



Nepal Country Statement

Expert Group Meeting on the Preparation of the Triennial Review of the List of Least Developed Countries (LDCs)

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Introduction

In 2015, Nepal was found to have met two LDC Graduation Criteria- the Economic Vulnerability Index (EVI) and Human Assets Index (HAI).

However, the country was far behind in the income threshold.

Nepal has taken the graduation process with utmost seriousness and has engaged in a broad analytical and consultative process for over over seven years.



The UNDESA Report- Issues and Constraints



- Ex-ante gains and losses not likely to be seismic in scale at this stage due to the Nepal's existing pattern of trade and aid flows.
- On trade, there is likely to be loss of market when tariffs increase, for the landlocked Nepal is not a competitive economy.
- A gradual loss of concessional market access it currently enjoys in the world's largest economies will aggravate the merchandise trade deficit whose size already exceeds one third of national output.
- The United Nations and bilateral development partners are relatively smaller sources of direct development financing, but their role in the development process of Nepal remains important.



The UNDESA Report- contd.....



- Nepal would be deprived of LDC-targeted funds in the area of climate change in the future.
- Restrictions on the availability of other forms of development assistance, such as travel aid and sponsorships, will constrain opportunities for official representation at crucial international forums, and learning and capacity building of national institutions as well as young citizens and civil society.
- In sum, Nepal will feel the brunt of giving up several LDC-specific concessions, and will likely be under stress to manage the economic transition well at a time when there exist competing political priorities, such as the implementation of a new federal constitution.



Towards a Meaningful and Sustainable Graduation



- What is at stake on LDC graduation of Nepal is the overall readiness of the country to graduate meaningfully, smoothly, sustainably and irreversibly. It is on these substantive grounds, and not technical criteria per se, that Nepal lags behind.



Taking a Look at the Implications that Graduation Upholds for Nepal



- Economic Vulnerability Index (EVI) does not adequately capture atypical Nepal-specific vulnerabilities, such as:
 - The **devastating earthquakes of April 2015**,
 - the crippling economic disruptions as a result of a **border blockade from September 2015 to February 2016**,
Severe floods of August-September 2017, are a reminder of the continuing vulnerability of Nepal to external shocks.
- The reconstruction from the 2015 earthquakes and the 2017 flood will continue through 2020.
- The Human Assets Index (HAI), too, reflects “first generation” achievements in enrolment, literacy, undernourishment and mortality, and **does not reflect the crisis of quality in public services in Nepal**. Both the human assets and economic vulnerability indices, therefore, provide an imperfect fit to the country situation of Nepal.



Economic Stagnation



- Nepal's **economic stagnation**, goes back decades. The twenty-year period marked by armed conflict (1996-2006) and a protracted transition (2006-2017) has come to a halt, but economic recovery is yet to be attained.
- Nepal's per capita income stands well below the average income of LDC peers.
- Nepal is the first and only LDC to be considered for graduation without fulfilling the income criterion.
- The Committee sets the income graduation threshold at 20 percent above the inclusion threshold for entry into the LDC category. Nepal is well below both the graduation and the inclusion thresholds.
- For it to feel comfortable to embark on a graduation path that is smooth and sustainable, the achievement on the income criterion, in particular, should not be below the inclusion threshold or 20 percent of the requisite threshold.
- The dependence on remittances, relative to the size of the economy, is the highest in the world for a populous country, which is vulnerable to multiple external shocks beyond Nepal's control.
- GoN notes the observation cited in the DESA report that: "Nepal is unlikely to be on a sustained growth path and able to generate enough resources for development immediately after graduation".



UNCTAD Report on the Vulnerability Profile of Nepal



- The intrinsic economic vulnerability of Nepal is significantly underplayed because of the inadequacy to the case of Nepal of half of the components of the Economic Vulnerability Index.
- The EVI indices do not adequately capture Nepal-specific vulnerabilities, such as landlockedness, impact of mega natural disasters, etc.
- Nepal is economically much more vulnerable than it appears to be on the methodological and statistical grounds the United Nations presently leans on.
- The report concludes with “the progress in the social status of the country is deemed appropriately reflected under the human assets criterion.”



UNCTAD Report on the Vulnerability Profile of Nepal



The report shows the imbalance in Nepal's achievements across the three indices.

- (I) While eight of the 14 indicators appear to be satisfactory, five of them constitute the Human Assets Index (HAI); 5 of these 8 indicators make up the entire composition of the Human Assets Index (HAI),
- (II) The gross national income (GNI) per capita is not only low, but it also does not reflect a worrying process of *atypical* structural transformation ongoing in Nepal, where people are leaving agriculture, but are not being absorbed into higher productivity industrial and service activities,
- (III) The EVI appears to be truly deficient in accounting for Nepal's difficulties, with four of the eight components underplaying the structural disadvantage of landlockedness.

Indeed, in its future work, we request CDP to revise the EVI to make it more representative of the kind of structural vulnerabilities that countries like Nepal endure.



Ushering into Federalism



- In September 2015, Nepal adopted a new constitution that establishes a federal structure to uphold inclusive and participatory decision-making at federal, provincial and local levels.
- Through 2017, Nepal conducted, over five phases, a series of elections for local, provincial and federal parliaments and governments.
- Ensuring the successful completion of the democratic transition and the establishment of a functioning federal system of governance is the overriding concern of the Government.



Ushering in Federalism



- Political stability might finally pave the way for a degree of economic momentum and provide impetus to augmented growth in average per capita incomes.
- However, restructuring a 250-year old unitary state into a federal union poses a daunting combination of fiscal, administrative and legal challenges.
- This is an unexplored territory for Nepal, which will consume full political capital of the state in the immediate future. The reconstruction from the 2015 earthquakes and the 2017 flood will continue through 2020.



Transition to Graduation



- In view of the historical processes and events described above, there is a need for an amplified transition trajectory.
- It would be prudent for the transition to graduation to commence once the economic recovery and political revival are well underway.
- A more gradual withdrawal of international support measures would facilitate the shift to a sustained growth path that could generate adequate alternative resources for development subsequent to the loss of LDC status.
- While the stipulated transition interval is three years, we note that grace period, in practice, have varied according to specific country contexts.



The Mood for an “irreversible” Graduation in the Country



- The technical eligibility of Nepal also warrants close scrutiny. As stated at the outset, the mood in the country is for a meaningful graduation that is irreversible.
- Our ambition for graduation is keen and alive. A principal concern, however, is that Nepal is the first and only LDC to be considered for graduation without fulfilling the income criterion. Nepal would be the first LDC to graduate from below the income threshold.
- The Committee sets the income graduation threshold at 20 percent above the inclusion threshold for entry into the LDC category. Nepal is well below both the graduation and the inclusion thresholds.
- For it to feel comfortable to embark on a graduation path that is smooth and sustainable, the achievement on the income criterion, in particular, should not be below the inclusion threshold or 20 percent of the requisite threshold.



The Mood for an “irreversible” Graduation contd.....



- Nepal recognizes that a robust preparatory effort will be needed to catch up after years of political strife and tepid development effort.
- There is a need for a concerted effort to clear the backlog of pending legislation, and to accelerate the pace of public and private investment.
- The Government of Nepal, development partners, business and civil society need to mobilize together for a broadly- owned graduation process.



In Sum,



- Graduation - an integral part of Nepal's long-term development strategy to become a vibrant middle-income country by 2030. Not an isolated international milestone.
- It entails up-front costs and back-end benefits. The costs can be minimized and the benefits maximized with an **operative transition strategy and consultative process** in a climate of greater political stability and economic momentum.
- The vulnerability index needs to be looked into rather closely to make it inclusive of the vulnerabilities the countries like Nepal have to endure but are yet to be built into the criterion. Nepal looks forward to remain actively and constructively engaged in the process ahead.
- On this account, Nepal requests the Committee for Development Policy to revisit a possible recommendation for Nepal's graduation in the triennial review of 2021.



Thank you!

