

NEPAL DEVELOPMENT FORUM 2002

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Report of the Proceedings

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Session I: Opening Plenary

February 4, 2002 (Afternoon)

?? **Speeches**

Session II: HMG/N Agenda for Priority Reform Actions

February 5, 2002 (Morning)

Summary of the Pre-NDF Consultations

Main Points in the HMG/N Presentation on the Agenda for Priority Reform Actions

?? Nepal now faces hard economic realities and rising security needs, but the country is continuing to carry out the reforms discussed in Paris (April 2000). The plan included (i) consolidation of macroeconomic and fiscal structure management; (ii) private sector development; (iii) financial sector reforms; (iv) decentralization; (v) governance; (vi) aid effectiveness; (vii) civil service reforms; and (viii) enhanced role of civil society.

Fiscal Reforms

?? The tax base has been broadened, several laws relating to taxation and fiscal management have been enacted (Income Tax) or amended (VAT, excise) and several laws are in the process of being enacted (Customs Act). The Department of Taxation and Value Added Tax have been merged into one Inland Revenue Department. Tax and VAT registrations have both increased. In addition, a number of actions to plug revenue leakages have been introduced, including a monitoring unit, hot line and VAT billing system, along with a code of conduct for personnel.

Public Expenditure Management

- ?? Efforts are underway to rationalize recurrent expenses, and the number of ministries has been reduced from 26 to 21. Several regional offices have been shut down and right-sizing of civil service is underway--5000 posts have been frozen and over 2000 civil servants have taken voluntary retirement. A contributory pension scheme is to be introduced from this fiscal year. State-owned enterprises (SOEs) have been asked not to create additional liabilities.
- ?? Development spending has been prioritized with about 100 projects identified as core projects. The number of projects has been reduced from about 714 to 614. Medium Term Expenditure Framework (MTEF) exercises have been completed in five ministries. The Government has attempted to ensure quality of projects at entry with proper screening, and is trying to introduce time-bound implementation. Budget reclassification and restructuring is also taking place.
- ?? Financial administration rules have been amended to rationalize spending and prevent leakage. Government has begun auditing block grants provided to local governance units and is working to begin physical audit of civil works through a new set up within the National Planning Commission. Allocations are also being increased to ensure funding for operations and maintenance.

- ?? Public resource allocation is being more focused on poverty alleviation programs—e.g., 15 percent of the development budget is now going to poverty focused programs. The Poverty Alleviation Fund (PAF) will help to provide this in rural areas and resource allocations to agriculture, irrigation and rural infrastructure have increased.

Private Sector

- ?? Have taken steps to make economy more private-sector friendly by removing entry barriers, making exit easier and creating a level playing field. Discussions are underway to change the labor laws. Several laws that relate to the private sector (bankruptcy, security transactions, accounting standards, intellectual property and company law) are in the process of being enacted or amended. Efforts are also underway to improve corporate governance and privatization of SOEs. Government is thinking of creating a Privatization Fund to pay off liabilities of SOEs before privatization. The privatization process will be accelerated in the near future.

Financial Sector Reforms

- ?? The financial sector reforms have picked up speed recently. The new central bank act provides full autonomy to the Nepal Rastra Bank (NRB) and also strengthens its monitoring and supervisory authority. Several other laws relating to the sector—including the Debt Recovery Bill and the Deposit Taking Institutions Bill—have been passed by parliament or are in the process of being taken to parliament.
- ?? Two failing banks—RBB and NBL—are in the process of being handed over to management firms on two-year management contracts. The next step would be to assess the status and take similar measures to improve the situation of two other publicly-run financial institutions (i.e., Agricultural Development Bank and National Industrial Development Corporation). Restructuring of Rural Development Banks has also begun. Enhancement in corporate governance is being expedited

Governance Reforms

- ?? The Government has a comprehensive governance reform program underway. It seeks to right-size and enhance the efficiency of the civil service, which has already shrunk from about 103,000 to 85,000. Efforts are underway to increase participation of women in civil service and introduce and enforce a performance-based evaluation system. The civil service training policy is being revised, and change units have been established in five Ministries, which to date have prepared personnel management manuals. While there was a significant increase in pay to civil servants in 2001 that was expected to result in increased productivity, the impacts have been significantly below expectations.
- ?? The Government is channeling resources as much as possible down to the grassroots level and service delivery mechanisms are being strengthened. A “Citizen’s Charter” has been introduced ensuring the rights of citizens to receive services. Enhancing transparency and accountability and combating corruption are high on the agenda. Small steps—such as requiring teachers to be licensed—are being taken to start achieving these objectives. New CIAA bill is being introduced shortly and CIAA is being strengthened. A system is also being developed to monitor the property declarations of public officials.

Decentralization

- ?? Over 10 laws relating to decentralization (i.e., those that were contradictory to the Local Self Governance Act) are in the process of being amended. A Decentralization Implementation Plan has been prepared to speed up the process.
- ?? Some local taxation authority has been delegated and more can be done once the capacity of local units is enhanced. Participatory planning has begun and some service delivery responsibilities, including in primary education, health care, postal services, animal health and agricultural extension have been devolved.
- ?? The Government has set up a Local Development Trust Fund which will fund projects undertaken by local bodies, institutions and other grassroots stakeholders.

Civil Society Partnerships

- ?? A bill is being drafted to simplify registration procedures and to make NGOs more transparent and accountable. NPC is working out coordination and monitoring mechanisms for civil society organizations, and is developing a database of all International NGOs (INGOs) working in Nepal.

Summary

- ?? The results of the reforms have been mixed, but they are moving in the right direction. In addition, the ownership of the reforms is being widened, the need for reforms is becoming clearer, and the Government's commitment to reforms is reaffirmed. Furthermore, the reforms are starting to show economic efficiency gains.

Comments from the floor¹

General

- ?? The Government was commended for the quality of the preparation of the meetings, including the extensive series of "pre-meetings" and consultations leading up to the main forum. In addition, the Government was commended for being in the "drivers seat" and taking the lead with the Development Partner coordination process. Finally, many participants noted the impressive documentation provided for the meeting.

Development Challenge

- ?? There is a close relationship between poverty, development, peace and security. Implementation of development works has slowed because of the Maoist terrorism. It is important to organize the bargaining power of the poor (including women's self-help groups and minorities) to counter Maoist terrorism.

¹ The Chair asked participants to focus on forward looking comments, as opposed to dwelling on the past. The co-chair set the following ground rules for the discussion sessions: (i) keep it short so as many people can be recognized as possible; (ii) keep it simple with one point per intervention; (iii) do engage in conversations, not speeches—"two handed interventions" (i.e., to follow up on the specific issue being raised) are accepted; (iv) each speaker should introduce him/herself; (v) cell phones should be turned off; and (vi) interventions can only be related to the most recent session.

- ?? Development partners urged the authorities to take necessary steps for restoring security. The security situation would be a major challenge for implementing reforms, programs and projects.
- ?? Standard implementation practices may not work in the Maoist affected areas, therefore there is a need to innovate and come up with effective ways to deliver development, and the impacts of these interventions have to be felt immediately.
- ?? The security problems are a major challenge, especially for Development Partners that have faced problems in the past. There is need to think of new ways to overcome the security problems.
- ?? There is an opportunity in every crisis. The Government should take advantage of this crisis/opportunity to move the reform program forward. Especially in times of crisis, extraordinary measures can and need to be taken to move decisively forward.

Priority Reform Actions

- ?? Development partners commended the actions undertaken by Nepal, and acknowledged and noted the commendable macro-economic performance and growth rates achieved in the 1990s. They expressed support to the reform process.
- ?? Development partners pointed out that much work remained to make the documents prepared for NDF consistent with the planned reforms in all sectors. The need to link economic growth with poverty reduction through effective decentralization was especially noted. A key challenge remains to be to set priorities and have proper sequencing of the reform program.
- ?? Development slack in the implementation of difficult political reforms, stressing that continuity of leadership is crucial to get the reforms off the ground and to begin making an impact on poverty reduction. There is also a need to tackle the political agenda.
- ?? Political continuity is an imperative for Nepal. In addition, implementation should be addressed at the local level and thus there is need for decentralization. There is also need to build systems to monitor to ensure local and national accountability.
- ?? More importance should be placed on expanding democracy and increasing the confidence of people that democracy will work.

Decentralization

- ?? The distance from the center to populations in outlying districts is large; hence, the need to move decisions closer to the people, by devolving authority, responsibility and resources. This can help make Government more accountable and relevant to the people.
- ?? Devolution means taking privileges and power from the few. This needs continuous political leadership and commitment to get done.
- ?? There is broad agreement that participatory development and decentralization are crucial for poverty reduction. Development partners also stressed the need to clarify the legal framework to make decentralization work.
- ?? Development partners noted that decentralization has been slow, and expressed concerns that development activities at local levels had been postponed, especially after recent budget reallocations.
- ?? Partners said they will closely watch the new laws being enacted to facilitate decentralization and reiterated that the important task ahead was the shifting responsibility for poverty reduction to local level institutions backed up by adequate fiscal decentralization and local capacity building.

Implementation and Monitoring

- ?? Implementation is the critical element for enhanced development cooperation. As important are the issues of effective decentralization and corruption control. These are areas where development partners said they would like to see decisive steps by Government.
- ?? Governance reforms and follow-up actions are other critical issues that will be closely watched.
- ?? Development partners said that the list of laws taken to parliament for legislative actions needed to back the reforms was impressive. But, it also gave the impression that the administrative arm has been doing its homework and there was no timeframe for legislative actions. Some wondered if there could be indications on how soon the legislative actions would take to come.
- ?? Implementation has to be monitored carefully to ensure that reforms benefit people at the grassroots level. The Government and development partners shouldn't lose sight of the importance of achieving results on the ground and the need to track the impact. "The real test will be the impact on the lives of the poor."
- ?? Line ministries and Government should take the leading role in development and also to bring about greater coordination through continuous dialogue between the development partners and Government.
- ?? "The list of achievements listed by Government is impressive but why have things gone wrong? Why are local institutions un-staffed? The extension workers are simply not there in the villages."
- ?? Nepal's crisis in governance makes it difficult even for development partners keen to increase their support to make a case for more support.
- ?? If the past is any indication of the future, the challenge ahead is enormous. Implementation on ground is very important, and for doing that effective monitoring is needed. This in turn depends on timely availability of reliable data—something that is currently lacking.

NGOs/ INGOs

- ?? Very important to have an oversight of NGOs/ INGOs, but care must be taken to ensure that the NGO activities, imagination and creativity are not stifled.
- ?? There is a gap between saying and doing—e.g., the National Human Rights Commission was set up after a long time, but it was not given enough resources to function. Such "gaps" have affected some support that Development Partners could have provided.

Concluding Government Responses

- ?? "We are alert about the priorities and also realize that the ultimate test is implementation." Government expressed full commitment to address the concerns about implementation, because it also believes that development has no meaning unless there are improvements in the lives of poor people.
- ?? Nepal has positive examples of where development has worked. Fifteen years ago we were said to be a country of fragile mountains and an environmental hot spot. "Go to the hills now and you will see greenery everywhere, change in the villages is visible." There is a new secondary school coming up in every village, even though the facilities may not be adequate.
- ?? Road building has been done even in the most difficult terrain in the country's mid-western regions. "When we asked international assistance for the roads, we were turned down because it was felt that these roads were not economic propositions. Instead, we were asked to focus

on the social sectors.” Now there is realization that road construction even in remote areas makes sense.

?? Government acknowledges that the changes/reforms accomplished to date are not sufficient, and that there is a real need for further reforms and showing results. The civil service is weak and not the best outlet for service delivery. Government takes the suggestions for greater decentralization, and the need for workers to be made accountable to local people.

?? Block grants to villages were cut because it was a compulsion—domestic resources have been diverted for security and other development activities are likely to be affected. International assistance can help restore the grant levels.

Session III: The 10th Plan, PRSP/ MTEF

February 5, 2002 (Afternoon)

Main Points in HMG/N Presentation on 10th Plan

- ?? Tenth Plan/PRSP is being prepared after intense, multi-level consultations on the I-PRSP. The 10th Plan will be Nepal's PRSP. The approach paper to the 10th Plan has been approved by the National Development Council.
- ?? Poverty alleviation—defined in terms of mainstreaming all the “have-nots”, dalits, indigenous groups, women, with special focus on remote areas—is the main theme of the 10th Plan. The aim is to reduce poverty to around 20 percent from the estimated 38 percent today.
- ?? The strategy will focus on four pillars: (i) broad-based growth, and correcting the “over-emphasis” on agriculture (i.e., agricultural diversification) while also looking at the equity aspects—i.e., creating opportunities and distributing income more evenly across the board; (ii) social sector development in which the capacity of people needs to be enhanced to compete and to take advantage of opportunities, with focus on reaching out to women and marginalized groups—i.e., empowering the “voiceless” class; (iii) targeted programs to reach out to those groups that may be “by-passed”—i.e., targeted programs for income generation and employment, as well as transparent policies for private sector investment; and (v) good governance, including decentralization to improve service delivery and transfer decision making to local levels.
- ?? Women are the focus/centre point of the 10th Plan. Government believes that if women are brought into decision making process, projects can be completed at lower costs and also be better sustained. Women have been identified as the change agents.

Main Points in the HMG/N Presentation (PRSP and MTEF)

- ?? Five ministries (largest users of the development budget collectively) have prepared MTEFs. The MTEF process has included: (i) choosing actions with the highest poverty impacts; (ii) identifying sectoral objects and strategies; (iii) prioritizing strategies and programs; and (iv) linking programs and implementation with the budget. Public actions would now focus on areas with the highest impact on poverty. The five ministries have clearly identified their top priorities and now need to work and revise their implementation strategies. The five ministries—education, health, agriculture, physical planning and works and water resources—cover the major economic areas.
- ?? The MTEF will link plan with the annual budgeting and help to maintain fiscal discipline. Government will spend depending on availability of the resources on hand and link spending with “monitorable” outcomes. In the 10th Plan/PRSP, targets will be established and monitored for poverty, growth, agricultural growth, literacy, irrigation, and child and maternal mortality among others.
- ?? Other ministries accounting for 20 percent of the development budget would begin the MTEF process soon.
- ?? The National Planning Commission has set up a poverty monitoring unit to begin the effort to bring all Government and Development Partner surveys under one umbrella. The Government is aiming to set up a mechanism to report poverty monitoring annually.
- ?? The MTEF exercise so far has two scenarios: (i) the “tight budget” scenario in which the financing gap is estimated at \$400 million/year; and (ii) the 10th Plan/PRSP scenario in which the financing gap is estimated at \$500 million/year. There is a need to annually ensure that there is sufficient funding, and development partners are encouraged to come

under the framework, while also considering program/budget support for both development and security.

“Big Picture” outlook of Present Status

- ?? There have been achievements with regards to indicators over the last ten years. For example, the Human Development Index (HDI) in Nepal has improved more than any other country in South Asia. In the external sector, over the last 10 years, the export to GDP ratio rose in Nepal at the highest rate in all of South Asia. In addition, the internet usage increased from about 1,100 to over 100,000 in three years.
- ?? However, poverty has not declined and there is the “40 percent syndrome”—i.e., 40 percent of the population live below the poverty line; the illiteracy rate is 40 percent; 40 percent of the population live on less than \$1/day and 40 percent of the population are below the HDI. Poverty incidence is highest in mountain region (56 percent), far and mid western regions hills; marginalized groups, illiterates, landless, female headed households. Agriculture growth not been very good compared to population growth.
- ?? There are impediments to private sector development, including the high cost of capital and poor corporate governance.
- ?? Poverty monitoring and mapping is almost non-existent, and as result targeting of poverty-reduction programs has not been very effective—almost 60 percent of such programs are not reaching the needy.
- ?? Public resource management is weak and annual project completion rate is low (7 percent). The number of projects had increased in the past, although they have been reduced now. Nevertheless, the number of projects still remains high.
- ?? Service delivery remains insufficient and so does gender-mainstreaming. In addition, there has been inadequate prioritization, insufficient targeting, and inadequate participation and ownership or programs.

Comments from the Floor

Development Challenge

- ?? Poverty has not resulted out of the blue, and its underlying causes are of our own creation for failing to deliver services.
- ?? Low revenue collection (at present) may make it difficult for Government to meet its counterpart funding requirements. Government plans did not factor in the current fiscal crisis, which could create serious economic problems.
- ?? Nepal should concentrate on the annual budget as a tool for focused spending and employment generation. Policy reforms are needed to give more power to local units.
- ?? NDF should examine ways to make resources available quickly and effectively to help prevent the emerging fiscal crisis because even economies with even good macro-fundamentals can easily slip into a crisis situation.
- ?? A two-year moratorium on interest and dept payments can help release substantial funds for spending on development projects. This could help overcome the slack in the economy and create employment

Programming Recommendations

- ?? There is inadequate attention to rural and micro-credit programs, and these are important factors contributing to rural development. Over 60 percent of rural households are indebted to

money lenders and pay very high interest; micro-credit and social savings have already put many money lenders out of business. Hence, micro-credit with social mobilization as a point of entry should be a focus in program formulation.

- ?? Alternative energy needs to be promoted for providing rural energy. Local contributions in such programs need to be lowered.
- ?? Financing arrangements need to be made for funding larger projects (50-300MW) under the Power Development Fund. Hydropower project scrutiny should be enhanced at entry to avoid cost over-runs.
- ?? Skills development programs need to be enhanced and funded to create a better-educated labor pool—Nepal's latest export. This is an area where the private sector can take a lead because countries that send workers abroad have shown that this approach can work.
- ?? One of the drivers of success in South East Asia is its achievements in human resource development within a very short period of 25 years. We can also aim for similar goals, which are possible if we are able to provide basic services—health, education, land reforms—and a pro-active role of the state.
- ?? The State has to play a pro-active role to favor the poor and marginalized and to ensure that the elite do not capture the benefits of poverty reduction initiatives.
- ?? Greater care must be taken to ensure that the successes Nepal has had—community forestry, leasehold forestry, social mobilization, rural savings, etc.—are replicated. The poor have to be given access to resources, especially in these times of violence because there is a danger of the situation drifting into endemic violence.
- ?? Nepal needs to identify its main engines of growth, and attention needs to be focused on these areas. More studies are needed on planning possible rural and city, industrial and tourism development, together with the emphasis on poverty reduction.

Privatization Fund

- ?? There is a need to create a privatization fund to pay off the liabilities of SOEs before they are privatized, and even for keeping SOEs that may not be privatized immediately in sound health. Government plans to channel back returns on privatization into this fund.
- ?? Care should be taken that the Government does not use privatization as a means to offload its social responsibilities to the private sector.
- ?? Preparation of firms for privatization has been poor in the past, because of a lack of funds to reorganize, deal with labor (i.e., compensation for retrenchment) and technological innovations. This needs to be improved to be successful.

Governance Reform/Corruption Control

- ?? There is need for instituting a mechanism where politicians holding public office are required to make voluntary income declarations every year. We need Development Partner support to enhance capabilities of corruption control institutions.
- ?? Building a coalition with the poor is very important. The poor—especially women—must not be seen as victims, but as agents of change. Are we willing to make women decision-makers?
- ?? Corruption affects the poor hardest because they feel they have no control over it. We can get them on our side (in the fight against the Maoists also) only if we attend to the corrupt practices which affected the poor directly.

Women and Development

- ?? The 10th Plan lacks strategic approach for empowering women. Gender should not be viewed as an appendage to the programs, but must be viewed as a central part of the development process. The Plan must also clearly address the rights of children and minorities.
- ?? The Plan's present approach is "no more than feminization of poverty alleviation programming". That has to change and empowerment of women needs to be made a strategy for all sector-wide reforms.
- ?? Empowerment of women and men has to be center of the poverty alleviation strategy in order to unleash their power to change. Empowerment through social mobilization should be at the heart of the poverty alleviation strategy.

10th Plan/ PRSP, MTEF Specific Remarks

- ?? The present fiscal crisis makes a strong case for greater focus and prioritization. The Government says it has about 100 core projects, so it may be wise to look at the non-core projects and assess if they are all still essential. There are also "other" projects that may need to be reassessed, especially now when Nepal is facing a major fiscal and economic crisis.
- ?? The Government has suggested a three-year rolling plan—what happens in the 4th and 5th years, how will the plan be rolled beyond the first three years?
- ?? The fact that Nepal will have a PRSP is an achievement, but the real test will be in the implementation. Strategic planning and implementation are still Nepal's weakest points. Because the PRSP's goal is to give poor people greater opportunities, strategy and implementation are very important.
- ?? There should be other scenarios because the MTEF projections are based on overly optimistic assumptions. There is a need to know how priorities will be adjusted if revenues are less. There might also be need for yet another scenario that takes into account the possibility of a prolonged conflict situation.
- ?? Some Development Partners are willing to provide budget support as sought by Government, but would seek better monitoring of projects and would demand that Government practice a zero tolerance policy on corruption.
- ?? 10th Plan/PRSP and MTEF are valuable frameworks for focusing development programs and bringing about fiscal discipline. However, while keeping focused on the larger poverty reduction goal, we also need additional implementation ideas within the plan that will have an immediate impact on poverty, to achieve results more immediately, say in the next 18-24 months.
- ?? The Government has to do something to demonstrate that it can make an impact on poverty now because this is one factor under its control, unlike tourism and trade which are strongly influenced by external factors.
- ?? The final PRSP preparation has to be participatory because there must a comprehensive understanding of poverty and inequality, which have grown in the past 10 years. Discrimination and inequities have to be squarely addressed in the PRSP.

Aid Effectiveness

- ?? Increasing the efficiency of existing Development Partner resources is another area that needs focus. We need to be cautious to think that Development Partners would increase resources when Government documents show that even existing commitments are not disbursing.
- ?? There is an urgent need to improve the efficiency and effectiveness of public expenditures.

Implementation and Monitoring

- ?? The real problem in Nepal has been at the level of political commitment and it is sad that very few ministers have taken part in these discussions. We have to break out of the “business as usual” mode and that is when the real solutions may begin to emerge.
- ?? Concept papers recognize poverty as an outcome of past weaknesses, and now the strategies are broadly in place. The absolute key is implementation because the poor people of Nepal are impatient for evidence of real action on controlling corruption and improving the delivery of services.
- ?? A means to monitor progress toward the achievement of goals is needed in order to be able to get feedback for making quick adjustments, if deviations are discovered. There is also a need for monitoring Government expenditures in all projects—i.e., in solely-Government projects, as well as in Government-Development Partner projects.
- ?? There are many “islands of excellence” in Nepal. There is a need to scale up successful pilots and programs.
- ?? Again, the real test will be implementation and achieving concrete results on the ground.

Government Role/Decentralization

- ?? Government does not need to be the main actor in every aspect and care should be taken to ensure that its capacity is not over-stretched. Hence, there is the need to create space and clarify roles for NGOs, private sector and individuals.
- ?? Decentralization has been slow, but this is within the power of Government to change. It would be helpful to have a clear timetable for implementation.

Concluding Government Comments

- ?? Privatization has not been a disaster as perceived and will not be a disaster in the future. The role of Government is expanding where required—i.e., in education, health, rural development, and poverty alleviation—and shrinking in areas where the private sector can do better. Some SOEs are totally non-functioning and it is this type of corporation that is being closed down or transferred to private sector.
- ?? Politicians have a tendency to blame political leadership the moment they are out of Government. This is not a solution.
- ?? The PRSP/MTEF have attempted to take into account the security situation, while making projections. These projections may go wrong if the problem is prolonged, but that is not the scenario the Government foresees, as they believe the security situation will improve soon.
- ?? Fiscal responsibilities are being transferred to local bodies—either in terms of block grants or local taxation authority. “Yes we have not been slow on decentralization, which will change.” Micro-credit and social mobilization will be made key elements of the poverty reduction strategy.
- ?? Government is committed to a zero tolerance policy on corruption.
- ?? The main engine of growth for Nepal is agriculture—its modernization, diversification and commercialization. Without agricultural development there is no way to help the poor improve their living standards.

Session IV: Foreign Aid Policy/ Development Partnerships

February 6, 2002 (Afternoon)

Update on the Financial Sector Reforms

- ?? A lot has been accomplished since the 1980s, with entry barriers relaxed as far as the establishment of banks, prudential norms established, and other reforms initiated.
- ?? The process toward handing over the two largest banks—RBB and NBL—to management teams is going well and is expected to be finalized in a few weeks. The overall situation in the banking system is not hopeless, as the other banks are doing well. However, this is not a reason to be complacent and there is a need to raise the standards of banks. The time to act is now—the “hole” in the economy is just getting larger, and more time can't be lost in solving this problem.

MTEF in Education

- ?? There have been substantial achievements in education with improved access and equity in primary schools. The overall objective will be to enhance quality and greater focus will be on implementation. Education needs to be made the centerpiece of social cohesion. Can't have “more of the same.”
- ?? For effective implementation of the MTEF in education, there are three important factors: (i) the Local Self Governance Act through which some functions will be devolved/delegated to local bodies—this is expected to enhance quality, access and equity; (ii) the 7th Amendment to the Education Law—this will handle a number of key bottlenecks, including making teachers more accountable and responsible; and (iii) a process of reward/punishment for education workers is starting to be implemented.

MTEF in Health

- ?? Over the last five years there have been improvements in health indicators, however, the system is still not meeting the needs of the most vulnerable. The major challenges are HR deficiencies, establishing a monitoring and evaluation capacity, utilizing resources with greater efficiency, establishing health units in the VDCs, and establishing clear priorities. Decentralization and empowerment are important principles in this respect.
- ?? The major reforms are in the following areas: (i) establishing a clear distinction between recurrent and capital expenditures, along with establishing national health accounts and transparency in the budget process; (ii) developing a common financial reporting system; (iii) ensuring provision of essential healthcare services; (iv) ensuring fairness in healthcare financing system; and (v) integrating and coordinating medical personnel, including ensuring that medical personnel are in place, restructuring the Ministry of Health in line with decentralization and gender mainstreaming.

MTEF in Water Resources

- ?? In establishing the MTEF for water resources, a time-bound program with outputs and indicators has been established. An important part of the strategy is the new Hydropower Policy which has been developed to attract the private sector into generation, as well as transmission and distribution. To do such will require restructuring the NEA monopoly. There is also a need to tackle both technical and non-technical transmission losses.

- ?? Another top priority is rural electrification, along with establishing a Rural Electrification Development Fund. Current coverage is about 5 percent—the goal is to double that through emphasizing cooperatives and user groups.

MTEF in Physical Planning and Works

- ?? There are a number of challenges in the road sector. The MTEF exercise has been good to establish priorities. Overall, there have been low economic returns from completed roads, nevertheless, there is a need to ensure that district centers have access. It is planned that district roads will be handed over to municipalities, and that the Road Maintenance Fund Board will be created.
- ?? Water supply is a basic human need and there is a need to enhance private sector participation. An act has been drafted to create an enabling environment along with a good regulatory system. It is not the case that Melamchi will consume all investment resources in the sector. The intention is to seek a lease contract in Kathmandu so that the private operator will have to bear some of the risks. It is also the case that the public sector needs to have good monitoring and evaluation—this will be strengthened in the future.
- ?? The Fund Board model has worked well. There will be efforts to replicate and institutionalize this approach throughout the country.

MTEF in Agriculture

- ?? A holistic approach is being following in which a strong foundation is being established and there is an emphasis on implementation. There have been a number of reforms in the sector, including fertilizer deregulation, privatizing the seed company and removing the food grains transport subsidy. However, greater reforms are needed in the area of liberalization and privatization. Certain activities will be dropped to allow focus on priorities—irrigation will continue to need substantial investments.
- ?? In Research and Development, the idea is to create a fund that will also be accessible to the private sector. Extension services will be given to local VDCs, while the role of the Government will be that of facilitator and technology provider. There is a need to develop infrastructure, especially markets and collection centers.

Key Points in HMG/N Presentation on Foreign Aid Policy—“FAP”

- ?? This document is a product of consultations with a large number of stakeholders and has been greatly debated.
- ?? Foreign aid accounts for 55-65 percent of development expenditure, 25-30 percent of total expenditure and 5-10 percent of Gross Domestic Product. The share of grants has been coming down since the 1980s, and the share of both loans and Technical Assistance has been increasing.
- ?? The Government has not been able to derive the maximum benefit from foreign assistance. Therefore, the Government needs to re-focus and concentrate on where it is needed with increased attention on performance. There is a need to “tighten the belt” and see how best to use resources in order to get supplemental external resources.

Aid Effectiveness

- ?? Reasons for poor aid effectiveness from the Development Partner perspective include: lack of ownership, lack of leadership and direction, proliferation of projects, resource leakages and misuse, top-down planning, lack of adequate transparency and accountability, communication gaps and inadequate public policy consultation process.
- ?? Reasons for poor aid effectiveness from the Government perspective include: mismatch of priorities, weak project planning, changing structure of foreign aid (i.e., grants to TA to credits), weak or inappropriate technology transfer, huge gaps between commitments and disbursements, weak accounting of some aid that does not go through the Government system, poor absorptive capacity and more recently, the present economic situation in which there are constraints on domestic resource mobilization.

Why FAP?

- ?? Want to set the ground rules in order to get the best out of resources and improve the quality and efficiency of aid.
- ?? To make the partnership equal with the recipient in the “driver’s seat,” and to take full ownership of our development.
- ?? To channel aid to top priority areas in a flexible manner.
- ?? To use loans judiciously—there is a preference for grants over loans. Trying to refocus TA because there have been problems with technology transfer.

Main Challenges

- ?? Now faced with managing resources in the short-term and also being able to fund the 10th Plan and channeling aid in the priority areas.
- ?? Give a role for civil society and NGOs in development process, while also making NGOs/INGOs more accountable and transparent. Need to encourage private/public sector partnerships for capacity building while ensuring Government ownership and leadership.

Expectations from Development Partners

- ?? Sensitivity and selectivity to our needs.
- ?? Avoidance of trial and error projects.
- ?? Assistance needs to be captured in the national budget, especially to come up with measures such as joint auditing in order to be accountable to parliament—there is a need to maintain fiscal discipline and ensure transparency
- ?? INGOs assistance needs to be reflected in Government accounts, and their activities need to be directed to national priority areas.

Nepal’s Obligations

- ?? Formulate a economy-wide and sector perspective plans.
- ?? Ensure transparency and accountability and enhance quality of returns of aid.
- ?? Strengthen aid coordination.
- ?? Complete projects on time, avoid time and cost over-runs. Possibly institute a joint mechanism to review and monitor projects. Ensure project sustainability.

Major Policy Thrusts

- ?? Adherence to prudent resource allocation and management.
- ?? Ensuring effectiveness in project planning and implementation.
- ?? Improving project evaluation, impact studies, supervision and monitoring.
- ?? Encouraging “common pool” approach.
- ?? Improving disbursement and procurement procedures, in addition to overall strengthened financial management
- ?? Enhance Government/Development Partner interactions and dialogue.

Main Points in Development Partners’ Presentation

- ?? Development Partners are appreciative of the steps taken by Government for formulating the FAP and the participatory approach that was adopted during preparation.
- ?? In November 2001 Development Partners commissioned a review of development assistance partnerships, carried out by a team lead by OECD. The report is now public.
- ?? The Development Partner group looked at the draft FAP and found it very much in line with our thinking and it would be appropriate to have more dialogue to adopt a common position.

Highlights of the “Two Page” Paper

- ?? There is dissatisfaction with aid effectiveness in Nepal. In spite of \$400-450 million spent on poverty reduction, the process has been very slow.
- ?? Consensus on main problems (Development Partners), which are primarily the lack of leadership and direction by Government, a dysfunctional and de-motivated civil service, the lack of accountability and transparency and leakages.
- ?? From the Government perspective one of the key problems is mismatch between national development priorities and Development Partner/Development Partner preferences. There is a feeling that project identification is driven by Development Partner preferences, or the “flavor of the day” syndrome—e.g., where everybody wants to be in governance. Projects are Development Partner-driven with excessive reliance on foreign experts. Other problems stem from conditionality on the part of Development Partners, non-standardized procurement procedures (which affect efficiency of obtaining inputs) and large resource flows outside the control of Government (i.e., through NGOs).

‘Common Denominator’ Position

- ?? Aid must be fully aligned with the national programmatic framework, priorities and solutions. It is hoped that PRSP/MTEF would go a long way in enforcing Government ownership and leadership.
- ?? There should be less project-based parallel structures—Development Partners are pointing the fingers at themselves for reducing the number of Project Implementation Units because the practice of having such units impacts on sustainability.
- ?? All projects must be focused on results in poverty reduction, and directed toward the production of optimum outcomes.
- ?? With regard to financing the present costs, some partners want to be more reserve because they want to see Government efforts for financing on its own as an indication of commitment and assurance.
- ?? Transparency and accountability are top priorities. These issues are equally important to national programs and foreign-aided projects.

- ?? The draft FAP contains a number of statements on INGOs/NGOs where Development Partners have differences of positions. We suggest a joint mechanism for further discussion on this point.
- ?? The Government should assume full responsibility and leadership for Development Partner coordination, including in the Development Partner thematic groups.
- ?? There are variations on sector strategies and sector-wide funding—i.e., some Development Partners are more open to basket funding than others. This has been influenced by the various experiences of individual Development Partners.

Recommendations

- ?? Establish joint Government-Development Partner working group to discuss and finalize FAP.
- ?? Establish a joint Government-Development Partner mechanism to monitor both Government and Development Partner practices.

Personal Suggestions

- ?? “Should we not think of rating different ministries in Nepal to the extent of their transparency and accountability?” This would require an independent mechanism and one could think of criteria to apply. “As a corresponding measure, we should as Development Partners open ourselves and also have a rating of our practices in terms of project management and to what extent they are transparent and accountable.”

Five Bilateral Development Partners -- UTSTEIN + Denmark

- ?? This is the first time bilateral Development Partners have attempted to coordinate their work in Nepal. There is global concern of increasing the impact of aid on poverty reduction, and there are a lot of initiatives to create common goals, establish productive partnerships, and harmonize procedures (Development Partner and Government). The problems/challenges in Nepal are no different from those in other developing countries. All of these initiatives have to be adopted to the local reality and some have to be tackled with central level with clearance of headquarters. Five Development Partners—Norway, Netherlands, Germany, United Kingdom and Denmark—have gotten their HQ approvals for this.
- ?? PRSP would be basis for common agreement on development goals and these should be supported by more flexible assistance. Specific work has been done by OECD-DAC to harmonize Development Partner procedures. We would like to implement this in Nepal even though it is difficult, because we all tend to have our own bilateral procedures which places additional burdens on the administrative capacity of the recipient.
- ?? The EU head of mission statement is background for our statement. The EU says there is need to discuss in a frank atmosphere the challenges that Nepal is facing today and it is important to discuss how we jointly respond to the present situation. It makes it more important to make maximum and more efficient use of Development Partner funding.
- ?? Nepalese stakeholders are very critical of the dysfunctional relationship between HMG/N and Development Partners and they see this relationship as a significant reason for aid ineffectiveness. Changing this can be done by making aid more effective toward reducing poverty.

Major highlights of UTSTEIN + Denmark Position

- ?? Aid must focus on priority needs for poverty reduction. We would like to accept the final 10th Plan and MTEF as the basic framework for support. We would review assistance in light of this framework. We also commit to move towards predictable medium-term funding in a transparent manner. We are also willing to consider short term funding needs to allow the Government to respond to the insurgency in a flexible manner.
- ?? Another objective would be to achieve reduced waste and more effective implementation of development programs. We will commit ourselves to additional funding if effectiveness is improved and if considerable progress is made to reduce corruption and mismanagement.
- ?? Would like to emphasize decentralization and devolution of authority, responsibility and resources to local units for reducing waste and for ensuring effective implementation. Would work together to eliminate corruption and misuse of funds, and to work towards harmonizing procedures in aid delivery and reducing transaction costs.
- ?? There is need to build more trust and cooperation between Development Partners, Government and civil society and to establish basic rules for development partnerships based on the FAP. In particular, there are still comments pending from the NGO/INGOs and it is important to include them in the partnership. We would commit ourselves to be more transparent and to consult widely with relevant stakeholders before entering into agreements for support.
- ?? National ownership of development strategies and programs is needed. We hope this exercise leads to the Government using the 10th Plan, PRSP and MTEF as the framework for both requesting and accepting Development Partner support. We would also like to see more policy dialogue in overall aid coordination and sectoral strategies and programs.

Comments from the Floor

NGO/ INGO Policies

- ?? There is a need for clearer articulation of the oversight Government wants over NGOs/ INGOs especially because many countries allow them to compete for funds. There is no way to predict the sort of flows from this sort of mechanism.
- ?? Many bilateral agencies had NGOs preceding official aid agencies and even now many bilateral Development Partners channel funds through INGOs and private agencies (including Nepali organizations) Many Development Partners are already informing the Government about the level of funding channeled through NGOs/INGOs.
- ?? Two particular sections concerning NGOs on funding through “country pledges” and one saying they cannot raise funds in Nepal need to be clarified. Some NGO-run projects in Nepal have compulsory local contributions, which should not be grouped as “fund raising.”
- ?? By nature, NGO/INGOs are used to working autonomously, which is one of the reasons they have been able to be innovative and more creative in their programs and pilots.
- ?? The FAP needs rephrasing to clarify where NGOs can work and where they cannot. NGOs/ INGOs, like investors, would tend to go to countries where their work is not excessively constricted.
- ?? There should be broad oversight in encouraging that NGO activities are consistent with national development objectives, but not excessive control. In some countries, not just NGOs but even individuals and informal groups raise funds and provide support to Nepali organizations. It would be a lost opportunity if this type of support is made harder to get.

- ?? Civil service still has too many discretionary powers, and there is always a gap between what is said and what is done. Hence, there is a need to address the underlying concerns with regards to NGOs and the FAP.
- ?? A joint team committee should be formed to finalize the FAP in the near future.

Loans, Grants, TA

- ?? Generally being selective on taking soft loans and encouraging grant aid is sound. However, an expansion of grant aid is unlikely in the present circumstances in which there are many competing demands for such resources and not sufficient grant funds to go around.
- ?? For soft loans also there is a need to evaluate economic viability, serviceability, and the social acceptance of proposed programs/projects. Being prudent with loans is as important as honoring the commitment to repay debts.
- ?? Technical Assistance (TA) could be renamed Technical Cooperation (TC) and this also has to be recognized as an important part of foreign assistance. Resources are scarce for TC too and competition is high.
- ?? TC may come as a direct contribution of expertise hired locally, regionally or internationally, and it is difficult to account for these contributions in the budget. But, there may be other ways to make references to TC support, and we believe that such references should be made.

Institutional, Over-arching Issues

- ?? The National Planning Commission could be developed along the lines of the Korea Development Institute (KDI), which has been the engine for development planning in Korea. Most importantly, it has been semi-autonomous and independent of bureaucratic pressures. Now it functions as a think tank for long-term national vision.
- ?? Controlling corruption, as well as the ability for effective implementation will have to be addressed. Government would have to show that it is dealing with corruption strongly.
- ?? Care needs to be taken to ensure that reckless decentralization does not lead to reckless corruption and result in a "democratic proliferation of corruption". Similarly, reckless privatization may also result in squandering public property.
- ?? There is a need to ensure that we are not establishing "under-utilized capital stock." When projects are transferred, there is a need to ensure funding and care in operations and maintenance.
- ?? There is a need to embrace civil service reform, accountability, inclusion, action on corruption and actions to provide better information to citizens.

Budget Support

- ?? Funding for budget support may create problems for some specific Development Partners whose cash or budget assistance is rare.
- ?? With regards to basket funding, coordination may be more important to create synergies from various aid modalities. Merely enlarging the size of resources by putting everything together may not work all the time. "We have not seen a case that has been successful in Nepal or abroad." We do not understand why Government wants to use this approach.
- ?? As a matter of principle, we (Denmark) would like to use indirect funding/budget support but that would require a reduction in wastage of resources and strict monitoring. Based on our experience, initially we started with 100 percent direct funding and in the first year the monitoring reports were embarrassing. During the last two years the amount of money which cannot be accounted for has dwindled drastically. We will try to increase indirect funding

year by year, but monitoring has to be strong. If effective monitoring systems are developed and function, then perhaps other Development Partners would also be able to increase indirect funding.

- ?? UK would consider providing budget support subject to effective implementation—with evidence of effective service delivery to the poor—and strict monitoring and corruption control.
- ?? Norway could consider the provision of budget support, but there has to be zero tolerance to corruption and effective implementation and monitoring.
- ?? Australia has been trying out basket funding in HIV/AIDS control. Whether or not more of this will be done depends on implementation.

Government/Development Partner Roles

- ?? Government has to take the lead through the 10th Plan/PRSP using this as the basis for prioritizing Development Partner support. These could then be the vision for the future and Development Partners could set aside their country strategies and use the PRSP.
- ?? The efficacy of vision requires willingness of Development Partners to give up tied aid and parallel implementation structures and work within the agreed priorities of Government. That would also need credible leadership and commitment to action by the Government. It can mean political continuity and stability and working towards achieving political consensus for achieving poverty reduction and ending corruption.
- ?? Development Partners should not preach development ideologies, but instead be the engineers and mechanics of the development process.
- ?? There is also the question of Development Partners operating sub-optimally. Development Partners have to live by the spirit and details of the FAP. For Government, there is the need to embrace civil service reform to meet agreed standards and services, and to have inclusive local planning that ensures that not only the local elite are included, but also marginalized groups.
- ?? While a joint committee for early finalization of the FAP is recommended, there is still the need to have the Government in the driver's seat. "Development partners" not "donors" should support the process.

Implementation and Monitoring

- ?? There is a real need for producing action plans for policy implementation. The systems in place for monitoring sector performance are weak.
- ?? Stability and continuity in institutional structures and personnel are essential for implementation. If there is no continuity it will be difficult to make effective use of the resources.
- ?? Today "project" has become a bad word, therefore, there has to be emphasis on moving toward sector-wide and programmatic approaches.
- ?? In order to move away from an input-oriented culture to a results-oriented culture, Development Partners should begin linking levels of assistance to implementation and results. There is also a need for Development Partners to be made more accountable for the impact of funds.
- ?? It would be useful to introduce effectiveness ratings of both Development Partners and ministries and make this information public annually.
- ?? There is also a need to inform people about resources that have been allocated to help them. This can be a powerful tool for limiting and restraining corruption. Openness in transferring information can create the basis for local monitoring.

- ?? Ministries need to focus and need to be challenged to show how they are prioritizing activities, including producing evidence of effective service delivery. Development Partners can and will help with this.
- ?? Generally, Development Partners won't object to national auditing in the interest of transparency. But priorities have to be right because there is a lot that Nepal has to do to make use of audit reports and to take actions on the information resulting from auditing.
- ?? Development Partners believe in joint evaluation and monitoring.

Concluding Government Comments

- ?? Happy that consensus is emerging on various issues including the finalization of FAP. Don't want to delay finalization of the document by forming another working group, unless there is a short deadline. We need to finalize this soon—let's establish February 22 as the deadline.
- ?? The Government does not want to restrict the activity and innovations of NGOs. As in other areas, the key is to ensure accountability and transparency in their activities. The intention is also to improve registration procedures and remove barriers to entry, while ensuring that they work in accordance with national priorities.
- ?? The Government would like to have transparency and accountability of all actors involved in Nepal's development.
- ?? There is emerging support to the idea of basket funding and program support. While not all agree, those interested who have the mandate or ability to provide funding in this manner should join. However, other funding options are also appreciated

Session V: PRSP, MTEF

January 7, 2002 (Morning)

Key Points in HMG/N Presentation

- ?? The Government acknowledged the need for fine-tuning the MTEF and the 10th Plan/PRSP, admitting that it would be a continuous process even after implementation began. There is also a need for ministries to prepare sound strategic plans in order to enhance service delivery, and to commit to devolving responsibilities to local governance units.
- ?? The Government said it was unclear about the level of funding that would be available next year, other than for large projects—Melamchi and Middle Marsyangdi. The resource crunch may create problems allocating adequate resources for block grants, salaries of development workers and counterpart funding.
- ?? Apart from the short-term resource problems, Government is facing a resource gap of about \$500 million per year for funding the 10th Plan/PRSP. It asked Development Partners to make the PRSP and MTEF their frameworks for poverty alleviation and thus help meet the financing gap.
- ?? Despite problems, Government reiterated it was committed to change from the “business as usual” mode and take the reforms forward.

Update on Governance, Decentralization and Private Sector Development efforts

- ?? The concerned secretaries presented updates on governance, decentralization and private sector development efforts underway in Nepal. The governance improvement program is aimed at increasing the efficiency of civil service and controlling corruption. The implementation of the reform program is underway and a time-bound action plan is available on the website. Given the emphasis on corruption, there a strong anti-corruption law is in process of being taken to parliament.
- ?? The Local Self Governance Act, by-laws and manuals are all in place. A bill is currently in parliament to amend the contradictory provisions of other sectoral acts, and 50 percent of DDC's have already prepared five-year periodic plans. A Local Development Fund (LDF) has also been set up in each district, and is run by a semi-autonomous body.
- ?? A decentralization implementation plan is also ready and outlines over 60 short, medium and long-term strategies. The priority is on devolving basic service delivery functions to local bodies in primary education, primary health care, veterinary services and agricultural extension. The idea is to devolve as a package in the following order: clarification of functions and responsibilities, budget and its flow mechanism, staffing arrangements, accountability issues, capacity building and support and effective monitoring. The devolution of basic service delivery functions will be completed by mid-July 2002. Fiscal decentralization issues remain to be tackled. Although some tax collecting authority has been devolved, the issue of revenue-sharing still needs to be worked out. In addition, there is a need to encourage local bodies to generate own resources and institute fiscal controls. Institutionalization of audit, accountability and transparency also need to be addressed, in part through the development and implementation of norms and standards. Finally, there is a tremendous need to strengthen the implementation capacity of local bodies.
- ?? A number of measures have been initiated to foster private sector development and there have been positive responses. However, it was not possible to continue rapidly with the reforms due to capacity gaps and other problems. There is a renewed commitment to privatization, however, funds are required for retrenchment and capacity building. While there is a need to provide adequate security to the private sector, there is also a need to maintain a balance

between their interest and that of labor. The private sector needs to play a key role in the development of Nepal.

Comments from the floor (in order of intervention)

United States of America

- ?? MTEF is a useful tool in terms of linking plans and priorities with budget, which is a move in the right direction. Concerned that the external factors affecting Nepal may not improve significantly in the near term—the impact, for example, tourism and industrial outputs and sales. This situation may affect spending on development adversely.
- ?? There is need to deliver results on the ground and lowered spending would impede that. Suggested that one way to bridge the resource gap would be to take a look at projects that have been declared non-core—majority of them—it might be useful to examine if Development Partner commitments that may be tied to them may be freed for higher priority projects.
- ?? When I look at the \$400-500 million funding gap and given that the actual annual contribution of Development Partners now that is significantly below that, and new competing demands for assistance, it is challenging to increase funding levels. The ability to achieve goals can be realized by getting greater efficiency out of funds that are already at hand and ensuring that new funds can be released because you have the ability to implement.
- ?? Endorse the plan to devolve responsibility to local levels. The local governance units have to have responsibility, authority and resources. As we are looking at the plans, it would be important to ensure that local bodies get adequate resources.
- ?? There is need for improving service delivery, local communities need to have the information on their entitlements to enable them to hold local officials accountable.
- ?? The 10th plan and MTEF provide a solid foundation for the medium and longer term, but Nepal is facing an immediate social, economic and political adverse situation, which demand its ability to deliver results now (within 12-18 months).

Japan

- ?? Japan is determined to continue support in line with priority areas identified by the PRSP, and would continue its present level of aid to Nepal. Embassy is considering how it can help to deal with the present situation.
- ?? Japan feels Nepal is facing a national crisis, and “if the situation is not addressed in a timely manner, we are concerned that this country could fall in difficult situation.” We are thinking what we can do to help, possibly through some non-project grant assistance for several million dollars (not formulated yet).
- ?? We are also working on possible cooperation with the UN System to address rural poverty, which we think would help address the Maoist insurgency issue.

Saudi Fund for Development (SFD)

- ?? Thanked HMG/N for inviting the SFD to the meeting to discuss economic issues and plans. Suggested that human resource development is the key for enhancing economic growth and elevating living standards of people. Education and health could be the major tools to enhance job opportunity and income generation.
- ?? SFD would continue supporting Nepal with financial assistance to priority projects.

Asian Development Bank

- ?? Pleased by Government's commitment to implement the economic plans and policy reform agenda, and desire to monitor progress by taking the driver's seat. Commended the significant progress made in preparation of 10th Plan/PRSP, MTEF and FAP. Expressed support to the main thrust of the plans and wished to see the conclusion of exercises soon.
- ?? Recognized the economic and financial difficulties caused by internal and external factors. "We are supporting the thrust of the plans and policies but also stress the importance of satisfactory implementation and prioritization of on-going projects." Effective, efficient and timely implementation of these on-going projects on a prioritized basis can improve disbursement, eventually contributing to reducing the financial gap.
- ?? ADB provided programme support to help meet the adjustment costs (of civil service reforms); reforms are on track. We wish to see the program is satisfactorily and successfully implemented by agreeing to conditions agreed upon.
- ?? Appreciated the Government's commitments to reforms and prioritizing projects and policies to monitor progress and impact. We expect the existing level of lending to continue subject to performance on implementation of various reforms underway and that we are looking for.

Department for International Development (DFID)

- ?? Fully support the Government's leadership and the integration of the 10th Plan and the PRSP and also support for the FAP. Endorse Government's efforts to introduce the MTEF; the move to a three-year planning cycle is a major achievement.
- ?? Specifically support the Government's move to realistic budgeting, particularly the 20 percent reduction in next year's development budget, shedding low priority items and also welcome the prioritization of development activities.
- ?? DFID to ensure that regular program would be focused on the Government's own priorities in Plan and as specified by MTEF. "We would be ready to consider increasing our support further possibly moving towards budget support but this would be subject to real evidence of performance in a number of areas."
- ?? DFID has no difficulty for providing budget support. "We will provide it where there is real commitment to budget reform, poverty reduction and tackling governance." For that real evidence of progress needed in three areas—budget prioritization and real evidence of spending prioritization in practice; evidence of service delivery to poor communities, which means policies are put in practice in a "monitorable" way; and accountability. "Reassurance in those three areas would give real confidence for us to move to a higher level of resource allocation and to budgetary support."

United Nations Development Program (UNDP)

- ?? MTEF an important step towards a coherent and consistent strategy putting financial resources behind identified priorities.
- ?? Questioned some of the envisaged allocations in MTEF appear in some respects a continuation of past practices, which has not resulted in poverty reduction we had hoped for. Allow me to mention two examples—on irrigation are we really sure this will contribute to poverty reduction and not the wealthy farmers. We know the problem of agriculture is that poor farmers, primarily in the hills, don't have food security. Increase in agriculture production, through irrigation, may not have significant impact on poverty in the hills where the poor are.

- ?? In education the MTEP hopes to increase literacy rates. I believe the problem is not the number of schools but the access to education by those who are deprived—untouchables, dalits, poor and ethnic minorities. The emphasis should be on reaching the unreached apart from the inefficiencies.
- ?? Concerned that the Ministry of Local Development (MLD) is not mentioned among the core ministries and that the block grants are being cut. If we are serious about decentralization then the block grants have to be increased. Similarly if we are serious about social mobilization and empowerment being at the heart of the poverty reduction strategy then resources have to be allocated to the LDF in line with the strategy mentioned by MLD.
- ?? We envisage some modest increase in our existing assistance to Nepal.

Switzerland

- ?? Switzerland has a long-term commitment for cooperation with Nepal. “Can we respond to this extraordinary situation and crisis? We will make efforts identify additional resources.”
- ?? But we are faced with fundamental questions: “do we have a favorable climate in Nepal for investment? This is linked to governance, stability, security and peace.”
- ?? Decentralization implementation plan (Para 4, page 9) mentions that number of locally elected representatives is high, hence the idea of reducing the number of representatives at the village levels. What does that imply in terms of representation of minorities, in terms of poor people being at the table when decisions are taken. On block grants we would like to see more money being invested there but are aware of the financial crunch.

Finland

- ?? Finland not in a position to commit additional funding, but hope we can discuss it later this year during bilateral discussions. We will continue our program and existing level of assistance to Nepal.
- ?? Finland is not in a position to provide budgetary support. But on the other hand as Development Partners financing BPEP-II, which is basket funding, we are looking forward to getting similar financing opportunities.

Norway

- ?? Commended the preparation of PRSP and MTEF preparation. But also expressed concerned on its realism and hoped MTEF adjustments would continue.
- ?? One key concern on development cooperation with Nepal is implementation. It is important to look at MTEF not only in terms of level of funds but also the efficient use of funds. As a general policy we channel development assistance through the budget.
- ?? We believe that decentralization is the key in improving service delivery, we have been working with HMG/N on decentralization, particularly in the education sector. Decentralization will increase both implementation capacity and accountability.
- ?? Also think there is a possibility of looking at our (Development Partner) side when it comes to more efficient use of funds and we need to look at more Development Partner coordination to lower transaction costs, we need to harmonize procedures.
- ?? Nepal is one of our primary partners of development, which also means there is a closer eye on the situation (here).
- ?? On basis of that look forward to continue our partnership on the basis of PRSP, MTEF and the FAP. “We don’t exclude a gradual increase in support in future, but there is a real urgency

that Nepal can show results on the ground.” That means better service delivery and impact on corruption control.

Germany

- ?? Very much in favor of the 10th Plan/ PRSP and MTEF. We have now a much clearer picture of priority setting. Will discuss German cooperation in greater detail later this year.
- ?? The indicative figures will be clear after consolidation of the overall development budget. “Apart from that we are in the process of securing additional allocation from special funds.” Allocations will be made with a view to react with the specific difficult situation Nepal is in. Germany will be in a position to be more specific about this by April.
- ?? The cooperation will be related to commitment by Nepal to improve governance, and ability to provide minimum budgetary commitments as well as provision of personnel in terms of numbers, quality and continuity.
- ?? The Middle-Marsyangdi Hydropower Project is the largest investment Germany is supporting under grant financing. We do expect Nepal to do every thing to ensure smooth and efficient implementation, which is a challenge under the present circumstances.

France

- ?? We feel 10th Plan/PRSP is a good framework, even though there are concerns about implementation.
- ?? Stressed that both TA and financial aid were complementary, understood that HMG/N was giving it less importance to TA over other kinds of aid. Aid is not only a complement to national savings but also an exchange between countries and people. Expatriate TA does not oppose local knowledge and know-how both are complementary.
- ?? France is committed to purse aid to Nepal through multilateral agencies; regarding bilateral aid and the 10th Plan/ PRSP we are going to reorient our aid, now focused on the project-approach. We shall keep in line with the general commitment of the Nepalese Government to alleviate poverty. For this we need to coordinate our actions to follow the priorities set by Nepal.

International Fund for Agriculture Development (IFAD)

- ?? IFAD was “highly appreciative” of HMG/N efforts to reduce poverty which are in line with its mandate for poverty alleviation. Future commitment would be subject to improvement in project implementation on the ground;
- ?? IFAD support to Government would target upland hill areas, specially remote areas. IFAD appreciates establishment of the poverty alleviation fund and would like to share experiences on how the Fund can be made effective and practical.
- ?? IFAD looks to commit one project every two years for the 10th Plan period.

The Netherlands

- ?? Associate with those colleagues who said their Governments would not be able to provide additional funds. However, we think, “there is more to aid to remedy the situation that Nepal is facing than just money.” Relatively modest Development Partners like us can also offer experiences in different countries.
- ?? Netherlands has identified two thematic areas of cooperation, environment and good governance. Within these two sectors, three programs are in various phases of development.

Mentioned that both its partner ministries (Forest and Science & technology) not among the Nepalese delegates at NDF.

- ?? In renewal energy, looking at possibilities of expanding biogas in rural and remote areas. Also we are looking into possibilities to associate ourselves in joint efforts to support decentralization.
- ?? Aware of challenges facing implementation of decentralization. Hope to see regular opportunities for Development Partners to interact with Government to be appraised on progress. One of the messages I will take from this NDF is that our hopes are very high as to how decentralization might contribute to improving the situation in the country.
- ?? "There is no such thing as the maximum amount that will be available, it is usually the absorption capacity and the results that eventually determine the amounts of disbursements we can realize and also impacts future commitments."

European Commission

- ?? EC aid was always been grant, mainly concentrated in rural areas aiming to improve the living conditions of the people. Therefore poverty reduction is not new for the Commission. The Commission is determined to continue this policy.
- ?? Being mostly focused in rural areas we have also faced security problems, surprisingly enough on projects that are closest to the poor, micro projects have suffered and have been adversely affected.
- ?? "Security will be for us an issue which is important... In future this probably would have to be tackled in a very serious way."
- ?? New efforts will be needed new ways will have to be explored maybe and without being exclusive through stronger decentralization in Maoist affected areas, with support of local parliamentarians.
- ?? "Our policy will be totally in line with HMG/N policy. By the way, we only react on financial requests from the Government."
- ?? The commission supports and welcomes the reform policies particularly those relating to corruption control and civil administration reforms.

Australia

- ?? Welcome MTEF as it also provides an opportunity to enhance overall aid effectiveness. Look forward to participating in the future.
- ?? We have been working very successfully in community forestry for the past 30 years and we decided last year to continue this program. We are also looking at helping capacity building in Nepal as part of a new regional South Asian program. We also have discussed with AISAID for increasing Master's scholarship programs.
- ?? Nepal embassy would be working hard to maintain current level of funding if not increasing it.

Republic of Korea

- ?? Would like to associate with previous speakers to commend successful formulation of the 10th Plan, PRSP and MTEF. Nepal needs medium and long-term development plan, as a guideline to mobilize resources to meet targets. We endorse the plan. Financial resources are important, however, public awareness and active participation of the people, are equally important.
- ?? Korea a modest financial supporter. Not in a position to give particular figures now but will be done at a later stage. Grant aid it won't be less than last year, even though ROK's has been

having fiscal trouble. This year we are also prepared for implementation of detailed design of the Kanti Rajpath project.

Canada

- ?? Congratulated Nepal for the 10th Plan and MTEF. There is need to establish a direct relationship between poverty reduction and the economic growth, because poverty reduction was not as robust compared to the growth achieved in the 1990s.
- ?? “We believe that decentralization is a critical element in tightening this connection.” Canada would closely follow implementation of decentralization and would intend to work within that framework. Hoped that the bottom up approaches and the district planning foreseen in these actions can meet with the plans laid out in the MTEF and provide a vehicle whereby supply can meet demand and hopefully tighten the connection between progress and poverty alleviation.
- ?? In terms of the layout of the MTEF, done on sector lines where governance is expressed as a cross cutting theme, Canada made references to that based on its own experience. “We have been working with the notion of cross-cutting themes within CIDA’s aid programs for years and I can say that at best they can provide is a driver for strong coherence if vigorously implemented and explicitly pursued. But it can also become little more than hollow rhetoric if those conditions are not in place.”
- ?? In terms of volumes from Canadian bilateral aid “we expect to remain as we’ve been.” The potential for growth would be linked with other partners in Canada and as they perceive the environment for development. “As those conditions improve I would expect to see more interest from partners such as NGOs that could contribute to growth in our overall volume.”

Denmark

- ?? New Government in Denmark is discussing a new financial bill in parliament the results of that will be known only towards the end February. It is likely there will be “drastic reductions” in development assistance, and within the next 3-5 years we will come down from 1 percent to 0.7 percent of GNP. That would mean a 1/3 reduction in support to multilateral agencies, 1/3 reduction in special environmental projects in Latin America and southern Africa, South East Asia and also reduction in bilateral cooperation.
- ?? The number of countries for bilateral cooperation is expected to come down from 17 to 14. Nepal is not on the list of countries where we are stopping aid or on list that are to have reduction in bilateral assistance. We do believe we will be able to keep bilateral assistance at same levels of the past few years. We will be able to fulfill what we have committed on education, environment, rural energy, natural resource management and projects on democracy and decentralization.
- ?? More emphasis has to be given to private sector development. There might be a possibility to increasing support to private sector development. By the annual negotiations in March, “we can discuss details and we will be able to give the final figures.”

The World Bank

- ?? Congratulated the Government on progress made in the last few months to put together this framework. “We certainly support the 10th Plan/PRSP and MTEF as the comprehensive framework for development in Nepal.” But a lot of work is still required for solidifying the development and design of the framework. This is only the beginning.

- ?? “This is a good plan and we can and will support it. If implementation improves, this is the type of program we really would like to support. Furthermore, the funding levels do not seem overly unrealistic, and we could certainly increase our support, especially from the levels of the recent past.”
- ?? But there needs to be emphasis on implementation. “With a well-prioritized program that can be implemented and with proof that service delivery is improving, we would consider budget support as a feasible option.”

Summary by Co-chair (World Bank)

- ?? The \$400-500 million is not an unrealistic target to aim for, but serious notes of caution were expressed by the development partners.
- ?? Government cannot be complacent and the Development Partners should not be misunderstood by cabinet members and the rest of the bureaucracy not present at NDF. “I would like to reiterate the strong emphasis on implementation—the whole deal rests on implementation. Without that I don’t think you can expect the \$400-500 million.” This important point needs to be communicated to everybody concerned.
- ?? “You have heard broad endorsement of the framework and the collective willingness to try to support your financial requirements under the right conditions.”

Concluding Comments by the Chair

- ?? Government expressed appreciation to the words of support, solidarity and endorsement of the plans and programs being readied for implementation. “We have also heard your words of caution that implementation on the ground is the key test for disbursement and future commitments.” We understand that aid is not a blank check that the international community will be giving to Nepal. We need to improve our record.
- ?? The Chair also clarified some comments and questions raised by development partners during their presentations, such as efforts to increase access to education for those that do not have it. However, it admitted that the current resource crunch could affect even some of those programs.

Session VI: Concluding Plenary

January 7, 2002 (late Morning)

(The wrap up discussions followed written statements by the Co-Chair and the Chair and the reading of the joint press statement)

- ?? There was a suggestion that the needed follow-up actions be clarified. In addition, it was suggested that the joint press statement should include a phrase linking development with peace building. Peace building should be an integral part of the Government strategy.
- ?? There were suggestions that the joint press statement place more emphasis on the need for political commitment and stability. In addition, it was recommended that a joint periodic monitoring mechanism be established to assess progress of implementation.