

27.4.2022

Avinash Dhital, Uma Sigdel,  
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# Transition from development cooperation to broader forms of cooperation in Nepal

Ministry for Foreign  
Affairs of Finland

Publications of the Ministry for Foreign Affairs 2022:3

# Transition from development cooperation to broader forms of cooperation in Nepal

Comparisons, lessons learned and recommendations for policy and action

Avinash Dhital, Uma Sigdel and Uttam Babu Shrestha

Ministry for Foreign Affairs of Finland Helsinki 2022

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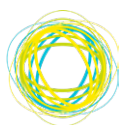
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Ministry for Foreign Affairs of Finland

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ISBN pdf: 978-952-281-373-2

ISSN pdf: 2737-0844

Layout: Government Administration Department, Publications

Helsinki 2022 Finland

## Transition from development cooperation to broader forms of cooperation in Nepal

### Comparisons, lessons learned and recommendations for policy and action

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#### Publications of the Ministry for Foreign Affairs 2022:3

**Publisher** Ministry for Foreign Affairs of Finland

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**Author(s)** Avinash Dhital, Uma Sigdel, Uttam Babu Shrestha

**Language** English

**Pages** 117

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#### Abstract

The study was conducted to provide directions for Finland's long-term grant-based development cooperation towards new forms of partnerships in Nepal, in the wake of Nepal's upcoming Least Development Country (LDC) graduation in 2026. Mixed methods, such as assessment of volumes of development assistance and bilateral trade between Finland and Nepal, were used for quantitative analysis, and interviews with 33 different stakeholders in Finland and Nepal, plus an in-depth document and article review, were carried out as a part of the qualitative analysis. Existing frameworks for comparative analyses, cross-cutting issues, a stakeholder's assessment, and overall transition planning in bilateral development cooperation contexts were further discussed in the study.

It was found that Finland's transition thinking in Nepal is relatively ahead of not only other developmental partners in Nepal but also of the Nepalese government's own preparations for graduation. Therefore, it is recommended that Finland could lead Nepal's transition thinking, planning and execution together with other developmental partners, especially in thematic areas where it has a long history of cooperation and expertise in Nepal, such as in education, water, sanitation and hygiene, as well as in cross-cutting issues in gender, human rights and climate change. More opportunities for other forms of partnerships in these sectors could be forged through supporting active communication and dissemination of existing knowledge, practices, networks, success stories, and lessons learnt, for practical collaboration among stakeholders in Finland and Nepal, such as Finnish expatriates in Nepal, the Nepalese diaspora in Finland, Finnish civil society organisations, education institutions, and private entities.

#### Provision

This report is commissioned as part of UniPID Development Policy Studies (UniPID DPS), funded by the Ministry for Foreign Affairs of Finland (MFA) and managed by the Finnish University Partnership for International Development (UniPID). UniPID is a network of Finnish universities established to strengthen universities' global responsibility and collaboration with partners from the Global South, in support of sustainable development. The UniPID DPS instrument strengthens knowledge-based development policy by identifying the most suitable available researchers to respond to the timely knowledge needs of the MFA and by facilitating a framework for dialogue between researchers and ministry officials. The content of this report does not reflect the official opinion of the Ministry for Foreign Affairs of Finland. The responsibility for the information and views expressed in the report lies entirely with the authors.

**Keywords** LDC, graduation, transition, development, cooperation, development cooperation, Nepal

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**ISBN PDF** 978-952-281-373-2

**ISSN PDF** 2737-0844

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**URN address** <https://urn.fi/URN:ISBN:978-952-281-373-2>

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## Siirtymä kehitysyhteistyöstä laajempaan yhteistyöhön ja kumppanuuksiin Nepalissa

### Vertaisarviointia, hyviä käytäntöjä ja suosituksia politiikan ja toiminnan kehittämiseksi

#### Ulkoministeriön julkaisuja 2022:3

Julkaisija Ulkoministeriö

Tekijä/t Avinash Dhital, Uma Sigdel, Uttam Babu Shrestha  
Kieli englanti Sivumäärä 117

#### Tiivistelmä

Selvityksen tarkoituksena oli ohjeistaa Suomen pitkäaikaisen hankeperustaisen kehitysyhteistyön kehittämistä Nepalissa kohti uudenlaisia yhteistyön muotoja, kun maa pyrkii nousemaan keskituloisten maiden joukkoon vuoteen 2026 mennessä. Monimenetelmäisen selvityksen kvantitatiivisissa analyyseissä arvioitiin Suomen ja Nepalin välisen kehitysavun määrää ja kahdenvälistä kauppaa. Kvalitatiivisen analyysin osana haastateltiin 33:a eri sidosryhmän edustajaa Suomessa ja Nepalissa ja toteutettiin perusteellinen asiakirja- ja artikkelikatsaus. Selvityksessä käytettiin myös vertailevaa analyysia ja sidosryhmien arviointia sekä läpileikkaavien kysymysten ja kokonaisvaltaisen siirtymän suunnittelun kehyksiä kahdenvälisen kehitysyhteistyön kontekstissa.

Selvityksen mukaan Suomen siirtymäajattelu Nepalissa on edellä muita Nepalin kehitysyhteistyökumppaneita, mutta myös Nepalin hallituksen omia siirtymävalmisteluja. Sen vuoksi suositellaan, että Suomi voisi johtaa Nepalin siirtymän ideointia, suunnittelua ja toteutusta yhdessä muiden kehitysyhteistyökumppaneiden kanssa. Erityisesti Suomen panosta kannattaisi hyödyntää temaattisilla alueilla, joilla Suomen ja Nepalin välillä on pitkäaikaista yhteistyötä, kuten koulutuksessa, vesikysymyksissä, sanitaatiossa ja hygieniassa, sekä läpileikkaavissa kysymyksissä, jotka liittyvät esimerkiksi sukupuoleen, ihmisoikeuksiin ja ilmastonmuutokseen. Näillä sektoreilla voidaan luoda uusia yhteistyön muotoja tukemalla jo olemassa olevan tiedon, käytäntöjen, verkostojen, menestystarinoiden ja niistä saatujen oppien aktiivista jakamista ja analysointia. Tätä voisi hyödyntää yhteistyössä suomalaisten ja nepalilaisten sidosryhmien välillä, mukaan lukien Nepalissa asuvat suomalaiset, nepalilainen diaspora Suomessa, suomalaisen kansalaisyhteiskunnan toimijat, koulutusinstituutiot ja yksityiset toimijat.

#### Klausuuli

Tämä raportti on osa ulkoministeriön rahoittamia ja UniPID-verkoston hallinnoimia kehityspoliittisia selvityksiä (UniPID Development Policy Studies). Finnish University Partnership for International Development, UniPID, on suomalaisten yliopistojen verkosto, joka edistää yliopistojen globaalivastuuta ja yhteistyötä globaalien etelän kumppanien kanssa kestäväen kehityksen saralla. Kehityspoliittinen selvitysyhteistyö vahvistaa kehityspoliittikan tietoperustaisuutta. UniPID identifioi sopivia tutkijoita vastaamaan ulkoministeriön ajankohtaisiin tiedontarpeisiin ja fasilitoi puitteet tutkijoiden ja ministeriön virkahenkilöiden väliselle dialogille. Tämän raportin sisältö ei vastaa ulkoministeriön virallista kantaa. Vastuu raportissa esitetyistä tiedoista ja näkökulmista on raportin laatijoilla.

#### Asiasanat

vähiten kehittyneet maat, siirtymä, kehitys, yhteistyö, kehitysyhteistyö, Nepal

ISBN PDF 978-952-281-373-2

ISSN PDF 2737-0844

Julkaisun osoite <https://urn.fi/URN:ISBN:978-952-281-373-2>

## Övergång från utvecklingssamarbete till bredare samarbetsformer i Nepal Jämförelser, lärdomar och rekommendationer för policy och åtgärder

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### Utrikesministeriets publikationer 2022:3

**Utgivare** Utrikesministeriet

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**Författare** Avinash Dhital, Uma Sigdel, Uttam Babu Shrestha  
**Språk** engelska

**Sidantal** 117

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### Referat

Syftet med utredningen var att ge vägledning för utvecklingen av Finlands långsiktiga projektbaserade utvecklingssamarbete i Nepal mot nya samarbetsformer, när landet strävar efter att bli ett medelinkomstland senast 2026. I den kvantitativa analysen i utredningen, som använder flera metoder, bedömdes mängden utvecklingsbistånd och den bilaterala handeln mellan Finland och Nepal. Som en del av den kvalitativa analysen intervjuades 33 representanter för olika intressentgrupper i Finland och Nepal, och man gjorde en grundlig dokument- och artikelöversikt. I utredningen användes också en jämförande analys och en intressentgruppsbedömning samt ramar för övergripande frågor och planering av en helhetsmässig övergång i kontexten av bilateralt utvecklingssamarbete.

Enligt utredningen är Finlands övergångstänkande i Nepal längre framskridet jämfört med Nepals övriga utvecklingssamarbetspartner, men även jämfört med den nepalesiska regeringens egna övergångsförberedelser. Därför rekommenderas att Finland kan leda utvecklingen av idéer samt planeringen och genomförandet av Nepals övergång tillsammans med andra utvecklingssamarbetspartner. Finlands insats bör i synnerhet användas inom de temaområden där det finns ett långvarigt samarbete mellan Finland och Nepal, såsom utbildning, vattenfrågor, sanitet och hygien, samt övergripande frågor som anknyter till exempelvis kön, mänskliga rättigheter och klimatförändringen. Inom dessa sektorer kan man skapa nya samarbetsformer genom att stödja aktivt spridande och analys av befintliga kunskaper, praxis, nätverk samt framgångshistorier och lärdomar av dem. Detta kan utnyttjas i samarbetet mellan finländska och nepalesiska intressentgrupper, inklusive finländare bosatta i Nepal, den nepalesiska diasporan i Finland, aktörer i det finländska civilsamhället, utbildningsinstitutioner och privata aktörer.

### Klausul

Denna rapport är beställd som en del av UniPID Development Policy Studies (UniPID DPS), finansierad av Finlands Utrikesministerium (MFA), och hanterad av Finnish University Partnership for International Development (UniPID). UniPID är ett nätverk av finska universitet som etablerats för att stärka universitetens globala ansvar och samarbete med partner från det södra halvklotet, till stöd för en hållbar utveckling. UniPID DPS-verktyget stärker en kunskapsbaserad utvecklingspolicy genom att identifiera de mest lämpliga, tillgängliga forskarna för att svara på utrikesministeriets kunskapsbehov i rätt tid och att underlätta ett ramverk för en dialog mellan forskare och departementstjänstemän. Innehållet i denna rapport återspeglar inte Finlands utrikesministeriums officiella uppfattning. Ansvaret för informationen och åsikterna i rapporten ligger helt på författarna.

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**Nyckelord** LDC, examen, övergång, utveckling, samarbete, utvecklingssamarbete, Nepal

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**ISBN PDF** 978-952-281-373-2

**ISSN PDF** 2737-0844

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**URN-adress** <https://urn.fi/URN:ISBN:978-952-281-373-2>

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Jamien Bound, UM, 2016

## FOREWORD

During the past 30 years, Nepal has undergone a massive political transformation from a monarchy, through an internal conflict in 1996–2006, to a federal republic with a peaceful, yet at times still volatile, multiparty democracy. Now, Nepal is again at the juncture of a structural transformation as the country aims to graduate from Least Developed Country status, shifting from dependence on the LDC-specific international support measures to more self-reliance.

Finland has been Nepal's trusted and long-term partner in this remarkable journey, especially in development cooperation that began in the early 1980s. In recent years, Nepal's development has moved forward in imperative and vigorous ways, encouraged by external, internal and contextual factors. A key trend facilitating development has been increasing globalisation and the continuation and advancement of established formats of cooperation. As a result, Nepal has made significant socio-economic progress in recent years, despite being challenged by a massive earthquake in 2015 and the recent Covid-19 pandemic, adversely affecting its development prospects. The 40th plenary of the 76th Session of the United Nations General Assembly in November 2021 unanimously adopted a resolution endorsing the graduation of Nepal from the Least Developed Country (LDC) category with a preparatory period of five years. In the light of Nepal's upcoming LDC graduation in 2026, and to help guide the future transition of Finland's long-term development cooperation in Nepal, the Ministry for Foreign Affairs of Finland commissioned this study on "Transition from development cooperation to broader forms of cooperation in Nepal: Comparisons, lessons learned and recommendations for policy and action".

I believe this study will help Finland and Nepal to understand graduation and transitional issues better and will feed into the preparation of the respective transition strategies. This study can also provide guidance for the dialogue on future development cooperation and deepening of the relations between the two countries. The study presents a comprehensive and coherent set of specific recommendations in accordance with the priorities of Nepal, taking into account its specific structural challenges, vulnerabilities and strengths. This report is equally important for understanding and establishing a basis for

a successful transition that ensures that the transformation of LDC-specific support does not disrupt Nepal's long-term development goals. I believe that this report will help us in our future work by providing an inspiring framework for exploring broader and new forms

of cooperation between the two countries. This study will help Finland to support Nepal's graduation and smooth transition, navigating the post-graduation landscape in pursuit of achieving its national sustainable development priorities and the development agenda.

**Pertti Anttinen, Ambassador for Finland to Nepal**  
**April 2022**

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## Acronyms

Acronym	Meaning
AFOLU	Agriculture, Forestry and Other Land Use
BIPPA	Bilateral Investment Promotion and Protection Agreement
BMZ	Federal Ministry of Economic Cooperation and Development
CDP	Committee for Development Policy
CEDECON	Central Department of Economics
CRRF	Comprehensive Refugee Response Framework
CSOs	Civil Society Organisations
DAC	Development Assistance Committee
DFRS	Department of Forest Research and Service
DFQF	Duty Free Quota Free
DHM	Department of Hydrology and Meteorology
DPoA	Doha Programme of Action
DTIS	Diagnostic Trade Integration Studies
EBA	Everything but Arms
EIF	Enhanced Integrated Framework
ESCAP	Economic and Social Commission for Asia and the Pacific
ESP	Education Sector Plan
EU	European Union
EU/EEA	European Union/European Economic Area
EVI	Economic Vulnerability Index
FAO	Food and Agriculture Organisation
FAPI	Finland-Africa Platform for Innovations (SDG 9)
FDI	Foreign Direct Investment
FMI	Finnish Meteorological Institute
FNCCI	Federation of Nepalese Chambers of Commerce & Industry
GAVI	Global Alliance for Vaccines and Immunization
GCF	Green Climate Fund

<b>Acronym</b>	<b>Meaning</b>
GINTL	The Global Innovation Network for Teaching and Learning
GIZ	German Corporation for International Cooperation
GNI	Gross National Income
GRID	Green, Resilient, and Inclusive Development
GSP	Generalised Scheme of Preferences
GSP+	Generalised Scheme of Preferences Plus
HAI	Human Assets Index
HEICI	Higher Education Institutions Cooperation Instrument
ICT	Information and Communication Technology
ITU	International Telecommunication Union
IDPG	International Development Partners' Group
IFC	International Finance Corporation
ILO	International Labour Organization
INFFs	Integrated National Financing Frameworks
IPoA	Istanbul Programme of Action
IPPU	Industrial Processes and Product Use
JICA	Japan International Cooperation Agency
LDC	Least Developed Country
LDDHS	Local Development Decentralised Health Services
LGCC	Local Governments and Climate Change
LICs	Low-Income Countries
LLDCs	Landlocked Developing Countries
LMICs	Lower Middle-Income Countries
MCC	Millennium Challenge Corporation
MFA	Ministry for Foreign Affairs Finland
MoFA	Ministry of Foreign Affairs
MoHP	Ministry of Health and Population
MoU	Memorandum of Understanding
NAPAs	National Adaptation Programmes of Action
NAPs	National Adaptation Plans

<b>Acronym</b>	<b>Meaning</b>
NHDR	Nepal Human Development Report
NGOs	Non-Governmental Organisations
NPC	National Planning Commission
NDC	Nationally Determined Contribution
NRNA	Non-Resident Nepali Association
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OOF	Other Official Flow
OHCHR	Office of the High Commissioner for Human Rights
PGHR	Peacebuilding, Governance, and Human Rights
PRI	Policy Research Institute
S&DT	Special and Differential treatment
SDGs	Sustainable Development Goals
SIDS	Small Island Developing States
SSRP	School Sector Reformation Plan
SSDP	School Sector Development Plan
STI	Science, Technology, and Innovation
TEI	Team Europe Initiative
TEPC	Trade and Export Promotion Centre
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UAS	University of Applied Sciences
UMICs	Upper Middle-Income Countries
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNFPA	United Nations Population Fund
UNICEF	United Nations International Children's Emergency Fund



<b>Acronym</b>	<b>Meaning</b>
UN-OHRLLS	United Nations Office of the High Representative for the Least Developed Countries, Landlocked Countries and Small Island Developing States
USD	United States Dollar
VET	Vocational Education Training
WASH	Water, Sanitation, and Hygiene
WB	World Bank
WMO	World Meteorological Organization
WTO	World Trade Organization



Narendra Shrestha, 2011

## Executive Summary

The purpose of the study is to help guide the future transition of Finland's long-term grant-based development cooperation in Nepal to broader forms of cooperation in the light of Nepal's upcoming Least Development Country (LDC) graduation in 2026. The study is based on desk reviews and key informant interviews. Similar transition country contexts, practices, comparisons, lessons learned and recommendations for policy and action were analysed in-depth. Additionally, key respondents from Finland and Nepal, representing various governmental and non-governmental agencies, civil society organisations (CSOs), multilateral developmental partners, private think tanks, research organisations, associations, councils, universities, organisations, and federations, mostly active in Nepal or with Finland, were interviewed.

Finland has been one of the major development cooperation partners of Nepal for more than four decades, providing support through bilateral and multilateral cooperation. Finland has been supporting Nepal in peacebuilding, governance, and human rights (PGHR), water supply, sanitation and hygiene (WASH), livelihoods, education, gender equality and social inclusion, forestry, the environment, renewable energy, climate change, and meteorological services. Finland's current country strategy for Nepal 2021–2024 aims to reduce inequality, support sustainable development and climate and disaster resilience and diversity, and further enhance political and economic cooperation between Nepal and Finland.

Finland is also a major trade partner of Nepal in the Nordic region, yet the trade volume is still modest. Nepal imported goods worth USD 339,000 from Finland and exported goods worth an estimated USD 275,000 to Finland in 2019. Nepal imports telecommunication equipment, machinery and parts, industrial raw materials, fertilisers, and electrical goods from Finland, while exporting handicrafts, woollen carpets, ready-made garments, woollen goods, wooden goods and bamboo goods to Finland. Finnish investment in Nepal has been increasing gradually in recent years. Likewise, the number of Finnish tourists visiting Nepal and the number of Nepalese students pursuing higher studies in Finland have been growing.

Finnish development assistance to Nepal in WASH and the education sector has substantially contributed to the overarching improvements in rural WASH, livelihoods and governance. The progress in human assets such as health and education, through enhanced domestic policy reforms as supported by the international development cooperation community including Finland, has helped Nepal to become eligible for LDC graduation.

An LDC can meet given criteria on Gross National Income (GNI), the Human Assets Index (HAI) and the Economic Vulnerability Index (EVI) for LDC graduation in many different ways. Thus, the contexts of graduation and transition practices among LDC graduates and potential graduates differ significantly, ultimately making comprehensive comparative criteria and analyses difficult among LDC graduating countries and their developmental cooperation implications. In any case, some of the best practices, recommendations and lessons learnt on key relevant thematic areas, such as policy and transition finance implications, enabling trade environment, and cross-cutting frameworks in transition, have been presented and taken as a basis for formulating contextual recommendations herein for Finland's future bilateral cooperation in Nepal. In November 2021, the United Nations General Assembly approved a proposal for Nepal's graduation from being an LDC with a preparatory period of five years, to be effective in 2026. Although Nepal has fulfilled two out of three criteria (HAI and EVI) consistently over the recent years, making it eligible for LDC graduation, Nepal still remains substantially below the threshold level of the remaining GNI per capita criteria.

There are also varying implications on Official Development Assistance (ODA) concessionality, and preferential treatments, especially related to the change in grant element, external finance flow, World Trade Organization (WTO) obligations, regional agreements, and market access both during and after LDC graduation. Although Nepal will eventually lose some of the existing preferential schemes, including Duty-Free, Quota-Free (DFQF) and bilateral preferential schemes to major markets, the impact of the loss will be modest. It is so because firstly Nepal is not fully utilising its preferential schemes, and secondly Nepal's overall export performance is dismal. Furthermore, only exports to the European market (10.45% of total export volume in 2018–19) will be somewhat affected as compared to minor affects in other markets after graduation.

Even though Nepal's transition strategy is yet to be formulated, some efforts have been made to formulate and align budgets, programmes, and indicators with LDC graduation in perspective and to achieve sustainable developmental goals (SDGs). Private sector actors (e.g., the Federation of Nepalese Chambers of Commerce & Industry (FNCCI) and government think tanks such as the Policy Research Institute (PRI) and the Institute of Foreign Affairs (IFA)) have recently published documents and research reports on Nepal's potential graduation and the transition implications for specific sectors and themes. Besides LDC graduation, Nepal's current 15th Five-Year Plan, 2019/20–2023/24, aims for the long-term national vision of a 'prosperous Nepal, happy Nepali', with targets to position Nepal as a progressive middle-income country while achieving SDG targets by 2030 and becoming a high-income country with a per capita income of USD 12,100 by 2044. However, these plans already need adjustments and remapping following COVID-19, and the upcoming LDC graduation in 2026 has already changed from the initial plan of 2024, as indicated in the year plan.

It has been observed that ODA per GNI and remittances per GDP decreased, while foreign direct investment (FDI) per GDP increased in previous LDC graduates. Most development cooperation is not actually directly affected by LDC graduation, except for very few bilateral country programmes. One of the key takeaways from previous development cooperation contexts upon LDC graduation is that the support of bilateral and multilateral development cooperation partners during the graduation process is crucial and should focus on avoiding transitional developmental setbacks with respect to national aspirations, including Agenda 2030 targets and closing financial gaps in productive sectors and domestic resources mobilisation.

It has been discovered that Finland's transition thinking for Nepal is somewhat ahead of not only other development cooperation partners in Nepal, but also the Government of Nepal's own preparations for the graduation and eventual transition. Therefore, transition planning by Finland in Nepal can be a point of intervention and collaboration among other development cooperation partners and the Government of Nepal, if not a model to be used as a benchmark. Most of the key local stakeholders in Nepal, including governmental agencies and the private sector, who were consulted and studied, are unprepared and partly unaware and are thus not yet ready to fully understand the implications, consequences and impacts of LDC graduation in the country in the near future. However, some of the current programmes of UN agencies (UNDP Nepal in particular), the EU (European Union) and GIZ (German Corporation for International Cooperation) are aligned with LDC graduation and transition and are closely working with and supporting line ministries and the National Planning Commission of Nepal to prepare Nepal's smooth transition strategy. The EU and GIZ, in particular, are focusing on developing Nepal's overall capacity for the trade and structural changes that are required to be eligible for the Generalised Scheme of Preferences Plus (GSP+). Upon LDC graduation, Nepal must ratify and implement 27 conventions on human rights, labour rights, environmental protection, and good governance, and must meet certain vulnerability criteria to be eligible for the EU's Special Arrangement for Sustainable Development and Good Governance, GSP+.

Finland's own Nepal Country Strategy (2021–2024) aims to diversify and further enhance political and economic cooperation between Nepal and Finland to prepare for Nepal's future transition to a middle-income country. Bilateral trade, gender, human rights, and climate change are the major sectoral and cross-cutting issues that Nepal and Finland can work on together in the future. This requires key stakeholders in both Finland and Nepal to contribute to building Nepal's productive capacities; ensure equality and inclusion in education, health, and economic opportunities; and thus, ultimately transform the economy while keeping graduation in context. Additionally, there are opportunities for utilising remittances in the productive sector, harnessing the Nepalese diaspora community in Finland and the Finnish expatriate community in Nepal to foster

Finland-Nepal relationships, leading to practical partnerships in education, services and trade.

As such, as a part of key stakeholder analysis, four groups of key stakeholders with High Power, High Interest; High Power, Low Interest; Low Power, High Interest; and Low Power, Low Interest were identified, both in Nepal and Finland, respectively. To depict the relative power and interest that the stakeholders have, a few institutions were chosen as examples for this assessment. The result suggests that the Ministry for Foreign Affairs in Finland (MFA) needs to work closely with the stakeholders with high power and high interest. The stakeholders with high power and low interest should be communicated with and involved regularly, to initiate new partnership opportunities and interests. The stakeholders with high interest and low power have the potential to magnify and scale up the works of the MFA and to realise the strategy and plans of action that could be mobilised by the MFA for implementation of more projects in its thematic areas. The stakeholders with low power and low interest require very little effort from MFA's side.

Based on the findings and stakeholder analysis, four potential graduation scenarios were identified to form a theory of change-based frameworks for transition planning. Two scenarios, optimistic and pessimistic, were analysed, and possible interventions for the period 2022–2030 were provided as an example. The optimistic scenario is one in which the scheduled graduation commitment is effective but a little delayed from the scheduled 2026 graduation, and Nepal is somewhat prepared/ready, while Nepal's pledges to Agenda 2030 are somewhat met. The pessimistic scenario is one in which the scheduled graduation commitment by 2026 is not met and severely delayed, as Nepal is not prepared at all, and Nepal's pledges to Agenda 2030 are not substantially met.

In summary, in both the scenarios and possible examples, it has been indicated that Finland can support Nepal in transition thinking, planning, and execution, especially in Finland's thematically relevant sectors in Nepal, such as in WASH, education, and cross-cutting issues in gender, human rights and climate change. However, the focus should not only be on central planning and provisions, but also on practical and actionable federal and local implications, harnessing extensive good work, networks, and partners, and especially Finnish CSOs. Finland can also support in building and strengthening local capacities in preparation for post-graduation multilateral instruments such as GSP+, Trade-Related Aspects of Intellectual Property Rights (TRIPS), and Special and Differential Treatment (S&DT). It can also engage in productive income generation initiatives, prioritising the active participation and leadership of women and marginalised communities wherever feasible, to enable trade relations in, for example, the sectors where Finnish expertise is valued and/or needed. To address cross-cutting issues for Nepal in transition, the inclusion of Istanbul Programme of Action (IPoA) and Doha Programme of Action (DPoA) targets and actions, together with Nepal's local national policies, a

smooth transition policy, and a national roadmap for SDGs, firstly to evaluate past and current programmes (econometric exercise and aid efficiency), and secondly to effectively plan new transitional programmes and interventions to prioritise where most efforts are needed and to close any resource (financing, technical and capacity) gaps, is highly recommended.



Pirjo-Liisa Heikkilä, 2012



# 1 Introduction

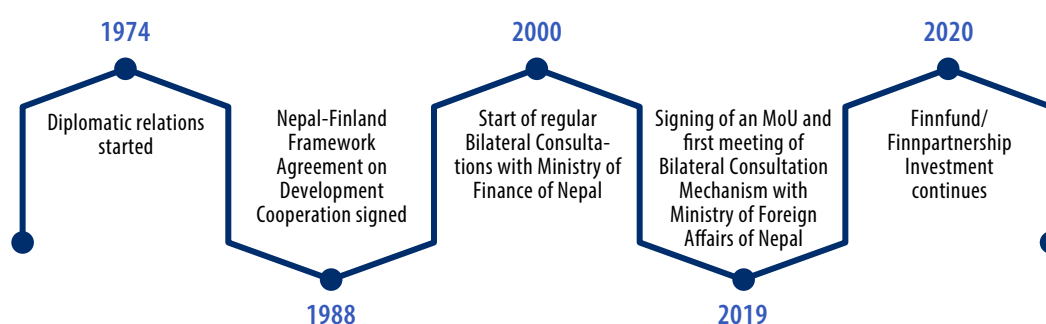
Finland and Nepal have a more than four-decade friendship and cordial relations; the diplomatic relations between the two countries started in 1974, and bilateral development cooperation started in 1983 (Figure 1). Since then, Finland has been one of the major development cooperation partners of Nepal, providing support to Nepal bilaterally, for instance, through the Ministry for Foreign Affairs of Finland, Finnish International Non-Governmental Organisations (INGOs), and Civil Society Organisations (CSOs), and multilaterally through United Nations (UN) agencies such as the Food and Agriculture Organization (FAO), the International Labour Organization (ILO), the United Nations International Children's Emergency Fund (UNICEF), the United Nations Population Fund (UNFPA), and UN Women.

Since the beginning of bilateral development cooperation between Finland and Nepal in 1983, Finland's development programmes continued even during the armed conflict of 1996–2006, with a brief suspension in 2005–2006. Finland has been supporting diverse sectors: peace building, governance and human rights (PGHR), health (sexual and reproductive health, doctor training, dental and mental health), livelihoods, education (school education, inclusive education, examination and assessment, physical education, school sector development plans), gender equality and social inclusion, rural WASH, forestry (carbon financing, forest resource assessment), the environment, renewable energy, climate change, and meteorological services. Higher Education Institutions Cooperation Instrument (HEI ICI) projects of Finland also support developing the capacity of Nepali and Finnish higher education institutions. Being a long-term development cooperation partner of Nepal, Finland's role in Nepal's post-conflict transition, achieving the SDGs and the graduation from LDC status, is critical.

Although country consultations on development cooperation were regular practice, the first separate political consultation between the Foreign Ministries of Nepal and Finland was held on 20 February 2019. During the meeting, discussions were held on advancing cooperation in the areas of trade, investment, and tourism, among other things. Nepal's FNCCI and its Finnish counterpart signed a memorandum of understanding (MoU) in 1993, and an agreement between Nepal and Finland on the promotion and protection of investment was signed in 2009. In 2020, Finnfund has investments of 3.96 million euros in Nepal, and Finnpartnership has granted 360,000 euros to nine projects in Nepal between 2018–2020 (MFA Finland, 2021). Through the International Finance Corporation (IFC) Climate Fund, Finland has also invested 10.7 million euros in the hydro power sector in Nepal. As of 15 July 2020, 10 companies with Finnish investment were approved by the Government of Nepal, with the total Finnish investment of Rs. 335.88 million creating 260 jobs in Nepal (Dol, 2020).

Finland is a major trade partner of Nepal in the Nordic region. Nepal imports telecommunication equipment, machinery and parts, industrial raw materials, fertiliser, and electrical goods from Finland, while exporting handicrafts, woollen carpets, ready-made garments, woollen goods, and wooden and bamboo goods to Finland.

**Figure 1.** Major milestones in Finland-Nepal relations.



Although trade between Nepal and Finland is modest and decreasing in recent years, the number of Finnish tourists visiting Nepal has been increasing; around 4,000 Finnish tourists visited Nepal before the COVID-19 pandemic in 2019, which is more than double the number of tourists who visited in 2015 (MoFA, 2021). Similarly, the number of Nepalese students in Finland has been increasing in recent years; Nepal sends the fourth largest number of non-European Union/European Economic Area (EU/EEA) students to Finland, after Russia, Vietnam and China (Finnish National Agency for Education, 2018). According to the statistics of the Finnish National Agency for Education, in 2020, the number of Nepalese student pursuing degree studies in Finnish HEIs totalled 1,179.

Positive outcomes of Finnish support for Nepal are evident in various sectors, including forestry, WASH, and education. Nepal's forest cover has increased from 38.3% in 1998 to 40.36% in 2010–14 (DFRS, 2015). Nepal's community forestry programme is an example of the highly successful natural resource management programmes in Nepal and elsewhere. Finland is the key supporter of Nepal's forestry programmes such as the Community Forestry and Leasehold Forestry programmes, Scientific Forest Management initiatives, the National Forest Resource Inventory, and the Forest Resource Assessment.

Finnish development assistance to Nepal in the WASH sector has contributed to improvements in water supply, sanitation, and hygiene. Improvements in sanitation, hygiene, and water supply resulted in better health status of the Nepalese people. From 1996 to 2016, under-5 mortality in Nepal fell from 118 to 39 deaths per 1,000 live births, infant mortality declined from 78 to 32 deaths per 1,000 live births, neonatal mortality

decreased from 50 to 21 deaths per 1,000 live births, under-5 stunting dropped from 57 to 36 per cent, and maternal mortality retreated from 539 to 239 per 100,000 live births (MoHP, 2017). Life expectancy has been continuously increasing from 54.3 years in 1990 to 69.7 years in 2017 (MoHP, 2017; NHDR, 2020). Likewise, Finnish support in education has contributed to Nepal's recent achievements in improving enrolment and increasing the literacy rate. The progress in human assets such as health and education made Nepal eligible for LDC graduation.

Finland has prepared a country strategy for Nepal 2021–2024 that aims to foster a federal, democratic, inclusive, and resilient Nepal. Finland is focusing on supporting Nepal's democracy and the economic growth needed to eliminate extreme poverty, build resilience, and lift the country out of its Least Developed Country (LDC) status during the country strategy period (MFA Finland, 2021). According to the country strategy and its accompanying programme for development cooperation, Finland is planning to provide a total of EUR 56 million in aid to Nepal between 2021 and 2024. There are three major goals of Finland's country strategy for Nepal:

- To reduce inequalities by addressing the connections between gender, disability and discrimination and other forms of exclusion and marginalisation.
- To support sustainable development and climate and disaster resilience in the areas of education, WASH, livelihood development and gender equality.
- To diversify and further enhance political and economic cooperation between Nepal and Finland to prepare for Nepal's future transition to a middle-income country.

Finland's country programme for development cooperation in Nepal 2021–2024 defines the priority programme sectors as: water, sanitation and livelihood development, inclusive education, and gender equality and social inclusion (MFA Finland, 2021).

The purpose of the study is to help guide the future transition in Finland's long-term development cooperation in Nepal to broader forms of cooperation and to provide comparisons, lessons learned and recommendations for policy and action. Additionally, this study identifies key stakeholders for future engagement and maps their interests. This study helps the MFA, the Embassy of Finland in Nepal, Team Finland actors and other development cooperation partners of Nepal who are making plans in relation to Nepal's LDC graduation.

## 2 Methodology, frameworks and limitations

### 2.1 Methodology and data collection

This study applied a mixed-method approach. Quantitative analysis was conducted to assess the volumes of ODA and bilateral trade between Finland and Nepal, and qualitative analysis was performed to analyse a series of interviews conducted with different stakeholders in Finland and Nepal, and to compare information and analyses related to other countries' LDC transition and phasing out/exit plans. Published documents, reports, and articles related to Finland–Nepal relations and transition planning were reviewed and mined. We interviewed 33 key respondents from governments, the private sector, think tanks, research organisations, associations, councils, universities, conservation organisations, federations, non-Nepali residents' representatives, and consulting companies (15 in Nepal and 18 in Finland). A wider representation of stakeholders working in diverse thematic areas and sectors was ensured when selecting respondents (ANNEX I).

### 2.2 Framework for comparative analysis

For the comparative analysis, the lessons learnt, best practices and recommendations from previous, current and upcoming LDC graduation country contexts have been referred to, including both external (bilateral and multilateral partners) and internal (LDCs' own) implications. In external implication analysis, especially related to transition finance management, the Organization for Economic Co-operation and Development (OECD)'s ABC (Assessing Benchmarking and Counselling) methodology has been used as a framework for comparison and proposed as best practice for transition planning. We used two frameworks: a stakeholder assessment framework for partnership development and a theory of change framework for the transition process.

### 2.3 Framework for analysis of cross-cutting issues

For analysis and inclusion of cross-cutting issues such as human rights, women and gender, and climate change in the transition planning, the relevant targets and actions as laid out in the IPoA, DPoA, and localised SDG frameworks in a national context have been used as a guide.

## 2.4 Framework for stakeholders' assessments

The stakeholders' assessments were carried out to assess the interest and influence of stakeholders in both Nepal and Finland. These identified the key stakeholder groups that could be engaged in the transition process and the development of a new form of partnership between Finland and Nepal during and beyond the graduation. The relative analysis of the interest and influence of the key stakeholders is crucial to identifying the appropriate interests of stakeholders to be involved, engaged, and communicated with during the transition process.

The Mendelow framework (Mendelow, 1991) of stakeholders' analysis, also known as the Power and Interest Grid, is used for the stakeholders' assessment. According to the framework, the stakeholders are categorised in the following four quadrants:

- High Power, High Interest
- High Power, Low Interest
- Low Power, High Interest
- Low Power, Low Interest

## 2.5 Framework for transition planning

A theory of change-based framework for the transition process was developed through comparative analyses of primary and secondary data and information. The framework suggests a timeline from 2022 to 2030 for major actions, as per the recommendations and findings with expected outputs and outcomes. Furthermore, it suggests the potential collaborators and the mitigation measures for any potential risks. There are four potential scenarios for Nepal's LDC graduation:

- *Over-optimistic*: Scheduled graduation commitment is effective and in time and Nepal is well prepared/ready, Nepal's pledges to Agenda 2030 are well met.
- *Optimistic*: Scheduled graduation commitment is effective but a little delayed and Nepal is somewhat prepared/ready, Nepal's pledges to Agenda 2030 are somewhat met.
- *Realistic*: Scheduled graduation commitment is effective but severely delayed and Nepal is very little prepared/ready, Nepal's pledges to Agenda 2030 are very little met.

- *Pessimistic*: Scheduled graduation commitment is not effective and severely delayed, and Nepal is not prepared/ready at all, Nepal's pledges to Agenda 2030 are not met.

Given the scope of this study and the limitations of time, only two scenarios (optimistic and pessimistic) were considered and recommended to the MFA to prepare frameworks accordingly. Furthermore, under each scenario, we have prepared frameworks to further simplify and depict the phases and programmes that the MFA can lead, collaborate, and support from 2022 to 2030.

## 2.6 Limitations

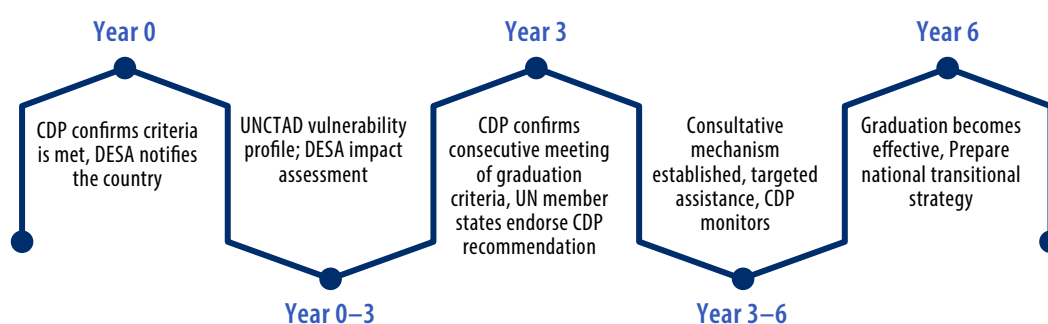
This research is based on a review of documents available in the public domain and key informant interviews. Despite the efforts of the research team, some of the key respondents who may have more knowledge of the transition process could not be reached. However, the research team has interviewed alternative respondents from the same organisation and received articles written by the key stakeholders and reflecting their views on transitions. There is limited knowledge and understanding of LDC graduation even among the key stakeholders, and there is inadequate literature available until now regarding this subject in Nepal; therefore, more information is expected to unfold in the future.

## 3 Findings

### 3.1 Comparative analyses and best practices

Once the LDC graduation criteria are met, each graduating country goes through a standard transition process that includes administrative requirements to be fulfilled by the graduating country (Figure 2).

**Figure 2.** LDC graduation process and timeline (due to COVID-19, Year 3–6 has been prolonged to 5 years).



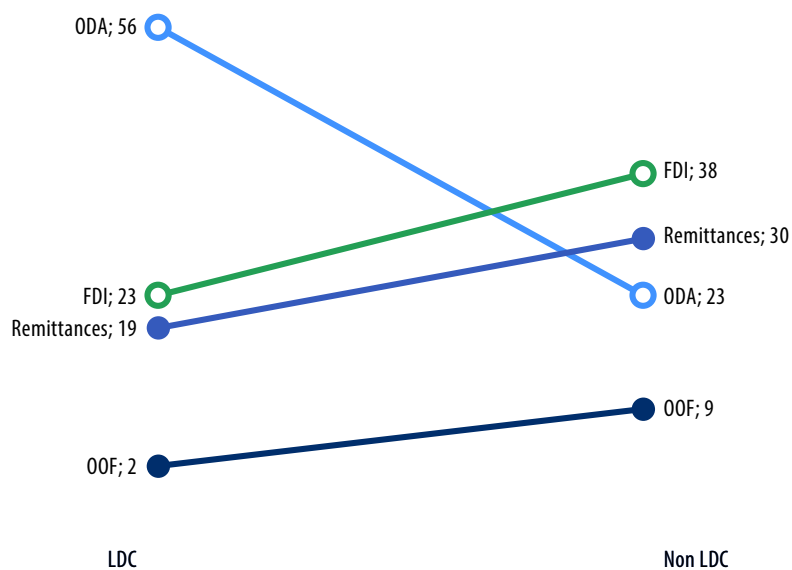
However, a least developed country (LDC) can meet the LDC graduation criteria in many ways, so the context of graduation and transition practices among LDC graduates and potential graduates differs significantly. Similarly, even when countries qualify and enter into the graduation at the same time, each LDC has its own pace of transition due to its level and intensity of readiness and internal political will for graduation. In addition, there are also differences in regional settings, geographical features (e.g., Landlocked Developing Countries (LLDCs), Small Island Developing States (SIDS)), income groups (e.g., Low-Income Countries (LICs), Low Middle-Income Countries (LMICs), Upper Middle-Income Countries (UMICs)), population sizes, natural resource endowments, socio-political factors (e.g., fragile contexts), eligibility and existence of specific instruments, and so on among potential LDC graduates. Although the contexts might be different, special attention and recognition should be given to LDCs going through other forms of major transitions, such as graduation from income groups (e.g., Bangladesh in 2015, Nepal in 2019) moving to LMIC from LIC (Rahman, 2021; World Bank, 2020; Serajuddin and Hamadeh, 2020).

Additionally, when approaching LDC graduation and moving to transition through developmental cooperation lenses, each LDC has a varying nature and history of relationships with bilateral and multilateral developmental institutions and mechanisms, which makes it even more complex to compare the implications of developmental cooperation for the LDC graduate and/or graduating country (OECD, 2020).

There are also varying implications for ODA concessionality and preferential treatments, especially related to changes in grant elements, external finance flow, World Trade Organization (WTO) obligations, regional agreements, market access, and so on, both during and after the graduation. After LDC graduation, the grant element changes from between 10% (other UMICs) to 15% (other LMICs) to 45% (other LICs) (OECD, 2021). As such, in past LDC graduates, it has been observed that ODA/GNI and remittances/GDP decreased while FDI/GDP increased (Pervin et al., 2019).

The findings are also mostly consistent with the typical external financing mix of LDCs and non-LDCs, especially in the decrease of ODA and the increase of FDI (Figure 3). However, it is important to note that these changes in external financing modalities, as seen in the LDC graduates, do not hold any specific causal relationships, and neither are they exclusively due to LDC graduation, but rather due to the changes, mostly improvements, in LDCs' income levels and different variables deemed relevant by developmental partners (UNCTAD, 2016).

**Figure 3.** External financing mix; changes in ODA, other official flow (OOF), FDI, and remittances (%) between LDC and non-LDC countries (Data source: OECD, 2021).





In general terms, except for very few bilateral country programmes, most development cooperation is not affected by LDC graduation (Tavares, 2021). In that context, one of the major areas of concern among bilateral and multilateral development cooperation partners, such as the OECD Development Assistance Committee (DAC) community, that are active in graduating LDCs is to successfully contribute to the graduation needs and aspirations of the country. Their role during years 0–6 of the graduation process, while navigating and managing both overall global implications and their own developmental policies, priorities, practices, and bilateral aspirations, during and beyond the graduation, is critical. This all leads to the need for coherent “transition financing: analysis of evolution and interaction of public (ODA & OOF) and private (FDI and remittances) finances”, partnerships mechanisms, and practices, to be studied, compared and adapted to the bilateral country contexts. The ultimate goals are twofold:

- Avoid developmental setbacks: helping the graduating LDC to formulate and implement a smooth transition strategy
- Avoid financial gaps: managing the bilateral relationship through the transition period, preparing for and leading to a new form of relationship post-graduation (Piemonte et al., 2019)

There is a method for holistic transition financing planning intended for the DAC community called the ABC methodology for transition finance.

- A: Assessing the transition context and the financing mix
- B: Benchmarking against the overall trend and peer countries
- C: Counselling transition finance approaches tailored to specific contexts

This methodology is a part of the OECD transition finance toolkit (developed in 2020), which presents a three-pillared guiding framework to finding approaches to support development financing during LDC graduation and transition to specific transition country contexts. Potential contributions to the integrated national financing frameworks (INFFs) for sustainable development financing (Agenda 2030) are also embedded in the methodology (OECD, 2020).

A situational comparison is made between two LDC country contexts; Cape Verde (LDC graduated: 2007) and the Solomon Islands (scheduled LDC graduation: 2024), based on separate studies of ABC methodology application for transition finance in these countries (Table 1).

**Table 1.** Comparison between Cape Verde and the Solomon Islands through the lens of ABC methodology for transition finance.

Pillars of ABC methodology	Cape Verde*	Solomon Islands**
Assessing	<p>ODA phased out in key social sectors, including climate financing; grants replaced by concessional loans, but high overall dependence on ODA still for external finance (40%)</p> <p>Private financing hampered by high risk of debt distress</p>	<p>High performance in LDC graduation criteria</p> <p>LDC graduation implications manageable, as main development partners (Australia, Japan and New Zealand) expect similar ODA flow level; and loss of EU trade preferences for the country's exports of fish and agricultural products, replaced by an interim economic partnership agreement with the EU</p> <p>Some concerns regarding a decline in the logging sector, the major revenue source, added to COVID-19 financial challenges and debt risk with emerging Chinese investments</p>
Benchmarking	<p>Learning from peer countries by comparison of financing mix and reduced ODA dependency: Seychelles' blue bonds and debt swaps for environmental protection, and Maldives' efforts to diversify tourism-based economy to fishery value chains</p> <p>Coherent tax policies to attract FDI and securing OOF in renewable energy (SDG7) via bilateral partners, Portugal and Japan</p>	<p>Structural vulnerabilities of small island developing states (SIDS) prominent: tax haven model, high ODA, and low private finance</p> <p>Risk of financing gaps in the health sector, coupled with Global Alliance for Vaccines and Immunization (GAVI) graduation</p> <p>Peer countries had land governance reforms and investment strategies to attract private finance for domestic resource mobilisation</p>
Counselling	<p>Cooperative approach: Lacked coordination among DAC members, leading to ad-hoc assessment duplication and report fatigue; thus, rectifying steps suggested</p> <p>Competitive approach: Targeted private sector investments in productive and service sectors, needed infrastructure financing to bolster local commercial viability and competitiveness</p> <p>Renewed partnership: Coordination of developmental partners' support while promoting CSOs, South-South and Triangular cooperation to build capacities and foster local ownership of SDGs, and so on, based on new instruments and enhanced transparency</p>	<p>Cooperative approach: Provide technical assistance and financing for sustainable economic production, domestic resource mobilisation, and public financial management</p> <p>Competitive approach: Helped to attract private-led infrastructure development, job creation and economy diversification</p> <p>Renewed partnership: Address costs associated with smooth transition- for e.g., creation of LDC transition unit; while facilitating regional and global trade; consolidation and promotion of DAC's good practices in development cooperation (as compared to China)</p>

References: \*(OECD, 2019) and \*\*(OECD, 2020)

Besides the ABC methodology for comparative study of LDC transition contexts, Zada et al. (2019) presented some lessons learnt and documented best practices with the specific examples of Botswana (LDC graduated: 1994) and Maldives (LDC graduated: 2011), especially for graduating LDCs to be benchmarked against. Key best practices point towards the development of local good governance models aligned to their own country contexts while making the most of external support specifically in infrastructure and trade financing (Table 2).

**Table 2.** Comparison of best practices between Botswana and Maldives.

Best practices	Botswana	Maldives
Development of home-grown governance models	Proactive and constant improvement of good governance practices and policies, driven to solidify respective national identities, through <ul style="list-style-type: none"> <li>• comprehensive policy design</li> <li>• institution establishment</li> <li>• promoting accountability and transparency in budget allocation and public administration</li> </ul>	
Alignment of economic, social, and industrial policies to the characteristics of the country	Industrial policy to diversify the economy from major products	Industrial policies based on well-reputed tourism industry for further extensive exploitation
Importance of international support	Channelling ODA into national development plans such as infrastructure development, social sector investment, and job creation through public expenditure	Proper planning and management of the eventual phasing out of LDC-specific trade preferences (in the fishing sector), contributing to diversification of the economy

Reference: Zada et al. (2019)

***Box 1. Selected resources for transition policy and financing*****Transition Finance Toolkit**

The Transition Finance Toolkit website by the Development Assistance Committee (DAC) provides a one-stop resource centre including guidance on the ABC methodology for transition finance (assessment, benchmarking and counselling); evidence, lessons learnt and recommendations from case studies in various transition contexts; and online interactive tools such as a transition finance dashboard for portfolio management exercises with various metrics and data visualisations.

<https://www.oecd.org/dac/transition-finance-toolkit/>

**Gradjet or UN's LDC Portal**

Gradjet, moved to the UN's LDC portal in early 2022, is created by the CDP Secretariat along with support from the Commonwealth Secretariat, UNCTAD, UN-OHRLS, and the WTO, for soon to graduate or newly graduated countries for well-informed LDC graduation and smooth transition planning. It includes extensive resources on LDC graduation-specific support measures, results, findings and studies both in general and for each LDC graduating country, all categorised as before graduation, during graduation, and after graduation contexts. Similarly, the ePing trade notifications system also facilitates early information sharing on various possible trade implications.

<https://www.gradjet.org/>

<https://www.un.org/ldcportal/>

<https://epingalert.org/en>

### **Austria's Bhutan Transition Strategy**

Austria had an early joint transition strategy aligned with the overarching goals of Bhutan's national 12th Five Year Plan, with clear communication and implications of the withdrawal of its official development cooperation from the year 2023, the same year when Bhutan is slated for LDC graduation. The country strategy or transition plan has an indicative, gradually decreasing financial envelope for each year under key thematic areas, and it also lays out the foundation for further cooperation beyond graduation in 2023, by alternative means through existing networks, partnerships and instruments.

[https://www.entwicklung.at/fileadmin/user\\_upload/Dokumente/Publikationen/Landesstrategien/CS\\_Bhutan\\_Transition\\_2019-2023.pdf](https://www.entwicklung.at/fileadmin/user_upload/Dokumente/Publikationen/Landesstrategien/CS_Bhutan_Transition_2019-2023.pdf)

<https://www.globaleverantwortung.at/download/?id=2697>

### **Donor's community coordination in Cape Verde and Solomon Islands**

Cape Verde (graduated in 2007) set up a donor support group (Grupo de Apoio à Transição - GAT) for transition to effectively align support measures and manage the eventual phase out in the country, resulting in a new budget support group to meet local priorities and transition strategies. Similarly, in the Solomon Islands (scheduled for graduation in 2024), major donors and multilateral partners have monthly meetups to inform and co-ordinate their interventions, providing balanced and complementary allocations and actions, and avoiding duplication, ultimately contributing to the greater possibility of similar levels of grant ODA implications for the post graduation period in the future.

<https://www.un.org/ldcportal/engaging-with-development-and-trade-partners>

<https://www.oecd-ilibrary.org/docserver/90f219b1-en.pdf>

Taveres (2021), in the preliminary assessment of the potential impacts of LDC graduation on development cooperation in Cambodia, Comoros, Djibouti, Senegal, and Zambia, which are scheduled for assessment by the Committee for Development Policy (CDP) for graduation in 2024, concluded that most of the bilateral and developmental/multilateral partners continue the assistance programme irrespective of the LDC graduation status. However, some major implications noticed were:

- Slightly higher interest and shorter repayment periods in new loans from Japan and the Republic of Korea
- A gradual shift in German cooperation, from grants to loans
- France focused on grants only for LDCs, with a clear trend of a shift from grants to loans in funds to Cambodia and Senegal already
- The United Nations Development Programme (UNDP)'s criteria for allocation of some of its core resources recognises LDC status, thus lowering allocations of certain types upon graduation
- The Under Global Environment Facility (GEF)'s current seventh replenishment (GEF-7) has higher minimum allocation floors for LDCs only
- Risk of reclassification of Cambodia at the Asian Development Bank from concessional assistance-only to the ordinary capital resources blend category

However, there are already several dedicated funds, support mechanisms and resources especially dedicated to the capacity building of LDCs in various areas, for a smooth transition and the post-graduation period. These include “the Technology Bank for LDCs, the LDC Fund and other support provided through the LDC work programme and the LDC Expert Group under the United Nations Framework Convention on Climate Change (UNFCCC); the Enhanced Integrated Framework (aid for trade); the United Nations Capital Development Fund (UNCDF); the Investment Support Programme for LDCs; and support programmes within the UN secretariat and several agencies.”

Some of the prominent changes in bilateral policies and/or key actions taken by the overall DAC community in previous LDC graduation scenarios and general LDC graduation-focused programming are given in Table 3.

**Table 3.** Major changes in bilateral policies, actions, lessons and recommendations among various countries.

Country	Actions/Policies/Lessons	Recommendations, if any	References
Cape Verde	Lost tariff exceptions, high debt and tied ODA, not meeting needs	Untie and adapt ODA grant vs. loan assistance on focused needs, assist in negotiating sustainable debt levels and condition	(Cattaneo & Piemonte, 2021)
Uganda	Efforts for reduced humanitarian burden (BRAER) from the United Kingdom, the Comprehensive Refugee Response Framework (CRRF) model	Prioritising domestic resources and youth employment, discouraging high non-concessional loan levels (from China and DAC, as well)	(Cattaneo & Piemonte, 2021)
Vietnam	United Kingdom and the United States focused on building private sector ecosystems	Move from donor financed to private financed, focusing on sustainable growth measures such as quality of investments, managing debt issues and productivity losses	(Cattaneo & Piemonte, 2021)
LDCs	France's new strategy to focus bilateral grants on Sub Saharan African LDCs	N/A	Taveres (2021)
LDCs	Provision of grants to LDCs and concessional loans to non-LDCs (with exceptions), through the KfW Entwicklungsbank by Germany. Indication of a shift from grants to soft loans for non-LDCs in general.	N/A	Taveres (2021)
LDCs	Concessional terms based on LDC group and various other criteria, such as income groups, provided by the Japan International Cooperation Agency (JICA), an indication that graduation affects the terms of loans but not grants	N/A	Taveres (2021)
LDCs	LDCs enjoy lower interest rates and longer repayment periods in the loans provided by the Economic Development Cooperation Fund of Korea, administered by the Export-Import Bank of Korea and the Ministry of Strategy and Finance. No indication of grant loss upon graduation.		Taveres (2021)

### Recommendations based on comparative analysis and best practices

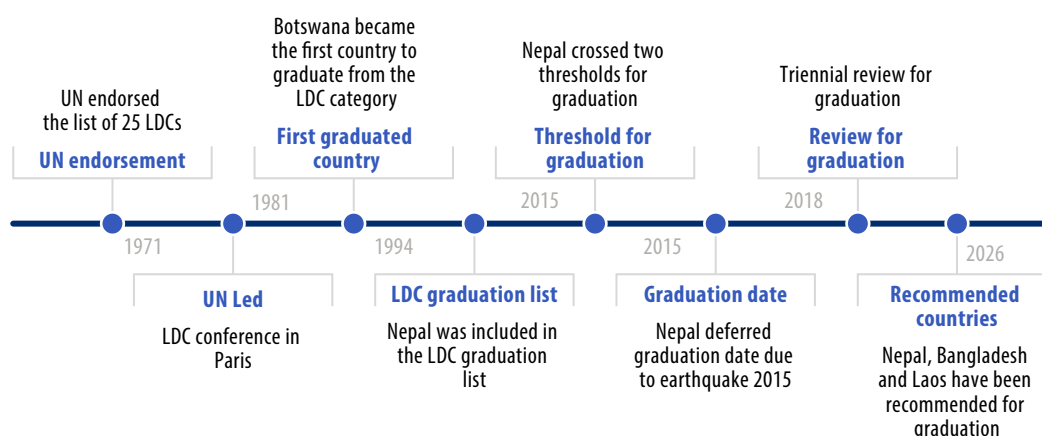
- ODA is still relevant after graduation, and bilateral ODA implications are usually country specific and most likely do not change, at least directly, upon graduation or as a direct result of graduation.
- Support in establishing alternative mechanisms in case of the loss of relevant LDC-specific preferential treatment is key, while enabling capacities, and tapping into LDC-specific grants, instruments, and mechanisms.
- Use of the OECD transition finance toolkit, in particular the ABC methodology for transition finance planning, is recommended. This involves peer country benchmarking and learning from best practices, especially for driving private finance and resource mobilisation, from those who share similar
  - structural vulnerabilities (e.g., LLDCs in Nepal’s context)
  - stages of graduation and consequences of COVID-19 (e.g., Bangladesh and Lao People’s Democratic Republic (UNDESA, 2021))
  - sustenance of LDC graduation criteria (EVI and HAI in the case of Nepal, and some peer countries with similar criteria predictions are Rwanda, Togo and Tanzania) (Kim, 2018).
- For a compounded effect, focus on joint investments with local and other multilateral partners and adopt a sectoral approach, such as targeting specific SDGs and targets or specific thematic areas.
- Use focused interventions to promote private sector-led infrastructure for local markets, promoting employment and resource mobilisation.
- Use the necessary coordinated approach with developmental partners for complementary transition facilitation in the country, with its own national plans and priorities, also tapping into existing local partnerships (such as CSOs, South-South partnerships, etc.) to mobilise resources, foster ownership, and widen developmental reach.
- Promote DAC’s development cooperation’s best practices while preparing for a possible debt risk situation, for example with China-led infrastructure development, which is equally important.



## 3.2 Nepal's efforts towards LDC graduation and beyond

In November 2021, the United Nations General Assembly approved a proposal to upgrade Nepal from a least-developed country (LDC) to a developing country, with a preparatory period of five years. Nepal met the economic vulnerability criteria in 2001 and the human assets criteria in 2015 and again in 2018 (Acharya and Adhikari, 2021) (Figure 4). Although Nepal has already met two out of three criteria (Human Assets Index-HAI and Economic Vulnerability Index-EVI), making it eligible for LDC graduation, Nepal's GNI per capita remains substantially below the threshold level required for graduation.

Figure 4. Major milestones in Nepal's LDC graduation.



Nepal has made continuous progress in the Human Development Index (HDI); Nepal's HDI value increased from 0.378 to 0.579 between 1990 and 2018, an increase of 53% (NPC, 2020). Life expectancy has been continuously increasing from 54.3 years in 1990 to 69.7 years in 2017. From 1996 to 2016, under-5 mortality fell from 118 to 39 deaths per 1,000 live births, infant mortality declined from 78 to 32 deaths per 1,000 live births, neonatal mortality decreased from 50 to 21 deaths per 1,000 live births, under-5 stunting dropped from 57 to 36 per cent, and maternal mortality retreated from 539 to 239 per 100,000 live births (MoHP, 2017). There has been significant progress in the education sector, such as a higher gross secondary enrolment and literacy rate (NPC, 2020). All this progress in human assets has made Nepal eligible for graduation.

The progress in human development, particularly in improvements in human assets, is the result of national and international efforts. Nepal made changes in policy and reforms in the education sector, such as school management by communities, the preparation of individual school improvement plans, the financial and social auditing of schools,

the supervision of schools by research centres, support for schools through per capita grants, the introduction of teacher licensing, the introduction of a national framework for curricula, the provision of midday meals, and health and nutrition programmes; and in the health sector, such as immunization programmes, and better maternal health services and antenatal care (NPC, 2020). These education and health programmes were supported primarily by different bilateral and multilateral development cooperation partners, including Finland.

Nepal's current 15th Five-Year Plan, 2019/20–2023/24, has set the long-term national vision of a 'prosperous Nepal, happy Nepali'. The plan not only aims for LDC graduation by 2024 (which has now already been deferred to 2026 due to COVID-19), but also sets a goal to position Nepal as a middle-income country through achieving the sustainable development goals (SDGs) by 2030 and a high-income country with a per capita income of USD 12,100 by 2044. The plan sets an ambitious target for attaining average annual GDP growth of 10.1% during the period, while also reducing both income and non-income poverty to 11% and 13%, respectively (NPC, 2020). The plan emphasises boosting investment in multiple sectors, including transport, information and communication technology, energy, education and healthcare, tourism, commercialisation of agriculture and forest products, urbanisation, social protection, subnational economy, and good governance, among others (GoN, 2021).

### 3.3 Nepal's development partners' transition thinking

The research team interviewed representatives of the United Nations, the European Union, and GIZ located in Nepal to document the understanding of Nepal's development partners with regard to LDC graduation and transition thinking.

UN agencies and the UN Resident Coordinator's Office make up the UN Country Team (UNCT), and the current working framework for the UNCT team was based on the UN Development Assistance Framework (UNDAF) 2018–2022. The UNDAF has four outcome areas aligned with the Government of Nepal's development priorities, such as sustainable and inclusive economic growth; social development; resilience, disaster risk reduction and climate change; and governance, rule of law and human rights.

The European Union has been engaging with Nepal on the following areas: a) Rural development – including water and sanitation, agriculture, and nutrition; b) Supply value chains for pashmina and coffee; c) Basic education with budget support; d) Governance – PLGSP programme – support for federalism and electoral support; e) Peacebuilding. The EU has a new programme for 2021–2027, which identifies three systematically inter-linked priority areas (inclusive green growth, human capital development, and good

governance) with five indicative sectors (energy, education, government and civil society, other multisector, other social infrastructure, and services) in a multi-annual indicative programme (MIP). The EU's programmes under inclusive green growth will support the efforts at local level to achieve a green economy, green jobs, and sustainable growth in Nepal's natural resource-based sectors, with a strong focus on the 2019 Climate Change Policy, notably the NDCs and carbon finance (EU, 2021). Similarly, programmes under the priority area, human capital development, aim to enhance the resilience of Nepal's society and economy through youth employment, service delivery, and market potential for green and inclusive jobs (EU, 2021). The third priority of the EU is good governance, which includes strengthening state institutions and supporting federal, provincial, and local level governance in all priority areas (EU, 2021).

The programmes of GIZ in Nepal are in the areas of sustainable infrastructure; water, energy, transport; social development; security, reconstruction, and peace; governance and democracy; and economic development and employment. However, more recently, GIZ has been working on: a) renewable energy and energy efficiency; b) health (universal health and health insurance); and c) sustainable economic development. GIZ has been implementing the 'Local and Provincial Economic Development – Green Resilient Agricultural Productive Ecosystems (LPED-GRAPE)' project in Western Nepal in partnership with the Ministry of Land Management, Cooperatives and Poverty Alleviation (MoLCPA, Nepal). This project is co-financed by the European Union (EU) and the Ministry for Foreign Affairs of Finland.

The UN Resident Coordinator's Office is working closely with line ministries and the national planning commission of Nepal to support preparation of Nepal's transition strategy. UNDP has supported the publication of the Human Development Report 2020, which solely focuses on Nepal's LDC graduation. Although some efforts were made on the preparation of Nepal's transition strategy, a consolidated effort and a proper system to drive this graduation agenda by bringing in multiple stakeholders, including the private sector and sub-national governments, is lacking. Nepal's development partners see the mixed sense of urgency and understanding regarding the transition planning in the ministries and stakeholders in Nepal.

Upon LDC graduation, Nepal must ratify and implement 27 conventions on human rights, labour rights, environmental protection, and good governance, and must meet certain vulnerability criteria to be eligible for the EU's Special Arrangement for Sustainable Development and Good Governance (GSP+). The EU and GIZ are more focused on supporting Nepal to develop Nepal's capacity, structural changes that required ratification and implementation of conventions to be eligible for GSP+. Currently, the EU is working with the Ministry of Industry on a trade and investment programme particularly in promoting coffee and pashmina through ITC. Such a programme will be continued even

after the graduation. The EU also supports the enhance trade standard in Nepal through technical assistance and the exchange of experience with EU member states. This might be an opportunity for Finland to work in Nepal's wood industry through the EU, as Finland has a long history of supporting the forestry sector of Nepal, and the Finnish forest industry has extensive experience and competence in sustainable forest management and zero waste.

The EU has a Multiannual Indicative Programme (MIP) 2021–2027 and programmes designed under that framework support Nepal's federalism and LDC graduation. GIZ International Service (GIZ InS), a commercial arm of GIZ, has tendered for the EU trade investment programme, and oi that programme, they are very much looking into the whole question of what is required for Nepal to meet the criteria for GSP+, because GSP+ will affect the activities of the joint project for sustainable economic development (LPED/ GRAPE) co-funded by the EU, Germany, and Finland, as it supports local government in improving framework conditions for exporters.

There has been a decline in bilateral ODA funding for Nepal from Germany in recent years, and German ODA funding to Nepal is under revision by the German government. Nevertheless, GIZ International Service will continue to work in Nepal. In addition, GIZ's projects with multi-development partner funding will continue, including the NAMA facility, Energy for Development, as the International Climate Initiative (ICI/IKI) has moved to different ministries. Likewise, the Federal Ministry of Economic Cooperation and Development (BMZ) funding will not change based on LDC status. The same is true for the German ministry managing the International Climate Initiative. However, the funding of KfW Entwicklungsbank might be affected, as they combine their market funds with the funds coming from ODA sources.

The EU together with Finland, Germany and France announced the Team Europe Initiative (TEI) to work on the Green Economy for Nepal. The Team Europe Initiative aims to work in five areas: renewable energy, agroforestry/biodiversity, the green economy, risk management and climate policy, and human capital development (TVET) and gender. The proposed modalities and tools used in the TEI are private sector loans, grants, technical assistance, twinning, infrastructure loans and guarantees, and research grants. UNDP-Nepal's work is in the key areas of inclusive economic growth, democratic governance, rule of law and human rights, and resilience, disaster risk reduction and climate change. It aims to enhance gross per capita income, which is the criterion that was not met by Nepal. UNDP-Nepal will work toward diversifying Nepal's economic investment generated from remittances. Irrespective of national LDC status, the UN will continue its work in the areas of human rights, gender, climate change, and governance in the future, whereas the EU will also work in the areas of democracy and peace, along with its programme in trade promotion and technology transfer, with government, the private sector, and civil society.

### 3.4 Finland's transitional thinking

MFA Finland has already prepared transition case studies for Vietnam and Zambia (MFA Finland, 2001 & 2021). One of the many lessons learned from those case studies was that the transition thinking should start early enough. Finland's transition thinking for Nepal is way in advance of not only other development cooperation partners working in Nepal (e.g., the UN, EU, GIZ), but also the Government of Nepal's own preparations for the transition. Nepal has not prepared its transition strategy yet, although Nepal's latest human development report is solely focused on LDC graduation (e.g., NPC, 2020). Nepal's current 15th Five-Year Plan also aims for LDC graduation by 2024 (later postponed to 2026) and sets a goal to position Nepal as a middle-income country through achieving the sustainable development goals (SDGs) by 2030. Nevertheless, most of the key stakeholders in Nepal, including governmental agencies and the private sector, are unprepared and partly unaware, and simply not yet ready to fully understand the consequences and impacts of graduation in the country in the near future. They also perceive that transition is a complex and dynamic process, and various legal, institutional set-ups are necessary. Apparently, Nepalese stakeholders perceived that the transition might extend to 2029, if not 2032. During interviews, they were confident that they would get three extra years after 2026. This situation ultimately provides opportunities for the MFA to prepare and plan well for transition and, in some cases (with respect to the MFA's interest areas, themes, sectors and/or partners), even to lead and shape the transition thinking and trajectories in Nepal.

Due to the confusion among Nepalese stakeholders, communication and consultation on transition were not formally started among the development partners of Nepal. However, this situation might not last long; private sector (e.g., FNCCI) and government think tanks (e.g., the Policy Research Institute and Institute of Foreign Affairs) have recently published documents and research reports on Nepal's graduation and transition. However, Nepal has not prepared its strategy for a smooth transition, as mandated.

Based on the existing available literature, Nepal would focus on building productive capacities and transforming the economy, expanding human capabilities through invigorating quality education systems, rejuvenating quality health systems, harnessing the demographic dividend, and fostering entrepreneurial capabilities, as well as reducing vulnerabilities and building resilience through augmenting productive employment, ensuring equality and reducing poverty, protecting vulnerable populations, and building adaptive capacity and resilience (NPC, 2020).

The Human Assets Index, which comprises indicators in the health and education sectors, is one of the three criteria for LDC graduation. Finland has supported the WASH and education sectors in Nepal through bilateral development assistance and multilateral

organisations such as UNICEF. Finnish development assistance, particularly in the WASH sector, has contributed to improvements in water supply, sanitation, and hygiene in rural areas of Nepal. Likewise, Finnish interventions in an inclusive education system, in basic, secondary, and vocational education, has contributed to improving school enrolment rates and literacy, and producing a skilled workforce. Finland has also provided support for specific areas such as meteorological services and forestry. The institutional support to Nepal's Department of Hydrology and Meteorology (DHM) in improving weather forecasts and providing weather services is critical for a disaster-prone country like Nepal.

Despite the presence of other bilateral donors and geopolitical actors (e.g., India, China, the USA, the UK, etc.) and multilateral institutions (the World Bank, the United Nations, the Asian Development Bank, etc.) in Nepal, Finland's transition thinking is one of the most advanced compared to others. Therefore, transition planning by the MFA Finland can be a model for other bilateral and multilateral development cooperation partners of Nepal. Some Nepalese central (governmental) stakeholders perceive that Finland's transition thinking and initiative might be useful for a developing strategy for a smooth transition.

This situation ultimately provides ample opportunities for Finland to prepare and plan well for the transition and, in some cases, even to lead and shape the transition thinking and trajectories in Nepal, especially in areas, themes, and/or sectors where Finland has experience, interests, and expertise. If implemented and done properly as intended, graduation and transition planning by Finland in Nepal can be a model for other bilateral and multilateral development cooperation partners in Nepal and other graduating LDCs' contexts.

Recommendations on Finland's transition thinking:

- Define a central broader transition plan or strategy or definition to be adopted by Finland, not only related to bilateral relations with Nepal, but also taking into consideration all LDCs and future graduations.
- In the case of Nepal, transition thinking and elements can be included gradually in future country programmes and strategies. A longer-term transition vision and workplan could also be useful. Use the latest resources, such as the ABC finance methodology, peer LDC country benchmarking, DPoA targets and actions, and updated SDGs achievement progress reports in the country, to form a pilot transition. The key here is to find sectors/themes matching Nepal's transitional needs with Finland's expertise, relevance and future aspirations in Nepal.
- Be specific, tangible and actionable in programme planning with, for example, concrete targets in selected sectors and/or regions, shorter and flexible programming periods, smaller financial envelopes, and broader reporting criteria whenever applicable in instruments and contexts, to accommodate external shocks and fast-changing operational environments in local transitional situations.
- Be open and active in communicating with internal stakeholders in Finland (such as ministries, Finnish CSOs, etc.) in programming ideas and planning, and with other developmental partners in Nepal to form complementary and coordinated transition planning for Nepal.
- Support Nepal in transition thinking, planning, and executing in Finland's thematically relevant sectors. Focus not only on central planning and provisions, but also seek federal and local implications, harnessing the extensive good work, networks, and partners of Finnish CSOs.

Detailed findings, conclusions and recommendations related to general transition planning and strategy can be found in ANNEX II.

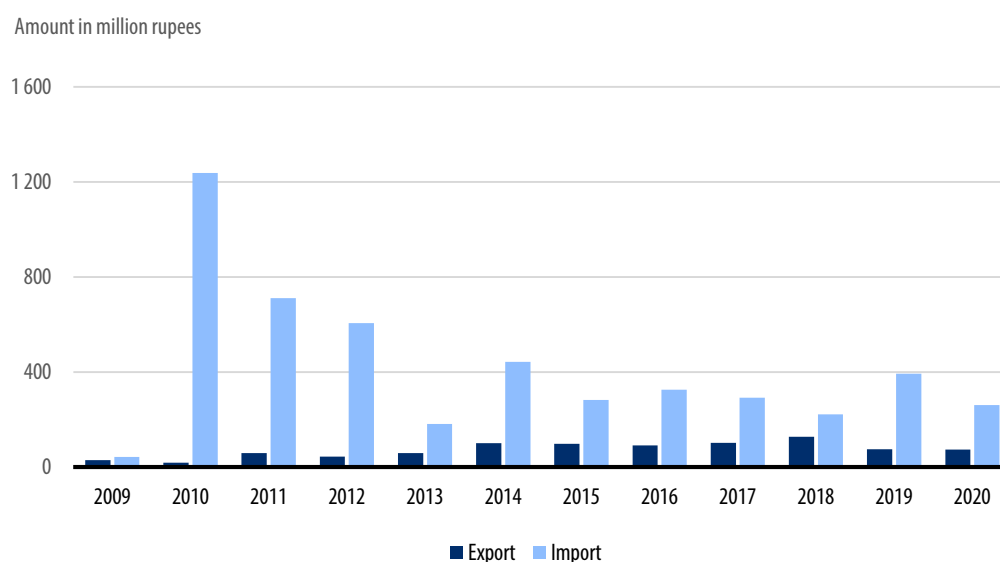
## 3.5 Thematic areas of cooperation between Finland and Nepal

In the following section, we discuss different thematic areas where Finland and Nepal can work together to foster mutual relationships and cooperation.

### 3.5.1 Enabling the trade environment

Finland is Nepal's biggest trade partner in the Nordic region. Nepal imported goods worth USD 339,000 and exported goods worth USD 275,000 in 2019 (TEPC, 2021). There has been indirect trade between Nepal and Finland through Finnish companies operating from India. That indirect trade might not be reflected in this figure (Figure 5). Nepal imports telecommunication equipment, machinery and parts, industrial raw materials, fertiliser, and electrical goods from Finland, while exporting handicrafts, woollen carpets, ready-made garments, woollen goods, and wooden and bamboo goods to Finland.

**Figure 5.** Nepal's exports and imports to/from Finland (Data source: Trade Promotion Center, 2021).



With the LDC graduation, Nepal will lose the existing preferential schemes, including duty-free, quota-free (DFQF) and bilateral preferential schemes with major markets. However, the impact of the loss will be modest at first because Nepal is not fully utilising its preferential schemes; Nepal's export performance is dismal—export growth is around 3.9% in the last decade, and the ratio of exports to GDP declined from 5.1% in 2008–2009



to 2.7% in 2018–2019 (NPC, 2020). Secondly, although 90% of Nepal's exports go to preference-giving countries, only exports to the European market (10.45% in 2018–19) will be affected, as Nepal has separate bilateral trade agreements with India, which shared 64.59% of Nepalese exports, and the USA, which shared 11.17% of Nepal's exports in 2018–19. Nepal's exports of textile and clothing to the EU market will be mostly affected upon graduation. In total, it is predicted that Nepal's exports will decrease by 4%, or some USD 59 million, in 2026 (Jha, 2020; ITC, 2021). The textile and clothing sector provides employment to women and marginalised communities and is run by SMEs in LDCs; thus, the loss of exports could also have multiple cross-cutting effects (UNCTAD, 2022).

It is also estimated that Nepal will have one of the highest tariff rates in graduating LDCs (8.1%) (WTO, 2020). On the other hand, Nepal is also the top Enhanced Integrated Framework (EIF) recipient among graduating LDCs who have joined the WTO through the accession process in 2004 and have been reportedly (yet to be reviewed) enacting significant structural reform. The structural reforms include changes in laws and regulations, including administration and enforcement for areas aligned with graduation, under the agreement on TRIPS, which would enable Nepal to produce and import generic versions of patented medicines. The WTO is also provisioning S&DT, based on various criteria, for 12 years after LDC graduation to facilitate trade subsidies for transition periods (Balino, 2020; WTO, 2020; Razzaque, 2019).

Similarly, some of the recommended priority areas to be considered for Nepal in enabling trade during and beyond the LDC graduation transition period are:

- focus on preparing strategies and creating enabling environments such as bilateral and multilateral trade agreements, market diversification and access;
- pursue GSP+ status for trade with EU market access;
- prioritise niche products such as yak wool, honey, herbs, or coffee;
- build capacities for cross border e-trade facilitation and digitalisation of services;
- invest in information and communication technology (ICT) infrastructures and skills development, including necessary regulatory provisions, to facilitate domestic support mechanisms in agriculture and the food service chain;
- build a skilled and capable productive workforce by investing in technical and vocational education (CEDECEN, 2020; ITC, 2021)

Although Nepal and Finland signed the Bilateral Investment Promotion and Protection Agreement (BIPPA) in 2009 (valid for 10 years), information regarding activities and implications under this agreement is mostly unavailable in the public domain (UNCTAD, 2021). In any case, there is increasing interest from the Nepalese private sector in establishing cooperation with Finnish counterparts, whereas interest from Finland to Nepal is minimal. This might be due to the low volume of trade between these two countries and the limited information available regarding the promotion and facilitation of doing business at both ends. Products such as textiles and clothes, handicrafts, honey, herbs, and even coffee have some potential for trade between Nepal and Finland in future. However, problems in maintaining consistent quality, large volume production, effective supply chains, and setting up substituting tariff provisions will be key barriers to be overcome if substantial volumes of Nepalese products and services are to be exported to Finland during the transition and beyond.

## ***Box 2. Best practices in enabling the trade environment in transition***

### **Early trade-specific replacement plans**

Upon graduation, there are certain losses of LDC-specific trade preferences, such as exports to the EU. Choosing “early preparation”, for example, in Bhutan to ratify the conventions to be eligible for GSP+; or “set up of replacement mechanism” in signing an Interim Economic Partnership Agreement with the EU in the Solomon Islands; or making proper plans and allocations in Cape Verde and Samoa to “follow standard pathway” of the normal 3-year transition period for the EU’s Everything-But-Arms scheme and then adopting GSP+ are different best practice pathways for a graduating LDC to benchmark and use to engage with relevant bilateral and institutional partners.

<https://www.un.org/ldcportal/engaging-with-development-and-trade-partners>

<https://www.oecd-ilibrary.org/docserver/90f219b1-en.pdf>

### **The Netherlands’ Nepal market study**

The Nepal as a market study, 2018, for identifying FDI opportunities in Nepal, commissioned by the Netherlands Enterprise Agency, is one of the extensive documents specifically focusing on trade potential from an EU country’s bilateral perspective. It is a good starting place to find implications for trade opportunities in Nepal, but additional lenses of post-COVID, LDC graduation, and transition criteria have to be applied.

<https://www.rvo.nl/sites/default/files/2018/10/Nepal-Market-Study.pdf>

### **Norway’s contribution in local taxation systems**

Norway’s flagship tax for development programmes in Tanzania and Zambia, to strengthen the capacity of local tax systems, including knowledge generation, international cooperation, engaging civil society and the public in taxation, and capital flight issues, is one of the great examples in enabling better tax revenues in LDCs. Similar approaches or plans of action in local tax administrations, if possible with collaboration, support and/or experience sharing with the Norwegian Tax Administration, could be piloted.

<https://www.oecd-ilibrary.org/docserver/90f219b1-en.pdf>

### Recommendations based on enabling the trade environment

- Benchmark results and learning from previous bilateral BIPPA and other EU countries' trade agreements and/or studies in Nepal, including LDC graduation-specific trade implications, to prioritise the identification and feasibility of key products and services in possibly preparing for BIPPA 2.0 or a similar bilateral trade agreement in transitioning Nepal.
- Support building and strengthening local capacities, including coordination with relevant actors in Nepal, in preparation for post-graduation multilateral instruments such as GSP+, Trade-Related Aspects of Intellectual Property Rights (TRIPS), and S&DT.
- Engage in productive income generation initiatives, prioritising the active participation and leadership of women and marginalised communities wherever feasible.
- Prepare a communication, dissemination, and engagement plan, including a resource bank or curated information on practical matters concerning trade and business for both directions: from Finland to Nepal and from Nepal to Finland. Build on the current experiences and networks of Finnish CSOs and their networks in Nepal and of the diaspora community in Finland.
- Invest in building local and federal ICT infrastructures and digital capacity, mostly in e-commerce, e-trade, health and education.
- Make provisions and partnerships for building capacity in Nepal's technical and vocational skills education, especially focusing on the needs of Nepalese migrant workers both before and after employment abroad. This also calls for opportunities for potential Nepalese students and staff to study and develop their skills in Finnish vocational schools.

Detailed findings, conclusions and recommendations related to enabling the trade environment can be found in ANNEX III.

### 3.5.2 Cross-cutting issues in transition

#### I. Istanbul Programme of Action (IPoA) and Sustainable Development Goals (SDGs)

To tackle developmental issues faced particularly by LDCs, the Istanbul Programme of Action (IPoA, 2011–20) was implemented already before SDGs as a part of the 2030 agenda for sustainable development in 2015. IPoA was an ambitious strategy for the entire development cooperation community, for contributing to the sustainable development of LDCs, based on increased trade and productive capacities through adequate financial and technical assistance and capacity building. However, despite the efforts, ODA targets of IPoA and SDGs are largely unmet. Consequently, the majority of LDCs have failed to meet the IPoA and positively approach SDGs targets due to high poverty, unemployment, and limited productive sectors and activities (Razzaque and Selvakumar, 2017).

There are major overlaps of targets and goals between the IPoA and SDGs; 83 SDG targets have potential links to 8 priority areas of the IPoA (e.g., targets of LDCs' share of global exports, inclusive and sustained economic growth of a minimum of 7% per annum). Similarly, SDGs also have direct and indirect similarities with LDC graduation criteria and the United Nations Conference on Trade and Development (UNCTAD)'s 'graduation-plus' or graduating with momentum strategy. Thus, the IPoA essentially works as a dedicated and complementary pathway for LDCs to achieve SDGs as well, through and beyond LDC graduation. In addition, SDGs themselves are highly interconnected, so reaching targets in one of the SDGs may help in reaching targets in other SDGs, as well.

Recently, however, a new Doha Programme of Action (DPoA) for 2022–2031 has been drafted, which will replace the IPoA to provide specific support for LDCs in meeting the 2030 Development Agenda and SDGs, and to better respond to new and emerging challenges such as COVID-19. All in all, there is a significant need for renewed focus on programming to close resource gaps and meet DPoA targets and SDGs, taking in lessons learnt while attempting to achieve IPoA targets and SDGs from the past (UN-OHRLLS, 2017; UN, 2021).

Finally, Alonso (2015) has compiled some of the lessons learnt and best practices for effective ODA contributions to the IPoA in the SDG era, which might be equally relevant when looking forward to the DPoA:

- ODA or similar flows, and alternative sources of financing are still needed, with preferential treatment in accessing the flows with respect to recipient countries' constraints and sound criteria of allocation.
- Promote policy-coherent international systems in trading and financing in productive capacity development, including local resource mobilisation and tax collection.
- A growing number of new international private actors, such as businesses and enterprises, could lead to higher transaction costs and coordination problems.
- Combine the private and public sectors.
- Develop technical and institutional capacities.
- Establish sound aid using existing and gradual exit routes, while building on the transformative capacity of aid and donor coordination.

Nepal has been using SDGs as a framework for formulating and aligning budgets, programmes and indicators in its national 5-year plans since its 14th year plan in 2016/17, which continues in the current 15th year plan for 2019/20–2023/24. SDGs have also been reported to be mainstream in local and regional governments' policies. The long-term vision plan 2043, with a base year of 2018/19, also has an ambitious national commitment to achieve SDGs by 2030 as one of the drivers to graduate from LDC status by 2024 and to become a middle-income country by 2030. In addition, the SDG roadmap for Nepal has also already been published in 2017. However, these plans already need adjustments and remapping post-COVID-19 and due to the implications of the upcoming graduation in 2026 (NPC, 2020).

## **II. Gender**

The history of previous graduates up until 2016, with none attaining EVI criteria, points to the fact that generally LDC-specific existing structural weaknesses and vulnerabilities do remain prior to and even after graduation. The core focus of LDC graduation and transition mainly revolves around statistical eligibility and financial implications, while broader developmental goals remain somewhat secondary, including limitations to structural transformation and productive capacity development caused by gender inequality and economic exclusion. However, some attempts have been made to propose gender as a

key cross-cutting issue to be applied across areas such as rural transformation, industrial policy, Science, Technology and Innovation (STI), finance, macroeconomic policy, and employment generation for graduation-plus or graduating with momentum frameworks. Although there are some limited gender-specific criteria under HAI, such as maternal mortality ratio and gender parity index for gross secondary school enrolment, these are simply not enough to mainstream gender issues into the LDC graduation criteria (UNCTAD, 2016). Similarly, suggestions have also been made to the graduating LDCs to boost targeted investments in agriculture, especially applying a gender perspective (UNCTAD, 2012).

Nepal's 15th year plan also has a goal to achieve substantial gender equality, especially in ensuring access to resources, and means and objectives for equal and meaningful participation, while eradicating all forms of violence and discrimination against women and girls and institutionalising gender-responsive government. However, it also mentions that achieving the same goals and targets is challenging. Similarly, gender equality implications, needs, and actionable activities for and during LDC graduation and transition are missing, as in Nepal's statement on LDC graduation for 2021 triennial review.

### ***Box 3. Some examples of cross-cutting issues in transition contexts***

#### **Gender-specific policies**

The Enhanced Integrated Framework (EIF), in its Tanzania Diagnostic Trade Integration Studies (DTIS) update, under the overall framework of the LDC graduation checklist, has proposed an Action Matrix for gender-specific policy indications.

[https://enhancedif.org/en/system/files/uploads/tanzaniadtis\\_update2017.pdf?file=1&type=node&id=4899](https://enhancedif.org/en/system/files/uploads/tanzaniadtis_update2017.pdf?file=1&type=node&id=4899)

#### **Cross-cutting programming**

The UN Capital Development Fund's (UNCDF) current work in Cambodia is exemplary in setting 'catalytic finance models' involving both public and private resources for poverty reduction and economic development with women and climate change at the core. These programmes and initiatives include "Shaping Inclusive Finance Transformations (SHIFT): programme to accelerate financial inclusion and women's economic participation; Making Access Possible (MAP): diagnostic and programme to develop and implement Cambodia's financial inclusion roadmap; CleanStart: programme supporting clean energy policy; Local Climate Adaptive Living Facility (LoCAL): programme enabling local governments to cope with the increased cost of building resilience against climate change and natural disasters; Local Governments and Climate Change (LGCC): initiative to strengthen the role of local governments in fostering climate change resilience through sub-national planning and finance systems; Local Development Decentralized Health Services (LDDHS): initiative to support the transfer of primary public healthcare functions from central government to the district administrations."

<https://www.uncdf.org/cambodia>



### III. Gender

In trade, the EU's Everything but Arms (EBA) tariffs for LDCs have additional conditions, such as non-violation of principles laid down in human rights and labour rights conventions. In the same manner, upon LDC graduation, eligibility for the EU's Special Arrangement for Sustainable Development and Good Governance (GSP+) requires LDC graduates to ratify and implement 27 conventions on human rights, labour rights, environmental protection, and good governance, and to meet certain vulnerability criteria (CDP & UNDESA, 2018).

Although the IPOA (2011–2020), as compared to the BPOA (2001–2010), has more human rights-related references for LDCs to fulfil (ANNEX IV), such as the right to development, the right to food, the right to health, sexual and reproductive health, and gender equality and empowerment of women, there are critical gaps in the realisation of rights, especially in terms of women and marginalised groups in democracy, the rule of law, and citizen empowerment (OHCHR, 2021).

In addition, the recently drafted DPoA (2022–2031) recognises greater obstacles to women and girls in LDCs enjoying human rights in water and sanitation, including access to adequate water, sanitation services, and social protections. As such, it also lists some of the commitments and targets to establish an enabling environment for the fulfilment of women's human rights through institutional reforms, including but not limited to areas such as access to education and training, entrepreneurship, job opportunities and economic opportunities; and leadership at all levels of decision-making in political, cultural, economic, and public life.

In LDCs, the domestic resource mobilisation ratio has seen an increase from 13.5% in 2011 to 15.5% in 2017, mostly attributed to value-added taxes, negatively affecting the poorest people, who cannot afford food and other goods. In graduating LDCs, similar reforms are suggested for higher local productive income contributing to GNI criteria, which can seriously affect the basic rights of people living around the poverty line (OHCHR, 2021). Additionally, it has been documented that access to and enjoyment of human rights around the world, and especially in LDCs, have been threatened by increasing climate change implications (UN, 2020).

Accordingly, Nepal's 15th year plan points to existing discrimination, untouchability, gender-based violence, and structural limitations such as geography and access to services as hindrances to the realisation of human rights in Nepal. There are ambitious strategies for mainstream human rights-based approaches even in federal and local government programmes. The plan also recognises the need for rights protection of

migrant workers in foreign employment by promoting domestic employment, ending compulsive foreign employment, and increasing productivity (NPC, 2020).

#### **IV. Climate change**

Nepal is a highly vulnerable country to climate change, mainly due to the rugged geographical terrain, fragile geology, monsoonal climate, and low adaptive capacity. Rapid and unplanned urbanisation in Nepal in recent years has increased the exposure and vulnerability of the Nepalese to various types of climate-induced disasters and hazards, causing economic losses and disruption of basic services, and affecting marginalised people. Although there have been some efforts to address the issues through early warning systems; adaptive measures in infrastructure, agriculture, water, health; climate change and disaster risk integrated programmes; forecast-based financing, and so on, the overall investments in climate change adaptation in LDCs have been far from the levels required. In LDCs, adverse climate change also hinders access to quality education and healthcare, together with the risk to critical infrastructure services such as transport, water, and electricity in the wake of sudden climate-induced disasters. In addition, climate change impacts in LDCs are estimated to be coupled with COVID-19 implications, pegging countries back by some five years to reach pre-COVID GDP/capita (UNCTAD, 2012). The impacts of the COVID-19 pandemic combined with climate-induced natural disasters will severely hit the most vulnerable segment of the population (UN, 2021).

Addressing climate change impact, especially in the agriculture and food productivity sector, by improving resilience in production systems and reducing emissions, is much needed in the LDCs' developmental policies and strategies, to be able to graduate with sustained economic growth. This is crucial for a graduating climate-vulnerable country like Nepal, as one of the graduation criteria, EVI, specifically covers environmental or natural shocks encompassing the effects of natural disasters, weather shocks unfavourable for agriculture production, and permanent shocks caused by climate change (UNCTAD, 2012).

However, there are some instruments, measures, and support for LDCs to better prepare for the effects of climate change. For example, UNCTAD's LDCs' vulnerability profiles compare CDP criteria, with indicators beyond EVI, with relevant national statistics including implications of economic and natural shocks, and structural features such as remittances, tourism, infrastructure costs, and most importantly, climate change, which can be used as a basis for mainstreaming climate change into a smooth transition plan for graduating LDCs. Similarly, organisations such as the United Nations Department of Economic and Social Affairs (UN/DESA), the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), UNCTAD, the International Telecommunication Union (ITU), the World Meteorological Organization (WMO), the World Trade Organization (WTO), the United Nations Framework Convention on Climate Change

(UNFCCC), and others provide extensive support services related to policy and information services, capacity-building, access to information and resources, and advocacy services relevant to climate change in the LDCs. In addition, the National Adaptation Programmes of Action (NAPA) developed in 2010 has effectively identified priority activities to minimise the economic and social costs of climate change through adaptation.

To answer climate change and biodiversity loss, and to tackle future health hazards, the One Health approach has been promoted, enabling resilient and sustainable food systems meeting people's health and nutrition needs. In addition, Nepal plans to achieve net-zero emissions by 2050, as outlined in Nepal's Long-term Strategy for Net-zero Emissions published in 2021. Nepal's enhanced nationally determined contribution (NDC) for the period 2021–2030 has equally ambitious mitigation targets in various sectors such as energy; industrial processes and product use (IPPU); agriculture, forestry and other land use (AFOLU); and waste. Similarly, based on an integrated sectoral approach as stated in the National Climate Change Policy (2019), the NDC also has similar targets for adaptation under key thematic areas such as agriculture and food security; forests, biodiversity and watershed conservation; water resources and energy; rural and urban settlements; industry, transport and physical infrastructure; tourism, natural and cultural heritage; health, drinking water and sanitation; and disaster risk reduction and management, including cross-cutting themes such as gender equality and social inclusion (GESI); livelihoods and governance; awareness raising and capacity building; research, technology development and extension; and climate finance management. It has been estimated that Nepal will need about USD 25 billion and USD 3.4 billion to achieve conditional and unconditional targets, respectively, as outlined in the NDCs, and clearly anticipated financial, technological, and capacity-building support from funds such as GEF, the Green Climate Fund (GCF), the Adaptation Fund, and the Least Developed Countries Fund (GoN, 2020). There are three approved readiness activities of USD 4.5 million (2.4 million disbursed) and three approved projects worth USD 87.8 million through GCF financing (GCF, 2022). The three approved projects are: Mitigating GHG emissions through modern, efficient, and climate-friendly clean cooking solutions (CCS), improving climate resilience of vulnerable communities and ecosystems in the Gandaki river basin in Nepal, and building a resilient Churia region in Nepal (BRCRN) (GCF, 2022). However, upon graduation, Nepal would be excluded from the priority group of the GCF but would have access to the Special Climate Change Fund (SCCF) for further elaboration and implementation of NAPA (NPC, 2020; UNDP, 2022).

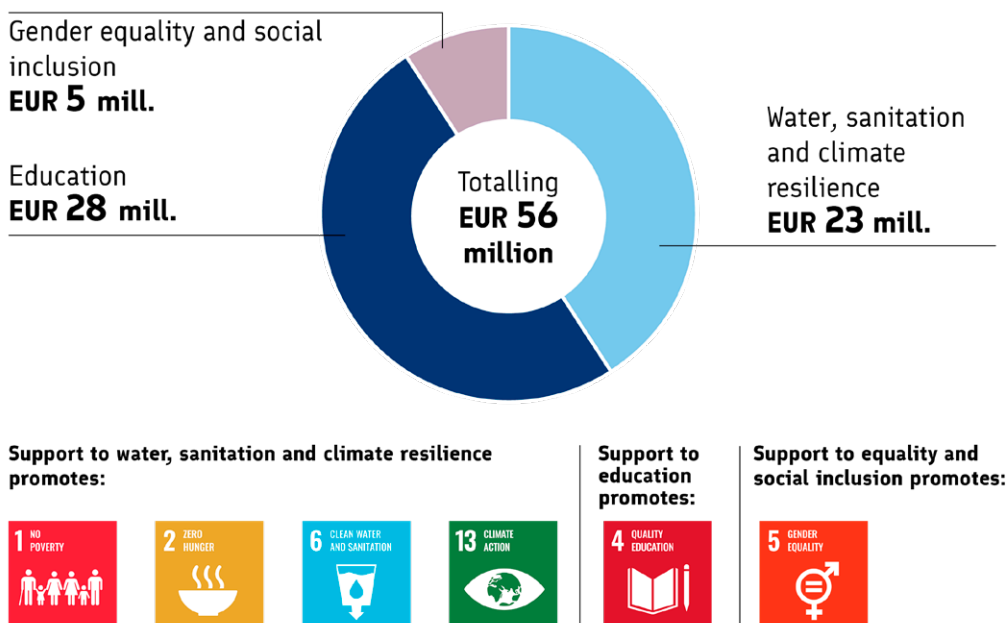
This might mean that Nepal could be deprived of some LDC-targeted funds for climate change in the future. Further financial and technical support to enable low-emission and climate-resilient development in agriculture, food production, transportation, and renewable energy is needed. The aim is also to meet some of the key SDGs, such as affordable and accessible renewable energy for all by 2030, in addition to the localisation

of climate action and a reduction in vulnerability through enhanced capacity building and resilience, also at the community level. The DPoA has also addressed climate change as one of the key focus areas for action (UN, 2022).

In these contexts, development partners can assist LDCs, including graduating ones such as Nepal, to overcome the hurdles as mentioned above, by emphasising macroeconomic and national development policies targeting SDGs and climate change adaptation, and realising thematically relevant commitments and targets as put forth in both the IPoA and the DPoA. Accordingly, Finland’s current planned appropriations through existing and future programmes, especially in cross-cutting sectors and subsectors, while also contributing to relevant SDGs in Nepal, could form a benchmark to build upon for Finland itself and other development partners to effectively contribute to the transition (UNCTAD, 2016; UN, 2022). Finland’s planned development appropriations for Nepal (2021–2024) and their links with SDGs are shown in Figure 6.

**Figure 6.** Finland’s planned development cooperation appropriations for Nepal (2021–2024) (Data source: Ministry for Foreign Affairs of Finland, 2022).

## FINLAND’S PLANNED DEVELOPMENT COOPERATION APPROPRIATIONS FOR NEPAL 2021–2024



Recommendations based on other frameworks and cross cutting issues:

- To address cross-cutting issues for Nepal in transition, if possible include IPoA and DPoA targets and actions, together with Nepal's local national policies, smooth transition policy, and national roadmap for SDGs, firstly to evaluate past and current programmes (econometric exercise and aid efficiency) and secondly to effectively plan new transitional programmes and interventions to prioritise where most efforts are needed and to close any resource (financing, technical and capacity) gaps.
- Look for active and actionable areas of intervention and partnerships with current Finnish CSOs and their networks at federal, regional and local levels for realistic implementation of Nepal's own ambitious targets.
- Continue and build on existing programmes, such as finding new partnerships and mechanisms, in these sectors, accommodating COVID-19 implications and graduation and transition contexts wherever feasible.
- Maintain and communicate existing routes and gradual exit routes, when this becomes applicable, while building on the transformative capacity of aid and donor coordination with other partners.
- Create opportunities for women and people from marginalised communities in productive sectors such in agriculture and entrepreneurship.
- Liaise with developmental partners and agencies, such as UNFCCC, GCF, the World Bank (WB), and the EU, who are already working on the climate change agenda (such as National Adaptation Plans (NAPs), Green, Resilient, and Inclusive Development (GRID) etc.) in Nepal, to find synergies and opportunities for new programmes and partnerships where Finnish technology and know-how would be aptly needed (e.g., Finnish Meteorological Institute (FMI) in early warning systems and/or air pollution).

### **3.6 Alignment of Finland's country strategy and graduation indicators**

The framework below shows how Finland's country strategy (2021–2024) for Nepal aligns with LDC classification indicators enabling Nepal's graduation. Similarly, it also shows how Finland's country strategy (2021–2024) is associated with the pathways identified by Nepal's government to sustain LDC graduation and human development during the transition and beyond. Finland's strategic goals to reduce inequalities, support sustainable development, build resilience, and enhance political and economic cooperation were well aligned with Nepal's perceived pathways to LDC graduation and sustainable human development. Built on these and relevant previous country strategies, a detailed relevant transition and graduation framework could be implemented (Table 4).

**Table 4.** Alignment of LDC graduation indicators and policy documents.

LDC graduation indicators	Nepal's policy and commitments	Finland country strategy	Strategies of other development partners
INCOME GNI per capita	<p>The Fifteenth Plan (Fiscal Year 2019/20–2023/24)</p> <p>Long-term vision of increasing Nepal's per capita national income to at least USD 12,100 by 2043.</p> <p>Income-generating programmes for people with disabilities will be formulated to help them become self-reliant.</p> <p>Increased production and productivity, improving the quality of human assets and reducing economic vulnerabilities.</p>	<p>Finland Country Strategy for Nepal (2021–2024)</p> <p>Diversify and further enhance political and economic cooperation between Nepal and Finland to prepare for Nepal's future transition to a middle-income country</p>	<p>EU's Multi-annual Indicative Programme 2021–2027 (Nepal)</p> <p>Contribute to increasing the per capita income, which is a lagging LDC graduation criterion, and productive capacity to produce sustainable goods and services.</p> <p>Appropriate utilisation of forest, contributing to the growth of employment and income generation.</p> <p>Connectivity of value chains and increased income, such as the development of timber forest products (NTFP) and timber value chains, with a focus on including and benefitting indigenous people, would be promoted.</p> <p>UNDP Strategic Plan 2022–2025</p> <p>Helping 100 million people to escape multidimensional poverty</p>

LDC graduation indicators	Nepal's policy and commitments	Finland country strategy	Strategies of other development partners
<p>HAI</p> <p>Human assets index [Under 5 mortality rate, Gross secondary school enrolment ratio, Prevalence of stunting, adult literacy rate, Maternal mortality ratio, Gender parity index for gross secondary school enrolment]</p>	<p>The Fifteenth Plan (Fiscal Year 2019/20–2023/24)</p> <p>Expansion of health insurance to all districts, safe motherhood, digital health education.</p>	<p>Finland Country Strategy for Nepal (2021–2024)</p> <p>Support sustainable development and climate and disaster resilience in the areas of education, water, sanitation and hygiene (WASH), livelihood development, and gender equality.</p> <p>Support developing the capacity of Nepali and Finnish higher education institutions through the Higher Education Institutions Cooperation Instrument (HEI ICI) projects, and strengthen the skills and knowledge of state actors through the Institutional Cooperation Instrument (ICI) projects.</p>	<p>EU's Multi-annual Indicative Programme 2021–2027 (Nepal)</p> <p>The education sector is closely aligned with actions under the Global Partnership for Education (GPE) and the Inclusive Green Growth Priority, focusing on green sectors and greening others.</p> <p>Focus on quality and equity in education, and inclusion and gender disparity in secondary education, all of which will be outlined in a new Education Sector Plan 2022–2030.</p> <p>UNDP Strategic Plan 2022–2025</p> <p>Leaving no-one behind: a rights-based approach centred on empowerment, inclusion, equity, human agency and resilience in human development</p>



## LDC graduation indicators

## Nepal's policy and commitments

## Finland country strategy

## Strategies of other development partners

LDC graduation indicators	Nepal's policy and commitments	Finland country strategy	Strategies of other development partners
<p>EVI</p> <p>Economic and Environmental vulnerability index [Share of agriculture, forestry and fishing in GDP, Remoteness and landlocked, Merchandise export concentration, Instability of exports of goods and services, share of population living in low elevated coastal zones, Share of population living in drylands, Instability of agricultural production, Victims of disasters]</p>	<p>The Fifteenth Plan (Fiscal Year 2019/20 –2023/24)</p> <p>Income-generating programmes for people with disabilities.</p> <p>Set national goals and targets for prosperity and happiness, and incorporate long-term objectives in terms of significant progress in the social sector, including poverty alleviation, education, health, and gender equality, as well as in physical infrastructure and the energy sector.</p> <p>Achieve socio-economic prosperity by building a climate-resilient society.</p>	<p>Finland Country Strategy for Nepal (2021–2024)</p> <p>Reduce inequalities by addressing the connections between gender, disability, and discrimination and other forms of exclusion and marginalisation.</p> <p>Support sustainable development and climate and disaster resilience in the areas of education, water, sanitation and hygiene (WASH), livelihood development, and gender equality.</p> <p>Diversify and further enhance political and economic cooperation between Nepal and Finland to prepare for Nepal's future transition to a middle-income country.</p> <p>Aligned with the 2030 Agenda for Sustainable Development, Finland supports the environmentally, economically, and socially sustainable development of Nepal through its different interventions.</p>	<p>EU's Multi-annual Indicative Programme 2021–2027 (Nepal)</p> <p>Adopt a green economy and build a climate-resilient society.</p> <p>Value addition to NTFPs to provide greater benefits to indigenous people.</p> <p>As part of good governance, actions will be programmed in support of cross-cutting issues such as gender equality, social inclusion, climate proofing, a rights-based approach, and youth engagement.</p> <p>TIP's trade component promotes organic Arabica coffee, predominantly grown in mixed-crop, agroforestry systems, which are strengthening conservation and sustainable agriculture, minimizing the usage of pesticides and chemicals, and thus reducing the strain on local water resources and soils.</p> <p>Guarantees of fundamental economic and social rights have included provisions for minimum employment and food security.</p>

### 3.7 Challenges of Nepal's LDC graduation and beyond

Due to a history of well-documented political instability and consequent frequent changes in policy priorities, Nepal has been facing several developmental challenges, which remain the same during the transition and after post-graduation. These inherent challenges will have further implications during the LDC transition, as Nepal has to sustain the hard-earned achievements in HAI and EVI graduation criteria. Additional challenges are posed by COVID-19, especially as productive sectors are weakened due to COVID-19 threatening Nepal's progress in achieving GNI criteria by 2026 when the graduation is due (NPC, 2020; CEDECON, 2020). Similarly, in the wake of COVID-19, the economic growth rate was -2.08% in 2020 and 1.8% (estimated) in 2021 (World Bank 2021). For the fiscal year, the number of Nepalese workers receiving approval for foreign employment decreased by 96.8% in the first quarter of 2020/21 (GoN, 2021). Remittance-based macroeconomic balances have been somewhat hit and have a high risk of instability in coming years if resource flows into the country are not diversified (Prasain, 2021). In that condition, the remittance inflow, one of the major contributors to Nepal's GDP, will be affected. Similarly, the pandemic has hit LDCs, including Nepal, hard in social sectors, especially affecting women and marginalised communities, with risks such as failing to reach SDGs targets, namely doubling global exports by 2020 (Balino, 2020) and eradicating extreme poverty by 2030; hindrances to progress made in fighting diseases, malnutrition and high mortality rates; and creating a technological divide in accessing education for poorer population, which all might lead to high non-performance in LDC graduation criteria and commitments, if not postponement of the graduation altogether (CDP, 2021).

The actual impact of COVID-19 on LDC graduation is still not known due to the time lag in data and the ripple effects of the current measures on near-term and longer-term prospects of economic growth and human development (GoN, 2021). In addition to the imminent effects of climate change in the Himalayan region, such as with glacial meltdowns, avalanches, extreme and irregular weather patterns, drought, and so on, there are also yearly occurrences of incidences of floods, landslides, and wildfires throughout the country affecting the most vulnerable population. There is a lack of adequate national and federal policies and programmes for proper infrastructure planning and implementation to provide safeguards for the most vulnerable population (Dixit, 2021). In addition, Nepal has been also involved in recent geopolitical dilemmas and controversies with major bilateral developmental partners such as the US on the Millennium Challenge Corporation (MCC) (Giri, 2022) and China on border issues (Bristow, 2022). If not settled well, these might have multiple ill consequences for Nepal while approaching graduation.

In summary, the key challenges of Nepal's transition are as follows:

- Nepal is a highly vulnerable country to climate change and prone to multiple hazards including earthquake, floods, and landslides. Building resilience by reducing vulnerability and enhancing adaptive capacity remains a challenge.
- There are huge gaps in human development indices and other indicators of sustainable development goals at the province and local levels. Narrowing these disparities at a faster pace is a challenge.
- A lack of diversified local economy flows, low productive capacity, and potential loss of market access and infrastructure competencies in trade and commerce, both traditional and digital, are bound to impact GNI criteria. Investments in diverse products and services, including building capacities of local institutions, are still lacking.
- Institutional and structural marginalisation and discrimination based on caste, gender, religion, and region are deep rooted in Nepali society. The empowerment of marginalised groups, including women, by removing structural barriers and strengthening their productive capacity is a challenge.
- COVID-19 has not only caused deaths but has intensified inequality, poverty, exclusion, and insecurity, with fluctuating remittances and declining tourism adding a burden to the national economy.

Addressing these challenges and reducing the negative impacts of graduation will lay a solid foundation for irreversible and sustainable graduation. Therefore, for a smooth transition, Nepal must address these overall challenges by maintaining a stable, transparent, and trustworthy political environment and diplomacy with international partners outside and federal systems inside; enhancing productive capacity in health and education sectors; setting up a digital infrastructure for universal access to ICT services; and capacity building in the STI sector (CDP, 2021).

### Recommendations to address challenges

- Consider COVID-19 implications as a major factor to be considered across all planning, programming, and formulation.
- Find opportunities to foster (re)integration of migrant returnees into the local labour market and livelihood programmes in future transition plans and programmes.
- Continue to build on existing programmes, especially in social and cross-cutting sectors, matching Nepal's transitional needs especially in climate change resilience, green jobs, and domestic resource mobilisation.
- Emphasise early communication in matters of understanding of terms and conditions, risks, liabilities, and responsibilities in the case of fallout, conflicts, emergencies and so on, including risk assessment practices with relevant stakeholders to identify any future setbacks in programme execution, specifically accounting for graduation and transition implications in future programming.

Detailed findings and recommendations related to overcoming the general challenges of LDC graduation in Nepal can be found in ANNEX V.

## 3.8 Other opportunities during transition

### I. Utilising remittances

High remittance inflows in Nepal have been credited for lifting most households exceptionally above the poverty line mainly in rural areas (Byanjankar & Sakha, 2021). However, on the flipside, this has also encouraged complacency among policy makers not to address policy weaknesses to foster better macroeconomic and investment opportunities within the country. This in turn results in low jobs in productive sectors, consequently forcing migration for employment and continuing the vicious cycle from year to year, and now even generation to generation, further adversely affecting resources and structures in the agriculture sector, which is one of the key sectors in the country, contributing about 35% of the GDP and providing a livelihood to 76% of the population. In addition, utilisation of remittances in productive sectors is dismal; nearly 80% of received remittances are spent on consumption and a mere 2.4% on capital formation and 0.5% on business, respectively (Tuladhar et al., 2014).

This means that the Nepalese economy will continue to depend mostly on remittances that are not put into internal revenue generation nor into the productive sectors in the country, including while graduating from LDC status. To make the situation worse, high remittances in Nepal have also been shown to negatively impact the revenue of non-farm enterprises, all while encouraging women to reduce their labour supply in non-farm self-employment (Kharel et al., 2020).

Although remittances soared to an all-time high, even during the ongoing pandemic when there were low outward migration or flow variables (August 2021); now, there have been sustained drops in remittances inflow in recent months (November 2021), and there is predicted to be more risk of a decrease due to the pandemic, ultimately destabilising the macroeconomy of the country (Prasain, 2021). However, local experts shrug off this incident as minor, predictable, and transitional, as they have confidence in the stock variables or previously migrated individuals who have better wages and low expenditures, and thus can and will continue to send money back, especially during a time of need (Ministry of Foreign Affairs, 2020).

Interestingly, remittance outflows from Finland have also been drastically peaking over the years and are continuing on the same trajectory, with very minimal impact even during the pandemic (Yle, 2021). In addition, Finland has already prepared a roadmap to increase education and work-based immigration by 2035, which will additionally help promote Finland as an attractive destination for education and employment among Nepalese students and talent (Ministry of Economic Affairs and Employment & Ministry of Education and Culture, 2021).

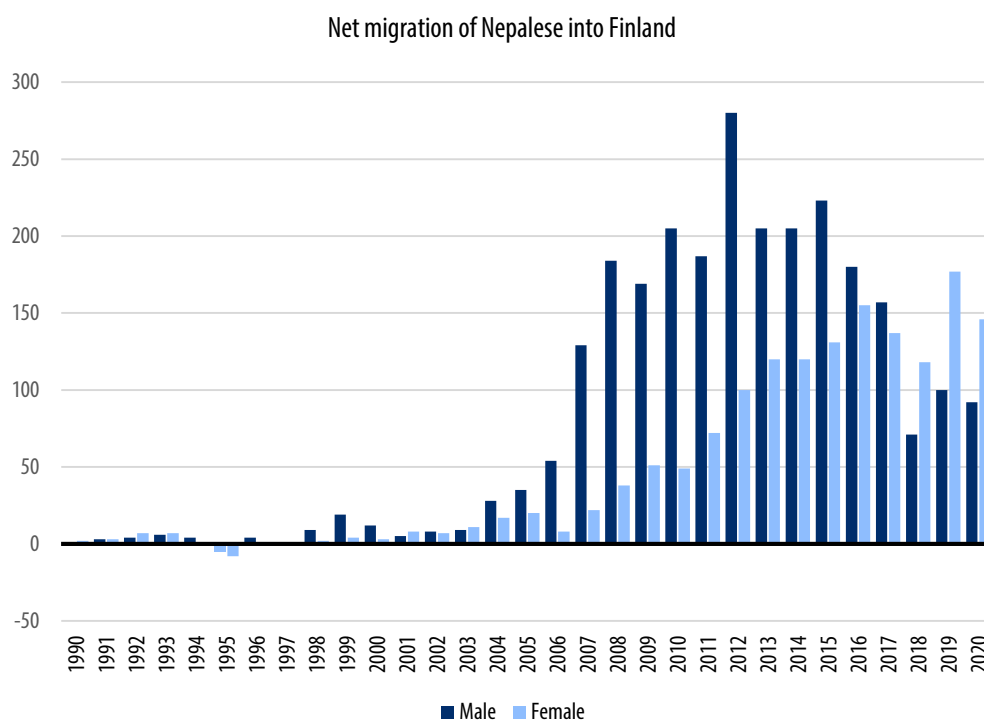
In summary, remittances (inwards into Nepal and outwards from Finland) will continue to flow despite the pandemic. However, in Nepal, better policies and enabling environments are needed desperately and urgently to channel remittances into promoting internal revenue generation and productive usage, including in agricultural sectors, thus contributing to higher GNI per capita and a more resilient economy moving forward through the LDC graduation.

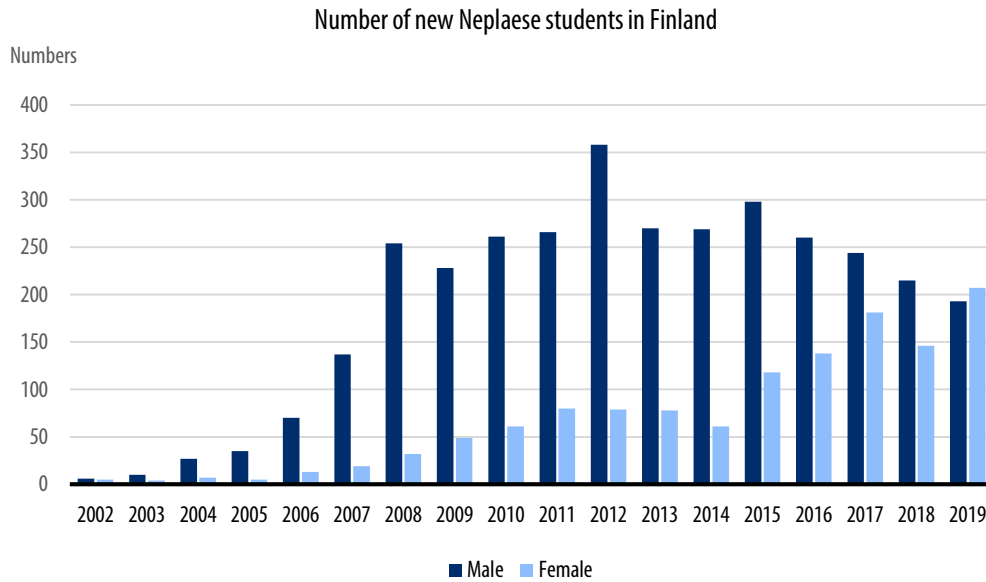
## II. Harnessing the diaspora

Nepalese migration into Finland can be primarily categorised into two main categories: education based and work (restaurant) based. Both the bases in recent years have been hit with some adverse developments, such as the introduction of tuition fees for non-EU/EEA students in Finland for higher education in 2016/17, and human trafficking and labour law violations at Nepalese restaurants in 2018/19. Only a few hundred are somewhat active in diaspora networks such as the Nepalese Non-Resident Association (NRNA), Finland and Haatemalo, with network activities mainly focusing on Nepalese cultural and heritage promotion, despite high aspirations and intentions for trade and businesses between Nepal and Finland.

In any case, despite the obstacles mentioned above, the net inflow of Nepalese into Finland has been steady around the mid-2000s in recent years (Figure 7). The number of Nepalese females arriving in Finland has been increasing steadily over the years and exceeding that of Nepalese male immigrants to Finland in 2018, 2019 and 2020. There might be two key factors leading to this trend; firstly, these might be the family members and dependents of the male population (namely students and restaurant workers) who migrated in the late 2000s and early 2010s; and secondly, they also constitute new students, especially in the health and welfare sector, which is typically pursued by females in Nepal (Figure 8).

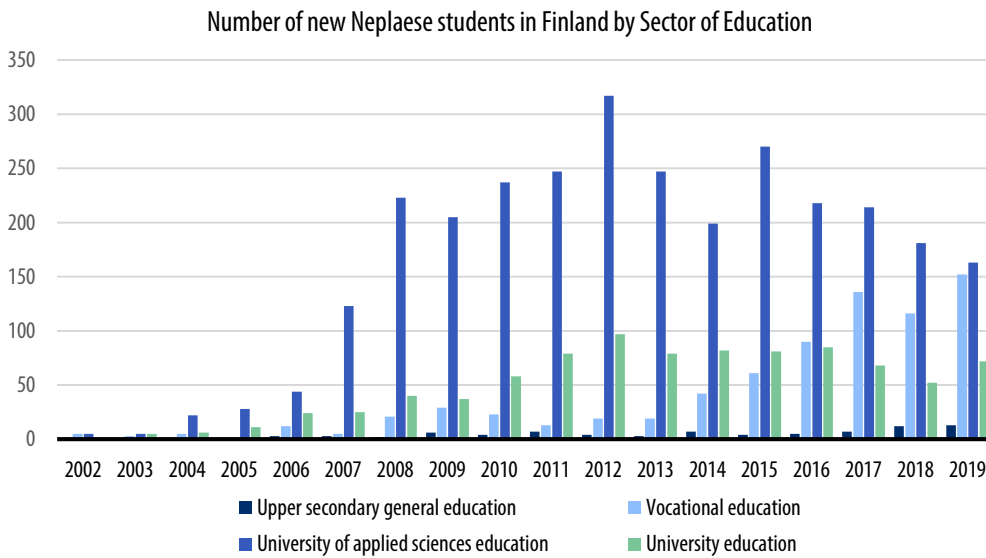
**Figure 7.** Net migration of Nepalese into Finland (Data source: Statistics Finland).



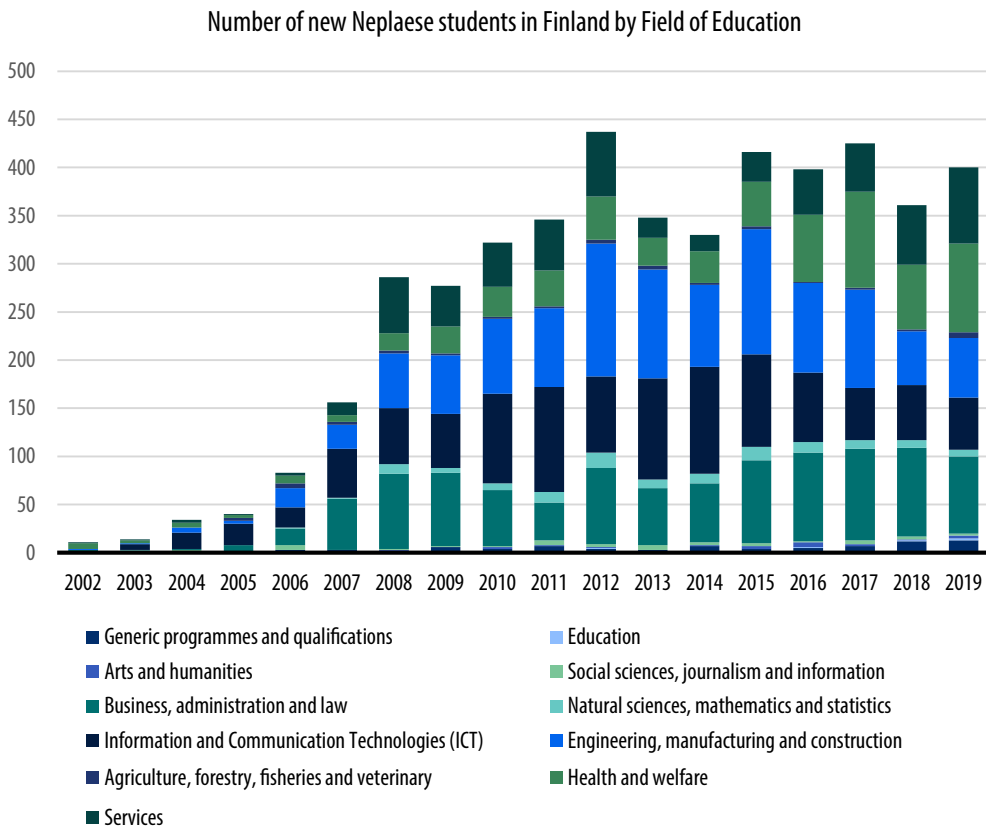
**Figure 8.** Number of new Nepalese students in Finland (Data source: Statistics Finland).

There is a steady decline in Nepalese students in University of Applied Sciences (UAS) education, whereas a similar rise is noticeable in vocational education (Figure 9). This might be due to tuition fees at UAS, while vocational education is still at no cost. Traditionally, fields of education such as engineering, manufacturing and construction, business and administration, and law and ICT were quite popular among Nepalese students. More recently, fields such as health and welfare services have been gaining popularity among new Nepalese students (Figure 10).

**Figure 9.** Number of new Nepalese students in Finland (Data source: Statistics Finland).



**Figure 10.** Number of new Nepalese students in Finland by field of education (Data source: Statistics Finland).





On the other hand, there is a well-documented shortage of healthcare professionals in Finland, which will be more so in the future. There are also reports of Universities of Applied Sciences (UAS) in Finland failing to attract applications from potential students for nursing courses (Yle, 2021). This situation calls for a fitting intervention that could be negotiated between the governments of Finland and Nepal, together with higher education institutions and healthcare and services facilities in Nepal and Finland, to scope out new provisions and programmes (Yle, 2021). For example, the UK has already prepared programmes to hire nurses directly from Nepal soon (The Rising Nepal, 2021).

In summary, the Nepalese diaspora community in Finland is mostly highly skilled and educated in key sectors, with the number of qualified females increasing (in terms of education and employment), increasingly in the health care and welfare sector, alongside regular restaurant businesses. The Nepalese diaspora community can help to spur collaboration between businesses and educational institutions in both countries.

### **III. Harnessing expatriates**

Only recently, the Ministry of the Interior published the Strategy on Expatriate Finns 2022–2026, which sets objectives and actions to respond to the service needs of expatriate Finns and to make better use of their expertise. The following selected objectives and actions are also relevant to expatriate Finns in Nepal and the MFA's transition/LDC graduation thinking in Nepal (Ministry of the Interior, 2021).

- The issues related to expatriate Finns are effectively coordinated, and expatriate Finns are taken into account in governmental decision-making (Objective 1).
- Expatriate Finns can easily access services provided by public authorities, regardless of time and place (Objective 2).
- Expatriate Finns contribute to Finnish trade and industry, export promotion, research, and sustainable development in their places of residence abroad (Objective 3).

### **IV. Education sector: School sector, VET and higher education**

Finland has been extensively supporting Nepal's school sector reformation through sector-wide plans (School Sector Reformation Plan) and the School Sector Development Plan (SSDP) previously and the current School Education Sector Plan (SESP). Previous programmes have had some important successes, especially in access to schooling and gender equality, but many targets in relation to quality of education have been unmet due to a lack of political will or commitment, problems of ownership, a lack of coordination

among federal, provincial and local governments in Nepal, and consequences of the unfortunate 2015 earthquake and the COVID-19 pandemic. The Federal Education Act, long overdue, is yet to be endorsed. As such, there is some scepticism among local experts that the ambitious targets of SESP may suffer similarly to its predecessor programmes (Ghimire, 2021).

To complement the sector support, Finland has given bilateral technical assistance to the education sector in Nepal in areas such as student assessment, inclusion of soft skills, and development of integrated curricula. Future technical assistance support is being planned for a teacher training component. There has also been continuous collaboration among Finnish and Nepalese vocational education and training institutions and higher education institutions. Students and teachers from VET colleges in Finland also had increased mobility and engagement, such as on-the-job learning placements in Nepal through the KEVA project (2010–2012), in the past few years. As stated previously, there is an increasing interest from Nepalese students to study in Finnish VET institutions.

Given the EU's and Finland's recent Africa strategies, Africa is a general focus for collaboration in the education sector, including vocational and higher education collaboration. In Asia, India and China are also somewhat included in programmes and new mechanisms such as the Global Innovation Network for Teaching and Learning (GINTL), the Finland-Africa Platform for Innovations (SDG 9) (FAPI), and EDUCase networks of Finnish higher education institutions. For Nepal, a few projects have been completed through HEI-ICI and Erasmus plus, and some are still active among higher education institutions in Finland and Nepal. These active projects are mainly based on existing bilateral institutional ties, and they focus on teacher training (pedagogy) for fostering 21st century skills, problem-based learning, curriculum changes, sustainability, and business education. Though the HEI-ICI programme has a bigger allocation per project and aspirations of a higher percentage of the budget for partnering countries' institutions, it now accepts fewer projects in its programme, even though it receives an increasing number of applications, including from Nepal. Besides, mobility programmes and support are also very limited among the institutions in Nepal and Finland.

### Recommendations for tapping into other opportunities

- Find and create specific programmes and sectors, benchmarking against the successes of current active international education networks such as GINTL, FAPI, and EDUCase, matching both Finland's needs and expertise and graduating Nepal's needs (e.g., in healthcare, ICT, digital services, climate change resilience and technology, entrepreneurship, vocational skills and training), to attract potential students and talent for education and employment in Finland. Engage in communication and planning as early as possible with relevant ministries and stakeholders both in Finland and Nepal.
- Take lessons learnt from previous programmes in Nepal, especially in education, and tap into the emerging and urgent needs of education sectors in Nepal (e.g., on fostering ownership). Similarly, engage with vocational and higher education institutions active through HEI ICI, Erasmus plus, and KEVA, that are previously and currently involved in Nepal, to scope out new avenues of focused programming based on previous lessons learnt, mainly related to building capacities in teacher training, curriculum development, digital education, pedagogy, and so on.
- Engage proactively in communication and dissemination with the diaspora community in Finland through regular programmes in trade facilitation (Finnpartnership, Team Finland Knowledge) and new initiatives (such as the establishment of a Finland Nepal Alumni Association, meetups in Nepal of new students for info sharing, etc.) in providing opportunities for networking, capacity building, and information exchange on support programmes and initiatives for trade, employment, and education. Tap into specific needs of the diaspora community, such as seeking employment, knowledge and practices in taxation, founding a company, and trade and customs.
- Regularly exchange ideas and best practices regarding potential new partnerships in trade, technology transfer, and services facilitation with expatriate Finns, Finnish CSOs, and their trusted networks in Nepal.

## 4 Key stakeholders in the transition process

Following the definitions of Mendelow (1981) and Mendelow (2018), we considered stakeholders to be the individuals or institutions who have interest in any activity or decisions of MFA Finland and who are likely to be affected by MFA Finland's plans, policies and decisions. For the stakeholders' assessment, the researchers used three-step analysis: a) identification and interviewing of key stakeholders in the transition process; b) stakeholder prioritisation based on their power and interest; and c) linking stakeholders' power and interest relations to the Finland strategic objectives for Nepal 2021–24 and scoping for future partnerships.

### 4.1 Identification of stakeholders

A list of a few stakeholders who have worked with the MFA or Finnish-funded projects and who have collaborated with the MFA for projects in Nepal in the past and at present was prepared. Once the stakeholder list was tallied with the MFA, the researchers conducted interviews with selected and suggested stakeholders in this research study. Since this assessment is for internal reference purposes only, the list does not contain full lists of Finnish stakeholders/companies who are operating in Nepal. The researchers have chosen and listed the companies and institutions at their own discretion to provide an example of using the framework.

### 4.2 Stakeholder prioritization

Secondly, the Mendelow framework of stakeholder analysis, also known as the Power and Interest Grid, is used for the stakeholder assessment. The power/influence<sup>1</sup> of the stakeholders were analysed based on the stakeholder's level of influence in the past, present works and collaborations, and interviews, and the interest<sup>2</sup> of the stakeholders was analysed based on the work history with the MFA and through interviews.

To assess the power and interest of each stakeholder, a set of qualifying statements was prepared, and each stakeholder was graded on a scale of 1 to 5. This was applied to all the

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1 Power: Influence the ability to realize the goals with resources, authority, capacity

2 Interest: Interest over activities, and success/unsuccess of the goals

stakeholders from Nepal and Finland that were participating in interviews and those with scope for future partnerships for the transition process.

Following the framework, the stakeholders were categorised into four groups, based on their interest and power, which were then plotted in four quadrants (Mendelow, 2018). The stakeholders were colour-coded in accordance with their relevance with Finland's country strategy for Nepal 2021–2024 and are denoted 'interviewed' (Figure 11 for stakeholders in Finland, and Figure 12 for stakeholders in Nepal). The four groups of stakeholders are as follows:

### **I. High Power, High Interest**

The stakeholders with high power and high interest are the stakeholders with whom the MFA needs to work closely. The success of the projects and programmes for transition is highly influenced by this group of stakeholders, and thus they should be continuously involved, coordinated, and collaborated with to keep them in the same grid. Among those interviewed, six stakeholders fall into this quadrant from Finland and four stakeholders fall into this quadrant from Nepal. There are other stakeholders, too, who have not been interviewed but have been identified as high interest and high power.

### **II. High Power, Low Interest**

The stakeholders with high power have the potential to magnify and scale up the works of the MFA and to realise the strategy and plans of action. Thus, the aim of the MFA should be to increase their interest through regular communications, and proposals to collaborate with and involve them. These stakeholders should be dealt with very cautiously to encourage them to use their power to the benefit of the MFA's vision.

In the interview and analysis, one stakeholder in Nepal falls into this group. The aim of the MFA should be to move this stakeholder to the right quadrant, increasing their interest through regular communication and involvement.

### **III. Low Power, High Interest**

The stakeholders with high interest could be mobilised by the MFA for the implementation of more projects in its thematic areas, considering the terms of eligibility. This group of stakeholders plays a crucial role in adding positive contributions to the success of the MFA's works and to amplifying the impacts of its works.

Among those interviewed, more than half of the stakeholders in Finland fall into this quadrant, as well as four stakeholders in Nepal. There are more stakeholders that fall into

this category who have not been interviewed. The MFA needs to keep them adequately informed and regularly communicate with them to make sure that there are no issues that need to be addressed.

#### IV. Low Power, Low Interest

The stakeholders with low power and low interest require very minimum effort from the MFA's side. The MFA can monitor these people at distance but does not necessarily stay in close contact with them with excessive communication and sharing of information.

Among those interviewed, no stakeholders were found in this grid either in Nepal or Finland. However, two stakeholders in Finland fall into this quadrant from the overall stakeholder list.

**Figure 11.** Power-Interest Grid depicting stakeholders in Finland for MFA's reference and consideration.

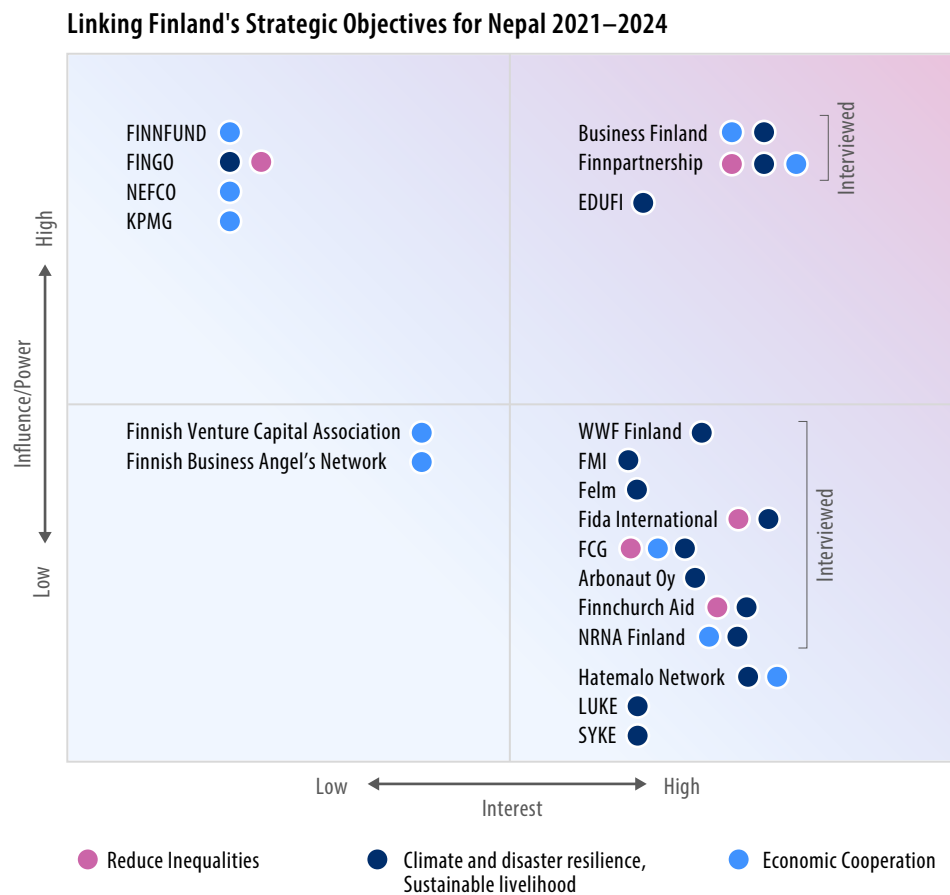
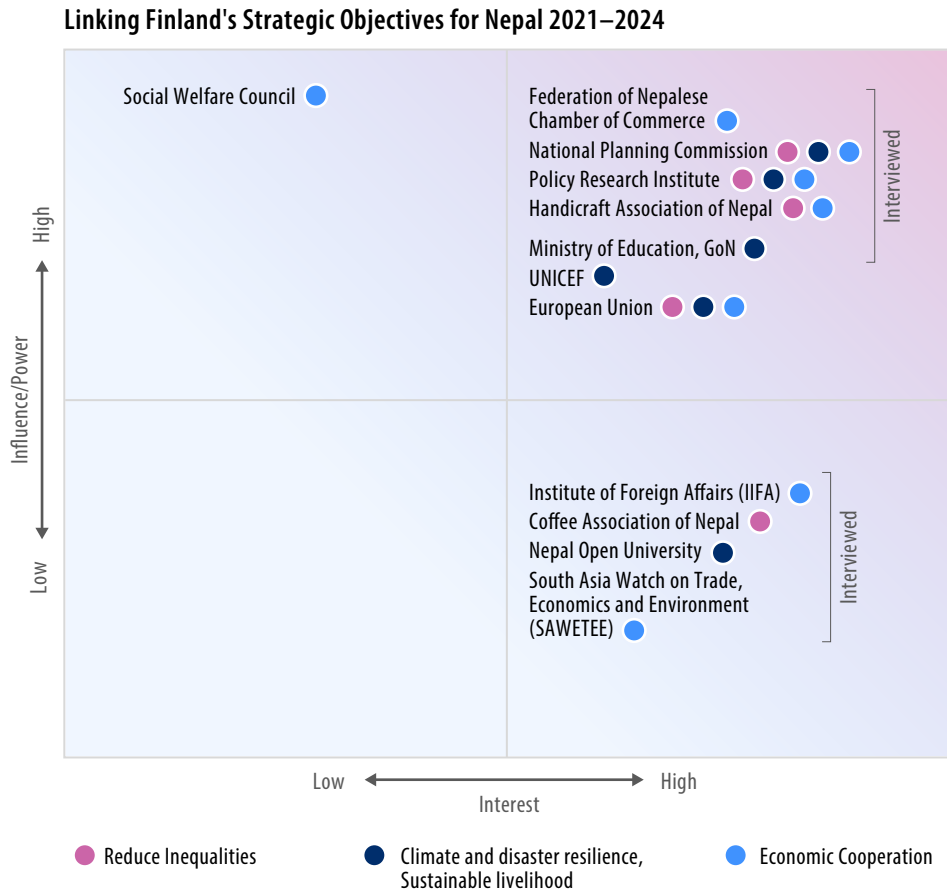


Figure 12. Power-Interest Grid depicting stakeholders in Nepal for MFA's reference and consideration.



## Recommendations based on the stakeholder assessment

The followings are the recommendations to the MFA through an analysis of the relative importance of each stakeholder interested or involved in its projects and activities at present and in the future.

### In Finland:

- It is crucial that the MFA involves and regularly communicates with all its units, EDUFI, Finnpartnership, and Business Finland to receive the right support to facilitate the transition process in Nepal.
- The NGOs, research institutions, and consulting firms in the lower right grid are essential to provide positive contributions to Finland's country strategy and transition support efforts. Thus, they need to be adequately informed, regularly communicated with, and consulted for amplified support.
- The stakeholders in the upper left grid possess significant influence for creating sustainable trade and business opportunities. Thus, the MFA should focus on initiating dialogue and creating an environment to increase their interest and move them to the grid on the right side.

### In Nepal:

- Some identified stakeholders have had partnerships with the MFA in the past, while some are new and very crucial for future partnerships for transition support and beyond. Given their interest in collaborating with the MFA and their significant influence in Nepal, it is crucial to keep those stakeholders in the upper right grid well informed and involved in regular communication.
- Many influential trade and business promoters from Nepal have been identified in the lower right grid, some of which are already working on transition support. Thus, the MFA is recommended to remain in close contact with them to receive support and magnify the efforts towards graduation support.



## 5 Frameworks for transition planning

In line with the MFA's current theory of change-based development cooperation practices, it will continue to be a crucial framework for the MFA as transition planning progresses in Finland and Nepal in the near future. The theory of change, as a framework, provides a description for the MFA to assess the degree of intended impact through the planned projects and partnerships. Based on the findings, four potential graduation scenarios were identified to form a theory of change-based frameworks for transition planning:

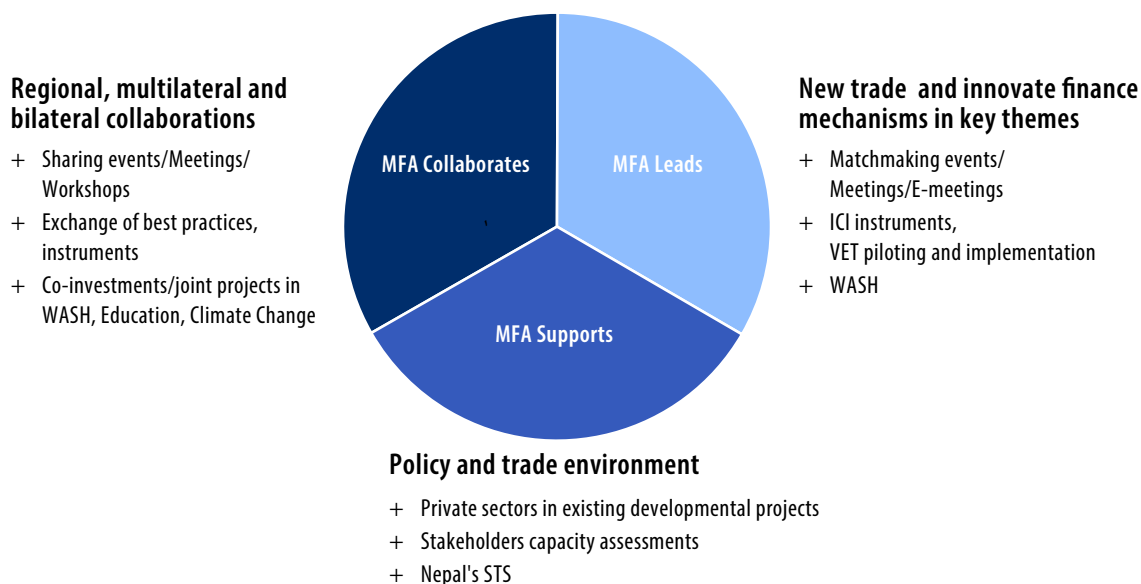
- *Over optimistic:* Scheduled graduation commitment is effective and in time and Nepal is well prepared/ready, Nepal's pledges to Agenda 2030 are well met
- *Optimistic:* Scheduled graduation commitment is effective but a little delayed and Nepal is somewhat prepared/ready, Nepal's pledges to Agenda 2030 are somewhat met
- *Realistic:* Scheduled graduation commitment is effective but severely delayed and Nepal is very little prepared/ready, Nepal's pledges to Agenda 2030 are very little met
- *Pessimistic:* Scheduled graduation commitment is not effective and severely delayed and Nepal is not prepared/ready at all, Nepal's pledges to Agenda 2030 are not met

Out of these four scenarios, the theory of change-based transition planning frameworks has been analysed below for the given two scenarios (Optimistic and Pessimistic).

The optimistic scenario is the condition in which the graduation commitment/plan is met but a little delayed and Nepal is somewhat prepared/ready, and Nepal's pledges to Agenda 2030 are somewhat met. The overall framework for the optimistic scenario with input, output, outcome, enablers, risks, and mitigation strategies for the periods 2022–24, 2024–26, and 2026–28 is given in ANNEX VI. Under the optimistic scenario, there are substantial efforts from the MFA and Finnish stakeholders, which are duly recognised by the Nepalese stakeholders. The opportunities for new investments, partnerships with an enabling environment for piloting, and implementation of products and services to increase the productive capacity of Nepal are realised. The MFA adequately supports enabling and sustaining the transition of Nepal successfully. It even leads on some key sectors, leading Nepal to LDC graduation and keeping the momentum beyond that. Table 5 summarises the priorities, enablers, mission, outcome, and example activities in each phase towards transition support in each thematic area: WASH, education, and cross-cutting themes. Figure 13 presents an example toolkit for areas where MFA could lead, collaborate, and support under the optimistic scenario.

**Table 5.** Optimistic Scenario 2022–2030 and beyond (example).

	Phase I (2022–2024)	Phase II (2024–2026)	Phase III (2026–2028)	Phase IV (2028–2030 and beyond)
<b>PHASES &amp; PRIORITIES</b>	Collaboration and scoping for transitional needs	Preparation of transition policy and trade environment	Actionable partnerships and programme implementation	Enabling and sustaining graduation
<b>ENABLERS</b>	MFA leads collaboration, other stakeholders support	MFA and GoN lead, other key stakeholders collaborate	GoN leads, MFA collaborates and supports, private sectors and multi/bilateral agencies collaborate	GoN leads, MFA collaborates, private sectors and multi/bilateral agencies support
<b>MISSION</b>	Scoping for new interventions	Creating enabling environment	Piloting new instruments and programmes	Scaling up and sustaining the momentum beyond graduation
<b>OUTCOME</b>	MFA's pilot transition strategy developed, areas of intervention identified	Transition strategy fully developed: thematic areas diversified, old partnerships strengthened, new partnerships established	Long-term business partnerships established, Agenda 2030 and GRID targets supported	Transition successfully managed and new trade-based partnership strategies developed
<b>TOWARDS TRANSITION SUPPORT (an example)</b>	<ul style="list-style-type: none"> <li>• WASH: Call and gather Finnish stakeholders offering WASH technologies</li> <li>• Education: Dialogue to pilot VET</li> <li>• Cross-cutting: Integrate local disaster risk management planning (LDRMP) in all local plans and actions</li> </ul>	<ul style="list-style-type: none"> <li>• WASH: Promoting and introducing affordable WASH technologies</li> <li>• Education: Pilot VET and vocational exchange programmes</li> <li>• Cross-cutting: Early warning systems for climate change-related hazards in collaboration with relevant Finnish institutions</li> </ul>	<ul style="list-style-type: none"> <li>• WASH: Extend WASH programmes, taking success stories and mechanisms from Far West (Karnali) to other provinces</li> <li>• Education: Extend ICI and similar mechanisms in different provinces</li> <li>• Cross-cutting: Enabling marginalised local people in use of digital services for information on WASH, climate change, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• WASH: Impact investment in WASH</li> <li>• Education: Implement VET and vocational exchange programmes</li> <li>• Cross-cutting: Significant representatives from women and minorities in exchange and training programmes</li> </ul>

**Figure 13.** MFA toolkit for transition (optimistic scenario).

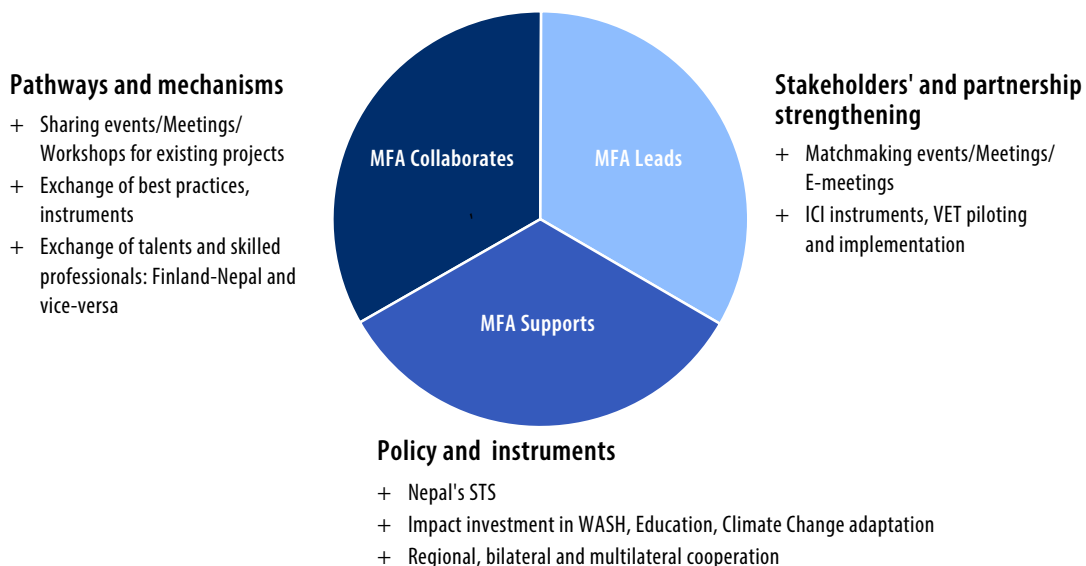
In summary, Table 5 depicts the mission and priorities in which the MFA leads, collaborates, and supports during each phase, as well as the respective expected outcomes. It provides potential activity in terms of examples in each thematic area (WASH, education, and cross-cutting issues). The toolkit in Figure 13 shows a programmatic example in which the MFA leads (new trade and innovative finance mechanisms under key themes), collaborates (regional, multilateral and bilateral collaboration) and supports (policy and enabling trade environment) under the optimistic scenario.

The pessimistic scenario is the condition in which the graduation commitment/plan is not met and severely delayed and Nepal is not prepared/ready at all, and Nepal's pledges to Agenda 2030 are not met. The framework for the pessimistic scenario with input, output, outcome, enablers, risks, and mitigation strategies for the periods 2022–24, 2024–26, and 2026–28 is given in ANNEX VII. Under the pessimistic scenario, transition is severely delayed, and most of the delays are from the Nepalese side, despite continuous efforts from the MFA. There are severe delays with geopolitical instability, the usual administrative complexities, natural disasters, and bureaucratic unwillingness towards transition. Finland continues its usual projects under the same thematic focuses, while making efforts to diversify its partnerships and programmes. Support to increase the GNI threshold is continuous, and ODA remains unchanged. Nepal's attention towards the graduation strategy remains gradual and uninterested, while Finland's support for SDGs, Agenda 2030, and graduation continues. Table 6 summarises the priorities, enablers, mission, outcome, and example activities in each phase towards transition support in each thematic area: WASH, education, and cross-cutting themes). Figure 14 presents an example toolkit for areas where the MFA could lead, collaborate, and support under the pessimistic scenario).

**Table 6.** Pessimistic Scenario 2022–2030 and beyond (example).

	<b>Phase I (2022–2024)</b>	<b>Phase II (2024–2026)</b>	<b>Phase III (2026–2028)</b>	<b>Phase IV (2028–2030 and beyond)</b>
<b>PHASES &amp; PRIORITIES</b>	Collaboration and scoping of capacity needs	Benchmark and strengthen partnerships	Collaborate and amplify	Instruments and best practices
<b>ENABLERS</b>	GoN leads, MFA collaborates, other stakeholders supports	MFA collaborates with GoN, and other stakeholders supports	GoN leads, MFA collaborates, regional networks, private sectors and multi/bilateral agencies support	GoN leads, MFA collaborates and supports, and other key stakeholders support
<b>MISSION</b>	Scoping new interventions	Diversify partnerships and programmes	Increase productive services	Facilitate graduation
<b>OUTCOME</b>	MFA continues to implement regular programmes with reduced resources while seeking transition-relevant partnerships	Some new partnerships and programmes formed in existing programmes, trade and sectors involving private actors	Productive services increased, joint investment opportunities established	Support in GNI increment provided, graduation support provided
<b>TOWARDS TRANSITION SUPPORT (an example in each thematic area)</b>	WASH: Continue current WASH programmes Education: Continue with ESP and SSRP programmes Cross-cutting: Collaborate with other intergovernmental organisations and local companies for capacity building, to enable investments in local climate adaptation and resilience-building	WASH: Invite and facilitate private sector investment in existing WASH projects Education: Continue with ESP and SSRP programmes Cross-cutting: Mobilise skilled Nepalese diaspora to capacitate the marginalised	WASH: Pilot affordable WASH technologies in existing project areas Education: Pilot sector-wise VET Cross-cutting: Collaborate with NRNA and Hate Malo network to pilot work-based immigration of women in health care to Finland	WASH: Extend best practices and replicate projects from existing project areas/ provinces to other provinces Education: Scholarship programmes for Nepalese students with a mandatory few years in service back in Nepal after graduation Cross-cutting: Early warning systems for climate change-related hazards in collaboration with relevant Finnish stakeholders.

**Figure 14.** MFA toolkit for transition (pessimistic scenario).



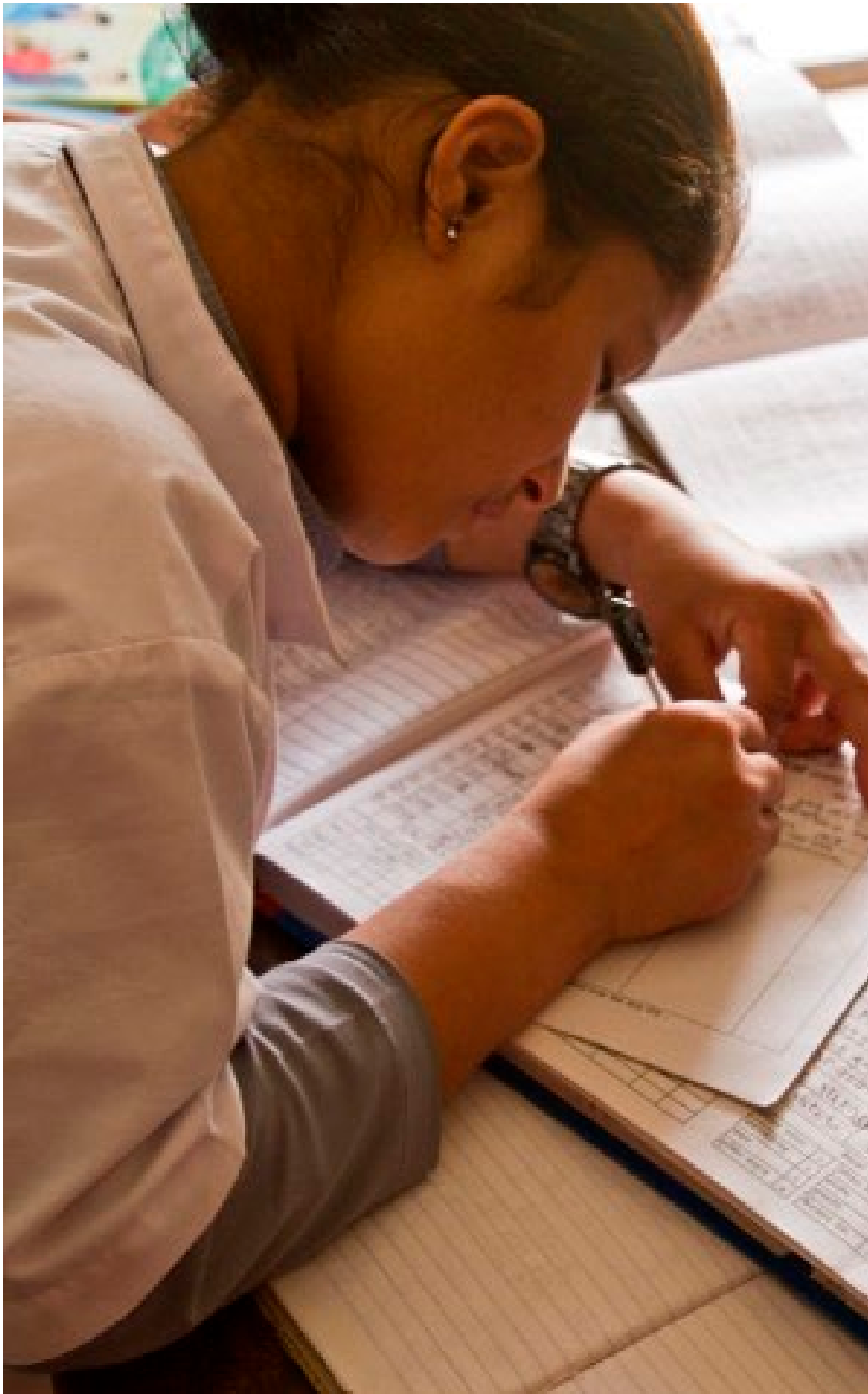
In summary, Table 7 depicts the mission and priorities in which the MFA leads, collaborates, and supports during each phase, as well as the respective expected outcomes. Table 8 follows on, providing a potential activity in terms of examples in each thematic area (WASH, education, and cross-cutting issues). The toolkit in Figure 14 shows the programmatic example where the MFA leads (new trade and innovative finance mechanisms under key themes), collaborates (regional, multilateral, and bilateral collaboration) and supports (policy and enabling trade environment) under the pessimistic scenario.

## 6 Conclusion

Finland has been one of the major development cooperation partners of Nepal, providing support in many key areas such as education, WASH, gender, forestry, and climate change, through direct bilateral as well as multilateral mediums. It is also a major trade partner of Nepal in the Nordic countries, but the numbers continue to be modest. Finnish investment in Nepal, the number of Finnish tourists in Nepal, and the number of Nepalese students in Finland have been increasing, despite COVID-19, showing a very close connection between the two countries.

In the wake of LDC graduation, Nepal will lose some of the existing preferential trade schemes with the EU and, despite the low volumes, trade with the EU would be affected. However, Nepal can still apply for the EU's GSP+ scheme, and Finland, along with the EU and its member states, could support Nepal in developing Nepal's capacity, with structural changes that are required to ratify and implement conventions to be eligible for GSP+. It has been discovered that Finland is one of the first bilateral partners in Nepal to have been actively planning for the transition from a traditional development partnership to new forms of partnership. As such, Finland can support and lead, together with other developmental partners and local key stakeholders in Nepal, in transition thinking, planning, and execution, especially in Finland's thematically relevant sectors in Nepal. A key recommendation for such transition planning would be to focus not only on central planning and provisions, but also to seek federal and local implications, which means harnessing the extensive good work, networks, and partnerships of Finnish CSOs, including Finnish expatriates in Nepal and the Nepalese diaspora in Finland, to engage in productive income generation initiatives, prioritising the active participation and leadership of women and marginalised communities wherever feasible, to enable trade relations.

Education (higher education, capacity building, and TVET), trade, gender, human rights, and climate change are the major sectoral and cross-cutting issues that Nepal and Finland can work on together in the future. In addition, the promotion of agroforestry and sustainable forestry, biodiversity conservation and protection, and the use of ecosystem services are specific areas Finland can support based on Finnish experience, expertise, and previous success stories in Nepal and elsewhere.



Jamien Bound, UM. 2016

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## ANNEX I. List of background organizations of interview respondents

### Finland

S.N	Institution
1	Arbonaut Oy
2	Arbonaut Oy/ Non Nepali Resident Association in Finland
3	Felm
4	Fida International
5	Finn Church Aid
6	Finnish Consulting Group (FCG)
7	Finnish Meteorological Institute (FMI)
8	Finnish National Agency for Education (EDUFI)
9	Finnpartnership
10	ASA-40, MFA Finland
11	KEO-20, MFA Finland
12	KEO-30, MFA Finland
13	Non-Nepali Resident Association in Finland
14	KEO-10, MFA Finland
15	WWF Finland

Total number of respondents: 18

## Nepal

S.N	Institution
1	Coffee Association of Nepal
2	Embassy of Finland
3	Federation of Nepalese Chambers of Commerce & Industry (FNCCI)
4	Handicraft Association of Nepal
5	Handicraft Association of Nepal
6	Institute of Foreign Affairs (IIFA)
7	National Planning Commission
8	Nepal Open University
9	Social Welfare Council
10	South Asia Watch on Trade, Economics and Environment (SAWTEE)
11	WWF Nepal
12	GIZ, Nepal
13	German Embassy
14	European Union Delegation to Nepal
15	UN-Nepal
16	UN Resident Coordinator Office
17	UNDP, Nepal
18	Embassy of Finland

Total number of respondents: 23

## ANNEX II. Overall findings, conclusions and recommendations related to general transition planning and strategy

Findings	Conclusions	Recommendations
<p><b>F1.</b> There is no one central definition, approach or strategy and thus there seems to be a lack of proper understanding of ‘transition’ at MFA at center and across different units, neither in generic LDC countries case nor in Nepal case. Even if there are any definitions, approaches and/or strategies in place, these are not well communicated within MFA and to other key Finnish stakeholders.</p>	<p><b>C1.</b> There is a need for core transition definitions, approaches and/or strategies internally at MFA, in generic LDC country cases and, proper communication of the same among key Finnish stakeholders active in LDC countries contexts.</p>	<p><b>R1.</b> Form a base of transition policies in terms of definitions, approaches and/or strategies aiming at generic LDC countries’ contexts and criteria, also preparing for future graduations; including but not limited to definitions, criteria, targets, risks of main phases namely: scaling down, phasing out and exiting. (Ministry for Foreign Affairs of Finland, 2021)</p> <p><b>R2.</b> Involve, engage, and communicate well with key Finnish stakeholders in important phases of transition defining and policy formulation processes.</p>
<p><b>F2.</b> In Nepal, attitude to transition strategy in general is that of relaxed, slow, non-priority and non-existent, if not casual or even conflicting, when existing, among various governmental, private and public stakeholders. (The Kathmandu Post, 2020), (Ekantipur, 2021)</p>	<p><b>C2.</b> It gives enough time and opportunity for MFA to engage with key stakeholders both in Finland and Nepal to prepare a comprehensive transition strategy for Nepal.</p>	<p><b>R3.</b> Based on internal overall transition policy (R1), form and agree on Finland-Nepal transition strategy including phasing out plan (if any), basis for continued partnership/modalities/instruments on key thematic areas (also considering emerging ones), all defined and agreed upon by both Finland and Nepal along the process. Focus also on shifting aids and funds from overall budget support to specific (smaller) programmes, wherever possible. (Austria-Bhutan, 2020)</p> <p><b>R4.</b> Make a longer (for 5–10 years, even after graduation) transition plan that allows for slower changes, with timelines (preferably annual) and milestones with frameworks for partnering with key sectors and partners, highlighting indicative financial implications. (Austria-Bhutan, 2020), (Ministry for Foreign Affairs of Finland, 2001), (Ministry of Foreign Affairs of Denmark, 2017)</p> <p><b>R5.</b> Include exit (disengagement) plans and strategies, also allocating enough resources for exit or handover activities for any new programme and/or partnership. In addition, actively recommend scoping out exit plans and strategies even for current programmes and partnerships under MFA funded programmes and active Finnish stakeholders in the country. (Ministry of Foreign Affairs of Denmark, 2017)</p>

## Findings

**F3.** Finland's transition thinking with regards to Nepal is 'pioneering' in Nepal as compared to Nepal's own preparations and readiness (F2), and other countries with bilateral relations with Nepal.

**F4.** Firstly, given lack of proper transition thinking currently in Nepal (F2) and secondly given smaller donor's portfolio and influence (power) as compared to other big donor countries (India, China, USA, UK etc.) and institutions (World Bank, United Nations, Asian Development Bank etc.) in Nepal; Finland's transition thinking and initiative among Nepalese central (governmental) stakeholders are perceived as not serious, non-priority and thus non-consequential. However, the same (Finland's transition thinking), among many private and public entities both in Nepal and Finland is also being perceived as the first (breaking) news about Nepal's transition; thus, eye-opening, timely and relevant.

**F5.** Historically, transition firstly and foremost results in reduction of resources (both financial and human) at MFA/Embassy and alternatively among key Finnish stakeholders active in the country through MFA's direct/indirect connections, also for fostering trade-based relations. (Ministry for Foreign Affairs of Finland, 2021)

**F6.** Transition continues for several years, even after the country is graduated. Thus, MFA funded/involved activities directly and indirectly will continue to be impacted by transition even if scaling down or phasing out or exit is completed. (Ministry for Foreign Affairs of Finland, 2001)

## Conclusions

**C3.** Finland is in the position to significantly contribute, if not lead, and direct the transition thinking/planning together with the donor community, in particular, partnering with bigger players in Nepal on relevant commonalities. This might as well, create a positive country image and perception especially among key public and private entities in Nepal, also ultimately benefiting Finnish stakeholders working in Nepal currently and in future.

**C4.** Available resources (both human and financial) at MFA and Finnish stakeholders are key for the entire transition period and beyond.

## Recommendations

**R6.** To harness the collective approach, co-ordinate and consult among other country programmes who are like-minded (in approach or thematic areas), proactive, influential and/or in a similar situation like Finland (for e.g., EU and member states in trade negotiations). This will also contribute to a more smooth and balanced approach and perception with regards to communication and the impact of scaling down, phasing out and/or exiting. Thus, ultimately leading to a well-planned transition and/or exit. (OECD, 2018)

**R7.** In the transition plan, R3, also includes MFA's/Embassy's own resources allocation, knowledge retention, knowledge transfer strategy/mechanisms etc. This should also encompass details on how to make best use of Finland's multilateral and bilateral partners, also including Finnish stakeholders, mainly CSOs and their local partners and networks.

**R8.** Look also for modes to blend MFA's own resources with alternate private and public sectors including institutions such as local banks, agencies etc., (both in Nepal and Finland) through technical assistance, procurement, instruments, services and so on. (OECD, 2018)

**R9.** Plan for high degree of flexibility in own resource optimization and mobilization, also in line with R6, including but not limited to seeking new partners, sectors and/or mechanisms; for e.g., regional programmes and initiatives (such as ICIMOD, SAARC etc.), cooperation with the diaspora community, flexible local funds regulated by the embassy for Finnish and Nepalese CSOs and so on.

## Findings

**F7.** Pertaining to F2, several institutions and structures especially in federal, municipal, and local sectors lack capacity and skills on matters concerning firstly on Nepal transition and its implications at local level and secondly on basic project management, including cross cutting issues such as Human Rights Based Approach (HRBA) and gender implications etc.

**F8.** Communication and dissemination of Finland's developmental footprint, including results and practices, in Nepal is limited and modest, as compared to the actual impact that Finland has been able to contribute to in Nepal.

## Conclusions

**C5.** There is a need in Nepal to build and improve the capacity of institutions, skills of stakeholders, including local knowledge management and transfer in almost all sectors especially in federal, municipal, and local sectors (including community groups, co-operatives, and private enterprises). Some of the general overarching needs are in communication and activities concerning transition, cross cutting issues, sensitive social and political matters, basic project management, anti-corruption practices, post conflict settlements etc. So that, these institutions in future can better understand Finland's Nepal transition policy and effectively cooperate directly or indirectly with Finland and Finnish stakeholders during and beyond transition. (OECD, 2018), (Ministry of Foreign Affairs of Denmark, 2017)

**C6.** Lack of proper and timely communication, dissemination and engagement strategies targeted to key stakeholders both in Nepal and Finland, regarding existing programmes and upcoming transitional plans, might adversely affect future programmes and partnerships, even aspirations of trade-based relations.

## Recommendations

**R10.** Scope out and look for clear needs and expectations from local institutions and structures, on overall capacity to firstly collaborate with Finland (in Finnish funded programmes directly and/or indirectly) and secondly during the transitional phase. If possible, define minimum eligibility criteria such as with preliminary needs assessment plan, sustainability plan, public finance management and domestic resource mobilization plan aligned with Nepal's own national and/or federal overall and transitional plans, wherever applicable. This exercise not only prioritizes where the most attention and resources are needed, even before the programme/partnership starts but also how the initiatives will be locally sustained in the long run. (Austria-Bhutan, 2020), (OECD, 2018), (Norad, 2017)

**R11.** This also calls for sector and/or regional wide approaches and partnerships for effective long-term impact based on internal/local political will, also contributing to an enabling politico-economic environment and social ecosystem for trade in specific sectors and/or regions. (Ministry for Foreign Affairs of Finland, 2021), (OECD, 2018), (Ministry for Foreign Affairs of Finland, 2001)

**R12.** Prioritize the use of ICT especially for (online) knowledge sharing and capacity building of local institutions and personnel for greater and wider reach, also relevant for the post COVID-19 implications. (OECD, 2018)

**R13.** In line with R6, while cooperating with various stakeholders under transition thinking and transition planning, MFA should prepare communication, dissemination and/or engagement strategies for both key Finnish and Nepalese stakeholders; also anticipating impacts of stakeholders' own plans and respecting their views. (Ministry of Foreign Affairs of Denmark, 2017)

**R14.** Focus also on SDGs wise desegregation of actions, partnerships, and ultimately communication and dissemination to effectively contribute to improved quality assessment and developmental footprint. (Ministry for Foreign Affairs of Finland, 2021), (Austria-Bhutan, 2020), (OECD, 2018), (Ministry of Foreign Affairs of Denmark, 2017)

**Findings**

**F9.** Transition thinking and planning is a complex and ever evolving phenomena, as it is mostly contextual and specific.

**Conclusions**

**C7.** The availability of resources, guidance and knowledge depends upon the graduation motivation and readiness of the country in question. In the case of Nepal, currently, it is very limited.

**Recommendations**

**R15.** Make extensive use of updated resources and information on available LDC-specific instruments, programmes and funds, while preparing transition plans and strategies, including but not limited to UN's LDC Portal, the Technology Bank for LDCs; the LDC Fund and other support provided through the LDC work programme and the LDC Expert Group under the United Nations Framework Convention on Climate Change (UNFCCC); the Enhanced Integrated Framework (aid for trade); the United Nations Capital Development Fund (UNCDF); the Investment Support Programme for LDCs and support programmes within the UN secretariat and several agencies, OECD's Transition finance toolkit and so on. (Tavares, 2021)

**R16.** Involve with and seek information locally in Nepal from key governmental and private stakeholders also including locally active transition researchers, economists, scholars and think-tanks.

## ANNEX III. Findings, conclusions, and recommendations related to enabling trade environment

### Findings

**F10.** The impact of graduation on Nepalese export to Finland might be modest due to the low volume of trade between these two countries. Nevertheless, upon graduation, Nepalese exports to the EU including Finland must pay a high tariff (around 8.1 %) and Nepalese apparel will face the tough rules of origin requirement.

**F11.** Nepalese products might lose their competitive advantage in apparel and carpets but Nepal can maintain the preference margin on apparel products, should it secure access to EU's GSP-plus preference (FNCCI, 2021).

**F12.** Nepal's business and trade environment (practicalities, regulations, legislations etc.) is not friendly for international investment and is expected to be troublesome in the early years (2026–28) around LDC graduation, pertaining to loss of preferential trade tariffs and related benefits reserved for LDCs.

**F13.** There ought to be an accepted level of internal productive capacity (or at least minimum requirement in terms of preparation, structures, quality, finances etc. from Nepalese stakeholders) in general MFA or Finnish investors/businesses relevant sectors, products and/or services to take the initiative. (Zada et. al., 2019)

### Conclusions

**C8.** Although the impact is modest, Nepalese exports to Finland will be affected after graduation.

**C9.** There is still provision such as, access to GSP-plus preference scheme, that Nepal can qualify for.

**C10.** There is an utmost need to first conduct focused market analysis and needs/feasibility assessment (of Finland-Nepal and Nepal-Finland transition trade implication) on viability of Finnish expertise, products and/or services in Nepal and vice versa.

### Recommendations

**R17.** Study the implications for Nepal-Finland-Nepal trade conditions and logistics for prominent and potential products and services

**R18.** Based upon the study, formulate bilateral provisions to facilitate the trade on selected relevant products and services

**R19.** Support Nepal to make necessary provisions for meeting eligibility requirements to access GSP-plus preference upon graduation.

**R20.** Benchmark on previous studies business/trade feasibility studies conducted by other countries, especially from EU (For e.g. The Netherland's study) and with reference to transition and graduation implications on trade. (Ministry of foreign affairs The Netherlands, 2018)

**R21.** Further steps to bolster trade relations should only be continued if only the threshold of relevance and/or accepted internal productive capacity is passed on priority sectors, products and/or services, and also including potential of new markets, if any identified. Look also for sufficient institutional and legal will from Nepal for reformation of approaches and policies for investment; also including accountability and transparency, especially on budget allocation and public administration. (Zada et. al., 2019)

**Findings**

**F14.** Most of the trade export from Nepal to the EU including Finland occurs traditionally through air cargo for physical products. Therefore, with high tariff after graduation, Nepalese export can be still competitive if it can reduce the freight costs by modernizing trade logistics, especially using data and analytics (innovative packaging, bulking, export volumes, frequency etc.) or potentially moving away from trade export to digital service export.

**F15.** Even though the impact of graduation in trade is modest, it will be felt majorly by the SMEs, especially in textile and clothing industry and more specifically by women who are involved in weaving, sewing, and packaging jobs in the export industries or sowing, plucking, and collecting in the field. (FNCCI, 2021)

**F16.** Nepal's productive capacity is very low. Developing productive capacities and advancing economic transformation are keys to achieving sustained economic growth, reducing pervasive poverty and vulnerability, and taking the path to sustainable graduation and higher human devotement (NPC, 2020)

**F17.** Finland, in 2009, had successfully signed the Bilateral Investment Promotion and Protection Agreement (BIPPA), valid for 10 years with Nepal and became a selected few countries to do so with Nepal. However, not much information is found with regards to its practical exploitation and implication during the validity period. Most of the key stakeholders both in Finland and Nepal were found unaware or simply dismissed/ignored it when mentioned. (UNCTAD, 2021), (Bista, 2011)

**Conclusions**

**C11.** There are still opportunities for Nepalese products and services exports after graduation.

**C12.** The impact of graduation might be higher for the SMEs disproportionately affecting women in certain sectors.

**C13.** Low productive capacity might hinder sustainable graduation.

**C14.** The previous BIPPA forms a well-founded reason/ basis of entering, renewing and fostering trade-based relations with Nepal, i.e., renewal of improved BIPPA or similar, in line with graduation.

**Recommendations**

**R22.** Build local capacity in digitization and innovative mechanisms for facilitating trade logistics; including promotion of digital services export.

**R23.** Make provisions and invest in opportunities, especially for women, in supporting their livelihood via local entrepreneurship or engagement in alternative sectors.

**R24.** Involve in programming with Finnish and other CSOs, local private entities and financial institutions to make viable access to local and regional markets.

**R.25.** Support in developing Nepal's productive capacity particularly entrepreneurial capacities, transferring technologies and mobilizing local resources.

**R26.** Conduct a thorough analysis of previous BIPPA and its implications; including but not limited to promoting success stories (if any) made possible through the instrument, lessons learnt and/ or recommendations.

**R27.** Communicate the analyses/results to key stakeholders both in Finland and Nepal, and engage them in the preparation of new BIPPA or similar, particularly aimed towards graduation implications



## Findings

**F18.** The information on practicalities, availability of resources, legal requirements and so on regarding promotion and/or facilitation of doing businesses at both ends; from Finland to Nepal and vice versa, are scattered and difficult to unearth, especially at Nepal's end.

**F19.** Much of the info and practicalities are, especially while doing any business (profit or non-profit) alike from Finland into Nepal, are sought out mostly through private and local networks of Finnish individuals and/or CSOs having some ties with Nepal, and in some cases through the embassy itself.

**F20.** Potential Finnish stakeholders find it difficult to first find and second trust/partner up with Nepalese counterparts on legalities and practicalities, without any previous Finnish and/or international connection/reference/recommendation.

## Conclusions

**C15.** There is a high gap in knowledge among potential beneficiaries and existing key stakeholders, regarding general practicalities, availability of resources and legal requirements at both ends, i.e., while doing business from Finland to Nepal and Nepal to Finland.

**C16.** Local networks and experiences of Finnish individuals, CSOs, businesses and/or embassy (in general) are crucial resources for any new potential Finnish investor/business/collaborator/agency looking into Nepal.

## Recommendations

**R28.** Involve with key Finnish stakeholders such as Finnpartnership, Team Finland, Finnvera etc., to curate and create a practical and updated information bank/package or similar including general practicalities (step wise processes), availability of resources, legal requirements (in Nepal) etc. targeted for potential Finnish stakeholders with graduation implications. This should be done in active local collaboration with Finnish CSOs and their existing networks and key Nepalese counterparts and competent agencies such as Nepal Trade promotion center, Ministry of Finance, Nepal Investment Board, FNCCI, Federation of Handicraft Associations of Nepal -FHAN etc. The information bank/package could also include a voluntary list of trusted local partners (experts) for legalities and practicalities, including experts from Nepalese diaspora currently living and working in Finland.

## Findings

**F21.** Nepal has limited market potential and capacity in terms of a diverse range of products and services, including limited volume for import and export. Key productive sectors, mainly for export and foreign trade, are limited to tourism and hospitality, tea and coffee, carpets and local fabric (garment) and handicraft.

**F22.** Although Nepal exports niche products such as handicraft, garments, there are no formal training institutions in Nepal to train manpower who produce goods that Nepal currently exports.

**F23.** Nepal is mostly reliant on its long-term trade relations with its neighbors India where Nepal's trade is almost 70%. Given continuing bilateral agreements, especially with India and being in the preferential SAFTA region, Nepal will have relatively low effect of graduation in its trade, particularly imports into the country from the region India (including China).

**F24.** Finnish technology-based products and services are relatively costlier (as compared to equivalent provided from India and China) and also have frequent troubles and difficulties in tendering, procurement and maintenance (upkeep).

## Conclusions

**C17.** Though traditional economic sectors have limited scope of business, in the wake of COVID-19 and much needed climate change implications, including natural hazards in the country, there are emerging need for product and services, together with capacity building in other sectors such as digital education, data management and analytics, digital health, climate, forestry and air monitoring and management, WASH products, general cleantech solutions, energy efficient products and so on where Finnish expertise and added value might be much appreciated and welcomed.

**C18.** Nepal lacks resources and systematic provisions for providing training and capacity building in productive sectors.

**C19.** There will be minimum internal will from Nepal (both governmental and private stakeholders) to go beyond their regular trade relations with India and China; unless key Finnish expertise niche subsector(s) and related products and services, with a definitive competitive edge, are predefined and discovered.

## Recommendations

**R29.** To aid diversification of internal productive sectors and also to meet need in emerging sectors, try to form partnerships and create an enabling environment for trade in new thematic areas and sectors, which matches with MFA's previous work and /or Finnish expertise and added value. (Zada et. al., 2019)

**R30.** Collaborate with existing Finnish NGOs, private organizations, their extended network in Nepal, FNCCI, Nepal Investment Board and existing large-scale exporters (in Nepal) and similarly Finnpartnership, experts and networks of Nepali diaspora, private enterprises, and investors currently or in future active in Nepal and/or region (in Finland) for scoping out new business opportunities between Nepal-Finland.

**R31.** Various training and capacity building programmes, especially for honing skills of potential manpower to support local productive sectors can be provided via targeted VET, skills recognition and brush up programmes for youths, women and migrant workers.

**R32.** Based on MFA's past and current work in key thematic areas and through Finnish CSO's and their local networks, map out needs and requirements where Finnish expertise could be needed. These needs may be more evident in federal, regional, municipal, and local levels as compared to the center.

**R33.** Thematically focused and dedicated programmes, instruments and/or mechanisms should be made available to potential providers in Finland thereby meeting specific needs in Nepal.

## Findings

**F25.** Finnish stakeholders' including CSOs', investors', companies' etc., work and success stories in Nepal are not readily visible, communicated enough and/or showcased properly in Finland.

**F26.** People from Nepalese diaspora in Finland, especially those who have completed higher education in Finland, are one of the key potent and willing enablers of new relations including trade, businesses, partnerships and/or programmes between Finland and Nepal.

**F27.** Key stakeholders and enablers at both ends are not well aware of all the support, funds and resources available to them for partnerships and trade. Those who are aware seek for rather more flexible and smaller local grants.

## Conclusions

**C20.** There is a lack of information and thus communication among potential stakeholders on previous results, success stories, lessons learnt, recommendations etc., related to business and trade in Nepal.

**C21.** Finnish providers, investors, and companies; relevant also in MFA's thematic areas/work in Nepal, are looking for more natural pathways to be interested and involved.

**C22.** There ought to be more practical and enabling activities and programmes, fostering regular and active engagement linking potential and interested people from Nepalese diaspora to the active and interested Finnish programmes and enablers in Nepal.

**C23.** Access to flexible funds and support (both in Finland and Nepal) available for practical partnership activities, also linking to other bigger projects, continuation programmes and partnerships, similar to provided by Finnpartnership are firstly not well communicated, and secondly need more of.

## Recommendations

**R34.** Have a proper communication and dissemination plan with dedicated activities programmes for a sustained period both in Finland and Nepal, showcasing previous results, success stories, lessons learnt, recommendations etc., related to business and trade in Nepal.

**R35.** Make provisions for Finnish providers, investors and/or companies (with specific Finnish expertise that matches the local need); to be included/involved within the new programmes/funding structure or handover of existing programme/partnerships in Nepal. (Ministry for Foreign Affairs Finland, 20o1)

**R36.** Create new programmes, projects and/or activities for communication, engagement and/or knowledge sharing to and from interested experts from Nepali diaspora together with Finnpartnership and Team Finland. The aim here is to provide ample resources and information, including pathways to Nepalese diaspora for active engagement in current and future Finnish programmes in Nepal. On the flipside, to get sufficient information and expertise on local capabilities and conditions for Finnish enablers to be used for effective project design/ execution phases and related resource allocation.

**R37.** More flexible, smaller and ranges of funds and support mechanisms, executed and managed by local MFA entities (such as the embassy in Nepal), even across cross cutting themes, including soft loans, grants, co-financing etc., should be provided to potential and interested enablers at both ends in Finland and Nepal for feasibility and scoping and potentially linking to larger funds, programmes and/or partnerships. (OECD, 2018) (Ministry of Foreign Affairs of Denmark, 2017)

## ANNEX IV. Summary of IPOA's human rights and gender references, required to be fulfilled by LDCs (UNHCR, 2021)

- promote and respect all internationally recognised human rights, including the right to development;
- strengthen good governance, the rule of law, human rights, gender equality and empowerment of women, and democratic participation, including by enhancing the role of parliaments;
- take steps to realise the right of everyone to the enjoyment of the highest attainable standard of physical and mental health, including sexual and reproductive health;
- achieve equal access of women and girls to education, basic services, health care, economic opportunities;
- accelerate efforts to promote women's rights and gender equality, including women with disabilities;
- establish and continue implementing national development plans to take account of the needs of women and girls;
- provide women and girls with full access to education and training, basic services, health care and economic opportunities, including ownership and control over land and other forms of property, inheritance, financial services and social protection;
- strengthen support to maternal health and increase access to family planning resources for women, men and young people;
- take resolute action against violence, abuse and discrimination to ensure that women and girls have the full enjoyment of all human rights and can attain the highest living standards possible and equal participation in the economic, social and political life of their communities;
- strengthen the role of relevant national mechanisms and scale up resources for gender equality and empowerment of women;
- promote effective representation and participation of women in all spheres of decision-making, including the political process at all levels.

## ANNEX V. Comparative Findings and recommendations related to overcoming general challenges of LDC graduation in Nepal

	Findings	Recommendations
External Transition Collaboration	<p>“Differences in perspectives and approaches make it challenging to coordinate among country programmes” (<i>Zambia</i>) (OECD, 2018)</p> <p>“Exit is early and other providers do not focus typically on social sectors. Thus, there will be a gap to be filled” (<i>Zambia</i>) (OECD, 2018)</p>	<p>It is essential to find selected and trusted few developmental partners, with good past and existing relationships with and knowledgeable of, MFA’s work in Nepal especially on social and cross cutting sectors, with respect to coordinated continuous programmes in selected sectors throughout the transition period.</p> <p>Pay special focus to transitional aspirations and aid modalities of bigger providers in Nepal such as with UK, USA and especially India and China who do not typically focus on social and crosscutting issues. Tap into existing programmes of these players with complementary programmes focusing on social and crosscutting issues, if MFA’s relevance, transitional objectives, and mutual understanding with other partners in specific sectors are met.</p>
Internal Transition Collaboration	<p>“Internal political will for new instruments and modalities are vital” (Aid Effectiveness Agenda) (<i>Zambia</i>) (OECD, 2018)</p> <p>“Local Governmental interest and focus volatile; checks, clear terms and conditions, and alternative measures needed” (<i>Denmark in Nepal</i>) (Ministry of Foreign Affairs of Denmark, 2017)</p> <p>“Symbiosis between Country programme and Country’s own programme” (<i>Denmark in Nepal</i>) (Ministry of Foreign Affairs of Denmark, 2017)</p>	<p>Proper, engaged, transparent, early, and continuous communication with key stakeholders in Nepal not only at top level, (decision level) in center but also at bottom level (execution level) in local, with respect to understanding, seeking, and prioritizing their own needs and matching that with MFA’s future transitional plans and aspirations is essential so that there is proper match and complementation of Nepal own needs and MFA’s aims and motivations. Pay special attention to crucial areas for transition in Nepal such as climate change resilience, green jobs, and domestic resource mobilization.</p>

	Findings	Recommendations
Results, monitoring and programming	<p>“Immediate outputs are visible, but tracking results on outcomes such as service delivery and broader development objectives are difficult” <i>(Zambia)</i> (OECD, 2018)</p> <p>“Rigorous evaluation criteria (assessment of impact with respect to developmental/transitional objectives and internal monitoring criteria” <i>(Finland in Zambia)</i> (Ministry for Foreign Affairs of Finland, 2001)</p> <p>Insufficient approaches to monitoring/reporting the mainstreaming of cross-cutting factors and unintended consequences. All results matter, including intangible goals. <i>(Norway in Nepal)</i> (Norad, 2018)</p>	<p>On results tracking, monitoring and communication; it is important to make much more flexible/wider/broader quality guidelines and mechanisms; if possible, in current programmes/projects but definitely in new programmes/projects; with special attention to aid MFA’s own transition aspirations in Nepal, to bolster aid efficiency and developmental footprint. Special consideration should be given to highlighting aid efficiency in sector wise approaches (such as specific SGDs) and or Nepal’s own developmental objectives in the given sector.</p>

## Findings

“Aid inefficiency; allocation in already funded area including high administrative and operational costs” (*Finland in Zambia*) (Ministry for Foreign Affairs of Finland, 2001)

“Complex project design and limited implementation capacities are hindrances. Handover to local government led programmes as a possible exit strategy but requires more resources” (*Norway in Nepal*) (Norad, 2018)

“Donorship vs Partnership: Donor dimension will be heavy” (*Norway in Nepal*) (Norad, 2018)

“Benchmarking on cost structures (from other providers) on similar cases/projects especially with CSOs and administrative costs” (*Finland in Zambia*) (Ministry for Foreign Affairs of Finland, 2001)

“Sustainability of Finnish funded projects (ability of local partners/government to sustain)” (*Finland in Zambia*) (Ministry for Foreign Affairs of Finland, 2001)

“React early (shocks and disruptions-unsustainable local economic policies)” (*Finland in Zambia*) (Ministry for Foreign Affairs of Finland, 2001)

“Use ICT for greater reach” (*Zambia*) (OECD, 2018)

“Transfer of soft skills” (*Zambia*) (OECD, 2018)

## Recommendations

New programmes and projects should give enough attention in terms of resources planning to administrative and operational costs at both ends in Nepal and Finland, during the transition period. Capacity building, skills recognition, and validation, also with respect to use of digital tools and means (ICT skills) especially in federal/regional and local sectors are absolutely key in any sector.

Focus also should be given to create structures and activities that inspire and foster active participation, ownership, and sustenance of the initiative from Nepalese stakeholders, highlighting importance of/on Finnish soft values and crosscutting issues wherever relevant.

Enough communication and understanding of terms and conditions, risks, liabilities, and responsibilities in case of fallouts, conflicts, emergencies and/pr force majeure conditions such as in matters of corruption, poor execution and evaluation, COVID like hazards, geopolitical instability, natural hazards, lack of graduation aspirations etc., should be well planned and co-developed during the programme inception phase.

	Findings	Recommendations
Enabling local productive capacity	<p>“Large size of informal sector is constraint on domestic resource mobilization” (<i>Zambia</i>) (OECD, 2018)</p> <p>“FDI could be concentrated in only a sub sector/ sector (Mining)” (<i>Zambia</i>) (OECD, 2018)</p> <p>“Debt management” (<i>Zambia</i>) (OECD, 2018)</p> <p>“Cost effectiveness of transferred technology” (<i>Finland in Zambia</i>) (Ministry for Foreign Affairs of Finland, 2001)</p>	<p>Key focus should also be given to building capacity of local structures in formalizing and/or digitizing them, especially in areas relevant to resource mobilization and productive income generation.</p> <p>Collaborate and seek information with local, regional and developmental banks; regional trade networks (SAFTA), similar trade situation countries (Nepal-EU), international networks and trade associations etc., to find aid, trade and debt relevant implications for Nepal’s graduation. Based on this, aid and debt allocation in MFA funded projects, relevant for Nepalese stakeholders and local partners, could be effectively embedded and integrated into the project design and implementation.</p> <p>In Nepal too, it is highly likely that funds and aids, also from other developmental actors, could be concentrated in selected (sub)sectors, leaving other sectors and areas vulnerable and adversely affecting aspirations of equitable development. Focus on alternatives modes, and areas of interest (such as in capacity building, knowledge management, federal, regional and local structures, productive income generation, resource mobilization, formalization and digitization and so on) within specific sectors if consistent also with MFA’s priority areas.</p> <p>Due to documented difficulties of procuring and maintaining of Finnish technology and having higher prices as compared to Indian and Chinese technology products; it is advisable to focus less on core technology (transfer) based projects and programmes.</p>



## ANNEX VI. Optimistic Scenario based framework

Year	Input	Output	Outcome	Enablers	Risks	Mitigation
2022–24	Involve, engage and communicate well with key Finnish stakeholders in defining important phases of transition and policy formulation processes	Key stakeholders communicated, involved and well informed	<ul style="list-style-type: none"> <li>• Good collaboration established, Stakeholders open for new collaborations</li> <li>• MFA's overall transition strategy developed</li> </ul>	Various units in MFA and experts involved in previous transition and graduation strategies (e.g., Zambia, Vietnam)	Since LDC graduation is country's context specific, this might be deemed unnecessary and solid consensus might not be formed	Benchmark on other successful country cases in LDC graduation and transition planning, scaling down and/or phasing out and proceed accordingly to form informed consensus
	Scope out and look for clear needs and expectations from local institutions and structures, on overall capacity to firstly collaborate with Finland (in Finnish funded programmes directly and/or indirectly) and secondly during the transitional phase	Scoping and need assessment carried out	<ul style="list-style-type: none"> <li>• Capacity assessment/ capacity self-assessment completed</li> <li>• Areas of interventions identified,</li> <li>• Stakeholders capacitated</li> </ul>	Finnish NGOs and Companies in Nepal, Ministry of Foreign Affairs and Institute for Foreign Affairs, Nepal Investment Board, I/NGOs in Nepal, FNCCI	The local bodies might be hesitant to resemble real capacity gaps and might fabricate the capacity self-assessment	Maintain anonymity of the respondent-institution, communicate, and encourage to depict gaps (where applicable) to facilitate in bridging the capacity and resources gap for the transition process

Year	Input	Output	Outcome	Enablers	Risks	Mitigation
2024–26	Form a transition strategy for Nepal based on overall transition Strategy including trade and business scoping and alternative instruments/ mechanisms in key Finnish sectors	Finland's Transition policy for Nepal developed	<ul style="list-style-type: none"> <li>Well managed support in graduation of Nepal achieved</li> </ul>	Embassy of Finland, Nepal, MFA Nepal, National Planning Commission	Nepal not well prepared and ready	Find likeminded developmental partners in Nepal and continuously lobby for the transition strategy adoption across Finnish funded/ relevant sectors and themes
	Establish knowledge bank, explore the areas of diversification of thematic focus within Finnish expertise niche, products and services and prepare ground to pilot new projects	<ul style="list-style-type: none"> <li>Information point/ Knowledge database created/ established</li> <li>Environment to trade the competitive products and services established</li> </ul>	<ul style="list-style-type: none"> <li>Projects and thematic areas diversified</li> <li>Old partnerships strengthened and new partnerships established</li> <li>Institutional memory preserved</li> </ul>	GoN, Various Units of MFA, Finnpartnership, Nepal Investment Board, FNCCI, Finnfund, Finnvera, Team Finland, EDUFI, SYKE, FMI, LUKE, FCG, Arbonaut, ADB, World Bank	<ul style="list-style-type: none"> <li>MFA not interested to diversify thematic areas</li> <li>Private sectors not interested to partner</li> <li>Products/services/ technologies costlier than the market value</li> </ul>	Facilitate and create enabling environment for the stakeholders willing to invest/ intervene in areas beyond MFA's thematic focus
2026–28	Create new trade and business partnership environment and support in Nepal's target for Agenda 2030 aligned with MFA's priority areas in Nepal	<ul style="list-style-type: none"> <li>Pilot projects/mechanisms (e.g., ICI Instrument for Climate change, green jobs, and education) are successfully completed</li> <li>Key Finnish services/ products and new markets identified and validated for long term trade in Nepal</li> <li>Local partners identified</li> </ul>	<ul style="list-style-type: none"> <li>Long-term business partnerships/ mechanisms established</li> <li>Nepal's target with GRID approach and the Agenda 2030 supported</li> </ul>	Finnpartnership, Nepal Investment Board, FNCCI, Finnfund, Finnvera, Team Finland, EDUFI, SYKE, FMI, LUKE, GTK, ADB, World Bank	<ul style="list-style-type: none"> <li>Less interested and unmotivated partners in Nepal</li> <li>Over ambitious and less realistic products in terms of budget and services</li> </ul>	Regularly involve, communicate with the key stakeholders/ practically engaging enablers on both sides from the beginning so that they remain well informed about the new prospects and opportunities
		Bilateral Investment Promotion and protection Agreement (BIPPA) updated for graduation and transition signed	<ul style="list-style-type: none"> <li>Long-term business partnerships/ mechanisms established</li> </ul>	GoN, MFA, Finnpartnership, Nepal Investment Board, FNCCI, Finnfund, Finnvera, Team Finland, EDUFI, SYKE, FMI, LUKE, ADB, World Bank	Stakeholders less interested to bring new agreements in the stage close to graduation	Communication on importance of BIPPA or similar agreements for fostering trade-based relations with Nepal during and post-graduation

Year	Input	Output	Outcome	Enablers	Risks	Mitigation
2028–30	Create more long-term sustainable business environment on MFA relevant SDGs and Finnish services/products and new markets	<ul style="list-style-type: none"> <li>• Trade scaled up; resilience increased</li> <li>• Finland leads businesses/ alternative and innovative finance mechanisms in key sectors with respect to graduation achieved</li> </ul>	<ul style="list-style-type: none"> <li>• Transition successfully managed</li> </ul>	Finnpartnership, Nepal Investment Board, FNCCI, Finnfund, Finnvera, Team Finland, EDUFI, SYKI, FMI, LUKE, ADB, World Bank	Conflicts in partnerships, extreme events, geo-political instability	<ul style="list-style-type: none"> <li>• More flexibility and force majeure clauses should be defined</li> <li>• Co-determine risks and liabilities, roles, and responsibilities in case of fallout/hazards for all relevant stakeholders already from the program planning phase</li> </ul>

## ANNEX VII. Pessimistic Scenario based framework

Year	Input	Output	Outcome	Enablers	Risks	Mitigation
2022–24	Engage with key stakeholders both in Finland and Nepal to prepare a comprehensive transition strategy for Nepal.	Key stakeholders on both sides well informed, interests to collaborate increased.	<ul style="list-style-type: none"> <li>• Good collaboration established,</li> <li>• MFA's overall transition strategy developed</li> </ul>	Various units in MFA and experts involved in previous transition and graduation strategies (e.g., Zambia, Vietnam)	Nepal's attitude to transition strategy remain relaxed, slow, non-priority	Continuation of partnerships and work together with donor communities for the transition thinking/planning in Nepal
	Prepare communication, dissemination and/or engagement strategies for both key Finnish and Nepalese stakeholders	Timely proper communication and dissemination done. Extensive use of updated resources and information done	<ul style="list-style-type: none"> <li>• Stakeholders' relationships strengthened, quality assessment and developmental footprint increased.</li> </ul>	Finnish NGOs and Companies in Nepal, Ministry of Foreign Affairs and Institute for Foreign Affairs, Nepal Investment Board, I/NGOs in Nepal, FNCCI	Missing out on influential and interested stakeholders	<ul style="list-style-type: none"> <li>• Consider referring to stakeholders' assessment and continuously update the stakeholders matrix.</li> <li>• Mass media sharing of the impacts from existing and previous success projects e.g: FRA, Hydropower etc.</li> </ul>
2024–26	Benchmark on previous studies business/trade feasibility studies conducted by other countries, especially from EU	Focused market analysis carried out	<ul style="list-style-type: none"> <li>• Feasible market for Finland-Nepal trade scope on products and services identified</li> <li>• Foundations for sustainable business environment created</li> </ul>	Embassy of Finland, Nepal, MFA Nepal, National Planning Commission	Lack of sufficient institutional will from Nepal, Complicated procedures for market extension	Revisit the past policies and agreements like BIPPA for the facilitation and prepare a new one aimed towards graduation implications

Year	Input	Output	Outcome	Enablers	Risks	Mitigation
	<ul style="list-style-type: none"> <li>Prepare a framework to harness Nepalese diaspora, pathways for educational opportunities in Finland (E.g: Health care practitioners, VET)</li> <li>Investors and enterprises specially the SMEs and also to engage private sectors in already existing projects (E.g: WASH , sector)</li> </ul>	Work modality and coordination mechanism created	<ul style="list-style-type: none"> <li>Nepal's Internal productive services increased</li> <li>New partnership opportunities harnessed</li> <li>Private sector's involvement in developmental projects increased</li> </ul>	GoN, Various Units of MFA, Finnpartnership, Nepal Investment Board, FNCCI, Finnfund, Finnvera, Team Finland, EDUFI, SYKE, FMI, LUKE, FCG, Arbonaut, ADB, World Bank	<ul style="list-style-type: none"> <li>Nepal side stakeholders less interested to extend the business as usual.</li> <li>Insufficient efforts and interest to harness the diaspora potential</li> <li>Uninterested private sectors to diversify their investments in developmental projects</li> </ul>	<ul style="list-style-type: none"> <li>Initiate dialogues with private sectors in both Nepal and Finland</li> <li>Scoping and program designs for capacity buildings, service and technology transfer/ exchange</li> <li>Scope out market needs where Finnish expertise are noble and competitive against the existing ones</li> </ul>
2026–28	Collaborate with local and regional trade networks and associations (E.g: SAFTA) to strengthen trade and to increase the productive services to support successful graduation	<ul style="list-style-type: none"> <li>Trade scaled up</li> <li>New partnerships established</li> </ul>	<ul style="list-style-type: none"> <li>Productive capacities increased, sole pressure on remittances decreased</li> <li>Joint investments opportunities established</li> </ul>	GoN, Various Units of MFA, SAFTA, EU Office in Nepal, Finnpartnership, Nepal Investment Board, FNCCI, Finnfund, Finnvera, Team Finland, EDUFI, SYKE, FMI, LUKE, FCG, Arbonaut, ADB, World Bank	<ul style="list-style-type: none"> <li>Regional trade networks might have their limitations to diversify their partners</li> </ul>	Initiate dialogue with other bilateral agencies to approach together, find a common ground, identify and fill the gap where Finland's expertise would outstand (E.g: affordable WASH technologies, joint social sector investments) so that also upon the decrease of regular fundings, the partnership is maintained through exchange of diversified products and services.

Year	Input	Output	Outcome	Enablers	Risks	Mitigation
2028–30	Prepare and intervene to scope out instruments and best practices from other countries with successful graduation in past in addition to the already existing programmes	<ul style="list-style-type: none"> <li>• Successful instruments piloted (E.g: VET sector ) in key thematic areas</li> <li>• Diversification of thematic areas recognised</li> </ul>	<ul style="list-style-type: none"> <li>• Environment for replication of successful instruments established and new doors for potential partnerships for new thematic focus opened</li> </ul>	Finnpartnership, OPH, Nepal Investment Board, FNCCI, Finnfund, Finnvera, Team Finland, EDUFI, SYKI, FMI, LUKE, ADB, World Bank	<ul style="list-style-type: none"> <li>• Complicated and long administrative requirements in Nepal might linger the pilot period</li> <li>• MFA not interested to diversify thematic areas</li> <li>• Might require extra resources (time, money and human)</li> </ul>	<ul style="list-style-type: none"> <li>• Consider creating enabling environment for other Finnish companies willing to provide services and trade in other thematic areas</li> <li>• Start dialogue with Nepal stakeholders way before the intervention time</li> </ul>
	Design programmatic focus to support delayed graduation and unmet Agenda 2030 targets in collaboration with regional and international networks and support	<ul style="list-style-type: none"> <li>• Environment to ODA scale down established</li> <li>• Support to meet GNI threshold provided</li> <li>• Graduation process facilitated</li> </ul>	<ul style="list-style-type: none"> <li>• Substantial support in SDG goals especially in 1,2,4,5, 6 and 8 provided</li> <li>• Innovative finance mechanisms in key sectors with respect to graduation implemented</li> <li>• Nepal's target with GRID approach and agenda 2030 targets supported</li> </ul>	Finnpartnership, Nepal Investment Board, FNCCI, GoN, Finnfund, Finnvera, Team Finland, EDUFI, SYKI, FMI, LUKE, ADB, World Bank	<ul style="list-style-type: none"> <li>• Limited control over country's graduation process as transition is country's interest</li> <li>• Requires more bureaucratic involvement in Nepal side, more administrative costs, more risks of corruptions, delayed administrative processes</li> </ul>	<ul style="list-style-type: none"> <li>• Joint monitoring programmes</li> <li>• Continuation of works in local sectors rather than in the central</li> </ul>



**Publications of  
the Ministry for Foreign  
Affairs of Finland**

**2022:3**

ISSN PDF 2737-0844

ISBN PDF 978-952-281-373-2