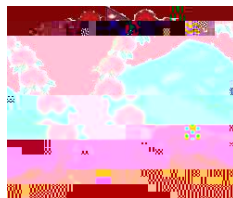


(LDC Monitoring Report)

National Planning Commission

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1. Introduction

A) Socio-economic Context of Nepal

Nepal, as an agriculture-dependent economy, faces structural problems on various socio-economic fronts. The share of agriculture in country's total GDP is about 24 per cent. About 60 per cent of population is engaged in this sector. Though the share of agriculture in GDP has declined overtime, 55 percent of the farmers still rely on subsistence farming. The year round irrigation facilities are limited to 33 percent of the total irrigable land. The land fragmentation and small holding is most common due to, among others, weaknesses in the implementation of land use policy effectively. In such a situation, rapid climate change and frequent natural disasters added by institutional and technical capacity deficit to cope with such unexpected shocks is still making the agriculture

The widening gap between imports and exports depicts an unsustainable phenomenon in the foreign trade. Though during the COVID-19 pandemic there was some downfall in the imports,

(HAI) and Economic and Environmental Vulnerability Index (EVI). It has, however, not been able to meet the threshold for GNI per capita criteria. Since Nepal had met the graduation criteria for two consecutive triennial reviews, Nepal became eligible for LDC graduation for the first time in 2018. However, Nepal, being in the recovery phase after the devastating effect of earthquake in 2015, requested the

wage earners and other people who were forced to be jobless, a scheme of direct employment to more than 700 thousand people was also announced by the budget. In the budget, agriculture, manufacturing, energy and infrastructure sectors were conceived as major vehicles of reviving the economy, generating employment to the neediest and enhancing resilience of the economy.

The monetary policy of FY 2020/21 also announced a very comprehensive policy package focusing on reliefs to the most suffering industries and businesses and reviving the economy. The loan and interest payment schedule of businesses and industries were extended from 6 months to one year. Refinancing facility to the banks and financial institutions at very low interest rate was declared. Bank and financial institutions were directed to divert such facilities to the most affected export oriented as well as micro, cottage and small industries. For revival and further boost to the promising sectors, banks were instructed to lend 40 percent of their total lending in three priority areas viz, agriculture, energy and micro, small and medium industries. For ensuring enough liquidity and maintaining financial stability, the upper bound of the IRC (Interest Rate Corridor) was maintained at 5 percent. Repo rate was reduced to 3 percent. The deposit collection rate as a lower bound was fixed at 1 percent.

The budget of this FY 2021/22 has given added thrust not only on improving the health system, providing cash support to the most vulnerable people and reviving the most affected sectors but also on the projects and programmes that could give high returns more quickly and contribute to bring back the economy to a path to higher growth and rapid development. Similarly, the Monetary Policy of FY 2021/22 apart from continuing the relief and priority sector lending programs has given priority on strengthening financial stability in the banking and financial system. However, as a result of repeated waves added by adverse geo-political external environment, the revival of the economy has been slow and less encouraging.

3. Impact of LDC Graduation

LDC graduation brings both opportunities and challenges in the development process. LDC graduation represents important development milestone and it indicates country progressing on its overall economic aspects. This also creates more confidence on foreign investors in bringing foreign direct investment (FDI) into the country. Since the LDC graduation likely improves

country's creditworthiness ensuring less risk premiums,

role in closing Nepal's fiscal, savings, foreign exchange, technical knowledge and technology gaps and meeting humanitarian needs.

The impact of LDC graduation will be the loss of LDC-specific special and differential treatment (S&D) provisions in WTO. Loss of these S&D provisions, resulting in reduced flexibilities in implementing WTO provisions, can result in a reduced policy space.

4. Government Initiatives on Preparation for Graduation

A) Institutional Setup:

As a focal agency in preparation of the LDC graduation strategy, National Planning Commission (NPC) has been in consultation within Commission and with other relevant stakeholders for preparing and finalizing the LDC graduation strategy.

A High-level Steering Committee has been formed under the chairmanship of Honorable Vice-Chair of the National Planning Commission (NPC). The members of the Committee constitute of Honorable Member of NPC looking after the economic affairs, Member - Secretary of NPC, Secretary of Ministry of Finance, Secretary of Ministry of Foreign Affairs, Secretary of Ministry of Industry, Commerce and Supplies, President of Federation of Nepalese Chambers of Commerce and Industries (FNCCI), President of Nepal Chamber of Commerce (NCC), and the President of Confederation of Nepalese Industries (CNI). Similarly, the Joint-Secretary of the Sustainable Development and International Relations Division of NPC functions as the Member-Secretary of the Committee. Thematic committees are yet to be formed in the changing political context.

B) Consultative Mechanism

In preparation of the LDC graduation strategy, National Planning Commission is in consultation within the Commission, and with other representing relevant line ministries including Ministry of Finance (MoF), Ministry of Foreign Affairs (MoFA), Ministry of Federal Affairs and General Administration (MOFAGA), Ministry of Industry, Commerce and Supplies (MOICS), Ministry of Education, Science and Technology (MoEST), and other stakeholders including representatives from private sector organizations.

During the preparation of the smooth transition strategy, NPC has conducted consultation with provincial government representatives, development partners, private sector associations representing major impacting sectors and major associations. Nepal has also been in a regular communication with CDP as a part of preparation for the LDC graduation. Nepal has been rigorously in consultation with its co-graduating countries (i.e., Bangladesh and Lao PDR) to learn from each other. Nepal has been in close coordination with the UN country team while preparing the United Nations Sustainable Development Cooperation Framework (UNSDCF).

C) Collaboration with Development Partners

In the process of preparing a smooth transition strategy (STS) for the LDC graduation, Nepal has received support from the United Nations Development System (UNDS). One of such supports was the opportunity for Nepal to participate in the ‘South-South Exchange on Preparing Smooth Transition Strategies (STS): Graduating Cohort of 2021’ and exchange ideas with its peer. The South-South Exchange was organized jointly by the UN Department of Economic and Social Affairs (UN DESA) as the Secretariat for the Committee for Development Policy (CDP) of the United Nations and the United Nations Resident Coordination Offices (RCOs) in Bangladesh, Lao Peoples’ Democratic Republic (Lao PDR) and Nepal and in collaboration with the United Nations Office for the High Level Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS) and the se by the UN Department of

The exchange programme re-energized the Nepal's STS preparation process, allowing it to learn from industry/sector experts and share ideas as well as benefit from each other's experience.

This broad and inclusive participation not only showcased good practice and possible pathways ahead, but also highlighted the many trade-offs that must be addressed to ensure a sustainable, irreversible, and quality LDC graduation. This underlined the necessity to approach the LDC graduation from, not only a *whole of government*, but a *whole of society* point of view. The government of Nepal has used the ideas and learning from the exchange programme in the formulation of the STS.

5. Smooth Transition Strategy

Nepal has prepared draft Smooth Transition Strategy with detailed policy action matrix. Strategies are focused on addressing the major structural constraints of the economy and development challenges.

Structural Transformation and Major Constraints

b) the industrial sector that is highly critical for higher production, transformational changes and productivity enhancement of the economy through both backward and forward linkages and spillover effects is also confronting with many structural problems. Within the secondary sector, share of electricity in total value added has remained almost constant in last one decade despite huge potentials of harnessing abundant water resources. More strikingly, the share of manufacturing sector has declined during the same period, from 6.1 percent in 2010/11 to 5.1 percent in 2020/21 indicating a tendency of deindustrialization. The outcome of continued policy reforms and changes in strategies overtime accompanied by legal, regulatory and institutional initiatives to promote and diversify manufacturing industries including exportable industries have, thus, been less encouraging.

c) Within the tertiary sector, there is a steady rise in the value added contribution of education sector which is a positive structural change and is largely due to rapid expansion in the access to education services. Worryingly, however, there has been steady decline in the share of education budget of the federal government in recent years which is hampering the infrastructure development and other education quality enhancing activities. In the health sector, though in the aftermath of COVID -19 pandemic more priority to the health sector has been given, low priority to the health sector in the past has exposed poor infrastructural, institutional and technical capacity problems. The rising infrastructure gap is a major area of concern for tapping the contribution of construction and transport sectors.

process. It focuses on the measures that could contribute more effectively to building, accumulating, and upgrading productive capacities in a way to ensure structural transformation more positively leading to meaningful, sustainable and irreversible graduation.

During transition period and post-graduation, Nepal will focus on expanding productive capacity through focus on building human capital with investment on education, health and utilizing demographic dividend. Productive capacity encompasses a set of productive resources such as human, physical, financial

crops and highly nutritious, climate resilient but neglected and underutilized secondary crops like finger millet, buckwheat, millet, legumes etc by providing proper incentives. Harnessing Democratic Dividend is utilizing the opportunity we have. As predictions indicate, Nepal is going to the transition very rapidly from being an ageing society in 2028 to an 'aged society' by 2054. Nepal will make every possible effort to translate demographic bulge into a demographic dividend when a qualitative productive workforce is developed and harnessed for larger socio-economic transformation.

Other aspects Nepal considers important post-graduation are: meeting infrastructural gap and accelerating productive capacity, making structural transformation of the economy affirmatively, reorienting macroeconomic policies for inclusive, broad based and sustainable growth, addressing vulnerabilities and strengthening resilience, bringing wide-ranging institutional and governance reforms for better outcomes and efficient delivery of government services for sustainable graduation.

We are preparing transition strategy aligning with 15th Development Plan, Sustainable Development Goals (SDGs), industrial policy, trade policy and other sectoral policies as well as Green, Resilient and Inclusive Growth (GRIG) strategy.