



Mid-Western University
Faculty of Humanities and Social Sciences
Masters in International Cooperation and Development

MICD WEBINAR-VIII

**International Development Cooperation in Nepal
Policy and Priorities of the Government**

A Report

Background

Masters in International Cooperation and Development (MICD), the graduate studies programme offered under Mid-Western University (MWU) has been organizing a series of webinars to impart analytical perspectives on development policy and practice in Nepal. The eighth webinar organized on Aug 10, 2020 delved on the policy and priorities of the Government of Nepal (GoN) in mobilizing international financial and technical resources for socio-economic development of Nepal.



The GoN has set several development goals. There are discussions around graduating from a least developed country to a Developing Country by 2022; achieving Sustainable Development Goals and graduating simultaneously to a middle-income country by 2030 and graduating to a high-income country by 2043. For achieving the SDGs alone, the GoN on average needs to spend an estimated amount of Rs.1.111 trillion (11 *Kharba* 11 *Arba*) annually. Despite mobilizing increased domestic resources, the government needs to mobilise international cooperation to meet the estimated deficit of Rs.2.18 trillion (equivalent to US\$1.9 billion) annually¹. The COVID-19 meanwhile is severely affecting the economic growth of the country, which widens this gap even more. This webinar discussed some issues related to policies and priorities for mobilizing international economic cooperation amidst this challenging situation.

The invited speaker of the webinar was Mr. Lal Shanker Ghimire, Economic Development Advisor to the Prime Minister.

¹ National Planning Commission (2020): The 15th Plan, p.36

The Report

Welcoming the invited speaker and participants, Prof. (Hon.) Dr. Dinesh Raj Bhujju, the Academic Head of MICD Programme described the growing threat of the COVID-19 Pandemic on humankind globally, and how it is increasing the vulnerability of the people in resource-poor countries like Nepal. Elaborating on a series of policy dialogues initiated by MICD and other Nepalese experts to review the impact of the pandemic on SDG targets, he posed a question on whether time has come to think about not only revitalizing but perhaps remodelling the international economic cooperation itself, to enable countries like Nepal to overcome the challenges posed by the Pandemic. With this note, he welcomed Mr. Lal Shanker Ghimire, the Economic Development Advisor to the Rt. Honourable Prime Minister.



Mr. Suresh Pradhan, the Academic Advisor and Senior Faculty of MICD introduced Mr. Ghimire to the participants. Mr. Ghimire, who in the previous years, served as the Chief of the International Economic Cooperation Division in the Ministry of Finance, and later as the Secretary of the ministry itself, has an inside-out knowledge on International Economic Cooperation Policy of the GoN and its development priorities. Mr. Pradhan expressed his belief that Mr. Ghimire's knowledge on these issues will help students to understand contents, policies and modalities and priorities of GoN in mobilizing international financial resources for socio-economic development of Nepal.



Mr. Pradhan then set the scene for the webinar with his brief presentation on development goals and targets of Nepal. The 15th Plan of the Government of Nepal has set ambitious targets of achieving equity-based high economic growth of 10.5% in five years compared to 6.8% in 2018-19 (B.S.2075-76); to achieve the national dream of “Prosperous Nepal, Happy Nepali”. To fulfil this promise, the Government of Nepal (GoN) aims to mobilise both domestic resources as well as international development cooperation to achieve the national targets of graduating to the status of Developing Countries by 2022 (B.S.2079); reducing income inequality by achieving Gini Coefficient index of 0.36 to 0.29; reducing income inequality ratio between the top 10% and the bottom 40% of income band from 1.30 to 1.25; increasing GNI per capita to US\$1,595, and increasing HDI to 0.624 by 2080/81 (end of the 15th Plan). Together with achieving the Sustainable Development Goals, it aims to upgrade to the Middle-Income Countries by 2030 (B.S.2087); and to transform Nepal in the long run as a Developed country by achieving an income status of GNI US\$12,100 per capita by 2043 (B.S.2100). Substantial spending is required, but there is a huge deficit in the spending capacity of the GoN as mentioned above, for which mobilizing international assistance is necessary.

The National Dream: Prosperous Nepal, Happy Nepali !



Current situation and future Targets

- Human Development Index (HDI) of 0.579 in 2075-76; target 0.624 by 2080/81 (end of the 15th Plan)
- graduation to the status of Developing Countries by B.S.2079 (2022)
- Economic Growth Rate - 6.8% in 2075-76; target 10.5% by 2080/81
- reduce income inequality by achieving Gini Coefficient index of 0.36 to 0.29; share prosperity by reducing income inequality ratio between the top 10% and the bottom 40% from 1.30 to 1.25; increase achieve increased GNI per capita of US\$1,595
- achieve the Sustainable Development Goals, achieve the status of the Middle Income Countries by B.S.2087 (2030); and
- transform Nepal in the long run as a Developed country by achieving an income status of GNI US\$12,100 per capita by B.S.2100 (2043).

14/08/2020

Suresh Pradhan

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The GoN has endorsed the New International Development Cooperation Policy in May 2019 (Jeth B.S.2076) which aims to mobilise international financial and technical resources including grants, loans, and investments to contribute towards the afore-mentioned national targets. In terms of the modality, the policy has set preference first to the international support coming through the budgetary system; second to the area-based support on national priority and needs, third to the Program-based international assistance and fourth to the support to other projects included in the national plan is given the fourth preference.

The GoN has focused on achieving high economic growth, increasing production and productivity, creating wider employment opportunities and promoting export-oriented production to achieve these targets. Equally, the GoN is conscious on sharing prosperity through the equity-oriented and regionally balanced growth. The Gross Domestic Product (GDP) of Nepal in 2019 was valued at US\$30.64 Billion, which is estimated to contract to nearly \$29 Billion in 2020. The growth rate of Nepal as of December 2019 was 7.1 % (the World Bank 2019), which due to the COVID-19 Pandemic, is estimated to fall to 2.3% in 2020 and 3.1% in 2021 ADB, 2020). With this, Mr. Pradhan handed over the floor to Mr. Ghimire to shed light on the policies and priorities now the GoN will take to meet its development targets.



Mr. Ghimire began his note with a bleak picture of the economy. The Post Corona Needs Assessment carried out by the National Planning Commission in 2020 estimated that the growth rate would plunge below 1% in 2020-21, pushing 4.38% of the population into absolute poverty, with 1% among them trapped in abject poverty for a pretty long time. He then introduced the three key features of international economic cooperation – (i) that it is a flow of resources in the form of official development assistance (consisting of conditional or unconditional grants), humanitarian aid during natural and humanitarian emergencies; or loans from bilateral or multilateral donors, which should be concessional, not commercial; (ii) to be undertaken by the government only, and (iii) meant for the economic development of the recipient country, and thus excludes any military aid. Elaborating on why donors give aid, he cited compassion, compensation, trade for mutual income growth, access to industrial commodities, securing export market and political reasons as interests of donors for giving the aid.

The question then arise is should countries like Nepal take aid? He opined that underdeveloped countries still need aid for four reasons – (i) to meet the technical skill gap; (ii) to overcome the deficit in domestic financing; (iii) to maintain the balance of payments (low exports, high imports); and (iv) to implement the global contractual obligations arising from ratifying international conventions). Donors have a bias to capital intensive projects in financing development projects. The recipient countries therefore can benefit more if they have better negotiation capacity to direct aid to their national priorities rather than the interest of donors.

Comparing desirability of loans, Mr. Ghimire opined that there is no standard threshold as such for the volume of borrowing. While European Countries has a standard threshold for loans not

to exceed 3 % of the GDP, he opined that loans are desirable as long as the return from its investment exceeds the cost of the capital (interests and charges). In modern days, where capital and technology recognize no political boundaries, both donors and recipient countries face higher demand for transparency and accountability in the utilization of aid and resources. He opined that countries like Nepal should pay attention to four issues for effective utilization of international economic cooperation:

- To have a policy clarity – what are the development priorities and how to achieve those,
- Accountability – collection, update and dissemination of information and data on utilization of aid and other similar resources,
- Skilled human resources – hire and develop human resources capable in designing and implementing programmes and projects, negotiating and allocating resources,
- Acquire resources mix – acquire a mix of unconditional grants, concessional loans, together with attracting commercial loans and foreign direct investments.

Concerning the challenges posed by COVID-19 pandemic, Mr. Ghimire said that while the government priority is focusing on immediate investments on improving health services and short-term immediate employment support schemes, the government is also focusing on mobilising international assistance to modernizing agriculture (to ensure food security), to industries that support processing and adding value to agriculture commodities, and energy and employment generation.

Answering the question from the participants, he said that some countries have been able to develop which had (i) sincerity among the politicians and the bureaucracy, (ii) accountability towards implementing the projects in time with quality, (iii) public awareness and engagement in holding the government accountable; and (iv) where the government demonstrates strong negotiation capacity with donors.

Responding to another question on why not to use the liquidity in banks to finance development projects rather than acquire foreign assistance, Mr. Ghimire added that liquidity being a short term phenomenon, is not a long term source for financing development. Moreover, the larger development interventions would need a larger volume of financial resources, often available from international sources. Mr. Pradhan added his views at this point that capital, technology and knowledge recognizes no political boundaries in the globalized world and it is good for all countries to take advantage of attracting these vital engines of economic development through international economic cooperation.

Mr. Ghimire concluded his presentation and interaction with a note that the GoN has no official policy on graduation to developing country by 2022, but has endorsed the targets of graduating to a middle income country by 2030 and to a high income developed country by 2043.

Mr. Pradhan concluded the webinar with a vote thanks to the speaker Mr. Ghimire for his wonderful presentation and to the participants for their insightful interactions.

R: Suresh Pradhan, Academic Advisor and the Senior Faculty, MICD