

Text of Remarks by Hon'ble Dr. Minendra Prasad Rijal, Minister for Federal Affairs, Constituent Assembly, Parliamentary Affairs, and Culture of Nepal at a high level segment on *Building Productive Capacities in LDCs for inclusive and sustainable Development* organized by UNCTAD in Geneva on 27 October 2010.

Mr. Chairman

Secretary General of UNCTAD

Hon'ble Ministers

Distinguished Delegates

I thank, His Excellency Secretary General of the UNCTAD, for his kind invitation to me. It is a great pleasure and privilege for me to represent Nepal at this High Level Segment **on Building Productive Capacities in LDCs for inclusive and sustainable Development.** This event could not have come at a better time than now as we look towards the UN LDC IV early next year in Istanbul. I am told UNCTAD has been organizing a series of pre-conference events in a run up to the UN LDC IV to contribute substantive and technical contributions to the preparatory process. We appreciate UNCTAD's systematic contributions in providing substantive inputs in areas of its competence.

Mr. Chairman

As we prepare for the UN LDC IV, it is very important that a proper assessment of the third UN Conference on LDCs held in 2001 in Brussels be made for shaping future course of actions. The seven commitments of the Brussels Programme of Action (BPoA) which stand interlocked need to be viewed in an integrated manner. Various reports reveal that the progress as a group, 'has been insufficient to meet the goals of the BPoA and its objectives of eradicating poverty, sustained growth and sustainable development.' They indicate that lack of productive capacity and structural transformation has been a stumbling block in the implementation of the BPoA.

A series of multiple global crises; food, fuel and financial, and climate change challenge have disproportionately impacted a number of developing countries, LDCs in particular. It is against this background that I would like to take this distinguished audience to Nepal. Let me briefly share our experiences and aspirations in advancing structural change and economic modernization through the development of productive capacities.

Nepal started its initiatives to liberalize its economy since 1985, when it undertook the structural adjustment program. With the restoration of democracy in 1990, these initiatives were further strengthened. The new democratic government launched massive privatization and liberalization programs. It opened the national economy to a greater extent. It was golden age of Nepalese economy as the economy grew at around 7 percent for the following four consecutive years.

Nepal experienced significant all-round improvements in economic and human development between 1995-96 and 2003-04. The incidence of headcount rate of poverty reduced from 42 percent in 1995/96 to 31 percent in 2003/04. These gains were impressive as they were achieved during a period that witnessed a low intensity violent conflict gradually intensify into a full blown armed insurgency especially in the mid- and far-western hills of Nepal.

The decline in poverty was driven by growth in per capita consumption expenditure and income (of more than 40 percent) which, in turn, was driven by increases in remittances (almost four folds), higher agricultural wages (by 25 percent, especially skilled wage that more than doubled), increased connectivity (an addition of about 70 percent more roads, especially district/rural that increased almost 2.5 folds), urbanization, and a decline in dependency ratio. The increase in remittances has been estimated to be responsible for one-third to one-half of the overall reduction in poverty rate during this period. Nepal's remittance income gradually increased from about \$ 180 million in 1991 to more than \$3 billion in 2008.

Like in many other societies, these gains were not without problems. Growth rates were high, but inequality also increased as evidenced by an increase in the Gini coefficient from 0.342 to 0.414 during this period. Inequality in expenditure distribution rose considerably, because of unequal growth in different income groups and regions. Since low-income groups lacked these human and physical assets, income inequality worsened.

Poverty incidence and reduction differ greatly by urban-rural residence, geographic regions and caste and ethnic groups. Poverty incidence is higher and reduction lower in rural than in urban areas, in mid- and far-western regions than in eastern and central regions, in mountains and hills than in plains.

Inequality remains greater in urban areas than in rural areas, but inequality grew more in rural areas. The increase in income inequality observed in Nepal between 1995-96 and 2003-04

was driven primarily by the dramatically higher returns to higher education and professional and entrepreneurial skills. Improvements in living standards were more modest among people from disadvantaged caste and ethnic groups, who lack these and other productive assets. The poorest households in Nepal are those headed by agricultural wage laborers. Land ownership reduces the probability of being poor in rural areas.

“Gender discrimination” is less severe in urban than in rural areas and has declined faster. Girls and women in Nepal have fewer job opportunities, worse nutritional indicators, and less schooling than boys and men. Lack of women’s education and decision-making power perpetuates inferior outcomes in child nutrition, child survival and school participation. Women’s ownership of land and other assets is limited in Nepal. Women have less economic power than men. We recognize that women’s empowerment should constitute a part of nation building process. Today our constituent assembly has been a symbol of inclusiveness and proportionality as 33 percent of its members are women.

Over the past 20 years Nepal’s financial sector has become deeper and the number and type of financial intermediaries have grown rapidly. Still, access to financial services remains limited for many people in many parts of Nepal. Despite government efforts, access to formal financial services is declining. Financial intermediation is stagnating, the number of bank deposit and loan accounts per inhabitant is falling, and lending targets for low-income households have generated excess liquidity among microfinance institutions without significantly increasing their outreach.

Nepal foreign trade also grew at an unprecedented level and generated significant employment in private sector during the early 1990s. By the mid 1990, Nepal was one of the most open countries in the South Asian Region. Nepal’s exports have been quite limited in products and destinations. Exports in the 1990s were largely dominated by woollen carpets and readymade garments destined to Germany and the US. The woollen carpet exports peaked to about \$140 million in 1999 but gradually slowed down to about \$ 70 million in 2008. Likewise, the readymade garments exports peaked to about \$150 million in 2002 but gradually slowed down to about \$60 million in 2008. This slow down was result of various reasons, the most important one being the phasing out of the Multi Fiber Agreement.

Likewise, tourism, another important foreign exchange earner for Nepal, peaked in 1999 when the country received almost 500,000 tourists. From then, tourist arrivals in Nepal declined sharply to less than 250,000 in 2004. Now, with the peace process moving forward,

this trend has been reversed. Nepal received more than 525,000 tourists in 2008. We have declared year 2011 as Nepal Tourism Year and intensive preparations are under way to make it a success. I would like to welcome you all to my country to see the abundance of biodiversity and democratic transformation taking place in the country.

Agriculture did not receive as much attention as it deserved as a means for poverty alleviation and employment generation during the years when we were busy liberalizing the modern sector of our economy. Moreover, even our development partners not only insisted on our reducing agricultural subsidy but also reduced their support in agriculture and irrigation. We have learnt our lessons and are refocusing on the development of agriculture. Besides grain production for food security, we have also identified several high value agricultural products, e.g., tea, coffee, large cardamom, dry ginger among others, as product with a very good export potentials.

Mr. Chairman

I want to assure you that Nepal would do everything under its ambit to overcome the vicious circle of poverty and underdevelopment. We are strongly determined to bring our countrymen out from the abject poverty. However, this is a gigantic task and beyond the limited capacity of our government. In this regard, I would like to urge our development partners to support us technically and financially, so that we can accomplish our mission.

Mr. Chairman

Now, let me turn to make some general comments. I am pleased to note that the UNCTAD background paper identifies the need for: (i) finding productive jobs and livelihood for millions of young people entering the labor force, and (ii) dealing with the employment challenge in an open economy context, as a key double challenge. It is heartening to note that this paper argues for a paradigm shift in the approach to poverty reduction, the role of the state and international trade, finance and technology.

Infrastructure is the life line of LDC economies. Role of the state should be enhanced in building infrastructure itself or in partnership with private sector. Doing so certainly helps tremendously in cushioning against external shocks and increasing resiliency.

It is important to develop the capacity of the government to develop and implement development strategies. Trade can be an engine of growth only if the poor and vulnerable

countries are provided opportunities for investment and trade. It is necessary to provide adequate technical assistance, capacity building support and aid for trade to these states. As noted in the background paper of this conference, it is right to start at the development end than the trade end of the relationship between trade and development. Only a capable state is in a position to act as effective enabler, facilitator, catalyst and innovator.

An early, ambitious, comprehensive, balanced, equitable and development oriented outcome of the Doha Development Round of trade negotiations is essential. LDCs should be provided duty free and quota free market access for all their products. It is also quite important to tap the potentials of the South-South cooperation in terms of resources flows including aid, remittances and FDI.

LDCs need to be supported and encouraged in attracting FDI, which could bring in technology and help bridge the digital divide. Technology transfer, R & D policies, technological capabilities and innovation help develop renewable energy, natural gas, clean energy sources.

Climate change has disproportionately impacted LDCs. Some LDCs have suffered significant human and economic losses from natural calamities. Global warming has precipitated glacier melting in Nepal's Himalayan region. Nepal's Himalayas are the water tower of South Asia. More than a billion people depend on the rivers flowing down from them. About two dozen of our glacial lakes could outburst any time causing a huge loss of lives and property. Changing weather patterns have started affecting agricultural production and food security. Flash floods, landslides, untimely rainfall, delayed monsoon have become common problems often leading to the displacement of people and loss of livelihoods. They are also causing damage to our development infrastructures. A mechanism is necessary to ensure adequate, predictable, and sustainable financial resources, technology and capacity building to support the implementation of adaptation action in LDCs.

Energy security has emerged as an issue with geostrategic implications requiring huge public investments in renewable energy.

Given the situation LDCs are in despite decades of efforts made to improve the quality of life of their people, it is necessary to strengthen international support measures put in place in favour of LDCs including ODA, debt relief, trade preferences, development finance, technical assistance and other forms of support under the UN system and WTO. The specific

needs of post conflict countries should be addressed in a priority basis to prevent their relapse. Relief helps LDCs maintain social and political stability.

LDCs need policy space in a broad range areas including fiscal, trade and macroeconomic policy. LDCs need to protect infant industry and preferential arrangements to promote trade and investment.

Young people are a driving and dynamic force and yet most vulnerable to terrorism and extremism. Youth focused policies and programs should be a priority in rebuilding communities and supporting durable peace in areas torn apart by conflict. Istanbul conference needs reach out to and take youth on board as they have all the potential to become formidable agents of peace and stability.

The economic crisis has challenged the efficacy and legitimacy of international economic, financial and trade institutions and practice and principles therein. There should be a review in these arrangements.

UN LDC IV is meeting under the shadow of continued global financial and economic uncertainty. Socio-economic development in the LDCs stands as a major challenge for them as well as for their development partners and the rest of the international community in today's globalized world. Partnership between LDCs and international community has to be strong and important for LDCs to maintain the sustained build up of human and institutional capacities.

Let me close it here by thanking you all for kind attention.