

From Graduation to Resilience: Nepal's Post-LDC Challenges How Can Nepal Address Pressing Environmental Risks?

A POLICY BRIEF

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EXPLORING POST LDC GRADUATION ENVIRONMENTAL RISKS IN NEPAL

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Graduating with Vulnerabilities: Rising EVI in Nepal's Post-LDC Transition

Nepal is projected to graduate from the Least Developed Country (LDC) category in November 2026, representing a critical milestone in its socio-economic development trajectory. The country has achieved significant improvements in human capital, as reflected by the Human Assets Index (HAI), which increased from 68.7 in 2015 to 76.3 in 2024, surpassing the established threshold of 66. Concurrently, the Economic and Environmental Vulnerability Index (EVI), while remaining below the maximum threshold, is projected to rise from 24.7 in 2021 to 29.7 in 2024, indicating increasing exposure to environmental and economic shocks.

In the post-graduation context, Nepal will face the gradual withdrawal of LDC-specific trade preferences and concessional climate finance, thereby heightening the imperative for domestic policy and institutional frameworks to manage environmental vulnerabilities effectively. The country remains highly susceptible to climate-induced hazards, including floods, landslides, earthquakes, and glacier lake outburst floods (GLOFs), which pose significant risks to livelihoods, infrastructure, and economic stability. The 2024 monsoon floods alone resulted in 244 fatalities and economic losses exceeding USD 350 million, exemplifying the magnitude of prevailing risks. Agricultural production instability, although improved since the early 2000s, continues to threaten food security, while rapid urbanization and biodiversity loss exacerbate ecosystem fragility.

These indicators underscore the necessity of integrating environmental risk mitigation into post-LDC strategic planning. Strengthened climate adaptation measures, enhanced disaster preparedness, and robust institutional governance are essential to maintain EVI within safe limits and safeguard development gains.

What drives environmental risks in Nepal?

Environmental Factors

- Climate Extremes
- Land Degradation
- Increased Air pollution index
- Urbanization
- Global Warming and carbon emission by large economies

Financial Factors

- Development Funds for adaptation and mitigation
- Concessional terms in finance
- Risk Transfer
- Capacity deficit due to lack of international fund

Governance Factors

- Institutional Capacity
- lack of transparency
- Localizing management measures
- legal obligation
- Infrastructure Development

Resource Related Factors

- Exploitation of natural resources for revenue
- Multi Hazard risk
- Human capital for DRR
- Unplanned settlement
- Municipal
- Plastic use
- Industrial wastewater

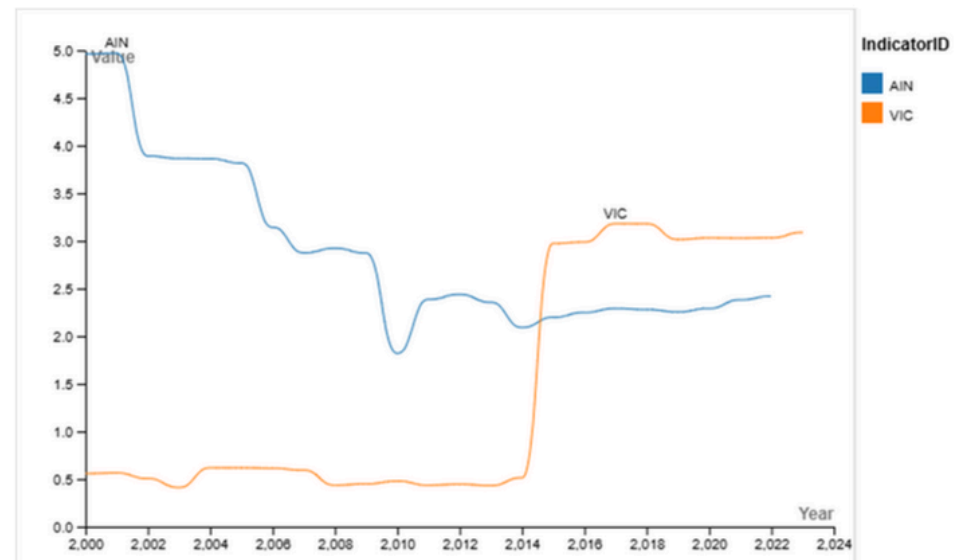
Key Messages

Despite developmental progress, Nepal's EVI has risen and climate-induced economic losses have steepened in recent years.

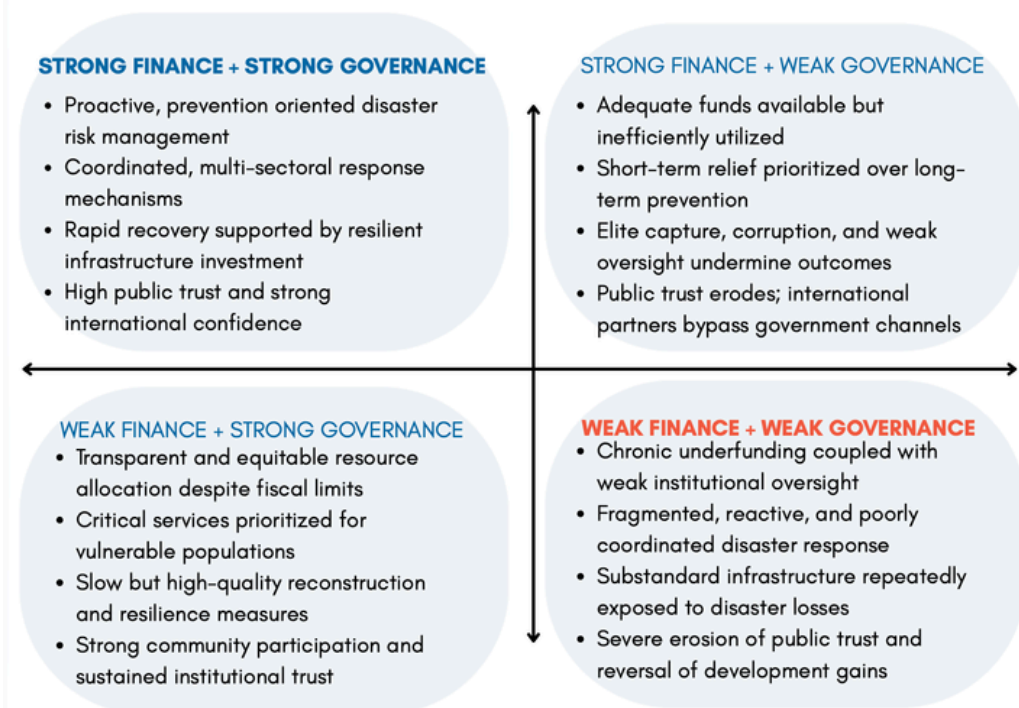
Finance and governance drive Nepal's post-LDC environmental risk, with their interaction shaping disaster resilience, preparedness, and outcomes across four scenarios.

Given persistent environmental risks, establishing a Scenario Planning Unit (SPU) will strengthen short-term resilience and preparedness, with potential to guide cross-sectoral planning for long-term sustainable development.

Figure 1. Time series estimates of instability of agricultural production (AIN) and victims of disasters (VIC) indicators in Nepal (2000-2023)



Finance–Governance Interplay: Scenarios for Nepal’s Disaster Resilience



Finance & Governance Lessons: Global Practices for Nepal’s Disaster Resilience

Nepal can strengthen disaster resilience by learning from international finance and governance practices tailored to different capacity scenarios.

Scenario 1 (Strong Finance + Strong Governance): New Zealand’s EQC disaster insurance pools risk nationally, enabling rapid, predictable payouts. Nepal can replicate this through a government-backed fund covering agriculture, infrastructure, and housing.

Scenario 2 (Strong Finance + Weak Governance): The Philippines’ Typhoon Haiyan experience shows that abundant resources fail without coordination. Nepal must enforce accountability, improve interagency coordination, and monitor fund utilization to ensure effectiveness.

Scenario 3 (Weak Finance + Strong Governance): Cuba’s centralized early warning systems and evacuation drills demonstrate that strong governance ensures preparedness even with limited funds. Nepal can prioritize risk-reduction measures and community-based preparedness programs.

Scenario 4 (Weak Finance + Weak Governance): South Sudan’s OCHA pooled fund highlights that independent, donor-managed mechanisms can ensure minimum response capacity. Nepal can adopt similar contingency or pooled funds to provide essential services during crises, bridging gaps in finance and governance.

Way Forward

Nepal’s post-LDC resilience hinges on the complex interaction of finance and governance. Strong finance and governance enable proactive disaster management, while weaknesses limit effectiveness. Additional drivers such as climate extremes, land degradation, urbanization, and migration—further shape vulnerability. Establishing a Scenario Planning Unit (SPU) within the National Planning Commission will allow Nepal to anticipate multiple futures, analyze cross-sectoral risks, and guide evidence-based, integrated disaster and development planning for sustainable post-LDC progress.

Scenario Planning Unit Strategy for Nepal

1-Year (2026–2027): Disaster Risk Focus

The SPU will be established within the National Planning Commission to address immediate disaster risks. Key actions include operationalizing early warning systems, strengthening data collection on hazards and vulnerabilities, and conducting scenario-based planning for agriculture, infrastructure, and climate-related events. This phase emphasizes rapid, actionable insights to guide short-term resilience measures.

5-Year (2027–2031): Multi-Sector Expansion

The SPU’s mandate expands to include urbanization, migration, land degradation, and natural resource management. Integrated scenario analyses will support cross-sectoral planning and resource allocation. Strengthened interministerial coordination, public-private partnerships, and donor engagement will enhance the SPU’s capacity to inform medium-term policies on environmental sustainability, economic resilience, and social protection.

10-Year (2032–2042): Institutionalization

The SPU becomes a permanent, cross-sectoral advisory and analytical body. Scenario planning will extend to economic competitiveness, migration governance, and regional risk management. The unit will provide anticipatory, evidence-based guidance for national development, disaster, and climate policies, ensuring sustainable, long-term resilience across sectors.