

NEPAL
Country Statement

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List of Least Developed Countries (LDCs)

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Madam Chair,
Distinguished Members of CDP,
Representatives from the UN Secretariat,
Ladies and Gentlemen!

1. First of all, on behalf of the delegation of Nepal, I wish to thank the CPD and UNDESA for providing this opportunity to share our views at this Expert Group Meeting. As we consider the possibilities for graduating from the status of LDC, I am pleased to state that Nepal has taken this process with utmost seriousness and has engaged in a broad analytical and consultative process for over seven years.
2. We take note of recent assessments issued by relevant UN agencies that the ex-ante gains and losses after Nepal graduates from LDC status are not likely to be seismic in scale at this stage. This judgment is based on 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. Nepal will not be able to capitalize on the concessional market access it enjoys in the world's largest economies today. In development aid, Nepal relies on concessional lending from multilateral agencies which do not fully recognize the LDC category. However, linkages of impact are yet to be established with regard to international development cooperation framework. The United Nations and bilateral development partners may be relatively smaller sources of direct development financing, but their role in the development process of Nepal remains important. 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 to crucial international forums, and learning and capacity building of national institutions at a time the country embarks into the critical phase of state restructuring. In sum, Nepal will feel the brunt of giving up several LDC-specific concessions, and will be under stress to manage the transition well.
3. 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 for reasons explained next.

Mr. Chairman,

4. The devastating earthquakes of 2015, the crippling obstruction of border from September 2015 to February 2016, and the severe floods of August-September 2017 are a reminder of the recurring nature of different forms of vulnerability of Nepal to external shocks. These are not adequately captured by the Economic Vulnerability Index (EVI). 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.
5. More worrying is Nepal’s drawn-out economic stagnation, going back decades. It is only beginning to come out of a twenty-year period marked by the armed conflict (1996-2006) followed by a protracted transition (2006-2017). Nepal remains one of the poorest countries in the world, with a per capita income well below the average income of LDC peers. The dependence on remittances, relative to the size of the economy, is the highest in the world for a populous country. In this respect, we note 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” (page 25).
6. Furthermore, we take note of the thrust of UNCTAD’s Vulnerability Profile of Nepal. It states “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. Nepal is economically much more vulnerable than it appears to be on the methodological and statistical grounds the United Nations presently leans on.” In addition, this report shows the imbalance in Nepal’s achievements across the three indices.

First, while eight of the 14 indicators appear to be satisfactory, five of them constitute the Human Assets Index (HAI).

Second, 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 moving out of agriculture, but are not being absorbed into higher productivity industrial and service activities.

Third, 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.

Mr. Chairman,

7. A more positive development in Nepal is the imminent conclusion of the long democratic transition. In September 2015, we 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. Political stability might finally pave the way for 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.
8. 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 periods, in practice, have varied according to specific country contexts.
9. Moreover, 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. The country's ambition for graduation is 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.

10. Nepal recognizes that a robust preparatory effort will be needed to catch up after years of political strife and tepid development effort. It is opportune now to exercise the peace dividend of the democratic transition. 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.

Mr. Chairman,

11. Graduation from LDC status is an integral part of Nepal's long-term development strategy to become a vibrant middle-income country by 2030. We do not see this as an isolated international milestone. Graduation 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 faster economic pace.
12. Against this background, we request the Committee for Development Policy to revisit a possible recommendation for Nepal's graduation in the triennial review of 2021.

In the meantime, Nepal requests the CDP look into the vulnerability index 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.

I thank you for your kind attention.