CDP2018/PLEN/5.c

United Nations
CDP
Committee for
Development Policy

Committee for Development Policy
20th Plenary Session

United Nations
New York, 12-16 March 2018
Conference Room 6

Ex-ante Impact Assessment of likely Consequences of Graduation of
Nepal
from the Least Developed Country Category

SUSTAINABLE DEVELOPMENT GOALS

Contents

Summary and conclusions

This **ex-ante impact assessment for Nepal (see information in the sidebar)**, prepared at the request of the CDP for consideration at the 2018 triennial review, assesses the probable impact of the loss, upon graduation from the LDC category, of support measures relating to international trade; development cooperation; and general support measures.

In general, the assessment finds that, given the country's trade structure and the nature of its main cooperation partnerships, possible impacts are diverse across sectors. The main conclusions are summarized follows:

Trade

Market access – goods. Nepal's market access for some of its current exports may be negatively affected by graduation as its main exports enter a few markets with zero tariff under the benefit from preferential treatment for LDCs. Particularly, carpet export to Canada and EU, and apparel export to EU might be affected by tariff rise when Nepal loses eligibility for LDC-specific preferences.

The graduation might have an impact on the possible diversification of current exports into new markets. Most of the existing major exports would face higher tariffs in China. Vegetable and textile export may be difficult to diversity into new markets, such as Canada, EU, Japan and Turkey.

Diversification into potential export sectors may also be challenging, with a possible loss of LDC trade preference. A significant tariff increase is expected for herb and footwear in many of the major trading partners of Nepal. In general, diversification strategy is needed to incorporate these possible changes originated from the LDC graduation.

WHAT ARE **EX-ANTE IMPACT ASSESSMENTS** IN THE CONTEXT OF GRADUATION FROM THE LDC CATEGORY?

To graduate from LDC status, a country needs to be found eligible for graduation, based on criteria determined by the UN General Assembly, in two successive triennial reviews conducted by the Committee for Development Policy (CDP).

After a country is found eligible for the first time, the CDP requests that the United Nations Department of Economic and Social Affairs (UNDESA) prepare an ex-ante assessment of the expected impacts for the country of no longer having access to international support measures for least developed countries (LDCs).

This assessment is used, along with a "vulnerability profile" prepared by the United Nations Conference on Trade and Development (UNCTAD), the views of the concerned Government and other relevant information, as an input for the CDP's decision on whether to recommend the country for graduation once it is found eligibility for a second time.

Tariffs under LDC-specific market access schemes and default schemes

Product	HS	Bangladesh	Canada	China	EU	India	Japan	Turkey*	USA
Edible vegetables	**07**	**6.2/6.2**	**0/9.0**	**0/11.2**	**0/9.0**	**0/0**	**0/33.9**	**20.2/20.2**	**0.7/3.0**
Coffee, tea, and spices	**09**	**13.0/13.8**	**0/1.0**	**0/13.4**	**0/1.0**	**0/0**	**0/1.6**	**37.4/37.4**	**0/0.1**
Oil and herb	*12*	*1.5/1.5*	*0/7.0*	*0/8.9*	*0/7.0*	*0/0*	*0.7/55.5*	*17.2/17.2*	*6.4/6.8*
Preparations of vegetables	**20**	**12.7/12.7**	**0/18.1**	**1.0/21.0**	**0/18.1**	**0/0**	**0/15.2**	**54.4/54.6**	**2.3/5.5**
Plastics	*39*	*9.9/9.9*	*0/1.1*	*0.1/7.5*	*0/1.1*	*0/0*	*0/0.3*	*0/0.8*	*0.2/0.6*
Raw hides	*41*	*0/0*	*0/1.3*	*0.7/8.4*	*0/1.3*	*0/0*	*0/9.4*	*0/1.3*	*0/0.7*
Articles of leather	*42*	*16.0/16.0*	*0/0.9*	*0/14.6*	*0/0.9*	*0/0*	*4.0/10.6*	*0/0.8*	*5.9/5.9*
Paper	*48*	*13.7/13.7*	*0/0*	*5.9/6.3*	*0/0*	*0/0*	*0/0*	*0/0*	*0/0*
Man-made textile materials	**54**	**12.4/13.1**	**0/4.6**	**0/8.3**	**0/4.6**	**0/0**	**0/4.9**	**0/5.0**	**10.3/10.3**
Man-made staple fibres	**55**	**13.0/13.0**	**0/5.1**	**0/10.3**	**0/5.1**	**0/0**	**0/5.3**	**0/5.5**	**10.8/10.8**
Carpets	**57**	**7.9/7.9**	**0/6.1**	**0/13.3**	**0/6.1**	**0/0**	**0/4.7**	**0/5.8**	**2.1/2.1**
Apparel and clothing accessories	**62**	**14.3/14.7**	**0/9.1**	**0/15.9**	**0/9.1**	**0/0**	**0/8.7**	**0/9.1**	**10.7/10.7**
Other made up textile articles	**63**	**14.3/15.8**	**0/8.3**	**0/14.4**	**0/8.3**	**0/0**	**0/3.7**	**0/7.9**	**6.4/6.4**
Footwear	*64*	*15.4/15.4*	*0/5.4*	*0/17.0*	*0/5.4*	*0/0*	*2.7/67.6*	*0/5.4*	*15.4/15.4*
Iron and steel	**72**	**2.9/2.9**	**0/0.1**	**0/4.7**	**0/0.1**	**0/0**	**0/0.1**	**6.4/6.4**	**0/0.1**
Articles of iron or steel	**73**	**11.0/11.0**	**0/0**	**0/9.0**	**0/0**	**0/0**	**0/0**	**0.2/0.2**	**0/0.2**

Note: Products in **bold** are current major export products, and products in *italic* are potential export products; * 2013 data; Shaded area indicates current main destinations of the corresponding product; First figure is the average tariff as an LDC; Second figure is the possible average tariff as a non-LDC; Red represents a loss in preference more than 5 percentage point.

Source: TRAINS, accessed 26 July 2017

Market access – services. Service exports, especially professional services and tourism, have been gaining importance in Nepalese economy, and have been identified as export sectors with huge potential. The WTO "services waiver" allows WTO members to grant market access preferences in services for LDCs. The operationalization of this agreement is still incipient and does not yet allow for a full analysis of its likely practical implications for Nepal. Preliminary assessments on the mechanism suggest no major impacts.

WTO obligations. Nepal has been a member of WTO since 2004. As a recently acceded country, some of the special and differential treatments are not applicable to Nepal. For instance, it waived its right to the general transition period for LDCs under TRIPS agreement. Nepal has implemented the obligations under its terms of accession and thus, the graduation from the LDC category is unlikely to result in significant direct implementation cost.

Aid for Trade. The main Aid for Trade instrument that is specifically geared at LDCs is the Enhanced Integrated Framework (EIF), which represents a relatively small share of Aid for Trade flows to Nepal. The country would be eligible for support from the EIF for a period of up to five years after graduation.

Development cooperation:

- Nepal's dependence on foreign aid is significant, but most of the current support will likely remain unaffected by the country's graduation from the LDC category. Replies by major bilateral partners suggest that most development support to the country will not be affected by a change in Nepal's LDC status, although the forms of Germany's aid to Nepal might change from grants to loans, and terms of Japan and Republic of Korea's development loans may become less favorable.
- With respect to multilateral development partners, financial assistance and technical support by the ADB, IMF, and the World Bank, the main external financing sources for Nepal, would not be influenced by the possible graduation. Graduation may have a negative impact on the country's access to LDCF, while Nepal remains eligible for funds from the GEF and the GCF (not in the priority group).

General support measures:

- Graduation will not impact Nepal´s contributions to the United Nations regular budget and the budgets of most other United Nations organizations. It will minimally impact its contributions to the peacekeeping budget and the budgets of a small number of UN entities.
- After a transition period of up to five years after graduation, Nepal will no longer be eligible for funds supporting travel of representatives to the official meetings of the UN General Assembly.
- The country and its nationals may no longer benefit from other forms of support for travel to participate in international forums or from certain scholarships and fellowships. It would continue to have access to mechanisms dedicated to other developing countries.

1. Background scope and sources

At its 2015 triennial review of the list of least developed countries (LDCs), the Committee for Development Policy (CDP) considered Nepal eligible for graduation from the LDC category for the first time, as it met the human assets index and economic vulnerability index criteria, while remaining as a low income country (see the box).[1] Based on the 2015 triennial review outcome, the Committee requested the Department of Economic and Social Affairs (DESA) to prepare an ex-ante impact assessment of the likely consequences of graduation for Nepal.[2] The impact assessment is undertaken as an input to the triennial review in 2018 in conjunction with, and as a supplement to, the report on Nepal's vulnerability profile which is prepared by the United Nations Conference on Trade and Development (UNCTAD).

Scope of the impact assessment. The purpose of the ex-ante impact assessment is to examine the likely consequences of graduation for countries' economic growth and development. It identifies potential risk factors or challenges that countries may face after graduating in view of the possible change in the nature of support received by development and trading partners by evaluating the direct effects of graduation on the main international support measures (ISMs) extended to LDCs. Support measures fall into three main areas: i) international trade; ii) development cooperation; and iii) other general support (related to United Nations funding, support for travel to official meetings, and scholarships and research grants).[3]

Generally, the analysis considers only concrete support measures that are made available to the country concerned exclusively on basis of its LDC status. In international trade, the analysis first identifies products of interest on the basis of current bilateral trade flows and relevant policy documents. Then, it assesses to which extent these products benefit from LDC-specific preferential market access and how market access conditions would change after a possible graduation. If applicable, it also considers the impact of graduation on obligations within the World Trade Organizations and regional trading arrangements as well as the impact on Aid-for-Trade support. The impact of graduation on development cooperation is assessed in two steps. First, the assessment identifies major partners on basis of current development cooperation inflows and projects. Subsequently, and on basis of development cooperation policies and country-specific information from individual development partners, it identifies whether belonging to the LDC category is likely to significantly influence cooperation programmes or limits access to specific instruments. The impact of graduation on contributions to United Nations organizations is assessed by considering the hypothetical contributions a country would have to make to the most recent budget if the country did not have LDC status.

Graduation also has potential benefits, such as a heightened sense of national progress that accompanies a move out of the official lowest rung of the development ladder; increased political standing in regional and international institutions; and improved access to and conditions in

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[1] United Nations Committee for Development Policy, Report on the seventeenth session of the Committee for Development Policy, 1823-227 March 20153 (E/20135/33, Supplement No. 13)

[2] See Report on the seventeenth session of the Committee for Development Policy, 23-27 March 2015 (E/2015/33, Supplement No. 13).

[3] A comprehensive catalogue of LDC-specific international support measures is available at http://www.un.org/ldcportal.

financial markets; and more urgency and willingness to adopt policies to transform the economy toward more efficient resource allocations. The significance of these factors for individual countries and their consequences for economic growth and development can currently not be reliably established and quantified. Therefore, they are not addressed in the assessment.

Main sources. Sources used in this assessment include official data, relevant documents and studies published by the government, regional and international organisations and other relevant institutions. Information was specifically requested from the main development and trading partners of all LDCs to be considered for graduation by the CDP in 2018 on support measures, including the amount and/or type of preferences, benefits and assistance, as well as on the likely changes in those support measures should the country's graduation be confirmed.[4] UN DESA is very grateful to those Governments and institutions that participated and contributed to this exercise.

The draft report of the ex-ante impact assessment was circulated to the Government of Nepal for comments before being finalized for submission to the CDP Expert Group Meeting (EGM) consultations on 1-2 February 2018. The response is contained in Annex I.

[4] Responses were received from Australia, Austria, Brazil, the European Union, Finland, Germany, Ireland, the Netherlands, New Zealand, Norway, Portugal and Thailand as well as from the Enhanced Integrated Framework (EIF), the Global Environment Facility (GEF), the International Labour Organization (ILO), the International Telecommunication Union (ITU), the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), the secretariat of the United Nations Framework Convention on Climate Change (UNFCCC), the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (OHRLLS), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Programme (UNDP), the United Nations Educational, Scientific and Cultural Organization (UNESCO), the United Nations Population Fund (UNFPA), the United Nations Children's Fund (Unicef), UN Volunteers, the World Food Programme (WFP) and the World Trade Organization (WTO) (as of November 21).

Box 1. Graduation eligibility and the process towards graduation

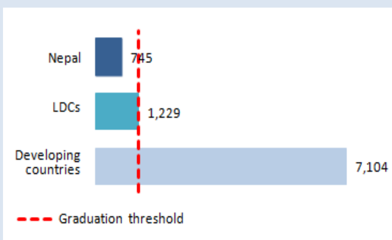
A country becomes **eligible** for graduation from the LDC category when it meets any **two of three criteria** in two consecutive **triennial reviews** conducted by the CDP. In the 2018 review, the criteria are as follows:

- GNI per capita of USD 1,230 or above (also referred to as the income threshold)
- Human Assets Index of 66 or above*
- Economic Vulnerability Index of 32 or below*

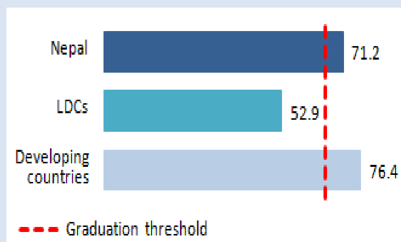
Alternatively, a country may become eligible for graduation if its GNI per capita is more than double the income threshold during two consecutive reviews.

Nepal´s eligibility. At the 2018 review, Nepal's GNI per capita is USD 745, well below the graduation threshold. Its human assets index (HAI) score of 71.2 exceeds the graduation threshold and its economic vulnerability index (EVI) score of 28.4 remains below the maximum threshold. Meeting the EVI and HAI criteria is sufficient for Nepal to have met the eligibility criteria for the second consecutive time.

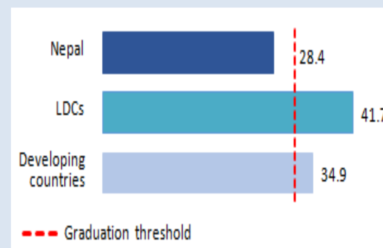
GNI per capita (USD)



Human assets index

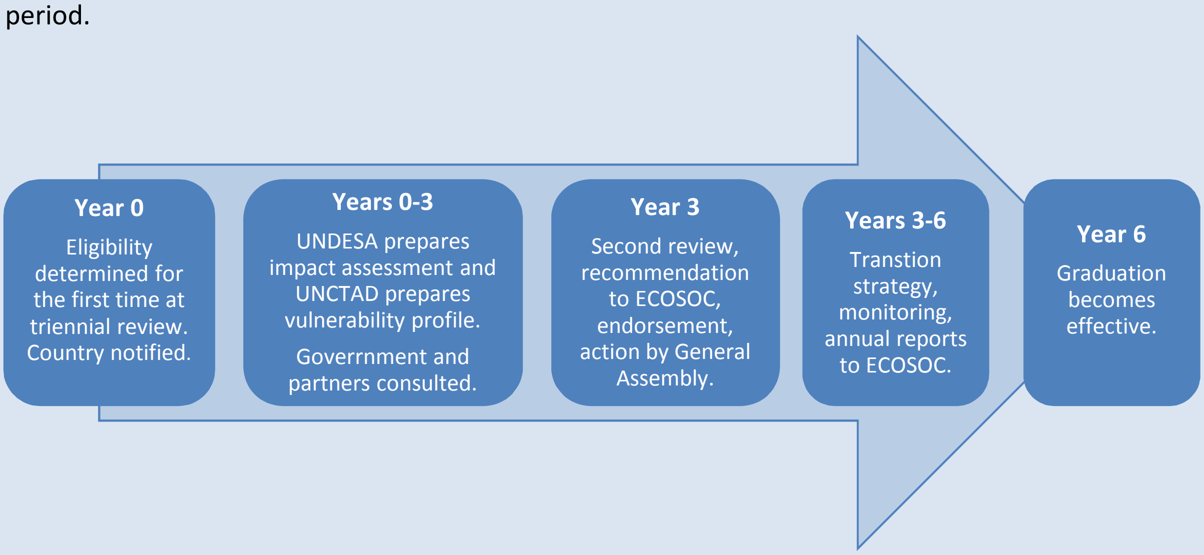


Economic vulnerability index



Data based on the 2018 triennial review

The process towards graduation. After the CDP recommends graduation, ECOSOC endorses and the General Assembly takes note of the recommendation. Graduation becomes effective three years after action by the General Assembly. Exceptionally, the General Assembly may decide on a longer transition period.



**For information on the composition of the indexes, see* https://www.un.org/development/desa/dpad/least-developed-country-category/ldc-criteria.html

2. Support measures related to trade

2.1 Nepal export: an overview

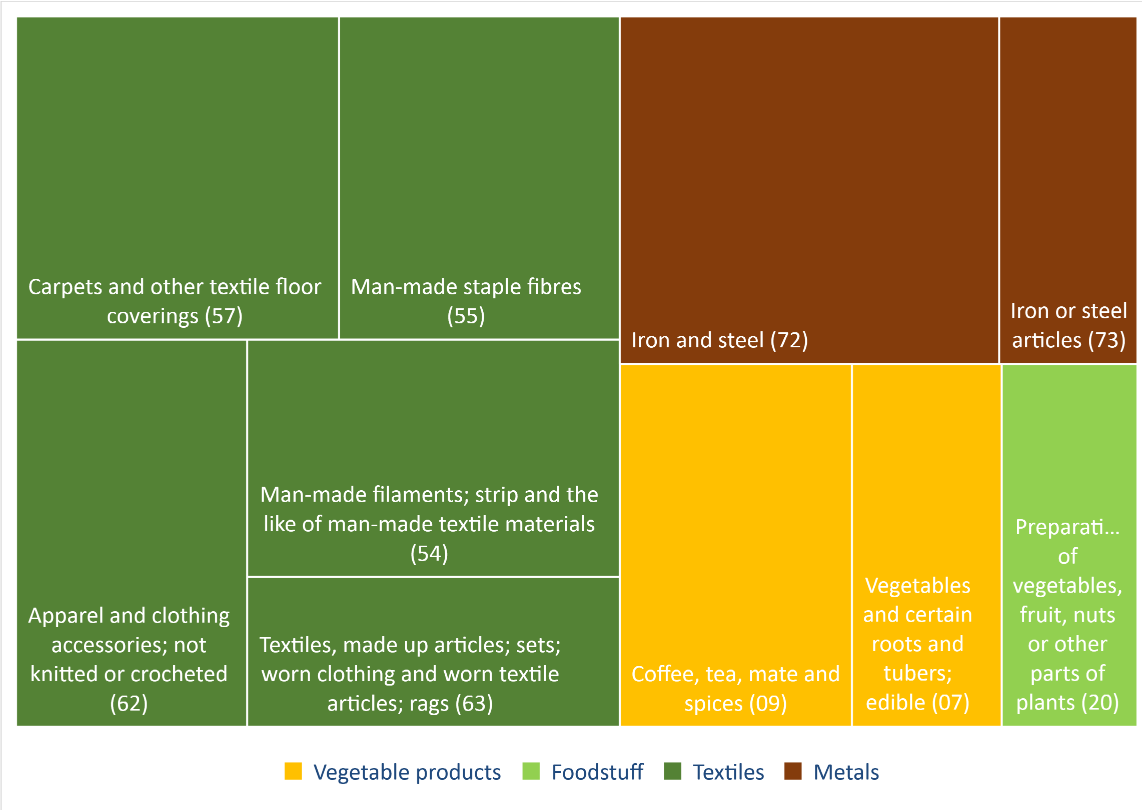
Nepal's economy is characterized by a large trade deficit and transfer surplus (table A.1). Its trade deficit reached almost 40 per cent of GDP in 2015. Remittance inflow, on the other hand, was as large as 30 per cent of GDP, compensating the deficit in trade. From 2009 to 2015, while export rose only by 20 per cent from $0.8 billion to $1 billion, import almost doubled, enlarging the trade deficit to $8.5 billion. In the same period, current transfers, most of them being worker's remittances also doubled from $3.1 billion to $6.6 billion. Services export show a small surplus, with tourism accounting for a significant part of the receipts.

Existing major export sectors

Figure 1 presents the top 10 major export commodities of Nepal, identified by the total export values over 2009-2015. By the first two digit of the Harmonized Commodity Description and Coding Systems 2012, so-called "chapter" of goods, iron and steel (HS 72) was the top exports, accounting for about 10.1 per cent of total exports in the time period. Carpets (HS 57) made up 8.3 per cent of total exports. Coffee and tea (HS 09), man-made staple fibres (HS 55), man-made textile materials (HS 54), and apparel and clothing accessories (HS 62) accounted for about 7 per cent each. Looking at broader product categories, textiles related products (HS 54, 55, 57, 62, and 63) are the most important exports (34 per cent), followed by agro-products (HS 07, 09, and 20; 15.6 per cent), and iron materials (HS 72 and 73; 13.9 per cent). For an LDC, Nepal's merchandise exports are relatively diversified.[5] Detailed data is presented in table A.2.

[5] According to the 2015 Triennial Review data, Nepal's export concentration (0.14) is lowest among LDCs (LDC average was 0.41).

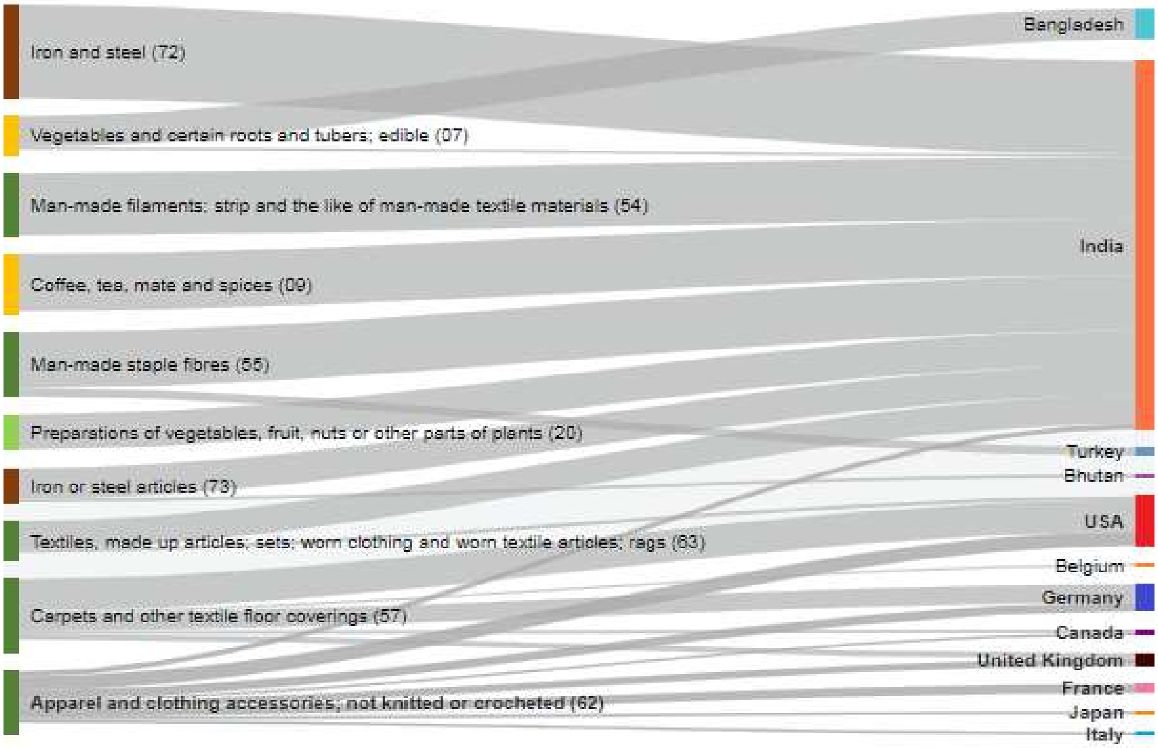
Figure 1. Top 10 commodity exports, 2009-2015 average



Source: Comtrade, accessed August 2017

Figure 2 illustrates the top destinations for those major exports. Top destinations for a particular product are identified by the share of the product export that all together add up over 80 per cent. India is the top destination for many of the main exports of Nepal. India has imported most of Nepal's coffee and tea, preparations of vegetables, textile materials, staple fibres, other textile articles, and iron and steel. Bangladesh was a major importer of edible vegetables. For carpets and apparels, the United States, Germany, and other EU countries are major destinations. Turkey imported some of the staple fibres, and China is becoming an important trading partner. Detailed data are presented in table A.2.

Figure 2. Nepal – Main Destinations of Top 10 Commodity Exports, 2009-2015 Average



Source: Comtrade, accessed August 2017

In the case of Nepal, trade data in the UNCTAD Comtrade database are consistent with the mirror data and national sources since 2009. Prior to 2009, however, there are considerable discrepancies between the original data and the mirror data in Comtrade, as well as trade data in national sources. Therefore, we use the Comtrade data since 2009 as the main data source. Some exports are excluded in the analysis, for instance, flavoured water (HS 22), as they are recorded only in the mirror data. The export was, however, only destined to India, and therefore it is not affected by a possible graduation of Nepal, as explained in the following section.

Potential export sectors

Additional to the major export commodities, there are rising export sectors with a potential to become major sectors to contribute to the total export in the future. If a country graduates from the LDC category and loses access to ISMs that may support the growth of such sectors, it could be an additional possible cost of the graduation. To identify these products, we use the development strategy papers by the Government of Nepal, and export sector studies conducted by international organizations.

The government of Nepal and the Enhanced Integrated Framework (EIF) have identified a number products that might have high potentials. Nepal validated its first Diagnostic trade integration study (DTIS), conducted by EIF, as the Nepal Trade and Competitiveness Study (NTCS) in 2004. Nepal's DTIS was completed in 2010, as the Nepal Trade Integration Strategy (NTIS). DTIS was updated in 2016, as the NTIS 2016, and identified a number of potential priority products, including oil and herb, leather, and footwear, as well as services like IT and tourism.[6]

UN DESA has commissioned a number of Growth Identification and Facilitation Framework (GIFF) studies on productive capacity in LDCs, to identify potential sectors to contribute to achieving sustainable development. The GIFF study for Nepal (2017) suggests suitcase, paper and plastic manufacturing as additional potential export sectors.[7]

Other international organizations also suggest a few priority exports for Nepal. Standards and Trade Development Facility (STDF) focuses on supporting Nepal in developing capacity to meet the standard requirement for food products, especially ginger.[8] United Nations Industrial Development Organization (UNIDO) identifies a number of products in the apparel and carpet sectors and proposes industrial policies to promote export.[9] International Trade Center selects promising export products for export promotion activities, based on Export Potential Assessments (EPAs), a data-based methodology.[10] Also, the Government of Nepal and ITC published sector export strategies to reduce non-Tariff barrier to realize potentials in cardamom, coffee, tea, and paper product exports.[11] European Economic Chamber of Commerce, Trade and Industry looked into a few sectors to find export potentials in Nepal.[12] See table A.3 for the detailed list of reports and priority products.

From those strategies and research, we identify six additional export products with high potential: Oil and herb (HS 12); Plastics (HS 39); Raw hides (HS 41); Articles of leather (HS 42); Paper (HS 48); and Footwear (HS 64). These product groups are included in the promising products in: i) the DTIS 2016 Update and at least one other study; or ii) DESA's GIFF study. As presented in table A.2, each of these products currently accounts only for 1-2 per cent of the total export during 2009-2015, but some of them, particularly leather products and footwear, show rapid upward trends prior to 2015. The destinations of these potential exports are more diverse than existing main exports. While India is still the major market for these products, China, Italy, United Kingdom, and the United States are starting to import these products from Nepal.

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[6] http://www.enhancedif.org/en/system/files/uploads/ntis_2016.pdf

[7] Xu, Jiajun and Sarah Hager (2017), Applying The Growth Identification And Facilitation Framework To Nepal, CDP Background Paper No. 35. Available at https://www.un.org/development/desa/dpad/document_cdp/cdp-publications/cdp-background-paper-series/

[8] STDF (2012), Ginger Competitiveness Project: Enhancing Sanitary and Phytosanitary Capacity of Nepalese Ginger Exports through Public Private Partnerships

[9] UNIDO (2002), Nepal: Industrial Development Perspective Plan - Vision 2020

[10] ITC (2017), Nepal: Export potential assessment

[11] Government of Nepal and ITC (2017), Sector Export Strategies, http://www.intracen.org/itc/trade-strategy/sector-strategies/

[12] EEC (2008), Study on Export Potential - An Analysis of Selected Sub-Sectors of Nepal

2.2 Preferential market access: goods and services

Trade in goods

WTO members grant reciprocal Most Favoured Nations (MFN) treatment to each other's exports, to ensure non-discriminatory and equal treatment among all signatories with respect to market access conditions. This notwithstanding the "Enabling Clause" was introduced in 1979, which allows developed countries to extend more favourable, non-reciprocal treatment towards the exports of developing countries in general. This is the legal basis to the Generalised System of Preferences (GSP) and deeper margins of preferences for LDCs which may or may not be WTO members. In 1999, Members of the WTO adopted a waiver that allows developing countries to extend preferential treatment to the imports from LDCs.[13] In 2005, at the Sixth Ministerial Conference in Hong Kong, WTO members committed to further improving market access conditions for LDCs, providing Duty-Free Quota-Free (DFQF) market access.[14]

As an LDC, Nepal can have access to preferential treatment extended to LDCs by developed countries including European Union and United States. Similar preferences have also been granted to LDCs by emerging and higher income developing countries and duty-free imports to these countries have been increasing in recent years.[15]

Nepal also receives market access concessions to LDCs through the regional trade agreement. The South Asian Association for Regional Cooperation (SAARC) Agreement on a South Asian Free Trade Area (SAFTA) entered into force in 1995.[16] Under SAFTA, the eight SAARC nations (Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka) have pledged to cut tariff rates on a product -by-product basis. The three LDC members, Bangladesh, Bhutan and Nepal, and one former LDC, Maldives, are granted additional market access preferences.[17] However, preference margin is not significant, due to a large number of goods excluded from the duty free treatment.

Independent of its LDC status, Nepal can access markets on a preferential basis due to its participation in bilateral and regional free trade agreements. Nepal has signed a bilateral trade agreement in 2002 with India, the top destination market for most of Nepal's exports.[18] United States also provides trade preference for a few products to Nepal until 2025, to assist the country to recover from the impact of the earthquake in 2015.[19] Negotiations for Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Free Trade Area have been initiated as well.[20]

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[13] WTO, WT/L/304/17, 17 June 1999. See also LDC Portal at https://www.un.org/ldcportal/preferential-treatment-to-merchandise-exports/
[14] WTO, WT/MIN(05)/DEC.
[15] See WTO, List of Preferential Trade Arrangements, http://ptadb.wto.org/ptaList.aspx
[16] http://commerce.nic.in/trade/safta.pdf
[17] Asian Development Bank, https://aric.adb.org/fta/indo-nepal-treaty-of-trade
[18] Asian Development Bank, https://aric.adb.org/fta/indo-nepal-treaty-of-trade
[19] https://www.congress.gov/114/bills/hr2659/BILLS-114hr2659ih.pdf
[20] http://bimstec.org/

For the products which have been identified in the previous section, we analyze the tariffs that are affected or not affected by the possible graduation from the list of LDCs. Nepal has been exporting to main destination markets through various preferential tariff regimes (table A.4). Should Nepal graduate, it may lose access to some of the LDC preferential schemes and become eligible for other tariff regimes (regular GSP, MFN, etc) immediately or with some transition period. Nepal will keep having access to existing bilateral and regional schemes, independent of its LDC status.

Table 1 summarizes the best available average tariffs on Nepal exports, to be imposed by major and potential trading partners for the above-mentioned top 10 exports and 6 potential exports, pre-, and post-graduation. Major trading partners, shaded cells, are the large importers which, cumulatively, account for more than 80 per cent of the total export of the particular product. Simple averages of all tariff lines at the two-digit HS code are presented as the main result. For the cases where tariff rates vary at a more detailed product level pre- and post-graduation, further discussion using detailed product codes, for example, at the six-digit, is presented in the text. The first number in a cell represents the best possible tariff for Nepal as an LDC. The second figure is the best possible tariff for Nepal as a non-LDC. Red figures present possibly large tariff margin losses for potential export products from a graduation. Thus, red figures in a shaded area for products in bold would represent a significant impact expected from a graduation on the current major export sector in main destinations.

Table 1. Import tariffs on products exported by Nepal, with and without LDC preferential treatment, 2015

Product	HS	Bangladesh	Canada	China	EU	India	Japan	Turkey*	USA
Edible vegetables	**07**	**6.2/6.2**	**0.0/9.0**	**0.0/11.2**	**0.0/9.0**	**0.0/0.0**	**0.0/33.9**	**20.2/20.2**	**0.7/3.0**
Coffee, tea, and spices	**09**	**13.0/13.8**	**0.0/1.0**	**0.0/13.4**	**0.0/1.0**	**0.0/0.0**	**0.0/1.6**	**37.4/37.4**	**0.0/0.1**
Oil and herb	*12*	*1.5/1.5*	*0.0/7.0*	*0.0/8.9*	*0.0/7.0*	*0.0/0.0*	*0.7/55.5*	*17.2/17.2*	*6.4/6.8*
Preparations of vegetables	**20**	**12.7/12.7**	**0.0/18.1**	**1.0/21.0**	**0.0/18.1**	**0.0/0.0**	**0.0/15.2**	**54.4/54.6**	**2.3/5.5**
Plastics	*39*	*9.9/9.9*	*0.0/1.1*	*0.1/7.5*	*0.0/1.1*	*0.0/0.0*	*0.0/0.3*	*0.0/0.8*	*0.2/0.6*
Raw hides	*41*	*0.0/0.0*	*0.0/1.3*	*0.7/8.4*	*0.0/1.3*	*0.0/0.0*	*0.0/9.4*	*0.0/1.3*	*0.0/0.7*
Articles of leather	*42*	*16.0/16.0*	*0.0/0.9*	*0.0/14.6*	*0.0/0.9*	*0.0/0.0*	*4.0/10.6*	*0.0/0.8*	*5.9/5.9*
Paper	*48*	*13.7/13.7*	*0.0/0.0*	*5.9/6.3*	*0.0/0.0*	*0.0/0.0*	*0.0/0.0*	*0.0/0.0*	*0.0/0.0*
Man-made textile materials	**54**	**12.4/13.1**	**0.0/4.6**	**0.0/8.3**	**0.0/4.6**	**0.0/0.0**	**0.0/4.9**	**0.0/5.0**	**10.3/10.3**
Man-made staple fibres	**55**	**13.0/13.0**	**0.0/5.1**	**0.0/10.3**	**0.0/5.1**	**0.0/0.0**	**0.0/5.3**	**0.0/5.5**	**10.8/10.8**
Carpets	**57**	**7.9/7.9**	**0.0/6.1**	**0.0/13.3**	**0.0/6.1**	**0.0/0.0**	**0.0/4.7**	**0.0/5.8**	**2.1/2.1**

Apparel and clothing accessories	**62**	**14.3/14.7**	**0.0/9.1**	**0.0/15.9**	**0.0/9.1**	**0.0/0.0**	**0.0/8.7**	**0.0/9.1**	**10.7/10.7**
Other made up textile articles	**63**	**14.3/15.8**	**0.0/8.3**	**0.0/14.4**	**0.0/8.3**	**0.0/0.0**	**0.0/3.7**	**0.0/7.9**	**6.4/6.4**
Footwear	*64*	*15.4/15.4*	*0.0/5.4*	*0.0/17.0*	*0.0/5.4*	*0.0/0.0*	*2.7/67.6*	*0.0/5.4*	*15.4/15.4*
Iron and steel	**72**	**2.9/2.9**	**0.0/0.1**	**0.0/4.7**	**0.0/0.1**	**0.0/0.0**	**0.0/0.1**	**6.4/6.4**	**0.0/0.1**
Articles of iron or steel	**73**	**11.0/11.0**	**0.0/0.0**	**0.0/9.0**	**0.0/0.0**	**0.0/0.0**	**0.0/0.0**	**0.2/0.2**	**0.0/0.2**

Note: Products in **bold** are current major export products, and products in *italic* are potential export products; * 2013 data; Shaded area indicates current main destinations of the corresponding product; First figure is the average tariff as an LDC; Second figure is the possible average tariff as a non-LDC; Red represents a loss in preference more than 5 percentage point.

Source: TRAINS, accessed 26 July 2017

Potential impact of graduation on tariff preferences on major products in main markets

- Bangladesh is one of the main destinations of edible vegetables (HS 07). Lentils (HS 071340) are the main export product in this product group. Given that lentils would continue to face zero tariffs (not covered by SAFTA but zero tariff under MFN), graduation would have no significant impact.
- Carpet exports (HS 57) to Canada may face a higher tariff after graduation, depending on the types of the carpet. Under Canada's GSP-LDC, all products are duty free (28 tariff lines at the 8-digit level). Under the regular GSP for non-LDCs, some will remain at zero per cent (8 products), but some will be taxed (8 per cent for 6 products, and 10 per cent for 4 products). Current carpet exports by Nepal to Canada are the ones knotted of wool or fine animal hair (HS 570110), and, after graduation, the tariff rate will remain at zero for hand knotted carpets (HS 57011090), but it will jump to 10 per cent for machine knotted carpets (HS 57011010). See table A.4 for additional information on Canada's tariff regimes.
- The trade preference granted by the EU are highly utilized by Nepal: among the Nepalese exports that were eligible for EU's preferential scheme, 92 per cent benefited from the preference in 2015.[21] Notably, all apparel exports (HS 62), of which EU is one of the main destinations, entered the EU market under preferential trade scheme. Should Nepal graduate, it will lose eligibility for EBA after a transition period, and would become eligible for GSP. It may also be possible for Nepal to qualify for the GSP+ scheme (which is more favourably than GSP), if it meets some additional conditions (see table A.4 for additional information). The change may imply some tariff rises for a few major products. Apparel and clothing accessories (HS 62), for instance, will face a higher tariff rate (9.1 per cent) on average under EU's GSP scheme when Nepal is no longer eligible for EBA. At the 10-digit product code level, most of the tariff changes would be from zero to 9.6 per cent, and some are from zero to 5.0, 5.2, or

[21] Eurostat, http://epp.eurostat.ec.europa.eu/newxtweb/mainxtnet.do

6.4 per cent. United Kingdom's exit from EU does not seem to have a significant potential impact, as UK will establish unilateral trade preferences scheme to support economic and sustainable development in developing countries, including beneficiaries of the EBA, standard GSP and GSP+ tiers.[22]

- In the case of India, tariffs based on the Indo-Nepal Treaty of Trade are applied to all exports from Nepal, regardless of Nepal's LDC status. There will be no impact of the graduation on most of Nepal's major export products, such as Coffee, tea, and spices (HS 09), Preparation of vegetables (HS 20), textile-related products (HS 54, 55 and 63), and iron and steel products (HS 72 and 73), for which India is the main destination.
- Turkey is among the main destinations for vegetables (HS 07) and yarn (HS 55). The coverage of GSP of Turkey for the vegetable product group is very low: out of 171 products at 12-digit level, only two products, frozen sweetcorn (HS 71040000000) and preserved sweetcorn (HS 71190300000) have lower than 3 per cent of tariffs. MFN rates ranging from 5 to 50 per cent are applied to all other vegetables in that group, and therefore not much impact of graduation is expected. For yarn export (HS 55), while the average tariff would jump from zero to 5.5 per cent at 2-digit level, current main exports of Nepal in that group (HS 550921, 550922, and 550951) will face only 3.4 (regular GSP) or 4 (MFN) percentage point increase. Therefore, immediate changes are not expected for the exports for which Turkey is the main destination.
- While the United States is one of the main destinations for some of Nepal's export products (HS 57, 62, and 63), the impact of the possible loss of preference is unlikely to be large. First, the utilization rate of preference is low. In 2015, only 6 per cent of Nepalese export entered the US market under the GSP-LDC scheme. The bilateral free trade agreement between US and Nepal covers only a handful of products, and the trade vale under the bilateral scheme has been merely $173,000 per month since May 2017.[23] Current carpet exports from Nepal to United States are knotted wool or fine animal hair ones (HS 570110), not covered by GSP-LDC, with MFN rates of zero or 4.5 per cent, depending on the type. Likewise, the coverage of GSP-LDC is low for apparel and clothing articles (HS 62 and 63).

In sum, for the existing major products and existing main destinations (see bold red numbers in shaded cells in table 1), textile and apparel products are potentially affected by significant changes in tariff rates in EU (for HS 62). Tariff rates on carpet export (HS 57) to Canada and EU may increase for machine knotted carpets after graduation.

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[22] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/654714/Preparing_for_our_future_UK_trade_policy_Report_Web_Accessible.pdf

[23] https://dataweb.usitc.gov/

Potential impact of graduation on diversification

- Nepal may be constrained in diversifying into other markets when preferential tariffs are no longer applied (see bold red numbers in non-shaded cells in table 1). Exports of edible vegetable (HS 07), for example, won't be significantly affected by Nepal's graduation because the main destinations markets, Bangladesh and Turkey, would not change the tariff based on LDC status. Diversifying to other markets, however, such as China, EU, or Japan, could be difficult as tariff rates increase from zero to 9-34 per cent on average.
- Nepal's effort to diversify export products may be limited by possible increase in duties applied to its potential products after its graduation (see italic red numbers in table 1). For example, the average MFN tariff rates imposed on oil and herb products (HS 12) are 8.9 per cent in China, 7 per cent in Canada and EU, and 55.5 per cent in Japan, significantly higher than the preferential rates for LDCs. Nepal may find difficulties in exporting leather products (HS 41 and 42) to China or Japan, if it loses trade preference after graduation. Similarly, footwear exports (HS 64) may be negatively affected by LDC graduation as their duty rate may increase by 5-65 percentage points in Canada, China, EU, Japan, Turkey and United States.

To summarize, for existing major exports, diversifying into new markets may be constrained by possible increase of tariff rates after graduation: vegetables to Canada, China, EU, and Japan; coffee and tea to China; textile to China; yarns to Canada, China, EU, and Japan; carpets to China and Turkey; apparels to Canada, China, EU, Japan and Turkey; iron articles to China. Diversifying to potential export products may also face higher tariffs after graduation: oil and herb to Canada, China, EU, and Japan; plastics to China; leathers to China and Japan; footwear to Canada, China, EU, Japan and Turkey.

Many of the preferential market access destinations do not have provisions for smooth transition, while some have ad-hoc arrangements after countries graduated. The only GSP scheme that has a pre-determined transition period is EU's EBA programme which grants a transitional period of at least three years (see details in table A.4).

Trade in services

In 2011, Members of the WTO adopted the decision on preferential treatment to services and services suppliers of LDCs. The decision exempts WTO members from the obligation of treating all members equally and allows them to grant market access preferences in services for LDCs. At the Nairobi Ministerial Conference in December 2015, the waiver was extended to December 2030.[24]

Trade in services can be categorized into four different modes: 1) Cross Border, supplied from a country into another (e.g., software services); 2) Consumption Abroad, supplied in a country to the consumer of another (e.g., example: tourism, education, health, aircraft repair); 3) Commercial Presence, supplied through any type of business or professional

[24] WTO, T/MIN(15)/48.

establishment of a country in another (e.g., branch of a foreign bank); 4) Presence of Natural Persons, supplied by national of a country in another. LDCs and trading partners have been working on identifying the constraints in those modes. In 2015, LDCs made requests to remove restrictions in diverse sectors and modes, and in response to that, 25 developed and developing countries identified sectors and modes where they intend to provide preferential treatment to LDCs.[25]

It is difficult to identify specific impacts of LDC graduation on the service waiver, as the implementation of the waiver has just begun. Preliminary assessments indicate that it is difficult to assess the true effectiveness of the preferential market access in services, and that many commitments focus on Mode 2 where there are few barriers anyway, with some potentially valuable preferences in Mode 4.[26] Moreover, since the waiver became effective in practice in 2015, it is too early to find any changes in the service trade data in any countries.

Research focusing on the constraints in service export of LDCs suggests that the impact of the service waiver, by itself, is not likely to be large. For professional services in Mode 1, for example, most of the constraints in LDCs, including Nepal, are supply side problems – physical infrastructure such as electricity, road, IT connectivity, and soft infrastructure such as institutions, law, etc.[27] Obstacles relating to restrictions in supply side are unlikely to be remedied through a demand side policy -- the application of preferences via the service waiver.[28] The impact of market access preference in service export of Nepal will be realized and become measurable only when the service waiver is complemented by adequate supply capacity development and better targeted aid for trade support.

2.3 Trade-related capacity building

Nepal's LDC status allows access to the Enhanced Integrated Framework (EIF) to receive financial and technical assistance on removing obstacles to trade development. Under the EIF, Tier 1 funds can be used to fund the preparation of Diagnostic Trade Integration Study (DTIS) and to provide support to National Implementation Units. Tier 2 funds are available to finance priority small-scale projects to build up trade-related and supply-side capacities.[29] Nepal has four on-going or completed Tier 2 projects with the budget of about $8 million in total.[30]

Graduation of Nepal from the LDC category will not immediately affect the current programme in effect or under consideration. The EIF provides transitional support to the

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[25] WTO, S/C/W/356, S/C/M/121.
[26] http://www.unescap.org/sites/default/files/Trade Insights - Services LDC - Issue No. 13 REVISED.pdf
http://unctad.org/meetings/en/SessionalDocuments/ditc-05072016-LDCWaiver-AssessmentPaper.pdf
[27] UNCTAD (2011) Services Policy Reviews: Nepal; UNCTAD (2011) Services Policy Reviews: Uganda; UNCTAD (2013) Services Policy Reviews: Rwanda.
[28] Pierre Sauve and Natasha Ward (2016) A trade in service waiver for least developed countries: towards workable proposals, in Pierre Sauve and Martin Roy ed., Research Handbook on Trade in Services.
[29] Additional information available at www.un.org/ldcportal.
[30] https://www.enhancedif.org/en/country-profile/nepal

graduated countries for a period up to five years to help them to ensure a smooth transition after graduation from LDC status.[31]

Specialized training and technical assistance in trade can continue to be provided to Nepal under the framework of the Aid-for-Trade, which is available for all developing countries, if the country graduates from the LDC category. According to the WTO, the total Aid-for-Trade amounted to $10.6 billion for LDCs, accounting for 26 per cent of the total in 2015.[32] Nepal received US$397.9 million in Aid-for-Trade in 2015, equivalent to about one third of the total ODA received. Focus areas are banking and financial services ($124.9 million), transportation and storage ($82.5 million), agriculture ($75.2 million), and energy sector ($71.1 million).

2.4 Special and differential treatment regarding WTO obligations

LDC members of WTO may benefit from special considerations in the implementation of the organization's agreement. For example, they are exempted from certain disciplines such as the prohibition on export subsidies, and granted longer implementation periods, reduced reporting obligations under the trade policy review system, and so on. Such special and differential treatments (SDTs) fall into five categories: (i) increased market access; (ii) safeguarding of the interests of LDCs; (iii) increased flexibility for LDCs in rules and disciplines governing trade measures; (iv) extension of longer transitional periods to LDCs; and (v) provision of technical assistance. SDTs cover various areas, such as agriculture, investment, intellectual property rights, rules of origin and so on. Graduation from LDC status implies that differential treatment in the observance of WTO disciplines will not be allowed after graduation.

Nepal has been a member of WTO since 2004. As a recently acceded country, while many of the SDTs are not applicable for Nepal, the graduation may have implications on a few SDTs. We look into the possible impact of Nepal's graduation on trade facilitation, and intellectual property, just as examples.

Trade facilitation agreement

The Trade Facilitation Agreement (TFA), which came into force on 22 February 2017, aims to expedite the movement, release and clearance of goods, including goods in transit. It also sets out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues.[33] TFA contains SDT provisions that allow LDCs to determine their own implementation schedule of the individual provisions in the agreement.[34] This SDT also allows LDCs that lack the necessary

[31] Based on input by EIF, October 2017.
[32] https://www.wto.org/english/res_e/booksp_e/aid4trade17_e.pdf
[33] https://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm
[34] https://www.un.org/ldcportal/trade-facilitation-agreement-special-and-differential-treatment-for-ldcs/

capacity for the implementation of the agreement to request technical assistance and support for capacity building.

As an LDC, Nepal can categorize TFA provisions in Category A (implement within one year after the agreement's entry into force), Category B (implement after a transitional period following the entry into force of the agreement) or Category C (implement after a transitional period following the entry into force of the agreement and requiring the acquisition of assistance and support for capacity building). As of mid-2017, Nepal has notified on two measures, pre-shipment inspection, and use of customs brokers, as Category A.[35]

There is no pre-determined rule or provision for the smooth transition of graduation for TFA. For example, in case Nepal becomes a non-LDC, it is not clear whether or how the implementation schedule that Nepal had notified for each TFA provision would change. The issue will be determined on a case-by-case basis at the meeting of TFA board members.[36]

Trade – related Intellectual Property Rights Agreement

The Trade –related Intellectual Property Rights (TRIPS) Agreement, which came into effect in 1995, is to date the most comprehensive multilateral agreement on intellectual property. The areas of intellectual property that it covers are: copyright and related rights (i.e. the rights of performers, producers of sound recordings and broadcasting organizations); trademarks including service marks; geographical indications including appellations of origin; industrial designs; patents including the protection of new varieties of plants; the layout-designs of integrated circuits; and undisclosed information including trade secrets and test data. Under the TRIPS agreement, LDCs have not been required to implement the Agreement, other than Article 3 (national treatment), Article 4 (MFN treatment) and Article 5 (precedence of WIPO procedures), until 1 July 2021, as the transition period for LDCs has been extended.[37] For pharmaceuticals, the transition period for LDCs is until 1 January 2033.[38]

Nepal has asserted its right to the specific transition period but waived the right to the general transition period by committing to implement the TRIPS obligations within no more than three years from the date of accession. In its terms of accession, Nepal committed to fully comply with the TRIPS Agreement by no later than 1 January 2007.[39] Nevertheless, in its Report of the Working Party on the Accession, Nepal explicitly declared that it would be entitled to the flexibilities contained in the Doha Declaration on

[35] https://www.tfadatabase.org/members/nepal
[36] Based on correspondence with WTO secretariat, May 2017.
[37] WTO (2013), IP/C/64
[38] WTO (2015), IP/C/73.
[39] Report of the Working Party on the Accession of the Kingdom of Nepal to the World Trade Organization, Working Party on the Accession of Nepal, WTO Doc. WT/ACC/NPL/16, 28 August 2003, para. 138.

the TRIPS Agreement and Public Health, including the pharmaceutical-specific transition period.[40]

As a result, graduation would not impact its general obligations under the TRIPS agreement, as Nepal waived the right for an extended general transition period in the accession package. Consequently, Nepal's graduation is unlikely to result in significant direct implementation costs. However, after graduation Nepal would lose access to the specific transition period for pharmaceuticals and would have to include the pharmaceutical sector into its IPR regime. This may negatively affect Nepal's ability to produce and import generic versions of patented medicines. Nepal would also lose access to receive technology transfer under Article 66.2 of the TRIPS agreement, though it is not clear to which extent technology transfer received in relation to this article is indeed LDC specific.

3. Development Cooperation

Aid flows to Nepal are significant: the ODA/GNI ratio was 5.7 per cent in 2015, having increased from 4.5 per cent in 2013.[41] Per capita ODA of Nepal was $10.3 in 2015, third highest among 13 LDCs with more than 20 million population, following Mozambique ($20.6) and Tanzania ($16.8).[42] The net total ODA inflow was $1,215.8 million in 2015, and a half of the total gross ODA was from bilateral partners (table A.5). Nepal's development partners have been involved in various projects to support the implementation of Nepal's national development plans to address poverty as well as the country's several challenges to achieve sustainable development.[43]

3.1 Official Bilateral Flows

United Kingdom, United States, Japan, Germany and Norway are the top five bilateral DAC donors during the period of 2006-2015 (figure 3). In recent years, Switzerland ($ 36.98 million in 2015) became an important donor. Moreover, India ($ 35.8 million) and China ($35.4 million) are important provider of South-South cooperation.[44] About a half of bilateral ODA has been allocated mostly to social infrastructure and services in the period 2006-2015 (table A.6). The focus on the social sector is observed among all major partners (table A.7).

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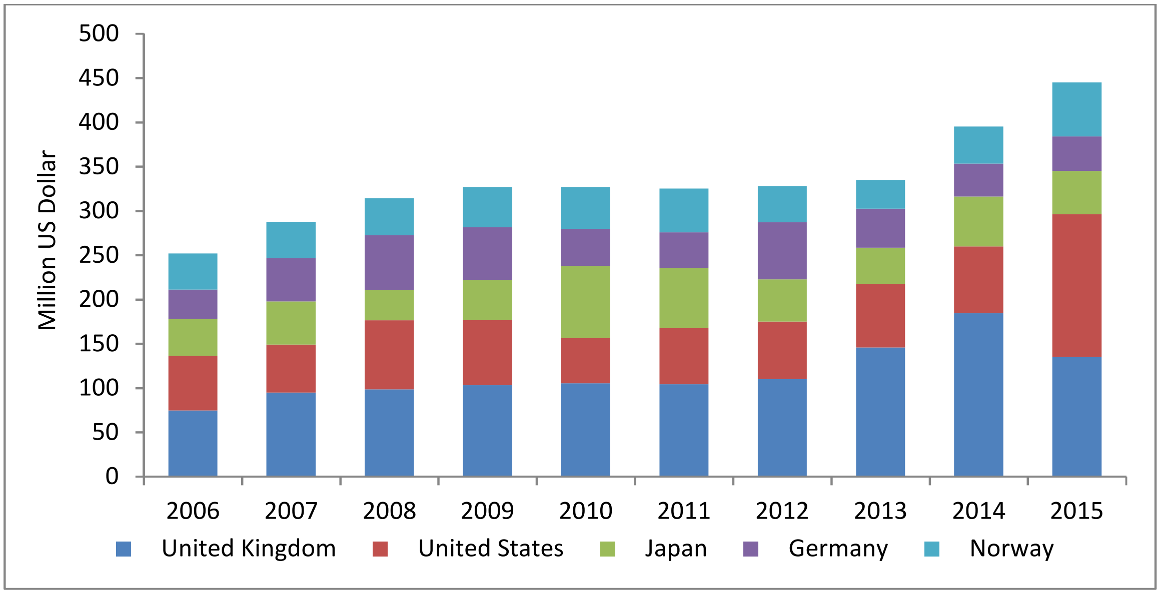
[40] Ibid, para. 129.
[41] OECD/DAC, Aid at a glance: Nepal
[42] Calculated from OECDstat and UN Population database.
[43] Nepal Ministry of Finance, Development cooperation Report, FY 2015/16, March 2017.
[44] Nepal Ministry of Finance, Development cooperation Report, FY 2015/16, March 2017. China and India data are not included in figure 3 or tables in the annex, as they are not reported in OECD/DAC.

Figure 3. Bilateral ODA disbursements to Nepal by major donors, 2006-2015, total net value



Source: OECDstat, accessed 12 June 2017

Most bilateral donors' development assistance plans and strategies in place seem to have been established regardless of Nepal's status as an LDC. Therefore, the impact of graduation on development cooperation would be minimal. However, the forms of Germany's aid to Nepal might change from grants to loans, and terms of Japan and Republic of Korea's development loans may become less favorable. Table 2 summarizes the post-graduation perspectives for major development partners.

Table 2. Summary of post-graduation perspectives for major development partners of Nepal

Partner	Post-graduation perspective	Source
	Bilateral	
China	Aid is not likely to be affected by Nepal's graduation.	Development cooperation strategy[45]
Germany	A graduation would lead to a switch from grants mainly to very concessional credits in German financial cooperation loans. Due to the low rating of the country, Nepal would not gain additional access to loans with market based financial conditions or near-to-market based financial conditions.	Response to DESA
India	Aid is not likely to be affected by Nepal's graduation.	Development cooperation strategy[46];

[45] http://english.gov.cn/archive/white_paper/2014/08/23/content_281474982986592.htm
[46] http://www.mea.gov.in/development-partnership-administration.htm

		Ministry of Finance[47]
Japan	The terms of Japanese ODA Yen loan will change depending on the country's income level and the projects, after graduation. For instance, the interest rate may increase from 0.01 per cent to 0.25 per cent for medical care projects, if the country graduates from LDCs and categorized as a low income country.	Development cooperation strategy [48]
Norway	Norway's aid to Nepal does not appear to be dependent on Nepal's LDC status.	Development cooperation strategy[49]
Switzerland	Aid by Switzerland is not likely to be affected by Nepal's graduation.	Development cooperation strategy[50]
United Kingdom	DFID will continue supporting the country with possibly revised strategies based on changing contexts after graduation.	Response to DESA
United States	The strategy does focus on lifting Nepal out of its LDC status, but does not indicate if its aid strategy would change or adjusted after graduation.	Development cooperation strategy[51]
Multilateral		
ADB	Nepal's access to funds provided by the ADB is not contingent on its status as LDC	ADF[52]
European Union	No details available yet. Specific situations and vulnerabilities of Nepal are expected to be considered.	Response to DESA
GAVI	The support from GAVI does not depend on LDC status.	Development cooperation strategy[53]
IFAD	LDC status is not part of the allocation formula of IFAD. A graduation would have no impact on aid from IFAD.	Input to the previous DESA survey for UNDS
IMF	Nepal's access to funds provided by the IMF is not contingent on its status as LDC	IMF Lending[54]
UNDP	The percentage allocation of UNDP's core resources to LDCs has been established at a minimum of 60 per cent of the core budget. Nepal will be out of this focus group but the impact is not measurable. A number of programmatic interventions of UNDP are either in place or anticipated to support Nepal's smooth transition, including around building productive capacities. The focus areas will be coordinating support for a smooth transition, localizing	Response to DESA

https://www.itecgoi.in/index.php
[47] Ministry of Finance, National Budget, financial year 2017-18.
[48] http://www.np.emb-japan.go.jp/oda/odapolicy.pdf
[49] https://www.norad.no/en/front/countries/asia-and-oceania/nepal/
[50] https://www.eda.admin.ch/content/dam/deza/en/documents/laender/cooperation-strategy-nepal_EN.pdf
[51] https://www.usaid.gov/nepal/cdcs
https://www.usaid.gov/sites/default/files/documents/1861/CDCS%20summary_Final.pdf
[52] https://www.adb.org/site/funds/adf
[53] http://www.gavi.org/about/programme-policies/eligibility-and-transition/
[54] http://www.imf.org/en/About/Factsheets/IMF-Lending

	the SDG achievement as a framework for LDC graduation, increasing resilience to shocks, post-graduation financing mechanisms, and trade facilitation.	
UNFCCC	The project approved and funded by LDCF will continue to completion. Nepal will remain eligible to access other financing sources of UNFCCC, such as the GEF Trust Fund, the Special Climate Change Fund, the Adaptation Fund, and the Green Climate Fund (GCF). For the GCF, however, Nepal would be excluded from the priority group, such as LDCs, SIDS and African States.	Development cooperation strategy, Response to DESA
UNFPA	UNFPA's Country Classification System includes some LDC criteria, such as GNI, Maternal Mortality Ratio, humanitarian risk and population size. As LDC status per se is not a UNFPA Country Classification indicator a shift in LDC status will not automatically trigger changes to UNFPA assistance.	Input to the previous DESA survey for UNDS
UNHCR	UNHCR's operation is not necessarily associated with the LDC status.	Development cooperation strategy[55]
UNICEF	UNICEF has a 60% minimum arrangement for its programme budget allocation to LDCs. Nepal may lose this priority upon its graduation, but the impact is not currently quantifiable because the budget allocation targets are set for LDCs as a group, not for each LDC.	Input to the previous DESA survey for UNDS
WFP	WFP will continue to support Nepal after graduation, and is currently in the process of developing a new Country Strategic Plan	Response to DESA
WHO	The operation of WHO is not associated with the LDC status, and thus graduation would not affect WHO aid.	Development cooperation strategy[56]
World Bank	Nepal's access to funds provided by the World Bank is not contingent on its status as LDC	IDA[57]

3.2 Multilateral Flows

Table 2 also summarizes the perspectives of multilateral development partners in the event of Nepal's graduation. The Asian Development Bank (ADB), the World Bank and the IMF play the most important role for Nepal in financing for development (see table A.5). Nepal's access to funds provided by these multilateral financial institutes is not contingent on its status as LDC.

The European Union's next Multiannual Financial Framework post-2020 is expected to be adopted in May 2018. Therefore, specific details on the practice that will be applied post-2020 in terms of eligibility and allocations for Nepal are not yet available. However, as

[55] http://www.unhcr.org/en-us/who-we-help.html
[56] http://apps.who.int/iris/bitstream/10665/161163/1/B5096.pdf?ua=1
[57] http://ida.worldbank.org/about/what-ida

Nepal is unlikely to be on a sustained growth path and able to generate enough resources for development immediately after graduation, the EU confirmed that specific situations and vulnerabilities are expected to be considered.

UN system as a whole is an important multilateral partner for Nepal in 2015, having disbursed $113.6 million.[58] Some UN agencies give priority to LDCs in providing funding and capacity building support, as a part of their corporate strategies. For example, UNDP and UNICEF have an arrangement for its programme budget allocation to LDCs. Nepal may lose this priority assigned by UN agencies on LDCs upon its graduation, but the impact is not currently quantifiable because the budget allocation targets are set for LDCs as a group, not for each LDC. [59] While not major partners, a good number of UN entities and international organizations are implementing or preparing operations to support Nepal to move forward toward smooth transitions. In particular, OHRLLS, UNCTAD, UNESCO, and UNESCAP confirmed that they will continue their support to Nepal after graduation, and assist the country to transit smoothly from the LDC category. UNCDF will continue to support Nepal after graduation, and gradually reduce the operations over a few years.[60]

Graduation would affect only the financing sources of the UN system that are exclusively available for LDCs. Under the United Nations Framework Convention on Climate Change (UNFCCC), special funds have been created to address the special needs of developing countries for climate change mitigation and adaptation. In 2001, UNFCCC parties established the Least Developed Countries Fund (LDCF) under the Global Environment Facility (GEF) to support LDCs in carrying out the preparation and implementation of National Adaptation Programmes of Action (NAPAs). Nepal's access to funds available by the GEF was mere 0.6 per cent of the total multilateral aid in 2006-2015, but the amount has been increasing in recent year. As of mid-2017, Nepal has 6 projects approved and financed by LDCF. [61] The projects approved and funded by LDCF will continue to completion, regardless of the country's LDC status. Should Nepal graduate, however, new projects would not be eligible to be funded by LDCF.

On the other hand, Nepal will remain eligible to access funds available at other financing sources of UNFCCC, such as the GEF Trust Fund, the Special Climate Change Fund, the Adaptation Fund, and the Green Climate Fund (GCF). For the GCF, however, Nepal would be excluded from the priority group, as the GCF Board takes into account the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change, including LDCs, SIDS and African States, using minimum allocation floors for these countries as appropriate.[62]

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[58] Nepal Ministry of Finance, Development cooperation Report, FY 2015/16, March 2017.

[59] For more details on the support for LDCs by UN Development System entities, see "Recognition and Application of the Least Developed Country Category by UN Development System Organizations," CDP Policy Review No. 6. https://www.un.org/development/desa/dpad/publication/recognition-and-application-of-the-least-developed-country-category-by-un-development-system-organizations/

[60] Based on the inputs by organizations.

[61] https://www.thegef.org/projects

[62] Based on input by GEF, October 2017.

In sum, aid from most multilateral partners is not associated with Nepal's LDC status, and therefore the graduation would have minimal impact on the development cooperation for Nepal. Nepal will lose access to LDCF, but remain eligible for other climate-related financing sources. A few UN entities and international organizations plan to initiate and implement operations to support Nepal's smooth transition.

3.3 Private flows

While private flows, such as Foreign Direct Investment (FDI), are not directly associated with the recipient country's LDC status in general, FDI can be negatively influenced by the graduation if the investment was made in the expectation of benefiting from trade preferences provided to LDCs. However, the LDC status is only one of many factors affecting such flows, and thus it is difficult to measure the impact of graduation on FDI. The evidence from graduated countries, on the other hand, suggests that FDI flows in fact increased after graduation: FDI as a share of GDP increased in Cabo Verde (5.5% to 8.0%), Maldives (5.8% to 12.9%), and Samoa (2.8% to 3.3%) after graduation, although it is difficult to identify any causal relationship.[63]

4. General support measures

4.1 Ceiling on the contribution to the United Nations system budgets

All Member States of UN have to contribute to the budgets of UN system, and LDCs receive support on their contribution assessment. The possible changes for Nepal's contribution to these UN entities budgets are summarized in table 3. Most of the UN entities consider the LDC status, income level and other factors for assessing the contribution rate. Due to the relatively low income level, Nepal's contribution rate is not expected to increase much after graduation. The only immediate change would be an increase in the contribution to the UN Peace Keeping budget ($40,819), and to WIPO (about $1,452), based on the current budget and assessment rate. The assessment systems for ITU are based on classes of contributions, with LDCs contributing at the lowest levels. Graduation would mean the country would no longer be entitled to contribute at these lowest classes, which would imply an increase in contributions. The ITU Council can authorize an LDC graduate to continue to contribute at the lowest classes, and all LDCs that have graduated since 2007 continue to do so. Therefore, the contribution to ITU budget is possibly increased after graduation, but not likely, based on the other cases of graduation.

[63] UNCTAD (2016), The Least Developed Countries Report 2016.

Table 3. Nepal's contribution to UN entities budgets

UN entity	Methodology	LDC provisions	Rate with LDC status	Rate without LDC status	Impact of loss of LDC status
UN regular budget	UN scale of assessments	Ceiling of 0.01%	0.006%	0.006%	No impact
Peace-keeping	Based on UN scale of assessments with discount according to income level	Discount level J (90% discount)	0.0006%	0.0012%	**Contribution increase for 2017/2018 budget: USD 40,819**
Criminal Tribunals	Calculated as 50% UN regular budget and 50% Peacekeeping budget	Peacekeeping discount level J applies to 50% of the budget	0.0033%	0.0036%	**Contribution increase for 2017 budget: USD 201.1**
CTBTO	Based on UN scale of assessments adjusted to entity membership	Ceiling of 0.01%	0.006%	0.006%	No impact
FAO	Based on UN scale of assessments adjusted to entity membership	Ceiling of 0.01%	0.006%	0.006%	No impact
IAEA	Based on UN scale of assessments adjusted to entity membership	Ceiling of 0.01%	0.006%	0.006%	No impact
ILO	Based on UN scale of assessments adjusted to entity membership	Ceiling of 0.01%	0.006%	0.006%	No impact
IOM	Based on UN scale of assessments adjusted to entity membership	Ceiling of 0.01%	0.0065%	0.0065%	No impact
ISBA	Based on UN scale of assessments adjusted to entity membership and floor contribution of 0.01%	Ceiling of 0.01%	0.01%	0.01%	No impact
ITLOS	Based on UN scale of assessments adjusted to entity membership and floor contribution of 0.01%	Ceiling of 0.01%	0.01%	0.01%	No impact
ITU	Voluntary selection of class of contribution	Special class of 1/8 or 1/16 units	1/16 units	1/4 units	Contribution increase for 2017 budget: CHF 59,625 (possible but

					not likely. See text above)
OPCW	Based on UN scale of assessments adjusted to entity membership	Ceiling of 0.01%	0.006%	0.006%	No impact
UNESCO	Based on UN scale of assessments adjusted to entity membership	Ceiling of 0.01%	0.006%	0.006%	No impact
UNIDO	Based on UN scale of assessments adjusted to entity membership	Ceiling of 0.01%	0.006%	0.006%	No impact
WHO	Based on UN scale of assessments adjusted to entity membership	Ceiling of 0.01%	0.006%	0.006%	No Impact
WIPO	Assessment based on 14 different classes of contribution	S*Ter* class	1/32 units	1/16 units	**Contribution increase for 2017 budget: CHF 1,424 ($1,452)**

4.2 Travel supports and scholarship

The United Nations offers travel support for up to five representatives of each Member State designated as a LDC to attend the regular sessions of the General Assembly.[64] For graduated countries, the travel support can be extended, with some conditions, to a maximum of three years after graduation.[65] In recent year, Nepal received this support for five representatives, with the amount of $28,000, only in 2016.[66]

Other UN entities also support travel of LDC representatives participating international conferences.[67] For example, UN Convention against Corruption funded representatives of Nepal in 2012, 2013, 2014 and 2016 to participate in the conferences of the Convention. But other than UN GA, no other organization has indicated that they have a smooth transition arrangement for countries graduating from the LDC category. If Nepal becomes a non-LDC, travel supports for Nepal are likely to discontinue.

Researchers from LDCs are eligible for scholarship and research grants provided by international organizations and private institutions.[68] UNESCO/Japan Young Researchers' Fellowship Programme awarded a Nepalese applicant in 2015 (the maximum amount US

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[64] United Nations (1991), Rules governing payment of travel expenses and subsistence allowances in respect of members of organs or subsidiary organs of the United Nations (ST/SGB/107/Rev.6). Available from http://documents-dds-ny.un.org/doc/UNDOC/GEN/NS0/000/21/img/NS000021.pdf?OpenElement

[65] United Nations (2011), Implementing the smooth transition strategy for countries graduating from the list of least developed countries (A/RES/65/286)

[66] The information is obtained from the travel support unit of the United Nations.

[67] For more information, see https://www.un.org/ldcportal/category/general-support-isms/

[68] A comprehensive list of grants and scholarships are available at https://www.un.org/ldcportal/category/general-support-isms/

$10,000). The IPCC Scholarship Programme awards a maximum amount of 15,000 Euros of research fund to scholars from LDCs per year for up to two years. Three Nepalese scholars have been awarded from 2011 to 2017. These grants and supports do not have transition arrangements. However, most of the research grants and scholarships allow applications from non-LDCs, and thus Nepalese researchers are likely to remain eligible for some of the research grants.

5. Conclusions

On the basis of available information, the graduation of Nepal from the LDC category is likely to have a diverse impact, depending on sectors and areas. The expected impacts of possible graduation of Nepal are summarized in table 4.

Table 4. Summary of impact of Nepal's graduation from LDC category

Category	Transmission channel	Possible change	Possible result
Trade	Export of major products to main destinations	No or minor changes for Bangladesh, India, Turkey and USA. Tariff rise in Canada (carpet), EU (carpets and apparels).	Demand for carpets and apparels may decrease, especially in EU.
	Diversification of major products to new markets	Tariff rise in Canada (vegetables, textile), China (vegetables, coffee, textile, carpets, steel), EU (vegetables, textile), Japan (vegetables, textile), and Turkey (textile).	Difficulties in diversifying into new markets due to higher tariffs.
	Diversification to other products	No or minor change for Bangladesh, India and USA. Tariff rise in Canada (herb, footwear), China (herb, plastic, leather, footwear), EU (herb, footwear), Japan (herb, leather, footwear), and Turkey (footwear).	Difficulties in diversifying into new sectors due to higher tariffs.
	Export of service	Service Waiver no longer applied.	Not clear
	Trade related capacity building	Losing eligibility for EIF, and not counted in AfT for LDCs.	5 years of transition for EIF
	WTO obligations	TFA, TRIPS and others	No impact

Development Cooperation	Bilateral flows	Reduced ODA associated with LDC status	No indication of abrupt changes following graduation. Possible changes in the forms (Germany) and the terms for the loans (Japan and Korea).
	Multilateral flows	Reduced budget associated with LDC status	Most entities indicate that no change is expected. Lose access to LDCF. Retain access GEF. Retain access to GCF (but not in the priority group). Lose access to UNCDF after a transition period.
	Private flows	FDI attracted by trade preference can decrease after a loss of preference. FDI can increase, as credit rating improves and risk is reduced.	Not clear. FDI increased in graduated countries.
General support	Contribution to UN system budgets	Contribution ceiling for LDCs is removed, but current rate is 0.006%, below the ceiling.	Peace keeping budget increase by $40, 819. WIPO budget increase by $1,452.
	Travel support	No longer eligible for support.	UN GA 3 years of smooth transition. Self-financed travel, or no representation.
	Scholarship and research	Not eligible for grants for applications from LDCs	Not significant. Most allow non-LDC applications

It is expected that, at least in the short term, Nepal's market access for its current exports may be negatively affected by graduation as its main exports enter a few markets with zero tariff under the benefit from preferential treatment for LDCs. Particularly, carpet export to Canada and EU, and apparel export to EU might be affected by tariff rise when Nepal loses eligibility for preferences for LDCs.

Moreover, the graduation might have an impact on the possible diversification of current exports into new markets. Most of the existing major exports would face higher tariffs in China. Vegetable and textile export may be difficult to diversity into new markets, such as Canada, EU, Japan and Turkey.

Diversification into potential export sectors may also be challenging, with a possible loss of trade preference. A significant tariff increase is expected for herb and footwear in many of the major trading partners of Nepal.

Service exports, especially professional services and tourism, have been gaining importance in Nepalese economy, and identified as export sectors with huge potential. Impact of graduation on the Service Waiver is not clear at this moment.

Nepal’s dependence on foreign aid is significant, but most of the current support will likely remain unaffected by the country’s graduation from the LDC category. Germany may change the forms of aid from grants to loans, and the terms of ODA loans by Japan and Korea may become less favourable. Financial assistance and technical support by the ADB, IMF, and the World Bank, the main external financing sources for Nepal, would not be influenced by the possible graduation. Neal will lose access to LDCF upon graduation, but remain eligible for funds from the GEF and the GCF (not in the priority group).

Regarding general support measures, no significant impact is expected. Contribution to UN system budgets will not be affected much, because Nepal’s current assessment rate is below the ceiling for LDCs, and because Nepal’s income level is low. Travel support will be discontinued after graduation, while support for research is likely to be available post-graduation.

Annex I: Response by the Government of Nepal

National Planning Commission

December 27,2017

1. We take note of the thrust of the DESA report that the ex-ante gains and losses after Nepal graduates from LDC status are not 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 landlocked Nepal is not a competitive economy. However, even as an LDC, saddled by supply-side constraints, Nepal has not been able to capitalize on the concessional market access it enjoys in the world's largest economies. In development aid, Nepal relies on concessional lending from multilateral agencies who do not fully recognize the LDC category; the United Nations and bilateral development partners who do are of relatively less significant sources of foreign aid. Nepal could, however, be deprived of LDC-targeted funds in the area of climate change in the future. Other forms of development assistance, such as travel aid and scholarships, are modest and symbolic. Technically, therefore, while Nepal will feel the brunt of giving up some LDC-specific concessions, these are not likely to be excessively disruptive if the transition is managed well.

2. What is at stake, however, 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 below.

3. The devastating earthquakes of April 2015, the crippling border blockade of September 2015 to February 2016, and the severe floods of August-September 2017, are a reminder of the continuing 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 do 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. 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 armed conflict (1996-2006) and 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, 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" (page 25). A more positive development is the imminent conclusion of the long democratic transition. 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 GoN. Political stability might finally pave the way for a degree of economic momentum and provide impetus to augmented growth in average per capita incomes.

6. The reconstruction from the 2015 earthquakes and the 2017 flood will continue through 2020. In its 250-year old history, Nepal's polity is being restructured for the first time from a unitary to a federal state. Establishing this and making it functional will be a priority in the immediate months (and years).

7. There is also the 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. Nepal would be the first LDC to graduate from below the income threshold. A more gradual withdrawal of international support measures would facilitate the shift to a sustained growth path that could generate adequate alternate resources for development subsequent to the loss of LDC status. While the stipulated transition interval is three years, in practice grace periods have varied according to specific country contexts.

8. The technical eligibility of Nepal warrants close scrutiny. As stated at the outset, the mood in the country is for a meaningful graduation that is irreversible. A principal worry is that 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 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.

9. 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 need for a concerted effort to clear the backlog of pending legislation, accelerate implementation of planned public investment, and incentivize private investment. The Government of Nepal, development partners, business and civil society need to mobilize together for a broadly-owned graduation process.

10. In view of the above, graduation from LDC status entails up-front costs and backend benefits. The costs can be minimized and the benefits maximized with an operative transition strategy and consultative process, which in turn will need to be integrated within the longer-term development vision of making Nepal a middle-income economy by 2030.

Annex II: Statistics

Table A.1. Nepal: balance of payments, 2009-2015 (current prices, million US Dollar)

	2009	2010	2011	2012	2013	2014	2015
Current account	-378	-181	909	635	908	1,067	-570
Trade balance	-4,078	-4,470	-4,605	-5,247	-6,082	-6,670	-8,453
Exports, f.o.b.	848.8	961	1,008	977	1,030	988	1,008
Imports, f.o.b.	-4,927	-5,430	-5,613	-6,224	-7,112	-7,658	-9,461
Services (net)	-220	-121	175	87	214	275	-177
Receipts	687	741	893	1,083	1,277	1,499	1,272
Payments	378	344	380	390	473	537	344
Income	-907	-863	-718	-995	-1,063	-1,224	-1,449
Credit	123	106	147	146	334	342	355
Debit	200	245	274	263	403	428	447
Current transfers	-78	-139	-127	-117	-69	-86	-92
Credit, of which:	3,798	4,304	5,192	5,648	6,442	7,120	7,703
General government	3,866	4,351	5,254	5,732	6,477	7,146	7,804
Workers' remittances	301	320	394	257	362	293	524
Debit	3,113	3,545	4,414	4,931	5,543	6,192	6,631
Capital account	-69	-46	-62	-84	-34	-26	-100
Financial account	169	222	221	117	173	148	290
Direct investment	61	108	303	-50	-19	83	397
Portfolio investment	38	90	112	102	33	44	59
Other investment (net)	0	0	0	0	0	0	0
Memorandum items	22	18	191	-152	-51	39	339
Current account (% of GDP)							
Trade balance (% of GDP)	-2.4	-1	4.8	3.3	4.6	5.0	-2.5
Remittances (% of GDP)	-25.6	-23.5	-24.4	-27.2	-30.8	-31.2	-36.9

Note: Data revisions may not be completely incorporated due to the various sources. Nepal reports in fiscal year ending 15 July of the calendar year. Data for 2009 represents fiscal year 2009-2010.

Source: IMF Article IV Consultations Nepal Report 17/74 (March 2017) for 2013-2015, Report 15/371 (November 2015) for 2012, Report 14/214 (July 2014) for 2010-2011, and Report 12/326 (December 2012) for 2009.

Table A.2. Nepal major export commodities and main destinations and potential export commodities, 2009-2015 average, current million US$

Commodity	HS	Value	Share (% of total export)	Top destination	Value	Share (% of product export)
Edible vegetables	**7**	36.6	4.3	Bangladesh	29.1	79.5
				Turkey	4.8	13.2
Coffee, tea, and spices	**9**	61.4	7.2	India	58.4	95.1
Oil and herb	*12*	10.3	1.2	India	4.2	40.9
				China	3.8	36.4
Preparations of vegetables	**20**	33.2	3.9	India	32.9	99.3
Plastics	*39*	17.7	2.1	India	17.5	99.1
Raw hides	*41*	11.5	1.3	India	3.2	28.3
				Italy	3.1	27.0
				China	2.4	20.6
Articles of leather	*42*	1.5	0.2	USA	0.7	46.2
				Japan	0.1	11.2
				Portugal	0.1	8.4
				France	0.1	7.1
				Italy	0.1	6.9
				Germany	0.1	6.8
Paper	*48*	6.2	0.7	USA	2.2	35.2
				UK	1.0	16.4
				France	0.5	8.1
				India	0.5	8.0
				Germany	0.5	7.4
				Australia	0.2	3.6
				Japan	0.2	3.4
Man-made textile materials	**54**	59.3	7.0	India	58.7	99.0
Man-made staple fibres	**55**	60.9	7.1	India	52.6	86.4
				Turkey	9.4	15.4
Carpets	**57**	70.1	8.2	USA	30.4	43.4
				Germany	17.0	24.3
				UK	4.9	7.1
				Canada	2.9	4.2
				Belgium	1.7	2.6
Apparel and clothing accessories	**62**	60.1	7.1	USA	13.2	22.0
				Germany	8.4	13.9
				France	8.3	13.8
Other made up textile articles	**63**	37.5	4.4	India	26.5	70.8
				USA	3.5	9.3
Footwear	*64*	15.4	1.8	India	15.3	99.7
Iron and steel	**72**	88.4	10.4	India	88.4	99.9
Articles of iron or steel	**73**	32.3	3.8	India	28.9	89.6
				Bhutan	3.0	9.4

Note: Products in **bold** are current major export products, and products in *italic* are potential export products
Source: UN Comtrade database, accessed 26 July 2017

Table A.3. Catalogue of priority exports in Nepal

HS 2digit	Products	HS (4-8 digit)	Sub-products	Source						
				DTIS	DTIS update	DESA-GIFF	STDF	UNIDO	ITC	EEC
04	Dairy produce, eggs and honey	0409	Honey	X	X					
06	Live trees and plants	0603	Flower							X
07	Edible vegetables	071340	Lentils	X	X				X	
08	Edible fruit and nuts	0802	Nuts						X	
09	Coffee, tea, mate and spices	0901	Coffee	X	X					X
		090830	Cardamom	X	X				X	
		0902	Tea	X	X				X	
		091010	Ginger	X	X		X		X	
12	Oil seeds and oleaginous fruits	1211	Medical and Aromatic Plants	X	X				X	
14	Vegetable products	140490	Vegetable products						X	
15	Animal fats			X						
19	Preparations of cereals, flour, starch or milk	1902	Instant noodles	X	X					
22	Beverages			X						
23	Residues			X						
32	Animal feed			X						
33	Essential oils and resinoids	330129	Essential oils	X						
38	Chemical products	380610	Rosin	X					X	
39	Plastics			X		X				
41	Raw hides and skins	4104, 4106	Leather		X	X		X		
42	Articles and leather	4202	Suitcase		X	X		X		
48	Paper			X	X			X	X	X
53	Vegetable textile fibers	530951	Woven fabrics	X					X	
54	Man-made filaments	5407	Fabrics	X	X	X		X		
55	Man-made staple fibers	5509	Yarn and Rope	X	X	X			X	
56	Wadding			X						
57	Carpets	5701	Carpets	X	X			X	X	
61	Articles of apparel, knitted	611011, 611012, 611691, 611710	Wool products	X						
62	Articles of apparel	6214	Pashmina	X	X				X	
63	Textile articles	6305	Textile	X	X	X				
		630510	Sacks and bags						X	
64	Footwear	6404	Footwear		X	X		X	X	
65	Headgear	650590	Wool products	X	X					
71	Precious stones			X	X					

72	Iron and steel products			X	X				X	
73	Articles of iron and steel products			X	X				X	
74	Copper			X						
76	Aluminum			X						
85	Electrical equipment			X						
	Services		IT	X	X					
			Tourism	X	X					
			Labor	X	X					
			Health	X						
			Education	X						
			Engineering	X						
			Hydro-electricity	X	X					

Source: **DTIS:** Enhanced Integrated Framework and Government of Nepal (2010), Nepal Trade Nepal Trade Integration Strategy 2010; **DTIS update:** EIF and Government of Nepal (2016), Nepal Trade Integration Strategy 2016; **DESA-GIFF:** Xu, Jiajun and Sarah Hager (2017), Applying The Growth Identification And Facilitation Framework To Nepal, CDP Background Paper No. 35.; **STDF:** Standards and Trade Development Facility (2012), Ginger Competitiveness Project: Enhancing Sanitary and Phytosanitary Capacity of Nepalese Ginger Exports through Public Private Partnerships; **UNIDO:** United Nations Industrial Development Organization (2002), Nepal: Industrial Development Perspective Plan - Vision 2020; **ITC:** International Trade Center (2017), Nepal: Export potential assessment, and Government of Nepal, ITC (2017), National Sector Export Strategies; EEC: European Economic Chamber of Commerce, Trade and Industry (2008), Study on Export Potential - An Analysis of Selected Sub-Sectors of Nepal.

Table A.4. Trade preferences for Nepal

Importer	Trade regimes before graduation	Coverage	Effective dates of latest renewal	Trade regimes after graduation	Smooth transition
Bangladesh	SAFTA-LDC	All except 1,259 tariff lines	1/1/2006-	SAFTA (all except 1,254 tariff lines)	Unclear. The former LDC Maldives still eligible for LDC treatment due to a special provision.
Canada	LDCT	7,181 tariff lines (99%)	26/6/2013-31/12/2024	GPT (5,969 tariff lines) or MFN	No explicit smooth transition provision. Cabo Verde and Samoa LDCT as of 1/1/2017. Maldives LDCT until 2014, and MFN since 2015.
China	DFT-LDC	8,047 tariff lines	1/1/2015-	MFN	No explicit smooth transition provision. Maldives DFQF on Yemen 6 Scheme (2011-2012). Samoa DFT-LDC as of 2016
EU	EBA	6,964 tariff lines (99%)	25/10/2012-	GSP (6,179 tariff lines), GSP+ (6,238 tariff lines), or MFN	At least 3 years for EBA. Cabo Verde EBA (2007-2012), and GSP+ (2012-). Maldives EBA (2011-2013), and GSP (2014). Samoa to be removed from EBA in 2019.
India	Indo-Nepal Treaty of Trade	All tariff lines	10/2009-	Indo-Nepal Treaty of Trade	Not applicable
Japan	GSP-LDC	9,068 tariff lines	1/4/2011-31/3/2021	GSP (3,559 tariff lines) or MFN	No smooth transition provision. Cabo Verde, Maldives and Samoa have access to GSP as of 4/2017.
Turkey	GSP-LDC		1/1/2012-	GSP or MFN	No explicit smooth transition provision. Maldives MFN. Cabo Verde and Samoa GSP as of 2017.
United States	GSP-LDC, TFN	5,000 tariff lines	29/1/2015-31/12/2017	GSP (3,500 tariff lines), TFN (66 tariff lines), or MFN	No explicit smooth transition provision.

Source and Note:
Bangladesh: South Asian Free Trade Area (SAFTA); http://commerce.nic.in/trade/safta.pdf

Canada: Least Developed Country Tariff (LDCT); General Preferential Tariff (GPT); Most Favoured Nation (MFN);
http://ptadb.wto.org/docs/Canada_GSP/2016/CANADA%20GSP%20EN%20guide%202016%20update%20 2016-03-31.pdf
http://www.cbsa-asfc.gc.ca/trade-commerce/tariff-tarif/2017/01-99/countries-pays-eng.pdf
http://www.cbsa-asfc.gc.ca/trade-commerce/tariff-tarif/20145/01-99/countries-pays-eng.pdf
http://www.cbsa-asfc.gc.ca/trade-commerce/tariff-tarif/2015/01-99/countries-pays-eng.pdf
Kim, Namsuk (2015). Review of preferential market access schemes for LDCs.
China: Duty Free Treatment (DFT); Most Favoured Nation (MFN);
http://ptadb.wto.org/docs/China_LDC/2016/En-Annex%201.%20DF%20TREATMENT%20FOR%20LDCs%20-%20CHINA.pdf
Kim, Namsuk (2015). Review of preferential market access schemes for LDCs.
http://www.customs.gov.cn/publish/portal0/tab399/info836005.htm
EU: Everything but Arms (EBA); Generalized System of Preference (GSP); Special Incentive Arrangement for Sustainable Development and Good Governance (GSP+); Most Favoured Nation (MFN);
http://ptadb.wto.org/ptaHistoryExplorer.aspx
European Union, COUNCIL REGULATION (EC) No 416/2001 of 28 February 2001. WT/COMTD/N/4/Add.2, Add.4 and Add. 5, and WT/TPR/S/214/Rev.1
Council regulation no 978/2012, Article 18, paragraph 1. http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32012R0978
https://www.un.org/ldcportal/preferential-market-access-european-union-everything-but-arms-initiative/
Kim, Namsuk (2015). Review of preferential market access schemes for LDCs.
http://trade.ec.europa.eu/doclib/docs/2016/march/tradoc_154350.pdf
India: http://commerce.nic.in/trade/nepal.pdf
Japan: Generalized System of Preference (GSP); Most Favoured Nation (MFN);
http://ptadb.wto.org/docs/Japan_GSP/2016/Rev.%20Japan%20GSP%20guide%202016%20En.pdf
http://www.mofa.go.jp/policy/economy/gsp/benef.pdf
Turkey : Generalized System of Preference (GSP); Most Favoured Nation (MFN);
Correspondence with ESCWA, 28 September 2017,
http://ptadb.wto.org/docs/Turkey_GSP/2012/Turkey%20GSP%20guide%202012%20En.pdf
United States: Generalized System of Preference (GSP); Trade Preferences for Nepal (TFN); Most Favoured Nation (MFN);
http://ptadb.wto.org/docs/US_GSP/2016/US%20GSP%20guide%202016%20FINAL%20EN%2021%20September%202016.pdf
https://www.congress.gov/114/plaws/publ125/PLAW-114publ125.pdf

Table A.5. Nepal: composition and distribution of ODA flows by selected donors, 2006-2015 (net disbursements in current prices, million US Dollar)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average (2006-2015)	Share (%)
All Donors, Total	527.7	604.4	697.0	853.8	814.4	886.6	769.7	873.3	883.8	1215.8	812.7	
DAC Countries, Total	335.6	385.6	436.1	504.9	475.3	491.9	518.6	497.3	542.8	666.5	485.4	100
Australia	2.4	4.9	5.4	8.1	23.6	28.5	43.6	33.1	13.6	36.3	19.9	4.1
Austria	2.1	3.3	2.5	2.8	1.5	2.4	1.0	2.3	1.6	4.5	2.4	0.5
Canada	11.1	14.8	9.4	5.5	11.8	11.9	15.4	6.4	3.1	29.1	11.8	2.4
Denmark	32.7	49.5	46.3	43.1	38.1	33.2	41.4	27.3	27.3	21.5	36.0	7.4
Finland	8.1	12.3	17.2	20.0	22.4	26.1	23.8	27.2	37.5	26.8	22.2	4.6
France	-2.4	-2.4	-2.8	-3.4	-3.2	-3.4	-2.1	-2.9	-2.6	1.2	-2.4	-0.5
Germany	33.0	48.9	62.3	59.6	42.0	40.4	64.8	44.3	37.3	38.9	47.1	9.7
Ireland	1.0	1.7	2.4	1.2	0.5	0.9	0.7	0.5	0.2	0.6	1.0	0.2
Italy	0.0	0.1	0.1	0.3	0.3	0.4	0.3	0.3	0.4	2.7	0.5	0.1
Japan	41.7	48.6	33.9	45.3	81.2	67.3	47.5	40.8	56.4	48.8	51.2	10.5
Korea	2.0	5.0	4.7	18.1	20.8	21.0	20.8	17.1	14.4	17.6	14.1	2.9
Luxembourg	0.9	2.1	2.0	1.4	0.8	1.0	1.9	2.1	1.6	2.4	1.6	0.3
Netherlands	4.2	3.3	2.4	3.1		0.3	0.1	0.2	0.1	9.8	2.6	0.5
New Zealand	1.2	1.7	1.9	1.8	0.6	1.6	1.3	0.7	1.2	2.9	1.5	0.3
Norway	41.0	40.9	41.9	45.3	47.2	49.4	40.6	32.4	42.0	61.0	44.2	9.1
Spain	0.2	0.1	2.9	49.6	0.2	0.2	0.1	0.1	0.1	1.4	5.5	1.1
Sweden	2.1	-17.7	2.5	1.3	1.8	1.8	1.6	2.1	3.4	9.8	0.9	0.2
Switzerland	17.3	18.7	22.5	24.5	27.9	40.4	40.2	46.2	45.3	52.7	33.6	6.9
United Kingdom	74.8	95.0	98.6	103.2	105.2	104.1	110.2	145.9	184.2	134.8	115.6	23.8
United States	61.5	54.0	77.7	73.5	51.3	63.8	64.9	71.6	75.5	161.4	75.5	15.6
Multilaterals, Total	192.8	219.9	260.8	348.5	337.8	394.3	250.3	375.7	340.5	546.1	326.7	100
Asian Development Bank	75.2	59.9	82.4	144.8	47.1	137.3	14.0	82.4	73.1	85.0	80.1	24.5
EU Institutions	24.4	24.7	46.2	44.0	46.2	33.1	27.5	40.1	35.2	48.0	36.9	11.3
GAVI		0.9	10.9	2.2	13.4	7.0	8.3	2.6	13.9	29.7	9.9	3.0
GEF	1.1	1.1	0.5	0.5	0.4	0.9	2.7	3.0	5.0	4.9	2.0	0.6
Global Fund	5.5	9.2	12.2	6.5	20.5	12.2	19.2	21.9	13.3	18.6	13.9	4.3
IFAD	0.2	3.4	-0.1	1.4	3.0	6.1	2.7	3.3	2.9	2.6	2.5	0.8
IDA	34.2	43.6	63.3	116.1	130.6	151.3	144.7	190.4	170.1	273.6	131.8	40.3
ILO							0.8	0.9	0.8	1.7	1.1	0.3
IMF	21.0	32.7		-2.2	39.2	-4.5	-10.4	-15.2	-13.0	35.9	9.3	2.8
Nordic Development Fund	-0.3	-0.3	10.2	-0.5	-0.5	1.7	0.6	-0.2	-0.2	-0.4	1.0	0.3
OPEC Fund for International Development	1.1	2.5	0.7	-2.7	-1.5	5.7	3.3	1.3	2.2	8.6	2.1	0.7
UN Peacebuilding Fund				0.9	4.5	3.7	0.3	1.7	4.1	2.8	2.6	0.8
UNDP	7.8	8.4	9.9	14.1	9.4	10.1	9.5	9.0	9.0	8.1	9.5	2.9
UNFPA	3.9	4.3	5.6	4.4	3.3	3.1	4.3	3.4	4.2	4.4	4.1	1.3
UNHCR	0.1	3.2	1.4	1.5	3.8	7.5	6.0	6.5		5.1	3.9	1.2
UNICEF	6.3	7.7	6.0	7.4	8.0	8.0	6.5	7.5	6.9	5.8	7.0	2.1
UNTA	4.7	5.5	1.1								3.8	1.2
WFP	7.5	12.4	10.1	9.8	9.8	7.1	6.7	10.9	6.3	5.7	8.6	2.6
WHO						3.2	3.1	3.5	4.4	4.2	3.7	1.1

Source: OECDstat, accessed 12 June 2017

Table A.6. Nepal: bilateral ODA by sector, 2006-2015 (commitments in current prices, million US Dollar)

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average
Total	**345.3**	**360.5**	**491.5**	**598.7**	**449.8**	**467.7**	**477.3**	**712.3**	**613.4**	**997.4**	**551.4**
Social Infrastructure & Services	141.2	178.4	220.8	370.6	244.2	264.1	218.7	255.4	366.9	289.7	255.0
Education	18.9	20.9	44.1	169.7	44.2	43.2	66.5	55.1	56.7	101.4	62.1
Water Supply and Sanitation	21.8	1.3	1.5	12.4	36.6	5.9	32.1	13.6	55.8	7.4	18.8
Economic Infrastructure and Services	114.0	82.0	142.2	92.8	89.7	46.7	155.1	255.8	117.6	49.7	114.6
Transport and Communications	61.0	4.7	80.0	74.4	60.5	9.3	81.4	86.4	18.6	13.7	49.0
Energy	52.2	73.8	48.8	9.6	25.2	32.6	68.5	160.8	94.5	23.9	59.0
Production Sectors	4.5	17.9	36.3	26.3	35.7	56.6	33.0	104.6	59.9	49.1	42.4
Agriculture, Forestry and Fishing	3.4	16.1	34.0	19.6	26.8	47.7	25.5	92.3	51.2	34.0	35.1
Industry, Mining and Construction	0.9	1.4	1.0	5.3	3.3	3.7	6.0	9.3	8.5	12.5	5.2
Trade and Tourism	0.2	0.4	1.4	1.4	5.6	5.3	1.4	3.1	0.2	2.6	2.1
Multisector	20.4	15.9	20.9	55.2	45.1	47.7	24.0	74.5	47.3	57.5	40.8
Programme Assistance	8.7	5.0	7.9	12.4	13.9	14.0	0.3	0.0	0.2	5.5	6.8
Food Aid	8.7	5.0	7.9	12.4	8.3	14.0	0.3	0.0	0.2	5.5	6.2
Action Relating to Debt	31.7	15.9	1.3	3.0	0.1	0.1	0.1	0.1	0.0	0.0	5.2
Humanitarian Aid	21.8	42.3	58.7	33.3	18.7	33.1	41.4	13.4	16.6	542.0	82.1
Unallocated/ Unspecified	3.1	3.1	3.4	5.3	2.6	5.4	4.8	8.6	5.0	3.8	4.5

Source: OECDstat, accessed 21 June 2017

Table A.7. Nepal: bilateral ODA by sector and by main donors, 2015 (commitment in current prices, million US Dollar)

	Germany	Japan	Norway	United Kingdom	United States
Total	95.4	291.3	44.8	113.0	211.8
Social Infrastructure & Services	33.3	15.3	22.8	21.0	101.1
Education	11.6	2.5	12.9	1.1	18.2
Water Supply and Sanitation		2.6		0.6	1.5
Economic Infrastructure and Services	21.1	3.2	0.7	6.1	5.6
Transport and Communications		2.6		0.0	0.4
Energy	21.1	0.5	0.7		0.1
Production Sectors	3.4	2.1	4.2	1.1	18.0
Agriculture, Forestry and Fishing	1.8	1.9	4.0	1.0	17.5
Industry, Mining and Construction	0.0	0.2			
Trade and Tourism	1.7	0.0	0.2	0.1	0.5
Multisector	14.5	3.8	0.2	9.7	14.2
Programme Assistance	0.6				4.6
Food Aid	0.6				4.6
Humanitarian Aid	22.6	266.8	16.9	72.8	68.5
Unallocated/Unspecified				2.4	

Source: OECDstat, accessed 21 June 2017

List of abbreviations

CDP	Committee for Development Policy
CTBTO	Comprehensive Nuclear-Test-Ban Treaty
DAC	Development Assistance Committee
DESA	Department of Economic and Social Affairs
DFQF	Duty-free, quota-free
EIF	Enhanced Integrated Framework
EU	European Union
EVI	Economic vulnerability index
ECOSOC	Economic and Social Council
FAO	Food and Agriculture Organization
GATT	Global Agreement on Tariffs and Trade
GAVI	Global Alliance for Vaccines and Immunization
GEF	Global Environment Facility
GNI	Gross national income
GSP	Generalised System of Preferences
HAI	Human assets index
HS	Harmonized Commodity Description and Coding System (Harmonized System)
IAEA	International Atomic Energy Agency
ICC	International Criminal Court
IDA	International Development Association
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMF	International Monetary Fund
IOM	International Organization for Migration
ISBA	International Seabed Authority
ISM	International support measures
ITLOS	International Tribunal for the Law of the Sea
ITU	International Telecommunication Union
LDC	Least developed country
MFN	Most favoured nation
OECD	Organization for Economic Co-operation and Development
ODA	Official development assistance
OHRLLS	Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States
OPCW	Organization for the Prohibition of Chemical weapons
SIDS	Small Island Developing States
UNCTAD	United Nations Conference on Trade and Development
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Fund
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFCCC	United Nations Framework Convention on Climate Change
UNICEF	United Nations Children’s Fund
UNIDO	United Nations Industrial Development Organization
UNTA	United Nations Regular Programme for Technical Assistance
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WTO	World Trade Organization