

# GRADUATION OF NEPAL FROM LDC STATUS



Mr. Bishnu Prasad Lamsal

Member Secretary, National Planning  
Commission, Nepal

# Background

2

- Nepal was included in the LDC category as one of the 25 countries in 1971.
- The list expanded to 48 countries, out of which 34 are in Africa, 13 in Asia and the Pacific and one in Latin America.
- In the 2011 Istanbul Programme of Action (IPoA), the international community aimed enabling half the number of least developed countries to meet the criteria for graduation by 2020.
- Nepal formally announced its goal of graduating from LDC status by 2022 in its 13<sup>th</sup> (three-year) periodic plan in 2013 and to middle income country status by 2030.

# Graduation Criteria

- The following three criteria were used to access the status
  - a) A per capita income criterion, based on the three-year average estimate of the gross national income (GNI) per capita;
  - b) A human assets criterion, involving a composite index (the Human Assets Index, HAI) based on two indicators of the education sector, and two indicators of the health sector; and
  - c) An economic vulnerability criterion involves a composite index encompassing exposure and shock indices: the first containing four sub-indices and the later containing two sub-indices. This reveals the structural aspects of the economy.

# Situation of Nepal for LDC Graduation on 2015

4

SN	Indicators / Index	Graduation Threshold	Nepal's Status
1	GNI per Capita	\$ 1242	\$ 659
2	Human Asset Index (HAI)	66 (> than this is better)	68.7
3	Economic Vulnerability Index (EVI)	32 (<than this is better)	26.8

Source: UN 2015 triennial review

# Situation of Nepal for LDC Graduation

5

- **Gross National Income (GNI) Per Capita:**
  - Achieving the GNI per capita threshold seems very challenging for Nepal
  - Current GNI per capita is \$862 in government report (Economic Survey, 2016/17)
  - Nepal needs significant improvement in GNI per capita from \$862 in 2016/17 to \$1242 in 2022 in order to meet the graduation threshold. It is the most challenging indicator for LDC graduation to Nepal.
  - Therefore, strong macroeconomic policy options are required to bridge up the gap.

# Situation of Nepal for LDC Graduation

6

- **Human Assets Index (HAI):**
  - The HAI is close to the graduation threshold
  - Government of Nepal focused on social sector with a high priority.
  - Most of the MDGs related to social sectors, i.e., health, education, water and sanitation achieved by 2015.
  - The adult literacy rate, secondary education enrolment rate, under-five child mortality rate and child malnutrition rate have been noticeably improved as a result of intensive interventions and incentives.
  - Nepal fulfilled HAI criteria which needs to sustain and further improvement in the future.

# Situation of Nepal for LDC Graduation

- **Economic Vulnerability Index (EVI):**
  - EVI is a composite index and it comprises eight indicators like, the size of population, remoteness to international market, merchandises export concentration, share of agriculture, fisheries & forestry, share of population in low elevated, instability of exports of goods and services, victims of natural disasters and instability of agriculture production.
  - UNDESA report shows an EVI value of 26.8 for Nepal which is adequate for graduation threshold, if any other catastrophic shock do not impede the economy.
  - However, Nepalese economy is vulnerable.

# Situation of Nepal for LDC Graduation

- Nepal is an importer of petroleum product. If the price of petroleum product increases, definitely it will hit the national economy.
- Secondly, it is a labor exporting country. If the labor market in the destination countries is saturated, people will come back to own country and Nepal will lose significant amount of remittance.
- In addition, it is at a high risk of disasters due steep geography with fragile soil, high level of seismic activity, environment and climate change, water induced disasters, erosion and river meandering.



# Adverse Effect of Earthquake 2015

9

Human assets (HVI)	Adverse effects
- Health index	Earthquake damage of water, health and sanitation infrastructure.
- Education index	Earthquake destruction of education infrastructure, including 19,000 classrooms.
Economic vulnerability (EVI)	Adverse effects
- Natural shock index	<p>A third of the population were victims of the 2015 earthquakes and 2017 floods and landslides.</p> <p>Agricultural production in 2017 impacted by severe flooding damage to paddy plantation and other major crops.</p>
- Trade shock index	Tourism impacted by earthquake damage to monuments and infrastructure.

# Implication of Giving Up LDC Status

- LDCs enjoy 136 international support measures
- In trade: supports measure include preferential access to export markets; special and differential treatment at the WTO; and technical assistance.
- Nepal could experience decline in export revenues in giving up LDC market access.
- The most affected exports would be textiles, apparel and other nonagricultural products.
- Nepal could affected in trade-related technical assistance. For example, technical assistance in trade facilitation, Aid for Trade and the Enhanced Integrated Framework (EIF).
- Nepal is taking the benefits from programme like institutional capacity building in maintaining standards and addressing technical barriers to trade.

# Implication of Giving Up LDC Status

- In development assistance
  - Nepal needs as much, and more focused, assistance in effecting a smooth and sustainable transition
  - Nepal currently benefits from the Least Developed Countries Fund(LDCF) in the preparation and implementation of adaptation programs on climate change which could be affected after graduation.
  - Nepal could benefit from the newly launched Investment Support Programme for LDCs as FDI.
  - The UN entities and partners occasionally fund ad hoc travel and provide scholarships and research grants to LDCs which could be affected after graduation.

# Lessons for Nepal

The graduation experience to date suggests several lessons for Nepal. First, the gestation period between the crossing of thresholds and actual graduation as well as stipulated interval between pre-eligibility and graduation may vary according to specific country contexts. This flexibility is relevant for Nepal in light of the need to recover from the adverse effects of the 2015 devastating earthquakes while initiating graduation.

# Lessons for Nepal

Second, successful graduation hinges most on the income threshold and least on the EVI vulnerability threshold. Even after graduation, countries remain vulnerable to economic and environmental shocks. However no country that has graduated without crossing the income threshold. This caution is relevant for Nepal, which has met about half of the income threshold that is USD 862.00 (2016/17 FY).

# Lessons for Nepal

Third, graduation should be an integral part of development strategy. All four countries enacted a range of policies for global integration. Nepal would need to consider how to assist exporters to become competitive through improved connectivity, enterprise development, trade facilitation, foreign direct investment and improved transport transit arrangements. There is need for a larger development vision, underpinned by national consensus and institutional machinery for effective implementation.

# Lessons for Nepal

Fourth, although there were no withdrawal pains from the impending loss of International support measures, the transition to graduation propelled countries to utilize existing measures more fully. Botswana strengthened multilateral ties for market access, Samoa deepened regional cooperation, Maldives tapped the EIF for trade capacity building support and Cape Verde established a consultative mechanism with donors for smooth transition. Nepal would benefit from similar actions.

# Conclusion and Way forward

- No country that has graduated without crossing the income threshold. Nepal tempts to graduate with out meeting the GNI criteria.
- Achieving GNI per capita is still a challenging job in Nepal. Need to achieve high, broad-based and sustainable growth.
- Nepal needs further investment and initiate modernization in health and education sector to strengthen HAI.
- For improving EVI, macroeconomic stability is precondition. Similarly, external trade balance should be maintained.



# Conclusion and Way forward

17

The Government has been making efforts to develop an enabling environment to accelerate the pace of growth and development in partnership with the private sector, cooperative sector, non-governmental sectors and development partners as well.

Thank You  
Namaste !!!