



**NEPAL:
STATE FRAGILITY AND POLICY ANALYSIS BRIEF**

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Executive Summary

Since the end of the civil war in 2006, Nepal has maintained the peace, established a new constitution, held successful elections, and overall is on a trajectory towards stability and improvement of standards of living. Nepal was ranked the third most improved country on the 2018 Fragile States Index², and fourth most improved for 2019³, yet it still ranks as a ‘High Warning’⁴ country and faces a variety of challenges that threatens this improvement in the long term. Limited capacity to provide public services to all citizens, limited resilience to handle future environmental shocks, and persistent inequalities all demonstrate the weak governance that hinders Nepal’s progress. Nepal’s low capacity in turn weakens the legitimacy of the current government, presenting the potential for Nepal to fall into a capacity trap. This report provides the Canadian government with an analysis of the key drivers of fragility in Nepal, and offers policy options to help reduce fragility, strengthen government capacity, and keep Nepal on an improving trajectory.

Methods

This brief draws on a desk review of quantitative data, including indicators from key data-banks such as the World Bank, the Fund For Peace, the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE), and United Nations Development Programme (UNDP). Data is used from 2006 onwards for two reasons: lack of consistent data prior to this date, as well as a desire to track Nepal’s progress since the end of the civil war and the abolition of the monarchy. Qualitative data from various sources is used to inform our analysis. This includes news articles, reports, and scholarly publications regarding the Nepali context, regional analyses, as well as research on fragile states more broadly for a thorough representation of Nepal’s current position. A diverse range of sources and topics were used to ensure a nuanced, holistic understanding of Nepal’s trajectory.

Additionally, the Organization for Economic Development (OECD) multidimensional framework was consulted because it captures the major shift in how fragility is conceptualized. In this respect, it frames fragility as a combination of risks and coping capacities in economic, environmental, political, security, and societal dimensions.⁵ It offers a comprehensive and universally relevant perspective because it recognizes that each context faces its own unique combinations of risks and coping capacities.

Carleton University’s Country Indicators for Foreign Policy’s (CIFP) six key clusters are used to structure the analysis, exploring various indicators, intensity, and trends within each cluster. We find that Governance is the primary driver of fragility in Nepal, while Economic Development, Human Development, Demography and Population, and the Environment are secondary drivers. Relationships between the clusters were also considered, so as not to isolate any factors from the broader context. CIFP’s Authority, Legitimacy, Capacity (ALC) model is also used, with our analysis finding that Nepal is struggling in all three categories; however, Capacity presents the largest risk. This analysis led to the development of four related policy options to improve Nepal’s trajectory out of fragility.

Background

Civil War and Post-Conflict Reconciliation

Nepal experienced a civil war from 1996 to 2006 between the Nepali government and the Communist Party, who sought to overthrow the constitutional monarchy. The United States, India, and the United Kingdom provided economic and military support to the government. In November 2006, with negotiation support from India, a peace agreement was signed between the Seven Party Alliance and the Maoist rebels (Communist Party), effectively ending the civil war. In 2007, the monarchy was abolished. The Maoist Army was dissolved in 2012 and unified into a single Nepali Army. A UN Mission to Nepal was established to assist in the post-conflict setting. In 2015, a truth and reconciliation commission was established to investigate human rights violations committed during the war. The commission was due to be completed by 2019; however, it has been extended until 2021 due to minimal progress.

Constitutional Reforms, Instability, and Ethnic Tensions:

After the war, external donors flooded Nepal with peacebuilding activities. For example, funding of electoral infrastructure, monitoring, and facilitation for the 2008 elections⁶. A series of consecutive governments followed, characterized by instability and struggles for political control⁷. Uprisings by Madhesi minority in 2007 reflected

frustrations with political elite and the desire for more participation from various groups. In 2015, the new constitution was established. The most recent presidential election was held in 2018, with promise of a five-year term after years of political instability and quick dissolution of government after very short terms.

Earthquake:

In April 2015, Nepal was hit by a magnitude 7.8 earthquake, killing 9 000 people, and injuring over 22 000⁸. Seventeen days later there was a magnitude 7.3 tremblor⁹ (after-shock). Over 600 000 homes were destroyed, livelihoods were lost, and thousands of people were driven into poverty, or exposed to worsening poverty¹⁰. The strongest impacts were in remote, rural areas. The Nepal government is still in control of the resulting four billion USD in international aid¹¹.

Location:

Nepal is bordered by China and India, two countries competing for influence in the region. Successful external engagement in Nepal requires due consideration to the role of these two powers. India played a key role in peace negotiations; however, the relationship has been inconsistent in the last decade. Border blockades and dam projects affecting Nepali agriculture have caused tensions between the countries¹². In fall of 2019, tensions with India were sparked when a map was released claiming the Kalapani region as Indian territory rather than belonging to Nepal¹³. Investment in Nepal has been used by the international community to counter Chinese influence;¹⁴



however, recent Chinese infrastructure proposals offer opportunities for development within Nepal. Thus, good terms with these two neighbours is important for ensuring stability within Nepal.

Stakeholders

End User

Canadian Government: This brief is directed to the Government of Canadian as an external donor to support domestic actors and institutions within Nepal. Canada and Nepal established and have maintained a diplomatic relationship since 1965¹⁵. Canada has assisted in several areas of development in Nepal, working through agencies such as the Centre for International Studies and Cooperation (CECI), the International Development Research Centre (IDRC), and Canadian International Development Agency (CIDA)¹⁶. Since 1987, CECI has been one of Canada's most active development initiatives in Nepal, focusing on the establishment of strong social and economic policies¹⁷. The IDRC supports research in Nepal and has supported agricultural development and health¹⁸. This has included introducing aquaculture, diversifying crops, and supporting environmental and health policies to decrease the spread of disease¹⁹.

Primary Stakeholders

Prime Minister/Government: **President Bidhya Devi Bhandari**, re-elected in 2015 after amendments to the constitution, is the head of state. **Khaga Prasad Oli** is the current Prime Minister of the Federal Democratic Republic of Nepal, effectively the head of government (since February 2018)²⁰. His government, the Unified Marxist-Leninist party, unified with the Communist Party of Nepal-Maoist in 2016.

Secondary Stakeholders

Neighbouring States: **China and India** - Regional donors are emerging as increasingly relevant in Nepal, and it is important to consider and engage with these neighbouring powers to ensure an effective intervention.

Regional Investors: **Asia Development Bank** - Other regional donors, such as the Asia Development Bank, have also emerged as relevant players in Nepal, proposing several infrastructure and development projects.

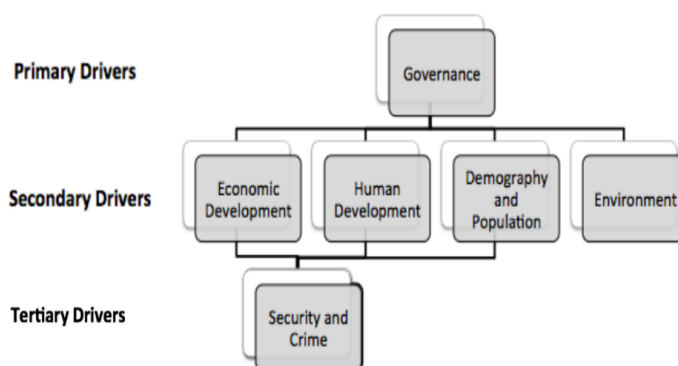
NGOs / Civil Society: Post-conflict Nepal became a ‘playing field’ for peacebuilding activities, leading to 40 bilateral donors, 50 multilateral donors, and over 100 international non-governmental organizations (INGOs) active in Nepal²¹. This was exacerbated by the influx of humanitarian assistance following the 2015 Earthquake. Alongside international efforts there are over **6 000²² registered NGOs and civil society groups** pursuing local development objectives. While the effectiveness of these actors is variable, they offer opportunities for partnerships, to mobilize local resources, engage with communities, and encourage local ownership of development initiatives.

Ethnic Minorities: Marginalized groups within Nepal have been a source of tension and occasional protest over the last decade. Successful engagement should ensure that these groups are given political voice, and their concerns recognized, so as to avoid future instability or return to violence. *For additional information refer to Annex 2.*

Private Sector: Private sector investors are emerging as relevant actors providing alternative opportunities for capacity building in key sectors outside of government institutions. For example, over fifty percent of Nepal’s power plants were privately built²³.

Fragility Risk Assessment

Presented below is an assessment of Nepal’s fragility based on CIFP’s six clusters (as data is available). The indicators, events, and trends are analyzed from 2006 to the present. Primary drivers have a direct, strong, and immediate impact on Nepal’s fragility, while secondary drivers have a moderate impact and may be indirectly linked to fragility. The graphic below presents a visual representation of the primary and secondary drivers as well as the relationships between them.



Governance is the primary driver of Nepal’s fragility, with economic development, human development, demography and population, and environment as secondary drivers. Security and crime is not a major driver of fragility, but is linked to other drivers, and thus is classified as a tertiary driver.

Primary Driver(s)

Governance

Governance and Political Stability High impact on Fragility Stable & Improving	
Indicator	Value and Trend
Government Effectiveness World Bank Worldwide Governance Indicator (WGI) ²⁴ *Estimate of governance, ranging from approximately - 2.5 (weak) to 2.5 (strong) performance. Percentile rank is among all countries, ranging from 0 (lowest) to 100 (highest) rank	2018 Governance Score: -0.90 2018 Percentile Rank: 16.83 This is relatively consistent will ratings and ranking in the last five years.
Voice and Accountability World Bank WGI ²⁵ *Estimate of governance, ranging from approximately - 2.5 (weak) to 2.5 (strong) performance. Percentile rank is among all countries, ranging from 0 (lowest) to 100 (highest) rank	2018 Governance Score: -0.13 2018 Percentile Rank: 38.92 Scoring for this indicator has demonstrated slow but steady small levels of improvement over the past ten years..

<p>Rule of Law World Bank WGI²⁶ *Estimate of governance, ranging from approximately - 2.5 (weak) to 2.5 (strong) performance. Percentile rank is among all countries, ranging from 0 (lowest) to 100 (highest) rank</p>	<p>2018 Governance Score: -0.48 2018 Percentile Rank: 33.65 The governance score is at an all-time high (for Nepal), from its lowest score of - 0.95 in 2010. In the past 10 years the percentile rank has varied from 18.01 (2010) to 33.65 (2018). There is an overall trend of steady improvement in the past three years.</p>
<p>Corruption Corruption Perceptions Index 2018²⁷ *A score of 0 is highly corrupt, 100 very clean</p>	<p>2018 Score: 31 2018 Rank: 124/180 Nepal has consistently scored and ranked poorly in the Corruptions Perceptions Index (remaining between a score of 27-31 from 2012 to 2018); the implementation of a legislature has mitigated this to some extent in the past several years, but the ubiquity of bribes and customary corruption practices are pervasive throughout government institutions²⁸.</p>
<p>Public Services Fragile State Index 2019²⁹ * Worst score is 10, best score is 0</p>	<p>2019 Public Services³⁰ Score: 6.6 Nepal has a somewhat poor record on delivering public services, although this is steady and improving slowly as infrastructure improves.</p>
<p>Freedom of Expression and Belief Freedom House Index 2019 *An aggregate score of 0 is worst, 16 is best</p>	<p>2019 Score: 9/16 Nepal's 2019 Freedom of Expression and Belief indicator has been moderate and stable, but dropped one point from 2018 in the area of having a free and independent media. The decline is attributable to "growing restrictions on journalistic activity, including broadly written new criminal code provisions that impede newsgathering on privacy grounds, political interference with state broadcasters, and bias in the distribution of government advertising."³¹</p>
<p>Political Stability and Absence of Violence World Bank WGI³² *Estimate of governance, ranging from approximately - 2.5 (weak) to 2.5 (strong) performance. Percentile rank is among all countries, ranging from 0 (lowest) to 100 (highest) rank</p>	<p>2018 Governance Score: -0.63 2018 Percentile Rank: 23.81 Scoring for this indicator has shown significant improvement over the last 10 years, from an all-time low governance score of -1.83 in 2008. Percentile ranking has improved from 6.73 in 2008 to 23.81 in 2018, with a large setback in 2015 and steady improvement since then. While the score and ranking is still low, the trajectory of improvement is promising.</p>

Deep-rooted structural inequalities stand as a barrier to the meaningful participation of women and marginalized communities in democratic processes. The existence of 125+ **ethnic groups** and languages^{33, 34} causes political cleavages in the federal parliamentary republic. There are more than 62 **indigenous groups**³⁵ that are hampered in sustaining their own cultural heritage and lack full social, political, and economic integration that would allow them equitable access in the political system.

While the adoption of a **constitution** has provided some degree of governance stability³⁶, **almost yearly elections** threaten government stability and the capacity to govern effectively. Consultation of local municipalities in federal governance has been overlooked historically, resulting in the implementation of policies/processes/programmes that have not worked well. There is some attention being paid to strengthening local representation through a joint NGO-GoN pilot called the Coherence Programme^{37, 38}. In 2017, municipal elections occurred for the first time in 20 years; this is promising in that a **representative local governance structure** will be important to the outworking of federal government plans to decentralize power and address horizontal inequalities. The current government was elected to a 5-year term³⁹, which holds some promise for improving some political stability in the near-term.

People's ability to freely exercise their political choices is limited by sporadic outbursts of **political violence**, as well as by heavy-handed security agents who at times have cracked down on political demonstrations. There were also reports of vote-buying during the 2017 campaign period⁴⁰.

Corruption is endemic in Nepali politics and government and often goes unpunished⁴¹, which poses one of the greatest threats to fragility in Nepal. Corruption by officials continued to obstruct the delivery of foreign aid that poured into the country after a devastating 2015 earthquake. For example, in 2017, the Commission for Investigation of Abuse of Authority filed charges against Chudamani Sharma, former director of the Inland Revenue Department at the Tax Settlement Commission, for alleged embezzlement and the improper granting of tax exemptions to large businesses.

Nepal has a large INGO presence⁴² and the GoN is highly dependent on international assistance, which supplies over 20% of the annual operating budget/ In order for it to achieve its goal of middle-income status by 2030, Nepal will need to reduce aid dependency and provision itself from other sources: either trade (which will need more time to develop), increased revenues from tourism and other sectors, or - most promising - robust and fair tax administration, especially income tax.

The GoN has a poor record on transparency and accountability; it generally operates with opacity. Examples: The Election Commission, as well as the Truth and Reconciliation Commission (TRC) and Commission of Investigation on Enforced Disappeared Persons (CIEDP) are among bodies that have been criticized for a lack of transparency. Mechanisms for utilizing the 2007 Right to Information Act are poorly defined, and the law is inconsistently enforced⁴³.

Nepal also has a **poor record** on freedom of press, freedom of assembly, freedom of labour union organization, and freedom of NGOs to work on human rights-related issues⁴⁴.

Secondary Drivers

Economic Development

For further details see Annex 5: Economic Trends

Economic Development Moderate impact on Fragility Improving	
Indicator	Value and Trend
GDP World Bank - Annual Percent Growth	2019: 7.1 % <i>Improving:</i> 3.37% in 2006, 3.42% in 2011, and 0.59% in 2016 (due to 2015 earthquake)
Trade World Bank - Percent of GDP	2018: 54.32 % <i>Susceptible to fluctuations, but improving:</i> 44.76% in 2006, 41.83% in 2011, 48.75% in 2016
Human Capital Index World Bank - Scale 0-1	2019: 0.49 <i>Stable:</i> 0.49 in 2017
Public Debt World Bank - Percent of GDP	2021 projected: 32.7 % <i>Fairly Stable:</i> 33.86 in 2010

Between 2006 and 2018 there has been a trend of **decreasing economic fragility**. Currently GDP is almost 29 billion USD⁴⁵. Nepal is quite dependent upon exports and imports, which make up 51.8% of GDP, while remittances, largely due to a migration of the population to higher wage countries, make up 28%⁴⁶. Current **GDP growth rate is 7.1%**, which is projected to fall slightly to 6.4% and 6.5% for 2020 and 2021, respectively⁴⁷. Floods and other natural disasters can cause fairly dramatic fluctuations in GDP.

Nepal is situated between India and China, which has an impact on its economic growth, especially with **trade**⁴⁸. Its main exports are carpets, beverages, tea, textiles, plastic and its main imports are fuel, clothing, gold, iron, steel, machinery, and other equipment. India is Nepal's biggest influencer with regards to trade (imports and exports) as well as providing access to the sea⁴⁹. Over **700,000 tourists** per year bring substantial financial improvement to the economy⁵⁰. Currently Nepal has \$2,606 GDP per capita, PPP⁵¹, with a human capital index of 0.49 (scale 0-1)⁵². Public debt is hovering around 30% of total GDP and although Nepal is not terribly at risk, there is vulnerability surrounding climate changes and potential growth shocks, thus effort should be put forth to implement efficient macroeconomic policies⁵³.

Caste systems, trade policy, government management, turnout of elections, and external aid all affect Nepal's economic state resilience⁵⁴. **Economic capacity** is lacking and **mismanagement** and **misallocation of funds** slows progress, however as Nepal's government stabilizes we could see sound macro and microeconomic policies being put in place and these drivers beginning to be mitigated.

Demography and Population

Demography and Population Moderate impact on Fragility Stable	
Indicator	Value and Trend
Population	2018: 28,608,710 ⁵⁵
Population Growth (annual %)	2018: 1.65% ⁵⁶
Life Expectancy at Birth ⁵⁷ Total Years	2017: 70.169 years Life expectancy has been rising steadily over the last 30 years, from 54 yrs in 1990 to just over 70 yrs in 2018. (Male: 68.8 and female: 71.6) ⁵⁸
Population Density	195.9 people per sq. mile of land area ⁵⁹
Ethnicity	Over 125 Ethnic groups exist in Nepal, with the following identified as the most populous ⁶⁰ : Chhettri 16.6%, Brahman-Hill 12.2%, Magar 7.1%, Tharu 6.6%, Tamang 5.8%, Newar 5%, Kami 4.8%, Muslim 4.4%, Yadav 4%, Rai 2.3%, Gurung 2%, Damai/Dholii 1.8%, Thakuri 1.6%, Limbu 1.5%, Sarki 1.4%, Teli 1.4%, Chamar/Harijan/Ram 1.3%, Koiri/Kushwaha 1.2%, other 19%

Population growth was unmanageably high in the 20th century, but the rate is slowing to a healthy level just above 1%, largely due to outmigration. Brain drain has a negative impact on the country, but a large proportion of the population between 15 and 65 years old (about 57.9%) gives Nepal a significant workforce. The 25-54 age bracket is burgeoning - this has the potential to help the economy if sufficient employment opportunities are created.

Nepal is at the start of a **demographic dividend**⁶¹: accelerated economic growth resulting from a decline in a country's mortality and fertility/the subsequent change in the age structure of the population. Fewer births each year + small senior population (4% 65+) means a small dependent population in relation to the working-age population. With fewer people in need of support, a country has a 'window of opportunity' for rapid economic growth if the right social and economic policies developed and investments made⁶². This is a window of opportunity for Nepal to take advantage of the demographic dividend for economic growth.

Sex-selective abortion practices are increasing significantly⁶³, with families favouring male children for economic reasons. This poses a threat to women and girls in terms of maternal health (by the time sex can be determined, it is typically second trimester and later-term abortions pose greater health risks to the mother); legal consequences (Nepal legalized abortion in 2002, up to 12 weeks; illegal abortions are punishable by imprisonment⁶⁴); and dignity and human rights (females are killed because they are female; males are preferred). This is creating an imbalance in male:female population ratio, which can have public policy, security, economic, and human rights implications down the road - consider China's one-child policy, and the "missing girls" resulting from male preference,^{65,66} for a recent example.

The predominantly Hindu religious culture contributes to high marriage rates, childhood and early marriage and low levels of education, especially for girls⁶⁷.

The International Development community addresses population and demographics as part of development

planning; country-specific population assessment reports are available, but are only effective to the extent to which the Government of Nepal considers the provided advice in its planning.

The GoN strives to move to lower-middle income development level by 2030, and to do so will need to provide economic opportunities to prevent brain drain of the country's educated class.

Ethnic tensions are a strong force in political disagreements and instability⁶⁸, play a role in corruption by way of nepotism, and parlay into unequal access to government services and natural resources^{69,70,71,72}.

Human Development

See Annex 3 for further details on regional inequalities and human development

Human Development Moderate impact on Fragility Improving	
Indicator	Value and Trend
Human Development Index ⁷³ A composite score out of 1.0, higher = more developed	2018: 0.574 Rank: 149 out of 189 <i>Marginally Improving: 0.529 in 2010</i>
Population in multidimensional Poverty (%) ⁷⁴	2018: 35.3 First year of data
Population Living Below Poverty Line (PPP \$1.90 per day)(%) ⁷⁵	2015: 15.0 <i>Improving from 25.2% in 2011</i> <i>*However, in contrast to the above data for multidimensional poverty, suggests this may be misleading</i>
Infant Mortality Rate ⁷⁶ Deaths per 1000 births	2016: 28.7 <i>Improving from 59.9 in 2000</i>
Mean Years of Schooling ⁷⁷	2018: 4.9 Note * Female: 3.6 Male: 6.4 <i>Improving from 3.3 in 2010</i>
Gender Inequality Index ⁷⁸ Value between 0 and 1.0, 1.0 being absolute inequality	2017: 0.480 Rank: 118 out of 160 countries
Gender Development Index ⁷⁹ Score of 0 to 1.0, 1.0 being equal ratio of female to male HDI	2010-2017: 0.925 <i>Improving from 0.885 in 2010</i>

Despite progress in poverty reduction and substantial progress in meeting the Millennium Development Goal targets for 2015, inequalities persist in Nepal, and it remains in the low human development range of the UNDP HDI⁸⁰. Disparities exist between genders, regions, as well as between social groups, deepening cleavages and contributing to civil unrest. Limited transportation infrastructure (roadways for access) makes key service delivery in remote rural areas, such as electricity and access to health care and education, lag behind urban centres. Infrastructure projects have sought to address this; however, the 2015 Earthquake disrupted progress, destroying infrastructure and livelihoods. This demonstrates the fact that poverty and low human development leaves households particularly vulnerable to environmental shocks, increasing Nepal's overall risk of fragility in the case of future environmental disasters.

Remittances from migrant workers have contributed to poverty reduction; however, reliance on remittances leaves Nepal vulnerable to changes in migrant work patterns. Nepal has a large presence of NGOs and is also a recipient of a significant amount of foreign aid, which is largely managed by government institutions. There is a gap between

government-led development action plans and their implementation. For example, in 2016, a national strategy to end child marriage by 2030 was adopted; however, action on operationalizing and implementing has since stalled⁸¹.

Fostering partnerships and an alignment of goals between government bodies and local NGOs may help create more cohesive and holistic programs for addressing human development throughout the country, increasing the capacity of both, and reducing vulnerability to environmental and economic shocks.

Environment

See Annex 4 for more information on Nepal's vulnerabilities to climate change.

Environment Moderate impact on Fragility Improving but Vulnerable	
Indicator	Value and Trend
Renewable Energy Consumption World Bank - Percent of Total Final Energy Consumed	2017: 85% <i>Improving</i>
CO2 Emissions World Bank - Per Capita, Tonnes	2014: 54.32 % <i>Increasing: 0.098 in 2006, 0.19 in 2010, 0.25 in 2013</i>
Mortality Rate Attributed to Household and Ambient Air Pollution World Bank - per 100,000 population	2017: 193.8 <i>Decreasing</i>
Mortality Rate Attributed to Unsafe Water, Sanitation and Hygiene Services World Bank - per 100,000 population	2017: 19.8 <i>Decreasing</i>

Reduction of **natural resources**, **air pollution**, and **water contamination** are three key pressure points on Nepal's fragility, amplified by environmental mismanagement⁸². In mountainous regions, limited accessibility, sub-par soil, and natural hazards (earthquakes, floods) combine to make costs very high (i.e. building roads) and causes difficulty in furthering development⁸³. There is inadequate development to meet the expectations of globalization and Nepal relies heavily on external aid for reconstruction⁸⁴. 25% of the land is forest area and CO2 emissions are 0.3 tonnes per capita⁸⁵. Positively, 85% of Nepal's total final energy consumed is **renewable energy**⁸⁶. The mortality rate from household and ambient air pollution is 193.8 per 100,000 population with mortality rate due to unsafe water, sanitation and hygiene services is 19.8⁸⁷.

Nepal's environment is vulnerable due to climate changes, drought, and flooding (excessive dry and wet seasons, variability, and extremes). This vulnerability could increase or decrease with globalization. Increased demand for specific products could increase the amount of aid for infrastructural rural development (processing facilities, machinery, etc.)⁸⁸. Nepal must be protected from exploitation and must work with NGOs, governments, donors, etc. in order to make these positive possibilities happen⁸⁹.

Information technology has increased over the past several years⁹⁰, decreasing the need for easy physical access to more inaccessible regions. However, Nepal needs to build environmental resilience and the capacity of important actors, including the government, must be increased in order for effective environmental policies and plans to be put into place. Nepal has a lot of potential but has low climate resilience, and without additional aid, investment (over 2 million dollars), and proper governance, Nepal's environment will remain fragile and will not be able to produce to its full potential⁹¹.

Tertiary Drivers

Security and Crime

Security and Crime Low impact on Fragility Improving / stable	
Indicator	Value and Trend
Security Apparatus ⁹² Fragile States Index - score out of 10, 10 being the worst	2019: 5.9 <i>Improving</i> : 9.0 in 2006, 7.8 in 2011, and 6.7 in 2016
Group Grievance ⁹³ Fragile States Index - score out of 10, 10 being the worst	2019: 8.8 <i>Steady</i> : 9.0 in 2006, 8.0 in 2011, 8.8 in 2017
Military Expenditure ⁹⁴ World Bank - Percent of GDP	2016: 1.7 % <i>Steady</i> : Minimal increase from 1.4% in 2012
Political Stability and Absence of Violence ⁹⁵ World Governance Indicators	2018: 22nd percentile
UL Safety Index ⁹⁶ Score out of 100 - 100 being more safe	2019: Score of 49 (average) Global Ranking 130 out of 180 <i>Improving/ Steady</i> : 44 in 2000, 50 in 2016

Overall Nepal has had no major security risks since the end of the war, and security is not a major driver of fragility. One area of concern within Nepal is the open border policy with India; drug and human trafficking over the Nepal-India border has been occurring over the past several decades⁹⁷, undermining security in border regions. The Nepalese government has attempted to introduce new laws and has worked with international NGOs to increase monitoring and establish crisis centers around the border⁹⁸. Environmental security is another concern, in the aftermath of the 2015 earthquake, human trafficking increased as vulnerable populations lost livelihoods. There are also concerns over ethnic and regional conflicts, and civil unrest; however, violence has been limited since the 2017 elections. Crime rates are higher in urban areas, primarily Kathmandu, and rates of **gender based violence** are high throughout the country. Law enforcement mechanisms are weak; security and law enforcement agencies in Nepal are limited by a lack of resources and training. A 2014 poll found that when asked “How much do you trust the police”: 55% answered “so-so”⁹⁹, indicating that efforts to improve trust in law enforcement is needed. Improving human and economic development may help reduce crime rates and the prevalence of human trafficking.

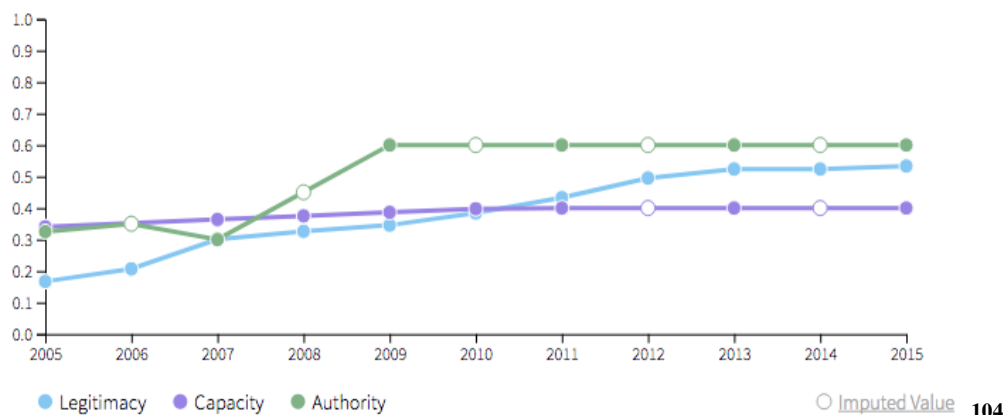
ALC Analysis

The CIPF fragility index identifies three fundamental properties of a state, and finds that weakness in one or more will have an impact on the overall fragility of a given country:

<i>Authority</i>	“ability of the state to enact binding legislation over its population and to provide the latter with a stable and safe environment” ¹⁰⁰
<i>Legitimacy</i>	“ability of the state to command public loyalty to the governing regime and to generate domestic support for government legislation” ¹⁰¹
<i>Capacity</i>	“power of the state to mobilize public resources for productive uses” ¹⁰²

The below trend analysis from the DIE Constellations of Fragility align with our findings that Nepal is weak across all three components of the ALC framework; however, Capacity presents the greatest risk to state fragility. Failure to improve capacity may lead to a capacity trap which weakens government legitimacy¹⁰³.

DIE Constellations of Fragility - Nepal Dimension scores 2005-2015



Authority

Medium: Improving

Overall, authority is weak in Nepal; however, it seems to be improving after the most recent elections, and the lack of major conflict is encouraging for the prospect of greater stability and effectiveness in coming years. Since the end of the civil war in 2006, conflict has decreased, and, with the dissolution of the Maoist army in 2012, there has been a consolidation of state authority within a single armed force, strengthening the authority of the state. The fact that Nepal has not returned to violent conflict indicates some progress towards greater stability and authority. A few protests, including a 2015 Madhesi blockade of imports at the Indian border, have occurred, and been settled with military intervention, without leading to escalation of conflict. Ensuring greater political representation for marginal groups will help reduce the risk of further protests. Over a decade of peace means governance is slowly building: the establishment of a constitution in 2015 laid the framework for Nepal's governance systems, which are currently stable after the most recent election. Reaching all citizens is still a challenge; access is limited in mountainous regions, and government presence/resources are limited in remote rural areas. The Nepali police force is not fully trusted by the Nepali people, and their forces are disproportionately concentrated in urban areas.

Legitimacy

Low: Improving

See Annex 6 for additional information on Legitimacy

The government, although better than previous years, still garners doubt from the population (see Annex 6). There is a gap between the slogan of 'prosperous Nepal, happy Nepalis' and performance from the Nepali government, weakening the social contract between citizens and the state¹⁰⁵. The current government promised to engage with marginalized groups to address their concerns, yet they still do not feel heard by the government¹⁰⁶. The government has also committed to increasing service delivery across the country, and yet mean years of schooling remains low, and access to medical services remains limited in rural regions. Low levels of income tax compliance also suggest that the population does not have confidence in the government to appropriately spend revenue and redistribute wealth equitably. Political stabilization is encouraging, but the government will need to deliver on key outputs over this five-year term in order to solidify legitimacy.

Capacity

Low: Stable

Nepal has limited capacity and risks falling into a capacity trap, wherein the failure to improve state capacity weakens state legitimacy as well¹⁰⁷. The delivery of goods and services is limited and unequally distributed, to the disadvantage of more remote rural areas. Procurement is encumbered by the complicated Public Procurement Act and inefficient bureaucratic processes. Since 2017 the government has been able to stabilize marginally, making the design and implementation of policies more efficient; however, it remains difficult due to mismanagement and lack of coordination between institutions and departments. Infrastructure building is slow, particularly in rural Nepal, since access is limited and progress was disrupted by the 2015 earthquake. The Government remains in charge of over 4 billion USD of aid received for victims of the earthquake, but mismanagement has led to limited reinvestment in rural infrastructure.

Revenue collection through taxation is weak but slowly and steadily improving over the past several years; there is a high prevalence of tax evasion and low capacity for collection. Attracting foreign investors is key to climbing to middle income status, but is hindered by a lack of institutional coordination, the politicization of technical issues, and poor leadership in core agencies that are supposed to have the entire state machinery in confidence. The stabilization of government in the current five-year term may build confidence and trust in potential investors.

The energy sector exemplifies Nepal's limited capacity; the Nepal Electricity Authority, part of the Ministry of Energy, has been criticized for inadequate planning and distribution capacity, as well as regulatory inefficiencies, leading to severe shortages of power¹⁰⁸. The Asia Development Bank estimates that Nepal is currently developing only two percent of its potential hydro-power capacity¹⁰⁹. With its mountainous terrain and plentiful amount of flowing water, if producing to its full capacity Nepal could shift from a net importer of electricity to an exporter of excess energy¹¹⁰, generating revenue, diversifying and growing the economy, and enhancing social development. Climate change related challenges such as drying glaciers and decreased precipitation is a threat to this energy capacity¹¹¹.

Scenarios

The following scenarios are based on a 6-month projection.

Baseline (most likely)

The most likely case for Nepal is continued slow but steady political stabilization with modest increases in government capacity to deliver services. As infrastructure projects are realized, the improved roads and bridges will contribute to economic gains in getting goods to markets more inexpensively, and improving the GoN's ability to deliver services to the rural and remote populations, that are among the most vulnerable of Nepal's population.

This stability will lend confidence to attract greater foreign investment, which will help to bolster the economy and reduce aid dependency down the road. Obversely, if investment comes in the form of more development bank loans, the level of debt burden may become untenable, or at least may slow Nepal's economic progress.

Environmental resilience is not likely to improve substantially in the near term without significant intervention by the GoN, the expertise and other resources of NGOs, the formation of regional partnerships, and help from the more-developed nations that contribute disproportionately to climate change through carbon emissions. Environmental incidents such as flooding and drought in critical agricultural territories at the base of the Himalayas are likely to continue more frequently as is the trend, and these incidents will negatively impact the agricultural sector and prove devastating to subsistence farmers. This will disproportionately affect women, who make up the majority of the agricultural workforce.

Ethnic tensions would persist under the surface, but would be pacified sufficiently as the rule of law is strengthened, the GoN makes strides in better transparency and accountability, the elected officials and courts demonstrate impartiality towards ethnic groups, and as the citizens find meaningful employment as the economy slowly strengthens.

Government will continue to struggle with service delivery capacity, which will keep human development in areas of education and healthcare stagnant and insufficient to meet the needs of the population, especially in remote parts of the country. Again, this will have the strongest effect on women and girls, who are more negatively impacted by lack of maternal and newborn healthcare, and are not preferred for education opportunities.

Overall, Nepal would remain susceptible to economic and environmental shocks, would remain somewhat fragile, but would continue to make slow progress towards greater stability; the positive results would be more apparent in the long term, but perhaps not enough for Nepal to realize its goal of emerging as a lower-middle income country by 2030.

Best case

In a best case scenario for Nepal there would be no major environmental disasters, allowing the country to continue to focus on maintaining stable governance, increasing service delivery, developing infrastructure, consolidating political systems, and other efforts to improve well-being throughout the country without the damaging toll of another natural disaster. Resilience measures to minimize the damage of future earthquakes would be undertaken during this time.

Ethnic tensions among minority and marginalized groups would decline as a result of increased recognition of rights and participation in political processes. Relations with neighbouring India and China would be improved through cooperation on regional projects, and remain balanced so as not to incite regional power struggles between the two powers. Disputes would be settled diplomatically, and Nepal would avoid becoming economically or politically reliant on either neighbour, stepping out of their shadows to establish its own voice in the international sphere.

Nepal would begin to diversify its economy, decreasing its reliance on agriculture and foreign aid, so as to increase resilience to future economic shocks. A potential avenue for this diversification is through further development of the tourism industry. Trust in the political system, leaders, and enforcement systems (ex. Police force and judiciary) would increase as the new government works to ensure the rights enshrined in the constitution are translated into practice, improving access to and quality of basic services such as electricity, safe drinking water, medical care, education, and infrastructure to rural areas.

Alongside these investments, human development indicators would begin to improve, and inequalities between rural and urban areas would decline. Future elections would be fair and the results accepted without major pushback from other parties so as to continue the success of the last elections, again improving trust in the political system. These economic, social, and political improvements would lead to long-term stabilization, reducing the fragility of Nepal to environmental factors as well as reducing the risk of future returns to violent conflict.

Worst case

In a worst case scenario Nepal's government would be unable to stabilize and as a result the current government would not last the full five-year term. This would increase mismanagement and confusion within governance. Mistrust of the government would increase, causing further authority and legitimacy issues. Many ethnic groups are divided within the government and an added lack of social, political, and economic cohesion would further divide the institutions that are supposed to work together. This would result in corruption, greed, and lack of solidarity, weakening governance. Continuous delays in development would result. Relying on international trade partners and foreign aid for more than 50% of its GDP, Nepal is highly susceptible to reduced economic growth if donors lose trust in Nepal's ability to manage aid or if negative relations ensue with trade partners due to land encroachment (or other potential issues) by India and China and lack of diplomacy.

Due to the caste system, many groups feel unheard by the government, which could soon result in internal conflict or revolts. Continual low service delivery (i.e. low capacity) in rural areas could also spark a response in those who feel marginalized and forgotten. Increased conflict and crime would decrease tourist flow, also negatively impacting the economy. Nepal's environment is vulnerable due to unpredictable climate changes, drought, and flooding. Globalization could increase Nepal's vulnerability by excessive demand for specific products, increasing their reliance on aid for infrastructural rural development and allowing potential exploitation of their natural resources. In a worst case scenario, Nepal would not receive additional aid or investment, and governance would not improve, making environmental resilience impossible to achieve in the near future. In a nutshell, regression in governance would negatively affect all six of the cluster indicators, as well as the authority, legitimacy, and capacity of the country and Nepal would plunge back into fragility.

Wildcard #1: Environmental disaster

An environmental disaster of any kind (i.e. extensive flooding, earthquake, etc.) would undoubtedly cause another large inflow of foreign aid, potentially adding to the frantic mismanagement already being dealt with in the government with regards to allocation of funds. This redirection and effort to invest in rebuilding communities and compensating victims of the disaster would remove focus from important infrastructure projects and development. Flooding could destroy soil moisture, irrigation, flora and fauna, and water quality, which could cause socio-environmental tensions and add extra pressure for resources, potentially worsening the situation and causing economic fragility¹¹².

Wildcard #2: Civil Unrest

Marginalized groups continue to feel underrepresented in the current constitution and political system. The re-emergence of violent protests, and clashes with police forces, could destabilize the new government, disrupt trade (through blockades at the India/Nepal border, as seen in the 2015 Madhesi protest), and spark a return to violent conflict throughout the country. Addressing the concerns of groups such as the Madhesi, and ensuring political representation is crucial.

Wildcard #3: Land encroachment by China and India

Recent maps published by China and India have shown potential encroachment of Nepal's land^{113 114}. If this is not dealt with diplomatically (by both sides), violation of Nepal's sovereignty could cause dramatic complications with trade and investment, decreasing and destabilizing GDP, threatening governance, and aggravating fragility.

Policy options and recommendations

Why Canada

Canada, with its entrenched value of good government and its strong governance institutions, is well-poised to partner with the Government of Nepal to help strengthen its institutions and improve its capacity to deliver services to its population. Canada and Nepal both have very rich and varied geography and natural resources that can be both obstacles to reaching their respective remote populations, as well as integral storehouses for economic prosperity. Both nations must also balance environmental stewardship with industrial and economic growth. Canada and Nepal govern multi-ethnic populations with differing ideologies and politics, yet Canada has significantly lower levels of corruption and strives, albeit imperfectly, to serve the whole population without discrimination. These characteristics make the two countries well-paired for working together to address some priority areas identified by the Government of Nepal.

Canada has not identified Nepal as a country of focus for its current international development approaches, but it has prioritized a revitalization of the rules-based international order and eradicating poverty. The following policy proposals consider Canada's strengths in comparison to Nepal's current needs. The proposals also call for Canada to draw on its experts throughout government, not just its foreign service officers, joined as well by the Canadian brain trust in other sectors such as private industry, the non-profit sector, and academia.

Options for Nepal

Nepal is currently stable; however, it has a weak capacity, which in turn is limiting the legitimacy of the current government, and threatening to destabilize the progress made in recent years. Further, Nepal's unique geography makes it particularly vulnerable to climate change, and its weak capacity to build resilience and implement adaptation serves to increase the risk of future fragility in the face of environmental disaster. The following policy options are focused on addressing the identified primary drivers of fragility in Nepal, with the goal of increasing the likelihood of the best-case scenario, minimizing the risks of the worst-case scenario. Policy options are also designed to align with the priorities of the end user, and target both short- and long-term threats to fragility.

Based on our analysis, a primary driver of fragility in Nepal is weak governance, thus the first three policy options relate to strengthening institutions. Nepal hosted a variety of external state-building interventions post-conflict, thus the emphasis in these policy options is ensuring a sense of domestic ownership, supporting domestic actors and institutions rather than imposing new systems. The Nepali government has demonstrated a will to improve capacity and legitimacy, these options offer possible routes to support them in this process, strengthening these institutions in the future, and guiding Nepal on a successful trajectory to reduced fragility. The other recommendation directly addresses climate related risks, and encourages international cooperation.

Policy Option 1: Strengthen the tax system in cooperation with Nepal's Inland Revenue and the Ministry of Finance, enhancing capacity to provide services, infrastructure, and social programmes to citizens.

Policy Option 2: Strengthen the judiciary through cooperation with the Ministry of Law, Justice, and Parliamentary Affairs, increasing capacity to implement new criminal code, and uphold the rule of law.

Policy Option 3: Strengthen Police through training and institutional reform in cooperation with the police force, increasing stability through law enforcement and order.

Strengthening Institutions: Policy Options 1, 2, 3

Policy: Option 1 Tax Reform

Canada boasts a world-class tax administration with an exceptionally high compliance rate for income tax; this is an important core for the value of good governance and national stability. In the past, the Canada Revenue Agency has sent its senior public servants as expert consultants to assist countries emerging into the lower-middle and middle-income levels to build their capacity to collect tax revenue justly and efficiently.

Given this expertise, Canada is well-positioned to work with Nepal's Inland Revenue to help build its frameworks, design its operations, build its systems, and train its workforce.

Relevance: Strengthening the tax system will yield short-, medium-, and long-term benefits through opening up an under-utilized but available source of national revenue, building a culture of voluntary compliance, reducing corruption in the institutions and in the taxpayer population, more effectively redistributing wealth in an accountable and transparent manner, equitably administering benefits to those most in need, and ultimately stabilizing the government and increasing its capacity to invest in its economic growth and to better serve its citizens.

Measurement and risks: Achievement can be measured through meeting project milestones, as well as pre-intervention and post-intervention measurement of tax compliance, financial tracking and analysis.

There is a risk that this partnership will not be sufficient to overturn corrupt practices inside and outside of government. There is a risk that citizens will not make the cognitive link between paying taxes, eligibility for benefits, and government provision of services. There is a risk that even with more efficient and effective tax collection, government spending may not end up benefiting the country as a whole and/or the citizens who need it most.

Policy: Option 2 Judicial Reform

Nepal has prioritized reform of the judicial institution, understanding that in its current state, the courts are not meeting the needs of the country and its citizens. The processes are slow, not accessible to everyone, and the institution is an impediment to establishing the rule of law, internal peace, stability, and justice. Canada is well-positioned to work with Nepal's efforts to reform judicial institutions because of Canada's robust, generally well-functioning courts, and reputation for integrity.

Relevance: Strengthening the judicial system will yield short-, medium-, and long-term benefits through providing peaceful dispute resolution fora that is timely, insulated from corruption, and that is blind to ethnicity and social caste when meting out justice. This strongly lends itself to the peace and stability of the country and protecting the rights of the citizens.

Measurement and risks: Achievement can be measured through meeting project milestones, as well as pre-intervention and post-intervention measurement of judicial processes (for example, length of time it takes to resolve a dispute before a court), analysis of case outcomes to measure bias, and internal reviews can be instituted to guard against institutional corruption.

There is a risk that this partnership will not be sufficient to overturn corrupt practices inside and outside of government. There is a risk that judiciary will not have the capacity to interpret and apply the laws correctly. There is a risk that even with judicial institution reform, this will be insufficient to overcome systemic cultural oppression present in the society at large. .

Policy: Option 3 Police Development

Nepal has identified the weaknesses and lack of police capacity in the country. Canada has highly trained professional federal, provincial and territorial, and municipal police forces. While far from perfect, the Canadian police forces have a reputation for strong administrative effectiveness, effective use of leading edge technology, and effective training. In this way, Canada is well-positioned to partner with Nepal to develop its police capacity and effectiveness. Additionally, Canada has a history of training police in emerging and post-conflict nations, for example, in Afghanistan.

Relevance: Strengthening the police institutions will yield short-, medium-, and long-term benefits through providing immediate protection of citizens and their property; currently Nepal has areas that have undercoverage or no police coverage. A more effective police force can help build stability, mediate conflict before it escalates to violence, and enforce the laws the Nepali government has diligently fought to put into effect.

Measurement and risks: Achievement can be measured through meeting project milestones, as well as pre-intervention and post-intervention measurement of law enforcement outcomes (for example, crime levels by region and type), analysis of cases, and internal reviews can be instituted to guard against institutional corruption. There is a risk that this partnership will not be sufficient to overturn corrupt practices inside and outside of government. There is a risk that the police institution will not have the funding to achieve the appropriate level of coverage in each region.

Policy Option 4: Develop a new National Action Plan for Climate Change, encouraging coordination between relevant Ministries, NGOs, regional actors, and the international community to strengthen capacity to implement, particularly in mountain regions.

Policy: Canada prides itself internationally as a leader in the fight against Climate Change. Greater international attention has recently been given to the Hindu Kush Himalayas in recognition of the significance, and rapid rate of change taking place in the region. Past efforts by the Nepali government, such as the 2009 National Adaptation Plan of Action for Climate Change failed to make the transition from words on paper to substantial action. Harnessing resources and capacities outside of the government, such as existing environmental groups and NGOs, tourism stakeholders, regional partners in neighbouring countries that are also part of the Hindu Kush Himalayas, as well as international resources from the United Nations Environment Program offers opportunities for greater success. Engaging with these other stakeholders will increase a sense of domestic ownership and vested interest, in contrast to the externally drafted 2009 Adaptation plan. The Canadian government can support this coordination, offering expertise to assist in the development of adaptation and resilience strategies, enhancing Canada's position as a climate leader.

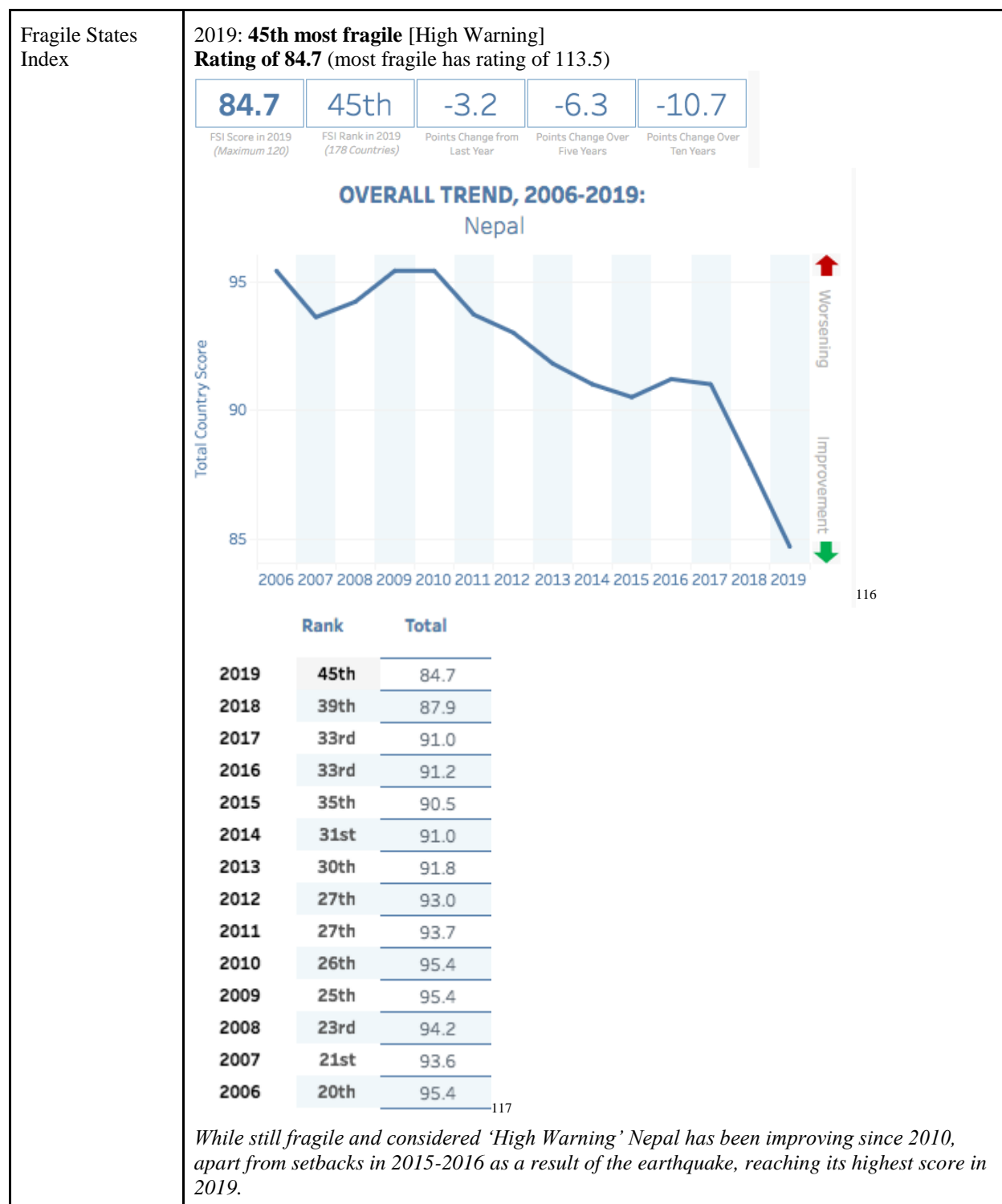
Relevance: Nepal is expected to experience more frequent climate related natural disasters, such as flooding due to glacier melt, as well as changes in average temperature at higher elevations, affecting agriculture outputs. The mountain regions are already the most vulnerable, and failure to address these vulnerabilities **could lead to higher rates of poverty, food shortages, and migration to urban areas**, increasing pressure on service delivery and security in cities, in the near future. Development NGOs, tourism leaders, and environmental groups are already trying to address some of these challenges, offering **entry points** for scaling up local interventions and harnessing local knowledge. Tourism presents an opportunity for economic growth and development in remote mountain areas, justifying greater attention to this region as this industry is threatened by environmental factors.

Measurement and risks: Relevant indicators may include vulnerability and exposure indicators such as household income and reliance on agriculture for income; health indicators such as rates of vector borne diseases; and food security levels. Some risks, or limitations, associated with this option is the lack of household data in mountain regions, the diversity of regional interests, and geographic constraints that make this region difficult to access.

Recommendation: Encourage private sector partnerships with public sector service delivery to increase capacity, fund infrastructure construction, and overcome administrative barriers.

This final recommendation is more general in scope; as Nepal stabilizes, investors are becoming more interested, offering opportunities to address many of the secondary drivers of fragility, such as weak capacity, service delivery to remote regions, and lack of infrastructure, while bypassing the administrative delays associated with the new government. The earlier example of Nepal's energy sector highlights the potential for private sector investment to increase energy output, enhance economic growth and human development, and reduce reliance on imports. This in turn would increase the legitimacy of the government as more citizens would have access to energy, delivering on the social contract. In this way government institutions can harness the capacity of the private sector to increase their own capacity and legitimacy. Other potential projects include investment from the Asia Development Bank in technical assistance, microloans, and hydropower¹¹⁵, and Chinese investment in transportation infrastructure as part of their 'one belt, one road' project.

Annex 1: Fragility Ranking - Fund For Peace

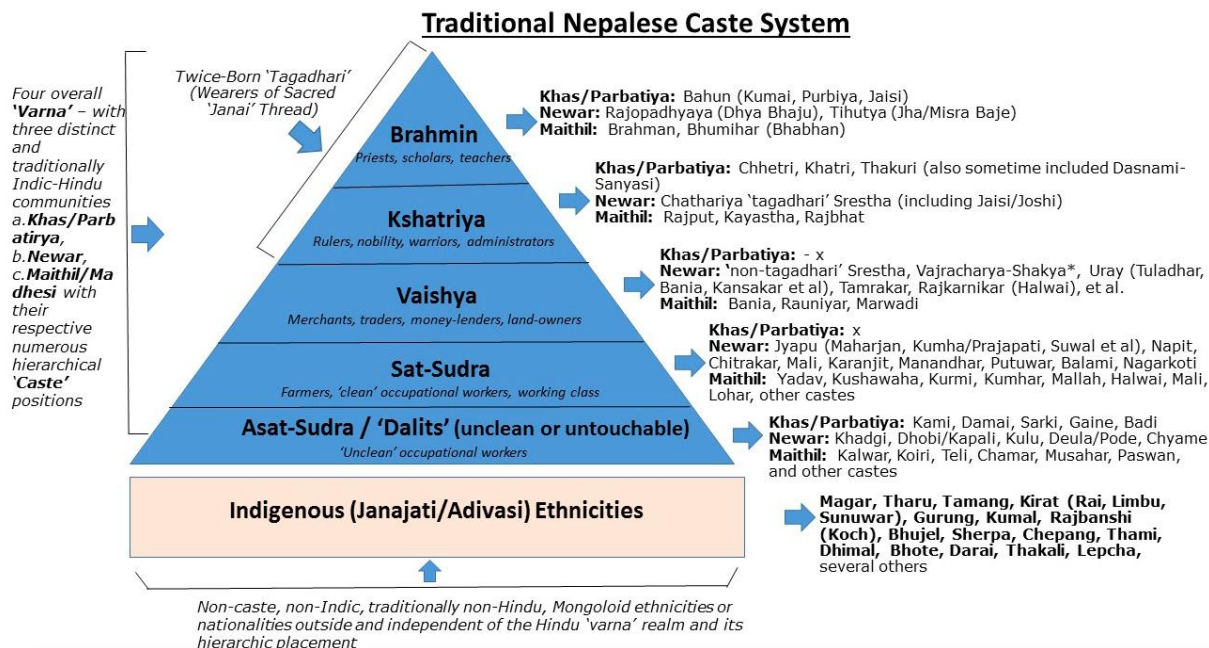


Annex 2: Additional Information on Marginalized Groups

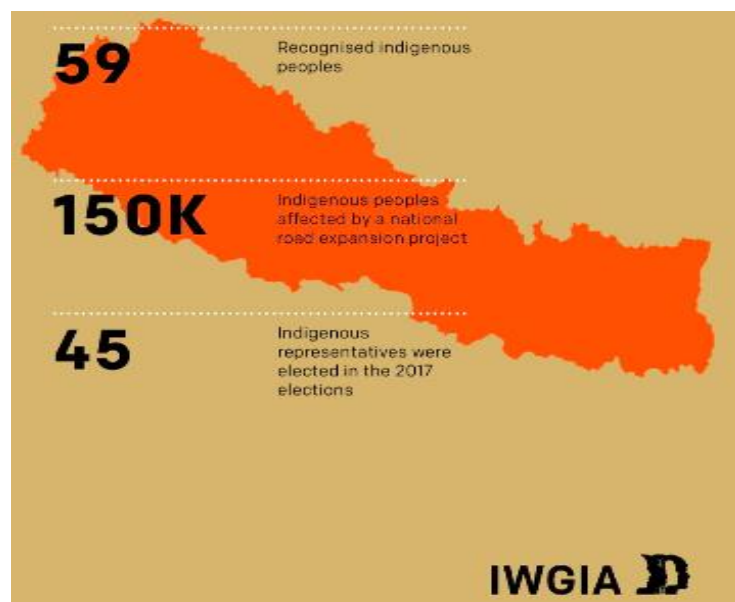
The caste system in Nepal was originally passed down through the Khas, Madhesi, and Newars societies.

*Caste system in Nepal*¹¹⁸:

- **Brahmin**--highest group in the caste system, the priests
- **Kshatriya**--warriors, kings
- **Vaishya**--merchants, landowners
- **Sudra**--commoners, peasants, servants
- **Dalits**--lowest group in the caste system, the “untouchables”



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Exclusion of marginalized groups has been a driver of conflict throughout Nepal's history. In 2007 Nepal adopted the **UN Declaration on the Rights of Indigenous Peoples**, yet many groups are still marginalized and **13 cases of human rights violations** were found by the **Lawyers' Association for Human Rights of Nepalese Indigenous Peoples' (LAHURNIP)** in 2017¹²⁰. These violations were mainly illegal usage of land as the government pushed infrastructure projects for economic development without the indigenous peoples' permission. For example, the Road Expansion Project affected over 150,000 people¹²¹.

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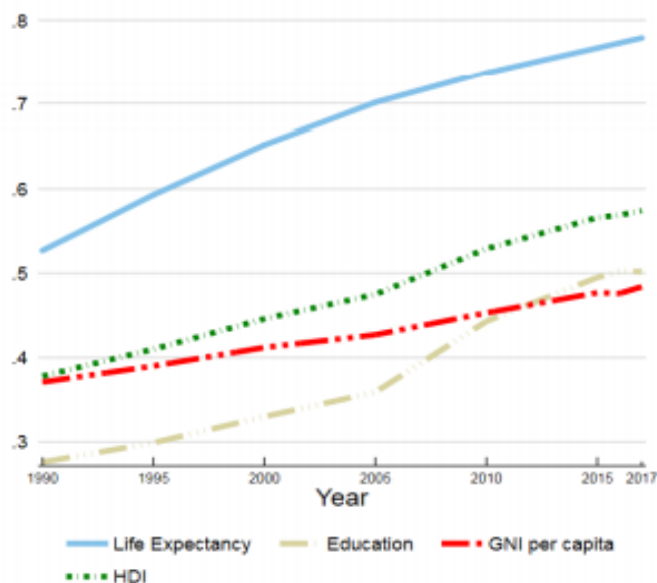
Many **women activists** and the **Madhesi group**--who inhabit the southern plains of Nepal, close to the Indian border--protested against the lack of representation within the 2015 constitution, which, although it has improved, still has glaring structural discrimination and does not meet the needs of lower caste groups¹²³. Many protests and internal conflict resulted from the passing of the new constitution, including a blockade along the border of India (a main import supplier) which highlighted Nepal's economic and political weaknesses¹²⁴. Many international actors highlighted inclusion and identity issues in Nepal and international donors provided support to women, Dalits, Janajatis (indigenous ethnicities), and Madhesis; however, the movement met so much backlash from the Nepalese government and political elites that donors are now sometimes hesitant to bring up these rights issues¹²⁵.

Annex 3A: Additional Human Development Data

The below figure summarizes the overall improvement Nepal has seen in the past three decades.

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Figure 1: Trends in Nepal's HDI component indices 1990-2017



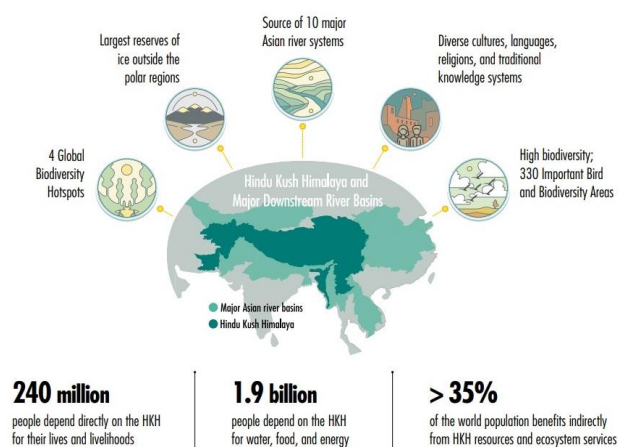
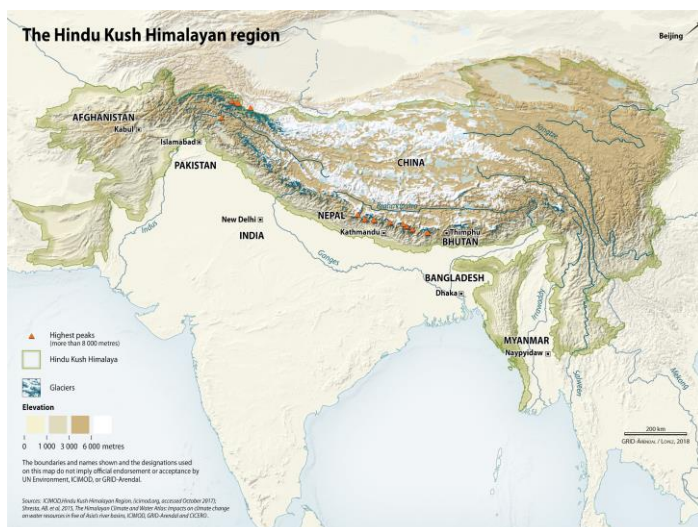
Annex 3B: Gender

Gender inequality is another major challenge in Nepal, with large discrepancies in literacy rates and mean years of schooling¹²⁷, largely due to a high rate of child marriage and adolescent pregnancy that causes girls to drop out of school¹²⁸. Progress has been made, and the government has committed to pursuing gender equality. The 2015 constitution addressed a few key areas, for example removing barriers to single women passing along citizenship to their children¹²⁹. Other legal reforms, and female appointments to leadership positions (ex. Bidhya Devi Bhandari as President and Sushila Karki as Chief Justice of the Supreme Court), demonstrate progress; however, this progress remains largely limited to discourse and high level policy, it has yet to translate into substantial changes for women.

Annex 4A: Environment

Environmental Vulnerability, Tourism, and Mismanagement

Nepal is part of the Hindu Kush Himalaya Region, which spans eight countries, is the origin of ten major river basins, home to four global biodiversity hotspots, hosts the largest area of permanent ice cover outside of the poles, **supports the livelihoods of 240 million people** living in the mountains, and **feeds a further 3 billion** through food production in its basins¹³⁰. The area is being affected by climate change at an accelerated rate, leaving communities vulnerable to **loss of livelihood, food and water insecurity, and deepening poverty**.



Summary of the HKH Assessment Report

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Nepal is home to 8 out of the 10 highest peaks in this region, including Everest, K2, Lhotse, and Annapurna, which attract tourism, trekking, and mountaineering activities. In 2017, trekking and mountaineering accounted for **70% of tourism to Nepal**¹³³, which makes up about 2 percent of the country's GDP¹³⁴.

The effects of climate change in this region are diverse and understudied (this is shifting with the 2019 publication of the *Hindu Kush Himalaya Assessment*); however, a few examples include:

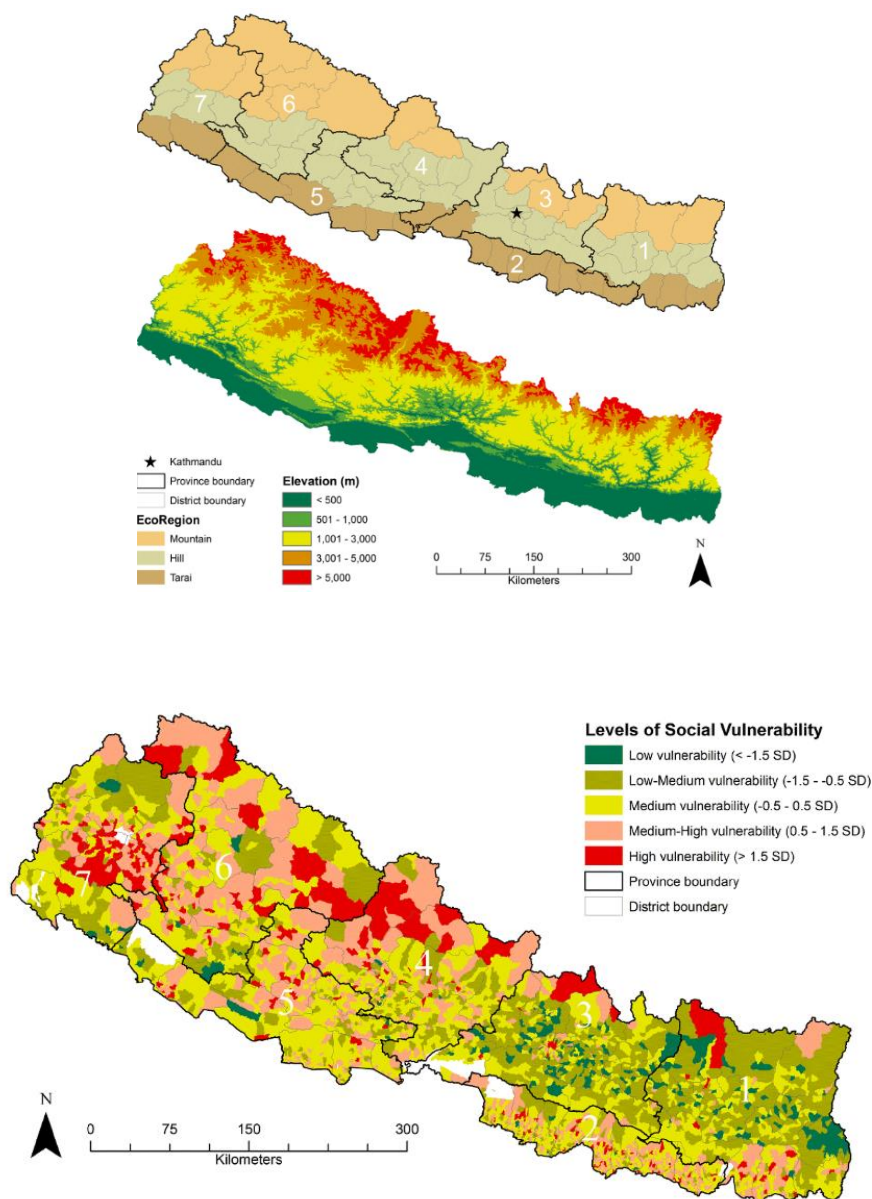
- Khumbu region of Nepal is experiencing a decreased stream flow due to climate change, affecting the availability of water to meet the **high water demands of tourists**¹³⁵;
- An increase in **vector-borne illnesses** such as malaria and dengue due to climate change has already been reported in the mountains of Nepal¹³⁶;
- Out-migration of men for work leaves women solely in charge of agricultural work, increasing their vulnerability to climate related changes. This is exacerbated by a lack of gender-disaggregated data, and a failure for interventions to adequately address the **differential impacts of men and women**¹³⁷.

Nepal is particularly vulnerable to climate change; however, much of this vulnerability is indicative of **broader constraints on resources, expertise, political will, and capacity, that has limited Nepal's response**. For example, in 2009, Nepal adopted a National Adaptation Plan of Action for Climate Change; however, it was prepared by foreign experts, hired by donor agencies, in order to qualify for international funding under environmental agendas¹³⁸. Limited local capacity to implement and monitor has led to a gap in practice. This gap became evident in the post-disaster relief work in 2015, which has been widely evaluated as ineffective¹³⁹. A lack of information about household effects, a failure to implement adaptation and resilience measures, and a lack of coordination between government and local networks all contributed to the poor response. This region offers opportunities for Nepal to engage with other regional leaders to address climate change, support remote communities, develop the tourism industry, and finance resiliency projects.

Annex 4B: Regional Differences in Vulnerability

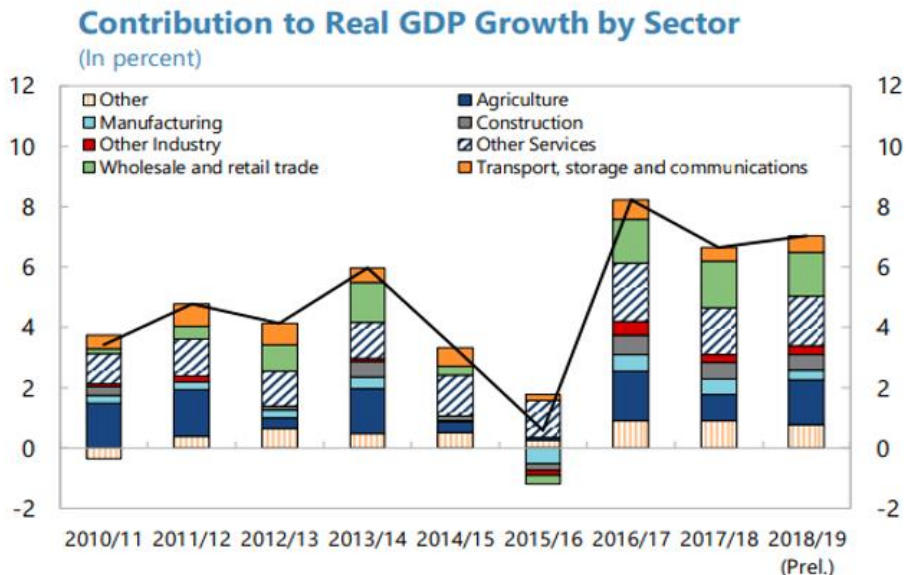
The mountain regions of Nepal are vulnerable to climate change, and by extension socially vulnerable. The first map portrays the various geographic regions of Nepal, and the following maps demonstrate the correlation between mountain regions and levels of high social vulnerability. The isolation of these remote communities results in limited medical, legal, and educational services. Tourism presents an opportunity for greater economic and human development; however, households not involved in tourism are excluded from this potential, thus broader investment in this region is needed to overcome regional disparities.

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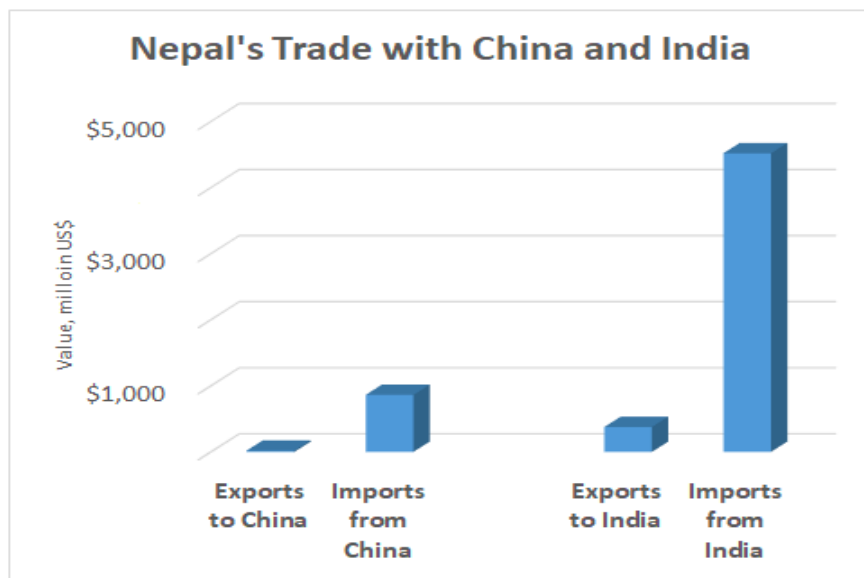
Annex 5: Economic Trends

Nepal’s economic trends and statistics are detailed in the graphics below. Nepal’s imports and exports are imbalanced, and it is clear from much of the data that the 2015 earthquake had a substantial effect on the country’s economic growth and stability.



Sources: Nepal Central Bureau of Statistics, and IMF staff calculations.

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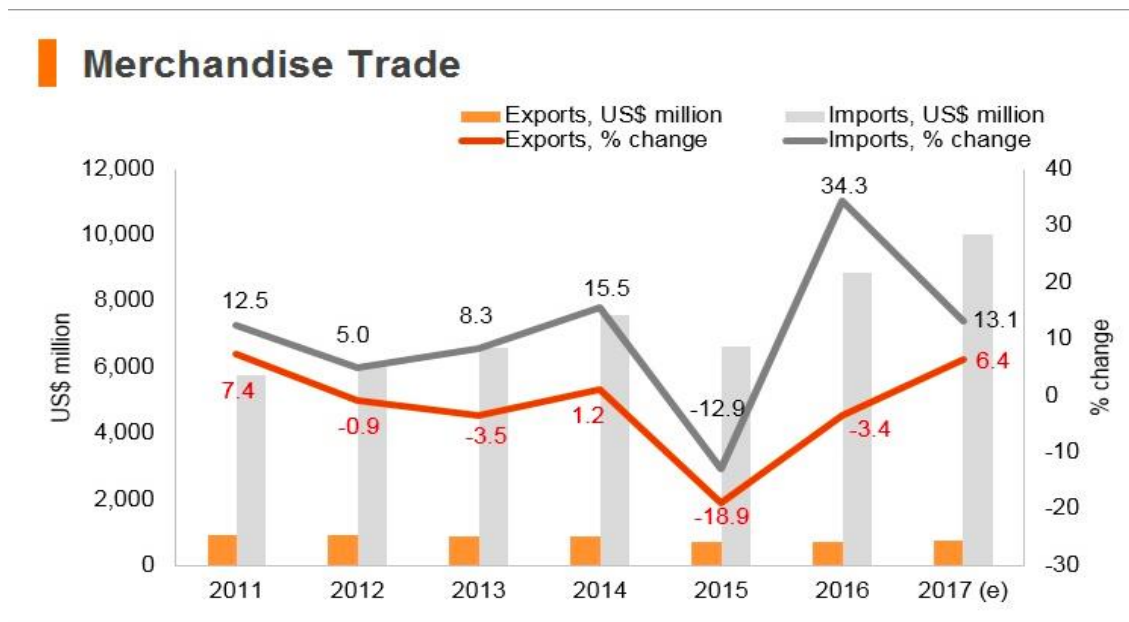


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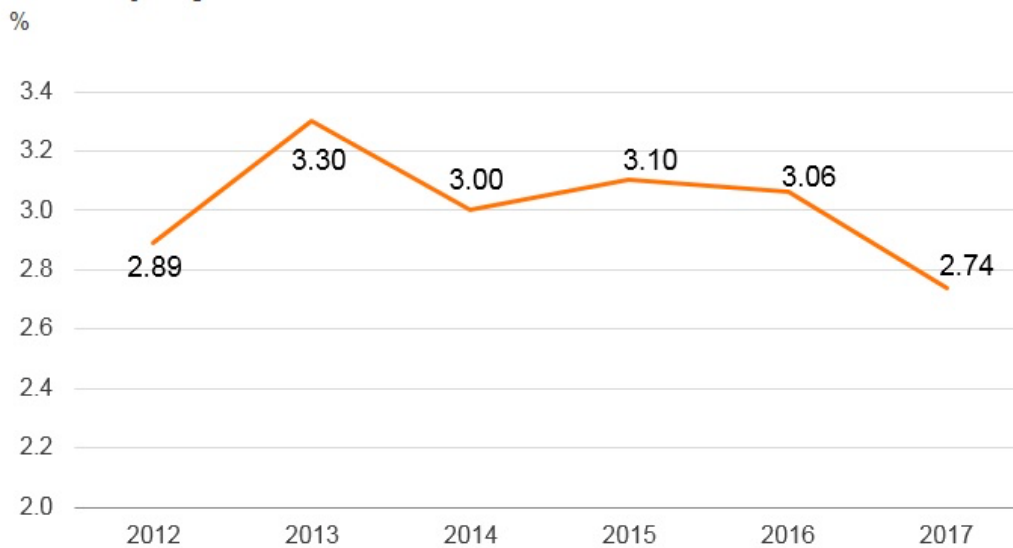
The graphs above and below depict the trade trends in Nepal. The Merchandise Trade graphic runs from 2011 to 2017 and shows a large dip in both imports and exports at the time of the 2015 earthquake, with imports surging the year after the earthquake and, although there is still a disparity, equalizing slightly with exports in 2017.

The unemployment rate (graph below) is gradually decreasing, showing Nepal's improving economic trend by 2017.

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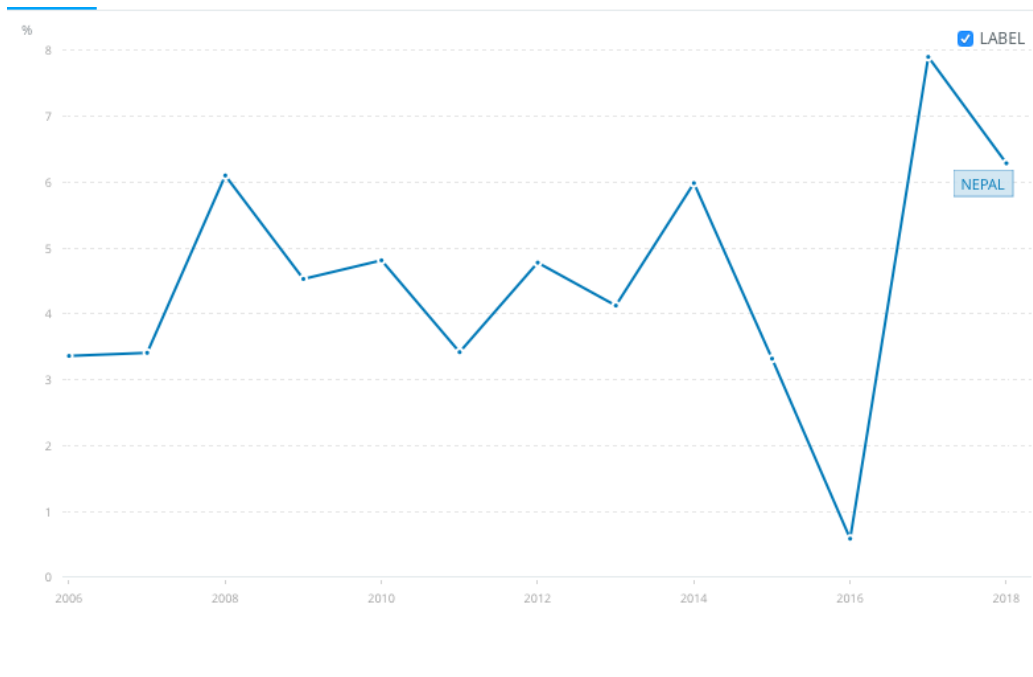


Unemployment Rate



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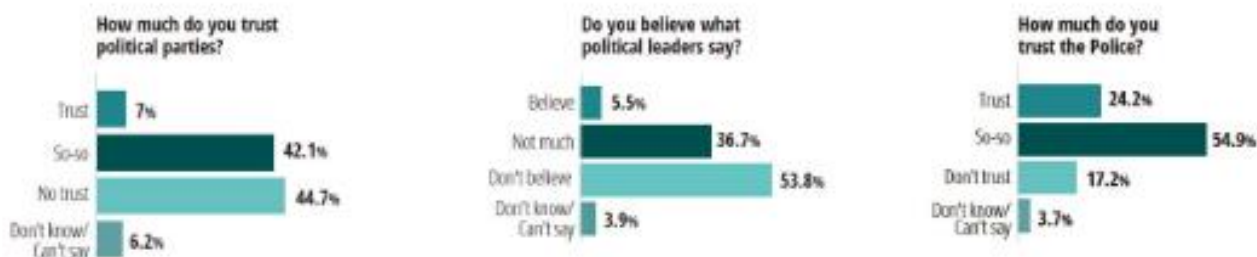
GDP Growth Rate



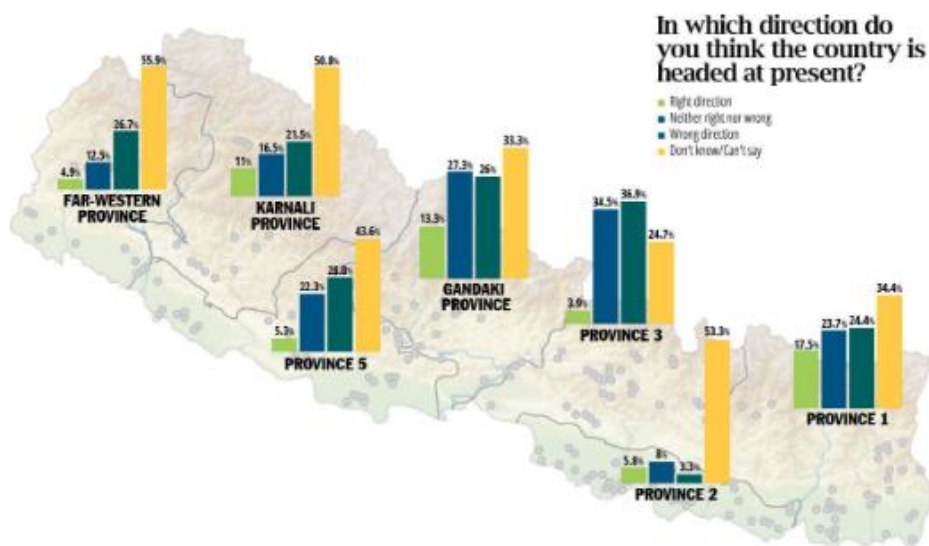
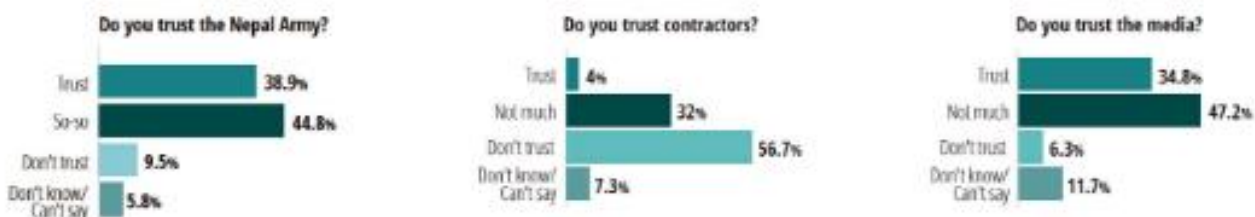
The graph above depicts Nepal's annual GDP growth rate (%).

Annex 6: Legitimacy

Below is data from a 2019 survey conducted by Sharecast Initiative among 4129 Nepali citizens in 42 districts. This survey indicates a lack of complete trust in political leaders as well as enforcement bodies such as the police and army. The final map indicates a degree of uncertainty regarding the trajectory Nepal is on. In all regions, a large portion of respondents didn't know what direction Nepal was headed. The Nepali government needs to improve outputs to increase popular trust, and demonstrate to its population that they are headed in the right direction.



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End Notes

- ¹ Front page image: “Nepal Map Pin Images.” Shutterstock. Accessed December 3, 2019. <https://www.shutterstock.com/search/nepal%20map%20pin>
- ² Carlson, Trace. “Neal Enjoys the Dividends of Two Decades of Difficult Decisions.” *Fund For Peace* (May, 2018). <https://fundforpeace.org/2018/05/10/nepal-enjoys-the-dividends-of-two-decades-of-difficult-decisions/>
- ³ Fund For Peace. “Fragile States Index Annual Report 2019,” (2019) p. 9. <https://fundforpeace.org/wp-content/uploads/2019/04/9511904-fragilestatesindex.pdf>
- ⁴ Fund for Peace, “Fragile States Index Annual Report 2019,” p. 7.
- ⁵ OECD. “States of Fragility 2018,” (2018) <https://doi.org/10.1787/9789264302075-en>
- ⁶ Grävingsholt, Jörn et al. “Struggling for Stability: International Support for Peace and Democracy in Post-Civil War Nepal.” *German Development Institute* 27 (2013): 4.
- ⁷ Ibid., 6.
- ⁸ “2015 Nepal Earthquake: Factsheet.” *World Vision*. April 3, 2018.
- ⁹ Ibid.
- ¹⁰ Roth, Kenneth. “World Report 2019: Rights Trends in Nepal.” Human Rights Watch, January 17, 2019. <https://www.hrw.org/world-report/2019/country-chapters/nepal>
- ¹¹ Ibid.
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³⁹ According to the CIA World Factbook, the Election Commission of Nepal granted ballot access under the proportional system to 88 political parties for the Nov-Dec 2017 House of Representatives election to the Federal Parliament; of these, the following 8 parties won seats, with leaders indicated for each:

Federal Socialist Forum, Nepal or FSN [Uendra YADAV]
 Naya Shakti Party, Nepal [Baburam BHATTARAI]
 Nepal Communist Party or NCP [Khadga Prasad OLI, Pushpa Kamal DAHAL]
 Nepali Congress or NC [Sher Bahadur DEUBA]
 Nepal Mazdoor Kisan Party [Narayan Man BIJUKCHHE]
 Rastriya Janamorcha [Chitra Bahadur K.C.]
 Rastriya Janata Party or RJPN [Mahanta THAKUR]
 Rastriya Prajatantra party or RPP [Kamal THAPA]

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