggregates, i.e. on the production (real) sector, fiscal sector, and monetary and financial sector, is assessed.

4.2.1 Real Sector

Prevailing literature on the impact of remittances on economic growth remains divisive. On the one hand, remittances can contribute towards economic growth by increasing the levels of consumption, savings and investment.²⁰ On the other hand, it can put an upward pressure on the prevailing wage rate of unskilled labor and country's foreign exchange rates, which will make exports less competitive. Ultimately, it can have an adverse impact on long-run economic growth, a phenomenon more commonly known as the Dutch disease.²¹ Moreover, it can have negative effect on economic growth also via reduction on domestic labour supply and on sudden spike on the wage rates of unskilled or semi-skilled

¹⁹ In Nepal, the vast majority of households use remittance to meet their basic needs. According to the NLSS (CBS 2012), 78.9 per cent of the remittance received by households goes towards meeting daily households need. Similarly, another survey conducted by CBS in 2015/16, found that 66.5 per cent of remittance was spent on food and rent payment (CBS 2017). See Annex Tables 3 and 4 for detailed description of remittance expenditure by households in Nepal.

²⁰ For example, Ratha (2013) find that remittance have a positive impact on poverty reduction, Giuliano and Ruiz-Arraz (2009) find that it contributes towards financial deepening, and Catrinescu et al. (2009) find that it aids in institutional development. Fayissa and Nsiah (2010) found that a 10 per cent increase in remittances results in a 0.4 per cent increase in the GDP per capita growth rate in African countries.

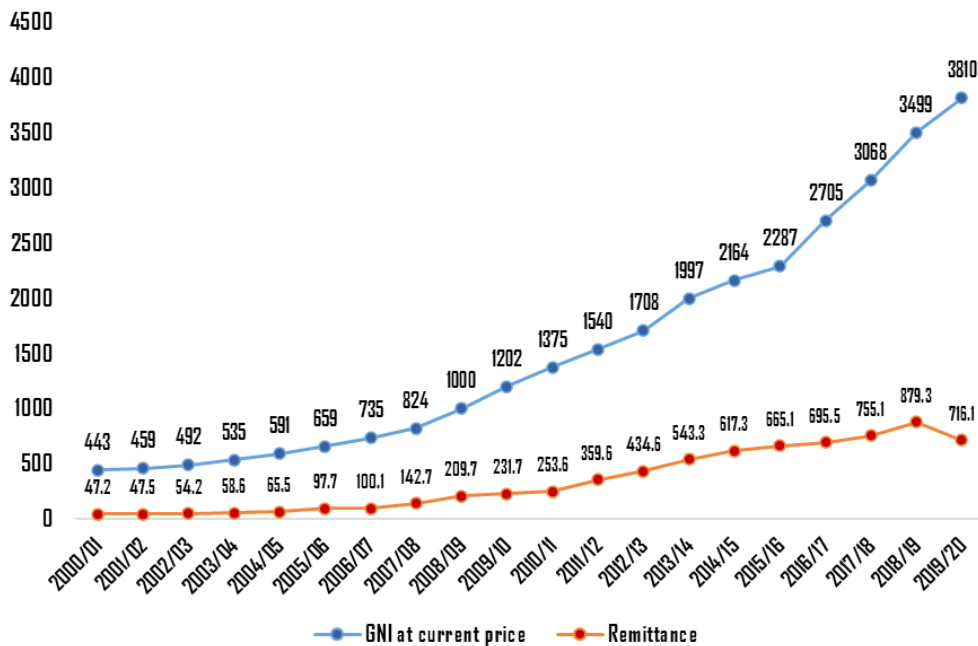
²¹ See Barajas et al. (2011), Hassan and Holmes (2013), Lartey et al. (2012), and Maklouh and Mughal (2013).

labor wage rates. In Nepal, a recent study conducted by the World Bank has reported that the out-migration for foreign employment can also affect the labour supply decisions of those members left behind (Pandera 2019) with their increased reservation wage rate for labor supply decision. In such cases, while it was found that women tend to reallocate their time from market employment to self-employment and home production, men members are more likely to decrease their overall labour supply for unskilled and drudgery kinds of work activities

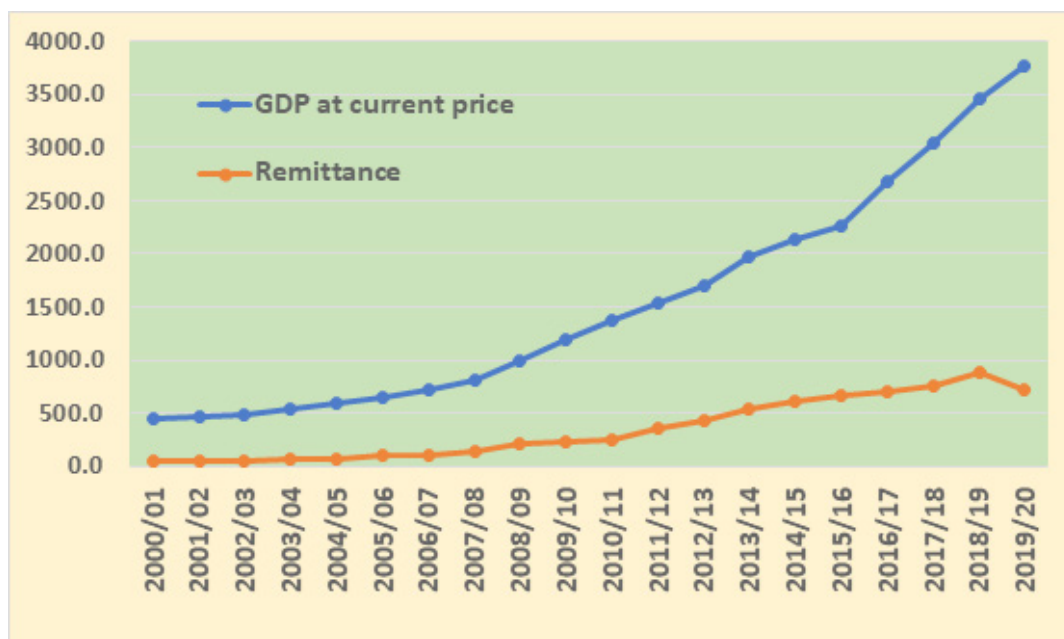
The literature on the effects of remittance inflow on economic growth in Nepal, as with elsewhere, remains inconclusive. For

instance, Sapkota (2013) finds evidence of remittance induced Dutch-disease in Nepal. Uprety (2017) finds that although remittance has stimulated consumption in Nepal, this increased demand for goods has been met by imports from the Indian markets. Moreover, large-part of the remittances have not been channeled into investment and therefore, Uprety argues that remittance inflow in Nepal has actually had a negative impact on economic growth. However, Dahal (2014), on the other hand, finds a positive relationship between remittance and entrepreneurship. The difference on findings on these studies is also due to different location –specific survey and the study methods used.

FIGURE 32: GROSS NATIONAL INCOME (GNI) AND REMITTANCE INFLOW IN NEPAL (RS. BILLION)



Sources: NRB, and CBS(2020)

FIGURE 33: GROSS DOMESTIC PRODUCT (GDP) AND REMITTANCE INFLOW IN NEPAL (RS. BILLION)

Source: NRB and CBS 2020

Nonetheless, in Nepal remittance inflow, GDP and GNI have exhibited concurrent increasing trends over time, as evident in Figures 32 and 33. The overtime rate of increase in GDP and GNI has been substantially higher than the rate of increase in remittance inflows. To empirically assess and quantify the potential impact that a negative shock in remittance will have on the real sector of the economy, the growth rates for GDP, GNI, GNI per capita and GVA were regressed against the growth rate of remittance inflow. Annex Table 7 presents the regression results.

4.2.2 Fiscal Sector

The main channel through which a shock to remittances affects the fiscal sector is through its impact on government revenue. Remittance inflows affect both consumption and investment which would have a direct bearing

on government revenue. To assess the impact that a shock to remittance inflow might have on the total government revenue, the growth rate of total government revenue was regressed against the growth rate of remittance inflow. Annex Table 8 presents the results of the regression. However, the relationship between the two variables, while positive, was not found to be statistically significant.²²

Nonetheless, there is evidence that remittance inflow can increase government revenue, particularly, in countries that have adapted the value added tax (VAT) system as remittance typically tends to be used for consumption. For example, Ebeke (2013) finds a positive effect of international remittance inflow on level and stability of government tax revenue and in Simionescu and Dumitrescu (2017) find a positive relationship between remittance and

²² It should be noted that this could be a result of data limitations. The data set used in this study only spanned 20 years making the results more sensitive to extreme values.

government tax revenue using a panel data of 74 developing countries.

In Nepal, the VAT system was introduced in 1977 and it represents an important revenue stream for the government. The undisputed link consumption and remittance in Nepal means that a negative shock to remittance will have a direct bearing on the level of consumption, which in turn will affect the revenue the government can accrue through taxes. Hence, it is likely that the COVID-19 pandemic induced reduction in remittance inflow will have a negative impact on government revenues.

4.2.3 Monetary and Financial Sector

The monetary and financial sector serves as an intermediary and facilitates in the flow of resources across various economic sectors. It enables sectors with a surplus in financial resources to lend to those that are in deficit. While studies have shown that remittances can aid in the development of the financial sector,²³ Nepal has not been able to reap the full benefits of this potential positive spill-over effect. Remittance transfers remain only just partially integrated with the financial services. Connecting migrant families to banks and other financial institutions to enhance their access to credit, securely save for the future and build credit remains a challenge (Pant 2018). Nonetheless, the trend in increase in the inflow of remittance even in the face of a decrease in number of labour migrants is indicative of a move towards better integration of remittance inflow with the formal financial sector services in the country. Moreover, the current crisis has expedited the move towards digitization of

bank services, such as remittance processing, (Shrestha 2020) which is likely to help in the long-run integration of remittance inflow with the formal financial sector in the country.

To assess the economic impact of a shock to remittances on the monetary and financial sector of Nepal, the growth rate of remittance inflow was regressed against the growth rates of broad money supply, deposits and inflation rate. While no significant relationship was found between the variables in concern (See Annex Table 8), the coefficients were found to be positive for all variables. Hence, it is likely that the pandemic induced reduction in the inflow of remittance will put a downward pressure on the broad money supply and deposits in the country.

Remittances are an important source of deposits in banks. In fact, in some banks as much as a quarter of the daily transaction conducted is related to remittance inflow.²⁴ The fear here would be that this reduction in liquid assets could push the country in the direction of a liquidity crunch which in turn could lead to a decrease in the availability of bank credit lines, increase in interest rates and result, in a magnified adverse impact on the economy as whole. Moreover, it is also important to be mindful of the potential deflationary pressures that could be induced by the shock in remittance inflow. While deflation in good for consumption, it also raises the real value of debt which in turn can reduce the availability of credit in the market and ultimately, result in an amplified negative effect on economic growth.

²³ See Rao and Hassan (2012), Cooray (2012)

²⁴ The CEO of Himalayan Bank has reported that on an average day they have around 3000 transactions of which approximately 700 are related to remittances. (Shrestha 2020)

4.3 IMPACT ON EXTERNAL SECTOR

The external sector is the most directly connected sector to the inflow of remittances. Remittances are crucial source of foreign currency, for financing imports and contribute greatly to the balance of payments. The effects of a reduction in remittance, therefore, will be felt most acutely in the external sector. The following subsections, analysis the impact of a negative shock to remittance on a) foreign exchange reserves, b) imports and exports, and c) balance of payments.

a) Foreign Exchange Reserve and Remittance

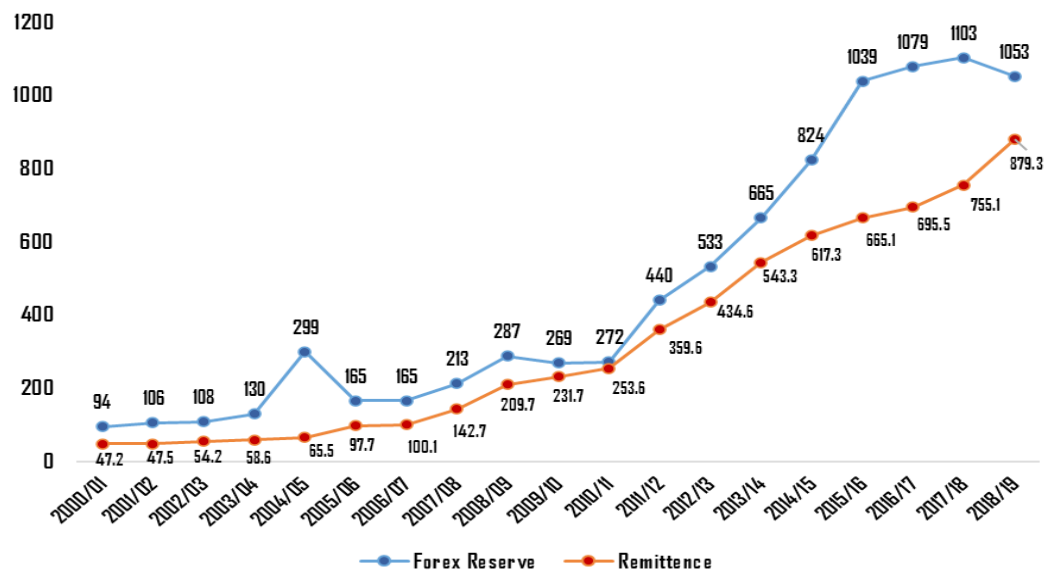
In the last 20 years, foreign exchange reserve and remittances in Nepal have had very similar

trends (Figure 34). This does not come as a surprise as remittances are a crucial source for foreign currency. Given the strong co-movement in the two variables it is reasonable to expect that the significant negative shock on remittances will adversely affect foreign reserves.

Before COVID-19

In February 2020, the country had a total foreign exchange reserve in the amount of NPR 1.136 trillion. By mid-April, it had increased to NPR 1.155 trillion. In fact, the average annual growth rate of FOREX in the past five years has been 9.6% as estimated in Table 22.

FIGURE 34: REMITTANCE AND FOREIGN RESERVE OVER THE YEARS (RS. BILLION)



Source: NRB(2029/20)

TABLE 22: SNAPSHOT OF THE FOREIGN EXCHANGE SITUATION

FY	FY	NPR (in billions)	USD (in billions)
2071/72	2014/15	824.1	6.2
2072/73	2015/16	1039.2	6.3
2073/74	2016/17	1079.4	6.5
2074/75	2017/18	1102.6	7.2
2075/76	2018/19	1052.5	7.9
Avg. growth rate of past 5 Years		9.6	3.6
Pre – COVID 19 (Forecast)			
2076/77	2019/2020	1153.54	9.5
Post – COVID 29 (Forecast)			
2076/77	2019/2020	1130	9.3
Targets			
2076/77	2019/2020	1100	8.9

After the Onset of the COVID-19 Pandemic

The sharp reduction in the inflow of remittance in mid-April (Chaitra) had a significant negative effect on the foreign exchange reserves of the country. In fact, total reserves fell from USD 9.60 billion in mid-March (Falgun) to USD 9.49 in mid-April (Chaitra). Moreover, in April 2020, foreign exchange reserves accounted for 30.7% of GDP, 78.8% of total imports and 29.6% of broad money supply. In comparison, in last July, these percentages were 30.0, 64.9 and 29.0, respectively.

Moreover, in mid-April, the country had enough in reserves to be able to import goods and services for a period of 10.7 months. For the FY 2019/20, the NRB had set the target

for accumulating enough in foreign exchange reserves to be able to sustain the import of goods and services for at least seven months. In mid-May, the amount in reserves had surpassed this target by an excess of 4 months. Table 23 presents the import capacity of forex, using number of months as the unit, for the different months between the years of 2018 to 2020.

Broadly, while reserves decreased in 2019, it has increased significantly in 2020. Although foreign exchange reserves took a hit from the sharp decline in remittances in April, overall, it is still increasing. It should be noted, however, that the value of foreign exchange reserves in terms of dollar has decreased due to the depreciation of Nepalese currency vis-a-vis the US dollar.

TABLE 23: IMPORT CAPACITY OF FOREX (IN MONTHS)

Variables/ key Macro Indicators	2018	2019	2019	2020	2020	2020
	Mid-Jul (Ashad 2074)	Mid-Mar (Falgun 2075)	Mid-Jul (Ashad 2076)	Mid-Feb (Magh 2076)	Mid-Mar (Falgun 2076)	Mid-Apr (Chaitra 2076)
Merchandise	10.8	9.1	8.9		10	10.7
Merchandise and Services	9.4	7.9	7.8	8.5	8.8	9.5

Potential Impact of a Negative Shock to Remittance Inflow

Despite having an increasing trend in trade deficit (Figure 34), the Government of Nepal has been able to accumulate a sizable foreign exchange reserve. This accomplishment is largely attributable to the phenomenon of labour migration which has resulted in a substantial inflow of foreign currency in the form of remittances. In the first three months of the pandemic alone, remittance inflow reduced by a substantial 15.33%. Hence, it is crucial to understand the implication of a negative shock in remittance inflow to forex. To so do, the growth rate of the change in forex (dependent variable) was regressed against the growth rate of remittance inflow (explanatory variable). Table 24 presents the result of this exercise.

TABLE 24: IMPACT OF GROWTH RATE OF REMITTANCE INFLOW ON THE GROWTH RATE OF FOREX

	FOREX
Remittance Inflow	1.158 (3.02)**
Time	-0.306 -0.19
Constant	-8.81 -0.33
R2	0.68
N	9

Significance Level: ***<0.01, **<0.05, *<0.1

As one would expect, there is a highly statistically significant (at the 5% level) positive relationship between the growth rates of the two variables. This implies that when the growth rate of remittance inflow increases by 1%, there is a concurrent 1.16% increase in the growth rate of the change in FOREX. This finding is used to derive the marginal

impact of the four scenarios of negative shock on FOREX presented in Table 25.

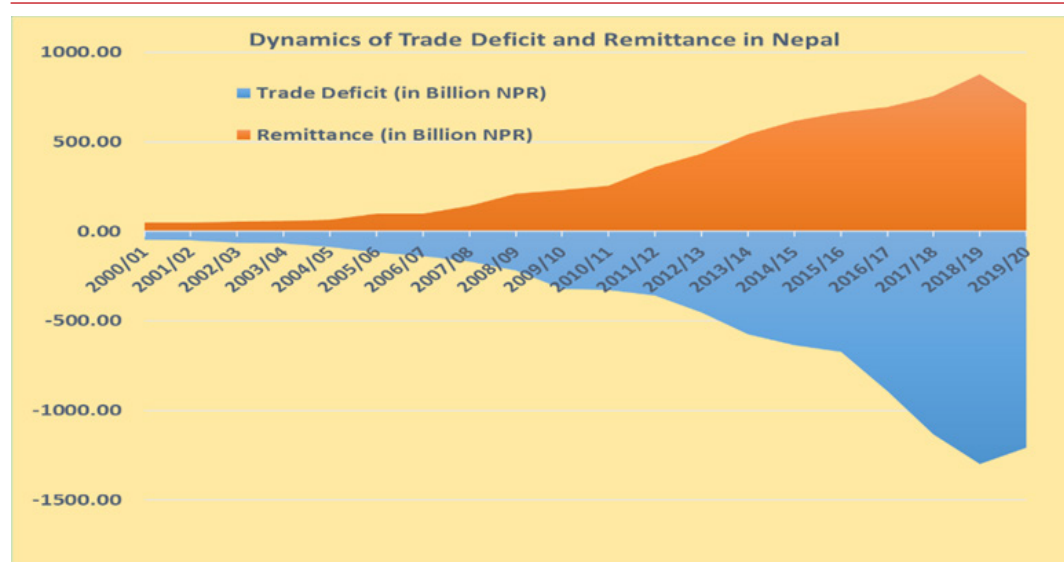
TABLE 25: IMPACT OF NEGATIVE SHOCK TO REMITTANCE INFLOW ON THE GROWTH RATE OF CHANGE IN FOREX

	Remittance Growth Rate (%)	Resulting Impact on the Growth Rate of the Change in FOREX (%)
Baseline	-15.33	-17.75214
Low variant	-20	-23.16
Medium variant	-25	-28.95
High variant	-30	-34.74

In the baseline scenario with a remittance decrease of 15.33%, the growth rate of the change in FOREX will decrease by 17.75%. This is to say that the change in FOREX between two time periods will be 17.75% lower than it would have been under normal circumstances. Similarly, in the low variant scenario, it will be reduced by 23.16%. In the medium variant scenario, it will be reduced by 28.95% and in the high variant scenario; it will be reduced by a steeper 34.74%. The cost of the pandemic induced disruption in the flow of remittances will be high for the foreign exchange reserves and this could aggravate trade deficits and wreak havoc on the balance of payments.

a) Import and Exports

Remittances increase the consumption capacity of households. Nepal imports most of its consumable goods and therefore, in Nepal, remittance inflow has been identified as a driver for increase in imports. A study conducted by the NRB established empirically that remittance inflow causes an increase in the consumption of imported consumable goods and thereby, can cause trade deficits to rise

FIGURE 35: DYNAMICS OF TRADE DEFICIT AND REMITTANCE

Source: Data sought from Nepal Rastra Bank (2020)

in the long run (Bhatta, 2013). On the other hand, the relationship of remittances with exports is ambiguous. While remittances have been found to stimulate economic activity and contribute to increased production of good and services, it can also make exports less competitive by causing the recipient country's currency to appreciate. Changes in remittance inflow, therefore, have a direct bearing on trade, particularly in the case of Nepal. In fact, as can be seen in Figure 35, in Nepal the trend in trade deficit and remittance inflow have been virtual mirror images in the last 20 year.

The results of regressing the growth rates of import and exports (dependent variables) against that of remittance inflow (explanatory variables) have been presented in Annex Table 9. While a positive relationship is found in both cases, the relationship is not statistically significant.

Nonetheless, there is a large body of evidence from Nepal that supports the existence of a positive relationship between remittance

inflow and imports, in particular (Bhatta, 2013; Uprety, 2017; Sapkota, 2012). It is generally agreed that the remittance stimulated increase in demand for consumption has been met by imports from India, in particular. The statistical insignificance of the relationship in the basic regression is likely a consequence of data limitations coupled with methodological challenges.

It is highly likely, that the level of imports into the country will drop as a result of reduced remittance inflow. The global economic slump induced by the pandemic will also likely mean reduced demand for exports. The ratio of import to exports in Nepal has been in the double digits for the last few years (approximately, 11, 13.6, 15.3, 14.6 in FY 2015/16, FY 2016/17, FY 2017/18 and FY 2018/19, respectively). This implies that Nepal has a greater reliance on imports, therefore, any reduction in earnings from exports could potentially be offset by the larger reductions in spending on imports. Hence, the negative shock to the inflow of remittance could

potentially induce a reduction in trade deficits. However, this is a question that would benefit from further empirical investigation.

d) Balance of Payments

Remittance inflow is one of the major components of the current account in the BoPs. Limited availability data coupled with non-stationarity of variables and presence of extreme anomalies rendered regression analysis meaningless for this particular variable. Nonetheless, plotting the variables together in a graph does provide some insight in the nature of the relationship between the variables of interest.

Figure 36 shows the trend in the inflow of remittance, BoPs and the current account balance. The inflow of remittance and the BoP show diverging trends. This is potentially explained by the relationship between trade deficit and remittances as discussed in the preceding section. Since the trend in inflow of remittance is virtually mirrored in the level of trade deficit, this divergence in BoP and remittance inflow makes sense. It is likely that reduction in inflow of remittance via its impact in reduction of imports will put an upward pressure on the BoP. However, on the other hand, as remittance inflow is a component of

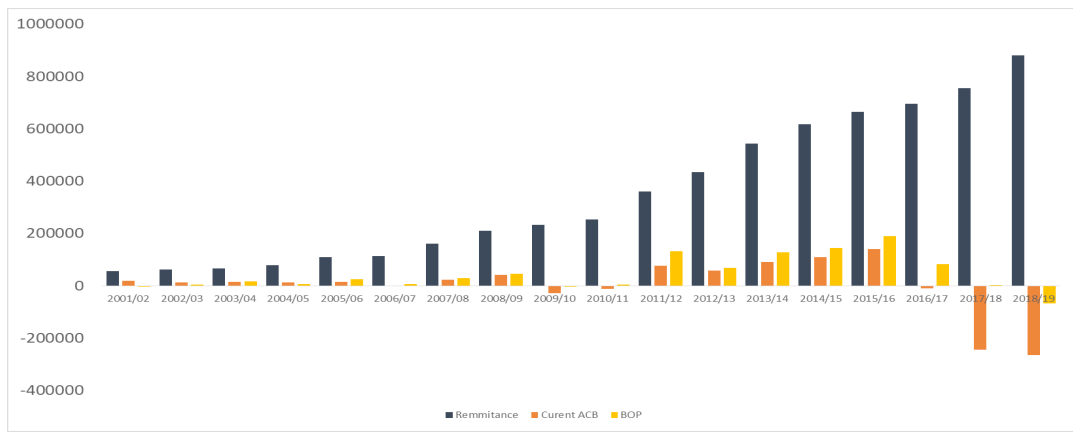
the current account a reduction in the inflow of remittance will decrease the value of the current account. Further research is required to determine the net impact that a reduction in remittance will have on the BoPs in Nepal.

4.4 IMPACT ON HOUSEHOLD SECTORS

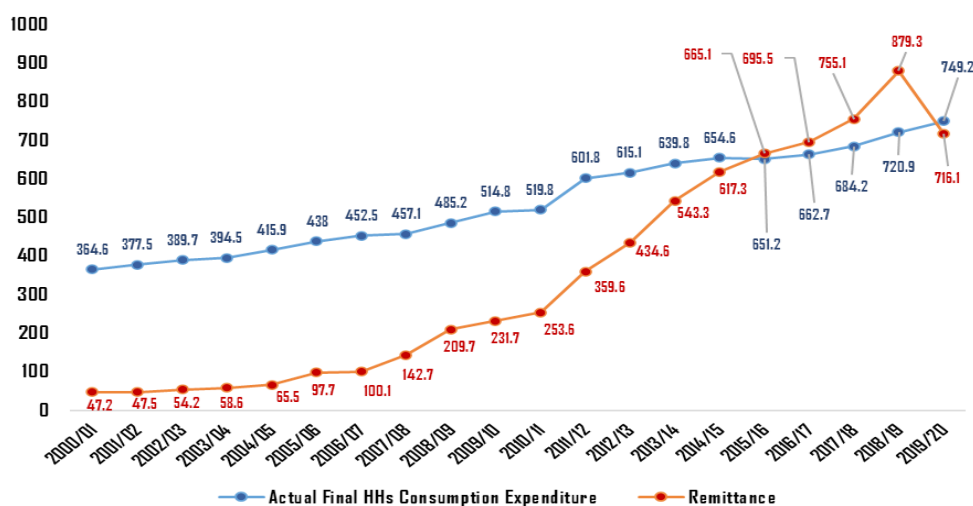
In Nepal, it is a well-established fact that remittance inflow has contributed towards poverty reduction and generally helped stimulate consumption (Thapa and Acharya, 2017; Sapkota, 2012; Lokshin 2010). It has been crucial in enabling the country to reduce poverty levels even through the decade of civil unrest. As evidenced in Figure 37, remittances and household consumption expenditure both increased over time. It is worth noting that remittance overtook final household consumption expenditure since 2015/16.

Remittance continues to be a crucial source of income for many households. Further, remittances are primarily used to sustain basic needs. An average remittance receiving household spends about 54% of their income on food, 15% on rent and utilities and 4% on

FIGURE 36: TREND IN BOPS, CURRENT ACCOUNT BALANCE AND REMITTANCE



Source: Nepal Rastra Bank (2020)

FIGURE 37: REMITTANCE AND ACTUAL FINAL CONSUMPTION EXPENDITURE OF HOUSEHOLDS (RS. BILLION)


Source: Nepal Rastra Bank, Central Bureau of Statistics (2020)

education (Table 26 for further details). Given this, a reduction in remittance inflow is going to have an adverse effect on the consumption and expenditure of remittance receiving households, which constitute a majority of households in Nepal.

To access the potential scale of impact, the growth rate of remittance inflow was regressed

against the growth rate of consumption. Table 27 presents the results and found that the growth rate of remittance inflow correlates significantly (at the 5% level) with the growth rate of consumption. Further, an increase of one point in the growth rate of remittance correlated to an increase of 0.165 in the growth rate of consumption.

TABLE 26: REMITTANCE EXPENDITURES OF HOUSEHOLDS IN 2015/16

Factors	Units	Urban Household	Rural Household	Total Sample
Avg. income of Household	Rs/hh	431,337	248,893	3,22,730
Expenditures (%)				
Food	%	44.9	59.8	53.8
Rent payment	%	18.7	9	12.9
Education Expenses	%	5.7	2.8	4
Alcohol & Tobacco	%	2.8	4.6	3.9
Durable Assets	%	8	3.7	5.5
Utility bill payments	%	2.5	1.9	2.2
Non-food items	%	17.4	18.1	17.8
Total	%	100	100	100

Source: CBS (2017/18)

TABLE 27: IMPACT OF GROWTH RATE OF REMITTANCE INFLOW ON GROWTH RATE OF CONSUMPTION

	Consumption
Remittance Inflow	0.165 (2.41)**
Time trend	0.094 -1
Constant	7.986 (3.18)***
R2	0.29
N	17

Significance Level: ***<0.01, **<0.05, *<0.1

As indicated in Table 28, extrapolating from the regression results, this implies a reduction in remittance by 15.33% could correlate to a 2.5% reduction in the growth rate of consumption. Similarly, a reduction in remittance by 20% could correlate to a 3.3% reduction in the growth rate of consumption; a reduction in remittance inflow by 25% to a 4.1% and a reduction of 30% to a reduction

of 5% reduction in the consumption growth rate. The pandemic induced reduction in remittance inflow is likely to have a significant adverse bearing on household consumption and expenditure. Further, given that majority of remittance is still used to sustain basic needs, there is a high potential that numerous households may experience a significant decrease in their standard of living.

TABLE 28: IMPACT OF REDUCTION IN REMITTANCE GROWTH RATE ON CONSUMPTION GROWTH RATE

	Remittance Growth Rate (%)	Resulting Impact on Consumption Growth Rate (%)
Baseline	-15.33	-2.53
Low variant	-20	-3.30
Medium variant	-25	-4.12
High variant	-30	-4.95

POLICY RESPONSE

The lockdown measure to control the spread of COVID-19 infections has severely affected all four sectors of the economy— real sector, fiscal, financial and external sector. It has also adversely affected the daily lives of Nepalese people. Therefore, the government has taken urgent measures to reduce the impact of COVID-19 on the economy. However, additional bold fiscal, monetary, financial and other sectoral policy measures are also required to minimize the negative impact and revive the economy as rapidly as possible. In this context, considering the immediate need for relief while also laying the groundwork for economic recovery, some of the key policy actions/responses have been suggested in Table 29 and Table 30. These recommendations are grouped into two broad categories, as follows:

- I. Immediate Policy Actions for Humanitarian Relief and Economic Stimulus
- II. Economic Recovery Policy Response

The Government should take the lead role in ensuring that the impact on production and employment generation due to COVID-19 pandemic is minimized to the extent possible.

During a recessionary period, the private sector trends to be hesitant to invest due to heightened risks and market volatility. Both Government of Nepal and the Nepal Rastra Bank have announced several fiscal and monetary measures to address the ongoing situation. However, the scale of economic devastation warrants additional sectoral measures for timely economic recovery.

It is assumed that remittance inflows will be lower in the next few years compared to the current fiscal year. In addition, the tourism sector is also expected to suffer heavy setbacks. Moreover, the transport, civil aviation, financial, real estate, construction, industry and trade sectors will also likely be negatively impacted. Therefore, reviving the economy during this difficult situation will be an enormous challenge. On the one hand, the more urgent needs to ensure the health and livelihoods of the population are necessary via bold relief and recovery measures. On the other, increasing domestic resource mobilization will be challenging due to diminished economic activities. Furthermore, the reduction in remittance will negatively impact revenue collection as well.

Given this context, it might become necessary to make up for the shortfall with increased foreign assistance, both from existing channels as well as through new partners. In order to finance the resource gap, domestic borrowing could be increased while reducing illicit financial flows. However, these resources need to be spent on productive employment generating sectors and the implementation capacity needs to be enhanced, which is not easy during a pandemic.

Against this backdrop, the following intermediate policy action items and policy response for revival of the economy are recommended to address the problem created by COVID-19 in the following policy mapping tables:

TABLE 29: IMMEDIATE POLICY ACTION ITEMS FOR HUMANITARIAN RELIEF AND ECONOMIC STIMULUS

Policy Response/ 1	Action Points 2	Lead Ministry/ Agency 3	Supporting Ministry/ Agency/Partners 4	Remarks 5
1. Arrangement to create skills and job requirements	Arrangement to fill up and submit forms with information about the migrant, including name, address, education, skills, contact number, family size, likely place of accommodation in the home country, future plans, and any other needs.	MoFA/MoLESS	Department of Foreign Employment/ Immigration office	Before departing from the foreign country, which should be collected at the airport.
2. Gradual relaxation of restrictions on economic activities and easing up of the lockdown with public safety and social distancing norms in place	Gradual relaxation of the lockdown while maintaining Social Distancing at work and instituting a strict monitoring mechanism.	The Cabinet	Other respective ministries/ provinces/local government and the private sector	Government has already initiated these steps but awareness among people is required.
3. Supporting the agricultural sector in production, marketing, storage and transport, as a core part of reducing reliance on imports	Boosting food production and supply to the market needs to be prioritized in coordination with the private sector.	MoAL/ MoICS	Other related ministries/ local government and farmers' association	
4. Encourage the expansion of on-line activities and make them more reliable, including with regards to processing labor permits and remittance inflows	Online payment system of various sectors needs to be made more effective and reliable.	MoCIT	-NRB/Nepal Telecom, Other related ministries/ and other private sector communication related companies	
5. Relief, facilitation and stimulus package needs to be announced for various sectors	Provide relief packages for those who have lost their jobs, vulnerable communities and also for the private sector prioritised on the basis of need.	MoF/NRB	-Other related ministries/ Provincial and the Local Government	Some of relief measures have already been announced by the Government.

TABLE 30: POLICY RESPONSE FOR REVIVAL OF THE ECONOMY

Policy Response	Action Points	Lead Ministry/ Agency	Supporting Ministry/ Agency/Partners	Remarks
Fiscal Measures:				
Government budget and programs to focus more on employment generation.	All development programs should clearly specify how employment opportunities- direct and indirect- are going to be generated by the program and projects	MoF/NPC	MoLESS and other respective ministries	
Maintain macroeconomic stability.	Increase in domestic borrowings and using it for employment generation and production growth	MoF/NRB	NPC and other related ministries	Private sector investment is likely to be less than before.
Reform in Fiscal sector to mobilize more resources and ensure effective public expenditure	Need to form a review team for the fiscal sector to study required reforms in policy and programs in the revenue, expenditure and debt sub-sectors.	MoF/NPC	NRB and other related ministries	
	Widen revenue coverage			
Need to improve the investment climate	Doing business indicators and other indicators needs to be reviewed and appropriate action suggested.	MoF	Other related ministries and the private sector	
	Administrative procedures should be simplified.			
Review the relief package for micro and SMEs, including interest subsidy to all the affected sectors.	Periodic review of relief packages to the SMEs and other sectors covering the adequacy and effectiveness of such relief packages in consultation with the related stakeholders.	MoF	MoICS and private sector	
Re-prioritize ongoing programs and projects. .	Update project re-prioritization criteria of new and on-going projects based on the present need of the economy	NPC	MOF and other sectoral ministries/ province and local government	
Revision of capital expenditure category	Redefine capital expenditure and increase capacity to improve capital spending to achieve expected outcomes	MoF	NPC/CBS	At present there is confusion about the precise nature of capital expenditure
Increase absorption capacity to increase government investment	Revise the procurement act, and monitoring and evaluation system	MoF/NPC	All the respective ministries and private sector companies	
Focus on programs and projects that are near completion	More focus should be given to those projects and programs which are near completion by allocating budget and conducting proper monitoring and supervision of the entire activities.	NPC/MoF	All the sectoral ministries including province and local government	This will help to increase GDP, investment and employment.

Policy Response	Action Points	Lead Ministry/ Agency	Supporting Ministry/ Agency/Partners	Remarks
Increased efforts to mobilize multilateral aid for stimulus programs and other important projects.	More external resources in the form of grants and loans by using economic diplomacy and other measures	MoF	NPC, MoFA and all the relevant ministries	
Strengthen M & E mechanism to ensure effective budget implementation.	Effective M & E for result based budget allocation and to improve output and outcomes	MoF/OPMCM	All respective ministries/ province and local government	
Establish a fund for relief and effective recovery package.	All the related funds should be identified and ensure coordination to reduce duplication and increase quality of relief and recovery efforts	MoF	All the relevant ministries	Government has initiated activities in this direction
Monetary and Financial Measures				
Some expansionary monetary policy is required for a “V-shaped” economic recovery	Expansionary monetary instruments of the central bank such as bank rate, open market operations etc. to increase liquidity in the banks and financial institutions	NRB	NPC/MoF	During the recession period, in order to revive the economy more government expenditure is needed
Seed money, interest subsidy, entrepreneurship training and skill training is to be provided for starting small-scale new enterprises,	Provide group guarantees bank loans and other forms of support to unemployed youths and local entrepreneurs interested in setting up of self-employment schemes, and opening small enterprises, small business, etc.	NRB/ banks and financial institutions	MoF/ other related ministries and the private sector	
Review the interest rate subsidy to enhance its effectiveness in promoting business and industry	Periodic review of the adequacy and effectiveness of interest rate subsidy in consultation with the private sector	NRB	MoF / private sector institutions	
Ensure that the private sector is able to avail of concessional credit facilities.	Monitoring and evaluation of the credit facility needs to be in place	NRB	Banks and financial institutions/private sector institutions	
Balance of Payments and Exchange Rate Measures				
Focus on maintaining a favourable BOP by encouraging exports	Need to identify probable exportable items and required incentives for enhancing exports	MoF/MoICS	Other related ministries/ private sector institutions or organizations	
Review the current exchange rate system with the Indian currency	Established a review team for a detailed study of the exchange rate system needs to be done looking at its implication in the economy.	NRB	MoF/NPC	To establish a competitive exchange rate with the Indian currency

Policy Response	Action Points		Lead Ministry/ Agency	Supporting Ministry/ Agency/Partners	Remarks
Need to provide special facility to selected import-substitution industries and agricultural products.	Review performance of import substituting items and identify required measures and provide the facilities as needed.		MoICS	MoALD/ private sector organization	
Facilitated curtailing luxurious imports, and increasing domestic production.	Identify less inessential imported items and implement disincentive measures.		MoICS	Relevant ministries/ private sector organization	
Other Sectoral Policy Measures including Employment Policy					
Adopt employment centric policy and programs to generate more employment opportunities that can absorb the unemployed population.	Revise the existing Employment Policy to make it more employment generating and employment centric. Private sector also needs to be encouraged by initiating new labor-intensive businesses domestically.	MoLESS	All the ministries at the federal and provincial level and local government/ private and cooperative sectors/ development partners and NGOs		
Internal production needs to be increased in different sectors to become a self-reliant economy in the near future, at least with regards to some of the agricultural items.	Production growth promoting policy needs to be adopted and budget needs to be allocated accordingly	MoALD/ other production related ministries	All the relevant stakeholders, the private sector and farmers		
Need to support farmers with some subsidy for transportation of agro-products.	Projects and activities needs to be introduced in order to support farmers with subsidies for transportation of agro-products, and harvesting as well as the planting of crops	MoALD/MoF	Farmers and private sector		
Skills testing and certification programme to be introduced targeting the skills of returnees	Target all who acquired some sort of skill (technical and managerial) while working abroad, and provide them with certification so that they can easily find employment in local industries.	MoLESS	MoICS and other related ministries/private sector		
Adoption of policy and programs that promote self-employment for returnee migrant workers.	Commercial agriculture, micro enterprise activities, start-up grant to be initiated at LGUs and Govt. level targeting the needs of returnees. Company act and other regulatory reforms to be done (VAT registration exemption, etc.) so that new entrepreneurs can easily open their own business activities.	MoLESS	NPC/MoF and respective ministry.		
Create economic environment such that existing industries and factories can be kept running at it's full capacity.	Institute measure that help absorb more workers, including those unemployed due to COVID-19, in the existing job markets.	MoICS	MoF/NPC/MoE/MoLESS		

Policy Response	Action Points	Lead Ministry/ Agency	Supporting Ministry/ Agency/Partners	Remarks
Employment generation training programs to be rolled out rapidly across the districts.	Employment generation program should be streamlined. MEDPA should be expanded in all the districts. Employment generating training programs needs to be revisited to strengthen its link with actual employment.	MoICS/ MoLESS	Respective ministries.	
Incentive package for the tourism industry.	Some incentive mechanism specially designed for the tourism sector needs to be initiated.	MoCTCA	MoF/MoLESS	Because of COVID-19, tourism industry is one of the hardest hit sectors

CONCLUSIONS AND WAY FORWARD

The COVID-19 pandemic has caused a global recession, its adverse effects across the various sectors of the economy will be continued to be felt by the society in many years to come. For a remittance based economy and migrant origin country like Nepal, the pandemic has created a situation of double peril. As the country is struggling to keep domestic economic activities afloat, Nepal also has to deal with the mass repatriation of its foreign labour migrant population coming from the destination countries, and prepare for the economic repercussions, therein. As a result, hundreds of thousands of Nepalese citizens have already lost their jobs at destination countries, when this report is being finalized, while future demand opportunities of migrant employment are also expected to shrink sharply due to the economic toll of the pandemic in the destination countries. Consequently, remittance inflow in the country will likely be adversely impacted in the coming few years, unless there is new source of remittances emerge such as informal channel of remittance is diverted to the formal channel of entry, change on fund flow in hundi systems of transaction, change on banking policies and regulations in other countries, etc.

In this report, the economic impact of a negative shock to remittance has been studied to provide effective policy recommendations. Remittance inflow is an important source of income for Nepal and it has links to all

aspects of the economy. It affects the real and financial sectors of the economy through its positive effect on consumption, investment and savings. It is a crucial source of foreign currency and hence, has a direct bearing on the external sector. Moreover, remittance inflows account for a significant proportion of bank transactions in the country and hence, have strong links with the monetary sector. All sectors of the economy are likely to experience an adverse effect from a negative shock to remittance.

The Government has taken some necessary immediate actions and measures to reduce the impact of the COVID-19 on the economy. However, additional effective fiscal, monetary, financial policies and other sectoral policy measures are also required to mitigate and minimize the negative impacts and revive the economy rapidly. In this context, considering the immediate needs for relief, and facilitation of recovery of the economy, some key policy actions/responses have been suggested based on a detailed analysis. These recommendations have been grouped into two broad categories, namely, Immediate Policy Actions or Response for Relief and Stimulating the Economy, and Economic Recovery Policy Response or Action. The implementation of efficient policy measures in this time of crisis is crucial to protect the poor and vulnerable sections of the society, and reviving the economy rapidly.

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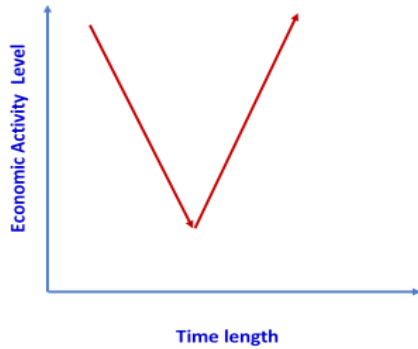
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ANNEXES

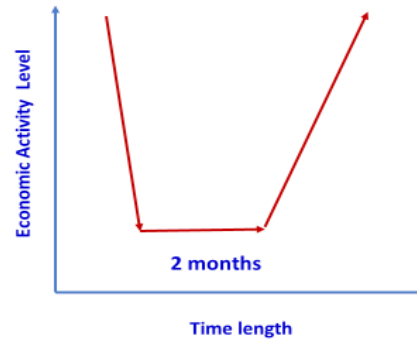
ANNEX FIGURE 1. MAJOR ALTERNATE SCENARIO OF RECOVERY PROCESS OF ECONOMY AFTER THE COVID 19 PANDEMIC.

Major impacts of Loss of Remittance on Nepalese Economy due to the COVID 19- with 3 scenarios

1) Scenario A- with V shaped recovery in the economy of the destination countries



2) Scenario B- with U shaped recovery in the economy of destination countries



Major impacts of Loss of Remittance on Nepalese Economy due to the COVID 19- with 3 scenarios

3) Scenario C & D with trapped recession for longer period



Note:

- a) How long the economy gets trapped at the recession, will lead to the net adverse impacts in the economy as well.
- b) In case of Nepal, the recovery process of Nepalese economy depends upon, how fast the economy of golf countries, the economy of India, the economy of ASEAN countries get recover from the COVID 19 pandemic ?
- c) Since, over three million Nepali workers (all types) abroad (in Gulf, Malaysia, South Korea, Japan, and India), who are sending remittance money income into their families.

Source: Developed by the study team (2020)

ANNEX TABLE 1: AUGMENTED DICKEY-FULLER UNIT-ROOT TEST RESULTS

	No lag			lag(1)			lag(2)			lag(3)		
	N	Zt	p-value	N	Zt	p-value	N	Zt	p-value	N	Zt	p-value
Per capita GNI	17	0.512672	0.985253	16	0.15105	0.969379	15	0.265812	0.97572	14	0.076152	0.964395
Consumption	17	6.893531	1	16	2.184515	0.99887	15	1.551548	0.997705	14	0.809866	0.991794
Remittance	17	2.895059	1	16	1.529276	0.997629	15	1.463682	0.997385	14	1.643558	0.997983
Export	17	-0.55291	0.881271	16	-1.02812	0.742872	15	-0.55214	0.881435	14	-0.45078	0.901269
Import	17	4.151751	1	16	2.29772	0.998954	15	4.683014	1	14	3.703044	1
Total Govt. Revenue	17	13.30772	1	16	3.211696	1	15	4.251393	1	14	2.634138	0.999081
Broad Money Supply	17	15.93528	1	16	3.661134	1	15	1.995198	0.998667	14	0.793645	0.991533
FOREX reserve	10	-0.53681	0.88463	9	-1.60386	0.481655	8	-2.33487	0.160968	7	-1.39149	0.58635
Deposit	12	3.902001	1	11	2.417908	0.999018	10	2.090012	0.998779	9	1.726368	0.998191
Inflation	17	-2.37008	0.150359	16	-1.87363	0.344564	15	-1.57783	0.494719	14	-1.27891	0.638767
GVA	17	5.704602	1	16	2.882602	1	15	2.905095	1	14	1.584373	0.99781
GNI	17	6.509138	1	16	3.34407	1	15	2.772624	1	14	1.805605	0.99836
Real GDP	17	3.399643	1	16	2.480815	0.999043	15	2.452146	0.999033	14	3.312956	1

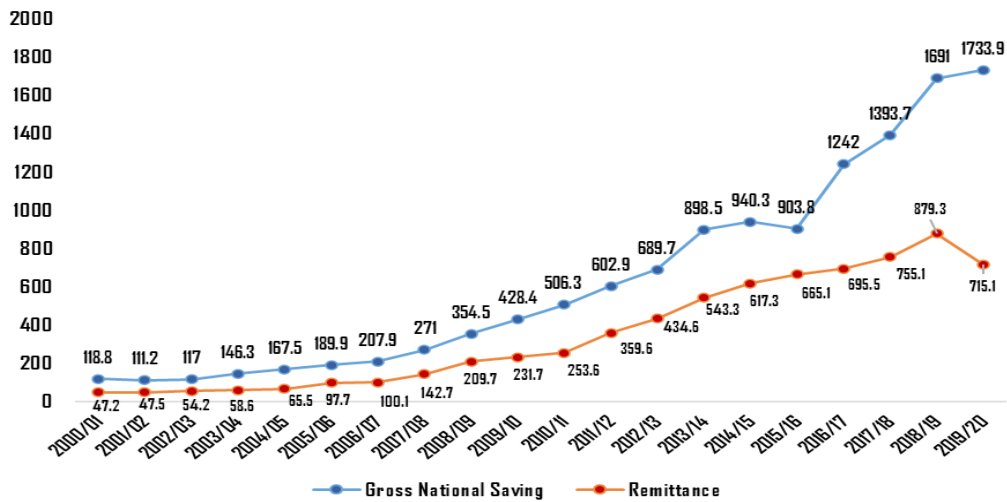
Notes: Ho: Variable contains a Unit-Root. This null hypothesis is only rejected twice. The cases where it is rejected has been highlighted.

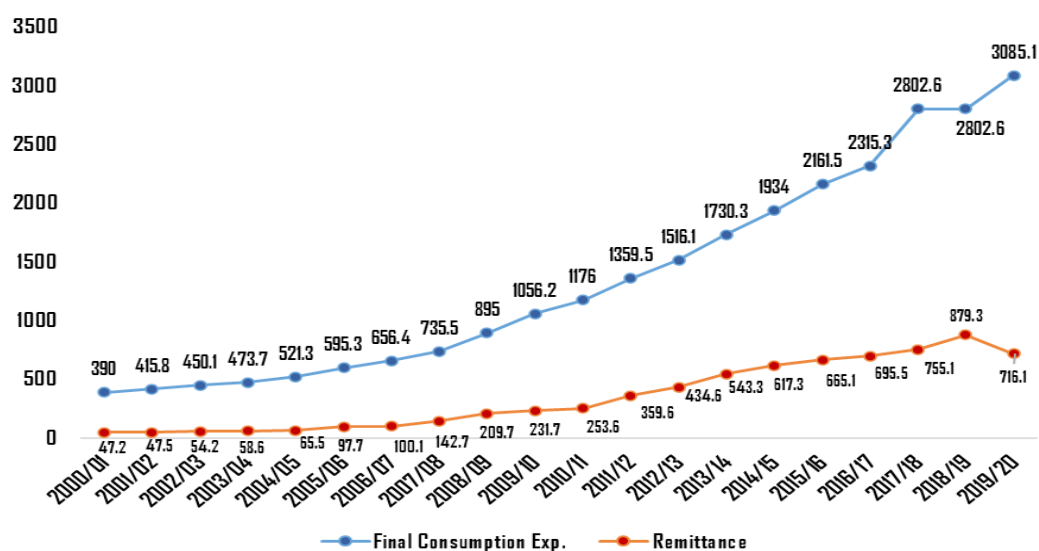
ANNEX TABLE 2: AUGMENTED DICKEY-FULLER UNIT-ROOT TEST ON GROWTH RATE VARIABLES

	N	Zt	p-value
GNI per capita	16	-3.73204	0.003684
Consumption	16	-2.56732	0.099941
Remittance Inflow Inflow	16	-4.06045	1.13E-03
Export	16	-3.75415	0.003413
Import	16	-3.61004	0.005572
Total Government Revenue	16	-3.08969	0.027326
Broad Money Supply	16	-3.12921	0.024466
FOREX reserves	9	-2.37614	0.148584
Deposit	11	-2.51488	0.111896
Inflation	16	-5.00624	0.0000216
GVA	16	-3.02727	0.032425
GNI	16	-3.09708	0.02677
Real GDP	16	-3.44273	0.009586

Notes: Ho: Variable contains a Unit Root. This null hypothesis is not rejected for the growth rate of BOP, CPI, Foreign Exchange Reserve, Deposit and Agricultural growth rate. These cases have been highlighted.

ANNEX FIGURE 2 REMITTANCE AND GROSS NATIONAL SAVING (IN BILLION RS.)



ANNEX FIGURE 3 REMITTANCE AND FINAL CONSUMPTION EXPENDITURE (RS. BILLION)

ANNEX TABLE 3: REMITTANCE EXPENDITURES OF HOUSEHOLDS IN 2015/16

Factors	Units	Urban Household	Rural Household	Total Sample
Avg. income of Household	Rs/hh	431,337	248,893	3,22,730
Expenditures (%)				
Food	%	44.9	59.8	53.8
Rent payment	%	18.7	9	12.9
Education Expenses	%	5.7	2.8	4
Alcohol & Tobacco	%	2.8	4.6	3.9
Durable Assets	%	8	3.7	5.5
Utility bill payments	%	2.5	1.9	2.2
Non-food items	%	17.4	18.1	17.8
Total	%	100	99.9	100.1

Source: CBS 2017.

ANNEX TABLE 4: REMITTANCE EXPENDITURES OF HOUSEHOLDS IN 2011

Factors	Units	Avg. HH expenditure
Avg. income of Household	Rs/hh	80,436
Expenditures (in%)		
Daily households need	%	78.9
Loan payment	%	7.1
Education Expenses	%	3.5
local business	%	0.5
Durable Assets	%	4.5
Saving	%	0.6
Others	%	2.5
Capital formation	%	2.4
Total	%	100

Source: NLSS – 2010/11, CBS 2012.

ANNEX TABLE 5: GNI AND REMITTANCE IN NEPAL HISTORICAL PERSPECTIVES (2000/01-2019/20)

Fiscal Year	GNI at current price (in Rs Billion)	Remittance (Rs. In billion)	Remittance Growth rate in%	Remittance to GNI Ratio
2000/01	443	47.2		10.6
2001/02	459	47.5	0.64	10.4
2002/03	492	54.2	14.11	11
2003/04	535	58.6	8.12	11
2004/05	591	65.5	11.85	11.1
2005/06	659	97.7	49.05	14.8
2006/07	735	100.1	2.51	13.6
2007/08	824	142.7	42.48	17.3
2008/09	1,000	209.7	46.97	21
2009/10	1,202	231.7	10.5	19.3
2010/11	1,375	253.6	9.42	18.4
2011/12	1,540	359.6	41.81	23.4
2012/13	1,708	434.6	20.87	25.4
2013/14	1,997	543.3	25.02	27.2
2014/15	2,164	617.3	13.62	28.5
2015/16	2,287	665.1	7.74	29.1
2016/17	2,705	695.5	4.57	25.7
2017/18	3,068	755.1	8.57	24.6
2018/19	3,499	879.3	16.45	25.1
2019/20	3,810	716.1	-18.56	18.8

Source: NRB, and MOF, Govt. of Nepal

ANNEX TABLE 6: IMPACT OF REMITTANCE GROWTH RATE ON MACROECONOMIC INDICATOR GROWTH RATES

	Real GDP	Real GDP	GNI	GNI	GNI per capita	GNI per capita	GVA	GVA
	(1)	(2)	(3)	(4)	(5)	(6)	(8)	(9)
Remittance Inflow	0.019	0.037	0.05	0.03	-0.193	-0.239*	0.04	0.1
	-0.55	-1.36	-0.6	-0.4	-1.27	-1.86	-0.5	-0.6
Time trend	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Controls	No	Yes	No	Yes	No	Yes	No	Yes
R2	0.15	0.59	0.07	0.37	0.13	0.52	0.04	0.2
N	17	17	17	17	17	17	17	17

Significance Level: ***<0.01, **<0.05, *<0.1

Note: The controls used for the regressions include a proxy measure for trade openness (ratio of sum of exports and imports to real GDP) and gross capital formation as a percentage of GDP. These variables have been included to control for other potential drivers of growth.

ANNEX TABLE 7: EFFECT OF GROWTH RATE OF REMITTANCES ON GROWTH RATE OF TOTAL GOVERNMENT REVENUE

Remittance Inflow	0.063
	-0.46
Time trend	0.557
	-1.55
Constant	11.637
	(2.31)**
R2	0.15
N	17
	Total Revenue

Significance Level: ***<0.01, **<0.05, *<0.1

ANNEX TABLE 8: IMPACT OF REMITTANCE INFLOW GROWTH RATE ON THE MONETARY AND FINANCIAL SECTOR

	Broad Money Supply (growth rate)	Deposits (growth rate)	Inflation Rate (growth rate)
Remittance Inflow	0.199	0.017	0.488
	-2.08	-0.92	-0.68
Time trend	0.456	0.017	-1.028
	-1.82	-0.26	-0.55
Constant	9.649	0.603	8.263
	(2.75)*	-0.58	-0.31
R2	0.32	0.11	0.06
N	17	10	17

Significance Level: ***<0.01, **<0.05, *<0.1

ANNEX TABLE 9: IMPACT OF REMITTANCE INFLOW ON IMPORT AND EXPORTS

	Import	Export
Remittance Inflow	0.16	0.329
	-0.88	-1.66
Time trend	0.5	0.587
	-1.05	-1.13
Constant	8.581	-8.26
	-1.29	-1.13
R2	0.1	0.2
N	17	17

Significance Level: ***<0.01, **<0.05, *<0.1

Annex Note 1

COVID-19 Pandemic: Government Initiatives and Policy Response

Government Initiatives and Policy Response

The GoN took various actions and initiatives to control the spread of the corona virus even prior to the lockdown of the economy. Acting rapidly, the government conducted research and commenced preparation for the crisis. It implemented an awareness program and since Chaitra 11, 2076 lockdown measures have been adopted. These measures are still in place till date, although the government relaxed some aspects to increase economic activities. Containment measures imposed include a nationwide lockdown, a ban on domestic and international flights, and a closure of land border crossings. The following is a list of some of the other key measure taken by the GoN:

A1) Some Key Policy Responses Taken by the Government as of May 21, 2020 are:

Fiscal measure:

In March 30, 2020, the GoN increased the health spending by providing additional insurance coverage to all medical personnel fighting the coronavirus, importing additional medical supplies (with duty on said items eliminated), and setting up quarantine centers and temporary hospitals. Social assistance was strengthened by providing those most vulnerable with daily food rations, subsidizing utility bills for low-usage customers, extending tax-filing deadlines, and taking measures to partially compensate those in the formal sector for lost wages in the event of job loss.

In April 26, 2020, the GoN announced that informal sector workers who have lost their jobs due to the ongoing crisis will be given the opportunity to participate in public-works

projects for a subsistence wage or receive 25% of local daily wage should they choose not to participate.

Monetary and Financial Measures:

- In March 29, 2020, to provide liquidity to the financial system, the Nepal Rastra Bank (NRB) lowered its cash reserve ratio from 4 to 3% and reduced the interest rate on the standing liquidity facility rate from 6 to 5%. The NRB is no longer requiring banks to build up the 2% countercyclical capital buffer that was due in July 2020.
- The NRB temporarily relaxed reporting norms and announced that bank and financial institutions will not be charged or penalized for their non-compliance with regulatory and supervisory requirements in April. The size of the Refinance Fund has been increased to provide subsidized funding for banks willing to lend at a concessional rate to priority sectors including small and mid-size enterprises affected by the pandemic.
- In April 29, 2020, the NRB announced that banks will defer loan repayments due in April and May until mid-July. For working capital loans, banks will extend the repayment schedule of the amount due during the lockdown for up to 60 days.
- Businesses in affected sectors, if they can show the need, can qualify for additional working capital loans of up to 10% of the approved amount of their existing working capital loans, to be repaid within a year at most.
- The NRB directed banks to apply lower interest rates (up to 2 percentage points) when calculating the interest due for the

period of mid-April to mid-July, applicable to borrowers from affected sectors.

Exchange Rate and Balance of Payments:

- On April 1, the NRB imposed a temporary ban on luxury goods imports, such as gold over 10 kg and vehicles worth over USD 50,000, and will temporarily provide a minimum currency exchange facility to qualifying students abroad (less than USD 500 per student).
- For the relief package, the government has issued an order to the respective sectors, including local and provincial authorities, to provide relief to affected persons and sectors. These Local Governments are distributing the relief packages to those poor and vulnerable people who lost their jobs and were already living under precarious financial conditions.

A2) In 24 May, 2020, the Rt. Hon. Prime Minister KP Sharma Oli addressing the nation announced the following initiatives, relief, incentive and recovery measures:

- The testing of COVID-19, which started from a single laboratory, has been extended to all seven provinces. There are currently more than 20 laboratories in operation. In order to expand the scope of testing, kits and medicines will be provided at a faster pace and it will be further improved, as soon as possible. The government plans to expand testing to at least 2% of the population, according to expert advice.
- Cooperation between the federal government and the provinces will be made more effective to enable each local level government to combat COVID-19 and maintain health security, health care, supply of basic commodities and maintain law and order. In particular, partnership will be promoted to enable the local level

government to better facilitate quarantine management, relief distribution, supply system management and monitoring.

- Initiative will be taken to increase the quantity as well as quality of quarantine facilities. Closed hotels and suitable public structures may also be used as quarantine facilities, as per the need. At the central planning and local level management, health care of infected citizens and catering and care of the quarantined persons will also be arranged.
- Testing and control work will be carried out at 'war level' by sealing the area where the epidemic has spread.
- Unified 'command' and central plan against corona epidemic will be made more effective. The existing institutional arrangements will be made more efficient by appointing liaison persons or bodies at all the three levels for live information communication and effective coordination in the field of corona infection, prevention and control between the Federal, the Provinces and the local level.
- A consultative mechanism will be announced soon, including various parties interested in the spread of the epidemic and somehow involved in the fight against the epidemic.
- The government will do its utmost to prevent the lives of our countrymen from being endangered by any disease or hunger.
- The number of Nepalese repatriating from foreign employment has increased. An order will be issued immediately with a detailed plan for the repatriation of Nepalese who have to return home due to the inconvenient situation caused by the COVID-19 pandemic. The government will rescue its compatriots in any corner of the world in a timely manner. This work will be started soon by striking a balance

between the priorities of the problem and the preparations within the country.

- According to the World Health Organization's protocol, workers returning by flight were subjected to mandatory testing for the virus, which may have greatly prevented the spread of the epidemic at the community level. But most of the returnees from India are crossing the border in large numbers without following the rules and have not been tested. This lack of testing among returnees from India may be contributing to the rapid spread of the epidemic.
- People in the country need to be tested quickly, maintain social distance, stay in quarantine safely and follow other rules. The local level government has an additional responsibility to provide them with the necessary support in this work. In such a situation, mutual support is needed at the grassroots level. Only with cooperation and awareness among people can an epidemic like the corona be controlled.
- No one should return carrying the infection voluntarily. Looking at the global trend and its impact on our country, it seems that the epidemic will continue for some time to come. Some new steps will be taken with necessary precautions to prevent further spread of the infection in the community.
- Due to the pandemic, the Secondary Education Examination (SEE) had to be postponed two days before the operation. At present, there is no possibility of conducting immediate examination. The Ministry of Education, Science and Technology will soon make necessary arrangements to prevent the entire academic year of SEE students from being wasted. With the necessary policy provisions, the Ministry will also use 'virtual classroom' to promote reading and teaching in all schools under the new academic year.
- Necessary economic activities will be resumed by reducing the risk of corona virus epidemic. As emphasized in the policies and programs of the government, agricultural work will be carried out while maintaining social distancing protocols to ensure continued production in the agricultural sector. Administrative strictures will be maintained to limit movement of people to the extent necessary to prevent the spread of infection in the community.
- The government is aware that the agricultural sector could help ameliorate the poverty and unemployment levels likely to be induced by the COVID-19 pandemic. The serious problem in the agricultural sector today is that commercial agricultural production has not adapted the use of available modern equipment and technology.
- In order to address this problem, the necessary programs to reduce food imports, become self-reliant in agriculture, gradually accelerate the export of agricultural products and create a large number of jobs and self-employment in the agricultural sector have recently been passed by the Parliament as a policy and program.
- Additionally, Industries that can maintain health protocols will be allowed to operate. Safe transportation facilities for workers are to be arranged. The administration will also be responsible for strictly monitoring and testing the workers for virus. The workers who continue to work will not be mingled with other community members to ensure that the virus does not spread.

The entrepreneur in concern will have to personally monitor whether the workers in his business have complied with the prescribed protocol and report back regularly to the concerned administrative body. Based on the effectiveness of this trail, the process of resuming more business operations may be taken forward gradually.

- In order to facilitate the supply of daily necessities and increase domestic production, the chain from the raw material to the market of manufactured goods will not be allowed to be obstructed. Internal transportation and import / export of essential commodities will be facilitated.
- The government will arrange relief facilities for the industrial and commercial sectors affected by the COVID-19 pandemic. Such facilities will include tax concessions, fee waivers, and interest concessions on loans, availability of easy loans and discounts on electricity and other areas.
- The Ministry of Finance will issue a detailed proposal for the necessary economic recovery to revive the weakened economy.
- Social assistance provided by the state to persons with disabilities or anyone else during this difficult time will not be deducted from other provisions. The scope of social security will be widened. The contribution based social security system will be modified. The amount that workers contribute to their social security fund will be matched by the current government fund.
- A significant portion of the funds in the Natural Disaster Reduction and Problem Solving Fund headed by the Prime Minister, and the Natural Disaster Relief Fund led by the Home Minister will be transferred to the Corona Infection Prevention, Control and Treatment Fund.
- Employment opportunities that exist in the country and have been created in various ways will be made available to unemployed Nepalese who have returned home after losing their jobs abroad. The government will provide the appropriate skills and training required for this.
- In collaboration with the federal, provinces and local level government, labor-oriented development work will be carried out at the local level. The Employment Service Center under the Prime Minister's Employment Program will be promoted as a labor bank and the listed workers will be mobilized to fulfill available employment opportunities.
- The local level government will facilitate the registration process of unemployed returnee migrants at the employment service center.
- The measures taken so far are to maintain social distancing to prevent the virus from being transmitted from person to person and to increase the resistance of every person.
- At present, the government is committed to using all its resources against the COVID-19 pandemic and to adopt preventive and curative methods in the health care to eliminate the Coronavirus from Nepal.

A3. In the Budget Speech of FY 2020/21, new policy measures were also announced. They are:

1. Relief, facilitation and economic recovery programs:

- Continuity will be given to the immediate relief program brought by the government to alleviate the impact on the daily life of the people due to the steps taken for the

prevention and control of COVID-19 as long as remains at risk.

- Arrangements will be made to provide food relief equal to one fourth of the minimum wage to the workers in the joint employment program operated by the federal, province and local level government and the coronavirus affected unorganized sector laborers who are not involved in the food-for-work program.
- Arrangements to set up a fund of Rs. 50 billion to provide credit at 5% interest rate to cottage, small, and medium scale enterprises and Corona affected tourism entrepreneurs will be made. The money credited is to be used for the payment of remuneration and wages and the operation of businesses. The fund will be managed through the Nepal Rastra Bank and will be financed by the Government of Nepal, government-owned public enterprises and donors.
- Fee waiver for small household electricity consumers of up to 10 unit's consumption per month, and waiver of 25% electricity tariff for those consuming 150 units per month and 15% for those consuming up to 250 units per month. An arrangement will be made to waive the electricity demand charge and provide relief in the electricity tariff for water and irrigation users' committee. An arrangement will be made to waive the demand charge of electricity for the duration of the lockdown period and the electricity bill of productive industries affected by the pandemic will be reduced by 50% for the low consumption period.
- Arrangements will be made to provide refinancing facility of up to Rs. 100 billion by the Nepal Rastra Bank to provide loans at concessional interest rates of up to 5% to the pandemic affected agribusiness, cottage, small and medium enterprises, manufacturing industries, hotels, tourism sector and other industries.
- Additional provisions will be made to promote corona insurance. The government will provide 50 percent subsidy on the annual fee for group corona insurance of up to Rs 1 lakh. The government will make provisions to bear the insurance liability fee for health workers, women health volunteers, and other government health workers.
- Provision of the necessary funds for repatriation of Nepalese who are facing serious health risks abroad, lost their jobs, have expired visas and/or need to return due to other reasons.
- Arrangements to bear the amount that needs to be deposited by the employee and employer of the organized sector in the contributory based social security fund for the lockdown period will be made by the Government of Nepal. Arrangements will be made to enable enterprises to access financing by borrowing from the fund to immediately pay their workers. The amount borrowed is to deposited back into the fund after the business becomes financially viable again.
- Arrangements has been made to waive the parking charge, permit renewal fee for operation of airline, certificate fee for flight eligibility by the Nepal Airlines and infrastructure tax on aviation fuel.
- To address the impacts of Corona on construction, transportation, mass communication, including cinema sector, exemptions in licensing and equipment renewal fees, and loan facilities for working capital, and contract and bank guarantee period has been extended for the duration of the lockdown. Arrangement has been made to extend the terms of guarantee.

Provision of Rs. 500 million has been made to provide innovative startup capital at 2% interest rate to entrepreneurs to encourage investment in the innovative entrepreneur businesses during the pandemic.

Labour and Employment:

- A program has been set up to create jobs and employment opportunities for all Nepalese by increasing labour productivity through decent job, social security and ideal industrial relations. Considering the fact that the employment of citizens at home and abroad has been affected due to COVID-19 the budget is focused on creating more jobs and employment opportunities in the country.
- In line with the spirit of build your village by yourself, arrangements have been made to conduct food for work programs to help poor families by employing them in development projects. The local level government will implement these labour intensive, social and physical development projects. Arrangement will be made to employ the jobless, those who have lost their jobs due to corona, and returnee migrants, and mobilize them in participatory paid work and labour intensive development work using technology.
- The scope of the Prime Minister's Employment Program will be expanded at the federal, province and local levels by adapting labour intensive technology in public development construction work. A budget of Rs. 11 billion and 600 million has been allocated to create 200 thousand additional jobs through this program.
- Arrangements has been made to provide access to skills development, training and technology to migrant workers who have repatriated back to Nepal due to the pandemic. To enable transition to another sector, workers will be provided with skill development training and orientation in the federal and province level in the production and service sector (including training in handicraft, plumbing, to become an electrician, in electronics, in cooking, carpentry, construction work, tailoring, to become a beautician, and haircutting). A budget of Rs 1 billion has been allocated for this to ensure the employment of a minimum of 50,000 individuals.
- The Employment Service Center will also serve as a Labour information bank and provide training to those needs in need. If a worker is ensured with employment for a minimum of two years, enterprises will be provided a subsidy of up to 50% of the minimum salary for a maximum training period of up to three months. A budget Rs. 1 billion has been allocated for this provision. This provision is expected to provide around 50,000 skilled employment.
- Rs. 4 billion and 340 million has been allocated to provide skill training to 75 thousand people in the next year by strengthening technical and vocational education and training institutions. This program is expected to provide employment for the new labour market entrants, unorganized sector workers who have lost their jobs due to the COVID-19 pandemic, and young people returned from foreign employment.
- Necessary arrangements will be made to generate additional employment through Nepal Rastra Bank under the concessional loan program provided by banks and financial institutions. The commercial banks will provide concessions loan at the rate of at least 10 branches and the development banks will provide

concessions loans at the rate of at least 5 branches per branch.

- An additional 40,000 jobs will be created through the Small Farmers Loan Program run through the Small Farmers Development Microfinance Institution, Additional 12,000 Youth will be self-employed through Youth Self Employment Fund's Self Employment Credit Program, 1 lakh 27 thousands from industrial sector programs including Micro Enterprise for the Poor, additional 30 thousand from the forest based enterprises, agroforestry, nursery establishment and tree planting, protected areas ,including herbs production and processing programs. The Poverty Alleviation Fund has so far mobilized Rs 19 billion in revolving fund in more than 32,000 community organizations in 64 districts. It will be used as seed capital and these institutions will be transformed into cooperative systems for conducting financial activities at the

local level. This will create an additional 150,000 jobs in agriculture, micro and small-scale industries.

- To create additional employment opportunities for Nepalese nationals, the provision of not allowing foreign nationals to work in Nepal unless it is approved will be strictly implemented. Arrangements will be made to provide additional financial and monetary facilities to the enterprises who implement the provisions related to labour. Arrangements will be made for monitoring to ensure the security of the workers and occupational safety.
- The Foreign Employment Promotion Fund will be used for the welfare of those who have gone for foreign employment and also in the program for resettlement of workers. The skills, experience and interests of people who have been recruited from foreign employment will be taken into account in the work opportunities that will be created in the country.

ANNEX TABLE 10: GDP TARGETS AND ACHIEVEMENTS (AT CONSTANT 2000/01 PRICES)

ISIC	Industrial classification	2018/19	2019/20	Difference (% points)
A	Agriculture and forestry	5.05	2.48	-2.57
B	Fishing	5.6	7.17	1.57
C	Mining and quarrying	8.91	-0.69	-9.6
D	Manufacturing	6.82	-2.27	-9.09
E	Electricity gas and water	9.15	28.75	19.6
F	Construction	8.05	-0.31	-8.36
G	Wholesale and retail trade	11.06	2.11	-8.95
H	Hotels and restaurants	7.33	-16.3	-23.63
I	Transport, storage and communications	5.9	-2.45	-8.35
J	Financial intermediation	6.18	5.15	-1.03
K	Real estate, renting and business activities	6.12	3.25	-2.87
L	Public administration and defense	5.54	6.91	1.37
M	Education	5.11	4.88	-0.23
N	Health and social work	6.75	7.07	0.32
O	Other community, social and personal service activities	5.73	4.7	-1.03
P	Agriculture, Forestry and Fishing	4.7	2.59	-2.11
Q	Non-Agriculture	7.37	2.27	-5.1
R	Total GVA including FISIM	6.65	2.37	-4.28
S	Financial Intermediation Services Indirectly Measured (FISIM)	4.25	4.71	0.46
T	GDP at basic prices	6.99	2.27	-4.72

Source: CBS (2020)



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