



HMG NEPAL
MINISTRY OF FINANCE

The Reform Agenda

OVERVIEW OF THE PAST PERFORMANCE AND PROPOSALS FOR THE FUTURE

HARMONIZATION OF

Donor Assistance in Nepal



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THE REFORM AGENDA

Overview of the Past Performance and Proposals for the Future

Introduction

Over the past two-to-three years, His Majesty's Government of Nepal (HMGN) has been implementing wide-ranging reforms to help support its poverty reduction strategy. Some of these reforms have been path breaking, and they collectively represent a renewed commitment by the Government to bring benefits of development to the people. However, the benefits of these measures may not be readily visible so far to some segments of the society, both because they take time to produce visible results; and because they have been overshadowed by recent socio-political and economic developments in the country. Indeed, these events—particularly the accelerating conflict and political instability—threaten to engulf the nation in a cycle of economic stagnation, increasing poverty and conflict; and have made it necessary to rethink how the implementation of the government's development/poverty reduction agenda should be refocused as a matter of urgency. This paper briefly discusses the context, objectives, innovative aspects of recent reforms and the lessons learned from them; and how the government will refocus the reform agenda to address these challenges.

Background

Development efforts over the past few decades, the structural adjustments/liberalization measures started from mid 1980s especially in the financial sector and major reforms undertaken in the nineties, have helped Nepal to achieve some significant progress in social and economic development from a low base. But progress in many areas has not been rapid and wide enough. Poverty remains widespread with persistent inequalities, (among women, ethnic and caste groups and remote areas and regions), which it seems is the major underlying cause of the ongoing Maoist conflict. The slow pace of

development/poverty reduction and the need for effective implementation of policies and programs were among the key issues discussed at the 2000 and 2002 Nepal Development Forum meetings. The PRSP clearly recognizes these concerns, and its strategy is aimed at significantly reducing poverty, inequalities and social exclusion of large segments of the population. To implement this strategy, the Government has carried out important reforms over the past 2-3 years, and has, as discussed below, made noteworthy progress in some areas.

However, the environment in which the PRSP has to be implemented has deteriorated significantly over the past year. The Maoist conflict has escalated both in intensity and geographical coverage, creating security and law and order problems in many areas. In this unstable environment, day-to-day economic activities are being severely disrupted. Business confidence is being eroded; and if these uncertainties/instability continue for some time, they are likely to adversely affect all key economic variables—economic growth, employment investment, exports, government revenue, fiscal and macroeconomic stability, among others—as well as poverty reduction itself. There is also plenty of evidence that security problems and the absence of elected local bodies have made it difficult for the government to carry out essential development activities through normal mechanisms in many areas. (Although the government has tried to operate local bodies through appointees, as pointed out in the pre-consultation meetings, this approach is a temporary measure pending elections).

Thus, Nepal is facing a potentially serious socio-political, economic and local governance crisis. Unless significant progress can be achieved in addressing the conflict (through peace building) and the political impasse (and associated governance issues), the recent hard-won achievements (in terms of macroeconomic stability, growth and poverty reduction described in the Progress Report on Poverty Reduction) could be wiped out quickly; and the poverty situation could get worse, particularly in conflict-affected areas. This in turn would make it more difficult to resolve the conflict, creating the potential for a downward spiraling poverty-conflict trap.

Recognizing the pitfalls of the current socio-political situation, the Government has adopted a double-track approach focusing on: (i) Peace building and finding a solution to the political impasse, and (ii) a strong development response to address the root causes of the conflict, particularly in the conflict-affected areas. The PRSP has already developed a sound framework (a

four pillar strategy with supporting policies) to reduce poverty and inequalities and ensure social inclusion. This framework and the reform strategies, which underpin it, are still valid. What is now required is to forcefully implement the PRSP/Reform Agenda, recognizing that Nepal has little time to waste, and that reform efforts must be people-oriented and focus on delivering benefits quickly to rural communities, particularly women, marginalized groups and regions. This is the main challenge that needs to be addressed through the reform agenda, which is outlined below.

This is not the first time that similar concerns have been articulated forcefully by the Nepali public and development partners alike, though the situation in Nepal now is much more complex and serious than at any time before. The last two Nepal Development Forum (NDF) meetings (2000 and 2002) were held against a background of faltering development efforts and growing political instability and conflict in Nepal. The lack of progress in addressing growing social, political and economic problems at that time led to questioning of the government's performance and the effectiveness of aid. The general impression articulated by the development partners during the last NDF meeting can be summed up in the following statement. "Decades of government spending and aid have led only to increased debt burden, without significant achievements in terms of benefits for the vast majority of the Nepalis". Corruption was generally perceived to be widespread. Although some progress had been achieved in the ensuing two years, especially in the areas of governance, financial sector reform and public expenditure management, their results, however, were not visible at the grass-roots level. In the 2002 NDF held in Kathmandu, participated by a large body of Nepali constituents, the message, especially from external development partners, was loud and clear: "Get your policies and programs together and implement them effectively".

The 2002 NDF was seen as a turning point. The Government for its part, renewed its commitment to reduce poverty, improve its planning, budgeting and expenditure management, effectively implement programs, and improve accountability and transparency; while external partners agreed to support such efforts within the framework of HMG's Aid Policy Paper. Since then, the Government has made credible progress in carrying out its commitments as outlined in the Progress Report on Poverty Reduction. This paper focuses more closely on how the reform agenda has been carried out to help implement the PRSP strategy, before discussing how it will be reshaped to address the needs of the current situation.

Reform Instruments and Their Linkages with Poverty Reduction Strategy

When the last NDF meeting was held in February 2002, HMG/N was preparing its Tenth Plan/PRSP, (which was later finalized in April 2003). To help operationalize the PRSP without waiting for its finalization, the Government also prepared a Medium Term Expenditure Framework (MTEF). In addition, responding to the concerns expressed during the NDF, the Government also prepared an Immediate Action Plan (IAP) soon after the NDF meeting.

From the perspective of the poverty reduction strategy and the structural reform agenda, the three documents should be viewed as an integrated package. The Tenth Plan/PRSP provides the **overall vision** of the Government to reduce poverty, together with broad strategies and policy directions within a five-year time frame. The MTEF prioritizes the key **activities** of the PRSP within a three-year framework, to ensure that they are funded through the annual budget. Thus, the MTEF is the bridge between the PRSP and the annual budget. The IAP, prepared in parallel, prioritizes key **policy interventions and actions** to help accelerate the implementation of MTEF/PRSP within a one-year timeframe. Taken together, the three instruments constitute a new and comprehensive approach to implement poverty reduction/development efforts in Nepal. Indeed, Nepal is the only country in the South Asia region so far with an operational PRSP, MTEF and IAP reinforcing each other.

The first IAP for the fiscal year 2002/03 focused on three main areas, which had been singled out for immediate attention by the NDF: (a) expenditure prioritization (so that key pro-poor and growth-accelerating government expenditures are ring-fenced and are not affected by resource vulnerability), (b) implementation (of new policy initiatives in primary education, primary healthcare, agriculture extension and small infrastructure to improve quality of service delivery at the local level), and (c) accountability measures (to increase accountability for and transparency of public spending and help develop and implement an anti-corruption strategy). The second IAP for 2003/04 closely followed the PRSP's four-pillar format. In addition to the PRSP's four-pillar strategic approach, the reform agenda of the last two years also included traditional, structural reform measures; expenditure management; tax, public enterprise and financial sector reforms; measures to improve competitiveness of the private sector; and promote private sector involvement in infrastructure development, among others, to help implement its private-sector led growth and development strategy.

Implementation of Structural Reforms

Public Expenditure Reform. Reforms in public expenditure management have been, without doubt, the most important for the successful implementation of PRSP. Critical actions in this area included prioritizing all development expenditures (through the MTEF) on the basis of PRSP priorities; and providing adequate funding for high priority activities. For this purpose, a realistic medium term expenditure framework was adopted, projects/programs were ranked into three categories, (P1, P2 and P3), and 190 projects/activities which were considered low priority were either dropped or merged. Much of this work involved the leadership of the National Planning Commission (NPC) which is traditionally responsible for the formulation of the development budget, while the prioritization of the sectoral programs was carried out by the line ministries, within the sectoral ceilings and overall guidance provided by the NPC.

In parallel, Ministry of Finance introduced changes in budget/fund release procedures to ensure that priority activities (identified by the MTEF's ranking process) were provided adequate funding. Fund releases are now linked directly to the preparation of the work programs, submission of trimesterly progress reports, and certification of satisfactory performance by appropriate authorities in the line ministries and agencies. These procedural changes were also extended to district and local levels, with the DTCOs made responsible for the release of funds on the basis of monthly expenditure reports and trimesterly progress reports.

These initiatives have transformed the traditional planning and budgeting, fund allocation and release process. Unlike in the past when hundreds of questionable projects found their way into the development budget, procedures for inclusion of projects in the budget and for funding them are now more transparent and explicit. Also, fund releases to projects depend primarily on their priorities for poverty reduction and satisfactory implementation performance, (unlike in the past when projects/programs which commanded more political clout and which could spend faster received more funding, irrespective of their priority/relevance from a development perspective). So far in releasing funds under the new system, the government has strictly adhered to the priority classification; and this in turn is helping to avoid diversion of funds to unauthorized uses, as well as to reinforce the prioritization process at the sector/line ministry levels.

Notwithstanding these improvements, there are problems that need to be addressed to help improve the new fund release system. The timely prepara-

tion of work programs as well as output/intermediate indicators would need to be improved, in order to make the performance-based release system effective. Since FCGO and DTCO staff cannot be expected to have the capacity to verify the accuracy of reported performance, because this requires in most cases the knowledge of technical matters, it is necessary to strengthen the monitoring capacity of the National Planning Commission, the line ministries and in important cases, the involvement of National Vigilance Centre may be necessary for Quality Audit.

The objective of public expenditure reform has been to accelerate the delivery of benefits to the rural poor through better targeting of expenditures. However, in spite of structural and procedural reforms, the real impact has not been felt so far at the grass roots level. Because of the budget crisis in fiscal years 2001/02 and 2002/03, funding to VDCs was constrained. Whatever funds released to them also could not be effectively utilized in some areas both because of difficulties of carrying out development in conflict areas, and in the past two years, the absence of elected office bearers in local bodies has further constrained the development spending at the local level

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Tax Reform. The tax reform agenda is aimed at improving domestic resource mobilization to help finance development activities. The tax reform program was initiated during the Ninth Plan and a number of important measures (such as the introduction of the VAT, simplification of tax legislation, establishment of an Inland Revenue Department by merging the VAT and income tax departments, etc. have been implemented. The Government intends to continue, and build on, these initiatives, by implementing the recommendations of the Fiscal Reform Taskforce, particularly by reducing exemptions and widening the tax base, strengthening tax administration and making it autonomous, periodically revising customs valuations, and making arrangements to reduce existing tax arrears.

Good progress has been made in implementing this agenda over the past 2 years. The 2003/04 budget introduced several tax policy and administration reforms, for example; eliminating the VAT exemption on edible oil, rationalizing import duties (lowering some import duties and offsetting these reductions by countervailing excise duties) in line with WTO needs, and increasing the income tax threshold together with a widening of the lowest tax bracket. To enhance the quality of services to the large taxpayers, a Large Taxpayer Office (LTO) has recently been established and it is expected to be fully operational beginning next fiscal year; and a three-year customs reform

action plan has been developed (based on IMF recommendations) and is being implemented. The ASYCUDA system has been introduced to a fourth customs entry point recently, and now covers the bulk of imports. To discourage tax evasion, a special Enforcement Task Force has been established. This taskforce has been assigned to conduct investigative tax audits and take appropriate action.

The ongoing tax reform program over the past few years has helped to improve the tax administration and make it more transparent and taxpayer-friendly. The taxpayer database has been improved and automated, with a single identification number for each taxpayer which has made monitoring easier. Also, the income tax regime has been converted fully into a self assessment/self-reporting system, backed up by selective audit on the basis of risk assessment. Taxes are now also based on current year's income and are payable at specified intervals during the year. This in turn has helped to improve the buoyancy of the tax system, as indicated by the strong growth of revenue (by 14% thus far during this fiscal year compared to the preceding fiscal year) in response to the recovery of the economy. Notwithstanding this progress, there are continuing weaknesses in the tax system; for example, under-invoicing, lack of predictability of liabilities for taxpayers and leakages. The reform program for the future is aimed at addressing these weaknesses.

Public Enterprise Reforms. The Government has been carrying out public enterprise reforms to reduce hemorrhaging of public funds and increase economic efficiency. This is even more important now, given the PRSP's commitment to reduce public sector role in economic activities and promote private involvement. Accordingly, the government is accelerating the pace of privatization. The 2003/04 Budget speech enunciates basically three principles for accelerated privatization process: (i) high degree of transparency in the process of privatization, (ii) privatization will include not only loss-making enterprises, but also profit making ones, and (iii) maximum use of stock market to offload government holding in the public enterprises thereby increasing public ownership in the assets of enterprises. The Government has also approved other modes of disinvestments as alternatives to outright sales of public enterprises: for example, transferring more than 50% of ownership of such enterprises through sales in the stock market, conversion of enterprises into public companies, leasing as well as liquidation. In accordance with this policy: (i) The Butwal Power Company has been privatized through share sales, Bhaktapur Brick Factory has been leased out, and

five other enterprises (Handicrafts Emporium, Nepal Coal, Hetauda Textiles, Nepal Transport and Birgunj Sugar Mill) have been liquidated during the last two years, bringing the total privatized/liquidated so far to 24 (out of 60) enterprises. (ii) Liquidation of Nepal Rosin and Turpentine and sale of its assets is being carried out. (iii) An evaluation of the assets and liabilities of Royal Nepal Airlines Corporation (RNAC) is under way, with a view to its transformation into a public company. (iv) Nepal Telecommunications Corporation has recently been converted into a public company and government intends to make its share available to public by January 2005; and (v) shares of Rastriya Beema Sansthan—the state-owned insurance company—will also be offered to the public. (vi) The Government will continue to evaluate/identify other enterprises which are suitable for divestment; and where privatization is not practical, a policy of ensuring competitive business environment has been adopted for such enterprises. Under this policy, the monopoly of importing petroleum products enjoyed by the Nepal Oil Corporation will be removed by opening up import and distribution of such products to Nepali companies. (vii) Arrears payable to a number of enterprises have been settled, in order to improve their financial position; and (viii) Performance contracting for top managers of public enterprises is being introduced to improve management of remaining enterprises.

Facilitating Private Sector Development. Despite a liberal trade and industrial regime, both domestic private sector development and foreign direct investment have remained low. Recent surveys have indicated several weaknesses: inconsistent application of existing laws and regulations, restrictive labor laws, inadequate infrastructure, lack of skilled manpower, etc. among others. The continuing conflict and perceived political uncertainty have further exacerbated the situation. In this backdrop, the government has taken a number of steps to help improve the investment climate: (i) A number of bills, already enacted or under preparation, seek to improve the legal framework. The law on Build-Own-Operate-Transfer has been enacted and the government is now inviting proposals for five infrastructure projects from the private sector. The Cabinet has already approved a Secure Transactions Ordinance. New Company ordinance and an Insolvency Ordinance are at final stages of preparation. A Competition Ordinance to regulate monopolistic practices and a new Industrial Policy are also close to finalization. (ii) As announced in the Budget, special economic zones to support the export sector are under consideration, and the law is being finalized. (iii) Arrangements have been made for the retail distribution of electricity by electricity cooperatives, communities, or local bodies, thereby opening up

the sector for additional private investments in power distribution. (The sector has been open for private investment in power generation for some time). (iv) Tax reforms aimed at creating a transparent and taxpayer friendly tax system have been implemented or are under implementation. (v) To help improve competitiveness of exports, export duties have been eliminated except in few commodities beginning this fiscal year, and special measures to promote export houses are being implemented. (vi) Draft amendments to labor laws to provide greater flexibility in labor decisions while striking a better balance between interests of labor and employers, (for example, introducing performance-based pay), are under preparation.

There is considerable ambivalence at present within the private sector itself about the government's role in private sector development. There are strident demands from time to time for new government interventions to prop up sick industries, provide financial relief, develop cottage industries, etc., among others. But the most efficient way the Government can help develop a competitive private sector is by creating a better enabling environment, and by reducing its own direct involvement in commercial activities. The Government has taken strong action in the last two years to *streamline government role and open up more areas for private investment*: (i) It has begun to dismantle the major monopolies in the public sector; (ii) Arrangements are being finalized to handover Kathmandu operations of the Nepal Water Supply Corporation to a private operator; and (iii) A number of Fund Boards (e.g. for roads, tourism, rural water) have been set up, with the involvement of stakeholders in the management, to carry out maintenance, service delivery and management functions which were previously carried out by government departments.

Financial Sector Reforms: The major thrust of financial sector reform has been to (i) Improve the management and financial position of the two large commercial banks—RBB and NBL; (ii) Strengthening the autonomy, prudential supervision and regulatory functions and capacity of the Central Bank—Nepal Rastra Bank (NRB)—and (iii) Restructuring two other traditional development financing institutions — Agriculture Development Bank of Nepal (ADBN) and Nepal Industrial Development Corporation (NIDC). The two commercial banks—RBB and NBL—have been handed over to external management teams, charged with correcting their poor financial condition; updating accounts; cleaning up their portfolios and reducing non-performing assets; complying with prudential banking and disclosure, and international accounting and auditing guidelines; and modernizing the banks

through computerization and training. A voluntary retirement scheme has been introduced, and staffing and operational costs have been substantially reduced. Both banks are expected to generate a profit in financial year 2003/04. Similarly, the restructuring and capacity building of NRB has continued. Some of the achievements so far include: the introduction of a VRS scheme, leading to over 400 staff cuts; strengthening banking supervision and accounting, computerization of supervision and monitoring work; improvements in human resource management and pay scales to enhance efficiency; and initiating the preparation of financial statements and disclosure according to international standards. To strengthen NRB's supervisory powers, a Banking and Financial Institutions Ordinance was promulgated in February 2004. To reduce non-performance loans of banks, blacklisting directives have been strengthened, a Debt Recovery Tribunal has been established, and more recently an Appellate Tribunal has been created.

Admittedly, progress so far in financial sector has been slow in part due to political and institutional difficulties in enforcing unpalatable actions (such as blacklisting and enforcing collections) against willful defaulters, among others. Also, even though the financial position of the two large banks has been turned around from major loss-makers to modestly profitable ones, the public does not seem to be aware of the tangible benefits occurring from foreign management. This in some way reflects our own failure to effectively communicate progress that is being achieved through disclosure of sufficient and timely information. However, the reforms in the financial sector, despite a slow start, have now moved to a critical stage. To carry the reform process forward through implementation of debt recovery, staff reductions and re-organization and divestment plans, strong political will and commitment would be needed.

Decentralization: A number of important measures to improve governance and accountability have been envisaged in the PRSP. These have also been incorporated into the annual IAPs to ensure their implementation. The more important ones include measures to accelerate decentralization, reduce waste and leakages through an anti-corruption agenda, increase financial accountability and improve the efficiency of the civil service.

Decentralization is one of the Government's key strategies to improve the delivery of services and infrastructure to the rural poor, and ensure greater accountability and transparency. The IAPs have sought to encourage the decentralization process by ensuring funding to local bodies, and supporting the transfer of selected expenditure functions to them. As envisaged in the

Local Self-Governance Act (LSGA) 1999, a number of steps were taken in the last two years: (i) Primary education, primary healthcare, and frontline agricultural extension and livestock services were transferred to local bodies. Some responsibilities for small-scale drinking water and irrigation, construction of agricultural roads and maintenance of district and urban roads have been transferred to local bodies. (ii) To provide more resources, local bodies have been given the authority for collection of land revenues and property taxes; revenue sharing mechanisms for hydropower, tourism, mining and forestry have been institutionalized; and a poverty-based formula for providing grants to local bodies has been adopted and is being partially implemented. A Local Bodies Fiscal Commission was set up for making recommendations for implementing fiscal decentralization, a framework/road map for this purpose was adopted and implementation initiated in 2003. (iii) For enhancing the capacity of local bodies, training programs with donor assistance are being expanded; a high level Local Bodies Strengthening Advisory Committee to further clarify roles and responsibilities of local and central governments and to recommend policy changes for strengthening local bodies was set up, and a study on expenditure assignment is being conducted; a draft human resources development plan for local development and proposal for setting up a Local Government Service Commission are under a discussion. District Periodic Plans have been prepared by 52 DDCs; and a GIS system has been initiated at district level and poverty maps have been prepared for 12 districts.

The specific actions envisaged in the 2002/03 and 2003/04 IAPs with regard to decentralization have been carried out: (i) The total amount of block grant and conditional grant to local bodies were increased by 12% in 2002/03, in spite of the budget crunch; and allocations to them in 2003/04 have been increased by a further 40%. (ii) A poverty-based formula for block grants has been introduced; (iii) Budget allocations for Mid and Far Western Regions were increased by 34% and for roads in these areas by 214% in 2003/04. As noted, a fiscal decentralization road map has been agreed upon; but a lot of preparatory work has to be done before it can be implemented.

Notwithstanding these initiatives, people in the remote rural areas have not been able to feel the difference in their living standards. First, the conflict has so far resulted in damage to or destruction of infrastructure in over one-third of VDCs and seriously curtailed development work in these areas. The absence of duly elected representatives to run local bodies has further weakened them. Second, the effort to strengthen capacity building and accountability at the local level has slowed down. Third, the commitment of most

line ministries to decentralization has been uneven. Fourth, to make significant progress, further preparatory work is needed to clarify the roles and responsibilities of central departments and local bodies, identify funding and human resource needs, establish an effective Local Bodies Service Commission and incentive structure, build up institutional capacity of local bodies and develop effective monitoring and reporting system at all levels of local government to ensure accountability and transparency. Analytical work on most of these areas has been started. Above all, the momentum for decentralization would gain speed and strength only when elected representatives take over the responsibilities of local bodies.

Improving Financial Management and Accountability: To improve financial discipline and accountability and reduce corruption and leakages, the Government has been implementing the recommendations of PERC, the recent Country Financial Accountability Assessment (CFAA) and the Country Procurement Assessment Report (CPAR). These include, among others, improving budgeting and expenditure management at both central and local levels, strengthening auditing and oversight institutions, improving expenditure/output monitoring and reporting, and capacity building at various levels. The critical actions in this regard have been incorporated in the Immediate Action Plans (IAP) of the last two years.

Improving Budgeting and Expenditure Management: Government's efforts to improve budgeting and expenditure management are discussed above. As noted, The MTEF, covering all ministries, was adopted in 2002/03; and the development budget prioritized and budget allocations linked directly to PRSP priorities. The annual plans of all P1 projects have been made public to ensure greater transparency. Amendments to the Financial Administration Regulations (FAR) 1999, incorporating public procurements and other financial management issues identified by CFAA and CPAR, were approved by the cabinet in September 2003. However, linking fund releases to outputs/intermediate results has not been as effective so far. To effectively implement an output-based fund release system, considerable preparatory work, training of staff and capacity building at various levels of the government are required. The Government also intends to integrate the regular and development budgets in a phased manner, starting with the 2004/05 budget.

To *strengthen financial accountability at local level*, 2002/03 IAP included a number of innovative arrangements. These have been implemented. For example, making public annual budgets and reports of actual expenditures

by local bodies (and line agencies); and posting budget allocations and expenditures at DDC/VDC offices, health posts and schools. Every DDC is required to set up an Internal Audit Unit that not only maintains an oversight of DDC financial affairs but also audits VDC accounts. An expenditure tracking survey for the education sector was carried out by FCGO last year and one survey each in the primary healthcare and road sector is being carried out this year. The government intends to make this an annual feature, every year covering one or two sectors questioning value for money and benefits provided to the public and stakeholders. Local level planning and budgeting process is being strengthened. (As noted, 52 out of 75 districts have already prepared their district plans, incorporating bottom up proposals/programs from VDCs). Work has been initiated on developing an appropriate framework and timetable for fiscal decentralization and reorganization of the structure of administrative districts based on their economic potential and viability. However, given the constraints mentioned above, progress has been slow in improving accounting and reporting procedures and capacity building through strengthening accounting staff and training.

To improve compliance with financial regulations, the reform agenda seeks to strengthen the Auditor General's Office (AGO) and parliamentary oversight mechanisms, particularly the Public Accounts Committee (PAC). To this end, IDF grant assistance was secured last year and staff training and capacity building will be initiated this year. Independent Boards for Accounting and Auditing have started their operations and quite a few accounting standards and auditing standards have already been issued. Nepal used to have very active and constructive Public Accounts Committee of the parliament. This is expected to continue after the election of the new parliament. In the absence of PAC, it has not been possible to provide for public disclosure and debate of the Auditor General's report.

Civil Service Reforms. Although the size of Nepal's civil service, on a per capita basis, is not unduly large, it suffers from a number of weaknesses: inappropriate skill mix, heavy wage compression, low levels of productivity, informal organization and outside groups making formal systems either inoperable or dysfunctional, among others. Recent reforms have aimed (i) streamlining and "right sizing" the government; and (ii) making the civil service efficient, accountable and transparent, so as to strengthen its capacity for service delivery and combat corruption.

The IAP for 2002/03 set a target of reducing the civil service by about 7500 positions by December 2003. This has been largely achieved, (nearly 7000

were eliminated). To address systematic problems, several steps have been taken: (i) A partial decompression of the salary structure was undertaken three years ago, but the compression ratio (defined as the ratio of highest to lowest pay grades) is still low. (ii) A Personal Information System (PIS) has been developed by the Ministry of General Administration (MoGA), to provide accurate information on the size and composition of the civil service. It is now being linked to the payroll system to create a comprehensive human resource data-base (for tracking posts, vacancies, transfers, salary and pension liabilities, etc.) (iii) Efforts are under way to standardize job disciplines, performance evaluation and promotion criteria. (iv) A governance Road Map has been recently prepared by MOGA, which will address, among others, efficiency and motivation issues in the civil service. MoGA's road map also includes steps to ensure greater representation of women and disadvantaged groups. (v) To reduce political interference in the civil service, a draft governance act which seeks to establish an appropriate division of responsibilities between political and administrative officials has been prepared and, is under discussion. (vi) Change Units (to steer the sectoral governance reform) have been established in several ministries, (e.g. Education, Health, Agriculture, MoGA, and Finance), charged with advancing reforms within their areas of competence. Notwithstanding, these achievements overall progress in civil service reforms has been slow. Changing the motivation and service orientation of the civil service remains a challenge; and it appears that people at large do not see the change so far affecting them positively. Besides the civil service, reforms are also underway in the police administration. Government is in the final stages of constituting an independent Police Service Commission to ensure fair selection of the police force. A number of important issues (such as the incentive structure, performance-based promotion and reward system, career development, training, effective implementation of transfer policies, insulation from unwarranted political interference, representation of women and disadvantaged groups, etc.) will need to be addressed as part of the future civil service reform agenda.

Sector-Specific Reforms. An important objective of the IAPs has been to catalyze new policy/strategy changes through selective actions in key areas in order to implement the policy/strategy directions envisaged in the PRSP. The 2002/03 IAP focused on two such areas— in education, transferring the management of public primary schools to school management committees, and in health, transferring management of sub-health posts to local committees. The intention was to initiate this experimental approach on a small scale, starting with 100 primary schools in education and at least 20

sub-health posts in each of 10 districts, and depending on the success of this approach, to scale it up significantly. Under both initiatives, funds previously allocated through the respective central departments are now channeled through local bodies, and supervision and management of the staff as well as funds are being handled at the local level. The early results of this approach have been very encouraging.

The IAP for 2003/04 has continued this approach and focused on a number of activities under the PRSP's four pillars to help accelerate implementation — for example, for strengthening the user group approach and expanding water management programs in irrigation, propagating the use of Farmers' Agricultural Funds in the Mid and Far Western Regions, operationalizing a Roads Board for improving operation and maintenance of roads, and to help implement affirmative action programs for women and marginalized groups, among others. Cooperatives and contractual farming is being encouraged and double-track management system in three government farms has been introduced recently to improve farm productivity. With a view to providing value-added benefits to dairy farmers, milk-chilling centers are being handed over to Dairy farmers and the longer run objective is to enable farmers to take over and manage Dairy plants on cooperative basis. While a number of the specific actions envisaged in the 2003/04 IAP have been completed, the others are under implementation.

The government has taken several actions to improve access of women and ethnic groups/Dalits to basic services. Special scholarship and school incentive schemes have been introduced from this fiscal year to improve school enrolment and retention of these vulnerable groups. The government is currently working on a road map for the enhanced entry of women and ethnic groups in civil service as part of its affirmative action policy.

Lessons Learned

Nepal's recent experience with implementing economic and sectoral reforms provides some valuable lessons, which can help guide future reforms in Nepal. Particularly noteworthy is the fact that wide-ranging reforms have been successfully carried out against a background of political instability, armed conflict and economic weakness. This is not an environment in which reforms normally thrive; nor could they have been normally expected from a reputedly "risk-averse" bureaucracy, particularly at a time when political leaders are more involved with pressing political issues including amicable settlement of conflict. It is useful to examine how such a change in reforms has come about.

First and foremost, there has been a strong demand for it. As noted, there is still considerable well-articulated frustration with lack of progress in development/poverty reduction among domestic as well as external development partners.

The preoccupation of elected leaders with more pressing political matters, including amicable settlement of conflict has generated a willingness to search for new strategies and efforts to give a sense of direction and thrust to socio-economic progress and change. An attitude of receptivity to innovation and new approaches on the part of political leadership combined with bureaucratic willingness to plan and implement reforms has created a proper mix to push through an impressive reform agenda.

The difficult fiscal and social situation required different agencies within the government to work very closely and in tandem; the line ministries, NPC and MOF have been working closely in agreeing on realistic resource estimates, supporting the MTEF's prioritization, calibrating budget reforms with PRSP/MTEF's needs etc. And several line ministries have come up with their own reform programs. Indeed, without MOF's strong signals to line ministries, the MTEF's prioritization and streamlining the development budget would not have been possible. Similarly, reforms in education and health initiated by the concerned line ministries to promote community involvement and management were significantly aided by MOF/NPC support.

Public support is essential to push through reforms. As noted, strong support has been there from a vocal Nepali public and intelligentsia. Appropriate mobilization of donor and public support through public consultations and discussions have helped to build momentum for reform.

Is there an ideal climate for reform? Political stability generally helps. But, Nepal's recent experience runs against the grain, since reforms have been carried out in a difficult environment. A probable explanation for this success is that successful reforms happen during difficult times, since there is greater receptivity to new approaches than in normal period.

In turbulent times there is a search for new approach to problems and a willingness to consider various elements of what could be labeled as "core transformation" in the socio-economic system. The move in this direction is already in process. The government has formed a high-level commission to look at the whole issues of devolution, and power to the local bodies including structural changes so that there is a clear division of financial and ad-

ministration power between the centre and the local level institutions. Similarly, a high level commission has also been formed to suggest various ways and means to enhance equality of opportunity to disadvantaged group, dalits and women through different forms of affirmative measures. Many of these measures that are now being discussed with urgency were not in the agenda of reform neither a few years ago, nor they are in the forefront.

Finally, internalization of reforms clearly helps. The PRSP has been clearly owned by the Government; so have most of the other key reforms (MTEF prioritization, reforms in education and health, etc) been owned by the concerned ministries. This has helped to reduce public perceptions (which normally undercut reforms) that such reforms are “donor-driven”.

Reform Agenda for the Immediate Future

The first and second generation reforms were designed in the wake of deteriorating fiscal position and generally weak implementation capacity of the government and weak accountability structure. As explained earlier, these reforms targeted revenue mobilization, better public expenditure management, more powers at the local level (so that implementation capacity improves), corruption control, strengthening civil service, strengthening the financial sector, etc. The benefits of these mostly macro-level reforms are yet to accrue to the public. There is a risk that these reforms might be reversed if substantial benefits do not occur to the public at large and, in particular, to the people in the rural areas. While improved fiscal and macro-economic stability can be attributed to first phase of second-generation reforms, the next phase of these reforms should focus on translating “improved fiscal and macro-economic performance” into economic well being of rural people and bring about visible improvement in service delivery to the public. Expressed in plain language, the impact of change should extend beyond Kathmandu valley. There should be a discernible impact on the lives of people in the rural areas.

The next phase of reforms certainly would be more difficult than the one we are pursuing for the last couple of years. On the one hand, we need to be very vigilant that the present reforms do not get derailed or reversed, and on the other, new reforms should be carefully implemented.

Carrying Out Development Activities in a Conflict Environment.

During the pre-consultation meetings several important concerns were raised by the participants, and these need to be addressed before discussing the

specifics of the reform agenda for the future: (i) It was rightly pointed out that the ongoing conflict and political strife dominate the current socio-political and economic environment in Nepal; and that the Government should explain, in implementing the PRSP/Reform Agenda, how development activities will be effectively carried out in an environment of widening conflict, and how, in the absence of elected local bodies, associated local governance problems can be tackled; (ii) Underlying this concern, the need to accelerate the decentralization process, recognizing that decentralization is an important part of the solution to the conflict, was also stressed. (iii) It was also pointed out that reforms must be people-centered; reforms are of value only if they can deliver benefits and services that are needed by the people, especially the poor.

The Government appreciates these concerns. To address them, the Government believes that the PRSP's four-pillar strategy and the associated reform agenda are still valid and appropriate; but the approach to their implementation will need to be re-focused to deal with the conflict situation. How the government will address the conflict and local governance issues is outlined below. (A more detailed discussion of these issues is included in the papers on Conflict and Development, and Progress Report on Poverty Reduction).

There is little doubt that without significant progress in peace building and conflict resolution, Nepal cannot come close to achieving its poverty reduction goals over the next few years. But, it is difficult for anybody to predict how long it will take to resolve the conflict. The Government therefore believes that a two-track approach must be pursued. While pursuing peace building through whatever available means, strong efforts should be made to forcefully implement the poverty reduction agenda, in order to reach the PRSP goal of reducing poverty to 30% by 2006/07 and to get on track to reach the MDG goals by 2017. It is only by delivering benefits to the people that the spread of the conflict into new areas can be prevented, and the confidence of people living in conflict areas can be gradually won back.

As discussed elsewhere, it is becoming increasingly difficult for the government to carry out even essential development activities in conflict-affected areas through normal government mechanisms. Accordingly, new and more flexible arrangements must be utilized to operate in these areas. These include the following.

- The Government will try to get more resources directly to the communities, through a variety of means, for example, providing more uncondi-

tional (poverty based) grants which can be used for a variety of purposes depending on the communities' needs, the proposed Immediate Relief Fund, the PAF, and increased allocations to DDCs and VDCs (under conditional grants);

- More flexible funding mechanisms with effective accountability structure would be put in place, so that the communities/beneficiary/user groups will have an important role in deciding how the funds will be allocated, used and managed;
- The Government will be willing to use whoever or whatever mechanisms that will work—NGOs, INGOs, private sector, Community-based Organizations (CBOs), and Social Organizations (SOs), among others;
- The Government will expand community-managed programs as rapidly as possible. For example, the new initiatives in community management of health and education facilities, together with increased recurrent funding, recruitment and supervision of teachers and health workers, and local procurement of essential supplies will be accelerated. Similarly, the demand-driven approach to provision of drinking water and sanitation, (using SOs as community mobilizers and implementers) will be scaled up.
- Decentralization process will be accelerated through increased devolution of expenditure functions and revenue sources;
- To enhance transparency and accountability, community involvement will be the major tool. The management committees, communities/recipients of funds will be required to post details of resources provided, how they have been used and outputs produced at the village/local level. While this does not ensure 100% foolproof accountability, community oversight and pressure may help ensure greater accountability than what exists now under the present arrangements. The election of local bodies, of course, would be vital to ensuring that capacity building and accountability mechanisms at local levels can be strengthened, as quickly as possible.

The Government recognizes that much work will need to be done to firm up these arrangements and to ensure that they work reasonably well. A degree of trial and error accompanied by agility in making quick corrections, is inevitable in this regard, particularly since the Government does not have adequate experience in working with communities in a conflict environment. Obviously, development partners can play a critical role in this process by assisting the government in developing operating modalities and monitoring arrangements, implementing programs in a harmonized way and providing financial support for them.

The Main Elements of the Reform Agenda. The main elements of the Government's reform agenda for the next three years are outlined below. As noted earlier, this is much the same as the program broadly outlined in the PRSP, but with more specific actions in key areas under the PRSP's four-pillar strategy. As in the past two years, the key actions of the reform agenda will be incorporated into the IAPs every year to ensure their effective implementation.

Public Resource Management. HMGN intends to broaden and deepen the MTEF process in order to prioritize all public spending and enhance their effectiveness for poverty reduction. Currently, only the development budget is prioritized. Over the next year, the Government will also prioritize the regular budget and integrate it with the development budget. This is aimed at ensuring that the resource needs of key sectors (such as education, health, drinking water, rural roads and local development) for effective delivery of services are assessed in a holistic manner and are adequately funded. It will also facilitate the adoption of sector programming approaches (as proposed in health and education) to improve the efficiency of resource use. In formulating the Budget and the MTEF for next year, special attention will be given to programs implementation approach as outlined in para 49 above, and adequate funding will be made available for them. The Government will also improve MTEF preparation in 2004/05 by making cost estimates and work programs more robust, and aligning the prioritization of activities more closely with the PRSP. Necessary arrangements will be made to submit programmes details to be implemented during the next fiscal year along with the request for the budget. While approving both the programmes and the budget, efforts will be made to ensure that maximum output will be produced with a minimum of expenditure, that is, output per unit of expenditure. At the same time, the performance monitoring system will be strengthened by setting performance standards for each ministry.

HMGN will also strengthen its *resource mobilization* efforts so that it can finance all of its recurrent spending needs out of its own resources and generate a surplus for providing counterpart funding for development activities, while maintaining domestic borrowing at a sustainable level. To this end, the Government will continue to implement the recommendations of the Fiscal Reform Taskforce, especially with regard to customs reforms. The import valuation system will periodically be updated, the ASYCUDA system will be implemented in a total of seven customs points, and customs administration will be streamlined, (less interactions between customs officials and

tax payers, and improved supervision and monitoring), with incentives for better performance. Improved taxpayer service and reduced tax compliance burden would be the major theme of the future tax reform and to this end, the government, in consultation with all stakeholders, will look into the possibility of constituting a permanent Revenue Board — replacing the present Revenue Advisory Committee — giving it quasi-judicial powers, particularly to adjudicate and expedite the settlement of tax appeal cases.

Private sector development is a major part of the PRSP's strategy of promoting non-agricultural growth, employment generation, infrastructure development and increased private involvement in service delivery, among others. The Government's policy is to facilitate private sector development by: (i) Creating a more conducive environment for private sector activities; (ii) Streamlining/reducing the public sector's role in economic activities to create more room and opportunities for the private sector; and (iii) Adopting specific measures in various areas (without creating new public interventions) to assist the private sector.

HMGN will make a serious effort to create a business environment, which is more conducive to private sector development, (i) First and foremost in this context, is the need for peace building and restoration of law and order. As discussed, the Government will pursue its two-track strategy to achieve this goal. (ii) The Government will also try to improve the regulatory environment. While the overall investment framework is currently quite liberal, inconsistent application of laws and bureaucratic discretion in interpreting them create unnecessary hurdles and costs for the private sector. The Government will review the existing arrangements in consultation with FNCCI and develop an action program to remove overlapping/inconsistent laws, streamline procedures, and set clear and transparent guidelines and time limits for decision-making by officials. (iii) The Government also will strengthen the *legal framework* to help improve the private investment climate. New legislation will be enacted for this purpose, including a new Company ordinance, an Insolvency Ordinance, a Bill on Transparency of Financial Transactions, a Competition Ordinance to regulate monopolistic practices and a new Industrial Policy.

To create more space for private sector activity, the public sector's role will be further streamlined. Existing major public sector monopolies will be opened up to private competition. To this end, the unbundling of generation and transmission activities of Nepal Electricity Authority (NEA), as well as the

opening up of import and distribution of petroleum products (up to now a monopoly of the Nepal Oil Corporation) to private investors will be implemented in 2004/05. In order to extend rural electrification through public-private partnership, the electricity cooperatives, local bodies, and community groups will be encouraged to carry out retailing of electricity. The Royal Nepal Airlines Corporation (RNAC) will be converted into a public company, and shares will be sold to public. Bond market will be established to sell shares of both the Nepal Telecom and the Nepal Insurance Corporation. Similarly, the Nepal Water Supply Corporation (NWSC) will be restructured and its Kathmandu Valley operations will be handed over to a private sector operator. The Government also will continue to implement its privatization program (through various modalities such as asset sales, conversion to public company, share sales, liquidation etc); and three more enterprises are targeted for divestment over the next two years. As long as the privatization is not done, the government will engage professional management in the public corporations and this will be subject to performance contract with objectively verifiable performance indicators. As discussed in para 20, laws have already been enacted to facilitate private construction and operation of infrastructure projects through BOOT arrangements. To attract *direct foreign investment*, the existing policy will be changed by significantly reducing the list of 23 industries presently excluded for foreign investment, simplifying exit procedures, facilitating repatriation of income and dividends, and treating investments by non-resident Nepalis on the same basis as foreign investment, among others. Similarly, protection of intellectual property rights will be given strong emphasis with suitable legal and institutional framework.

Several measures will be initiated to reduce competitive disadvantages for the private sector where feasible. As noted above, tax reforms aimed at creating a transparent and taxpayer friendly tax system will be implemented. Labor laws will be amended to provide greater flexibility in labor decisions while striking a better balance between interests of labor and employers (for example, introducing performance-based pay). Nepal's exports suffer from several handicaps, including high transport costs and lack of competitiveness in many areas. The Government will take measures to address competitiveness concerns: Export duties will be reduced. The Government will establish special economic zones for promoting exports, with necessary infrastructure, bonded warehousing facilities and flexible labor legislation. The duty drawback schemes for exports will further be simplified minimizing administrative burden for exporters. Appropriate policy will soon be announced

to promote export house scheme. The Birgunj Multi-modal Transit Terminal would be made operational to facilitate trade movement. The Government is also negotiating for an additional transit corridor through Mumbai.

Financial Sector Reforms. The reform program now underway will be continued with a stronger commitment. To ensure faster progress, key actions will focus on the areas which have proved somewhat intractable up to now. These will include the establishment and operationalization of an Asset Management Company in 2004/05; activating and operationalizing the new institutional mechanisms that have been set up for expediting loan recovery — i.e. Debt Recovery Tribunal, Appellate Tribunal and the blacklisting procedures. Progress in these areas will be measured by success achieved in reducing the Non-Performing Assets (NPA) of both banks (RBB and NBL); and specific targets will be set for this purpose. The Government's intention will be to eventually privatize both banks. The restructuring of the Agriculture Development Bank will be undertaken with a view to transforming it into a more viable institution. NIDC will be liquidated or privatized if restructuring fails to produce results. With a view to bringing about dynamism and diversifying in the capital market, trading in government bonds will be allowed in the stock market.

Faster growth of *agriculture and related activities* is critical for increasing rural incomes and livelihoods, especially for the majority of the rural poor, deprived groups and remote areas. As discussed, progress in this area has been less than expected. Therefore, the Government will establish an integrated program (a packaged approach) to implement the Agricultural Perspective Plan (APP) in pocket areas in the hills, by ensuring key inputs, particularly extension services, credit, irrigation and marketing arrangements which have been inadequate so far. A project type approach will be adopted to implement these types of integrated programmes. These programmes will be implemented To address the perennial problem of poor inter-ministerial co-ordination, an Agricultural Program Implementation Co-ordination Committee will be set up; and the APP Monitoring Unit will be revived to monitor progress on a regular basis. This would help accelerate the development of commercial agriculture (horticulture, fruit farming, floriculture, bee keeping etc) and livestock in the hill areas. The government will extend financial and technical assistance to farmers in maintaining and extending small irrigation facilities on a cooperative basis. While focus will be on small and locally manageable irrigation projects, the government will give equal attention to the maintenance and extension, wherever feasible, of the large irriga-

tion projects. All government agricultural farms will be allowed to operate on commercial basis after they fulfill government's research and seed production requirements. The Government will review overall spectrum of rural finance including the existing arrangements to provide agricultural credit and micro credit for supporting rural income employment generation activities (without undercutting the objectives of developing viable financing institutions). The community forestry and leasehold forestry programs will be expanded, which are particularly promising avenues of income generating activities for women and marginalized groups. In this context, arrangements will be made to bring barren/fallow land under community/leasehold forestry programs. The Government will also undertake an early review of the considerable potential for commercial exploitation of forestry resources (coupled with re-forestation programs) in the Terai, and develop and implement a program for this purpose. If effectively carried out, these activities will help to significantly increase agricultural growth and rural livelihoods; and we will monitor progress carefully with a view to introducing the sector programming approach to broader agricultural/rural development activities later on.

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Development of hydro-power and tourism sector is necessary from the standpoint of employment generation and economic growth. Government will encourage the private sector to set up power generation facilities and funding will be made available through the Power Development Fund. In pursuance of the statement made in the current year's budget, the government will work to make Nepal a regional tourist hub.

Government support to the development of information technology will have twin targets: (a) making inroads into the international software market, (b) expanding the government usage of IT to promote transparency, enhance accountability and ensure industrial and urban security

The Government will give greater attention to the protection of urban and rural *environment*. Actions will be taken to ensure stricter enforcement of existing laws and regulations regarding urban pollution standards. Community/private participation will be enlisted to help protect bio-diversity. Arrangements will be made for private sector/community management of 5-6 national parks over the next year. And, genetic resource conservation, forest management and land conservation/watershed management programs will be expanded.

Under the pillar of *social sector and infrastructure development*, considerable progress has already been achieved. The Government will build on this

progress by extending community management (together with incentive grants and supporting mechanisms) to more than 2000 schools in education, and to more than 1200 sub-health posts in the next two years. In both education and health, the sector-wide programming approach will be adopted and implemented to provide education for all and basic health care for all. In drinking water, demand driven and community management approaches for rural water and sanitation programs will be expanded and given additional funding, to increase coverage and accelerate implementation. The Government will also make special arrangements to ensure that schools, sub-health posts and drinking water facilities are built on the basis of poverty mapping, and adequately staffed and functioning to provide for the needs of marginalized communities and areas. Each ministry will be required to monitor and provide regular (trimesterly/annual) reporting of progress in this regard.

As discussed in the paper on Conflict and Development, strong emphasis will be placed on the development of rural infrastructure, particularly, agricultural roads and rural electrification. This will on the one hand help create employment immediately and in the medium to longer term increase markets for agricultural and other non-farm rural produce. While new infrastructures are being developed, adequate funds will be provided to the reconstruction of buildings, bridges, power generation facilities destroyed due to armed conflict. The government intends to create additional jobs every year in the rural areas through rural infrastructure and rehabilitation activities.

Increased urbanization is seen to be generating multi-faceted benefits: (a) creation of new employment opportunities, (b) better market for rural producers, (c) cost-effective provision of utilities and social services by the government. Supporting systematic and planned urbanization through infrastructure creation and land-use planning will be given high priority. The government will give more powers to municipalities in enforcing land-use plan and enable them to raise funds for development of new infrastructures. The government is also working on the City Government Act and the Town Development Act aiming at empowering municipalities. Rural-urban economic linkage will be strengthened by developing product-specific market centres in different places.

Despite efforts and progress in various dimensions of women's status over the past decades, gender hexarchies underpinned by the unequal relations between men and women, continue to shape the discriminatory social realities across varied class, caste and the ethnicity. Social mobilization in gen-

eral and gender mainstreaming in particular remain multidimensional issues/challenges. The Tenth Plan/PRSP has recognized this issue and aims at creating gender equal and gender just society for achieving the targets of sustainable economic development and poverty reduction by eliminating all forms of discrimination against women and marginalized populace and ensuring their basic rights. In line with the recognition in the Tenth Plan/PRSP, His Majesty's Government will continue to respond to the recognition that social mobilization and gender mainstreaming is critical to achieve the goal of women's empowerment and gender equality. And, future policies and programs will be reoriented accordingly.

His Majesty's Government is committed to achieving the Millennium Development Goals (MDGs) by putting the right policies in place, improving efficiency and effectiveness of the interventions that contribute to reaching the Goals, and pursuing aggressively the required policy and institutional reforms. This will require a comprehensive development framework, which puts each piece of the puzzle in the right place and identifies missing pieces as well. In this regard, HMG/N will develop a broad business plan for future actions wherein the Poverty Reduction Strategy (PRS) would serve as a medium-term roadmap to get to the longer-term goals set out by the MDGs, and will be fully aligned with the MDGs and backed up by resources. All development activities would be strategically geared towards attainment of the Goals, which calls for enhanced coordination and harmonization among development actors.

As discussed, progress under the *Social Inclusion and Targeted Programs* has not been adequate. The above-mentioned initiatives under the growth and social sector development programs, if effectively implemented, should help improve the situation. In addition, the Government will take specific actions to expand programs for women, marginalized groups and areas: (i) The Government currently provides cash incentives to encourage school attendance of girls and Dalit children. This will be supplemented by the provision of real scholarships (full funding of school tuition, cost of books and subsistence) for girls and Dalit and disadvantaged children through the secondary level. (ii) Government has already started a scheme for providing land to freed Kamaiyas. The functioning of this program will be reviewed to make it more effective and expand it to include other marginalized groups and women on a need basis. It will be backed up by arrangements, which will also provide access to productive assets and inputs to the target groups, in addition to land. (iii) A committee set up under the chairmanship of the Finance Minister is already looking at the options under reservation policies for pro-

viding more opportunities and representation for women and marginalized groups in public administration and political bodies at both central and local levels. Without pre-judging the conclusions of this Committee, efforts will be made to take significant and noteworthy actions in these areas, (including the introduction of specific quotas), on the basis of its recommendations. (iv) The Government has already started a scheme recently to provide quotas for employment abroad for those from Dalit and disadvantaged communities. This scheme will be expanded to include displaced youth also from conflict-affected areas. To reduce transaction costs for migrant workers, arrangements will be expanded to provide loans for travel and related expenses. (v) The Government will expand the “skills for employment” program to provide skill-oriented training to up to 10,000 semi-literate persons per year with the involvement of CTEVT and FNCCI. To the extent possible, these programs will be linked to include those from marginalized communities and Nepali workers going abroad.

The recently established Poverty Alleviation Fund will be further strengthened and sufficient funds will be provided to the PAF to conduct its activities. The Fund will also work through community groups and local NGOs, thus strengthening and empowering local people in planning and implementing programs for their advancement.

The main challenge in *civil service reforms* under the Governance pillar is to make the civil service efficient and more oriented to service delivery to the public. Reforms in this area therefore will seek to achieve better results in two key areas: (i) Enacting legislation to reduce political interference in the functioning of the civil service by delineating responsibilities of ministers and the civil service, and delegating appropriate authority to the latter; (ii) Strengthening personnel management by institutionalizing the PIS system in all ministries, and improving the incentive system for civil servants through salary decompression and introducing merit-based, gender-sensitive recruitment and promotion policies. To improve performance and efficiency, performance-based contracting will also be introduced in some selected government agencies. The Citizen’s Charter which was introduced some time ago clarifying service standards the public could expect to receive from government offices will be fully operationalized.

The progress in *decentralization* has been seriously hampered by the absence of elected bodies, and by the ongoing conflict which has disrupted their development activities, as well as capacity building efforts. Progress over the

next year will clearly depend on how quickly elected bodies can be put in place and whether a degree of peace building can be achieved to allow local bodies to function better. The Government reiterates its commitment to accelerate the decentralization process not only for improving service delivery and local governance, but also as an important part of its strategy to find a solution to the conflict. Accordingly, the Government intends to take a number of actions to implement the LSGA framework and the recommendations of the Fiscal Decentralization Commission: (i) Full scale devolution of expenditure functions and revenue assignments to economically viable districts (selected on the basis of an ongoing review) will be initiated in 2004/05; (ii) Poverty-based unconditional grants to districts will be expanded and possibilities of extending this approach to VDCs will be explored. (iii) Simultaneously, a system of conditional grants (under which funds will be made available for approved purposes, subject to regular monitoring and expenditure reporting), will also be increased. (iv) A Local Bodies Service Commission will be set up to provide the necessary human resources and personnel management for local bodies. (v) Capacity building efforts will be strengthened, together with reinforcing monitoring and expenditure reporting activities introduced earlier. (vi) To support the devolution process, the roles and responsibilities of the Ministry of Local Development will be revised, and the Local Development Training Academy will be strengthened.

Building on the strong progress made in the last two years, the *anti-corruption* drive will be strengthened. The CIAA will be strengthened by providing additional financial resources, staff and training. Arrangements will also be made to expedite the processing of anti-corruption cases by the Special Court. As an important part of the anti-corruption strategy, a strategic plan to strengthen the judicial system will be introduced. This is expected to improve justice delivery by broadening the jurisdiction of Appellate, Administrative and Labor courts, strengthening the Supreme Court, establishing uniformity in legal procedures, improving and computerizing the administrative system and strengthening the financial and administrative autonomy of the judicial system. Arrangements for setting up of special bench for commercial cases will be made in selected district courts, so that justice delivery for the growth and development of business activities is expedited. Nepal's penal system is considered outdated. The government intends the review the penal system with a view to bringing about suitable reforms. Anti-corruption drive and promotion of public accountability is not only important in governance, it is equally important in all public life. In view of this, Fiscal Transparency Act will be enacted as a measure to prevent corruption in

public financial management and other suitable legal and institutional frameworks will be put in place requiring both NGOs and INGOs to publicly report their activities and finances.

One consistent theme running through the pre-consultation process so far is the need for strengthening *monitoring and evaluation* capacity of the government to ensure effective implementation of the PRSP and delivery of services to the rural poor. The Government has already prepared a detailed Monitoring and Evaluation Framework. Its implementation will require substantial technical and financial resources to strengthen institutional capacity, provide additional staff with the necessary skills, and training at various levels of the government. The Government will give high priority to its implementation; and starting in 2004/05, provide additional resources for strengthening the monitoring function at key points—FCGO, NPC, line ministries and at district levels. The government will extend full support to the Office of Auditor General in implementing its action plan for strengthening its oversight functions. The government will explore appropriate ways to make public and debate AG's Report as long as PAC is not formed after the election of the Parliament.

Last, but of a great significance, is the protection of *human rights*. This is even more important in the current environment of conflict and political strife. The government is firmly committed to protecting human rights and will take appropriate actions in this regard. A National Human Rights Action Plan has already been approved by the Government. The Government has specifically declared its commitment, under the Action Plan, to protect the rights of women, children, Dalits and indigenous people, among others; to observe international conventions for the protection of human rights (of combatants, prisoners, detainees etc); and to take steps to strengthen the National Human Rights Commission.

It was felt that many development programs and projects remained 'donor driven,' and inadequate ownership by HMGN led to waste and misuse of resources. In part because of this, public expenditure management lacked a clear sense of priorities and outcome focus. To address these two problems, HMGN decided to develop a Poverty Reduction Strategy Paper (PRSP), to set out its own development vision and strategy, and introduce a medium-term expenditure framework (MTEF), to improve fiscal discipline, bring more rigors to prioritization, and sharpen outcome orientation. At the same time, HMGN prepared *Foreign Aid Policy 2002* to articulate how Nepal wanted

donors to support a Nepal-led development process. At the NDF 2002, Nepal's development partners endorsed the approach described in the Foreign Aid Policy Paper, including the following key principles: Donors to support the PRSP as the overall development strategy; Donors to accept the MTEF as the process to set spending priorities, including for aid resources; Donors to increase efforts to learn from experience and indigenous knowledge in developing new interventions; Donors to increase transparency in donor-funded activities; and Donors to pay special attention to the large quantity and low impact of technical assistance (TA), including training. All this clearly indicates the need for aid transparency, harmonization, and bringing all aid resources under the scope of governmental policies and programs. In order to achieve such gains, HMG and donors have developed a *National Action Plan for Harmonization*. The aim is to have the National Action Plan for Harmonization endorsed at the NDF, and thereafter move forward with specific actions based on a shared understanding of and firm commitment by all partners to the Nepal-specific harmonization process. The National Action Plan for Harmonization has been developed as a two-year rolling plan to be reviewed every year in terms of achievements made. This is an effort to harmonize the operational policies, procedures, and practices of donor institutions with those of partner country systems to improve the effectiveness of development assistance, and thereby contribute to better utilization of aid, as well as the effective implementation of the poverty reduction agenda. It will serve as a tool for continuous movement toward improved harmonization by presenting actions responding to overall aid management issues. In addition, it includes actions to give overall guidance and actions to be implemented at sector level.

Conclusion

The period ahead will be a challenging one for all those who are engaged in development/poverty reduction work in Nepal. Continued conflict and political instability are likely to erode public confidence and undermine development implementation; and will inevitably lead to questioning of Nepal's ability to sustain development activities and whether donors themselves should continue to be involved in supporting such efforts. However, no one can predict at this time, with any degree of confidence, how quickly conflict and instability can be resolved or how long they will endure; and the Government simply cannot put off its development efforts on hold until such time as the domestic situation improves. Such inaction would further aggravate social discontent. The Government therefore is committed, while pursuing peace building, to continue to vigorously pursue development/poverty

reduction efforts on a parallel track, as rapidly as possible, paying special attention to reviving and accelerating development activities in conflict-affected areas. The Government's recent record of effective implementation of the reform agenda is the best proof it can provide to development partners that it remains firmly committed to taking necessary actions through the difficult period ahead.

Harmonization of Donor Assistance in Nepal

Background

Nepal's development efforts started in the 1950s, from an extremely low base in term of physical infrastructure, institutional capacity, human development, and incomes. In this endeavour, Nepal has received generous assistance from many bilateral and multilateral donors and technical agencies. Over the last five decades, huge strides have been made in development. Yet, many have felt that development and poverty reduction have fallen short of what might be expected from the amount of resources invested. By the time of the last Nepal Development Forum (NDF) in 2002, His Majesty's Government of Nepal (HMGN) had concluded that some fundamental changes were in order.

It was felt that many development programs and projects remained 'donor driven,' and inadequate ownership by HMGN led to waste and misuse of resources. In part because of this, public expenditure management lacked a clear sense of priorities and outcome focus. To address these two problems, HMGN decided to develop a Poverty Reduction Strategy Paper (PRSP), to set out its own development vision and strategy, and introduce a medium-term expenditure framework (MTEF), to improve fiscal discipline, bring more rigor to prioritization, and sharpen outcome orientation. At the same time, HMGN prepared Foreign Aid Policy 2002 to articulate how Nepal wanted donors to support a Nepal-led development process. At NDF 2002, Nepal's development partners endorsed the approach described in the Foreign Aid Policy Paper, including the following key principles:

- Donors to support the PRSP as the overall development strategy;
- Donors to accept the MTEF as the process to set spending priorities, including for aid resources;

- Donors to increase efforts to learn from experience and indigenous knowledge in developing new interventions;
- Donors to increase transparency in donor-funded activities; and
- Donors to pay special attention to the large quantity and low impact of technical assistance (TA), including training.

Since the last NDF, the 10th Plan/PRSP has been finalized, and the MTEF was introduced in FY02/03. Considerable progress has been made in HMGN's effort to take full ownership of the development process and link public spending to the PRSP priorities through the MTEF. Although development partners have been supportive of this effort, development assistance is still not integrated systematically into the MTEF. In particular:

- While they are broadly consistent with the PRSP (because it is relatively general), many donor-funded programs and projects remain 'donor driven'; and
- Aid decisions are often made without due regard to the MTEF process. When aid accounts for about 25% of the annual HMGN budget, it is difficult to make public expenditure management effective without fully incorporating donor funds into the MTEF process and streamlining resources into the national budget.

In the meantime, in a broader international context, donors have come to acknowledge greater needs to improve aid effectiveness. Specifically, the OECD/DAC Rome Declaration on Harmonization was endorsed by 28 aid representatives and more than 40 multilateral and bilateral development institutions in February 2003. From the development partnership perspective, the main purpose of harmonization is to improve aid effectiveness by, among others, reducing the transaction costs of aid delivery and better aligning aid with national strategies and priorities. In order to achieve such gains in the Nepal context, HMGN and donors have developed a National Action Plan for Harmonization. The aim is to have the National Action Plan for Harmonization endorsed at the NDF, and thereafter move forward with specific actions based on a shared understanding of and firm commitment by all partners to the Nepal-specific harmonization process.

The National Action Plan for Harmonization has been developed as a two-year rolling plan to be reviewed every year in terms of achievements made. It will serve as a tool for continuous movement toward improved harmonization by presenting actions responding to overall aid management issues. In addition, it includes actions to give overall guidance and actions to be implemented at sector level.

Harmonization of Donor Assistance

The Rome Declaration on Harmonization describes the deliberations among the participating donor countries and international agencies as “effort to harmonize the operational policies, procedures, and practices of our institutions with those of partner country systems to improve the effectiveness of development assistance, and thereby contribute to meeting the Millennium Development Goals (MDGs).”¹ It also emphasizes the importance of ensuring that “development assistance is delivered in accordance with partner country priorities, including poverty reduction strategies and similar approaches.”² Based on this, harmonization in Nepal needs to be promoted at three broad levels.

Tier I (Harmonization at the overall program level): This is about improving efficiencies of aid by aligning donor support with government’s own strategy and priorities, regardless the modality of financing or other arrangements (such as procurement guidelines and reporting requirements). The PRSP and sector strategies should guide the strategic allocation of donor resources. The MTEF will serve as the framework to effect such alignment. To make this happen, donors need to facilitate medium-term planning by HMGN.

Tier II (Harmonization at the individual program level): In each sector or programmatic area, great deal of efficiency gains can be achieved by moving toward a joint program and common procedures. Where HMGN has developed a well thought-out strategy, policies, implementation plans and procedures, a monitoring mechanism, and a budget, donors are encouraged to finance part of the single program, and use as much as possible HMGN’s own financial procedures and reporting systems. Such programmatic approach can bring both greater outcome focus and reduction in transaction costs. In primary education, MOES and development partners have developed the Education for All program in this spirit.

Tier III (Harmonization at the financial modality level): Based on progress at Tier I and Tier II, this is more about reducing transaction costs by greater use of programmatic financial support. Though less substantive than Tier I and Tier II, willingness of donors to move toward more harmonized financing mechanisms could provide a positive incentive to HMGN to take a stronger role at Tier I and Tier II. This is likely to require HMGN to move from the traditional activity budgets to program budgets. Basket funding is a joint programmatic funding approach, which can reduce transaction cost

significantly. Budget support is the most generalized form of programmatic financing, which gives HMGN a greater flexibility to adjust budget allocation to match its priorities.

Tier I – Harmonization at the Overall Program Level

The current ‘system’ is inefficient in several ways.

- Donor funded projects are typically reviewed on an ad hoc basis. This does not allow comprehensive prioritization across all possible projects and programs.
- Prospective funding levels from donors are not effectively taken into account by HMGN in formulating its budget, especially for the medium term. Only firm commitments seem to be used as the basis for budget formulation. In reality, the aggregate aid flows have been relatively stable, and not using this information for estimating future resource envelope weakens HMGN’s planning process.
- HMGN does not use program budgets. This weakens the link between the sector strategy, spending, and outcomes, and makes medium-term thinking difficult. This also encourages project based interventions, rather than program-based financial support or broader budget support.

To overcome these problems, HMGN and donors need to take some actions.

- HMGN must improve its focus on outcomes. In addition to improving the general poverty monitoring system, it will move toward program budgets to facilitate this. This is, however, a demanding process, requiring carefully developed sector strategies and plans. HMGN will approach this in a phased manner.
- HMGN must strengthen medium-term focus in the MTEF, and sharpen its prioritization process.
- To facilitate this, donors are asked to support a new, annual process that parallels the PRSP and METF. Such a process, called ‘*Aid Integration Process*,’ may, illustratively, work as follows (timing is only indicative):

SEPTEMBER: HMGN shares its review of the past fiscal year’s achievements and indicates the new directions and priorities it may take in the coming years.

DECEMBER: Donors and HMGN discuss prospects for aid, so that HMGN gains an operationally meaningful sense of the range of donor resources that may be available for the next three fiscal years. HMGN uses this information, as well as the projections for its own resources, to establish its 3-year budget envelope.

JANUARY-FEBRUARY: Using this envelope, National Planning Commission (NPC)/Ministry of Finance (MOF) and line ministries agree on a prioritized 3-year spending plan. Many donor-supported project ideas are likely to be on this list. Some projects and programs will be priority twos (P2s) or priority threes (P3s) to cope with major resource fluctuations. HMGN may increase domestic borrowing to assure stable funding of P1s in cases of modest resource shortfalls.

MARCH-APRIL: HMGN shares the spending plan with donors. HMGN and donors agree on broad mapping of donor resources to specific programs or projects.

JUNE: MTEF for the following 3-years is finalized.

Introduction of such a system would require considerable preparation on the side of HMGN as well as donors. Therefore, HMGN and donors should agree to introduce the system in the process leading up to the FY05/06 budget. Large-scale TA programs, even when funded directly by donors, should be part of such a prioritization process. Small scale, on-demand TA and projects may be somewhat more difficult to fit into such a system. These are some of the details that clearly require further thinking.

Tier II - Harmonization at the Individual Program Level

While better allocation of donor resources promises to increase efficiency of resource use at the macro level, significant gains can be expected from better alignment of donor support at the individual sector or program level. Central to this is a sound HMGN strategy and program with clear outcome goals that can be supported by donors. In supporting an HMGN program, donors are encouraged to use as much as possible HMGN's own financial rules and regulations (including procurement procedures), as well as reporting cycles and systems. Efficiency gains at this level do not depend on programmatic financing (i.e., financing of a portion of the overall program budget). Donors can continue to use more traditional project modality. Gains come from the greater coherence of the program, likely increase in outcome focus, and the reduction in the transaction cost through procedural harmonization. The experience of the primary education sector shows that joint programming exercises, joint reviews, etc., are critical to supporting this approach.

The Education for All Program has been the best example of harmonization at the individual program level in Nepal to date. A similar program is under

formulation in the health sector. HMGN encourages other sectors to move in the same direction.

One important innovation in this program is a concept of TA pool, which pools donor funds for TA under HMGN management. This deals with the need for flexible response capacity for TA, but at the same time giving HMGN ability to set priorities in the use of aid resources earmarked for TA. This may be an effective model for allocation of resources for TA in the Aid Integration Process.

Harmonizing financial and reporting procedures has proven quite difficult in many cases, as all donors have their own well-established rules and regulations. One change that may be relatively simple and can bring an immediate efficiency gain is harmonization of the project cycle with HMGN's own fiscal year. If reports based on HMGN's fiscal year can be accepted as the standard report, rather than reports specifically designed to fit the donor's fiscal year, it would help reduce the cost of coping with different reporting cycles.

Tier III - Harmonization at the Financial Modality Level

Once greater harmonization is achieved at Tier II, further gains are possible through 'programmatic financial support.' In contrast to 'project support' in which donors typically tie their funds to specific items and try to verify specific expenditures, programmatic financial support would finance a portion of a program implemented by HMGN. In this modality, donor funds are mixed with HMGN's own resources or those of other donors ('basket funding') and become part of the budget for a specific program. Thus the donors funds are used according to HMGN's own rules and regulations and donors rely on HMGN's own reporting systems to satisfy their reporting requirements.

This form of support can reduce the transaction costs of aid significantly for HMGN. Therefore, where at least some donors are willing to go beyond Tier II harmonization and move to programmatic financial support, a strong incentive is created for the ministry concerned to move on Tier II harmonization as well. Furthermore, it encourages HMGN to formulate program budgets, which make it easier to do proper costing of delivering certain services over the medium-term. This will in turn allow a more effective use of MTEF. Budget support (e.g., program loans from ADB, non-project grant from Japan, PRSC from the World Bank) is the most generalized form of program-

matic financial support. Budget support gives HMGN more flexibility in the prioritization process, for some donors tend to find it difficult to fund recurrent expenditures, even though in many sectors increasing such spending may be the highest priority. Budget support, as it is typically backed by some understanding about the policy actions to improve service delivery or development outcomes, also helps to reinforce the outcome focus in public expenditure management.

National Action Plan for Harmonization

Based on these considerations, the attached National Action Plan for Harmonization presents specific actions at each of the three Tiers. The 'Aid Integration Process,' though simple conceptually, will need to be developed in greater detail before it can be implemented. Once there is broad commitment to the basic approach, a joint HMGN-donor task force should be established to operationalize it. It is hoped that most donors can support this process, which is central to improving the effective linking of public resources to the PRSP priorities. Nevertheless, the National Action Plan recognizes the different constraints that different donors face, and hence offers a range of ways in which each donor can contribute to 'harmonization.'

1 Rome Declaration on Harmonization, February 2003, page 1.

2 Rome Declaration on Harmonization, February 2003, page 2.

Donor Harmonization Action Plan

ISSUES		ACTIONS		OUTCOMES		TIMING		LEAD ACTORS	
<p>TIER I: OVERALL PROGRAM LEVEL HARMONIZATION</p> <ul style="list-style-type: none"> Donors need to better align their assistance with HMGN frameworks (PRSP/MTEF, FAP). 		<p>LEVEL HARMONIZATION</p> <ul style="list-style-type: none"> HMGN and donors commit to a new process of harmonization, i.e., <i>Aid Integration Process</i>. 		<ul style="list-style-type: none"> Framework for new approach established (to be implemented starting in FY05/06 budget cycle). 		<p>At NDF 2004</p>		<p>NPC/MOF</p>	
<p>MAKING AID INTEGRATION PROCESS WORK</p>									
<ul style="list-style-type: none"> HMGN's sector strategies and plans are not strong in many sectors. 		<ul style="list-style-type: none"> NPC and line ministries to improve sector strategies and plans. Sector-level HMGN-donor coordination groups to be strengthened. 		<ul style="list-style-type: none"> Clearer priorities and better coordination of aid under HMGN leadership. 		<p>December 2004 (for FY05/06)</p>		<p>NPC and line ministries</p>	
<ul style="list-style-type: none"> HMGN needs to strengthen outcome focus. 		<ul style="list-style-type: none"> HMGN to move toward program budget and a better M&E system. 		<ul style="list-style-type: none"> A better framework for coordinated donor support. 		<p>December 2004 (for FY05/06)</p>		<p>NPC/MOF and all ministries</p>	
<ul style="list-style-type: none"> HMG's sectoral planning and monitoring capacity is weak. 		<ul style="list-style-type: none"> NPC and relevant donors to provide support through joint planning work and other assistance. 		<ul style="list-style-type: none"> Effective sector strategies and plans. 		<p>Plan of Action by August 2004</p>		<p>Sector-level HMGN-donor coordination groups</p>	
<ul style="list-style-type: none"> HMGN's expenditure prioritization process needs strengthening. 		<ul style="list-style-type: none"> NPC to improve MTEF that can prioritize all programs and projects in a 3-year framework. 		<ul style="list-style-type: none"> Facilitates integration of aid into MTEF. 		<p>September 2004</p>		<p>NPC/MOF</p>	
<ul style="list-style-type: none"> Donors need to provide indicative multi-year plans. 		<ul style="list-style-type: none"> Donors to find appropriate mechanisms. 		<ul style="list-style-type: none"> Allows HMGN to bring medium-term thinking into MTEF. 		<p>December 2004</p>		<p>Donors</p>	
<ul style="list-style-type: none"> Representation of NGOs and other key stakeholders in coordination mechanisms 		<ul style="list-style-type: none"> Integrate key NGOs and other stakeholders into sector coordination groups. 		<ul style="list-style-type: none"> Better integration of NGO activities into sector programs. 		<p>July 2004</p>		<p>MOF/SWC/ NPC/Donors/ line ministries</p>	

Donor Harmonization Action Plan CONTD.

ISSUES		ACTIONS		OUTCOMES	TIMING	LEAD ACTORS
TIER III : INDIVIDUAL PROGRAM LEVEL HARMONIZATION						
<ul style="list-style-type: none"> ■ Effective sector programs are lacking. ■ Monitoring of outcomes to underpin program approach is weak. ■ Financial management needs to improve. ■ Procurement process needs to improve. ■ Some donors find HMNG's procurement and financial management procedures inadequate to meet their standards. ■ HMGN's partnerships with NGOs and private sector need to be strengthened to improve service delivery. ■ Too many ad hoc monitoring and reporting systems are created and project specific surveys conducted. 	<ul style="list-style-type: none"> ■ MOF to promote program budgets where ministries are ready. ■ Sector ministries to prepare stronger sector programs. ■ NPC and line ministries to strengthen the monitoring system. ■ MOF to strengthen the performance focus in the budget. ■ Implement CFAA based Development Action Plan. ■ Introduce an international standard Procurement Ad. ■ Donors to communicate areas of concerns to HMGN. ■ Donors to ensure their concerns are taken into account in the new Procurement Ad. ■ HMGN to include NGOs and private sector partners more systematically in program design. ■ Donors to work with NPC/CBS in improving the overall poverty monitoring system and reduce reliance on ad hoc tools. 	<ul style="list-style-type: none"> ■ Basis for donor support at the individual program level created. ■ Increased comfort for donors in providing programmatic funds. ■ Greater donor confidence in HMGN financial management system ■ Greater donor confidence in HMGN procurement process. ■ More donors able to accept HMGN procedures for procurement and financial management. ■ Increased program effectiveness and greater confidence by donors. ■ More coherent and efficient monitoring of development impact. 	<ul style="list-style-type: none"> December 2004 (for FY05/06) December 2004 (for FY05/06) On-going June 2004 December 2004 December 2004 By September 2004 On-going On-going 	<ul style="list-style-type: none"> NPC/MOF Concerned line ministries NPC and line ministries MOF MOF/FCGO FCGO/Line ministries Concerned donors NPC/SWC and line ministries NPC/CBS and donors 		

Donor Harmonization Action Plan CONTD.

ISSUES		ACTIONS	OUTCOMES	TIMING	LEAD ACTORS
TIER III: FINANCIAL LEVEL HARMONIZATION					
<ul style="list-style-type: none"> ■ HMGN's track record in implementing projects and programs is weak. There are also concerns about fiduciary risks. ■ HMGN's track record on delivering outcomes is weak. ■ Some bilateral donors have by tradition provided project support only. 		<p>HMGN must build a track record of performance and demonstration through M&E.</p> <p>HMGN must demonstrate its focus on outcomes in the sector where it seeks programmatic financing.</p> <p>HMGN to explore possibilities bilaterally.</p>	<p>Increased donor confidence in HMGN capacity for program implementation.</p> <p>Increased donor confidence in HMGN's ability to link resources to outcomes.</p> <p>Increased scope for programmatic support.</p>	<p>On-going</p> <p>On-going</p> <p>By September 2004</p>	<p>NPC and line ministries</p> <p>NPC and line ministries</p> <p>NPC/MOF with bilateral like India and China</p>

