

Nepal's Progress Report
on
Implementation of Vienna Programme of Action
for the Land-locked Developing Countries for the
Decade 2014-2024

Government of Nepal
Ministry of Industry, Commerce and Supplies

I. Introduction

Nepal is a landlocked country in South Asia, situated between India and China, with a total population of 29.2 million. Nepal shares its borders with India in the east, west and south, while with China in the north. The country has three ecological regions, namely mountains, hills and terai (plain). Nepal has adopted federal system of governance in accordance with the Constitution of Nepal promulgated in 2015, with 7 provinces and 753 local levels.

Nepal met the threshold criteria for two of the three indices – Human Assets Index (HAI) and Economic and Environmental Vulnerability Index (EVI) for its eligibility for graduation from least developed country (LDC) category during the past three rounds of triannual reviews of Committee for Development Policy (CDP) in 2015, 2018 and 2021. Following the recommendation of CDP and endorsement by the Economic and Social Council, the UN General Assembly Resolution in 2021 has endorsed for the graduation of Nepal in 2026 with five-year preparatory period. The graduation of Nepal without meeting the criteria for Gross National Income Per capita Index (GNI) has become a unique case. Nevertheless, Nepal is approaching to catch up the threshold of GNI per capita. Graduation from LDC category to a developing country will be a remarkable development milestone for Nepal despite several challenges associated with its smooth and sustainable graduation.

The overarching goal of Vienna Programme of Action for Landlocked Developing Countries for the decade 2014-2024 (VPOA) is to address the special development needs and challenges of landlocked developing countries (LLDCs) arising from landlockedness, remoteness and geographical constraints. It focuses on inclusive and sustainable economic growth and eradication of poverty through the implementation of specific actions in priority areas. It has identified six priority areas: transit policy issues; infrastructure development and maintenance; international trade and trade facilitation; regional integration and cooperation; structural economic transformation; and means of implementation. Nepal has prioritized the implementation of the VPoA and made considerable progress in achieving the objectives set for the priority areas. Trade and transit costs depend on the quality of trade infrastructure development, logistics management, transit in and trade facilitation approach within the country and the countries providing the transit access. Addressing the issues of high trade and transit costs remained a priority for the GoN. The GoN has noted that the Report of the Secretary General on Implementation of VPOA for Landlocked Developing Countries for the Decade 2014-2024 specifically pointed out that the objective for reducing transit time had not been achieved in the South Asian region including Nepal.

This report on progress review of implementation of VPOA in Nepal has been prepared with the lead role of Ministry of Industry, Commerce and Supplies (MOICS). The representatives from Ministry of Finance, Ministry of Foreign Affairs, National Planning Commission (NPC), Ministry of Communication and Information Technology (MOCIT), Ministry of

Energy, Water Resource and Irrigation (MOEWRI), and Ministry of Physical Infrastructure and Transport (MOPIT) have actively engaged in and contributed for the preparation of the report. The report has been prepared based on the desk review of the existing policy and plan documents of the GoN, review reports and secondary data. Trend of socio-economic development of Nepal during the last 10 years and the mainstreaming of VPOA in national plans, policies and strategies have been reviewed in the report. Similarly, key achievements made by Nepal in each of the priority areas during this period, and challenges on the implementation of VPOA are analyzed and measures for the future programme of action are suggested.

II. Policy Mainstreaming of the VPoA

Nepal has given priority on the implementation of the VPoA and has made considerable progress in achieving the objectives of priority areas. The 14th Plan and the 15th Plan have emphasized the implementation of international commitments of Nepal including the VPoA, sustainable development goals (SDGs), and international conventions, treaties and agreements. In particular, the current 15th Plan has set national goals and targets for achieving the aspiration of prosperity and happiness by addressing challenges associated with landlocked-ness by identifying drivers of transformation and enablers. The national strategies related to infrastructure such as developing modern and accessible transport system and ICT for interconnectivity have well incorporated the priority areas of VPoA. The SDGs are well aligned in the plan with mapping of 17 goals to national strategies and national targets for the end of the 15th Plan (2023/24) and by 2030 (NPC, 2020). The plan has also mentioned about the graduation of Nepal from LDC category, achieving the SDGs and reaching a middle-income country by 2030. Emphasis has also been given to the internalization and localization of the SDGs at provincial and local levels. The roadmap on SDG and its financing strategy have well internalized the major aspects of VPoA (NPC, 2017).

Sectoral policies related to trade, industry, investment, climate change and disaster management have internalized the actions of the VPoA. The environment and climate change related policies have focused on resilience and sustainable development with cross-cutting approach and making sectoral policies and strategies more climate friendly. Similarly, the legal provisions have also provided basis for effective implementation along with strong institutional arrangements such as National Disaster Risk Reduction and Management Authority (NDRRMA).

III. Assessment of Key Economic, Social and Environmental Development Trends

Economic Development

Nepal has experienced ups and downs during the review period. The promulgation of the new Constitution by the Constituent Assembly in 2015 and shifting from the unitary to federal governance system has brought major changes in the political front. Although the devastating earthquake in 2015, border obstruction in the south, floods in 2017 and Covid-19 pandemic created implementing challenges, an average economic growth rate of 4.3 percent was achieved during the review period. Between the earthquake 2015 and the Covid-19 pandemic 2019/20, Nepal was able to achieve high economic growth 7.75 percent, on average for three fiscal years (NSO, 2023a). It underscores that political stability and improved policy environment are crucial for achieving high and sustainable economic growth. Meanwhile, developing resilient capacity for confronting external shocks such as climate change, disasters, global recession, and pandemic is also pivotal for prosperity.

The size of the economy is estimated to be USD 41.2 billion in 2022/23 (NSO, 2023b). The GNI per capita is estimated to be USD 1,410 in 2022/23. During the review period of 2012/13-2022/23, the share of primary sector on GDP has declined from 32 percent to 24.6 percent. The secondary sector has witnessed decrease in share from 14.5 percent to 12.9 percent. The share of service sector has surged from 53.5 percent to 62.4 percent. The growth rates of agriculture and non-agriculture sectors were 2.7 percent and 4.6 percent, on average, respectively (NSO, 2023b).

During the review period, the Covid-19 pandemic has brought unprecedented negative impacts in the social and economic spheres due to the measures taken for containing the pandemic like health protocols, lockdown, closures of international border and restriction of mobility of people. The economy contracted by 2.4 percent in 2019/20, which is the record of negative growth in the past 40 years. The pandemic has also jeopardized the progress achieved in human development. Tourism, manufacturing, transportation, and trade were the hardest hit sectors by the pandemic resulting in huge job loss and pushing the vulnerable and marginalized people in desperate poverty. High rate of returnee migrant workers from abroad further exacerbated the situation of unemployment and miserable living condition during the pandemic. The migration for foreign employment declined by 20.5 percent in 2019/20 and 62.8 percent in 2020/21. However, there was only a slight decline in remittance inflow in 2019/20 while an increase of 9.8 percent in 2020/21 (NRB, 2022).

Like other countries, Covid-19 pandemic impacted both exports and imports of Nepal. The pandemic-related hurdle disturbed the supply chain including regular supply of raw materials and breaking production networks. Due to the pandemic, export items from Nepal that have comparative as well as competitive advantages had shrunken. The supply of raw materials for export-oriented industries and the export of goods were also hindered due to borders closure along with the imposition of rigid health protocols. Protectionist measures such as restrictions

of supply of basic goods including medicines and basic food supplies by other countries had negative impacts on human life as well as smooth and safe operation of economic activities. While the lockdown measures adversely affected government revenue, the pandemic has necessitated additional investment in health services and social security schemes for vulnerable sections of the society leading to increased fiscal deficit and public debt.

The inflation during review period has remained at 6.5 percent, on average, highest in 2015/16 (9.9%) and lowest in 2020/21 (3.6%). The balance of payment has generally remained positive except in 2018/19 and 2021/22 (NRB, 2022). Despite the huge trade deficit, the situation of foreign currency reserve was generally favorable mainly due to remittances inflow.

Social Development

Nepal has made substantial achievement in poverty reduction over the last few decades. The headcount poverty has been brought down from 25.2 percent in 2010 to 21.5 in 2015 and further down to 16.7 percent in 2019 (NPC, 2023). The Multidimensional Poverty Index (MPI) has also significantly reduced from 30.1 percent in 2014 to 17.4 percent in 2019 (NPC, OPHI, UNDP, UNICEF 2021). However, there is heterogenous pattern of poverty across provinces and segments of population.

According to population census 2021, the literacy rate of people above 5 years of age reached 76.2 percent in 2021 from 65.9 percent in 2011 (NSO, 2023a). The net enrolment rate (NER) at basic level (grade 1-8) was 94.7 percent. The NER for secondary level (grade 9-12) has reached 51.2 percent. The life expectancy at birth has reached to 71.2 years (NPC, 2023). Under-five child mortality rate has decreased from 54 to 28 per thousand live births whereas the infant mortality rate has decreased from 46 to 16 per thousand live births during 2011-2022 (MOHP, NEW ERA & ICF, 2022). Similarly, maternal mortality rate has sharply declined to 151 from 239 per 100 thousand live births during 2011-2021 (NSO, 2023a). The total fertility rate was 2.1 for 15-49 age group women Stunting among under-five aged children has reduced from 41 to 25 percent during this period (MOHP, New Era & ICF, 2022).

The households using electricity has increased from 67.3 to 92.2 percent. 57 percent of households have access to piped water in 2021 in contrast to 47.8 percent in 2011. The household with toilet facility has also increased significantly to 95.5 percent from 61.8 percent during 2011-2021. The proportion of household using firewood for cooking has declined from 64 percent to 51 percent (NSO, 2023a).

There is significant progress in women empowerment. The participation of women representatives in local government is about 41 percent while about 33 percent representation at federal parliament and provincial assembly. Women's ownership of land and property has increased to 11.8 percent in 2021 from 10.7 percent in 2011 (NSO, 2023a). According to

National Economic Census 2018, female ownership of business enterprises is 27 percent (CBS, 2018).

Environment and Climate

Nepal is one of the most vulnerable countries to climate change despite negligible contribution to the total green house gases emissions in the world. Global Climate Risk Index 2021 shows that Nepal is one of the most affected ten countries in the world by extreme weather events. The climate change is affecting more pervasively the Himalayan region. Melting glaciers, flash floods caused by glacial lake outburst, unpredictable precipitation patterns, temperature fluctuations, extreme rainfall events, drying up of springs in the hills and downstream flooding, more droughts, dwindling agricultural outputs, and degraded ecosystem services are the major impacts of rapid climate change in Nepal.

Nepal has officially endorsed various international conventions on combating climate change impacts and has made climate adaptation as a national agenda. Nepal has implemented Environment-Friendly Local Governance (EFLG) Framework and Local Adaptation Plan of Action (LAPA) in collaboration with the local government. Nepal is implementing Local Adaptation Plan of Action (LAPA) 2011, Local Government Operation Act (LGOA) 2017, Disaster Risk Reduction and Management Act (DRRMA), 2017, National REDD+ Strategy, 2018 and National Climate Change Policy (2019). Under the DRRMA (2017), Nepal has recognized the need to address all stages of disaster risk management cycles from preparedness and response to rehabilitation and mitigation in which the functional institutional set-up from the central to local levels has also been arranged. Recently, Nepal has adopted Green, Resilient and Inclusive Development (GRID) approach in which greening of economy, resilience and inclusive development form the cornerstone. Nepal is also taking a number of initiatives to increase awareness on enhancing conservation and sustainable use of mountain ecosystems after UN declaration of the year 2022 as the International Year of Sustainable Mountain Development.

IV. Assessment of Progress and Challenges in the Implementation of the VPoA

Priority Area 1: Fundamental Transit Policy Issues

Nepal has been experiencing structural challenges while participating in international trade. Its remoteness to international markets, longer distance from the seaport, poor transportation infrastructures and hurdles in transit have made trade and development costlier. Nepal's trade and transit policies, currently in implementation, are geared towards addressing this gap. As a result, important advances have been made in reducing transit costs. For instance, Nepal's logistic performance index (LPI) was 114 out of 160 countries in 2018, up 10 spots from 2016. Nepal also made significant reductions in transit time and costs through the road and railway to strengthen supply chain.

As an LLDC, Nepal is relying on neighboring countries for its transit access. Rail Services Agreement between Nepal and India has been amended through Letter of Exchange (LoE) including the provision of allowing all authorized train operators to transport both bilateral and transit cargo. Since September 2021, apart from the Container Corporation of India Limited (CoNCOR), other private container train operators have also started Nepal cargo transportation by rail. As a result, the rail cargo service cost has significantly reduced.

With the technical and financial support of the Government of India (GoI), it was agreed to construct five integrated check posts (ICPs) at Nepal India border points. ICP Birgunj and ICP Biratnagar have been completed and are in operation. These ICPs have reduced traffic congestion caused by small and cargo vehicles and thus facilitated bilateral and transit trade of Nepal. ICP Nepalgunj is in completion stage and the Bhairahawa ICP will be being constructed soon after the site clearance and other necessary formalities before the construction.

GoN and GoI agreed to sign an MOU for the construction of ICP and required infrastructure at Dodhara-Chandani. Nepal has also proposed for the construction of a cross-border economic zone along the same area and will conduct a feasibility study. These initiatives will provide diverse transit options for traders in Nepal and India. After the completion of four-lane bridge on Mechi River in the West Bengal - Kakarbhitta section, Nepal has been connected to the Asian Highway Network which is the part of Great Asian Highway initiative with 32 signatory countries spanning from Asia to Europe.

Nepal Intermodal Transport Development Board (NITDB), a government agency, is responsible for construction and operation of dry ports and ICPs. ICDs at Kakarbhitta, Birgunj, Tatopani and Chobhar have become operational. The construction of new ICD in Timure, Rasuwa has been started. It has also a plan ICD in Yari, Humla which will improve connectivity of the Karnali region with China. Pre-feasibility study for the construction of dry port at the border point of Tinjho in Dolpa, Korla in Mustang and Jaleswar in Mahottari has been completed.

India has agreed to the amendment of the Treaty of Transit, 1999 in order to allow utilization of the Indian Inland waterways for transit, and additional two transit points for the transportation of bulk cargo to Nepal. After signing of the revised Treaty of Transit, it will pave the way for Nepal to navigate inland waterways facilities from Haldia port to three terminals of the waterway facility at Sahebgunj, Kalughat and Varanasi allowing Nepal to use multimodal transport options. An electronic cargo tracking system (ECTS) has been implemented on rail cargo movement of Nepal from Kolkata/Haldia and Vishakhapatnam to Birgunj and Bathnah. The system provides real-time location information of the vehicles.

Nepal and China signed the Protocol to the Transit and Transport Agreement in February 2019. The Protocol allows Nepal to use Shenzhen, Lianyungang, Zhanjiang and Tianjin

seaports and Lanzhou, Lhasa and Xigatse land-ports. As part of the agreement, Nepali traders can use any mode of transport, rail or road, to access the seaports for third country trade. Similarly, traders are allowed to trade through six checkpoints in the Nepal- China border Rasuwa, Tatopani, Korala, Kimanthanka, Yari and Olanchungola. Nepal and China have also agreed on conducting technical details of Kathmandu-Kerung railway line that connects China's border point with Nepal's capital. Along with exploring the possibility of railway connectivity, GoN has pushed for road upgradation along the routes with China. The GoN started upgrading Syaphrubesi-Rasuwadhi-Galchhi road. The road section as a Game changer project is expected to improve Nepal's connectivity with China and also provide another potential route for trade between China and India.

Nepal and Bangladesh also signed four MoUs including a Letter of Exchange to designate Rohanpur-Singhabad railway route as an additional entry/exit point for the bilateral and third-country transit trade for Nepal in March 2021.

Bangladesh, Bhutan, India, Nepal (BBIN) Initiative remains an important regional cooperation platform for Nepal. BBIN Motor Vehicle Agreement (BBIN MVA), first signed by the member countries on 15 June 2015 at the BBIN transport ministers meeting, once ratified, will permit the states to allow their vehicles in each-other's territories for transportation of cargo and passengers including third country transport and personal vehicles. The agreement is expected to improve regional connectivity and reduce the costs and time for transits.

Priority 2: Infrastructure Development and Maintenance

Transport

Transport connectivity including development of integrated transport system has been the priority of the government. It is estimated that Nepal will need investment of 10–15 percent of gross domestic product (GDP) annually over the decade to bridge infrastructure gaps which is about 6.3 percent of GDP at present (WB, 2019). Local, provincial and federal governments have spent considerable amounts of resources to develop roads and other physical infrastructures. These infrastructures are important for internal connectivity as well as cross-border connectivity and international trade. The GoN also has made a policy to build and upgrade Strategic Road Network (SRN), as national highways which make up 14,913 kilometers (km) length. The GoN has been building and upgrading graveled and blacktopped roads each year and building bridges to improve connectivity between different sections of the SRN. The federal government has built 335 km of graveled road and 618 km of blacktopped road in 2022/23. 282 bridges have been built in the same fiscal year (MOF, 2023). The federal government has built 34,100 km road including 17,480 km black topped, 7,956 km graveled and 8,664 km earthen road. There is about 66,057 km provincial road and

local level road which has improved access to public services, strengthened supply/value chain of products and enhanced economic activities. The total road length in Nepal is about 100,000 km with the road density 0.68 per square km in 2022/23 (MOF, 2023).

The GoN has also identified several highways as National Pride Projects which are currently under construction. These include the Mid-hill highway (1879 km), Postal highway (1857km), Kathmandu-Terai Madhesh Fast Track (72.5 km), Koshi Corridor (162 km), Kali Gandaki Corridor (two separate sections, 245 km and 202 km), and Karnali Corridor (145 km). These national highways will provide access to regional and international markets for Nepali products as well as corridor for India-China trade. Most of the sections of these highways are completed and operational while few sections are under construction and expected to be completed within 3 to 6 years.

The national and sectoral plans have also mentioned developing railway networks. As a dedicated institution, the Department of Railways was established under MoPIT in 2010/11 to implement railway projects. These include East-West electric railway and railways to connect Kathmandu with Raxaul (border with India) and Kathmandu with Kerung (Border with China). 35 km Jayanagar-Kurtha segment of Janakapur-Bardibas Railway (69 km) is completed and operational. Detailed project report (DPR) for all the sections of the East-West railway has been completed. Opening tracks for 70 km of Bardibas-Nijgadh section and 10 km Bathanaha-Biratnagar section of this railway has been completed. Birgunj ICP has been connected with cargo railways while infrastructure for railway in Biratnagar has been developed. Field Location Survey (FLS) of Raxaul-Kathmandu Railway has been prepared and is on the process of handover. Nepal and China have also agreed on the technical details of the Kathmandu-Kerung railway. The process of preparing a feasibility report is in the process.

The government has started expansion of East-West highway to 3-4-6 lanes and Prithvi Highway in 2-3-4-6. Six segments of different north-south roads are being expanded to 4-6 lanes. These are the main arterial routes being used for goods transportation. The expansion of roads connecting Indian border and East-West highway will substantially reduce the cost of transportation.

Construction of Pokhara International Airport and Gautam Buddha International Airport has been completed and are in operation. It is expected to enhance regional connectivity through these airports and develop Pokhara and Lumbini as hubs for trade and tourism. Nepal has also made a plan to develop inland waterways to reduce transit and trade costs. Nepal has signed agreements with India to explore the possibility of trade through waterways in Koshi and Narayani River. These waterway networks will further strengthen national and regional connectivity.

Energy and Information and Communications Technology

Energy

The government has given priority in the production of hydroelectricity and other alternative energy in recent decades. The government has focused on universal access to power, optimization of energy mix, increasing hydroelectricity production and building new transmission lines to meet the increasing domestic demand, decrease the consumption of petroleum products and harness regional energy market. The 15th Plan has taken the goal of achieving energy security through intensifying hydropower generation. Meanwhile, the hydroelectricity sector has been successful in attracting domestic and foreign investments, in particular with public private partnership (PPP) model, with a series of policy reforms. There is remarkable achievement in hydropower production. The installed capacity has increased from about 700MW to 2666MW, with 1527MW contribution from the private sector, during the review period. Similarly, there is tangible progress in the production of other renewable sources of energy. The government has also signed new treaties with neighboring countries to facilitate power trade.

Nepal overcame an energy crisis that adversely affected the country between 2008 and 2016. The crisis was first mitigated through abolishment of load-shedding and demand side management. Meanwhile, the energy demand has consistently increased which is being currently met by increased power production and imported power from India. In 2022/23, the average annual household consumption of electricity was 351 KWh. The GoN intends to increase the annual per capita electricity consumption to 1,500 KWh in 2030. The households with access to electricity have increased from 74 percent of the total population in 2016 to 95 percent in 2022/23 including solar, wind, micro hydropower and mini grids. The electricity leakage has also been substantially reduced to 14 percent from 26 percent during review period.

Similarly, Nepal expanded transmission lines from 1,500 circuit km to 5,427 circuit km and distribution lines from about 100,000 circuit km to about 138,000 circuit km during review period. 400kV Dhalkebar-Mujhapharpur, and 132kV Kushaha-Kataiya and Raxaul-Parwanipur cross border transmission lines has been added to the system for export and import of electricity. Currently, Nepal and India are agreed for power trade up to 800MW electricity to India.

Nepal and India have negotiations to finalize a regulatory modality for power trade. The 10th Joint Steering Committee Meeting held in February 2023 discussed about the addition of two cross border transmission lines, implementation modality of two more transmission lines (Anarmani-Purnea and Lamki-Bareli) and long-term power trade agreement between two countries. A joint venture Company between Nepal electricity Authority and India has established in 2022 to expedite the construction of Butwal-Gorakhpur cross border transmission line. Nepal has also noted that the Central Electricity Authority of India published a Procedure for Approval and Facilitating Import/Export (Cross Border) of Electricity by Designated Authority. Nepal, India and Bangladesh agreed in discussion for a

pact on using the Indian grid to transfer electricity from Nepal to Bangladesh for 40MW.

Information and Communication Technology

National Communication Policy, 1992 encourages private sector for the development, expansion and operation of the communication sector. Nepal is also implementing Broadband Policy 2015, ICT Policy, 2015, Radio Frequency Policy, 2016, Digital Nepal Framework (DNF), 2019, and Satellite Policy, 2020. National Broadband Master Plan and Telecommunications Frequency Distribution Regulation and Regulatory Framework for Mobile Number Portability are also implemented.

The DNF, approved in October 2019, has eighty digital initiatives in digital infrastructures, agriculture, health, education, energy, tourism, finance and urban infrastructure. The five-year targeted blueprint of the framework provides a roadmap to contribute for economic growth and innovations to solve major societal challenges and identify opportunities for Nepal to participate in the global economy. A master plan related to ICT in education has also been implemented and new master plan is being formulated. Moreover, the GoN has reviewed the existing policies like Broadband Policy, Telecommunication Policy and ICT Policy to formulate an umbrella policy of ICT. The GoN is also formulating Cyber Security Policy.

The legislations introduced for regulating and monitoring the use and application of digital services are Electronic Transactions Act, Privacy Act, Customs Act, National Identification and Registration Act and Passport Act. The government has also made amendments in a number of sector-specific legislations to accommodate IT-enabled public services. The GoN has drafted the E-Commerce Bill and it has also been drafting the IT Bill and Cyber Security Bill. A bill related to security printing is in process of approval.

Access to the internet and telecommunication has increased significantly in Nepal. As of January 2023, the subscription of Voice Telephone Service is 123.3 percent of the total population for mobiles and 2.7 percent for fixed land-lines. 36.8 percent of the population has access to fixed wired broadband and 94.3 percent of the population has access to mobile broadband. 73 percent of the households own smart phones and 15 percent of the households use computer/laptops (NSO, 2023a). The length of optical fiber has reached 12,238 km. The 4G service has reached all 77 districts with services to 65.60 percent of the population, covering 733 out of 753 local levels. In 2018, 40 percent of the Nepali people were digitally literate, and it is estimated that 60-65 percent of the Nepali people are digitally literate now. 55 agencies have been providing online services.

Nepal Telecom has established Nepal-China collaboration for trans-border internet connection in January 2018 which diversifies Nepal's internet bandwidth. The GON has been utilizing Rural Telecom Development Fund (RTDF) through Nepal Telecommunications Authority (NTA) to build and operate Information Superhighway connecting all district

headquarters and adjacent municipalities along the Mid-hill highway and broadband connectivity to local government offices, ward offices, community schools and community health centers. Parallely, the licensed operators are also building their networks to provide internet and telecommunication services to the people. As a result, internet and telecommunication services are available in more affordable cost.

Frequency Policy 2016 has been implemented to make transparent distribution process of radio frequency spectrum for the expansion of broadband services through mobile technology. A policy of using the ISM Band has been adopted for the provision of spectrum that does not require a license for areas deprived of access to communication technology. Sufficient spectrum has been made available to operate services based on IMT and IMT advanced technology. The Guideline on Telecommunication Infrastructure Sharing, 2015 has been implemented, but previously prepared infrastructure by service providers only for their own use could not be shared. A bill for Telecommunication Infrastructure Sharing is being drafted. The GoN has also started building a separate 'Cyber Security Center' to improve cyber forensic lab, risk identification, impact mitigation and emergency response to make cyber security robust.

Priority 3: International Trade and Trade Facilitation

International Trade

Trade is considered as one of the major vehicles towards the realization of VPoA. Moreover, export promotion through greater integration in the regional and global value chain has been a policy priority of the government. Policy, legal and institutional reforms are pivotal for improving overall trade performance. Nepal has reviewed the existing trade policies and introduced successive policies in 2009 and 2015. Trade Policy 2015 has focused on reducing trade deficit and adopting new approaches related to Trade Facilitation Agreement (TFA), and preferences and market access for LDCs.

During the review period, Nepal Trade Integration Strategy (NTIS) has been formulated in 2016 as a successive of NTIS 2010. It had focused on the core issues of trade such as trade and investment environment, trade capacity, trade facilitation, standard and technical regulation, and sanitary and phyto sanitary (SPS) measures. It had enlisted priority goods such as agro-forest products, footwear, textile and fabrics as well as services such as skilled and semi-skilled labor, information technology (IT), business process outsourcing (BPO) and tourism. Recently, NTIS 2023 has been approved by the GoN as a successive version of previous one. It has focused on enhancing export competitiveness and maintaining external sector balance, trade facilitation and export promotion in the context of federal system and graduation of Nepal in 2026. The strategy has also analyzed the learnings from the implementation of previous NTIS including resource and implementation gaps, trade

ecosystem, adoption of appropriate strategies and technological advancement. In line with priority actions of the VPoA, the NTIS 2023 has emphasized on trade infrastructure development, trade facilitation as well as hydroelectricity and IT as priority products, among others.

Trade Deficit Reduction Action Plan 2018 and its updated version amended in 2023 have focused on the implementation of priority actions for bridging trade gaps. Developing synergy among trade-related policies, infrastructure development, product and value chain development, effective mobilization of economic diplomacy for export promotion, review of existing bilateral, regional and multilateral agreements and initiate new agreements in the context of LDC graduation, trade facilitation and capacity building have been persistent focus in these policies.

Despite reforms in trade and investment-related policies and strategies in line with the WTO laws, the export performance of Nepal is not satisfactory. Nepal has not been able to adequately exploit the trade related preferences and flexibilities available through multilateral trading system. Nepal's export is mostly stagnant while import has been increased significantly. Nepal exported goods and services equivalent to USD 874 million in 2012/13 which increased to USD 1.66 billion in 2021/22. Nepal's imports soared to USD 15.89 billion in 2021/22 from USD 6.32 billion in 2012/13. Consequently, Nepal has been experiencing widening trade deficit and higher import-export ratio. The export-import ratio increased from 1:7.2 in 2012/13 to 1:15.3 in 2017/18 and declined to 1:9.6 in 2021/22 (NRB, 2022). The trade deficit measured as the ratio with GDP has increased from 24.6 percent in 2012/13 to 34.9 percent in 2021/22 (NRB, 2022). Meanwhile, there was some decline in the trade deficit in 2019/20 at 28.3 percent of GDP from 34 percent of GDP in 2018/19 particularly due to the COVID-19 pandemic. Nepal has huge potential of services exports. However, this sector has been severely impacted by the Covid-19 pandemic resulting in a deficit in trade in service as well.

The GoN has recognized the need of trade diversification. However, about three-quarters of merchandise export is directed towards India (77.6%), followed by USA (9%), Germany (2.1%), Turkey, UK, France, Australia, Italy, Canada and Japan in 2021/22. The share of import from India is 62.5 percent whereas that from China is 13.8 percent in 2021/22 (TEPC, 2022).

Trade Facilitation

Nepal ratified the WTO Trade Facilitation Agreement in 2017 and Convention and General Annex of the World Customs Organization Revised Kyoto Convention. The GoN notified the WTO on the TFA categories in 2018. Nepal has notified the definite date of Category B in February 2020 and indicative date of Category C along with shifting of some categories from

C to B in February 2021. The review of implementation status and working for definitive dates for Category C is under process. In accordance with TFA, Nepal has established National Committee on Trade Facilitation with the objective of contributing to facilitating trade and transit. The draft operational directives of the committee has been prepared and now in the process of final approval.

Department of Customs (DoC) has implemented Nepal Customs Automation System-NECAS (ASYCUDA World) in major 28 customs offices which aims to reform and modernize customs clearance processes leading towards paperless trade. Nepal National Single Window (NNSW) system has been developed and launched in 26 January 2021. The system is operated by the DoC and provides a single-entry point for all data related to the clearance of goods for imports and exports. Forty-eight agencies that issue licenses, permits, certificates and others (LPCO) for cross-border trade have been identified as participants in the system. These include 7 government ministries, 23 departments, 3 government offices, 6 authorities (regulatory agencies) and development boards, 2 financial institutions (commercial banks and the central bank), and 7 private sector organizations. Among them, 32 entities have been linked in the system.

The DoC has also established its own disaster recovery center (DRC) at Biratnagar and its back up at NIDC. The DoC has implemented e-payment in both systems. It has also implemented ASYCUDA Mobile Client App in high transacted customs offices such as Birgunj, Biratnagar, Bhairahawa, Mechi, Krishnanagar and Tribhuvan International Airport Customs Offices. Online Exim Code registration system has also been implemented. IP Cameras for online monitoring activities of customs officers have also installed. Terminal Management System (TMS) in ICP and ICD which is interfaced with ASYCUDA World is also implemented. Gate Entry Module has been implemented to track vehicles at the border points.

Nepal Trade Information Portal is in operation since 19 September 2019 which keeps all trade-related information on a single platform and avails traders with a secure and personalized single-entry point for all trade-related information including regulatory requirements, procedures and fees. Ongoing reforms in MOICS, DoC and TEPC including automation and increasing use of ICT in border agencies have exhibited Nepal's better performance in TFA implementation.

Trade Logistics Policy, 2022 is under implementation. The policy has envisioned modern and integrated trade logistics system with logistics infrastructure development, strengthening trade-related supply chain management and trade logistics governance. It has focused on promoting domestic and foreign investment in trade logistics infrastructure, private sector engagement in the development and operation of trade logistics, strengthening the ecological system, institutional and legal arrangements, capacity building and development of the

logistics management information system. A work plan has been approved for the successful implementation of the policy.

A feasibility study on cross border electronic exchange of trade data has been carried and the report has been prepared. Nepal has been developing national payment gateway to facilitate digital payments system. Nepal also intends to launch a mobile app for farmers which will provide updates on weather conditions, market price and agricultural technologies.

Priority 4: Regional Integration and Cooperation

Nepal has been party to 17 trade agreements with all major economies and economies within the South Asia region. It has signed trade and transit treaties with its two neighboring countries India and China and also with Bangladesh. It is a party of three regional trade agreements: South Asia Preferential Trade Agreement (SAPTA), South Asian Free Trade Agreement (SAFTA) and the Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMSTEC). Nepal is also an active member of the Bangladesh, Bhutan, India, Nepal (BBIN) initiative. Nepal has a preferential trade agreement with India. China provides zero-tariff access to 8030 export items as per the letter of exchange between the two countries. It has also signed a Bilateral Investment Promotion and Protection Agreement (BIPPA) with six countries which account for about 40 percent of foreign investment in Nepal. Similarly, the EU offers duty-free, quota free market access to all export items under the 'Everything but Arms' (EBA). Nepal has signed an MoU with China on Belt and Road Initiative in May 2017. Nepal also remains an observer to the Asia Pacific Trade Agreement (APTA). Nepal joined the Asian Infrastructure Investment Bank (AIIB), a multilateral development bank, on 13 January 2016.

With its potential in producing hydro-electricity, Nepal has initiated and signed several treaties for regional energy cooperation. These include SAARC Framework Agreement on Energy Cooperation, power trading agreement with India, MoUs on energy cooperation with Bangladesh. Nepal, India and Bangladesh agreed in discussion for a pact on using the Indian grid to transfer electricity from Nepal to Bangladesh for 40MW. The GoN has also focused on strengthening its relations with Bangladesh and, as mentioned earlier, signed four MoUs in tourism cooperation, SPS cooperation, and a letter of exchange on the designation of a railway route as an additional transit route for movement of traffic-in-transit and third-country transit trade. The agreement on BBIN MVA with Bangladesh and India will also foster regional integration.

Priority 5: Structural Economic Transformation

A rapid change in the production structure has taken place in Nepal with sharp rise of services sector's share in GDP in recent decades. The share of agriculture sector has sharply declined

from about one-third (32%) to one-fourth (24.6%) in total GDP during 2012/13-2022/23 (NSO, 2023b).

The secondary sector is crucial for increased production, productive transformation, and productivity enhancement of the economy through both backward and forward linkages and spillover effects. Its share in GDP has witnessed a decrease from 14.5 percent to 12.9 percent during review period (NSO, 2023) despite continued policy reforms and changes in strategies accompanied by legal, regulatory and institutional initiatives. In particular, the share of manufacturing sector has declined from 6.3 percent in 2012/13 to 5.3 percent in 2022/23.

The share of service sector has increased significantly from 53.5 percent to 62.4 percent during the review period (NSO, 2023b). There is increased value-added contribution of education in line with the increased school enrollment and literacy rate. Whereas the share of health sector is constant despite notable progress in child mortality, maternal mortality, nutrition, and life expectancy at birth. The other sectors which expanded their share in total value added include public administrative services and financial activities. The contribution of construction, communication and transport sectors has also predominantly increased.

Priority 6: Means of Implementation

Implementing VPoA is inextricably linked to Nepal's implementation of SDGs, as such the means of implementation for the SDGs also provide a good outlook for the implementation of VPoA. The GoN estimates that on an average an annual outlay of NRs 2,025 billion (about USD 19 billion) will be necessary for achieving SDGs in line with the 2030 targets. The financing gap is estimated 28.9 percent, annual average, during 2016-2030 (NPC, 2017). The major ways to meet the gap include domestic investment, foreign direct investment (FDI) and official development assistance (ODA).

Revenue mobilization is generally satisfactory with annual 11.7 percent growth during the review period. The ratio with GDP has increased from 15.2 percent to 21.7 percent during this period (MOF, 2022). However, the performance was severely affected during the first wave of Covid-19 (e.g. decreased by 7.2% in 2019/20). Due to phenomenal rise in total expenditure compared to revenue particularly after 2014/15, increasing fiscal deficit in recent years and public debt, the total debt outstanding jumped from 27.7 percent of GDP in 2012/13 to 41.6 percent of GDP in 2021/22 (MOF, 2022). The outstanding debt with subsequent rise in debt serving liability, pressures to address increased vulnerabilities, increasing productive investment and implementation of fiscal federalism has underscored the urgency of concerted efforts on revenue mobilization.

ODA has been a reliable source of external development finance for Nepal. In the past, ODA policies were adopted in 2002 and 2014 in succession. Recently, International Development

Cooperation Policy, 2019 has replaced the previous policy in order to accommodate the emerging needs of federalism. The policy focuses on transparency, results-orientation, mutual accountability and alignment of ODA with national priorities as well as domestic ownership and leadership in the implementation process.

While the share of foreign aid in the annual budget has been on decreasing trend in recent years in relative terms, it is still substantial and increasing over the years in absolute terms. The amount and proportion of grants in ODA has decreased substantially with an annual average of 6.2 percent. However, the volume of loans, particularly from multilateral development partners, has increased by 22.6 percent, on average annually, during the review period. Overall, the aid disbursement showed an increasing trend, particularly after the natural disaster of 2015 and the Covid-19 pandemic of 2019/20. The amount of ODA was USD 589 million in 2012/13 while it was USD 1,224 million in 2021/22. In 2019/20, total disbursement registered USD 2003 million with a substantial chunk (USD 318 million) on humanitarian aid in the wake of Covid-19 (MOF, 2021). Although off-budget aid was more pronounced in the past, it has changed over time with more aid on-budget modality.

The inflow of FDI was USD 103 million (0.47% of GDP) in 2012/13 whereas it was USD 153 million (0.38% of GDP) in 2021/22. FDI flow into Nepal was from 23 different economies of the world in 2021/22. The total approved stock of FDI until mid-march 2023 NRs 439.8 billion with 44.7 percent share of China and 23.5 percent share of India (MOF, 2023). Although there is remarkable foreign investment in hydroelectricity, investment in other infrastructure has remained low. Regardless, the realization of FDI in comparison to its commitment is not satisfactory.

The Constitution of Nepal has recognized the private sector as one of the three pillars of economy, underlying its major role in production and employment generation. Nepal has consistently been working for private sector development. For instance, Industrial Enterprises Act, 2020 and Foreign Investment and Technology Transfer Act, 2019 were enacted with an enlarged list of choices and modified scope for facilitating private sector investment. Private sector has also been working for the prosperity of Nepal through ‘Make in Nepal’ campaign, National Economic Transformation 2030, etc. focusing on strengthening productive capacity, competitiveness, and export promotion of Nepali products. The GoN has been advancing bilateral and multilateral talks to garner resources including foreign investment and ODA for implementing the VPoA along with SDGs.

Remittances as private flows of income have been extremely important source of foreign exchange as well as development finance for Nepal. Studies have shown positive impacts of remittances on living standards including asset endowment, housing, poverty reduction, education, health, nutrition, and sanitation. However, it has been argued that increased imports and trade deficit is strongly attributed by increased remittances. According to

population census 2021, 2.19 million Nepali were absent in their family and usually lived abroad (NSO, 2023a). In 2021/22, 637 thousand foreign employment approval (new and renew) were issued for migration to various destination countries. Increased migrant Nepali, family support and solidarity during crisis as well as shift from cash to digital remittance channels have primarily contributed for stable growth in remittances. During the review period, remittances increased steadily from USD 4.9 billion to about USD 8.3 billion with an annual average growth rate of 6.6 percent. The ratio of remittances with GDP was 22.3 percent in 2012/13 and peaked about 25.5 percent in 2015/16 and declined to 20.4 percent in 2021/22 (NRB, 2022).

Public-private partnership (PPP) in infrastructure development and operation has been emphasized for the last two decades. Public Private Partnership Policy, 2015 aims at bringing in managerial skills, innovative technology, human resources and capital available with the private sector in production of goods and services, and construction and operation of infrastructures and services. Nepal's hydroelectricity sector is one of the success stories in this front. The establishment of Investment Board of Nepal (IBN) is the landmark for facilitation of large scale domestic and foreign investment PPP projects. The PPP and Investment Act, 2019 has provisions approval of investment, project implementation, facilities, and incentives on PPP. IBN has provided approval for 33 large-scale projects worth NPR 1.4 trillion. IBN had also organized Nepal Investment Summits in 2017 and 2019 to encourage the domestic and international investors. Establishment of Nepal Business Forum (NBF) in 2015 is another important initiative to empower the private sector with constructive dialogue for improving business climate.

V. Monitoring of Implementation and Review

As mentioned in Section II, the GoN has been implementing the actions identified in the VPOA by internalizing and mainstreaming in its national plans, sectoral plans and policies and laws. The existing institutional arrangements, mechanism and process for monitoring and evaluation are being utilized for tracking the progress of implementation. The GoN has been regularly carrying out progress review of the VPOA and submitted to the United Nations.

The devastating earthquake in 2015 and the Covid-19 pandemic have severely affected the implementation of the VPoA. These shocks have not only impaired the implementation capacity but also created challenges in resource mobilization and sustaining socio-economic development achievements. Foreign aid mobilization and attracting FDI for bridging the resource gap in infrastructure development and service delivery are major challenges for implementation. Fostering investment climate, improving competitiveness and productivity, reducing trade and transit costs, and enhancing trade performance are priority areas of the government. So, the future programme of action needs to be well financed by both domestic

and external resources as well as should be linked with the country's plans, policies, and programs.

VI. Towards the Next LLDC Programme of Action: Conclusion and Way Forward

During the review period, Nepal has adopted federal system of governance in accordance with the Constitution of Nepal promulgated in 2015. UN General Assembly Resolution in 2021 has endorsed the graduation of Nepal in 2026 with five-year preparatory period. Nepal has accorded high priority in the implementation of the VPoA. The 14th Plan and the 15th Plan have emphasized the implementation of international commitments of Nepal including the VPoA, Sustainable Development Goals (SDGs), and international conventions, treaties and agreements. Sectoral policies have also internalized the actions of the VPoA.

The COVID-19 pandemic has brought unprecedented negative impacts in the social and economic spheres including economic stagnation, unemployment, and poverty. The sectors such as tourism, manufacturing, transportation, and trade as well as education were hard hit by the pandemic. Nevertheless, government initiatives and policy reforms have contributed to significant progress in economic, social, and infrastructural development during the review period. Nepal has made substantial achievement in poverty reduction, education, health, drinking water and sanitation. There is also encouraging progress in women participation and empowerment. However, Nepal has not been able to achieve the high economic growth and development as expected. Low competitiveness/productivity, landlockedness, poor trade-related infrastructure, weak institutional and human capacities and slow technological adoption are the main constraints of development. Meanwhile, expanding productive capabilities, raising competitiveness, and enhancing entrepreneurship are equally important for overcoming supply-side constraints.

Nepal has been severely affected by climate change and natural disasters. Other global issues such as pandemics, and food and energy crisis have posed further challenges. So, it has endorsed various international conventions, adopted policies, plans, programs as well as made legal provisions to combat the adverse impacts.

The GoN has given priority for energy (hydroelectricity and other renewable energy), transport (including road, railways, and airports) and communication (mobile, internet and ICT-based services) with the implementation of several large projects and programs in these sectors. The productive engagement of the private sector is encouraging in hydroelectricity and communication sectors. Consequently, access to electricity, road, telephone and internet has also increased significantly leading towards universal access.

Concentration of trade with a few countries, dominance of agro-forest products in the export and inadequate technology transfer are major problems of trade sector development of the

country. Digitalization of trade and transit procedures along with application of IT enabled services in supply chain management are important for increasing efficiency in international trade. Operation of cross-border electronic exchange of trade-related data and documents along with the application of domestic paperless systems need to be established. Application of modern tools such as ICT is necessary to enhance the domestic implementation capacity.

E-commerce has emerged sharply during the pandemic globally. However, LLDCs including Nepal have not been able to participate in and benefit from e-commerce mainly due to huge digital divide among and within countries. Additional support from donor communities has become essential especially in the areas of ICT infrastructure and human and institutional capacity building.

The GoN recognizes that, as with other LLDCs, industrialization is important for structural economic transformation as well as for achieving inclusive and sustainable economic growth. With the pandemic, the resources for the implementation of VPOA, especially transport and energy infrastructures and export performance, were shortfall. There are still some unfinished agenda during the implementation of VPOA which needs to be carried forward. In view of increased density and severity of the impacts of climate change, disasters and pandemics that have created uneven vulnerability for the LLDCs, it is necessary to make an integrated mechanism to address these problems more effectively. So, the emerging multiple sources of vulnerabilities and global political, economic and strategic development should fully be taken into consideration.

High and sustainable economic growth, increased productivity and competitiveness are needed for common prosperity. Effective, coordinated, and coherent international support measures for sustainable development are essential for effective implementation of future programme of action. Robust, enlarged and strengthened international support measures should be provided for transitional management of graduating land-locked LDCs. Capacity development of human resources and institutions of LLDCs who are directly involved in the implementation of future programme of action should take further momentum.

The programme of action must be anchored in the ongoing internationally agreed development goals such as SDGs, Addis Ababa Action Agenda, Paris Climate Agreement, Global Compact for Migration, and human rights treaties, coherently and consistently with national efforts to implement the development goals. Regional and sub-regional integration through improved connectivity is crucial for LLDCs like Nepal. Technology transfer and innovation through North-South, South-South and triangular cooperation and multi-stakeholder partnership approach is extremely important for LLDCs.

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