

# Nepal Competitiveness Index 2024

Supporting Nepal's Journey Towards Effective Planning



**Foreword by**  
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**Edited by**  
Jaya Jung Mahat

A joint research initiative of

**NIPoRe**  
Nepal Institute for Policy Research

**Lee Kuan Yew**  
School of Public Policy  
ASIA COMPETITIVENESS INSTITUTE

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# Nepal Competitiveness Index 2024

Supporting Nepal's Journey Towards Effective Planning

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# Publishers' Note

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# About Publishers

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Nepal Institute for Policy Research (NIPoRe) is an independent and non-partisan research institute based in Kathmandu, Nepal. It works to generate evidence-based debates among citizens and critical stakeholders of development in the public and private sectors on contemporary policy issues from Nepal and Asia. The institution currently works on high policy priority areas through four research centers - Center for New Economy and Inequality (CNEI), Center for Strategic Affairs (CSA), Center for Governance Studies (CGS), and Center for Human Development (CHD). NIPoRe's team members represent the diversity of academic disciplines, professional backgrounds, and geography. The institute adopts a multi-disciplinary approach in its analysis of policies and research, supported by researchers trained at universities and professional environments (from) across the globe.

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## Asia Competitiveness Institute (ACI)

The Asia Competitiveness Institute (ACI) was established in August 2006 as a Research Center at the Lee Kuan Yew School of Public Policy (LKYSPP), National University of Singapore (NUS). It aims to build the intellectual leadership and network for understanding and developing competitiveness in the Asia region. ACI seeks to contribute to the enhancement of inclusive growth, living standards, and institutional governance through competitiveness research on sub-national economies in Asia. It identifies mitigating issues and challenges for potential public policy interventions through close collaboration with regional governments, business corporations, policy think-tanks, and academics. ACI's three key research pillars include (I) Sub-national economies level competitiveness analysis; (II) The development of digital economy and its implications in 16 Asia economies; and (III) Singapore's long-term growth strategies and public policy analysis.

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# Preface

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Since 2013, the Asia Competitiveness Institute (ACI) has been conducting a series of competitiveness analyses, primarily focusing on the sub-national economies of China, India, and Indonesia. The goal is to evaluate the relative competitiveness of states and provinces while also examining the development attributes among ASEAN countries. Our reports have gained widespread acceptance, being actively discussed at various seminars and forums.

In 2022, ACI collaborated with the Nepal Institute for Policy Research (NIPoRe) to launch the Nepal Competitiveness Index (NCI) 2022, marking our first joint research effort. The NCI 2024 report builds on the analysis conducted in the previous report and expands its competitiveness analysis to include the country's digital economy.

Following the 2023 elections, new governments emerged at the federal, provincial, and local levels in Nepal. We hope the new administrations will find the NCI analysis valuable for prioritizing and addressing pressing economic issues, particularly in the aftermath of the COVID-19 pandemic. Furthermore, the provincial digital competitiveness rankings in the present NCI report will assist Nepal's policymakers and their development partners in identifying specific areas of support across key economic indicators and the digital landscape.

Through this ongoing research collaboration, the continued assessment of provincial competitiveness has deepened our understanding of Nepal's development experience and provincial heterogeneity. We are committed to continuing this insightful journey to assess and contribute to Nepal's ongoing development.

## **Professor Paul Cheung, PhD**

Director, Asia Competitiveness Institute  
Lee Kuan Yew School of Public Policy  
National University of Singapore

# Foreword

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Nepal formally adopted federalism through the 2015 constitution after almost a decade of political uncertainty. This was followed by elections of all three layers of the government - local, provincial, and federal, in 2017. Nepal adopted the federal system of governance with much hope and expectation, especially in terms of decentralizing public services while also further boosting economic activities at the local and provincial levels.

However, Nepal's provincial governments spent the first term (five years) of this governance system establishing necessary infrastructure and formulating major policies to help run the government. In addition, COVID-19 and frequent government changes also forced the provinces to spend limited resources on managing immediate needs and priorities. As a result, they could not have their major focus on much-anticipated long-term economic development priorities.

Nepal continues to face multiple economic challenges - at the center and the provinces. Though key sectors are rebounding from COVID-19 and economic activities across those sectors are slowly normalizing, the country still struggles to achieve major development goals due to additional contemporary economic and political events at home and abroad. As Nepal's provinces now begin their second term, it is high time that they learn from their past mistakes and spend available resources on realizing the provinces' overall competitiveness ambitions.

In this context, this important joint research study by the Nepal Institute for Policy Research (NIPoRe) and the Asia Competitiveness Institute (ACI) at the Lee Kuan Yew School of Public Policy, National University of Singapore, will prove useful. I hope the Nepal Competitiveness Index 2024 will aid provincial governments and other key policy stakeholders in Nepal and outside to check the progress made by each of Nepal's seven provinces across 87 economic and digital competitiveness indicators and formulate plans and policies accordingly.

## Yuba Raj Khatiwada, PhD

Former Finance Minister, Government of Nepal  
Former Vice-Chair, National Planning Commission  
Former Governor, Nepal Rastra Bank

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# Executive Summary

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Nepal has seen major economic and political events since the release of the first Nepal Competitiveness Index (NCI) report in July 2022. Nepal ended all COVID-19-related restrictions during this time, and the country's economic sectors gradually rebounded. In addition, the country witnessed a major boost in its digital economy landscape owing to the impact of COVID-19.

Nepal formally completed the first five years of the country's federal governance system last year and held elections for new provincial assemblies in November 2022. After the elections, under new leadership, Nepal's federal and provincial governments have been working to improve conditions across the country in the post-pandemic economic conditions. However, ongoing regional, national, and global economic and geopolitical troubles continue to challenge their efforts. In addition, frequent government changes in the provincial and federal levels have limited seven provinces' overall growth capabilities through poly-crisis.

In light of these events, the Nepal Institute for Policy Research (NIPoRe) and the Asia Competitiveness Institute (ACI) have undertaken this study. This second edition of NCI presents findings from core competitiveness and digital competitiveness analyses of Nepal's seven provinces. The document aims to support Nepal's provincial governments and all other key policy stakeholders in guiding provinces to better plan and execute current and future economic policies.

This edition of NCI includes a total of 64 indicators across four environments, namely i) Macroeconomic Stability, ii) Government and Institutional Setting, iii) Financial, Businesses, and Manpower Conditions, and iv) Quality of Life and Infrastructure Development. There are a total of 11 sub-environments within each of these four environments. Considering the importance of Nepal's growing digital economy scope, NIPoRe and ACI have chosen digital competitiveness as the thematic focus area for this year's NCI report. The thematic focus area analysis comprises 23 indicators under four environments: ( i.) Digital Infrastructure, ii.) Core Inputs, iii.) Digital Outputs, and iv.) Digital Utilization). This helps to draw some parallels between provinces' growing digital economy adoption rates and their overall implications on core competitiveness rankings. NCI 2024 uses data made public by the GoN authorities for 2020 and 2021.

The results reveal significant changes in provinces' rankings on the main competitiveness ranking. Bagmati remains the most competitive province in the main and digital competitiveness rankings.

In the main competitiveness ranking, Bagmati is the most competitive province in 2020 and 2021. For both years, Koshi ranks second, followed by Gandaki, Lumbini, Madhesh, Sudurpaschim, and Karnali. There have been some noticeable changes in ranking from NCI 2022. For example, Koshi outperformed Lumbini to become the year's second most competitive province. Meanwhile, Gandaki has moved up to the third rank. Lumbini, the second most competitive province in NCI 2022, moved to the fourth position. Madhesh, Sudurpaschim, and Karnali ranked in the fifth, sixth, and seventh positions, respectively, without changing their ranking positions from NCI 2022.

After COVID-19, Koshi, Gandaki, and Lumbini have seen a resurgence in economic activities. Koshi, the province with some of the country's oldest and largest industries, saw further boost in economic activities after Nepal ended all pandemic-related restrictions and thus overtaking two provinces to become the second most competitive province in this year's ranking. In the case of Gandaki, increased numbers of tourists and subsequent economic activities helped the province climb in the ranking order. The gap between the top four best-performing and the bottom three provinces remains high; despite some improvements from last year, Madhesh, Sudurpaschim, and Karnali remain far behind on the ranking table.

On the Digital Competitiveness Index, Bagmati ranks top, followed by Gandaki, Koshi, Lumbini, Madhesh, Sudurpaschim, and Karnali. The top-performing provinces share two common factors: i) seamless integration of digital infrastructure investments and ii) high levels of technology adoption, especially in communication, broadcasting, and financial services. Although the specific issues distinguishing the performance of Koshi and Lumbini vary, other lower-ranked provinces face comparable challenges. Across the four environments, their performances underscore the difficulties arising from fragmented digital infrastructure and resources. These limitations impede the full utilization of digital technologies, resulting in substantial gaps in adoption.

Lastly, the current edition of NCI has also touched upon the roles played by urban areas and their impacts on the overall performance of provincial competitiveness.

## Acknowledgement

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# List of Abbreviations

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ACI	Asia Competitiveness Institute
ADB	Asian Development Bank
CEHRD	Center for Education and Human Resource Development
COVID-19	Coronavirus Disease 2019
CPI	Corruption Perception Index
DNF	Digital Nepal Framework
EC	Election Commission
EVI	Environmental Vulnerability Index
FDI	Foreign Direct Investment
FY	Fiscal Year
GDP	Gross Domestic Product
GHI	Global Hunger Index
GoN	Government of Nepal
GSDP	Gross State Domestic Product
HAI	Human Assets Index
IMF	International Monetary Fund
ISAS	Institute of South Asian Studies
ITU	International Telecommunication Union
LDC	Least Developed Countries
MCC	Millennium Challenge Corporation
MoCIT	Ministry of Communications and Information Technology
MoEST	Ministry of Education, Science and Technology
MoF	Ministry of Finance
MoFAGA	Ministry of Federal Affairs and General Administration
MoICS	Ministry of Industry, Commerce and Supplies
MoLESS	Ministry of Labor, Employment and Social Security
MoPIT	Ministry of Physical Infrastructure and Transport
NCI	Nepal Competitiveness Index

NGOs	Non-Governmental Organizations
NIPoRe	Nepal Institute for Policy Research
NNRFC	National Natural Resources and Fiscal Commission
NPC	National Planning Commission
NPR	Nepali Rupees
NSO	National Statistics Office
NTA	Nepal Telecommunications Authority
ODA	Official Development Assistance
OPMCM	Office of the Prime Minister and the Council of Ministers
PSC	Public Service Commission
SAARC	South Asian Association for Regional Cooperation
SDM	Spatial Dubin Model
TI	Transparency International
UN-OHRLLS	The United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States
USD	US Dollars
WBG	World Bank Group
WEF	World Economic Forum









# 01

**Introduction**

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## **Chapter 1 Introduction**

### **1.1 Evolving Political and Policy Challenges**

### **1.2 A Macroeconomic Outlook of Nepali Economy**

#### 1.2.1 Economic Performance

#### 1.2.2 Trade

#### 1.2.3 Inflation

#### 1.2.4 Remittance

#### 1.2.5 Exchange Rate

#### 1.2.6 Development Financing and Socio-economic Status

### **1.3 Federal Government Initiatives for Effective Provincial Governance**

### **1.4 Competitiveness and its Relevance to Nepal**

### **1.5 Annual Thematic Focus Competitiveness Area**

#### 1.5.1 An Introduction to the Digital Economy

#### 1.5.2 Interlinkages Between the Digital Economy and NCI

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# Introduction

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Political instability entwined with corruption hinders policy effectiveness for economic growth in Post COVID-19 era.

## 1.1 Evolving Political and Policy Challenges

Nepal's political history has been full of uncertainties within and outside the government. Under the 2015 Constitution of Nepal, the nation's pathway towards democracy can be primarily reflected through establishing an independent judiciary, freedom of assembly, and legitimate election of leaders. However, democracy has never been immune to political instability, often considered an inevitable by-product. After the transition to democracy from the Rana regime during the early 1950s, the longest Prime Minister (PM) tenure was four years and 71 days, Surya Bahadur Thapa during the Panchayat era (1965-1969). Since the reinstatement of democracy and the adoption of a multi-party system after the '1990 People's Movement, there have been merely three instances of a PM serving for more than two years: Girija Prasad Koirala during 1991-1994 and 2006-2008, and KP Sharma Oli during 2018-2021. Nepal has been characterized by revolving door leadership, with 29 PMs in the past 32 years, and no democratically elected government has successfully served its entire 5-year term. This is notably higher than its regional peers, with 14 prime ministerial changes seen in Sri Lanka and Pakistan, nine in Bangladesh, and eight in India since 1990.

A series of internal and external conflicts among political parties have primarily driven the government's premature tenures. When KP Sharma Oli dissolved the parliament in December 2020, many drew parallels with the 1994 event when the then PM Girija Prasad Koirala dissolved the parliament, as both leaders cited internal conflicts within the ruling party as their primary reason behind dissolving their respective governments. Two of the longest-serving governments, having ended similarly, reflect some of the continued struggles impeding political stability in Nepal. What is evident here is that

when a PM serves longer, internal conflicts arise due to the fear that the regime is moving towards a ‘totalitarian’ one. NUS Institute of South Asian Studies (ISAS, 2023) reports that, along with continuous instability, the main challenge of Nepal’s government is political factionalism. The government needs first to protect itself, in other words, ensuring the majority in the parliament, and only then can it take policy actions on other development priorities. But, most of them rarely move to the latter. The continued instability of political parties over the past decades has weighed significantly on effective policy formulation and implementation in the country.

Nepal has continuously failed to create a stable political system and, in addition to that, the corresponding institutions. As a result, the country not only fails to keep leaders accountable for their actions but also create less opportunities to empower and provide the ruling leaders with enough political freedom to take progressive steps.

Although the current constitution protects the so-formed institutions, corruption is deeply ingrained into all parts of the system. The 2022 Corruption Perceptions Index (Transparency International, 2022) reports that Nepal ranks 110 out of 180 countries with a corruption score of 34/100 (closer to 0, indicating highly corrupt). The ruling institutions are the beneficiaries of corruption; hence, they lack accountability. As a result of periodic instability and weak accountability, it is difficult to overlook Nepal’s policy landscape as a victim of “circular causation” which refers to a vicious circle that promotes corruption within the bureaucracy, which in turn holds back policy implementation, leading to further internal political volatility.



The 2022 Corruption Perceptions Index reports that Nepal ranks 110 out of 180 countries with a corruption score of 34/100.

## 1.2 Macroeconomic Outlook of Nepal’s Economy

### 1.2.1 Economic Performance

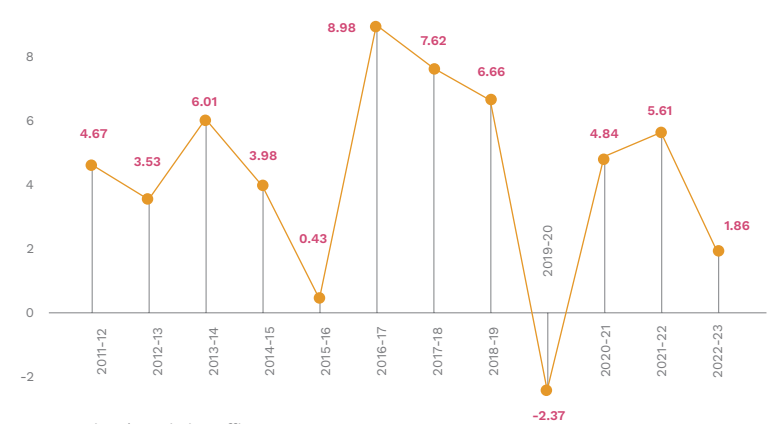
In the past decade, Nepal’s economic growth showed a marginal upward trend. The growth stalled after COVID-19 hit Nepal in early 2020. While the country’s economy recovered from late 2022

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The Corruption Perceptions Index (CPI) ranks the countries on the basis of their perceived level of corruption, on a scale from 0 (highly corrupt) to 10 (clean). The CPI was created and used by Transparency International, an international nongovernmental organization established in 1993 with the aim of bringing together business, civil society, and government structures to combat corruption.



Figure 1.1 GDP Growth Rate at Purchaser’s Price (In Percentage)



Source: National Statistics Office

onwards, it has not been able to reach the pre-pandemic heights (see Figure 1.1). The country has struggled to find its footing after the pandemic. The conditions became further complicated due to rising inflation, declining trade, and fiscal and monetary policy tightening to combat the foreign exchange reserve crunch that has throttled the economy's growth in the post-pandemic Nepal. Furthermore, the global economic slowdown and the ongoing Russia-Ukraine conflict also slowed Nepal's economic growth due to rising fuel and food (wheat, corn and sunflower oil) prices.

The South Asian economies were also affected by the COVID-19 pandemic and the ensuing economic downturn. Except for Bangladesh, all other seven South Asian countries had a negative growth rate for 2020. Table 1.1 captures real GDP growth trends for all South Asian countries for the 2006–2021 period.

Table 1.1 Real GDP Growth Rates for South Asian Countries (In Percentage)

Real GDP growth (Annual % Change)	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Srilanka
2006	5.4	6.7	7.1	9.3	26.1	3.4	5.7	7.7
2007	13.3	7.1	12.9	9.8	7.7	3.4	5.1	6.8
2008	3.9	6	11	3.9	9.5	6.1	4.4	6
2009	20.6	5	5.8	8.5	-7.2	4.5	1.1	3.5
2010	8.4	5.6	9.5	10.3	7.3	4.8	2.3	8

Real GDP growth (Annual % Change)	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
2011	6.5	6.5	9.9	6.6	8.6	3.4	3.2	8.7
2012	14	6.5	6.5	5.5	2.5	4.7	3.2	8.6
2013	5.7	6	3.6	6.4	7.3	3.5	3.9	4.1
2014	2.7	6.1	4	7.4	7.3	6	3.6	6.4
2015	1	6.6	6.2	8	2.9	4	3.8	4.2
2016	2.2	7.1	7.4	8.3	6.3	0.4	4.1	5.1
2017	2.6	6.6	6.3	6.8	7.2	9	4.6	6.5
2018	1.2	7.3	3.8	6.5	8.1	7.6	6.1	2.3
2019	3.9	7.9	4.4	3.9	6.9	6.7	3.1	-0.2
2020	-2.4	3.4	-2.3	-5.8	-33.4	-2.4	-0.9	-4.6
2021	-20.7	6.9	-3.3	9.1	41.7	4.8	5.8	3.5

Source: International Monetary Fund (IMF), 2023

The current economic slowdown in Nepal can best be illustrated by the revisions done to the expected national GDP growth rates. During the FY 2022/23 budget announcement, the Government of Nepal (GoN) optimistically predicted the national economic growth rate to be eight percent (*MoF, 2023*). This high prediction was an anomaly as multilateral organizations, including the World Bank Group (WBG) and the Asian Development Bank (ADB), had lowered their estimates. However, during the mid-term budget review, the GoN revised the economic growth prediction to be around four percent. The latest estimation from the National Statistics Office (NSO) puts the country's economic growth rate at 1.9 percent. The long-term impacts of the pandemic and the implications of global events have affected the country's growth. The figure is lower than the 4.1 percent predictions floated by the ADB (*ADB, 2023*) and 4.4 percent projected by the International Monetary Fund (IMF) (*IMF, 2023*).

## 1.2.2 Trade

Various factors have led to the ongoing economic downturn in Nepal. After the COVID-19 lockdown was lifted, imports increased significantly, whereas the exports from the country could not pick up the pace (see Table 1.2). This was primarily due to the diminished production capacities of the local industries that failed to resume their services at full capacities immediately after the pandemic-

related restrictions were withdrawn. In the previous fiscal year (FY 2021/22), as the imports increased, exports faltered, and the remittances further slowed down.

In addition, the increased migration of Nepali students to countries in North America, Europe, and Oceania caused further trouble to the struggling Nepali economy as they were taking with them the required cash for their college tuition fees and accommodations. As a result, the government became more concerned about the foreign exchange reserve and the balance of payments. As such, the government and the central bank took measures to increase foreign reserves and maintain the balance of payments, which have slowed the economy's growth.

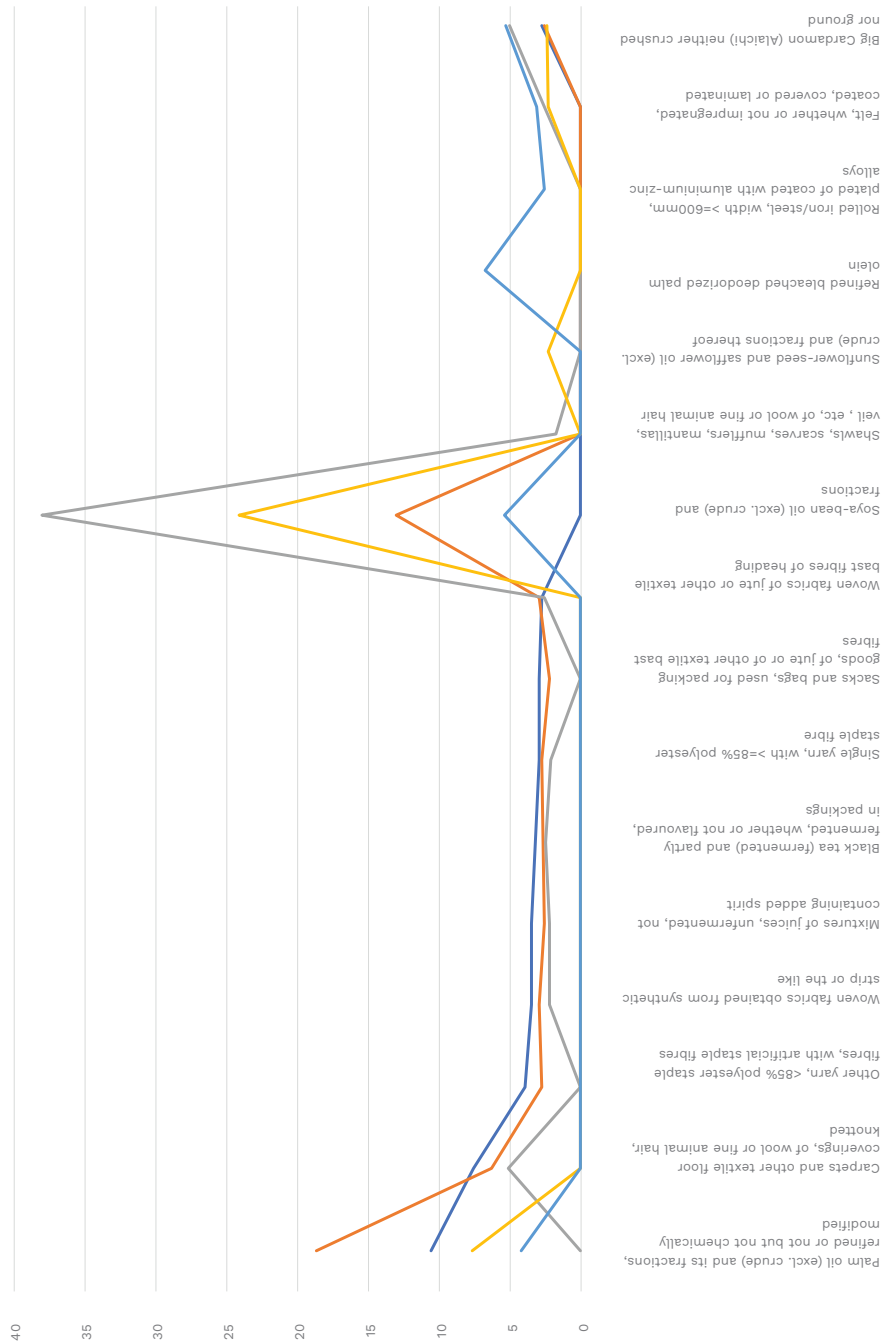
Table 1.2 Nepal's Balance of Trade (in NPR Billions)

Payment Systems	Export	Import	Trade deficit
2012/13	76.9	556.7	479.8
2013/14	92.0	714.4	622.4
2014/15	85.3	774.7	689.4
2015/16	70.1	773.6	703.5
2016/17	73.0	990.1	917.1
2017/18	81.4	125.1	1163.7
2018/19	97.1	1418.5	1321.4
2019/20	97.7	1196.8	1099.1
2020/21	141.1	1539.8	1398.7
2021/22*	200	1920.4	1720.4

Source: Economic Survey, 2020/21 [\*estimates]

In April 2022, the government announced import restrictions on products termed as luxury or non-essential goods. These included high-end mobile phones, vehicles, and liquors, among others. This ban was placed to maintain the country's foreign exchange reserves. A seven-month ban was placed on such goods. Nepal only lifted the ban to meet the condition set forth by IMF's extended credit facility. While the prohibition helped maintain the foreign exchange reserves, it had severe and multidimensional impacts on the country's net trades and businesses, thus causing an exponential decline in the flow of consumer goods and services across the border.

Figure 1.2 Nepal's Top Export Items for FY 2018/19 - 2022/23



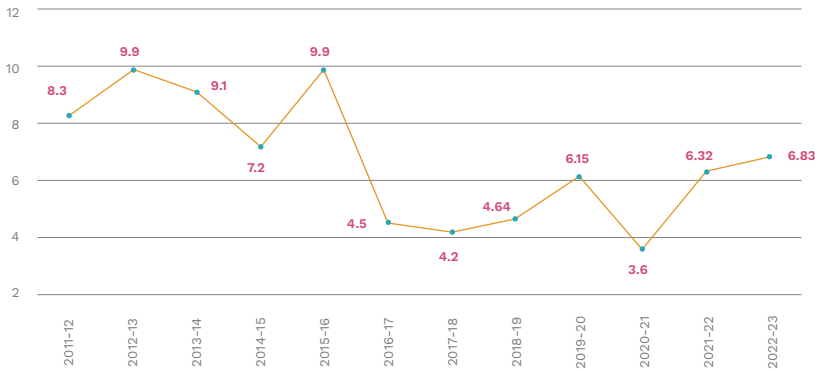
Source: Nepal Trade Information Portal (NTIP), MoICS, 2023

Its top export items have remained almost the same for the past five fiscal years. Figure 1.2 highlights Nepal's top ten exported items between FY 2018/19 and FY 2022/23. Though GoN was able to strengthen its foreign reserves and give stability to the macroeconomy through an import ban, failure to diversify and increase high-value exports will not help much in the long run.

1.2.3 Inflation

The rising inflation rate is another factor that caused consumer expenditure to decrease in Nepal (see Figure 1.3). Inflation has been rising due to various factors. One major factor has been the increase in prices of agricultural products. The country's agricultural output has decreased as agrarian lands have been transformed into residential lands. At the same time, younger people have been migrating to other countries at an increasing rate, and prolonged droughts have impacted the agricultural production cycle. In addition, the rise in fuel prices (*The Himalayan Times*, 2023 ; *Republica Daily*, 2022) had a domino effect, which caused an increase in transportation costs and also affected the production costs of fast-moving consumer goods (FMCG) and services. The increased transportation costs, in turn, have caused an overall increase in consumer inflation. Furthermore, the ongoing conflict between Russia and Ukraine is another reason for Nepal's major rise in consumer goods prices as highlighted by the National Consumer Forum (*The Kathmandu Post*, 2023). The global shortage of fuel, wheat, corn and oil from Russia and Ukraine due to the ongoing conflict have also affected an import-oriented Nepali economy.

Figure 1.3 CPI Inflation Trends for Nepal (FY 2011/12 - 2022/23)

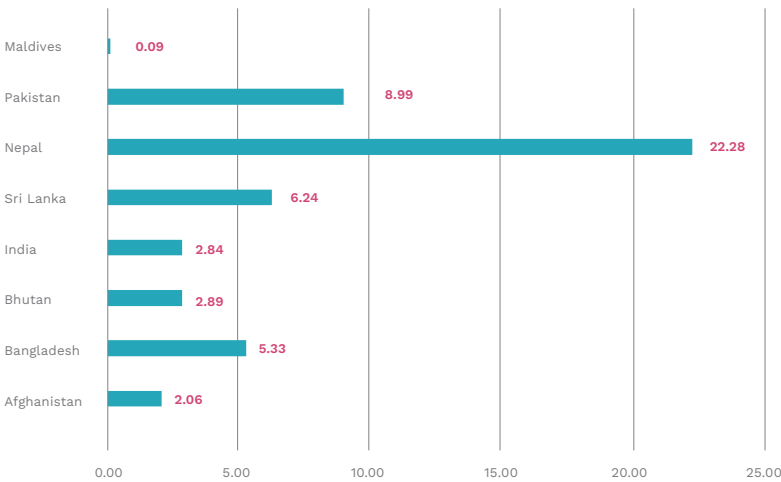


Source: Nepal Rastra Bank, the data for 2022/23 includes data till May/ June 2023

### 1.2.4 Remittance

Nepal has experienced over two decades of continuous inflow of remittances into the country. The remittance to GDP ratio of Nepal is the highest among all the countries in the South Asian Association for Regional Cooperation (SAARC) region (see Figure 1.4). Nepal's remittance as a percentage of GDP outpaces the second-highest-ranking country in the SAARC region, Pakistan, by a margin of 13.29 percent (*World Bank, 2021*).

Figure 1.4 Remittance Flows to the SAARC Countries



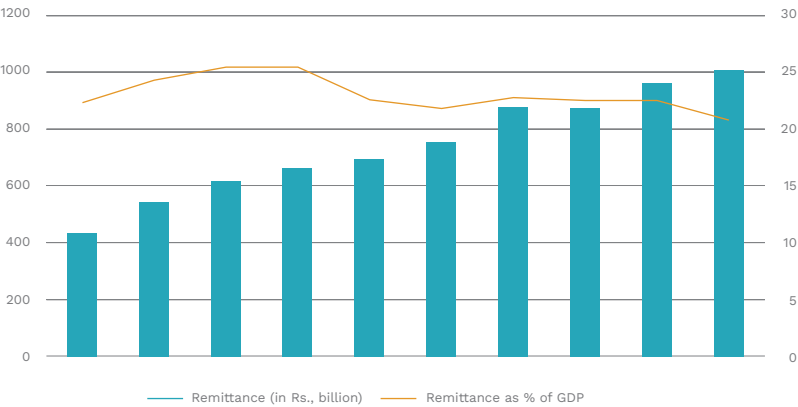
Source: World Bank (2021)

The increasing flow of remittances compared to the previous fiscal year, mainly by Nepal's migrant workers across countries in the Middle East and the Asia Pacific, has bolstered Nepal's GDP (see Figure 1.5). Nepal received NPR 585.1 billion in remittance as of January 2023, within the first quarter of the current FY 2022/23, an increase from NPR 470.7 billion during the same period of the fiscal year 2021/2022 (*NRB, 2023*). Historically, Nepalis spent remittances for managing household expenditures. Remittances, in Nepal, are credited for reducing the country's rural poverty (*Byanjankar and Sakha, 2021*). It also plays an important part in maintaining the country's foreign exchange reserves. While relying heavily on remittances has long-term implications, it has been a positive factor for the Nepali economy in the short run.

Despite growing inflow of remittances, Nepal's overall macroeconomic situation still looks uncertain. The current political deadlock and the

record number of emigration of youths from the country cast doubts on rapid improvement in the Nepali economic conditions. While the government has been introducing measures to improve the current uncertainties, the GoN needs to take a proactive approach to improve the country's overall situation.

Figure 1.5 Trends in Remittance Inflow to Nepal (FY 2012/13 - 2021/22)



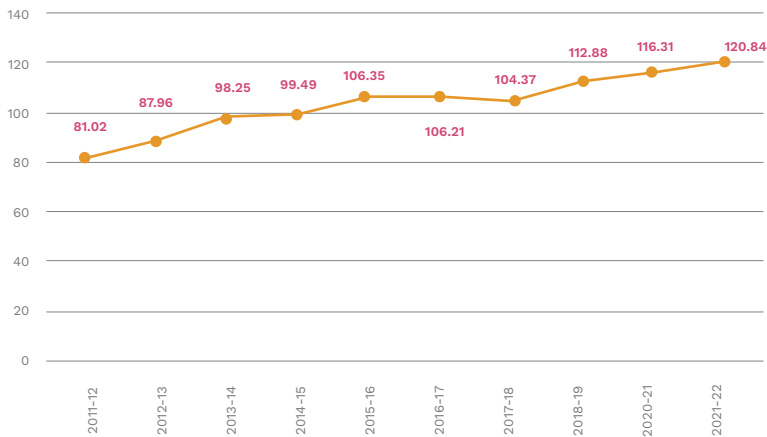
Source: Economic Survey, 2020/21

### 1.2.5 Exchange Rate

In January 2023, the NPR averaged 132.17 per USD, showing a significant increase from the annual average of NPR 120.84 in the previous fiscal year, i.e., FY 2021/22 (see Figure 1.6). The continuous depreciation of the NPR may lead to further inflationary pressures on the economy. According to economic theories, a depreciating currency is anticipated to cause inflation as it increases prices of the imported goods and. Economists refer to this phenomenon as exchange rate pass-through (*IMF, 2016*).

Additionally, following Russia's invasion of Ukraine, the economy has been severely impacted by soaring prices for crude oil, coal, and edible oils (*Reuters, 2022*). This comes at a challenging time when the country was showing signs of gradual recovery from the economic downturn caused by the loss of tourist receipts during the pandemic. Moreover, as an import-dependent economy, the devaluation of the domestic currency against the USD will likely affect the country's economy adversely. However, if the country could boost its exports, mainly agricultural products and herbs, the situation could be improved dramatically.

Figure 1.6 Changing NPR Vs. USD Exchange Rates



Source: Nepal Rastra Bank, Current Macroeconomic and Financial Situation(Based on Six months' Data Ending Mid-January, 2022/23)

### 1.2.6 Development Financing and Socio-economic Status

Nepal recently accomplished a huge milestone of graduating to a “developing country” status after being in the Least Developed Countries (LDC) category for the past 50 years. Nepal will graduate from LDC in 2026. In November 2021, the United Nations Committee for Development Policy recommended Nepal's graduation based on its eligibility in the Human Assets Index (HAI) and Economic and Environmental Vulnerability Index (EVI) criteria for three consecutive years (WION, 2021). The country's poverty rate experienced a remarkable decline of 17 percent. At the same time, the level of hunger, previously severe, was reduced to a moderate level, according to the Global Hunger Index (United Nations Development Coordination Office, 2023). These improvements highlight significant progress in enhancing the population's living conditions and economic well-being. The country is now in a five-year transition phase, which is set to conclude in 2026.

The recent recognition of the country's development is a testament to its significant progress, and at the same time, means that the nation may no longer meet the criteria for various international support measures in areas such as trade, financial aid, technical assistance, and representation in exclusive international forums meant for LDCs. The loss of these safeguards, including interest-free loans and financial assistance programs offered by the United



Nations, World Bank, IMP, and other international organizations, could significantly impact Nepal's economy, mainly in terms of foreign aid and other development finance benefits. In line with this, the country should emphasize paving a path for self-reliance through increased foreign-direct investment projects and industrialization growth.

Additionally, the U.S. Government's Millennium Challenge Corporation (MCC) signed a USD 500 million grant agreement with the GoN in September 2017 to enhance the power and road infrastructure in the country. The GoN finally passed the grant from the parliament in February 2022 after several years of debates from the opposing parties, claiming the compact provisions undermine Nepal's sovereignty (*The Kathmandu Post*, 2022). The stated large-scale infrastructure projects can be substantial in the country's economic growth in the upcoming years as Nepal prepares for the LDC graduation in 2026.

### 1.3 Federal Government's Initiatives for Effective Provincial Governance

More rigorous discussions for adopting federalism in Nepal began as early as 2006, immediately after the historic 2005/06 People's Movement II and the entry of the Maoists into mainstream politics. In the following decade, Nepal held elections for two constituent assemblies whose key mandate was to write a new constitution allowing the country to adopt federalism and work on other related affairs, including justifiable borders and the names of the new provinces, structure, and provisions of the provincial governments.

Two years after Nepal adopted a new constitution in 2015, the country held its first elections for all 753 local levels, seven provinces, and the House of Representatives. In the following months, the Ministry of Federal Affairs and General Administration (MoFAGA) was mandated to work on relevant plans and policies to govern these newly formed local levels and the provinces. In addition, a special provincial coordination unit was established at the Office of the Prime Minister and the Council of Ministers (OPMCM) to support MoFAGA and other federal ministries and the provincial governments to formulate needed policies for better-governing provinces in terms of government structures, economy, and inter-provincial relations.

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## TIMELINE

## Key Plans and Policies

Timeline showcases the key plans and policies developed by MoFAGA, the provincial coordination unit at OPMCM, the Election Commission (EC), the Public Service Commission (PSC), and the National Natural Resources and Fiscal Commission (NNRFC) in coordination with the other ministries and departments to better govern Nepal's federalism:

### › 2016

- » Federal Parliament Officials and Members Remuneration and Facilities Act, 2016 (2073 BS)

### › 2017

- » Local Government Operation Act, 2017 (2074 BS)
- » Amendment, Consolidation, Adjustment and Repeal of Some Nepal Laws Act, 2017 (2074 BS)
- » Provincial Assembly Member Election Act, 2017 (2074 BS)
- » Provincial Assembly Member Election Regulations, 2017 (2074 BS)
- » House of Representatives Member Election Act, 2017 (2074 BS)
- » Intergovernmental Finance Management Act, 2017 (2074 BS)
- » Act on Remuneration and Facilities of Provincial Heads, 2017 (2074 BS)

### › 2018

- » Staff Adjustment Regulations, 2018 (2074 BS)
- » Federal Parliament Joint Meeting and Joint Committee (Work Conduct) Regulations, 2018 (2075 BS)
- » Remuneration of the General Secretary of the Federal Parliament, the Secretary of the House of Representatives and the Secretary of the National Assembly Service Conditions and Facilities Act, 2018 (2075 BS)
- » Supplementary Grant Procedure, 2077 BS
- » Procedures Related to Special Grants, 2018 (2077 BS)

### › 2019

- » Staff Adjustment Act, 2019 (2075 BS)
- » Province Public Service Commission (Bases and Criteria Determination) Act 2019
- » Economic Procedures and Financial Responsibility Act, 2019 (2076 BS)
- » Financial Procedures and Financial Responsibility Regulations, 2019 (2077 BS)

### › 2020

- » Police Personnel Adjustment Act, 2020 (2076 BS)
- » Nepal Police and State Police (Operation, Supervision and Coordination) Act, 2020 (2076 BS)
- » Union, State and Local Level (Coordination and Interrelationship) Act, 2020 (2077 BS)

## 1.4 Competitiveness and its Relevance to Nepal

The World Economic Forum (WEF) first published its Global Competitiveness Report in 1979. The annual report continues to assess the drivers of productivity and long-term economic growth among various countries. Similarly, the IMD World Competitiveness Yearbook was first published in 1989 to provide a worldwide reference point for the competitiveness of countries. These annual publications provide a much-needed benchmark for a country's growth in various indicators and clusters on a global scale. Additionally, various other institutes continue to measure competitiveness across countries and aim to help countries compare their growths and determine ways to improve. However, honest implementation of these study recommendations depends on the countries' capabilities, especially in terms of their government structures, available financial resources, and their immediate priorities. Nepal, being one of the youngest federal democracies in the world, will surely benefit from the competitiveness analyses done at the national as well as the sub-national levels. The analyses done at the provincial levels would help the key policy stakeholders in the country prioritize the economic growth and competitiveness agenda at the forefront, in addition to other key political and governance affairs for effectively implementing the newly adopted federalism.

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One of the key institutions undertaking the sub-national competitiveness analyses is the Asia Competitiveness Institute (ACI) at the Lee Kuan Yew School of Public Policy at the National University of Singapore. The institute undertakes national and sub-national level analyses for Asia-Pacific countries, including China and India. ACI measures competitiveness within a single country by evaluating all its sub-national economies. While the ideas behind competitiveness measurements are similar, they provide the impetus for different provinces to grow through healthy competition. As Nepal transitions from a centralized system of governance to federalism, a similar analysis would prove useful for all key policy stakeholders in the country. Nepal had a long-standing centralized administration system that, through much debate, changed in 2017. The country's federalization was a starting point in disaggregating development

# संघीयताको प्रभावकारी कार्यान्वयनमा संघीय सरकारको प्रयाश

✍ चक्रपाणी शर्मा, पूर्व उपसचिव  
प्रधानमन्त्री तथा मन्त्रिपरिषद्को कार्यालय

## पृष्ठभूमि

बिगत लामो समयदेखि एकात्मक शासन व्यवस्था अंगालेको हाम्रो देशले जनताको अधिकार जनताकै नजिक (गाउँ गाउँमा सिंहदरबार) पुर्याउने उद्देश्यका साथ पहिलोपटक संविधानसभाले बनाएको संविधान २०७२ सालमा जारी गरि तीन तहको संघीय शासन व्यवस्था अङ्गीकार गर्यो । संघ, प्रदेश र स्थानीय तह गरि तिनै तहले राज्यशक्तिको प्रयोग गर्ने गरि संविधानमा नै स्पष्ट उल्लेख गरियो । तीनै तहको अधिकारलाई संविधानको अनुसूची ५ देखि ९ सम्ममा बाँडफाँड गरिएको छ । समन्वय, सहअस्तित्व र सहकारिताको सिद्धान्त हाम्रो संघियताको आधार हुन् ।

पहिलेको एकात्मक सरकारको ठाउँमा अहिले ७५३ स्थानीय तह, ७ प्रदेश सरकार र सङ्घीय सरकार गरि ७६१ वटा सरकारले आ-आफ्नो अधिकारको प्रयोग गरिरहेका छन् । अधिकारको स्पष्ट व्याख्या, कार्यसम्पादनका लागि कानून, विधि र मापदण्ड, संस्थागत प्रबन्ध, जनशक्तिको क्षमता जस्ता क्षेत्रमा भने अझै धेरै काम गर्नु पर्ने छ । यी सबै कामका लागि राजनीतिक प्रतिबद्धता अपरिहार्य छ । राजनीतिक सहमति र प्रशासनिक सुझबुझका साथ अघि बढ्नुको विकल्प भने छैन ।

## संघीयताको पालना र कार्यान्वयनमा संघीय सरकारको भूमिका

हाम्रो सन्दर्भमा प्रादेशिक संरचना पूर्णतः नयाँ र नौलो अभ्यास हो । स्थानीय तहहरूले पनि विगतको एकात्मक शासन व्यवस्थामा केहि सीमित अधिकार मात्रै प्रयोग गर्ने स्वायत्तता पाएका थिए । सरकारकै रुपमा स्थानीय तहको अभ्यास पनि पहिलो नै हो ।

शासन व्यवस्थाका सम्पूर्ण अनुभव, जनशक्ति, संरचना, कानूनी प्रबन्ध सबै एकात्मक प्रणालीमै विकसित भएका हुन् । यस्तो अवस्थामा आवश्यक जनशक्ति, कानून, वित्तीय स्रोत लगायतका अत्यावश्यक र अपरिहार्य व्यवस्था समेत संघले नै गरिदिएर भर्खरै जन्मेको बच्चालाई आमाले स्याहार सुसार गरेर हुर्काएको जस्तै गरि प्रदेश र स्थानीय तहलाई सहयोग गर्नुपर्छ । तमाम कानूनी एवं प्रशासनिक संरचनाहरू हिजोका एकात्मक शासन व्यवस्थामा बनेको हुँदा तिनलाई विद्यमान संघीय संरचना अनुकूल रुपान्तरण गर्ने मुख्य भूमिका नै संघीय सरकारको हो ।

## संघीयता कार्यान्वयनका लागि संघीय सरकारले गरेको प्रयाशहरू

देहाएका केहि महत्वपूर्ण ऐन कानून जारी गर्नुका साथै संघीयता कार्यान्वयन सम्बन्धी ८० भन्दा बढी नयाँ ऐन तथा १६५ भन्दा बढी कानूनहरू संशोधन भएका छन् ।

- संघ, प्रदेश र स्थानीय तह (समन्वय तथा अन्तरसम्बन्ध) ऐन, २०७७
- अन्तर सरकारी वित्त व्यवस्थापन ऐन, २०७४
- स्थानीय सरकार संचालन ऐन, २०७४
- आर्थिक कार्यविधि तथा वित्तीय उत्तरदायित्व ऐन, २०७६
- समपुरक अनुदान सम्बन्धी कार्यविधि, २०७७
- विशेष अनुदान सम्बन्धी कार्यविधि, २०७७

अधिकारको स्पष्टताका लागि कार्यविस्तृतीकरण गरी अधिकारको व्याख्या गरिएको छ ।

अन्तर प्रदेश परिषदले २९ बुँदे संघीयता कार्यान्वयन सहजीकरण कार्ययोजना स्वीकृत गरेकोमा अधिकांश बुँदाहरू कार्यान्वयन भएका छन् ।

- वैदेशिक सहायताका कार्यक्रम संचालन मार्गदर्शन (तीनै तहको समन्वयका लागि),
- तीनै तहको कार्यक्रममा एकरूपता ल्याउन कार्यक्रम संचालन मार्गदर्शन,
- ७ प्रदेश र ७५३ स्थानीय तहसहितको तीन तहको सरकार क्रियाशिल,
- राष्ट्रिय प्राकृतिक स्रोत तथा वित्त आयोग गठन भइ क्रियाशिल,
- सबै तहको दोस्रो कार्यकालको समेत निर्वाचन सम्पन्न भइसकेको,
- अन्तर प्रदेश परिषद, राष्ट्रिय समन्वय परिषद, विषयगत समिति, प्रदेश समन्वय परिषद जस्ता समन्वयकारी संरचनाहरू गठन भएका छन् ।

२०८० साल असार १६ गते पोखरामा अन्तर तह समन्वयका लागि महत्वपूर्ण संरचना राष्ट्रिय समन्वय परिषदको पहिलो बैठक बसी संघियताको प्रभावकारी कार्यान्वयनका लागि महत्वपूर्ण निर्णयहरू गरेको छ । उक्त बैठकले गरेका निर्णयको कार्यान्वयन प्रक्रिया अघि बढी सकेको छ ।

## संघीयता कार्यान्वयनका समस्या तथा चुनौतीहरू

नेपालको संविधानमा समृद्धि सहितको संघीयताको परिकल्पना गरीएको छ । समावेशी लोकतान्त्रिक शासन

व्यवस्था, समतामूलक आर्थिक समृद्धि र उदार लोकतन्त्रलाई प्रवर्द्धन गरी यसका लाभलाई आम नागरिकसमक्ष समन्यायीक तवरले वितरण गरी संघीय शासन प्रणालीमा जनताको विश्वास बढाई यसको वैधतालाई प्रवर्द्धन गर्नु नै मुख्य चुनौती हो । चुनौतीहरूलाई निम्न बमोजिम बुँदागत रुपमा उल्लेख गर्न सकिन्छ ।

- कार्य विस्तृतीकरणमा समसामयिक पुनरावलोकन गरी तीन तहको सरकारका आ-आफ्ना भूमिका थप स्पष्ट पार्नु,
- तीनै तहले हासिल गरेको उपलब्धी एकीकृत रुपमा प्रतिवेदनमा आउने गरी संयन्त्रको विकास गर्नु,
- स्थानीय तहले एकल अधिकारको विषयमा ऐन बनाउन सक्ने भएपनि ७५३ वटा तहले अलग अलग ऐन बनाउँदा र फरक फरक खालको ऐन बन्न सक्ने हुँदा सृजना हुन सक्ने अनेकौ समस्याको सम्बोधन ठिक समयमा गर्नु,
- ऐन कानून बनाउने तथा बजेट परिचालन गर्ने सम्बन्धमा स्थानीय तहको क्षमता अभिवृद्धि गर्नु,
- प्रदेश तथा स्थानीय तहहरूको आन्तरिक स्रोत परिचालनका लागि क्षमता अभिवृद्धि गर्नु,
- संविधानले दिएको अधिकारको प्रयोग गर्दै प्रदेश तथा स्थानीय तहले आफ्नो स्रोतको उचित परिचालन तर्फ ध्यान बढाउन सकेका छैनन् उनीहरूलाई आफ्नै स्रोतको खोजि गर्न सक्ने बनाउने चुनौति छ,
- प्रदेश तथा स्थानीय तहको लागि मार्गदर्शक मानिने संघीय निजामती सेवा ऐन जारी गर्ने र यो ऐन आउन ढिलाइको कारण सृजित अन्योलको सम्बोधन गर्नु,
- प्रदेश तथा स्थानीय तहमा कार्यरत जनशक्तिहरूको एकीकृत रुपमा अभिलेख राख्ने,
- वित्तीय संघीयताका संस्थागत आधारशिला खडा भए तापनि समता सहितको आर्थिक समृद्धिको पाटोमा सार्वजनिक वित्तीय साधनलाई निर्देशित गर्ने लगायतका चुनौती रहेका छन् ।

## अबको बाटो (Way Forward)

- तिनै तहका सरकारको काममा स्पष्टता,
- संरचनामा Overlap or Duplication हटाइ अघि बढ्ने,
- संघियताको भावना र मर्म अनुरूप कानून निर्माण,
- संघीयतालाई आत्मसात गर्ने गरि क्षमता विकास,
- कार्यजिम्मेवारी बमोजिम वित्तीय स्रोत, जनशक्ति तथा संरचनाको बाँडफाँड,
- चुस्त, स्वतन्त्र र निष्पक्ष नियमन प्रणालीको संस्थागत प्रबन्ध,
- संघ, प्रदेश तथा स्थानीय तहले हामी पूर्ण स्वतन्त्र सरकार होइनौ निश्चित सीमाभित्र काम गर्न मात्रै स्वतन्त्र हौ भन्ने कुराको आत्मसात ।

## निष्कर्ष

संघियता वा एकात्मकता जनतालाई चासो होइन । जनताको चासो त जीवनमा सकारात्मक परिवर्तन आएको महसुस हुनु हो । निस्पक्ष सेवा र सुविधाको खोजि हो । घर दैलोमा सेवाको अपेक्षा हो । प्रभावकारी, चुस्त र मितव्ययि सरकार जसले जनतालाई बोझ नबढावस भन्ने हो । सुशासनको अनुभूति हो । अन्यथा कुनैपनि परिवर्तनलाई जनताले सधै स्विकारी रहन्छन विकल्प खोज्दैनन भन्ने हुँदैन । संघियताको सन्दर्भमा पनि यही हो ।



across all sectors, helping tap into hidden potentials while equitably raising standards nationwide. Furthermore, Nepal's government, non-governmental agencies, and international agencies have continuously focused on harmonizing growth across the nation.

Therefore, province-level competitiveness studies in Nepal are of the utmost importance to provide provinces with a substantial opportunity to analyze where they stand and which sectors they have significant reforms to take in, thus guiding their overall growth and development. A quantitative measure of a province's competitiveness contributes to this narrative and guides the development of public policies and necessary budgetary support. For example, in the previous issue of the Nepal Competitiveness Index (NCI) 2022 report, it was evident how the strengths of different provincial governments were highlighted across various environments and indicators. This valuable insight helped the policy stakeholders in the country to identify areas for targeted investments and policy changes, underscoring the significance of such analyses.

Nepal has completed the first five years of federalization and held its second federal and provincial elections in November 2022. During the first five years of federalism, the policymakers at the federal and provincial governments worked to finalize basic mechanisms for the smooth operations of the newly created provincial governments. Meanwhile, the latter half of the five years were spent combating the pandemic.

With the second five-year term of the provincial governments beginning in 2023, the policymakers should focus on improving the provinces' inclusive growth and competitiveness. In this regard, the current study can help the provincial and federal governments guide their development priorities, including those of the development partners and the private sector actors, through the environment and indicator-wise study of the provinces. All provinces have their unique historical, cultural, and political contexts, leaving them in distinct development stages, even in a small country like Nepal. Through data-based analysis of the current status of the different provinces, the study suggests specific policy interventions required to develop them. It also seeks to act as an impetus for the provinces to learn from each other and increase inter-provincial policy collaborations.

# 1.5 Annual Thematic Focus

## Competitiveness Area

### 1.5.1 An Introduction to the Digital Economy

The term "digital age" refers to a historical era in which digital technology is widely used in many facets of human activity, including political activities, key economic sectors, and all major human interactions. The past two decades have seen an unprecedented use of digital technologies in all key economic pillars. During this period, digital technologies have driven both economic growth and innovation across these economies thus creating a new economic sector, i.e., digital economy. The digital economy is defined as the economic activity that's generated by human and technology connections formed online (*Deloitte, 2023*). Digitization will continue to upend established industries, simplify consumers' lives, and alter the economic landscape as new technologies increase globally.

As Nepal aims to graduate from the LDC category in 2026, it is well-positioned to take advantage of the available digital resources available. Nepal has shown extraordinary success with digital adoption compared to its neighbors, with mobile penetration exceeding 100 percent and internet penetration reaching 52 percent. The mobile phone penetration and internet penetration for SAARC economies are highlighted in Table 1.3:

**Table 1.3 Mobile Phone and Internet Penetration Rates for South Asian Countries (in Percentage)**

Economy	Mobile Phone Penetration	Internet Penetration
Afghanistan	57	18
Bangladesh	105	39
Bhutan	95	86
India	81	46
Maldives	137	86
Nepal	127	52
Sri Lanka	143	44
Global Average	108	63

Source: World Bank, 2023



According to the Nepal Telecommunications Authority (NTA), 2.25 million new Internet users were added in 2017 alone, translating into approximately 250 unique users every hour. Given its projected development rate over the following few years, Nepal is predicted to have the highest internet penetration by 2025 compared to other major economies such as China and India (DNF, 2019). The early success with mobile and the internet motivates Nepal to tap into the potential of digital technology to spur rapid growth.

The digital economy highlights the importance of digital technology in improving trade and competitiveness, economic opportunity and efficiency, and international economic integration of an economy. The GoN launched the Digital Nepal Framework (DNF) 2019 to transform the country into a digitally empowered economy. The DNF is designed to enable Nepal to harness its growth potential by leveraging new and emerging disruptive technologies through increased socioeconomic growth. The DNF comprises 80 initiatives divided into eight categories – digital foundation, agriculture, health, education, energy, tourism, finance, and urban infrastructure (DNF, 2019). The National Planning Commission (NPC) has deemed the DNF a game-changing initiative.

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The pandemic and related lockdowns have boosted adoption of digital services, making remote learning, e-commerce, and digital payments more crucial. As a result, when it comes to the issue of digital transformation, it is not a matter of if but when. However, to transform Nepal into a technologically advanced and rapidly expanding economy, it is crucial to implement digitization and digital governance to strengthen its digital infrastructure.

### 1.5.2 Interlinkages between the Digital Economy and NCI

History demonstrates that it takes time to manifest and gain valuable advantages of digital technology in an economy. The development of successful public policies to realize the promise of the digital economy will depend on having a solid grasp of the factors that affect productivity and the uptake of new technologies. Several growth accounting studies concentrate on particular regional groups of nations like Developing Asia and Latin America, implicitly comparing the contribution of Information Communication Technology (ICT) to growth in developing, emerging, and developed countries (Jorgenson

and Vu, 2005). The key takeaway from this study is that the main driver of economic growth is spending on tangible assets, such as Information Technology (IT) hardware and software. Transferring technology from developed to developing countries is relatively simple, but mobilizing capital inputs takes much more time and effort in an emerging countries like Nepal.

At the national level, the use of digital technology and GDP growth are closely related. The International Telecommunication Union (ITU) and the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries, and Small Island Developing States (UN-OHRLS) study found that a country's economy grows by 1.38 percent for every ten percent rise in fixed broadband penetration (ITU and UN-OHRLS, 2019). The report has emphasized a need for effective solutions in developing nations like Nepal to increase digital access and to develop specific policy proposals to hasten the transition to inexpensive and universal connectivity. In Nepal, although the DNF 2019 has identified key areas for intervention to improve Nepal's overall digital competitiveness considerably, the expected outcomes are sure to vary at the provincial levels due to changing access to and nature of digital economy-related infrastructures and resources with the seven provinces.

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**The government of Nepal launched the Digital Nepal Framework (DNF) 2019 to transform the country into a digitally empowered economy.**

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The NCI 2024 annual thematic focus is the "Digital Competitiveness Index" for Nepal's provincial governments, inspired by ACI's Digital Competitiveness Index, a framework broadly compatible with internationally recognized frameworks. The Digital Competitiveness Framework comprises four environments: Digital Infrastructure, Core Inputs, Digital Outputs, and Institutional Capacity. The Framework evaluates the level of digital competitiveness in Nepal's provincial economies. Given the latest data and existing literature, the study synthesizes all key factors that determine the overall competitiveness of the digital economy. Based on the performance of the provincial economies' digital competitiveness score, we rank Nepal's seven provinces. For example, some key indicators such as the installed electricity capacity, level of internet connectivity and use of digital services, and the state government budget on technical education - vary among the provinces. These factors determine the competitiveness level of individual provincial economies. The index identifies the best and the worst-performing provincial economies in Nepal. The Chapter IV will debunk how adopting digital technology affects the overall competitiveness of the provinces.