Federalism Capacity Need Assessment Report Disseminated

Federalism is taking root in Nepal with measurable progress in institutional and regulatory environments for federalism as mentioned in a new government report disseminated today by the Ministry of Finance and the Ministry of Federal Affairs and General Administration.

The Federalism Capacity Needs Assessment (FCNA) was conducted focusing on the capacity of provincial and local governments to implement federalism. Led by the Government of Nepal with the support of the World Bank and United Nations Development Program (UNDP), the FCNA was conducted by the Georgia State University and Nepal Administrative Staff College in 2018 and 2019. The assessment covered the federal government, seven provincial governments and 115 local governments using key informant interviews, desk reviews and questionnaires, and focused on three main elements of capacity: organizational, institutional and regulatory, and physical infrastructure.

“The transition to federalism is profound and requires years to unfold,” stated Dr. Rajan Khanal, Secretary of the Ministry of Finance. “The FCNA, in this regard, provides an important baseline in Nepal’s federalism implementation and capacity requirements to guide the success of federalism for the benefit of the people of Nepal.”

The FCNA identifies measurable progress since the adoption of the federal constitution in 2015 with the set up of key institutional structures, strengthening of the regulatory environment and strong initial progress in the adjustment of personnel in all levels of the government. Within the first two years of their operation, provincial and local governments have accounted for about 34% of the national budget significantly boosting their fiscal responsibility, states the report. However, the FCNA notes that while initial progress is significant, gaps still exist between the needs and existing capacity at all levels of government to manage new functions. The assessment calls

SDF Board Meeting Held

The 32nd Meeting of the SAARC Development Fund (SDF) Board of Director was convened in Thimphu, Bhutan on 16-17 January 2020. Directors/Alternate Directors of the Board from all SAARC member states and a director from SAARC Secretariat participated in the meeting. As per the provision of SDF Charter and SDF By-Laws, this meeting was chaired by Sri Lanka. From Nepal, Mr. Tek Bahadur Khatri, Under Secretary, Ministry of Finance participated as Alternate Director to the SDF Board.

Prior to this Board Meeting, Board-Project Appraisal Committee (BPAC), Board-Human Resource Committee (BHRC) and Board-Finance & Account Committee (BPAC) meetings were held. These are the specific thematic committee meetings that are supposed to help support to SDF Board Meeting. This time the BPAC meeting was chaired by Nepal.

The Board meeting discussed over different agendas including recruitment of new CEO, performance appraisal of CEO, current funding policy, building SDF funding strategy and all financial matter and auditing of SDF management. The Board Meeting has decided to convene 33rd Meeting in Nepal.
The 2019 Development Cooperation Report (DCR) prepared and published by the Ministry of Finance's International Economic Cooperation Coordination Division reflects information collected through the Aid Management Platform and Aid Management Information System. The DCR has been established as a tool to promote transparency and accountability ensuring all resources for development are used effectively for maximizing development results. It provides a detailed account of how development cooperation is allocated in Nepal.

Increased use of national public finance management system (PFM) is central to aid and development effectiveness as it helps promote alignment, reduce transaction costs, and enhance local capacity. Despite recent improvements in PFM system, the proportion of on-budget and on-treasury cooperation is found to remain stable with 78% and 46%, respectively. However, the proportion of on-budget and on-treasury cooperation is expected to rise in the coming year.

DCR shows highly fragmented development cooperation, with development partners being engaged across many sectors and with many implementing agencies. The sectors receiving the highest level of disbursement in the last year were education, energy, peace and reconstruction, local development and financial reform, which make up 54% of total ODA disbursements.

We have long been advocating for more focused and integrated development cooperation that would have potentially helped avoid duplication and enhance allocative efficiency across the sectors. This is where the principles of Global Partnership for Effective Development Cooperation-country ownership, multi-stakeholder partnership, result focus and transparency and accountability- comes in. These best practices are to be expanded to the sub-national levels transitioning towards federalism.

The world is seemingly moving towards unprecedented health crisis with uncertainty, which may bring about unforeseen changes in the contemporary development landscape. However, under no circumstances, should we be diverted from the core of transparency and accountability.

Stay safe and enjoy the season!
GoN and ADB Signed the loan Agreement

The Asian Development Bank and the Government of Nepal signed a $358 million loan in total for four new projects on 10 December 2019. The signing included a loan of $195 million to improve the highway section between Pokhara and Mugling, a $63 million loan in additional financing to improve flood management and river health in Nepal’s polluted Bagmati River Basin, a $50 million loan to improve the livelihoods and increase incomes of small farmers in Nepal and a $50 million policy-based loan to support the Government of Nepal’s reforms in agriculture and food safety.

The signatories were Mr. Rajan Khanal, Secretary, Ministry of Finance, who signed for the Government of Nepal; and ADB Country Director for Nepal Mr. Mukhtor Khamudkhanov, who signed for ADB.

“We thank ADB for its support to key sectors of the economy, including infrastructure, agriculture and rural finance. Similarly, ADB’s support to Government of Nepal’s reform initiatives in important sectors is also highly appreciated,” said Mr. Khanal. “These are all very important projects for Nepal and will support the Government’s plan of a more inclusive sustainable development of the country.”

“Over the years, ADB has significantly scaled up its development assistance for Nepal and this shows that our partnership with the Government of Nepal continues to grow stronger. Nepal can further tap the opportunities of increased lending space provided by ADB with improved portfolio performance, and we appreciate the efforts taken by the Government of Nepal in that direction,” said Mr. Mukhtor.

Development Cooperation Report 2018/19 Unveiled

The Ministry of Finance has published the Development Cooperation Report (DCR) FY 2018/19; it is the ninth annual report in the series. Publication of the DCR each year signals the Government of Nepal’s continued commitment to aid transparency, which is one of the critical pillars of aid effectiveness. The purpose of the Report is to provide a detailed account of how development cooperation - which includes both Official Development Assistance (ODA) and cooperation from International Non-Governmental Organizations (INGOs) - is provided to and allocated in Nepal.

The DCR for FY 2018/19 showed a mixed trend. The total development assistance received by the country increased marginally from 1,733 million USD in FY 2017/18 to 1,793 million USD, despite a 2.7% decrease in ODA. The majority of ODA was provided as loans. Budget support, taken as the most preferred modality of the Government of Nepal as pronounced in the International Development Cooperation Policy (IDCP) 2019. Remaining steady, 78% of development aid was provided on budget and 46% was provided on treasury. ODA as a share of the national budget increased to 24% from 22% from FY 2017/18 to 2018/19.

Aid fragmentation in Nepal remains high. Of the total ODA disbursements in FY 2018/19, 40% was provided by bilateral partners, while 60% was provided by multilateral partners. China, the United Kingdom, Japan, the United States of America and India appeared to be the top five bilateral development partners. Similarly, the World Bank, the Asian Development Bank, the UN Country Team, the European Union and the International Fund for Agricultural Development (IFAD) stood as the top five multilateral development partners to Nepal in the FY 2018/19. The overall contribution of development aid provided through INGOs is encouraging, with the volume of disbursement from INGOs’ core funding increasing significantly by two fold compared to FY 2017/18. The format of this DCR has slightly been changed to make it more concise. However, the mapping of 2018 DCR to the 2019 DCR is annexed to allow readers for comparison.
World Bank and Nepal Partner to Strengthen Climate and Disaster Risk Response

The Ministry of Finance signed a $50 million (NPR 6 billion) financing agreement with the World Bank on March 27 for a contingent financing that can be availed in the case of a natural disaster or health emergency in the country. This operation aims to enhance the government capacity to manage the risk of climate change and natural disasters including disease outbreaks.

The agreement on the Development Policy Financing with a Catastrophe Deferred Drawdown Option (Cat DDO) was signed by Mr. Sishir Kumar Dhungana, Secretary, Ministry of Finance and Mr. Faris H. Hadad-Zervos, World Bank Country Manager for Nepal.

“Proactive disaster risk management is at the core of the government’s priorities given Nepal’s physical and financial vulnerability to natural and health hazards,” stated Sishir Kumar Dhungana, Secretary, Ministry of Finance. “We are thankful to the World Bank for its support that will contribute to Nepal’s overall efforts to strengthen climate and disaster risk response.”

The Cat DDO is an innovative type of disaster risk financing instrument that would allow the government to respond quickly to emergency needs, following a disaster event without having to divert resources from its ongoing development programs. It will complement the Government’s existing response mechanisms, such as the National Disaster Management Fund and the Prime Minister’s Disaster Relief Fund.

“Natural disasters and health emergencies are almost annual incidents in Nepal and represent a significant financial shock to the mountainous land-locked country, as we have witnessed in the recent past,” said Faris H. Hadad-Zervos, World Bank Country Manager for Nepal. “This operation will provide Nepal with a contingent line of credit while supporting its reform efforts to build resilience to disasters, climate and health risks. The Cat DDO financing can be immediately availed to meet critical financing needs after a disaster.”

The Cat DDO operation supports the country’s policy reforms aimed at increasing overall resilience, such as improvement of the disaster risk management regulations, national building code, climate change policy, and national pandemic preparedness and response plan.

The Cat DDO funds may be drawn in the case of a natural hazard or public health outbreak. The line of credit will be available to be partially or fully drawn down at any time within the next three years and can be renewed for an additional three years for a total of 6 years.

Discussion on Policy and Pipeline Projects with Korea Exim Bank

A policy dialogue meeting was held on February 18, 2020 between the officials of Government of Nepal and the representative from the Korean Exim Bank (KEXIM) in Ministry of Finance, Kathmandu to discuss on pipeline projects. Mr. Sung-ho Moon, Deputy Director, Ministry of Economy and Finance, lead the Korean delegation and Mr. Shreekrishna Nepal, Joint Secretary, IECCD lead the Nepali participation.

During the meeting, Mr. Sung-yong UM, Director General, Korea Exim Bank, and his team briefed the policy, different financing products of KEXIM, particulary Economic Development Cooperation Fund (EDCF) & Economic Development Promotion Facility (EDPF), its key features, operating system and basic terms and conditions. From the Nepali side, Mr. Shreekrishna Nepal, Joint Secretary, IECCD Ministry of Finance elaborated the loan procedures system in Nepal and sector development plan as well as recent development priorities. Both sides also discussed on potential projects to be financed by Korean Exim Bank in the future. Korean side expressed their willingness to support Nepal through the EDPF. Mr. Nepal thanked the Korean delegation for visiting to Nepal and updating the various products of Korea Exim Bank. Mr. Nepal also appreciate the support of Korea Exim Bank extended to Nepal for its economical and social development.

Representative from the Ministry of Physical Infrastructure and Transport and Ministry of Energy, Water Resources and Irrigation were also joined the meeting.
EDFC - II Project Signed

The second phase of Effective Development Financing and Coordination Project (EDFC-II), was signed amid a ceremony organized at the Ministry of Finance on 11 February 2020. National Project Manager Dr. Narayan Dhakal, Under Secretary, IECCD, Ministry of Finance and Ms. Ayshanie Medagangoda-Labé, Resident Representative, UNDP, Nepal have signed the project document on behalf of the Ministry of Finance and the UNDP, respectively. Present on the occasion were Mr. Shreekrishna Nepal, Joint Secretary, IECCD, Ministry of Finance and National Project Director of the project, Bernardo Cocco, Deputy Resident Representative, UNDP, Craig Irwin, Advisor, DFID, and officials from the Ministry of Finance, UNDP and the EDFC-II project.

EDFC-II project helps enhance institutional capacity of IECCD of the Ministry of Finance, Sub-national government, and Line Ministries for mobilization of development cooperation and support evidence-based decision making. The project is a revised version of EDFC started in 2016 for incorporating new Development Cooperation Policy (IDCP) formulated in 2019, the context of federalization and changing global landscape of development financing. This extension will take a whole of government approach and intends to encompass multiple actors in federal as well as sub-national governments.

World Bank Approved Additional Loan for Earthquake Housing

The World Bank approved an additional credit of US$ 200 million (NPR 22.82 billion approximately) for the implementation of the Earthquake Housing Reconstruction Project (EHRP) in Nepal on January 14, 2020. An agreement to this effect was signed 6 February 2020 by Mr. Shreekrishna Nepal, Joint Secretary, Ministry of Finance and Mr. Faris H. Hadad-Zervos, World Bank Country Manager for Nepal.

The EHRP and the second additional financing contribute to the Government of Nepal’s umbrella Housing Reconstruction Program (HRP) which aims to rebuild earthquake-resistant core housing units by providing housing grants to eligible beneficiaries who have enrolled in the program. The second additional financing will scale up EHRP’s support to the Government’s HRP by financing reconstruction of an additional 86,680 houses in the 32 districts affected by the 2015 earthquakes.

“The Government of Nepal expresses its sincere appreciation to the World Bank for this assistance and its continued support in the post-earthquake recovery and reconstruction efforts of Nepal,” This Support is instrumental and it will help to achieve the GoN’s commitment to complete individual housing reconstruction by this fiscal year stated Joint Secretary Mr. Shreekrishna Nepal of the Ministry of Finance.

The Government of Nepal has been implementing the EHRP since August 14, 2015 with a credit amount of US$ 200 million. The first additional credit of US$ 300 million was approved on December 15, 2017. As of January 31, 2020, out of 683,367 beneficiaries enrolled under the EHRP in 14 most affected districts, 99 percent received the first tranche, 82
World Bank Mid-term Review Meeting Held

The Government of Nepal and World Bank joint mid-term Portfolio Review Meeting concluded on 13th March 2020 in Ministry of Finance with an aim to discuss the implementation status, problems and challenges faced by the sectoral projects financed by the World Bank and to agree on ways forward. The meeting was chaired by Hon'ble Finance Minister Dr. Yuba Raj Khatiwada. Senior officials from the World Bank including Country Manager Mr. Faris H. Hadad and the Government of Nepal including the Secretaries of different Ministries joined the meeting.

Prior to this wrap-up meeting, detailed at the concerned line Ministries reviewed was conducted covering 24 World Bank financed projects with a total net commitment of US$ 2.34 billion. During the welcome remarks and setting the objective of the review, Finance Secretary Sishir Kumar Dhungana emphasised its objectives and urged all to translate our commitment into action and thereby enhance our service delivery mechanism. He also expressed to enhance the disbursement ratio for investment projects. On behalf of the World Bank Mr. Bigyan

HE Ambassador of UK Paid a Courtesy Call to Finance Minister

Ms. Nicola Pollitt, newly appointed Ambassador of the United Kingdom to Nepal, paid a courtesy call to Honorable Finance Minister Dr Yub Raj Khatiwada at Ministry of Finance today.

During the meeting, Hon. Minister Dr Khatiwada welcomed HE Ambassador and expressed his best wishes for the successful tenure in Nepal. He also thanked the government of the United Kingdom for its continued support to Nepal since hundreds of years.

Hon. Finance minister also informed HE Ambassador about Nepal’s development agenda, economic condition, progress made in the implementation of federalism, reforms carried out in the revenue sector including the latest status of trade.

Finance Minister thanked the government of the United Kingdom for its support extended to the reconstruction after the devastating earthquake in 2015. While mentioning about the progress made for Double Taxation Agreement, he requested the investors from the UK to invest in Nepal in the sectors like tourism, hydropower and roads including others since environment for investment has significantly improved in Nepal. Requesting the British government for more facilitation to enhance export, Finance Minister urged the tourists from the UK to visit Nepal with highest number possible during Visit Nepal 2020 campaign.

HE Pollitt said that UK Nepal relation has been maintained since very long time and expressed her willingness to collaborate with the Government of Nepal during her tenure. She further informed that the UK government has been happily observing the stability of Nepal and will extend its support in the days ahead.

GoN and ADB Signed ....

Kamudkhanov, ADB’s Country Director for Nepal.

Under the SASEC Mugling-Pokhara Highway Improvement Project, 81 km of the road will be widened to four lanes from Pokhara to Abukhaiireni to meet increasing demand. Improvements will be made to the surfacing, structure, and drainage, with safety features such as crash barriers, and traffic and other warning light systems installed.

The additional funds for the Bagmati River Basin Improvement Project will finance an additional 5.75 kilometers of riverbank beautification in the heart of Kathmandu city, construct a wastewater treatment plant integrated into the landscape to treat a polluted tributary flowing into the Bagmati River, construct and equip a new regional building for the river basin office, and provide funds to train communities along the river on flood early warning systems.

The Food Safety and Agriculture Commercialization Program, comprised of a two-tranche, standalone policy-based loan, will improve food safety and quality monitoring systems in Nepal, particularly in enhancing the regulatory and institutional capacity for sanitary and phytosanitary monitoring.

The Rural Enterprise Financing Project will help improve rural enterprises’ and cooperatives’ access to finance, addressing the low appetite of formal financial institutions in financing rural enterprises. This will help to raise small farmers’ incomes and improve livelihood.
Foreign Resource is Essential for Development: Finance Minister

Hon. Finance Minister Dr. Yub raj Khatiwada said that foreign assistance in all forms including private and public sector is essential for the industrial and infrastructure development of the country.

During the meeting with a Swiss team led by President of Swiss Investment Fund for Emerging market and former ambassador of Switzerland Mr Jorg Friedmen, Dr Khatiwada said that foreign resource is crucial due to lack of sufficient domestic resources for speedy development.

During the meeting Dr. Khatiwada had informed the Swiss delegation about Nepal’s development priorities, economic condition and efforts related to creation of investment friendly environment. He also informed that the discussion on amendment in the threshold of foreign direct investment has been intensified, the process of entering into Double Taxation Avoidance Agreement with many countries has accelerated, initiation on Challenge Fund and formulation of new laws and amendment of existing laws related to attract more investment has been initiated.

Dr. Khatiwada expressed his views that external sector can be balanced along with higher economic growth by earning foreign currency from energy export and tourism only after developing the infrastructure. He also said that government is heading forward by collaborating with the private sector for qualitative development of service sector along with infrastructure development. He further clarified that the need of the present is to urgently promote small medium enterprises and generate employment through supporting the youth targeted technical skills and knowledge and innovations for overall development of the nation.

Showing their concerns about sectors related to economy, role of the private sector, national priority and interest put forward by the government, the Swiss team led by Mr Friedmen expressed its happiness for the opportunity of investment in Nepal.

The meeting was also attended by HE Ambassador of Switzerland, Ms. Elisabeth Von Capeller and representatives of Swiss Investment Fund for Emerging Markets. The team had discussed about the development priorities by meeting the government, private sector and nongovernmental organizations.

Federalism Capacity Need Assessment ....

for a strategic approach to capacity building for federalism, including the need to prioritize measures to strengthen the foundations for intergovernmental and inter-ministerial coordination and monitoring of the implementation of federalism.

“The FCNA is a living document and I would like to highlight the need to implement the most urgent, relevant and feasible recommendations as prescribed by the assessment on a priority basis,” said Mr. Yadav Prasad Koirala, Secretary for the Ministry of Federal Affairs and General Administration.

Moving forward, the FCNA recommends a roadmap to help improve Nepal’s capacity readiness for federalism. Developed through a consultative process with all stakeholders under the leadership of the Government of Nepal, the roadmap could help deliver on common objectives and improve coherence and coordination among the three levels of the government. The roadmap would not only articulate reform priorities and sequencing of actions, but also help to improve implementation of the reform process for the successful implementation of federalism.

“Nepal’s success with federalism will be measured by not only how well the Government manages the challenges associated with the transition to federalism but also by the quality of services provided to citizens,” stated Mr. Faris Hadad-Zervos, World Bank Country Manager for Nepal. “The roadmap recommended by the FCNA can, in effect, add value in the implementation of federalism and help smooth out the transition.”

“Strong institutional arrangement for capacity building at the provincial and local levels is key to supporting Nepal’s transition to federalism,” stated Ms. Ayshanie Medagangoda-Labé, UNDP Resident Representative. “The findings and recommendations of the FCNA will go a long way in guiding future courses in the implementation of Nepal’s federal form of governance.”

The FCNA dissemination was attended by representatives from federal government ministries and development partners. Consultation and dissemination of the FCNA will be held subsequently at the provincial level for provincial and local government officials and other stakeholders in the coming months.
Foreign Aid Commitments

As of March 2020 of the current FY 2019/20, new foreign aid commitments received by the GoN from DPs have reached a total of NRs. 115.74 billion (NRs. 16.65 billion as grants and NRs. 99.09 billion as loans) for the implementation of various development projects and programs. The total commitments received by the GoN from various DPs reached a total of NRs. 107.18 billion (NRs. 13.49 billion as grants and NRs. 93.69 billion as loans) in the same period of the previous fiscal year.

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World Bank Approved ...

percent received the second tranche, and 71 percent received the third tranche of the housing grant.

“Five years hence, a lasting memory of the Nepal earthquake is that of the resilience of the people of Nepal,” stated Mr. Faris Hadad-Zervos, World Bank Country Manager. “We join Nepal’s development community in continuing support to the Government of Nepal to help families affected by the earthquake rebuild their lives.”

Implemented by the government’s National Reconstruction Authority, the EHRP adopts an owner-driven housing reconstruction approach that promotes earthquake-resistant building techniques and materials and aims at improving long-term resilience through a culture of safer and sustainable housing and settlements. Under the project, eligible beneficiaries receive grants of NPR 300,000 (approximately US$ 2,730) each for reconstruction of houses in compliance with approved reconstruction guidelines in three tranches.

The impact of the earthquakes is estimated at 35 percent of Nepal’s Gross Domestic Product (GDP) with recovery needs of about US$ 7 billion.

AMIS Refresher Training for INGOs

IECCD/MoF provided Refresher Training on Aid Management Information System (AMIS) to the INGOs on 22 and 26 December 2019. The training was attended by more than 90 focal points representing various organizations. Dr. Narayan Dhakal, Under Secretary, MoF welcoming the participants highlighted the purpose and expectations of the training. He explained why the AMIS data is useful in decision making. He also urged the participants to complete updating of disbursement of this fiscal year. IECCD IT team provided step by step training on how to successfully enter the data in the newly launched AMIS and generate various output reports. Likewise, there was open discussion on various issues of data management and sharing of experiences in updating project information. The training was funded by UNDP/DFID under the Effective Development Financing and Coordination Project.

World Bank Mid ....

Pradhan, Sr. Operation Officer, briefed the update on portfolio performance since September 2019. On behalf of Ministry of Finance, Mr. Shreekrishna Nepal, Joint Secretary, IECCD highlighted Government’s initiatives to improving portfolio performance and capital spending.

In the meeting, Mr. Faris Hadad-Zervos, Country Manager of the World Bank, made the reflections on the sectoral projects and their importance in the socio-economic development of Nepal. He also expressed his view towards the successful implementation of the ongoing projects.

In his concluding remarks, Hon. Finance Minister Dr. Yuba Raj Khatiwada encouraged all to discuss the issue seriously, find out doable and practical solution and finalize the way forward. Referring to newly enacted Financial Procedures and Fiscal Responsibility Act, 2076, he reminded that it has made everyone responsible for own works and performance. Thanking to all representatives for their valuable presence in the meeting, he further suggested to be creative while generating ideas and to be disciplined and serious while implementing them.