ADB CPRRM Meeting Held

Asian Development Bank (ADB), Nepal Resident Mission (NRM) and Ministry of Finance (MOF) jointly organized the annual review meeting of Nepal Country Portfolio Review Mission (CPRM) 2014 in Kathmandu on 18-19 January 2015. The meeting discussed the operation and overall performance of the projects under implementation. The meeting also discussed the ways out to remove hurdles for increasing the disbursement ratio in Nepal.

Stressing the need of increasing capital expenditure, Finance Secretary Mr. Suman Prasad Sharma said that low capital spending means low job creation and low economic growth. In this context, Nepal needs to enhance its spending capacity. Finance Secretary Mr. Sharma further mentioned that the government is making all efforts to increase the capital spending and made remarkable progress in the last six months. Finance Secretary Mr. Sharma also focused on the need of Nepal to invest more in infrastructure like roads and power projects.

Divesh N. Sharan, Deputy Director General, South Asia Department, ADB stressed that Nepal has little option than to increase capital spending. Mr. Sharan also added that Nepal needs to address the huge infrastructure gap, by subsequently increasing infrastructure investments from the present level of just about 4 percent of GDP.

ADB President Visited Nepal

The ADB President Mr. Takehiko Nakao visited Nepal from 2 - 4 February 2015. During his visit President Nakao paid a courtesy call to Rt. Hon. Prime Minister Mr. Sushil Koirala. The Prime Minister and ADB President exchanged their views on maximizing ADB’s cooperation for infrastructure and socio-economic development of Nepal. President Nakao also met with Finance Minister Dr. Ram Sharan Mahat, and Hon. Vice Chair of National Planning Commission Dr. Govinda Pokharel and discussed on ADB support for faster and more inclusive growth in Nepal, notably through better infrastructure and a more skilled workforce. The
Ministry of Finance has recently completed mid-term review of the implementation of the current year’s budget and programme of the Government of Nepal. Total budget estimate for current Fiscal Year was Rs. 618.1 billion. Out of this, Rs. 122.9 billion (about 20 percent of the total budget) was projected to be financed by development cooperation. Actual expenditure in the first half of the current Fiscal Year is only 26.2 percent comprising 30.9 percent recurrent, 12.6 percent capital expenditure and 23.1 percent financial provision. On part of development cooperation, the actual expenditure is only 8.41 percent in grant and 4.9 percent in loan with negative growth by about 34 percent from that of corresponding period of the last Fiscal Year.

Despite the low spending, the foreign aid commitment has increased by more than three-folds amounting to Rs. 239.6 billion as against Rs. 65.4 billion in the corresponding period of the last Fiscal Year. This historic growth can partly be attributed to the increased trust extended by our Development Partners to Nepal and partly to headways in policy and legal reforms as well as political stability. Besides, the commitment of USD 1 billion made during Indian Prime Minister’s Nepal visit has also contributed to this growth. Such huge growth in commitment of about 266 percent, on one hand, and the negative growth in expenditure by about 34 percent, on the other seemingly posed challenge to increase spending. As low expenditure tends to hinder job creation resulting in low equilibrium trap of growth, this trend must be reversed for Nepal to effectively graduate from the status of least developed country to developing country by 2022.

Lack of proper reporting is one of the major causes of low expenditure. Expenditure would have been improved had the direct payment, technical assistance and commodity grants have properly been reported. The mid-term review observed some unintended results of capturing only in the ‘Red Book’, not in the ‘Treasury’ in terms of ‘absorption capacity’ and ‘audit irregularities’. This scenario evidently demands forward-looking move from ‘off-treasury’ to ‘on-treasury’. At the same time, delayed implementation/decision making, disturbances in land acquisition, scarcity of construction materials, contractors’ managerial capacity, unnatural demands of local community and other similar domestic issues are also being observed repeatedly by periodic reviews. Therefore, there is a dire need of coordinated and concerted efforts of the Government and its Development Partners to improve absorption capacity.

The review reveals nearly Rs 27.3 billion of expenditure pending to be reimbursed by the Development Partners. Improving account-keeping and realizing reimbursement on timely fashion is another challenge to our aid management.

Finally, in line with the suggestions made by the review and with the directions outlined in the Development Cooperation Policy, we will have to have meaningful joint efforts for reducing direct payments, establishing expenditure reporting mechanism of such the payments, reducing backlog of reimbursement by simplifying procedures and enhancing account-keeping capability. These efforts will definitely help increase expenditure. Hope, the days ahead will energize us to honestly work in this direction.

Thank you.
Agreement with Czech Republic

An agreement on Cooperation between the Government of Nepal and Czech Republic was signed at the Ministry of Finance on 29 January 2015. The agreement is expected to further contribute to the economic cooperation between Nepal and the Czech Republic. Both the countries have agreed to encourage economic cooperation and take initiatives which will contribute to the development of industrial cooperation and investment, including for the cooperation between private sector of both the countries.

The objectives of the agreement, among others, are to exchange information on economic development, promote cooperation and partnership between investment companies of both the countries, encourage projects of common interest, explore opportunities for trade related fairs, exhibitions, and other promotional activities. To implement this Agreement, a Joint Committee co-chaired by the Deputy Minister of Trade and Industry of Nepal and Czech Minister of Trade and Industry.

ADB Nepal Resident Mission Celebrates 25th Anniversary

Asian Development Bank has celebrated 25th anniversary of its physical presence in Nepal on 3 February 2015 amid a function in Kathmandu. ADB President Takehiko Nakao together with Hon. Finance Minister and ADB Governor Dr. Ram Sharan Mahat jointly launched publication - “ADB-Nepal 25 Years Partnership on the Ground”. On the occasion, ADB President Mr. Nakao, stressed on ways to create investment friendly environment in Nepal. Focusing on need for increasing more public investment in infrastructure sector, Mr. Nakao stressed on the importance of private investment in capital formation, which is also necessary for graduation of Nepal from least developed to developing country status. Mr. Nakao also emphasized to promote

Hon. Finance Minister Dr. Mahat Visited Japan

On the invitation from Japan International Cooperation Agency (JICA), Hon. Finance Minister Dr. Ram Sharan Mahat visited Japan in the second week of February 2015. The objective of the visit was to discuss with the Government of Japan about further expansion of Japan Nepal cooperation and observe technical, social and economic aspects of tunneling works in Japan.

During the visit, Hon. Minister met with Japanese State Minister for Finance Hon. Isshu Sugawara. During the meetings, he mentioned about the recent economic and political situation of Nepal, and highlighted Nepal’s target to graduate from the Least Developed Countries (LDCs) status by 2022. He further emphasized the need for more Japanese support for Nepal's infrastructure development. Admiring the generous support of the Japanese government to Nepal, Dr. Mahat also expressed his gratitude for the Japanese assistance on the Tanahun Hydro Power Project. Minister Dr. Mahat also met with Planning Minister and JICA Senior Vice President Mr. Hideaki Domichi and discussed on bilateral cooperation.

During his visit, Dr. Mahat made an inspection of the Tarao tunnel in Singuoka, Japan and inquired about the technology being used in it. He inspected the tunnel so as to gain insights into the high-end technology put in place for construction of such tunnels in Japan, which could be useful in view of Nepal government’s preparations for construction of similar tunnel at Naagdhunga to ease the current road bottleneck.
Grant Agreement with the Government of Switzerland

The Government of Switzerland has agreed to provide a grant assistance of 16.94 million Swiss Francs (About Rs. 1.08 Arba) for the implementation of Small Irrigation Program. The main objective of this program is to increase the agricultural productivity and agriculture income of rural poor especially the disadvantaged groups. The Program is expected to cover nine districts, namely Ramechhap, Okhaldhunga, Khotang, Sindhuli, Udaypur, Achham, Dailekh, Kalikot and Jajarkot. It aims to build or rehabilitate 1800 farmers managed small irrigation systems with involvement of small farmers which will provide the irrigation facility to 15,000 hectares of command areas.

The Project will be implemented for the period of four years from January 2015 to December 2018. The Ministry of Federal Affairs and Local Development will be the implementing agency for this project.

The Agreement was signed by Mr. Suman Prasad Sharma, Secretary, Ministry of Finance and Mr. Urs Herren, Ambassador, Embassy of Switzerland in Nepal on behalf of their respective Governments on 10 February 2015.

Loan Agreement with OFID

The OPEC Fund for International Development (OFID) has agreed to provide loan assistance of US dollar 30 million (about Rs. 3.50 Arba) for the implementation of Community Managed Irrigated Agriculture Sector Project.

The main objectives of this project are to support the on-going efforts of the Government of Nepal towards improving the country’s socio-economic standards by irrigation related infrastructures. It further aims at enhancing agricultural productivity and sustainability in the Central and Eastern Development Regions by reducing poverty and improving the livelihood of the poor rural population.

The Project will cover 35 districts of the Central and Eastern Development Regions and aims to benefit the poor farmers of the targeted area by strengthening the community managed irrigation systems. The main components of this project are: a) civil works consisting diversion structures, cross-drainage works, improved and extended primary and secondary

DFID Agreed to Provide Grant

The Department for International Development (DFID) of Government of United Kingdom has agreed to provide a grant assistance of 33 million pound sterling (about Rs. 5.08 Arba) for the implementation of Integrated Program for Strengthening Security and Justice in Nepal.

The grant assistance will be utilized for the prevention of gender based violence (GBV) against women and children, modernization and improvement of Nepal police and addressing social cultural barriers to accessing security and justice services.

Mr. Madhu Kumar Marasini, Joint Secretary, IECCD, Ministry of Finance and Mr Mark Smith, Acting Head of DFID Office Nepal signed the agreement on behalf of their respective Governments. The agreement was signed at the Ministry of Finance on 6 January 2015.
World Bank Agreed to Assist Grid Solar and Energy Efficiency Project

The International Development Association (IDA) of the World Bank Group has agreed to provide an assistance of US$ 130 million (about Rs. 12.93 Arba) to the Government of Nepal for the implementation of Grid Solar and Energy Efficiency Project. An agreement to this effect was signed on 20 February 2015 in the Subarna Hall of Ministry of Finance by Mr. Madhu Kumar Marasini, Chief of IECCD/Joint Secretary, Ministry of Finance and Mr. Takuya Kamata, Country Manager, Nepal Country Office of the World Bank on behalf of the Government of Nepal and the Bank, respectively.

The objectives of the project are to produce 25 MW solar photovoltaic generated electricity to supply to grid and to reduce Nepal Electricity Authority’s distribution losses. The project aims to generate 25 MW of solar photovoltaic electricity within 2015. The project also aims at reducing the systemic electricity distribution losses drastically to 10 percent at the end of the project. The distribution loss reduction is said to be an alarming rate of 25 percent of the generation despite some efforts made by NEA. The project is considered to contribute to lessen the present energy crisis both from the point of view of an early production of solar energy and strategic loss reduction endeavor.

Total cost of the project is US $ 130 million and is expected to be completed by June 2020. The Government of Nepal through a subsidiary loan agreement relends the total loan to Nepal Electricity Authority to implement the project.

ADB Nepal Resident ....

investment and public private partnership (PPP), assured to support in regulatory framework for PPP to attract private sector, particularly in hydropower. He applauded the signing of power trade agreement with India that assures of power trading and opens ways to earn revenue from electricity export.

Nepal is a founding member country of ADB, established in 1966. Since ADB began its development assistance in 1969, by funding the improvement of Tribhuvan International Airport and four domestic airports, ADB has provided 167 sovereign loans and grants to Nepal totaling $4.3 billion.

During the meeting with leaders, Nakao said that ADB is planning to extend concessional loans of about $1 billion and around $13 million in technical assistance grant to Nepal over the next three years. During his stay in Nepal, Mr. president also visited Lumbhini and Bhaktapur Durbar Square.

On the occasion, Hon. Finance Minister Dr. Ram Sharan Mahat congratulated for 25th anniversary of ADB’s Nepal Resident Mission and warmly welcomed President Nakao wishing him a pleasant stay in Nepal.

Further, Dr. Mahat appreciated the longstanding development partnership between Nepal and ADB and also mentioned that ADB would continue to remain a close and strong partner for development of Nepal.

Finance Secretary Mr. Suman Prasad Sharma stressed that ADB assistance to Nepal has been significant in many areas including energy, transport, education, agriculture, irrigation, water and other municipal infrastructure and services and finance. He further added that the Government of Nepal acknowledges the ADB efforts to work together with the Government of Nepal to improve overall project implementation and disbursement.
Loan Agreement with SFD

The Saudi Fund for Development (SFD) has agreed to provide loan assistance of Saudi Riyal 93.75 million (about Rs 2.41 Arba) for the Rehabilitation and Extension of Dunduwa Irrigation Project.

The main objective of this project is to support the agriculture sector in the country through development of Dunduwa Irrigation System Project in Banke District. The project helps to enhance agricultural productivity through irrigation networks and protection works in the project area.

The project will cover 13 Village Development Committees of Banke district in Bheri Zone. The main components of this project are civil works consisting construction of 25 kms main and link canal, construction of six branch canals and command area development for 16,000 ha including 250 kms tertiary canals. Other components of the project include supply and installation of equipment for the irrigation system, land acquisition of about 70 ha in the project area, and consultancy services for design documents and supervision of the project implementation.

The project will be implemented within FY 2018/19. The Ministry of Irrigation will be the implementing agency for this project.

The Agreement was signed in Kathmandu on 24 February 2015 by Mr. Suman Prasad Sharma, Secretary of Ministry of Finance and Mr. Yousef Al-Bassam, the Vice Chairman / Managing Director of the SFD on behalf of the Government of Nepal and the Fund respectively.

ADB CPRM ....

Around 80 participants from GoN Agencies including project executing agencies and Ministries participated in the CPRM that reviewed performance of portfolio of ADB assisted projects in Nepal. The 2 days CPRM concluded with generic, sector wide and project-specific actions to expedite implementation in 2015. The meeting also agreed to review the approved actions on quarterly basis. Best performing projects were also awarded by the ADB during the meeting.

ADB President ....

President also met Nepal Rastra Bank Governor Dr. Yuba Raj Khatiwada on 4 February.

During his meeting with the dignitaries, Mr. Nakao praised the government’s recent announcement that it will prepare a Nepal Development Vision 2030 strategy and a medium-term development plan to reach middle-income country status. “The strategy will help the government prioritize public investment in key sectors such as energy, transport, and agriculture; improve education, governance, and the business environment; and promote competitive manufacturing industries,” Mr. Nakao said. ADB will provide necessary technical assistance to support the planning.

In a press conference, Mr. Nakao announced that ADB plans to provide about $1 billion in concessional loans and about $13 million in technical assistance grants to Nepal over the next three years. More than 80% of ADB’s financial support is earmarked for major infrastructure projects in hydropower generation and transmission, international airport expansion, road transport and trade facilitation, urban development in key municipalities, education and skills development.
Agreement with IFAD

The International Fund for Agriculture Development (IFAD) has agreed to provide a grant assistance of USD 25 million (about Rs 2.51 Arba) to the Government of Nepal for the implementation of Adaption for Smallholders in Hilly Areas (ASHA) project.

The objectives of the project are to increase the climate-friendly agriculture production, to reduce the negative effects of climate change in the hilly project areas of Nepal and to contribute to reduce the poverty level of smallholder’s farmers of those areas. In the first phase, this project will be implemented in six hilly districts such as Jajarkot, Salyan, Kalikot, Dailekh, Rolpa and Rukum. The executive agency, the Ministry of Forest and Soil Conservation (MOFSC) will implement this project through the cooperation of the Ministry of Agriculture Development. The project duration is six years, from 2015 to 2020.

Out of the total assistance of USD 25 million, 15 million will be received from IFAD core fund and 10 million will be received from The Adaptation for Smallholders Agriculture Trust Fund Program (ASAP).

The financing agreement was signed by Mr. Madhu Kumar Marasini, Joint Secretary, Ministry of Finance and Mr. Kanayo F. Nwanze, President of the International Fund for Agriculture Development in Rome, Italy on 27 February 2015 on behalf the respective agencies.

NPPR First Preparatory Meeting Concluded

Nepal Portfolio Performance Review (NPPR)-2014 first preparatory meeting was held in the Ministry of Finance on 23 February 2015. The meeting was chaired by Finance Secretary Mr. Suman Prasad Sharma and attended by secretaries, champions of concerned thematic area related Ministries and representatives of Development Partners (DPs).

In his opening remarks, Finance Secretary Mr. Sharma expressed his views as how to make this mechanism more effective to bring change in the ways that we are handling review meetings. The DPs committee members expressed general views on NPPR and raised concerns that NPPR effectiveness is not achieved as per the expectations and talked about the ways as how to make it effective as this is very relevant mechanism for reviewing the projects performance for DPs funded projects.

Representatives of DPs also expressed concerns that NPPR progress reviews were not done as scheduled this year and the readiness from the GON high level authorities was not seen to implement those agreed actions by internalizing the agreed actions in their offices resulting in the similar actions repeated every year.

GON representatives shared their views that NPPR is still relevant, NPPR can be effective from the joint efforts as it is a joint mechanism and things are moving steadily. The meeting agreed to include major sectors, together with thematic areas, during the NPPR. For this purpose, a Core Team is formed to suggest i) the number of major sectors to include, ii) modalities of discussions in the NPPR annual meeting to link within themes and sectors, iii) modalities of designing NPPR draft Action Plan-2015 before the annual meeting and theme of the Annual Meeting. The Core Team will provide an approach paper by Mid-March to Ministry of Finance (IECCD). The Task Force will be led by NPC Joint Secretary Dr. Teertha Dhakal. The Core team includes other members Mr. Naresh Chapagain, PPMO, Mr. Bhuban Karki, MOF, Mr. Bigyan Pradhan, WB, Mr. Tika Limbu, ADB and Mr. Bhola Dahal, Norwegian Embassy.
British Minister of State Mr. Swayne Visited Nepal

Hon. Finance Minister Dr. Ram Sharan Mahat and the British Minister of State for International Development Desmond Swayne had a meeting and discussion about enhancing the effectiveness of assistance from Britain to Nepal in the Ministry of Finance on 18 February 2015.

On the occasion, Finance Minister Dr. Mahat informed about economic and social progress made by Nepal in the past two decades that led to significant decline in poverty. Dr. Mahat also thanked British Government for their continuous support for the socio-economic development of Nepal.

During the meeting, British Minister of State Mr. Swayne explained the purpose of his Nepal visit as to see how the British assistance to Nepal is being utilized. Based on DFID experiences, he raised issues of frequent staff transfer as one of the causes of delay in implementation of development projects. Mr. Swayne assured that Britain would support to increase Nepal’s ability to mobilize development cooperation.

On the occasion, Mr. Madhu Kumar Marasini, IECCD Chief, officials from Ministry of Finance, British Ambassador to Nepal Mr. Andrew James Sparks and other officials from British Embassy to Nepal were also present.

Hon. Finance Minister Dr. Mahat Invites for More Chinese Investment in Nepal

Hon. Finance Minister Dr. Ram Sharan Mahat and Chinese Ambassador to Nepal Mr. Wu Chuntai, had a meeting and discussion in the Ministry of Finance on 29 January 2015.

On the occasion, Dr. Mahat highlighted on potential benefits of investment in Nepal for China and invited more Chinese investment. Nepal is not only the market but the opportunity to export to other South Asian Countries. There is a great scope to export to Europe and America using the facilities provided to least developed country.

Finance Minister Dr. Mahat also requested the Government of China for expedious implementation of China supported development projects in Nepal, especially the expansion of Kathmandu Ring Road, construction improvement of Rasuwa, Tatopani and Beni-Jomsom Roads and the construction works of Pokhara Airport.

During the meeting, Chinese Ambassador to Nepal Wu Chuntai appreciated Finance Minister Dr. Mahat for his lead role in the economic reform of Nepal and also assured that the construction works of Chinese supported development projects will be completed soon. Ambassador Mr. Wu also added that China is willing to establish industrial zone and information Technology Park in joint venture with Nepal. Finance Minister Dr. Mahat welcomed the willingness of Chinese investors for a joint venture in Nepal.
MCC CEO Visited Nepal: Nepal Eligible for MCC Compact Program

During 10-18 February 2015, Millennium Challenge Corporation (MCC) Chief Executive Officer Ms. Dana J. Hyde visited Nepal and had high-level meetings including with Rt. Hon. President Ram Baran Yadav, Rt. Hon. Prime Minister Sushil Koirala Hon. Ministers for Foreign Affairs, Energy and Physical Planning and Infrastructure. She also met with Chief Secretary Mr. Leela Mani Paudyal and Finance Secretary Mr. Suman Prasad Sharma to inform the decision of the MCC board to select Nepal as an eligible for MCC Compact Program, a large scale grant investment. CEO Ms. Hyde appreciated the on-going policy and legal reform in Nepal that helped create conducive environment for investment.

Nepal will be the first South Asian country to have a compact in MCC’s 11-years history. Ms. Hyde’s visit to Nepal is considered as a recognition of the strong partnership between MCC and the Government of Nepal.

United States Ambassador HE. Mr. Peter W. Bodde also met with Hon. Finance Minister Dr. Ram Sharan Mahat on 27 February 2015 and discussed about MCC Compact implementation.

Hon. Finance Minister Dr. Mahat expressed sincere thanks for this large scale investment and requested to utilize in physical infrastructure like power and roads. Nepal has already started initial works to form National Coordination Team in preparation for Compact implementation.

WB Vice President for South Asia Visited Nepal


During the meeting, Dr. Mahat appreciated the WB concern for investing in Energy Sector of Nepal. Dr. Mahat also assured the WB that in the context of Power Trade Agreement between Nepal and India and expansion of transmission line to India, there is a huge potential of energy demand in South Asia.

During the meeting, Finance Minister Dr. Contd P10

Debt Settlement Agreement with Russia

An agreement between the Government of Nepal and the Government of the Russian Federation on settlement of mutual financial obligations and claims on operations of the former USSR was signed in Moscow on 24 February 2015. The agreement was signed by Mr. Madhu Kumar Marasini, Joint Secretary, Ministry of Finance, Government of Nepal and Deputy Finance Minister of Russia Mr. SR Storchalk on behalf of their respective Governments.

The agreement includes the provisions of repayment of debt, interest on arrears, procedures, dispute settlement mechanism etc and expected to enter into force on the date of the last written notice by each party confirming the completion of its respective internal state procedures.
Foreign Aid Commitment

As of February 2015 of the current FY, the new foreign aid commitment received by the GoN from DPs has reached the total of Rs. 239,644.90 million (Rs. 113,511.67 million as grant and Rs. 126,133.23 million as loan) for the implementation of various development projects / programs. In the same period of previous fiscal year, the total commitment received by the GoN from various DPs was Rs. 65,426.95 million (Rs. 47,598.95 million as grant and Rs. 17,828 million as loan).

Loan OFID ....

The Project will be implemented for the period of 5 years from 15 February 2016 to 30 September 2019. The Ministry of Irrigation will be the implementing agency for this Project.

The Agreement was signed in Vienna, Austria on 5 February 2015 by Mr. Suman Prasad Sharma, Secretary of Ministry of Finance and Mr. Suleiman J. AL Herbish, Director General of The OPEC Fund for International Development (OFID) on behalf of the Government of Nepal and the OFID respectively.

WB Vice President ....

Mahat informed that the overall economic performance of Nepal was satisfactory, he expressed sincere thanks to the World Bank for the Four Years Strategy of World Bank to support Nepal aligning with the need, plan and priority of the country. As the investment climate has improved in Nepal, Finance Minister Dr. Mahat requested the World Bank for more investment in Energy Sector.

World Bank Vice President Ms. Dixon clarified that the reduction in grants for Nepal symbolizes Nepal’s enhanced capacity for loan repayment. Showing her concerns for economic reform programs of Nepal, she also added that in the future, Nepal would receive more concessional loan from the World Bank.

On the occasion, Finance Secretary Mr. Suman Prasad Sharma highlighted that lack of Energy is the biggest problem in Nepal. Mr. Sharma also emphasized on the need for fast-track implementation modality for Energy Sector projects. In the meeting, Mr. Johannes Zutt, World Bank Country Director for Nepal and Bangladesh and Mr. Madhu Kumar Marasini, IECCD Chief were also present among others.