

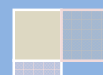


2011 Survey on Monitoring the Paris Declaration

NEPAL COUNTRY REPORT

NOVEMBER 2011

Government of Nepal
Ministry of Finance
Nepal





2011 Survey on Monitoring the Paris Declaration

NEPAL COUNTRY REPORT

November 2011

**Government of Nepal
Ministry of Finance
Nepal**

ACKNOWLEDGEMENT

The present report on the 2011 Monitoring Survey on the Implementation of the Paris Declaration in Nepal is an important component of Nepal's commitment to the international aid effectiveness agenda.

Three years after the first survey, conducted in 2008, it provides an opportunity for all development stakeholders to assess progress made and identify areas where urgent actions are needed. Its findings will also be fed into the preparatory process for the 4th High Level Forum on Aid Effectiveness to be held in Busan, Korea from 29 November to 1st December 2011, which will review progress against targets set in the 2005 Paris Declaration, and make crucial decisions regarding the global governance of aid in the coming years.

The findings and recommendations of this report should provide a solid basis for dialogue between Government and Development Partners on key challenges for better aid effectiveness in Nepal. The Foreign Aid Coordination Division of the Ministry of Finance has already initiated measures to address some of the issues, and the strengthening of the Nepal Portfolio Performance Review Process will contribute to a better monitoring of progress in this area. Likewise, Aid Management Platform has been operationalised to enhance aid transparency.

I would like to extend my special thanks to Mr. Tilakman Singh Bhandari, Under Secretary of this Ministry, who worked as a National Coordinator for this Survey. Likewise, I extend my appreciation to Mr. Kapil Ghimire, National Consultant, Mr. Julien Chevillard, Aid Management Facilitator (UNDP/FACD) and Mr. Purushottam Manandhar, Data Analyst for their valuable contribution in producing this report.

I would also like to thank UNDP and DFID for helping as donor focal points and also extending financial and technical support to conduct the survey. Finally, I would like to extend my appreciation to all government agencies, development partners and civil society representatives for their involvement during the survey exercise.



Lal Shanker Ghimire
Joint Secretary
Ministry of Finance,
Foreign Aid Coordination Division (FACD)
Singhadurbar, Kathmandu

Table of Contents

1. Introduction.....	1
1.1 Purpose and Scope of the Survey.....	1
1.2 Methodology and Schedule of Activities	1
1.3 Country Overview	2
1.4 Challenges in Aid Effectiveness	4
2. Summary of Key Findings.....	6
2.1 Key quantitative findings of the Aid Effectiveness Survey, 2011.....	6
2.2 Major Achievements and Challenges	6
2.2.1 Ownership	6
2.2.2 Alignment.....	6
2.2.3 Harmonisation.....	7
2.2.4 Managing for Results.....	8
2.2.5 Mutual Accountability.....	8
2.2.6 Aid Fragmentation.....	8
2.2.7 Conditionality.....	8
3. Results of the Survey.....	10
3.1 Ownership.....	10
Indicator 1: Operational National Development Strategies	10
3.2 Alignment.....	13
Indicator 2a: Reliable country public financial management systems ...	13
Indicator 2b: Reliable country procurement systems	14
Indicator 3: Aid flows are aligned on national priorities.....	16
Indicator 4: Strengthen capacity by coordinated support.....	18
Indicator 5: Use of Country Systems.....	21
Indicator 5a: Use of Country Public Financial Management Systems ...	22
Indicator 5b: Use of Country Procurement Systems.....	23
Indicator 6: Avoiding Parallel Implementation Structures	25
Indicator 7: Aid is more Predictable.....	27
Indicator 8: Aid is increasingly untied.....	31
3.3 Harmonization	31
Indicator 9: Use of Common Arrangements or Procedures	32
Indicator 10a: Joint missions.....	33
Indicator 10b: Joint Country Analytic Works.....	34
3.4 Managing for Results	36
Indicator 11: Results-oriented frameworks	36
3.5 Mutual Accountability	37
Indicator 12: Mutual Assessment of Progress	37

3.6	Aid Fragmentation	38
3.7	Conditionality	39
4.	Recommendations.....	41
4.1	Ownership.....	41
4.2	Alignment.....	41
4.3	Harmonization	42
4.4	Managing for Results	42
4.5	Mutual Accountability.....	42
4.6	Aid Fragmentation	43
4.7	Conditionality.....	43
5.	Annex 1: Optional Module on Gender Equality	44
6.	Annex 2: Optional Module on Inclusive Ownership	51
7.	Annex 3: Nepal Country Chapter as drafted by OECD-DAC.....	63
Table 1:	Key Findings	6
Table 2:	Coordinated Technical Cooperation, 2010	18
Table 3:	Use of country Public Financial Management System (PFMS) ...	22
Table 4:	Use of country Produce Systems	23
Table 5:	Parallel Implementation Units (PIUs)	25
Table 6:	In-Year predictability in Government Sector	27
Table 7:	Use of common arrangements or procedures (Programme) Based approaches.....	32
Table 8:	Coordinated Donor Missions	33
Table 9:	Coordinated Country Analytic works	34
Figure 1:	Aid Flows are Aligned on National Priorities	16

Abbreviations

ADB	Asian Development Bank
AMP	Aid Management Platform
BMIS	Budget Management Information System
CBS	Central Bureau of Statistics
CBO	Community Based Organization
CCA	Common Country Assessment
CD	Capacity Development
CFAA	Country Financial Accountability Analysis
CIAA	Commission for Investigation of Abuse of Authority
CSO	Civil Society Organisation
DAC	Development Assistance Committee
DDC	District Development Committee
DFID	Department for International Development
DP	Development Partners
DPMAS	District Poverty Monitoring and Analysis System
DTCO	District Treasury Controller Office
FMIS	Financial Management Information System
EC	European Commission
EMIS	Education Management Information System
FACD	Foreign Aid Coordination Division
FAP	Foreign Aid Policy
FCGO	Financial Comptroller General Office
FY	Fiscal Year
GAAP	Governance and Accountability Action Plan
GDI	Gender and Development Index
GDP	Gross Domestic Product
GESI	Gender Equality and Social Inclusion
GRB	Gender Responsive Budget
GRBC	Gender Responsive Budget Committee
GoN	Government of Nepal
HLF	High Level Forum
HMIS	Health Management Information System
ITC	International Training Centre
ILO	International Labour Organisation
INGO	International Non-Government Organisation
HLF	High Level Forum
JAR	Joint Annual Review
JFA	Joint Financing Arrangements
JICA	Japan International Cooperation Agency
LSGA	Local Self-Governance Act
MCPM	Minimum Conditions / Performance Measures
MDG	Millennium Development Goals
M&E	Monitoring and Evaluation

MfDR	Managing for Development Results
MoF	Ministry of Finance
MoGA	Ministry of General Administration
MTEF	Medium Term Expenditure Framework
NAP	National Action Plan on Aid Effectiveness
NDAC	National Development Action Committee
NDF	Nepal Development Forum
NDHS	Nepal Demographic Health Survey
NDS	National Development Strategy
NGO	Non-government Organisation
NLFS	Nepal Labour Force Survey
NLSS	Nepal Living Standard Survey
NPC	National Planning Commission
NPSAS	Nepal Public Sector Accounting Standard
NPPR	Nepal Portfolio Performance Review
OAG	Office of the Auditor General
OECD	Organization for Economic Cooperation and Development
ODA	Official Development Assistance
OPMCM	Office of the Prime Minister and Council of Ministers
PAC	Public Account Committee of the Interim Legislature (Parliament)
PBA	Programme Based Approach
PD	Paris Declaration
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMRP	Public Financial Management Reform Programme
PIU	Parallel Implementation Unit
PMAS	Poverty Monitoring Analysis System
PPA	Public Procurement Act
PPR	Public Procurement Regulation
PPMO	Public Procurement Monitoring Office
PRSP	Poverty Reduction Strategy Paper
SAARC	South Asian Association for Regional Cooperation
SWAP	Sector-Wide Approach
TA	Technical Assistance
TSA	Treasury Single Account
TYIP	Three Years Interim Plan
TYP	Three Year Plan
UKAID	United Kingdom Agency for International Development
UNCDF	United Nations Capital Development Fund
UNCTRAL	United Nations Commission on International Trade Law
UNDP	United Nations Development Programme
UNICEF	United Nations Children Fund
UN WOMEN	United Nations entity for Gender Equality and the empowerment of Women
USAID	United States Agency for International Development
VDC	Village Development Committee
WB	The World Bank

1

Introduction

1.1 Purpose and Scope of the Survey

Donors and partner countries committed to monitoring their progress in improving aid effectiveness through the Paris Declaration (PD) in 2005. They agreed on 56 specific actions and 12 indicators against which they would measure their progress, as set for 2010. Monitoring is a distinctive feature of the PD, providing a means of making sure that donors and partner countries act upon the commitments they have made.

Progress against the 12 indicators is being monitored in three successive rounds of survey, managed at country level. The first survey was conducted in 2006 in 34 countries, the second one in 2008 in 55 countries (including Nepal), and the present round is being conducted in 88 countries.

This final round will provide evidence on whether the targets set in 2005 have been met. Results and analysis of the survey will be one of the key inputs in the process leading up to the 4th High Level Forum (HLF4) on Aid effectiveness in Busan, Korea.

The purposes of the survey are to:

- Stimulate broad-based dialogue at both Nepal and international levels on how to make aid more effective;
- Promote agreements on specific actions that contribute to the successful implementation of the Paris agenda in Nepal; and
- Generate an accurate description of how aid is managed in Nepal.

The Nepal report has been reflected in a specific country chapter of the global document (as attached in Annex -3) and the report has assessed the progress made since the 2008 report, which serves as a baseline.

1.2 Methodology and Schedule of Activities

The 2011 Survey on Monitoring the Paris Declaration was launched during the Local Donor Meeting held on 16 December 2010 and conducted from January to March 2011 in Nepal, by a team led by Mr Tilakman S. Bhandari, Under Secretary, FACD/MoF as a National Coordinator being supported by Mr Kapil Ghimire (National Consultant), Mr Purushottam Manandhar (Data Analyst), Mr Julien Chevillard (UNDP/FACD), and donor focal points Ms Anjaly Tamang-Bista (DFID) and Mr Sharad Neupane (UNDP).

The survey followed guidance provided by the OECD and the survey report incorporates evidences collected from donor questionnaires and the Government questionnaires.

Nepal also volunteered to conduct optional survey modules on Gender Equality and Inclusive Ownership. UN Women Nepal, and in particular Ms Nigma Tamrakar (GRB Technical Advisor) provided technical support to prepare and conduct consultations with CSOs and Parliamentarians on these optional modules.

This PD Monitoring Survey was supported by the United Nations Development Programme (UNDP) and the Department for International Development (DFID/UKAID).

Quantitative data was collected from the questionnaires. The government questionnaires were sent to the secretaries of key line ministries as well as the Financial Comptroller General Office (FCGO), and the donor questionnaires were sent to heads of donor agencies. Completed questionnaires were received from 11 government agencies and 19 Development Partners (DPs).

All donors included in the 2008 survey exercise have also participated in this 2011 exercise, which allows for good data comparability. Although Nepal's two large neighbours, China and India, provide substantial aid to Nepal, they are not covered in this survey because they do not report to the OECD. Saudi Arabia is not covered either. In line with OECD-DAC guidelines, core funding of INGOs was also not included in the survey. However, the Government of Nepal is committed to including all development partners in aid coordination and effectiveness efforts, including non-OECD-DAC members. In order to maintain consistency and accuracy of data, DPs and the Government Ministries were encouraged to apply OECD Survey Guidelines.

Qualitative data was drawn from secondary sources, mainly the published and unpublished records of Government of Nepal (GoN) and DPs. These enabled levels of aid, fund flow, relationships between aid and budget and operational factors to be assessed. In addition, policy and strategic trends and decisions were reviewed, as well as an assessment of results. The main data sources used were:

- MoF published Economic Surveys, budget and expenditure data for the period, including records from the FCGO and National Planning Commission (NPC);
- Various World Bank (WB) studies and publications;
- Relevant publications from the Asian Development Bank (ADB), UNDP and other DPs; and
- Key civil society research publications.

A national consultation workshop with the GoN line ministries, donor agencies, CSOs and academia was organized in Kathmandu on 22 March 2011. Likewise, consultation with CSO and Parliamentarian explicitly for the two modules: gender equality and inclusive was conducted on 03 March 2011.

While the national coordinator and other stakeholders, through the consultation process, have made every effort to cross-check quantitative data, the responsibility for their answers ultimately rests with the DPs (for donor questionnaire) and the GoN (for government questionnaire).

1.3 Country Overview

Nepal, with a population of around 28.9 million, is a low income country with per capita Gross Domestic Product (GDP) of US\$467 in 2008/09 (MoF 2010). It is estimated that population below national poverty line is 25.4% and nearly 24.1% of the population lives below the dollar-per-day (MDG Progress Report UNDP 2010).

A decade-long conflict ended when key stakeholders reached the Comprehensive Peace Agreement in late 2006, and successfully held the Constituent Assembly election in 2008. The country has since been making efforts to establish a "new" Nepal with inclusive and accountable governance structures. The country is now in the process of drafting a new constitution.

In terms of overall human development, Nepal has moved from being a ‘low human development country with Human Development Index (HDI) less than 0.5 in the 1990s to a ‘medium human development country’ (HDI between 0.5 and 0.8). However, amongst this group Nepal ranks in the bottom quartile (UNHDR, 2009). Nevertheless, between 1980 and 2007, Nepal maintained an average annual growth rate in HDI which was 2.16, the highest in the world (UNHDR 2009) despite all the challenges it faced during that period

Indicative questions:

Q. Please describe government and donor priorities with respect to the implementation of the aid effectiveness at the country level.

Q. What are the main challenges faced by government and partner countries in implementing their commitments on aid effectiveness?

Many aid effectiveness priorities are common to the government and donors, both would like to see better results or outcomes for each unit spent. Donors expect a competent and performing administrative mechanism, smoother and less cumbersome procedures, efficient and effective utilization of aid as well as less and less misuse of the funds. They would like to enhance capacity of the different national agencies and staff for this purpose. They also acknowledge to improving the implementation and monitoring process by making it result oriented and they are generally aligned with the priority of the government.

Priorities of the GoN:

- The aid effectiveness agenda was addressed by the government in its Foreign Aid Policy (FAP) published in 2002. This policy was formulated simultaneously with the formulation of the Poverty Reduction Strategy Paper (PRSP)/Tenth Plan (2002-2007). The PRSP/Tenth Plan itself provided for budgetary support, which is in line with key aid effectiveness principles, PBA, government leadership, government ownership and use of government budgetary process. The subsequent periodic plans - Three Year Interim Plan (TYIP) 2007/08 - 2009/10 and the recent Three Year Plan (TYP) 2010/11 – 2012/13 have also followed this approach.
- GoN has made various efforts to incorporate state-of-the-art literature that reflects the synthesis of the findings of the country specific studies around implementation of the PD. The major studies include monitoring survey, evaluation, thematic studies and the resolves made in the high level forums (Rome 2003, Paris 2005, Accra 2008). A revised Foreign Aid Policy is currently under discussion, including clear guidance on GoN’s preferred aid modalities. Government would like to see more funds channelled through country systems, and coming in the form of budget support. Above all, government desires that donors increase their support for substantive investments for service delivery.
- The draft Foreign Aid Policy, 2008 has been circulated among the stakeholders, including donors, but has been delayed due to the prolonged political transition. Regular local donor meetings are being held at the Ministry of Finance (MoF). The drafts of the National Action Plan (NAP) on Aid Effectiveness and the periodic Nepal Portfolio Performance Reviews are some of the evidences of the efforts made by the government to articulate aid effectiveness priorities.
- Government’s participation in carrying out PD Evaluation Phase II and PD Monitoring Survey 2008 and 2011 are also evidences among others of its commitment to aid effectiveness.

Priorities of the Donors:

- In principle, all donors working in Nepal prioritize aid effectiveness principles in their respective aid policy/strategy/programmes for Nepal.
- In practice, attitudes towards the aid effectiveness commitments vary significantly within the donor community, with two broad types of approach - one prioritizing the incremental implementation of the PD in Nepal and the other focusing more on risks factors that pose threats to its implementation, especially when it comes to using country systems. The former is more in favour of following the essence or motive of the PD with needful customization to the Nepalese context, while the later is more vocal in highlighting capacity deficiency and fiduciary risks factors that hinder implementation of the PD in Nepal.
- Donors' priorities are also supporting Nepal to meet its MDG commitments along the priorities of the government.
- Support for the strengthening of country systems is high on the agenda for donors in Nepal. In this context, a coordinated approach for PFM support is currently being discussed, and assistance is also being provided for the monitoring of the implementation of the new Procurement Act and Rules.
- While most donors' intention is to follow the government's preferred policy to channel funds through budget support, DPs also require flexibility to use alternative aid instruments, whilst concrete reforms are progressed further (adapting to the country context as stated in Accra Agenda for Action).
- Division of labour issues are also becoming more and more prominent, not only at sector level but also in terms of geographic coverage. The Donor Transparency Initiative has suggested priority actions for better coordination in 6 districts based on its pilot research. An indicative donor mapping has also been conducted with support from the World Bank. Opportunities for scaling up these initiatives and making them sustainable are being considered, as well as synergies with other activities such as the Aid Management Platform (AMP) and geo-coding.
- The demand for more effective mutual accountability mechanisms is also high among donors. The model of the NPPR is appreciated and has seen increased participation from donors, while donors would like to see more regular and operational interaction on aid management and aid effectiveness issues, both at the national and sector levels.
- Donors are also putting lot of emphasis on strengthening financial reporting capacities (quality and timeliness of financial statements and audits).

1.4 Challenges in Aid Effectiveness

The main challenges in implementing the government commitments on aid effectiveness are:

- A persistent lack of awareness among politicians, bureaucrats and CSOs on what aid effectiveness principles mean concretely in Nepal. However, there is a general consensus among the political leadership and decision makers about the need for foreign aid and its effective use for the country's development.
- The country is in political transition. For a short period after 2006, there was a period of general political consensus among political parties, which enabled Nepal to frame an Interim Constitution and elect a Constituent Assembly. After 2008, polarization among parties increased and, as a result, further delays are expected before the Constituent

Assembly adopts the new constitution for Nepal. The formation of a stable government has been an issue during this transitional period, and instability has affected the discussion and adoption of strategic policies, including the Foreign Aid Policy.

- ODA to Nepal remains too fragmented leading to high transaction costs.
- The security situation has improved but remains problematic in certain parts local government offices, development of the country, where armed groups are extorting money from business, projects and even from ordinary households. Kidnappings for ransom continue to happen, especially in southern plain areas.
- The reluctance or lack of enthusiasm in implementing aid effectiveness principles among major stakeholders is a key challenge, which can be seen again in the context of prevalent political instability and an inadequate incentive system.
- Inadequate coordination and mutual accountability mechanisms are challenges because implementation of aid effectiveness principles cannot be realized without generating momentum for joint Government-Donor action, including the involvement of civil society.
- The absence of elected local government since 2003 has seriously affected the implementation of development programmes through country systems and institutions, and has further eroded the level of donor confidence in the reliability of the government systems.
- Public Financial Management (PFM) systems within Nepal are not yet satisfactory and the gaps that have opened up in procurement processes have raised additional concerns related to fiduciary risk. The Public Expenditure and Financial Accountability (PEFA) assessment suggests that Nepal has 'a system that is well designed but unevenly implemented' (PEFA, GoN 2008).
- Another important aspect in terms of aid effectiveness is the definition of the very *structure of the state*, and what this will mean for aid management. The Constituent Assembly has begun this process, however, major differences remain and the peace settlement is based on agreements addressing these issues.
- It is perceived that bureaucracy has been politicized which may reduce the level of motivation towards implementation of aid effectiveness and other performance management initiatives. The political transition and its effects may weaken the confidence in political as well as bureaucratic leadership.
- Some bilateral DPs are reluctant to move towards programme-based approaches or to improve harmonisation among them, leading to fragmentation of projects.
- Some donors perceive that the absorptive capacity of the government has not improved, and that this justifies parallel or vertical funding.
- Access to information is being widely improved leading to increased demand by citizens but the State has limited resources to respond.
- Nepali civil society actors most often complain that PD has mostly revolved around development partner-government relationships in enhancing aid delivery and management, and civil society is excluded as active stakeholders leading to serious implications for aid disbursement. Therefore, lack of coordination among development actors including civil society is also one of the challenges in the process of aid effectiveness.

Summary of Key Findings

2.1 Key quantitative findings of the Aid Effectiveness Survey, 2011

Based on the responses of GoN and DPs, following are the key findings of the survey:

Table 1: Key Findings

Indicators	2008 Results	2011 Results	OECD Target 2010
Aid on Budget (average per donor)	46%	58%	85%
Coordinated Technical Assistance	15%	48%	50%
Using Country Public Financial Management System	68%	63%	76%
Using Country Procurement System	56%	35%	N/A
Parallel Project Implementation Units (number)	106	68	64
In-year predictability	47%	55%	65%
Programme-based approaches	23%	31%	66%
Joint missions	23%	33%	40%
Joint country analytic work	28%	63%	66%

2.2 Major Achievements and Challenges

2.2.1 Ownership

Nepal has been preparing its national development plans since 1956. GoN followed a participatory approach to prepare a Three Year Interim Plan in 2007 replacing the traditional five year plans. GoN has finalised the new Three Year Plan 2010/11-2012/13 around the core theme of employment –centric inclusive development. However, the detailed strategies and action plans are being elaborated.

Participatory planning mechanisms are at the heart of the process at local, sector and national level. These mechanisms have been strengthened over the past decade and are now very much mainstreamed into planning procedures. Gender equality and social inclusion issues are identified as key components of recent development plans, integrated in the budget process, as well as in monitoring and data collection procedures.

A key challenge is to improve the quality of participation and address capacity issues, especially at local level and for disadvantaged groups, in order to ensure that the participatory process truly captures the voices of beneficiaries and is not hijacked by a few groups with higher levels of capacity.

2.2.2 Alignment

Alignment with national priorities is generally considered satisfactory. However, the average levels of aid on budget per donor have only slightly improved, showing that alignment with

country systems remains a challenge.

The survey shows higher levels of coordinated technical cooperation, in line with the PD target of 50%, but this coordination remains relatively loose. A key challenge on the national side is to develop clear capacity development strategies, both at national and sector level. On the donor side, commitments to improve the coordination of technical assistance, for example through pooling of TA at sector level, have yet to be fully operationalized. Overall, technical assistance remains one of the least coordinated aid modalities.

Despite improvement in the aid on budget indicator, alignment on national PFM and procurement system appears in the survey as the key area where no progress has been made over the past three years. While GoN has a policy of actively promoting use of national systems, donors have expressed serious reservations and the use of national systems has actually decreased between 2007 and 2010.

Major reforms are underway in PFM and procurement, with support from donors. While the legal and institutional infrastructures are largely in place, it is felt that actual practices and capacities are still not up to standards. In order to address these issues, one needs to go beyond bureaucratic reforms and consider factors related to political economy and conflicting incentives.

One area where significant progress has been made is in reducing the number of parallel project implementation units and better integrating project management functions under Government supervision. The PD target for this indicator has been met, but efforts need to be maintained to further reduce the current number of 68 parallel PIUs.

Aid predictability has marginally improved. The introduction of the Aid Management Platform should allow for more comprehensive tracking of ODA flows, both on and off-budget, including actual disbursements and planned disbursements for the next three fiscal years.

Significant efforts have been made to untie aid. However, partial tying and indirect tying of aid may not be abolished. The relatively high degree of aid dependency sometimes forces the government to accept conditions proposed by donors.

2.2.3 Harmonisation

Levels of ODA allocated to Programme Based Approaches (PBAs) have increased over the past three years due largely to the higher levels of support allocated to the existing Health and Education SWAs, as well as local governance.

The expansion of PBAs to other sectors has been slower than initially scheduled, partly due to capacity issues. As Health and Education SWAs have been positive experiences (including on joint reporting and accounting through Joint Financial Arrangements), a key challenge in the years to come will be for GoN and donors to operationalize PBAs in key sectors such as irrigation, agriculture, rural roads, alternative energy and so on.

Donor practices with regard to joint missions and joint analytical works have improved significantly (respectively 33% and 63% coordinated) and are close to meeting PD targets. In particular, major pieces of analytical works are in most cases conducted in a coordinated manner, and more and more often with substantive government engagement. Donor missions, although better coordinated than in 2007, have increased in numbers (341 in 2010) and still represent a significant transaction cost for government officials.

2.3.4 Managing for Results

GoN has adopted a results-based management approach and donors have also shown increased focus on results. Efforts are being made to operationalize Managing for Development Results (MfDR) and results-based management in various sectors. However, frequent staff turnovers and difficulties to retain trained staff represent a major capacity challenge. The overall framework and procedures are developed and in place but the quality of results-based programming and monitoring is not yet up to standards. Existing systems such as the Medium Term Expenditure Framework (MTEF) and the Poverty Monitoring and Analysis System (PMAS) are not yet used to their full potential.

GoN view is that donor support is not always sufficiently consistent and sustained over the medium to long-term. Awareness-raising and advocacy activities contribute to higher demands but resources to respond to those aspirations do not always follow. Clear exit strategies to sustain the results of technical assistance are often missing.

2.2.5 Mutual Accountability

Nepal has a few best practices in terms of mutual accountability, in particular in SWAp sectors and with the NPPR process. Local Donor Meetings are regularly held at Ministry of Finance. However, more regular interaction between donors and GoN on aid effectiveness issues is required. This process should be linked to the NAP on Aid Effectiveness, which is still in draft form due to the prolonged political transition.

Establishing an operational mutual accountability mechanism, for regular monitoring of the NAP implementation (which is currently under circulation), is the most strategic challenge for the implementation of the aid effectiveness agenda in Nepal. Many of the remaining issues highlighted in this report could be effectively addressed through this forum, where donors and GoN could agree on concrete steps to move forward, and monitor progress. Capacities to lead this type of process exist at the central level, but capacity needs are more acute in some sectors and would require active donor support. However, this will require an acknowledgement from both sides that responsibilities for aid effectiveness are shared, and an agreement to move forward on these issues in a more constructive manner. Such a mutual accountability mechanism could be integrated in existing fora, such as NPPR or Local Donor Meetings.

2.2.6 Aid Fragmentation

Aid fragmentation remains a serious issue in Nepal, as confirmed by the recent PD Evaluation analysis and OECD-DAC fragmentation analysis. As the volume of ODA to Nepal increased, most donors have expanded their coverage and are present in more sectors in 2009 than they were in 2005. The number of donors per sector has also increased. Joint work and harmonization is now happening on a large scale, but comprehensive division of labour including delegated cooperation arrangements, silent partnerships and a redeployment of donors' assistance based on their respective comparative advantages has not yet happened.

GoN has developed some clear rules in the revised FAP to discourage smaller projects and guide donors towards support to strategic sectors. However, the FAP remains to be approved and donor practices have not evolved significantly. Some perverse incentives both on the donor and on the Government sides also work in favor of aid fragmentation.

In this context, it seems crucial to initiate work on division of labour, looking not only at sectors but also at the geographical coverage of donor-funded projects.

2.2.7 Conditionality

There is a greater awareness about the costs and benefits of 'conditionalities' among the various stakeholders. Some of the new forms of conditionalities (process rather than policy conditionalities) may be acceptable as long as they are in consonance with local capacity,

context, need and reality, because they may help develop institutional capacity.

The commercial and other strategic interests of donors may hinder the process of streamlining conditionality. Though the increased degree of awareness in regard to conditionalities seems intangible, it can be considered a great achievement that helps facilitate dialogue between DPs and the government.

Recommendations to address the key findings highlighted above are detailed in Chapter 4.

Results of the Survey

3.1 Ownership

As per the principle of national ownership on national development strategies, Nepal has set its national priorities and encouraged donors to support these. Consultations organized in support of this principle have provided diverse stakeholders, including gender equality advocates, with a sustained opportunity to provide input into poverty assessments and voice alternative policy options, thus expanding the space for a more informed debate on policy issues.

Indicator 1: Operational National Development Strategies

Indicative questions

Q. Is there an institutionalised process for broad-based participation of Parliament, civil society, local government and the private sector in the formulation / monitoring of the national development strategy?

Q. Did the Parliament, civil society, local government and the private sector participate in the formulation/monitoring of the national development strategy? If yes, please describe how.

Q. How have donors supported multi-stakeholder participation in the formulation/monitoring of the national development strategy? What have been the benefits and shortcomings of this support?

Q. What have been the main outcomes of such participatory processes?

Participatory planning mechanisms

NPC is the apex body in Nepal responsible for formulating periodic plan, and since 1956 Nepal has been preparing its national development plan on its own. Practice of participation has been systematized and thus institutionalized in formulation and monitoring of the periodic plan particularly since 2002 when PRSP/the Tenth Plan was formulated. GoN followed a participatory approach to prepare a Three Year Interim Plan in 2007 replacing the traditional five year plans. The TYIP put much more focus on social inclusion and equity issues of concern in contemporary Nepal. GoN has finalized the new Three Year Plan (TYP) 2010/11-2012/13 around the core theme of 'employment-centric inclusive development'. The approach paper of the TYP has been published and the detailed strategies and action plans are being elaborated.

Different sector ministries (such as health, education, agriculture, local development, physical planning, forest, etc.) have also developed their long-term vision, which are directly linked with the periodic plan. District Periodic Plans are prepared by District Development Committees (DDC) and Municipalities. These plans contribute to the indicators set in the PMAS and District Poverty Monitoring Analysis Systems (DPMAS). However, improvements are needed to link the sub-national plans to the periodic plan.

Participatory consultation forums are organised by the NPC and MoF for the preparation of new periodic plan, such as the current Three Year Plan. Regional level participatory consultations with stakeholders are organised by the NPC. Representatives of political parties, parliamentarians, women rights activists and organizations, academics, Non-government Organisations (NGO) and Community Based Organisations (CBO), Federations of Employers,

Workers, Teachers and Students and Indigenous groups are all brought into the process to contribute. Independent consultants fielded by DPs are often involved in supporting the planning units of sectoral ministries.

Generally, in case of periodic plan, a Coordination Committee is formed under the Vice-Chair of NPC, Technical Committees are formed under the secretaries of sectoral ministries who are made responsible for articulating sectoral objectives, strategies, policies and programmes. As a part of the process, nation-wide consultations, interactions and deliberations are held from national down to regional and VDC levels. The objective of this process is to ensure that the needs and wishes or expectations of the people are reflected in national plans and programs. It is also expected that such consultations improve the ownership among stakeholders and make the plan more realistic. However, participation at local level has been affected by the absence of locally elected bodies.

Inputs and suggestions collected through the participatory process are given due consideration in preparing the draft plan. After the finalization of the draft approach paper, it is submitted to the National Development Council, the apex body which endorses the approach paper with suggestions. The National Development Council, again, is constituted by the representatives of all key stakeholders. The consultations go on during the process of developing a detailed plan.

In many areas of local development, planning is decentralized. The DDC, Municipalities and VDCs follow a participatory process for local level planning.

Role of Parliament

The national budget, which is the summary of all the policies and programs of a given fiscal year, is implemented only after the deliberations and approval of the Parliament. Similarly, sectoral ministries also are practising stakeholder consultation as a mandatory provision in the process of formulating sector policies, strategies or plans of action. However, apart from the NPC and planning units in the sectoral ministries, all these consultative mechanisms are temporary.

Parliamentary scrutiny in favor of aid effectiveness principles through the Public Accounts Committee (PAC) is strong, transparent and institutionalized. The PAC publicizes the agenda and decisions of the meetings through mass media.

The monitoring process is rather weak at all levels notwithstanding the provision of parliamentary oversight. Various committees in the Parliament have a mandate to carry out such oversight functions. On behalf of GoN, the MoF submits a detailed progress report of the financial results and budgets of all ministries to Parliament at the end of each fiscal year and the Parliament focuses its discussions on the Program and Budget for the next fiscal year.

Monitoring process

Sectoral ministries have their own monitoring schedules and NPC also develops an annual plan for monitoring. Review meetings called Development Action Committees are held at ministry level and chaired by the respective Ministers. Problems faced at the implementation level are reviewed and sorted out in these Committees. If some issues require intervention from a higher level, they are presented at the National Development Action Committee (NDAC), which is chaired by the Prime Minister. Of late, provisions have been made for public hearings, social audits and participatory monitoring as well. However, the system and practice remains weak on account of the lack of capacity. Some donors are supporting these accountability initiatives.

The progress report of the periodic plan is formulated annually. A mid-term review and a final review of the periodic plans are also carried out. The latest progress report of the TYIP was published in 2010.

Civil society, local government and the private sector are relatively well organized in Nepal and proactively contribute to the formulation and monitoring of the periodic plan and program. However, influencing resource allocation for the development plan is limited to the Parliamentarians, with civil society, private sector and local government having less say on resource allocation.

Donor support for strategy formulation and inclusive ownership

Most donors working in Nepal have supported multi-stakeholder participation in the formulation and monitoring of the Three Year Plan.

The World Bank, ADB and DFID (UKAID) have conducted various multi-stakeholder consultations for drafting their respective country strategies for Nepal and tried to harmonize this process with the periodic plan. However, the process still resulted in three individual strategy documents.

One important form of donors' support is technical assistance to facilitate the process of formulation of national plans and policies. This includes providing expert services for strategy formulation, supporting stakeholder consultations and policy dialogue, sponsoring studies to feed evidences into the planning process, and capacity development for monitoring and evaluation.

Overall, the participatory approach to development planning has brought about the following benefits:

- Stakeholders as well as government and donors now can better understand each other's perspectives;
- Plans and policy documents have become more socially inclusive; and
- There is an enhanced sense of national ownership.

The major challenges in relation to the periodic plan and participation are:

- Difficulty to synthesize often diverse and competing perspectives of stakeholders;
- Integration of peace and development;
- Quality of participation is sometimes low on account of the low capacity of participants;
- People at the VDC levels tend to visualize the planning process and make demands for micro projects which are rather difficult to aggregate at macro level;
- The process has also raised expectations of people which if not met by the plan can have a frustrating impact;
- Difficulties to meet resource requirements particularly at the local and project levels in a transparent way and on a timely basis; and
- Institutionalizing the participation process at all levels.

Operationalizing the national strategy: links between strategy and budget

The revival of the MTEF in 2009, after an unintentional suspension in 2007, seems to have contributed to a more realistic implementation of the periodic plan. Sectoral MTEFs are prepared by all the sector ministries and cover a period of three years.

Annual programmes prepared to implement the periodic plan are prioritised by the NPC as Priority 1 (P1), P2 and P3 and are associated with working strategies/policies of the sector ministries which are linked with sectoral ministries' MTEF and further linked with budgets and annual programmes.

Policymakers and line ministries use the periodic plan as a guideline for national, district and sectoral level strategies and programmes and are reflected in the annual program of line ministries through MTEF and Budget. However, the effectiveness of linkages between the strategies and the annual budget is still low.

3.2 Alignment

The principle of alignment in Nepal is to link aid with nationally defined priorities as reflected in national planning documents, including the PRSP, and sector level strategic plans. The PRSP/Tenth Plan, TYIP and current TYP explicitly seek to mobilize foreign aid in priority sectors in order to fill the funding gap for the achievement of the national development goals. Some donors would like to see more prioritization in the TYP, to better guide donor allocation of aid and avoid fragmentation.

Indicator 2a: Reliable country public financial management systems

Q. What reforms have been implemented or are planned to improve the quality of public financial management systems?

The government has established a PEFA Steering Committee and Secretariat to oversee the implementation of the action plan, and Public Financial Management Reform Program has been approved with an initial phase of three years focusing on revenue, budget planning and implementation, debt and cash management, accounting and auditing.

A multi-donor group comprising DFID (UKAID), Norway, and the World Bank have committed support for its implementation, with an initial focus on the following components of the Reform Program:

- Rolling-out of the pilot Treasury Single Account (TSA). Once the TSA regime is fully operationalized, most of the responsibilities related to payment services, management of bank accounts and government accounting and reporting will be shifted from the Nepal Rastra Bank (NRB), commercial banks and the spending units to the District Treasury Controller Offices (DTCOs).
- Nepal Public Sector Accounting Standard (NPSAS). GoN has committed to implement NPSAS in line with cash based International Public Sector Accounting Standards (IPSAS). On September 2009, the government approved NPSAS pronounced by the Accounting Standards Board of Nepal. The FCGO will start publishing its financial statements by referring to the NPSAS from fiscal year 2010/11.
- Sustained Reform Effort to Improve Public Financial Management. The PEFA Secretariat capacity to institutionalize the PFM reform process will be strengthened, PEFA secretariat and PEFA units in line ministries will be institutionalized, and capacity development to support technical outcomes will be enhanced to achieve the objectives defined in Public Financial Management Reform Programme strategy.
- Discussions are underway related to strengthening the Office of the Auditor General (OAG) as well.

The following are other ongoing initiatives to strengthen PFM systems:

- A practice has been initiated from FY2009/10 to submit Three-year Expenditure Projections based on the MTEF before the Parliament. However, there is a need to improve the quality of MTEF process.
- MoF recently introduced Government Finance Statistics (GFS) classifications.
- GoN completed public expenditure tracking surveys in health, education, public works and transport sectors.

- PFM systems are in the process of massive computerization, for example Financial Management Information System (FMIS), Budget Management Information System (BMIS), Pro Tax, Revenue Accounting System (RAS), Automated System for Customs Data Administration (ASYCUDA) etc. An Integrated Financial Management Information System (IFMIS) is being operationalized in FCGO.
- A web-based Aid Management Platform (AMP) has been developed and installed in the Foreign Aid Coordination Division of the Ministry of Finance, and is being rolled out to donors and line ministries in 2011. This should improve comprehensiveness of data on external assistance as well as greater transparency on planned aid flows (predictability).
- Efforts are being made to improve timeliness of audit reporting by increasing staffing of auditors at the OAG.

Q. What efforts are being made to improve financial management at sub-national levels?

All the above mentioned legislations and procedures are also applicable to the sub-national levels. Citizens' charters, public hearing and social audits have also been helpful in this regard.

TSA, which reduces costs and facilitates swift and prompt reporting of the government transactions to the center, has gradually been rolled out to the DTCOs.

The Local Self Governance Act (LSGA), 1999 has facilitated financial empowerment and improved financial management at local level. Performance-based funding of local bodies has been piloted over the last few years. Minimum Conditions / Performance Measures (MCPM) have been introduced since 2008. Budget allocation and top up grants to the local bodies is based on their annual MCPM assessment.

The government has attempted to establish internal control and audit systems within district development committees. Attempts are also being made to introduce medium term budgeting at district, municipality and VDC levels.

Outcomes

The intended outcomes of the improved Public Financial Management System are:

- Information technology capacity has been enhanced. Human resources exposed to new knowledge and technology
- Legal and institutional infrastructure is in place.
- Staff are oriented and trained.
- Oversight agencies have been made functional.
- Social audit and public hearings are frequently conducted.

Indicator 2b: Reliable country procurement systems

Q. What actions have been taken or are planned to reform and improve the quality of procurement systems (laws, regulations and institutions)?

The GoN has initiated a governance reform programme in various areas for effective public service delivery. Public Procurement is one of the prime areas of reform. As a part of this reform agenda, GoN has promulgated a Public Procurement Act (PPA) and Regulations (PPR) in 2007.

The Public Procurement Monitoring Office (PPMO) has adopted several reform measures in Public Procurement:

- Recently, a Public Procurement Result Based Strategic Framework (2010-2013) has been prepared and is under implementation.
- A High Level Coordination Committee has been established to integrate and coordinate public procurement related activities, chaired by the Chief Secretary of the Office of Prime Minister and Council of Ministers (OPMCM) comprising secretary level representatives from MoF, Ministry of Physical Planning and Works (MoPPW), Ministry of General Administration (MoGA) and the FCGO. The Secretary of the PPMO is the Member Secretary of the committee.
- Public grievance handling meetings are conducted regularly. The representatives of the contractors association and relevant public enterprises as per requirement participate in the meeting. An anonymous "Hotline" has been established to receive and keep log of procurement complains in PPMO.
- The PPMO website is operational and has uploaded various types of information such as: Public Procurement Act and Regulations, Annual Report, Strategic Framework Document, Standard Bidding Documents etc.
- In order to eliminate the anomalies in the public procurement system and make e-bidding mandatory, necessary steps have been undertaken for the amendment of Procurement Act and Regulations. The government has introduced e-bidding and multi-year tendering to make procurement process more competitive. This has contributed to reducing the cost of the projects, promoting healthy competition and removing drawbacks in tendering processes. PPMO has already prepared a strategic policy document to implement electronic government procurement (e-GP).
- A joint donor government action plan to mitigate fiduciary risks in procurement process has been prepared.
- Corruption control measures are seriously taken up which are encouraged by the donor community as well.
- Result-based Management and Results-based Budgeting have been introduced.

Q. Are legal or institutional frameworks established (Procurement Acts, Regulatory Authorities, Anti-Corruption laws)?

Anti-corruption laws are in place and two prominent institutions i.e. Commission for Investigation of Abuse of Authority (CIAA) and National Vigilance Center are functional. Parliamentary Committees, FCGO, OAG, and DTCOs are also working in this regard.

The Commission for the Investigation of Abuse of Authority Act, 1991, and Anti - Corruption Act, 2002 empower the Commission to oversee the implementation of the Procurement Act alongside its overall role of controlling corruption. The act authorizes the Commission to initiate legal actions against public office bearers suspected of malpractices. The Commission also conducts prevention campaigns by disseminating information to the public.

Q. What steps are taken to build capacities or allocate resources to effectively implement them?

NPC and MoF issue directives for preparing annual budget and programs that requires spelling out unit costs and quantitative targets.

Efforts are ongoing to develop locally trained human resources within PPMO. Some PPMO

staffs have attended international courses on procurement management. PPMO has initiated training of trainers courses on procurement related subjects, and this will be followed by a larger scale roll-out of training programs for government staff to strengthen their capacity to carry out procurement planning and implementation. Despite the reform measures, challenges remain for proper procurement planning and timely procurement. Collusion, coercion, intimidation, extortion, insecurity, corrupt practices have further increased in this area due to the rarity of prosecutions and convictions. The Government's anti-corruption agencies have so far had a mixed record in preventing corruption. Procurement functions are carried out by government agencies with their limited capacity. A capacity development plan is under preparation for procurement reform.

Indicator 3: Aid flows are aligned on national priorities

Comprehensive and transparent reporting on aid, and how it is used, is critical not only as a way of ensuring that donors align aid flows with national development priorities, but also in order to achieve accountability for the use of development resources and results. Indicator 3 is a proxy for alignment. It measures the percentage of aid disbursed by donors to the government sector that is included in the annual budgets for the same fiscal year. The indicator is a joint measure of two components: the degree to which donors report aid flows comprehensively to Nepal; and the degree to which Nepal accurately records aid. Aid recorded in the budget system is as follows:

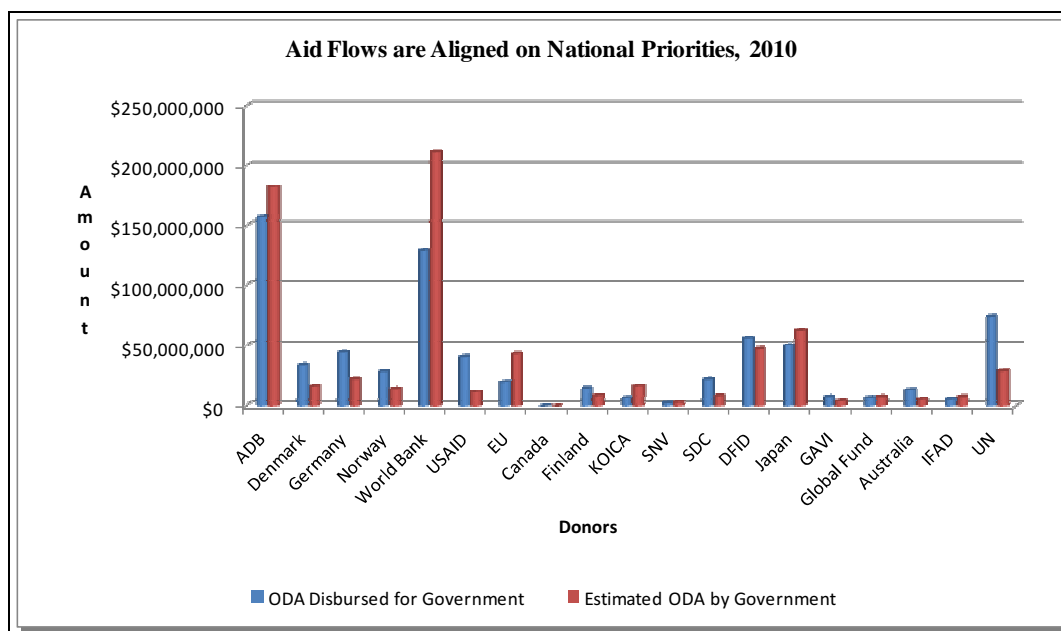


Figure 1: Aid on Budget

On aggregate, this indicator seems to register significant progress, with only a 2% gap between total national budget estimates of DPs planned disbursements and actual disbursements to the Government sector reported by DPs.

However, this aggregate figure is not a good indicator of development partner alignment and transparency. The average rate per donor shows that the gap between DP and government disbursement estimates remains high with an average 58% of aid on budget per DP, compared to 46% per DP in 2007. This means that the relatively good aggregate performance is largely coincidental, with overestimates for some DPs compensating underestimates for others. The trend for this indicator is still positive, but at a much lower pace than the aggregate figure suggests.

The survey reveals a wide variety of situations, with some DPs' disbursements being vastly overestimated in the budget. One half of the reporting DPs have a gap of at least 50% between their disbursements to the Government sector and their aid reported on budget. Budget estimates are currently collected from line ministries. One potential solution to improve predictability would be to compare donors' estimated disbursements (which will be collected through AMP) and line ministries' estimates, and hold consultations with donors when a significant gap exists between the two estimates.

Aid on budget does not necessarily mean that aid flows through national systems. For financial year 2010-11, about 36% of on-budget aid is not flowing through national systems (on-budget but off-treasury).

Q. Please list the main reasons why there are gaps between what is disbursed by donors and what is recorded in annual budget estimates.

A substantial part of aid does not flow through government systems and thus is outside the government's planning and budgetary processes. For example, the government of Nepal does not reflect stand-alone technical assistance activities and NGO implemented activities in the national budget. These activities, even if they contribute to the Government sector, are reported separately in the "Blue Book", which is not taken into account for the purposes of this survey. This may explain to a certain extent the discrepancy between government and DPs' figures.

In the case of Nepal, one of the main reasons of the gaps seen between donor disbursement and government's annual budget estimates is that donor disbursements to the Government sector include many directly executed projects which the Government does not reflect on budget

Donors may also include in their reporting elements that the Government does not include, such as scholarships and debt-relief funds.

The fiscal year of GoN starts from 15 July, whereas many donors have their own fiscal year. This makes reporting according to national standards more difficult, but not impossible.

Terminology issues have sometimes complicated donor-Government dialogue. A donor counts as disbursed to Nepal what the Government counts only as a receipt that has yet to be disbursed to the user level.

Some donors continue to find the direct funding modality effective, mainly due to distrust in government PFM systems. PFM has been a major issue for effective management of aid in Nepal. Most donors perceive that there are systemic delays at all levels, from budget approval to release, implementation and reimbursement to reporting and auditing.

Some bilateral donors also find it difficult to give an accurate estimate as they are often not sure of the actual amount their respective governments would finally sanction. This is particularly the case when several agencies are involved in providing aid from the same country, or when the management of aid is largely handled by donor headquarters rather than the office in-country.

Some of the donors perceive weak absorption capacity of GoN as the main reason for the gap between commitment and actual disbursement. However, survey figures tend to show that annual donor disbursements are more or less in-line with their initial plans.

To some extent, some donors still have incentives to choose the direct implementation modality. Almost all donors show commitment towards aligning their strategies with the national frameworks. However, for some donors headquarters policies fail to delegate adequate authority to their country offices. For some donors a strong desire remains to be identified as contributor or to see specific development results attributed to them.

Q. To what extent do these gaps reflect poor alignment of aid with national priorities?

It should be noted that the gaps measure the degree of alignment with the government budgetary system. The gap reflects poor alignment of aid with the budget rather than with national priorities. Projects may not be on budget but still be aligned with periodic plan.

Many donors using direct funding and direct implementation modalities claim that they are aligning with national priorities and plan. Some of them do it in the context of Sector Wide Approaches, even though problems remain to fully align direct funding activities with sector programmes.

With regard to alignment, another important issue is the proportion of aid allocated to activities such as awareness building and sensitization whereas government would like to see donors providing more funds for actual service delivery. Donors do spend significant amounts of money to support service delivery and investments, but GoN still feels that a higher proportion of aid could go to these areas.

Q. How can the gaps be narrowed?

- GoN must persuade donors to use national plans, priorities and budgetary system which will require regular interaction on PFM issues and gradual confidence-building measures.
- The NAP to implement aid effectiveness principles should be agreed and implemented soon.
- The revised draft Foreign Aid Policy needs to be adopted soon so that donors will be clear about where, how and when Nepal require aid for development. It should be strictly adhered to, as the official rules and regulations of the recipient country. Additional consultations with donors are required to reach the broadest possible consensus on this document.

Q. What efforts are being made, or need to be made, by donors to ensure the necessary information disclosure to the relevant government authorities?

- The AMP will require donors to regularly update their planned and actual disbursement information.
- Donor headquarters should delegate authority to their country offices helping timely information disclosure to the Government as some donors still often refer to headquarters for information sharing and disclosure.

Indicator 4: Strengthen capacity by coordinated support.

This indicator measures the degree of alignment of donor technical co-operation in support of capacity development with the partner country's development objectives and strategies. As such, it measures performance by both partner countries and donors.

Following table shows the details of coordinated technical cooperation:

Table 2: Coordinated Technical Cooperation, 2010

Donor	Technical Cooperation	Coordinated Technical Cooperation	%
ADB	\$2,769,000	\$2,769,000	100
Denmark	\$971,000	\$971,000	100
Germany	\$15,660,000	\$15,660,000	100
Norway	\$0	\$0	

Donor	Technical Cooperation	Coordinated Technical Cooperation	%
World Bank	\$16,625,765	\$13,190,000	79
USAID	\$40,700,000	\$21,700,000	53
EU	\$130,000	\$0	0
Canada	\$4,739,702	\$0	0
Finland	\$6,200,000	\$0	0
KOICA	\$2,605,351	\$2,453,099	94
SNV	\$2,843,000	\$845,000	30
SDC	\$13,933,000	\$10,148,000	73
DFID	\$30,818,081	\$245,779	1
Japan	\$10,532,737	\$10,532,737	100
GAVI	\$0	\$0	
Global Fund	\$0	\$0	
Australia	\$6,769,000	\$0	0
IFAD	\$487,400	\$100,000	21
UN	\$64,450,330	\$26,192,913	41
TOTAL	\$220,234,366	\$104,807,528	48

Good progress has been made on this indicator, with 48% of technical cooperation being reported as coordinated, compared to 15% in 2007. This is also very close to the 2010 target set by the Paris Declaration (50%). Half of the DPs now provide more than 50% of their technical cooperation in a coordinated manner, with four DPs reporting that 100% of their technical cooperation is coordinated.

The Education and Health sector SWAPs still account for a large portion of this coordinated technical cooperation, but clearer strategies have now been developed in several other sectors and can serve as references for the coordination of technical assistance. This is the case for local development, peace and reconstruction, Trail Bridge etc. Further efforts remain necessary to (i) develop capacity development strategies in a wider range of sectors, and (ii) put in place effective mechanisms for the coordination of technical cooperation under Government leadership.

Technical cooperation remains in most cases implemented through parallel systems. This indicator reflects the first level of coordination of technical cooperation (alignment on national needs), but it does not look into the implementation modalities, which are essential (pooling of TA, placing TA under effective Government management), and where progress in Nepal has been slow.

However, in the recent days, preparation of a TA pool strategy is underway in the education sector, and a Joint Technical Assistance Agreement is being developed in the health sector to provide a framework linking capacity-building interventions and priorities in the sector-wide results framework.

Q. What are the challenges in supporting capacity development and improving the provision of technical co-operation?

Capacity development

- Despite realization of capacity development needs for aid effectiveness, there is still a lack of national capacity development plan, and clearly articulated capacity

development strategies at sector level. Capacity development particularly overseas training and studies are in most of the cases supply-driven (for example unrelated and even uninterested participants may apply for overseas training to grasp the opportunity of developing individual capacity) and handicapped by defective incentive system. Capacity development programs are insufficiently demand driven – funding for needs based and demand-driven trainings are often difficult to get. Tailor made trainings are also rarely designed for Nepali trainees.

- Another trend which impacts effectiveness is the practice of ‘giving everybody a turn’ rather than nominating the appropriate candidates for the trainings. This is because trainings are considered as 'incentives'.
- Much capacity development is still targeted on individuals through training and international exposure. This skill development is quite different from institutional capacity building. Individual capacity development is vulnerable to brain drain outside government, as well as to high staff turn-over rates within the civil service. National and sectoral capacity development strategies should look at the various levels of capacity development (from policy and strategies to institutional arrangements, systems and procedures, and human resources). There is a lack of incentives or performance management system to establish meaningful linkages between individual and organizational capacity development.

Technical cooperation: The major challenges in technical cooperation are:

- Mapping the number and types of TAs and establishing a comprehensive information system is lacking. At the moment, information on TA is less than complete.
- Coordination in the distribution of TA is another challenge. Coordination is not only needed within GoN but also among donors themselves, who often implement TA through the direct execution modality.
- There is also a tendency among donors to crowd around certain issue areas and leave other areas “orphans”, by lack of consultation with the Government. Donors sometimes appear to be selective in providing TA to certain sectors of their preference rather than in other sectors where capacity needs are important and few donors are involved.
- As mentioned earlier, the absence of prioritized capacity development plans at the sector level is also an impediment to better coordinating and rationalizing technical assistance interventions.

Technical cooperation remains more supply-led than other aid modalities. This contributes to a high level of fragmentation and impedes further harmonization.

Q. What steps are being made by relevant country authorities to identify and communicate clear objectives and strategies for capacity development?

The Foreign Aid Policy and the periodic plan spell out the priorities of government in this regard. The NPC and MoF have issued directives for preparing budgets and programs. These include donors' assisted projects as well. Line ministries also try to convey their priorities and objectives to donors during project negotiations. MoGA has prepared an overarching human resource development plan for the civil service and is supporting the efforts of line ministries to do the same at the sector level, as was planned in the NPPR 2010. Ministry of Health and Population and Ministry of Education are preparing their own HRD Plan, and other ministries are also identified to take part in this exercise.

Q. What are the steps taken by donors to integrate technical co-operation as part of country programmes and co-ordinate support among donors?

In principle, most donors agree to coordinate and integrate under country programs, but the actual operationalization of this commitment has proved difficult. Attempts have been made in the past to coordinate for example, TA to the economic sector, without success. Education and Health SWAp donors agreed to pool all the technical cooperation in the sector but the corresponding mechanism has not yet been materialized. One successful initiative is the Nepal Peace Trust Fund (NPTF), a multi-donor fund that pools resources for capacity-building, among other eligible activities related to peace and reconstruction.

Indicator 5: Use of Country Systems

PD encourages donors to use country systems and procedures to the maximum extent possible. Indicator 5a measures the extent to which donors use national PFM systems when providing funding to the government sector. It measures the volume of aid that uses national PFM systems (budget execution, financial reporting, and auditing) as a percentage of total aid disbursed to the government sector.

Indicator 5b measures the volume of aid, as a percentage of total aid disbursed to the government sector that uses national procurement systems. Survey results of 2011 show no progress on this indicator, with 63% of the funds being processed through national PFM systems, compared to 68% in 2007 and a 2010 target of 76%. The situation has actually worsened for indicator 5b, which measures use of national procurement systems by DPs. Only 35% of disbursements to the government sector made use of these systems compared to 56% in 2007.

Indicator 5a: Use of Country Public Financial Management Systems

The following table shows the use of PFM systems:

Table 3: Use of Country Public Financial Management System

Donor	Aid Disbursed by Donors for Government Sector	Budget Execution	%	Financial Reporting	%	Auditing	%	All Three	%	Average use of Country System (%)
ADB	\$157,042,000	\$157,042,000	100	\$157,042,000	100	\$157,042,000	100	\$157,042,000	100	100
Denmark	\$19,000,000	\$17,000,000	89	\$17,000,000	89	\$11,000,000	58	\$0	0	79
Germany	\$37,550,000	\$21,590,000	57	\$21,590,000	57	\$21,590,000	57	\$21,590,000	57	57
Norway	\$13,030,000	\$20,167,000	155	\$10,167,000	78	\$8,000,000	61	\$8,000,000	61	98
World Bank	\$175,817,712	\$175,817,712	100	\$175,817,712	100	\$175,817,712	100	\$175,817,712	100	100
USAID	\$40,700,000	\$1,100,000	3	\$0	0	\$0	0	\$0	0	1
EU	\$23,800,000	\$23,800,000	100	\$23,800,000	100	\$23,800,000	100	\$23,800,000	100	100
Canada	\$0	\$0		\$0		\$0		\$0		
Finland	\$15,500,000	\$4,700,000	30	\$0	0	\$10,800,000	70	\$15,500,000	100	33
KOICA	\$5,965,552	\$0	0	\$0	0	\$0	0	\$0	0	0
SNV	\$2,208,000	\$0	0	\$0	0	\$0	0	\$0	0	0
SDC	\$21,628,000	\$6,555,000	30	\$6,555,000	30	\$6,555,000	30	\$6,555,000	30	30
DFID	\$67,211,753	\$18,677,058	28	\$26,625,534	40	\$26,647,716	40	\$18,654,877	28	36
Japan	\$63,689,239	\$12,389,228	19	\$12,389,228	19	\$12,389,228	19	\$12,389,228	19	19
GAVI	\$6,660,947	\$0	0	\$0	0	\$0	0	\$0	0	0
Global Fund	\$7,589,630	\$2,356,711	31	\$7,589,630	100	\$7,589,630	100	\$2,356,711	31	77
Australia	\$15,662,000	\$9,048,000	58	\$9,048,000	58	\$9,048,000	58	\$9,048,000	58	58
IFAD	\$3,914,422	\$3,914,422	100	\$3,914,422	100	\$3,914,422	100	\$3,914,422	100	100
UN	\$85,378,204	\$4,197,543	5	\$7,863,415	9	\$7,124,939	8	\$2,779,067	3	7
TOTAL	\$762,347,459	\$478,354,674	63	\$479,401,941	63	\$481,318,647	63	\$457,447,017	60	63

Indicator 5b: Use of Country Procurement Systems

The following table indicates the use of country procurement system while providing the funding to government sector.

Table 4: Use of Country Procurement Systems

Donor	Total ODA for Government	ODA Disburse using Country Procurement System	%
ADB	\$157,042,000	\$157,042,000	100
Denmark	\$19,000,000	\$11,048,000	58
Germany	\$37,550,000	\$21,590,000	57
Norway	\$13,030,000	\$13,030,000	100
World Bank	\$175,817,712	\$0	0
USAID	\$40,700,000	\$0	0
EU	\$23,800,000	\$0	0
Canada	\$0	\$0	
Finland	\$15,500,000	\$4,700,000	30
KOICA	\$5,965,552	\$0	0
SNV	\$2,208,000	\$0	0
SDC	\$21,628,000	\$6,555,000	30
DFID	\$67,211,753	\$29,822,318	44
Japan	\$63,689,239	\$12,389,228	19
GAVI	\$6,660,947	\$0	0
Global Fund	\$7,589,630	\$0	0
Australia	\$15,662,000	\$9,048,000	58
IFAD	\$3,914,422	\$0	0
UN	\$85,378,204	\$492,816	1
TOTAL	\$762,347,459	\$265,717,362	35

Q. Please describe the constraints and challenges placed on donors in making use of partner country's public financial management systems (budget execution procedures, financial reporting procedures, auditing procedures) and procurement system?

Generally, the donors have perceived the process of budget release as slow, the procurement process as cumbersome, with also weaknesses in financial reporting and auditing procedures (significant delays for audit reports). GoN feels that use of national procedures would provide better value for money. Donors have also highlighted the impact of high staff turnover on national PFM capacities, including at the highest levels where stable leadership is lacking for key institutions such as OAG and CIAA.

Other factors include the mismatch between the timing of donor assistance and government budget processes (including the different timing of the fiscal years); the common delays in the disbursement of GoN funds (including aid money) until after the first trimester of its fiscal year; perceived high levels of fiduciary risk due to corruption; and the low capacity of the Government's financial institutions to work efficiently.

However, some of the donors have taken a more constructive approach and agreed to carry out audit according to GoN requirements.

Enactment of the Procurement Act and its Rules and the establishment of the high level PPMO, with ministerial coordination committee chaired by the Chief Secretary, have enhanced the credibility of the procurement system. However, donors' distrust on national procurement system is still constraining their willingness to use it.

Delays, leakages, abuse and substandard works due to intimidation, coercion and collusion among contractors and with authorities have been cited by donors as constraining the use of the new Procurement Act and Rules.

Uneven implementation of the procurement legislation and lack of legal action against those violating the laws still remain as major concerns of the donors to use public procurement systems.

Q. Are procedures currently in place to use country systems beyond general or sector budget support (e.g. project and basket fund modalities)?

Budget support represents an important part of the funds using national PFM systems, but national systems are also used by a number of other projects, mostly funded by the multilateral development banks and a few bilateral donors.

The Procurement Act 2007 and Rules 2007 provide sound procedures for the country procurement systems beyond general or sector budget support.

A great advantage of the Government system is that it is a common standard, applicable nationwide and based on international standards.

Most of the donors within or beyond budget support or SWAp modalities tend to use their own oversight mechanism or IDA procurement guidelines. However, during the survey, many donors responded that they use Nepali procurement legislation for some of their funds.

Q. To what extent are donors making efforts at the country level to implement their Accra Agenda for Action (AAA) commitments to use country systems as a first option, communicate clearly reasons for not using country systems where this is the case, and to review this regularly?

Generally, donors who do not use country systems (PFM or procurement) tend to believe that country systems are ineffective and cumbersome. However, reasons behind not using country system are not always communicated clearly. Perceived level of corruption and weak capacity are often mentioned as main reasons for not using the system.

Donors are divided between a risk-averse approach which does not want to make any use of national systems until they reach their standards and a more incremental approach making use of national systems as part of the strategy to strengthen them. Overall, very little progress has been made toward using country system by donors.

Q. Please describe cases where donors apply safeguard measures.

Examples of safeguard measures applied by donors are:

- WB support in undertaking the PEFA and the Governance and Accountability Action Plans (GAAP) in the Health and Education SWAps;
- Joint Financing Arrangements in those sectors and Fiduciary Risk Assessment (FRA) being used by DFID (UKAID);

- Implementation of general assurances for adequate counterpart funding, and in some cases, cost sharing requirements are also a part of the measures that donors use to safeguard against the misuse of aid resources;
- Separate reporting requirements and auditing of the accounts by independent auditors are examples of donors' safeguard measures; and
- Some donors also conduct diagnostic reviews and country analytic work which helps to inform them about the country situation and the development achievements and gaps.

Both the ADB and WB are working closely with the government to strengthen country procurement systems and country financial systems. These two donors have adopted results-based financing in order to ensure a smooth implementation of the programmes.

Q. Are measures in place to phase these out?

Substantial measures to phase out donors safeguard systems were not noted over the survey period. However, in an effort to phase out donors system, the GoN has tried to accommodate donors safeguard measures into its own system in the past; for example, the Public Procurement Act and Rules reflect most of the standards that are depicted in the IDA procurement guidelines.

Similarly, an annual Nepal Portfolio Performance Review has been institutionalized as GoN's own safeguard measure that potentially reflects the concerns of donors.

GoN has declared its policy stances through various consultations, regular meetings and occasional forums that donors' typical structures in implementation are no more acceptable to the government.

NPPR, Local Donors Meetings, preparatory consultation meetings for the NDF, policy dialogue, and multi-stakeholder consultations during PD monitoring survey and PD evaluation are some of such forums calling donors to avoid following their own procedures and join the government system.

In the process of institutionalizing donors safeguard measures, GoN took the lead to make them common or joint. For example, the Government and the WB in consultation with the larger donor community conducted the 2002 country financial accountability analysis followed by assessment of the PEFA benchmark in 2008. The survey showed that the stand-alone donor structures initially adopted as safeguard measures are gradually being collectivized among donors and the GoN and internalized by the GoN in form of its own measures.

Indicator 6: Avoiding Parallel Implementation Structures

The intent of this indicator is to see progress toward strengthening local capacity for planning, implementation, and accountability to a country's citizens and parliament. This indicator measures progress through the reduction in parallel PIUs – those which are created outside the existing structures of national implementation agencies. There is strong evidence that parallel PIUs tend to undermine national capacity building efforts, distort salaries and generally confuse accountability for development. In this context, the Paris Declaration encourages donors to “avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes.”

Indicator 6 is a count of the number of parallel PIUs being used in Nepal.

Table 5: Parallel Implementation Units (PIUs)

Donors	Parallel PIUs (No)
ADB	0
Denmark	1

Donors	Parallel PIUs (No)
Germany	0
Norway	0
World Bank	0
USAID	18
EU	1
Canada	3
Finland	5
KOICA	0
SNV	0
SDC	10
DFID	9
Japan	0
GAVI	0
Global Fund	0
Australia	2
IFAD	0
UN	19
TOTAL	68

The overall trend for this indicator has been positive over the past three years, with a reduction of the number of parallel PIUs from 106 in 2007 to 68 in 2010, in a context where the total volume of aid to the government sector increased significantly (+65% compared to 2007). The 2010 target of 64 parallel PIUs is almost reached.

The increase in the number of SWAs and the move away from traditional project-based approaches have been slower than initially planned and may explain why progress has been slightly below target. However, the trend remains encouraging and illustrates efforts on the part of most donors to better coordinate among themselves and/or better align with national management systems.

Q. For which reasons are parallel PIUs established?

The traditional project approach helped donors to measure success by establishing relationship between input and output, for which PIUs worked as focused institutions. They are also instrumental in insulating the project from the functions and dysfunctions of the country systems. It also helps donors or local counterparts to maintain full control over the project activities.

PIUs are established in Nepal mainly due to lack of trust of donors towards government capacities, institutions and country systems. Donors also feel that they safeguard their money from perceived fiduciary risks if implemented through PIUs. They can avoid lengthy bureaucratic procurement procedure and disburse funds faster through PIUs

As there are difficulties to pay top-up salary under the government system, PIUs can attract experts working with private or government sector by topping up their salary. Some line ministries also support PIUs because they find perverse incentives, like lucrative salary, facilities, foreign trips opportunities etc.

Q. What steps, if any, are being taken by both donors and governments to***(i) Avoid creating new parallel PIUs***

Government and donors have adopted various capacity development measures to support management of the development programmes in different ministries (in particular where SWAp is adopted or envisaged).

NPC and MoF have been trying time and again to convince the donors to opt for PIUs only where national capacity is not possible. The Foreign Aid Policy confirms GoN's policy shift from a project-based to a programmatic approach. The drafts of the National Aid Effectiveness Action Plan also reflect this shift.

Government staffs were hired by some of the development projects to work for PIUs in the past. There was also a trend to bring deputed government staff in PIUs and pay top-up salary for their motivation. GoN policy against salary top-ups discourages donors from diverting human resources from within the government system

(ii) To phase-out parallel PIUs and/or mainstream PIUs into national structures

The number of PIUs decreased after the adoption of SWAp in the education and health sector. Also, there have been some instances where donors moved to PIUs that are more integrated with the government system rather than continuing with parallel PIUs. This has happened, for example, in the energy sub-sector, peace & reconstruction, local development and the agriculture sector where several donors have joined together with the government taking the lead.

The phasing out of PIUs primarily requires a transition from the current project-focused support to sector-wide approaches and intensive support for developing the capacity of government agencies based on consistent and pragmatic capacity development plans.

Indicator 7: Aid is more Predictable

The objective of the PD is to gradually close the predictability gap so that aid is increasingly disbursed according to agreed schedules, and comprehensively recorded in country's accounting systems. Indicator 7 examines in-year predictability of aid to the government sector, measuring the proportion of planned disbursements (as reported by donors) that are recorded by government in the national accounting system as actually disbursed. Indicator 7 assesses predictability from two angles. The first angle is the combined ability of donors and government to disburse aid on schedule. The second is the ability of donors and government to record comprehensively disbursements made by donors to the government sector.

The following table shows in-year predictability of aid to the government sector.

Table 6: In-Year Predictability in Government Sector

Donor	Disbursement Recorded by Government in FY 2009/10	Aid scheduled by Donors for Disbursement in CY 2010	%
ADB	\$93,322,756	\$107,457,000	87
Denmark	\$8,800,030	\$18,300,000	48
Germany	\$9,963,105	\$31,660,000	31
Norway	\$2,857,875	\$14,110,000	20
World Bank	\$145,496,168	\$175,200,000	83

Donor	Disbursement Recorded by Government in FY 2009/10	Aid scheduled by Donors for Disbursement in CY 2010	%
USAID	\$384,760	\$40,700,000	1
EU	\$193,832	\$22,500,000	1
Canada	\$0	\$0	
Finland	\$2,411,669	\$17,000,000	14
KOICA	\$12,833,910	\$5,500,000	233
SNV	\$644,609	\$0	
SDC	\$1,415,288	\$18,113,000	8
DFID	\$27,385,994	\$16,525,946	166
Japan	\$21,086,354	\$63,689,239	33
GAVI	\$2,709,386	\$11,257,445	24
Global Fund	\$1,738,118	\$3,019,224	58
Australia	\$5,172,289	\$13,314,000	39
IFAD	\$6,162,272	\$6,000,000	103
UN	\$19,820,732	\$99,214,567	20
TOTAL	\$362,399,147	\$663,560,421	55

Note: FCGO is not in a position to provide exact calendar year estimates for this indicator. GoN figures are estimates based on fiscal year reports. This indicator should thus be interpreted with care, especially for EU and SDC where disbursement to GoN seem to be underestimated.

Development assistance represents a major source of revenue for the GoN, contributing to 29% of the national budget for fiscal year 2010/11 (and 50% of capital expenditures). It is therefore essential for the Government to be able to accurately predict the volume and timing of aid disbursements, as part of the development planning and budgeting process. Although the Paris Declaration and Accra Agenda for Action call very specifically for multi-year predictability, this indicator has a more modest objective and measures only in-year predictability, by comparing donor planned disbursements with the actual disbursements recorded by the Government.

This indicator has seen marginal progress since 2007, as the aggregate predictability ratio went from 47% to 55%, below the 2010 target of 65%. The average ratio per development partner also marginally increased from 32% to 34%.

However, this apparently slow progress should not be taken at face value, for the following reasons:

- As mentioned under indicator 3 (aid on budget), technical assistance and NGO-executed projects, even if in support of the Government sector, are not usually reflected on budget, as per the policies established by the MoF. These projects are reflected in a separate document (Blue Book), which is not taken into account for the calculation of this indicator. For those DPs with a portfolio focused mainly on technical assistance (such as the UN for example), planned disbursements will in most cases be reflected in the Blue Book, rather than the national budget. In the case of Nepal, levels of predictability would be higher if this indicator did not focus solely on the national budget.

- An analysis of in-year predictability in donor systems seems to confirm the above statement: according to donor figures, almost 93% of all aid to the Government sector scheduled for calendar year 2010 has effectively been disbursed. This indicates that discrepancies are not linked to significant delays in project implementation, but rather to issues related to aid information management.

Multi-year commitments have increased with the sector programmes in health, education and local development. At country programme level, there are again multi-year indicative levels of support in country strategies, which, though formally agreed, are not seen as binding commitments. However, disbursement according to these commitments is generally forthcoming. Multi-year predictability remains an issue mostly for bilateral donors.

Q. Please list the main reasons where there are gaps between

(i) Estimated aid disbursements recorded in the annual budget by the Government and actual disbursements received by the Government from donors

The gap between the estimated disbursement recorded in the government budget and the actual disbursement received by the government (around 50%), may be partly due to conditionality issues. Donors' complicated and uncoordinated reporting requirements and disbursement processes also sometimes contribute to these delays, as well as conditionalities.

It should also be noted that one third of all on-budget aid to Nepal does not actually flow through the national treasury. It is difficult for GoN to get accurate figures on disbursements made by the donors against these budget lines, and this contributes to artificially widening the gap between planned and actual disbursements.

(ii) Donor estimated disbursements to the Government sector and actual disbursements recorded in the donor's system.

Data shows that there is not much difference between donor plans and expenditures. This seems to confirm the above statement that one important issue is accurate reporting of all disbursements in Government systems. Donors' own systems seem to record a much smaller gap between plans and actual disbursements.

Q. What efforts are being made by the government to?

i) Meet the various requirements (administrative, technical, financial, etc.) for timely execution of projects and disbursement of funds

GoN has introduced various measures for the timely execution of projects and disbursement of funds:

- Introduced Foreign Aid Policy in 2002 and prepared a draft revision, in consultation with different stakeholders, to accommodate the recent principles of aid effectiveness;
- Initiated drafting of a joint NAP for aid effectiveness to ensure effective and efficient management of aid through applying best practices;
- Budget reform, for example - development and assessment of PEFA benchmarking, introduction of MTEF, results-chain, enhanced transparency through standardized classification of budget and standard coding, computerization of budget process through BMIS, mid-term budget review, thematic budget (gender responsive, pro-poor etc);
- Several reform initiatives have been taken to improve public financial management system, procurement system and other country systems, as detailed under Indicator 5;
- Brought about significant changes in revenue administration to ensure better mobilization of internal resources for development and reduce aid dependency;

- Introduced national and district level PMAS for effective monitoring of the periodic plan;
- Efforts of the NPC and MoF are underway to bring more assistance through the budget system including advocacy to donors; and
- The Government-led NPPR has identified challenges for project implementation and guidelines. Accordingly, GoN has implemented action plans with concerned line ministries to improve project performance and accelerate disbursement of funds.

ii) Fully capture disbursements in its accounting systems?

Government has promoted JFA through adopting programme based approaches in education, health, peace building and local development sectors where donor funding is channelled through the government budgetary system; discouraged off-budget funding through policy, action plan and advocacy; and developed/installed an AMP at MoF for better management of aid and recording of all disbursements regardless of the modality.

Q. To what extent do donors provide full and timely information on annual commitments and actual disbursements?

Some donors, particularly multilaterals - the WB and ADB provide timely information on annual commitment and disbursement. They provide a progress monitoring matrix as well as a disbursement matrix on a monthly basis.

The others provide partial information on commitments and disbursements. Many bilateral donors provide their tentative financing plan at the time of agreement through the project document that can be taken as their planned budget, but no disbursement plan and progress. Some donors provide disbursement information only upon demand, for example during the time of this survey or similar type of studies. Figures shown in the financing plan are estimates and do not reflect actual schedule for disbursement.

It is also difficult to get information about the commitments and disbursements made by donors to non-government sectors.

Q. To what extent are donors delivering on their AAA commitment to provide rolling three-to-five year expenditure and/or implementation plans?

The AAA commitments are never explicitly mentioned in signed agreements.

Donors joining SWAp have started to prepare medium term rolling expenditure plan but without clear linkages to the government. Other donors do not prepare such medium term rolling plan. Government encourages donors to align with MTEF.

In 2011, the Government of Nepal is giving online access to donors for the Aid Management Platform, a national, online database on ODA, which will include information on both on and off-budget projects. This database will significantly contribute to better transparency and predictability, in particular through the following features:

- Rolling three-year projections on disbursements will be required for all projects and updated on an annual basis; and
- Regular reporting on actual disbursements will be required both for on and off-budget projects.

The quality and timeliness of DP reporting should be more easily monitored through this new system, for which donor access will be operationalized in the first half of 2011.

This new source of data will also allow for comparison between DPs' planned disbursements and the projections of DP disbursements that line ministries provide annually to the MoF. If

significant discrepancies appear between Government and DP projections, this will signal the need for discussions on absorption capacities and realistic implementation schedules.

Q. What are the challenges experienced with this?

- Donors have to wait for their own country policy, strategy, budget allocation and parliamentary sanction.
- Half of the capital expenditure comes from donors and government has to rely on donor funds for its development interventions, with little medium-term visibility.
- MTEF has to be followed both by donors and government. It must encompass all of the development expenditure - both internal and external resources.
- Harmonization of government and donor rolling expenditure plan cannot be meaningful unless they harmonize their development strategies/plan. Political interest also influences the size of budget every year irrespective of the availability of fund. GoN has to establish a consistent accounting system to record final expenditures, based on the date of delivery.

Indicator 8: Aid is increasingly untied

Aid is said to be “tied” when it is provided on the condition that Nepal will use it to purchase goods and services from suppliers based in the donor country.

Most aid is now untied, with the exception of a few bilateral donors who still maintain high levels of tied aid. For example aid in the education sector SWAp is untied as it follows WB procurement processes.

Nevertheless, Export-Import Bank loans have remained tied.

Q. What efforts are being made by donors at country level to untie aid?

- The budgetary support provided (except for food aid) by bilateral and multilateral donors is untied;
- More and more donors are moving to a programmatic approach and their strategy for Nepal mention their willingness to respect the principles of aid effectiveness;
- In Education and Health SWAPs, both pooling and non-pooling partners are untied and the size of pooling partners in both the sectors has expanded in the year 2010. For example, ADB, AusAid, EC and UNICEF joined the education sector JFA, and USAID and GAVI have initiated the process to join the health sector JFA; and
- Government and Nepali civil society have been advocating the need to untie aid after the introduction of the principles of aid effectiveness. More advocacies would enhance the understanding of DPs and local stakeholders about good practices in aid delivery and management.

However, high levels of aid dependency sometimes force the government to accept conditions including tying of aid.

3.3 Harmonization

Harmonisation of aid delivery procedures and adoption of common arrangements help reduce duplication of effort and lower the steep transaction costs of managing aid. The Paris Declaration focuses on two dimensions of aid as proxies for assessing overall harmonisation: i) the use of common arrangements within PBAs, and ii) the extent to which donors and partner countries conduct joint missions and share analysis.

Indicator 9: Use of Common Arrangements or Procedures*Q. Please describe what use is currently being made of Program Based Approaches (PBAs)***Table 7: Use of Common Arrangements or Procedures**

Donor	Budget Support (a)	Other PBAs (b)	Total c=(a+b)	Total Aid Disbursed (d)	e = c/d
ADB	\$29,871,000	\$0	\$29,871,000	\$157,042,000	19
Denmark	\$18,530,000	\$3,210,000	\$21,740,000	\$30,000,000	72
Germany	\$1,890,000	\$10,420,000	\$12,310,000	\$37,730,000	33
Norway	\$0	\$13,030,000	\$13,030,000	\$38,010,000	34
World Bank	\$0	\$62,790,000	\$62,790,000	\$175,817,712	36
USAID	\$0	\$21,700,000	\$21,700,000	\$40,700,000	53
EU	\$20,600,000	\$0	\$20,600,000	\$32,000,000	64
Canada	\$0	\$3,882,400	\$3,882,400	\$4,739,702	82
Finland	\$0	\$4,700,000	\$4,700,000	\$15,500,000	30
KOICA	\$0	\$0	\$0	\$6,661,652	0
SNV	\$2,208,000	\$3,094,000	\$5,302,000	\$5,896,000	90
SDC	\$2,877,000	\$8,560,000	\$11,437,000	\$24,368,000	47
DFID	\$21,691,042	\$3,337,299	\$25,028,341	\$94,728,485	26
Japan	\$6,836,828	\$268,000	\$7,104,828	\$64,335,175	11
GAVI	\$0	\$0	\$0	\$6,660,947	0
Global Fund	\$0	\$7,589,630	\$7,589,630	\$18,989,910	40
Australia	\$9,048,000	\$0	\$9,048,000	\$16,184,000	56
IFAD	\$0	\$0	\$0	\$3,914,422	0
UN	\$248,787	\$12,934,013	\$13,182,800	\$101,581,187	13
TOTAL	\$113,800,657	\$155,515,342	\$269,315,999	\$874,859,192	31

The use of PBAs was relatively limited in Nepal in 2007, with only 23% of total aid being channeled through these modalities. In this context, the target of 66% set by the Paris Declaration seemed over-ambitious. Good progress has been achieved since 2007, with 31% of aid now being channeled through PBAs.

The number of PBAs has not increased as much as initially envisaged because of lack of decision of the government to adopt PBA. Progress recorded under this indicator thus reflects higher levels of DP investment in the existing Health and Education SWAp, and a few more recent PBAs such as local development, or peace and reconstruction, rather than a significant expansion in the number and scope of PBAs in Nepal.

At sector level, Health and Education SWAp use PBAs, with ministries leading sectoral/thematic donor meetings. In education, this also includes initiatives to better coordinate off-budget aid. Donor forums are facilitating for aid effectiveness in almost all the sectors.

PBAs are a priority of the Government. Donors responded positively to the request of the government to support PBA. For example, the DP forum, functional for the two SWAp in education and health, communicates with the GoN on behalf of the DPs supporting the SWAp.

Donors have signed a code of conduct to behave in line with the program based approach in the education sector.

Donors and GoN signed JFAs in health, education, peace building and local development sectors, which help all to adopt a common financial framework and other common arrangements in line with the PBA. Discussions are ongoing over possible adoption of a PBA for irrigation, forestry, agriculture, energy sectors and so on.

Q. What are the challenges in channeling a greater proportion of aid in support of PBAs?

The major challenges in channeling a greater portion of aid in support of PBAs are:

- Political instability weakened the GoN capacity to lead and own including limited capacity of the government to formulate country-owned PBAs.
- Lack of incentives for donors and the government to take a more harmonised approach.
- Concrete measures not adopted by the government to institutionalise the PBAs.
- Mandate of country offices of donors in Nepal in regard to working style is guided and controlled by headquarters which restricts the ability of some bilateral donors to fully participate in PBAs in Nepal.

Q. To what extent have country authorities taken a lead in promoting the development of PBAs?

Country authorities have shown strong willingness to lead and promote PBAs in Nepal, for example the Three Year Plan, the Foreign Aid Policy and other sectoral policies clearly spell out the intention of Nepal to mobilize foreign aid through PBAs as much as possible.

There is strong commitment to expand use of the PBAs by increased number of donors in the health and education sectors, and adopt PBA in other sectors where SWAp has not yet been introduced.

Indicator 10a: Joint missions

The following table shows the coordinated donor missions:

Table 8: Coordinated Donor Missions

Donor	Total Number of Donor Missions (a)	Total Number of Coordinated Donor Missions (b)	c= a/b
ADB	43	10	23
Denmark	10	5	50
Germany	12	9	75
Norway	4	0	0
World Bank	92	39	42
USAID	5	4	80
EU	10	0	0
Canada	4	0	0
Finland	10	3	30
KOICA	7	0	0
SNV	0	0	

Donor	Total Number of Donor Missions (a)	Total Number of Coordinated Donor Missions (b)	c= a/b
SDC	2	0	0
DFID	8	5	63
Japan	12	0	0
GAVI	2	1	50
Global Fund	7	1	14
Australia	9	8	89
IFAD	5	0	0
UN	99	26	26
TOTAL	341	111	33

Indicator 10b: Joint Country Analytic Works

The following table shows the joint country analytic works:

Table 9: Coordinated Country Analytic Works

Donor	Total Donor Analytic Works (a)	Coordinated Donor Analytic Works (b)	c= a/b
ADB	5	1	20
Denmark	1	1	100
Germany	13	8	62
Norway	0	0	
World Bank	4	1	25
USAID	13	13	100
EU	0	0	
Canada	1	0	0
Finland	2	0	0
KOICA	0	0	
SNV	0	0	
SDC	0	0	
DFID	2	0	0
Japan	0	0	
GAVI	0	0	
Global Fund	3	1	33
Australia	2	2	100
IFAD	2	0	0
UN	50	35	70
TOTAL	98	62	63

Donor harmonization of missions and analytic work has improved since 2007.

The total volume of aid has increased by over 40% over that period, and the total numbers of missions has followed the same trend, while the number of analytic works commissioned by donors has remained stable.

The proportion of coordinated missions has increased from 23 to 33%, and the proportion of coordinated analytic works has increased significantly, going from 28% to 63%. This reflects increased efforts on the part of donors to harmonize their activities whenever possible, and is also consistent with the progress registered under Indicator 9 on PBAs.

Significant differences remain between DPs, with several bilateral reporting no or very few coordinated missions or analytical works.

Q. Please describe what efforts are being made to rationalise and improve co-ordination of donor missions?

Various joint mechanisms, such as JFA, code of conduct, joint annual reviews (JAR), joint periodic monitoring and evaluation, joint missions are developed by donors to further strengthen their harmonized approach in the health, education, peace and local governance sector.

However, joint assessments and reviews are more ad hoc in other sectors. Again for the SWAPs, the JARs relate to mutually agreed conditions which are becoming more focused. These are set out in the respective JFA signed by pooling DPs, and can be considered as mutually agreed conditions. JARs are carried out twice a year - one prior to the sectors' budget formulation exercises to provide inputs into it, and one after the end of the fiscal year after progress and audit reports are submitted. JFA type agreements, beyond project level agreements, have not been introduced more widely.

Q. Please describe what mechanisms are available to rationalise and co-ordinate country analytic work, either by theme, sector, or other?

Common analysis is becoming more frequent at sector level. In addition to the joint strategic planning in the health and education SWAP and in local development, there has been joint analysis by DPs and with GoN in respect of roads and rural infrastructure. DPs have come together for joint analysis across sectors as well. The World Bank at local level has started to work with the government team for the exercise of Country Policy Institutional Analysis (CPIA).

The United Nations agencies in Nepal carry out their common country assessment (CCA) exercise to assess the country situation. The 2006/07 CCA led to the United Nations Development Assistance Framework (UNDAF - 2008–10).

The one area where there has been shared country assessment is the Peace Fund for Nepal where UNDP acts for all UN agencies and several bilateral DPs, complementing GoN's own Peace Trust Fund. In addition, many donors jointly contributed to the strategic analysis for peace and reconstruction by developing a Peace and Development Strategy (2010), as an input for GoN's strategic planning in this area.

As observed in the 2008 monitoring survey, these exercises tend to be one-offs due to the regular turnover of expatriate staff and still there are no established practices and institutional mechanisms among donors that demonstrate a strong willingness to further rationalise and co-ordinate country analytic works.

Unfortunately sharing of country analytic works and policy discussions are often not followed by coordinated implementation.

3.4 Managing for Results

Results-based management focuses on outcomes and impact rather than inputs and processes, in order to deliver programmes that are more responsive to the needs of beneficiaries.

Indicator 11: Results-oriented frameworks

Q. What progress has been made, and what are the challenges remaining, in operationalising results-oriented frameworks?

MfDR has changed the way in which programmes are designed and delivered. The Tenth Plan/PRSP incorporated a results framework in planning for the first time in Nepal. The Three Year Interim Plan also incorporated it with improvements.

The NPC has published Results-based Monitoring and Evaluation Guidelines in December 2010 wherein a framework for managing for results and results-based monitoring and evaluation is spelled out.

Concurrently, all sector ministries are preparing results-based frameworks for the Three Year Plan (2010/11 – 2012/13). The frameworks will be used by the NPC in the TYP, for which an Approach Paper has already been published in 2010.

The NPC is the central coordination agency for the overall monitoring of the periodic plans. Planning/Monitoring & Evaluation Divisions of sector ministries are responsible for monitoring at sectoral level.

The PMAS at national level, and the District Poverty Monitoring and Analysis System at district level have, since 2003, improved performance assessment and expenditure tracking. PMAS initiated a shift from an input to an outcome focus, but the system has not been used to its full potential after 2006. It is currently being revived.

Outcome and Impact level indicators of the TYP contribute to the Millennium Development Goals. Most of the MDG targets are included in the TYP. The NPC's Poverty Monitoring Section prepares Millennium Development Goal progress reports (2010 report already published).

There are various technical working groups within the NPC, and a few in line ministries that are working to find ways of sustaining development achievements and results. ADB is supporting the mainstreaming of MfDR in Government.

Collection and reporting of disaggregated data on gender and socially excluded groups is improving, through, for example, the Health and Education Management Information Systems (HMIS, EMIS) and Census Reports.

However, the Results-based Monitoring Framework for the TYIP has not been prepared and implemented. More traditional processes and output monitoring have been used in reviews by NPC and the sector ministries. Use of the recently promulgated Results-based Monitoring and Evaluation Guidelines might improve the results orientation of the monitoring system.

Data Source	Frequency
Population Census	10 years
Household Consumption Survey	10 years
Gross Domestic Product	Every year
Nepal Demographic Health Survey	5 years
Poverty Survey	Every 5 to 7 years
Labour Survey	Every 5 to 7 years
Agriculture Survey	Every 10 years

Performance based payments, particularly in tax administration, have produced good results and gained visibility within the country as a strong results-based performance tool. Other sectors have also started to develop indicators with a view to adopting performance based incentives systems.

Major challenges in the implementation of managing for results in Nepal include: lack of knowledge on results-based management & monitoring/evaluation, developing a human resource development plan on results-based management, resource constraints, inadequate electronic

infrastructure and power shortages as an obstacle to massive computerization, and lack of a robust data management system.

Several information management systems are funded by donors. For example the Education Management Information System (EMIS) within Ministry of Education, the Health Management Information System (HMIS) within Ministry of Health and Population, Nepal Food Security Monitoring and Analysis System within Ministry of Agriculture and Cooperatives, the Poverty Monitoring and Analysis System (PMAS) and District Poverty Monitoring and Analysis System (DPMAS) in NPC and districts. However, DPMAS is not yet functional.

3.5 Mutual Accountability

Aid is more effective when both donors and partner country governments are accountable – to their respective publics and to each other – for the use of resources and management to achieve development results.

Indicator 12: Mutual Assessment of Progress

Q. If a mutual assessment of progress has been conducted in your country, what are the key features of this mutual assessment? Has it resulted in changes in approaches to development co-operation?

Local Donors Meeting being held regularly at Ministry of Finance has been one of the fruitful mechanisms enhancing mutual accountability. Moreover, there have been some mutual assessments of progress, particularly through the NPPR exercise, which initially focused on four donors but is now being expanded. However, the NAP on aid effectiveness has not yet been fully endorsed due to the political transition, and there is no mechanism to regularly follow-up on commitments made in the draft plan. This forum for mutual assessment of progress could be structured around NPPR and NAP (under progress). With regard to specific donors, periodic joint reviews and assessments of the ADB funded projects are being conducted annually. With respect to WB funded projects, the line ministries now host periodic joint reviews so that issues of implementation will be jointly identified and resolved. The Health and Education SWAps conduct mutual assessments of progress through JAR.

Q. To what extent are other stakeholders (parliament, local government, CSOs...) involved in the process?

Parliament and civil society are not found to be involved in the progress review in systemic way. Local government is involved in local level progress review.

Q. If a mutual assessment of progress HAS NOT been conducted in your country, were efforts undertaken to implement one?

Since GoN has adopted a policy of harmonization through its Foreign Aid Policy, 2002, efforts to carry out mutual assessment of progress have been made. Periodic Nepal Development Forums have also been carrying out mutual assessment of progress at a higher level through wide discussions on thematic/sectoral status paper.

GoN is currently working to amend the Foreign Aid Policy so as to better reflect aid effectiveness principles and the corresponding NAP. A preliminary revision was presented and discussed with stakeholders at a pre-consultation session of the Nepal Donors Consultation Meeting in February, 2008.

However, more efforts are required on both sides to find a constructive way to engage each other on issues where GoN and donor analyses do not coincide, and agree jointly on a way forward.

3.6 Aid Fragmentation

Several coordination mechanisms adopted by the government and supported by donors have contributed to better donor alignment and harmonization in the social sectors and around aspects of governance and poverty reduction. However, practices vary widely between donors and aid in Nepal remains relatively fragmented. As illustrated by the OECD fragmentation analysis, fragmentation has increased over the past few years, as the volume of ODA allocated to Nepal also increased.

In the health and education sectors, volumes of ODA and the number of donors has increased, but the transaction costs have remained under control because of the adoption of SWAPs and pooled funding mechanisms. The number of pooling partners in health and education has increased in 2010. The same is true in the area of local governance where the Local Government and Community Development Programme (LGCDP) brought together a large group of donors in 2008 to support local government. This replaced a variety of earlier programmes and has brought more coordination, though the continued funding of non state interventions at district level and below contributes to fragmentation at local level.

Q. What actions have been undertaken or are planned to reduce the fragmentation of aid and improve the complementarity of donors' efforts and division of labour at the country level?

GoN clearly has indicated its preference for programme-based approaches and small and fragmented projects are discouraged.

The new draft of the Foreign Aid Policy introduces the notion of a minimum threshold for grants except for pool funds, and areas where loans can be utilized have also been identified. However, this has not yet been endorsed.

Donor mappings have been conducted and this is now being systematized through the implementation of the AMP, but this information has not yet been used for discussions on division of labour. Some donors have used previous mappings for the development of their new country strategies.

The WB, ADB and DFID (UKAID) conducted joint multi-stakeholder consultations for drafting their respective country strategies for Nepal. This process identified areas where assistance

could be redeployed based on the agencies' respective comparative advantages. This consultation and redeployment process has continued, as country strategies have evolved.

Q. What evidence is there that such actions are achieving results?

Solid evidence of results were not found during the PD monitoring survey, reflecting the very early stage of discussions on fragmentation and division of labour in Nepal.

This is confirmed by the OECD fragmentation analysis, showing rather worrying trends in terms of aid fragmentation in Nepal.

Q. What are the challenges faced in improving complementarity and division of labour at the country level?

Scandinavian and European donors usually put more emphasis on complementarity and division of labour in their operations.

One of the rare examples of good practice was the merger of Danish and German support in the revenue administration sector.

Joint work and harmonization are now happening on a larger scale, but effective division of labour, including delegated cooperation arrangements and silent partnerships, is not yet well developed. Overall, a redeployment of donors' assistance based on their respective comparative advantages has not yet happened. Stronger GoN leadership on this issue may be required to facilitate the division of labour process and integrate government's views on donors' respective strengths and weaknesses.

3.7 Conditionality

One indicator of the level of confidence in country systems is the perception of conditionality as a vehicle for setting benchmarks for system performance or imposing external procedures. For some DPs, accountability implies a return to conditionality whilst from a Nepalese perspective it is often seen as constraining national ownership.

Q. What progress has been made in agreeing on a limited set of conditions drawn from the country's national development strategy?

As the nature of conditionality has been changing from policy prescriptions to process conditionality as articulated in the Paris Declaration and Accra Agenda for Action, conditionality became a matter of concern for donors as well as for GoN. Donors are found to be alert about agreeing on limited and streamlined conditionalities as much as possible. However, no specific efforts or initiatives were made by donors to agree on limited set of conditionality during the survey period

In the Health and Education SWAp, donors limited the set of conditionalities, but they tactfully included their concerns in the form of the GAAP, which is a means for systems strengthening rather than conditional aid.

Q. What are the challenges faced?

Conditionality cannot be easily abolished, but they can be streamlined and reduced. Conditionalities now tend to take different shapes.

Q. What progress has been made and challenges are faced in regularly making public all conditions linked to disbursements at the country level?

Measures adopted by the government to make all conditionalities public are:

- Each and every foreign loan and grant project document is forwarded to the cabinet for making decision before reaching an agreement.
- Each and every foreign loan and grant agreement ceremony is conducted in front of the press and a press release is put on the website of the MoF.
- A press release is issued and circulated to the major mass media on the same day the agreement is signed.
- All the conditionalities attached to the loan and grants are being made public and civil society can discuss the costs and benefits of the agreement.
- In addition, with implementation of the Right to Information Act being rolled out in government, most ministries have their own web site where information about development projects is disseminated and a wide range of documents is posted to facilitate public access.

Specific challenges associated with the dissemination of the conditionality were not noted during the survey. Greater transparency and accountability to the public have helped to improve the quality of aid and its management in Nepal.

4

Recommendations

Many of the recommendations highlighted below are included in the draft National Action Plan on Aid Effectiveness, and already assigned to a lead GoN agency or donors. Some of the additional recommendations could be included in a revised draft of the NAP, with clear timelines and responsibilities.

4.1 Ownership

The momentum created around the **consultative and participatory approach for the formulation and monitoring of the development plans should be maintained**, including the focus on gender and inclusive ownership issues, where Nepal has made significant achievements. While the systems and procedures are relatively well established, efforts now need to **focus on developing capacities for effective and broad participation in planning and monitoring**, in particular at the local and community level.

The details of the Three Year Plan should be finalized and the **full Three Year Plan published as soon as possible**.

GoN capacities also need to be strengthened, so that the **links between the national plan, sector strategies, local strategies, MTEF and the national budget become effective** and operational.

A special effort should be made to **develop bottom-up accountability mechanisms** for monitoring, expenditure tracking, and evaluations.

4.2 Alignment

The ongoing reforms for improvement of national PFM and procurement systems should continue focusing on improvement of PFM benchmarks. This should include among others PFM training for key staff, timely conduct of audits and publication of the Auditor General's report. **However, PFM reform should not be limited to a technical or bureaucratic approach**. Wider issues related to the institutional and political context need to be addressed, including incentives working against the reform agenda.

An increased focus on building capacity at the institutional level is also required, looking at issues such as high staff turnover and performance-based management.

The current draft of the Foreign Aid Policy should be discussed with donors and adopted soon.

GoN and donors should **take full advantage of the new Aid Management Platform to improve the recording of ODA-funded projects and monitor donor compliance with their transparency commitments** under the Paris Declaration and Accra Agenda for Action. This should include timely sharing of information on commitments (on and off-budget), planned disbursements (rolling estimates for next 3 fiscal years) and actual disbursements. Regular reports should be issued, showing data quality for each development partner.

There is much scope for **better coordination and alignment of technical assistance**. Line ministries should take the lead, with support from key donors, to develop clear capacity development strategies, map technical assistance in their respective sectors and put in place mechanisms for joint review and approval of any new technical assistance, to ensure alignment with the Capacity Development (CD) strategy. Where possible, pooling of technical assistance should be encouraged, starting with effective pooling mechanisms in education and health.

GoN and donors should agree on **mutual commitments regarding use of national systems** as key milestones in PFM and procurement reform are met, individual donors should make specific commitments to increase use of national procedures.

Donors should discourage the use of parallel PIUs and systematically review alternative options during project design and negotiations. Where capacities are found to be weak, clear capacity development actions need to be specified, with an exit strategy and timeline to hand-over project management to a national agency. Donors should include the CD strategy inbuilt in the projects.

GoN should strengthen and stabilize the MTEF process, including credible projections for external aid and credible estimates of expenditures (norms for unit costing to be improved). This in turn requires donors to systematically provide estimates of disbursements for the next three years, through the Aid Management Platform.

GoN should continue **advocacy efforts for untying of aid**, linked to the adoption of the revised Foreign Aid Policy.

4.3 Harmonization

GoN and donors should accelerate the roll-out of PBAs to identified sectors (agriculture, rural water, rural roads, and alternative energy), and facilitate knowledge-sharing between sectors on best practices and challenges in the implementation of PBAs. Where sector coordination capacities are low, these needs should be included in capacity development strategies and prioritized for donor support.

GoN and donors should put in place **appropriate procedures and trainings for more effective national leadership of donor missions and analytical works** (scheduling in line with GoN priorities, maintain policy stance on joint missions and analytical works, ensure GoN officials are fully engaged, transparency on the process and final product).

4.4 Managing for Results

GoN should prioritize training and review of incentive systems to make the existing results-based management framework a reality in the day-to-day work of GoN officials, and significantly improve quality standards.

Government and Donors should make conscious efforts to shift their attention from process to results through implementation of **information management systems supporting a results-based process** (PMAS, DPMAS, AMP for foreign aid, results-based budgeting and performance based incentive system), with a clear alignment with the Three Year Plan.

4.5 Mutual Accountability

While maintaining existing best practices (SWApS, NPPR), efforts should be made to put in place a **more regular mechanism, at the technical level, for interaction between GoN and donors on aid effectiveness issues**. This mechanism should be built around an updated NAP on

Aid Effectiveness, and should allow for regular interaction between Government and DPs on aid effectiveness. Civil society representatives should also be invited at least twice a year to those meetings.

GoN and donors should encourage to develop professional monitoring and evaluation capacities within GoN to avoid asymmetry of information during mutual reviews, and continue to train staff from key ministries on the aid effectiveness agenda and concrete priorities in Nepal.

GoN should publish aid information on MoF website and make wide use of Aid Management Platform

4.6 Aid Fragmentation

In order to gain a full and consensual understanding of the scope of the fragmentation issue, a **comprehensive donor mapping** (sectors, geographic location, size and number of projects) should be conducted, building on previous exercises and taking advantage of the new Aid Management Platform.

In addition to the policy stance expressed in the Foreign Aid Policy, MoF should take the lead to initiate a **division of labour exercise**, asking donors to look at their comparative advantages, encouraging pooling of funds and delegated cooperation to avoid dispersion, reduce transaction costs and increase the average size of projects. **Donors should come up with a concrete plan to operationalize division of labour over the medium term, as their respective country strategies are being renewed.**

GoN should improve the **project prioritization process**, with a project bank and clear, needs-based criteria for prioritization.

4.7 Conditionality

Donors should **reduce and streamline conditionality** as far as possible to enhance ownership and leadership of GoN.

GoN should analyze the costs and benefits of conditionalities and should not accept the conditionalities that cannot be complied with in the first stages (no later than phase of negotiation if it is a loan).

Annex 1: Optional Module on Gender Equality

GENDER EQUALITY INDICATOR 1: GENDER EQUALITY AND WOMEN EMPOWERMENT ARE GROUNDED IN A SYSTEMATIC MANNER IN NATIONAL DEVELOPMENT STRATEGIES (OWNERSHIP)

Qualitative information

Basic information

Q1. Please describe to what extent gender equality is addressed in the national development strategy/PRSP, and in sector and sub-national strategies:

Nepal's development plans, policies and strategies have evolved with the discourse on women and development since Sixth Plan (1982/83-1987/88). The Ninth Plan (1997/98-2001/02) spelt out strategies for moving towards gender equality through gender mainstreaming, elimination of discriminatory laws and empowerment of women through affirmative action and other complementary programs.

In its pursuit of mainstreaming, the Tenth Plan/PRSP (2002/03 – 2006/07) integrated gender concerns in different sectors such as public administration, agriculture, health, education and local development. It also emphasized gender and social inclusion as the main cross-cutting strategies for poverty reduction. The PRSP described poverty in terms of gender, regional, ethnic and caste-related inequalities. It recognized the need to shift gender mainstreaming from the traditional welfare measures to an approach ensuring equal access of women and children to social and economic infrastructure as well as income and employment generating opportunities created by a broad based growth process. The monitoring system proposed gender and inclusion sensitive indicators and outcomes. The Tenth Plan included women related targets and indicators in the education and health sectors, such as fertility rate, maternal mortality rate, obstetric services by trained staff, girls' enrolment, and gender-disaggregated adult literacy.

The Three Year Interim Plan (2007/08) pursued PRSP strategies and further engendered development programmes by targeting discriminatory laws, socio-cultural norms and economic opportunities to achieve social justice and basic human rights, and promote good governance. The Approach Paper of the current Three Year Plan aims to provide equal opportunities to all by ending all forms of discrimination and inequalities. The plan also enables people to feel change of their livelihood and quality of life by supporting poverty alleviation and establishment of sustainable peace through employment centric, inclusive and equitable economic growth. Women's role in the sustainable peace and development process will be strengthened by socially, economically and politically empowering the women of all castes, classes and regions. The other focus of the plan is to eliminate various forms of gender-based violence and discriminations against women. The paradigm in the plan has shifted to focus on empowerment and a women rights-based approach.

Gender mainstreaming and women empowerment programmes were built in the sectoral plans to improve the capacity of women to claim their rights and their position in society, and opportunities to generate employment and income.

Year 2010 was celebrated as the year for ending gender-based violence (GBV) with the leadership of the Office of the Prime Minister and Council of Ministers. A NAP was also prepared to organize the related actions. The government has announced that gender-based violence cases will be treated as state cases and all legal expenditures will be borne by the state treasury.

Several other measures were taken to promote gender equality and women's empowerment. Steps were taken to engender the national census of 2001 which provided sex disaggregated data, for example on head of household, women's access and ownership to property including land, etc. It also for the first time incorporated UN System of National Accounts (SNA) 1993 definition of work, revealing 55% of Nepali women to be economically active and documenting women's extended economic activities such as collection of fuel wood, fodder, water, production of any goods which can be consumed within the households. Additionally, the census 2011 will provide information on maternal mortality, Internally Displaced Persons, conflict related foreign migration, single women, etc. UN agencies, UKAID, ADB and other donors increasingly demonstrated their interest in gender equality and related interventions. Gender assessment and gender budget audit studies were carried out in ministries of agriculture, health, education, labor, finance, local development, forestry, women, children and social welfare and general administration, among others. A Gender Responsive Budgeting (GRB) system was initiated to promote gender responsive programming from the Ministry of Finance. The coverage of many of the existing programs such as community forestry, agricultural training, micro-credit, girls' scholarships, and women development was expanded.

Various legislative initiatives including the enactment of new Acts/Regulations for dealing with violence against women and amendment of discriminatory provisions against women have taken place. Declaring year 2010 as a Year against Gender Based Violence (GBV), a National Plan of Action on GBV was adopted. The Interim Constitution of Nepal, 2007 guarantee right to equality and non-discrimination on the grounds of sex as fundamental rights and provide adequate space for adopting the concept of positive discrimination for the protection of interests of women. The right to reproductive health and other reproductive matters are ensured and violence against women is specifically made punishable by the Interim Constitution.

Moreover, specific provisions for a minimum 33 percent representation of women in the Constituent Assembly election were made, as a result, there is 32.77% (197 members) women (out of 601 members) in the Constituent Assembly.

The Local Self Government Act and Regulations (1999) which lays the foundations for operations of local government bodies emphasizes the need to engender local development programs and projects along with the mandatory representation of women and other excluded communities. It requires that out of five representatives to be elected at the ward level at least one should be a woman. It also requires that at least one woman and one occupational caste (Dalit) / Indigenous Nationalities (Janjati) representative be nominated in all the executive bodies of DDCs, VDCs and Municipalities. Ministry of Local Development has developed and issued guidelines to local government bodies to engender local policies, programs and projects. In the meanwhile, government has also introduced affirmative action to increase the level of women's representation in civil service.

Unified Strategic Framework

Q2. Please describe to what extent gender equality and women's empowerment objectives are part of the long-term vision that underpins the latest national development strategy:

The TYIP incorporated gender empowerment targets. The target was to raise GDI from 0.534 (2007/2008) to 0.570 (2009/10), and GEM from 0.520 (2007/2008) to 0.556 (2009/10). It also aims at increasing women's presence in all state apparatus, with a minimum of 33 percent. Gender and social inclusion constitutes one of the four main priority areas of the plan. The Approach Paper of the Three Year Plan (2010/11 – 2012/13) has a separate chapter on gender equity and women empowerment and can be said to be more gender sensitive than earlier versions, including the promotion of ending gender-based violence.

The strategies of the TYP are:

- Strengthening gender mainstreaming in the development process, service delivery and in all aspects of government system,
- Strengthening the gender budgeting system and expand it up to local level,
- Launching various campaigning programmes against the gender-based violence,
- Launching targeted protective, service-oriented and empowerment programmes for enhancing capacity and improving the living standards of the marginalized women of the rural areas, and
- Ensuring women's meaningful participation in conflict resolution and peace building

It can be said that despite some gaps at operational levels, gender and social inclusion have become very much institutionalized in the planning and budgeting process of the government.

Prioritisation

Q3. Please describe the linkages between the objectives/targets of the national development strategy/PRSP and gender equality and women's empowerment.

All three national development strategies since 2002 are complementing each other and building on previous objectives and strategies. The focus of the programmes is on targeting the rural, socially excluded people, women and poor.

Gender and social inclusion have been mainstreamed in all sectoral development policies, strategies and programs as cross cutting themes. All development sectors and subsectors have included women focused strategies and programs. Besides, there are many programs which are specifically targeted to women. Gender-Responsive Budget (GRB) was the result of government willingness and effort to link objectives and targets of national development strategies on gender equality and empowerment of women with budgeting practices. The introduction of GRB took place in the context of Government initiatives to strengthen the Public Finance Management System and mainstream gender in national development policies in 2007. Various acts and by-laws with discriminatory provisions against women have been amended to promote gender equality and minimize gender based violence.

Strategic link to the budget

Q4. Please set out whether a specific budget is allocated to gender equality and women's empowerment objectives, and identify the sectors/programmes. Also describe whether a gender equality perspective has been integrated into public financial management, through gender-responsive budgeting.

Government has taken a two-pronged strategy in budgeting for gender equity and equality. In the first place, it has allocated budget for women's empowerment through the Ministry of Women, Children and Social Welfare. This budget is meant for women focused programs as well as catalyzing positive gender-sensitive outcomes through different line ministries and departments. The second approach is to make the whole budgeting exercise gender-responsive. Introduced in FY 2007/08 by NPC and Ministry of Finance, the new system requires all line ministries and departments to code their programs/budget along three categories based on their gender responsiveness i.e. directly supportive, indirectly supportive and gender neutral. Such categorization is done on the basis of five criteria developed by GRB. These five criteria (capacity building of women, participation of women, share of women in benefits, employment and income of women and reduction of women's work load) are given a score of 20 for each. If the score of a program totals 50 or more it is considered to be directly supportive, if it falls between 20 to 50 it is indirectly supportive and if it amounts to less than 20 it is gender neutral. Many donors, including DFID, view that implementation of GRB in Nepal can be further strengthened.

The government of Nepal has allocated about 18% of its total budget for direct support to women in the 2010/11 budget. If we include indirect support too, the share of gender responsive budget reaches 54.3 %. GRB is led by the Ministry of Finance, coordinated by the Joint Secretary/ Chief of Budget Division. GRB is mandated to review and monitor the patterns of budget allocation and implementation for making the budget gender-responsive; to evaluate public expenditure from a gender perspective, to orient gender focal points and planning divisions of line ministries; seek inputs and make recommendations to increase the gender-responsiveness of the national budget.

GRB criteria have been integrated and reflected in the general budgeting software systems such as the Budget Management Information System (BMIS), Line Ministries budget Information System (LMBIS), District Expenses Computer system and Single Treasury System since 2008/09.

Q5. Please describe to what extent donors' development policies and programmes are designed and implemented at the country level in ways consistent with agreed international commitments on gender equality (in line with AAA para. 13c):

The Paris Declaration did not include any specific gender-related indicators. The issue became more prominent following the Accra HLF in 2008. Specific figures may not be available for foreign aid programs. However, donor funding in Nepal is generally concentrated on sectors which are more or less gender-responsive such as education, health, local development, drinking water, peace and reconstruction, agriculture on the one hand and more capital intensive infrastructure sectors such as roads and electricity. Education and health sector together account for almost one third of total estimated donor funding. A large proportion of expenditure on health, agriculture, forestry, local development, drinking water, irrigation and other services have benefited women directly. The bulk of the expenditures under transport and electricity are grouped as indirectly benefiting to women. It is estimated that about 42 percent of ODA is earmarked for these sectors. 50 per cent of expenditure allocated to agriculture, 44 percent to industry and 33 percent to other economic services has been grouped as indirectly benefiting women (Acharya, 2008). As for the gender outcomes of infrastructure projects no comprehensive study has been carried out.

Q6. Please describe and give examples of how donors are equipped (specialist staff, tools etc) to support the integration of gender equality and women's empowerment in programme design and implementation:

Donor engagement varies according to sectors, coverage, intensity and priorities. It would not be appropriate to lump them all under one tag. Normally donors are in a position to support integration of gender equality and women's empowerment in program design and implementation.

Most donors have gender equality and empowerment goals and strategies to achieve these goals. Many have a gender expert or gender focal person in the organization, providing inputs to incorporate gender in the design and implementation of programmes.

Nepal already has a good pool of gender experts, activists and workers, however, DFID and some other DPs suggest that local technical capacity is weak.

Donors also have access to global resources and global pool of tools. They are in a position to provide support on gender mainstreaming within their own programs as well as to the national government.

Self Assessment – score Indicator 1

A score of 4 is suggested.

(Significant progress has been made, although further action is needed to ensure sustainability. The national development strategy and sector and sub-national strategies adequately address gender equality. The national development strategy is derived from a long-term vision which addresses gender equality. The objectives/targets of the national development strategy/PRSP are linked to gender equality and women's empowerment, and a specific budget is allocated to gender equality and women's empowerment objectives in identifiable sectors or programmes).

Civil society and parliamentary representatives agreed that a lot has been accomplished in this area, even though many improvements are still required. The movement towards gender equality and social inclusion has gained momentum and is not likely to stop. There is high prosperity for sustainable growth, hence scored "4".

GENDER EQUALITY INDICATOR 2: DATA IS DISAGGREGATED BY SEX (MANAGING FOR GENDER EQUALITY RESULTS)

a) Qualitative description

Q1. Please describe to what extent the data collected for the national development strategy's monitoring and evaluation framework are systematically disaggregated by sex, and whether these data are timely, relevant and comprehensive:

The statistical system in Nepal has been engendered to a great extent. All major surveys such as NLSS, NDHS, Nepal Labor Force Survey, DDC/Municipality/VDC profiles, PMAS and DPMAS produce data that is sex, caste and ethnicity disaggregated. The census in 2001 was engendered and again refined progressively for the forthcoming census, 2011. EMIS, HIMS and periodic progress review reports such as MDG Progress Report generate sex disaggregated data. The directive developed by NPC for monitoring and evaluation requires collection of disaggregated data on beneficiaries.

Most of the data is available in the published and electronic forms. However, NLSS, NLFS and NDHS have a limited sample, which doesn't allow for sound sub-national analysis by caste/ethnicity and gender. The annual economic survey and other ministerial and departmental level publications are available on the relevant website for public access.

However, some data collection processes still require further gender responsive and socially inclusive.

Q2. Please describe to what extent sex-disaggregated data are analysed and used for decision-making:

Sex-aggregated data are collected, analyzed, used and disseminated. However, it is difficult to say precisely the extent to which they are used for decision making. Generally, the trend towards evidence based policymaking or decision making is on the rise. Information is not available on the relevancy of this information from the users' perspectives or the extent to which it is used for decision making purposes. Seat reservation for women in the civil service, local elected bodies and the Parliament, scholarships for girl students, mandatory availability of girls' toilets in community school, free basic health services, free maternity services, mobile health camp for prolapsed, targeted program, 30% tax exemption in land registration in the name of women in rural areas and provision of seed fund for GBV are some of the examples.

Q3. Please describe to what extent sex-disaggregated data are disseminated to the public:

Sex disaggregated data are disseminated to the public both by government, non-government organisations and research institutions. The CBS publications and other sectoral publications are available on the internet. These data are also available in soft copies and hard copies to the public. CBS publications are also available on sale.

Media and journalists also often disseminate sex-disaggregated information. Media often invite advocates, researchers, politicians and bureaucrats for debates and discussions aiming to disseminate the messages.

Q4. Please describe to what extent donors support the development of national capacities for the collection, analysis and dissemination of data disaggregated by sex:

It seems that the discourse of gender has made inroads among bilateral and multilateral donors' establishments. Normally, any program or projects being developed by government or donors these days should include gender dimensions. For the same reason, donors are helping the government in many ways in collection, analysis and dissemination of sex disaggregated data. All major surveys or census in one way or another are supported by donors. Besides, donors are also helping government to develop and strengthen its monitoring systems. WB, DFID, and Denmark have been supporting CBS for the NLSS III exercise, while the

Denmark, UN WOMEN, UNFPA, UNDP and JICA have been providing support for the upcoming census survey, 2011. Civil society and gender advocates support programme implementers to collect more gender sensitive, sex disaggregated and social exclusive data by advocating, lobbying and flagging out issues.

Q5. Please describe to what extent sex-disaggregated data is used in donor decision-making, allocation and programming processes:

Most of the agencies try to use data disaggregated along sex, ethnicities or region. This is discussed in all planning exercises carried out by donors. Donors are often at the forefront in advocating use of disaggregated data. One study (Acharya, 2008) found that all 8 donors studied had adopted gender mainstreaming as their major strategy for gender equality and women's empowerment. Many of them are funding specific programs for that purpose.

b) Self Assessment – score Indicator 2

A score of 3 is suggested.

(progress is being made, although not yet enough. Disaggregation of key monitoring indicators, and data collection and analysis has become systematic and some information is made publicly available. Plans are in place to ensure the use of data in decision-making but the system may not yet be functioning at all levels of government. The basis exists for more progress).

Consultations with civil society have resulted in two dominant positions. One position still finds available data inadequate to inform policy or program decisions. The other position states that there is reasonably good data or evidence base, which is not being used properly for decision making. The truth probably is somewhere in between the two positions. In some areas there is a reasonably good information base and in other areas quality data are still to be collected or processed.

GENDER EQUALITY INDICATOR III: MUTUAL ACCOUNTABILITY FOR GENDER EQUALITY AND WOMEN'S EMPOWERMENT

Q1. Is progress on national, regional and international commitments on gender equality and women's empowerment addressed in mutual assessment reviews? (Yes / No / non applicable – there is no mutual assessment review in place).

There have been many instances in which the donors and national government and non-government sectors came together and discussed different dimensions of gender equality and women's empowerment in small gatherings or workshops or policy dialogues. One more serious and systematic attempt was made by EC, UN WOMEN and ITC ILO to review the aid effectiveness agenda from the perspective of gender. This also tried to bring in governments and

non-governments actors together for assessment and review. Nepal produced a country report on this issue.

The government prepares the CEDAW report, shadow report, BFPA progress report, and MDG report based on a joint progress review and its findings. Gender issues in peace and reconstruction are regularly discussed.

Q2. Are representatives from the Ministry in charge of gender equality and gender equality focal points from line ministries, as well as representatives from civil society, systematically involved in mutual review processes? (Yes / No / non applicable – there is no mutual assessment review in place)

Yes, there is a practice of consultation with different organizations, experts, civil society, politicians and advocates to share ideas, get their views and suggestions for programming. Whenever needed, a forum will be created to get their suggestions but there is no formal system as such for mutual review and assessment,

FEEDBACK ON THE GENDER EQUALITY PILOT SURVEY MODULE

To what extent is monitoring of gender equality and aid effectiveness commitments a priority in the country context.

Gender exclusion has several dimensions in Nepal. It is intricately linked with poverty, violence and human development outcomes. It is not only a matter of ensuring human rights of women. It is also a development imperative as much of Nepal's development depends on the extent to which women are empowered and made equal partners in the development process. National Plans have realized this fact. Donors are also strongly supporting gender equality. However, at the implementation level there are persisting gaps. Accordingly, monitoring of gender equality outcomes and aid effectiveness outcomes in terms of gender is of utmost importance.

Do you have any comments on the three proposed gender equality indicators and the methodology used?

All three indicators are highly relevant and try to capture the issues in relation to gender equality and aid effectiveness. Nevertheless, to adequately capture the sector specific information, data and initiatives, sub indicators may be formulated. The government feels that the engagement of relevant stakeholders may be necessary.

How would you envisage measuring progress on gender equality and aid effectiveness after 2011?

There is a need for more joint assessments by donors and governments bringing other stakeholders also on board. Similarly, more refinements in the tools, formats and indicators used for GRB are required to improve its application in planning, implementation as well as monitoring and reviews of progress. Gender outcomes should be one of the main concerns for any measurement of success or failure in all development programs.

Annex 2: Optional Module on Inclusive Ownership

I. PARTICIPATORY MECHANISMS

Q1. Within the institutional framework, which participatory mechanisms have been put in place to involve the Parliament, local government and/or non state stakeholders (civil society, private sector, unions, others) in the formulation/monitoring of the national development strategy?

Guiding questions

- a) Have the operational rules (rules of the game) of the participatory mechanisms been subject to an ex-ante consultation/discussion with Parliament, local government and/or non-state stakeholders?
- b) Main stage of participation covered by the participatory mechanisms (formulation, approval, implementation, monitoring /evaluation)
- c) Main level of participation covered by the participatory mechanisms (information-sharing, consultation, joint decision making)
- d) Openness of the participatory mechanisms: could any stakeholder participate? Have criteria been defined to select stakeholders?
- e) Which measures have been taken to ensure a balanced, inclusive and effective participation of the stakeholders? Has special attention been given to the inclusion of women or other vulnerable groups?
- f) Are efforts made to align these participatory mechanisms to existing permanent consultative/participatory committee?

Parliament has the authority to look into any programs at any phase of its design or implementation and seek explanations from the concerned agencies. Specialized committees in the parliament are doing this regularly. At local government level such functional mechanisms are not in place. There are certain rules, directives and institutional arrangements for formulation of the national development strategy in Nepal, however, the participatory mechanism is more ad hoc and specific rules that guide the process of participation, inclusion etc. were not found.

The main stage for wider participation of all stakeholders is the national strategy formulation stage. There are also emerging practices to include stakeholders during review and monitoring processes. Community participation is mandatory for the programmes implemented through local bodies (DDC, Municipality and VDC). The main level of participation covered information sharing and consultation. In cases of more critical issues, such consultations can lead to joint decision making as well. However, the formal decision is made by the NPC. Such mechanisms often tend to be issue based and ad hoc in nature.

The participatory mechanism is open because institutional representation is ensured through extending invitation to relevant associations and organizations. Selection of participants is done on the basis of their stake on the issue at hand. However, women and representatives from marginalized groups participate in almost all such mechanisms. There are some permanent bodies in the form of advisory committees or steering committees which meet at regular intervals.

Special attention is given to make the participatory mechanism inclusive of women, ethnic groups, remote areas, madhesi, etc. A classified roster of political parties, civil society organizations, associations of NGOs/ INGOs, ethnic groups, women organizations, dalits, madhesi, and janajati is maintained at NPC, MoF and other sectoral ministries to extend invitation to stakeholder consultation meetings. If the composition is found to be imbalanced, the organizers will usually have to face severe criticism. Therefore, stakeholder consultation in Nepal is almost always inclusive and participatory.

Participatory mechanisms are aligned with various committees and forums, like the Nepal Development Forum, NPPR, NDAC and MDAC. Institutionally such processes are linked to different consultative committees led by NPC, MoF and Line Ministries.

However, quality of participation and mechanisms to involve beneficiaries in the process are not standardized. There is scope to improve participation at the grass root level.

Q2. How are the participatory mechanisms put in place within the institutional framework assessed?

Guiding questions

- a) Is there any way to assess the participatory mechanism? If yes, how?
- b) Did these participatory mechanisms operate regularly and systematically?
- c) Were problems encountered as regards the functioning of these participatory mechanisms (if yes, with which consequences)?

A specific way to assess participatory mechanisms has not yet been put in place. However, media and research suggest the process of participation is not up to a satisfactory level. As there is no specific guideline to conduct such participatory forums, more time and resources need to find appropriate methodologies and to get contribution of the participants to the maximum extent.

However, the output of such mechanisms will not be validated/accepted if it is considered as asymmetric or non-participatory.

The barriers observed are:

- 2 Reluctance to contribute from some groups because of inadequate knowledge on national strategic issues.
- 3 Providing opportunities to all the participants is a big challenge because of limited time and high number of participants.

- 4 Considering the low education level of women and excluded people, their limited exposure and practice of discussion in open forum impacts their capacity to express their views.
- 5 Negligible number of women at policy levels like NPC and line ministries.

In rural areas, participants in such mechanism are given financial incentives for participation mainly by donors and INGOs. Such practices created doubts on the real level of representation. Sometimes lobbying by interest group tends to dominate the findings as an unintended consequence.

Q3. To what extent have other actors (non-state actors, donors...) established alternative processes to complement / challenge the official process (e.g. lobbying, advocacy, demonstrations, research-based proposals...)?

Guiding questions

- a) Under which circumstances or according to which rationales have these parallel processes been put in place?
- b) Did these processes impede or strengthen in some way the operation of the institutional participatory mechanisms?
- c) How did these processes play a role vis-à-vis the national development strategy? What have been the main barriers to the performance of the participatory mechanisms, if any?

Many of the non-state actors and donors establish similar participatory mechanisms on permanent as well as ad hoc basis. They organize to develop common understandings or positions with regard to certain issues.

There are some parallel participatory processes as well with respect to implementation, monitoring, evaluation and mapping of aid implemented by CSOs, INGOs and some donors like UNDP, the WB, GTZ, ADB etc. They put forward the circumstances of conflict and government capacity and level of public response as rationale for using such processes.

Civil societies and donors also run parallel process to advocate for the rights of the people, lobby for their programme to be addressed in the national development strategy and put pressure to get programmes for the deprived, poor, differently able, children and women.

The outcome of such mechanisms and process is to crystallize issues for advocacy and lobbying or to counter certain claims of government agencies or others. Sometimes such mechanisms or processes can influence decision making or national development strategies. Sometimes they produce shadow reports and other times they agree on a common course of action vis-a-vis government.

Participatory mechanisms are more popular for programme and project design, implementation, monitoring and evaluation all over the country, even if they are more explicit and strong at local level. Such practices have also helped the communities and marginalized groups to advocate for their needs and demands during the participatory interactions for national development strategy preparation.

GoN does not take such processes adopted by the non-state actors and donors as a challenge but rather as a complementary exercise. Some of the processes like aid mapping to identify donor-

darling and donor-orphan sectors in Nepal were appreciated because these were rather new and innovative process, not parallel. The outputs of such processes have been used by GoN policy makers, for example the results of donor mapping jointly conducted by the WB and the MoF, helped identify policy corrections and devise needful action plans.

Such participatory processes produced positive outcomes to make the plan inclusive and participatory. The main barriers to the performance of participatory mechanisms are reluctance to participate from some groups of stakeholders.

II. QUALITY OF THE PARTICIPATORY PROCESS

Q4. Did the Parliament participate in the formulation / monitoring of the national development strategy? If yes, describe how.

Guiding questions

- a) Is the Parliament involved in the formulation of the national development strategy?
- b) Is the national development strategy submitted to discussion in the Parliament?
- c) Was participation of Parliament as an institution ensured or – rather - were individual/selected parliamentarians involved?
- d) Is the parliament involved beyond budget approvals (e.g. approval of progress reports, approval of official national development strategy)?
- e) Have parliamentary working groups been set-up to specifically follow up on the national development strategy?
- f) Was the capacity of the Parliament an issue in terms of participation?
- g) Compared with previous national development processes, did the participation of the parliament get stronger or weaker?

National budget is discussed and approved by Parliament. All legislation and treaties are discussed and approved by Parliament. As for national development plans and strategies, parliamentarians participate in information sharing, consultations at various forums. However, the national development strategy is not submitted to the parliament for discussion.

NPC invites parliamentarians for discussion while formulating the national development strategy. The most important of these forums is the National Development Council which formally endorses the national development plans. Their opinions and inputs are honored and incorporated in development strategies.

In addition to that parliamentarians also influence the annual budget and programs in their individual capacities. Parliamentarians are mainly involved in the finalization of the annual policy, program and budget that are prepared to implement the national development strategies. Beyond this, the parliament through its specialized committees is involved in discussions on sectoral policies and plans that ultimately form the chapters of the national development strategy/periodic plan. When the plan is brought to the regional level for discussion, the parliamentarians of the respective regions/constituencies are invited to participate. Though there

is no formal rules and institution for this, the parliamentarians are actively involved in discussing the national development strategy.

Ministry of Finance presents progress of all the line ministries and constitutional bodies at the end of every fiscal year to Parliament. Different parliamentary committees call relevant agencies or officials to submit reports or clarifications on various developmental issues or programs and can issue directives which are binding. They also can institute a committee to investigate certain issues or processes. However, approval of progress reports and approval of the official national development strategy is not done by Parliament.

The Parliament does not have a dedicated working group to follow up on the implementation of the national development strategy.

Q5. Did local governments participate in the formulation/monitoring of the national development strategy? If yes, please describe how

Guiding questions

- a) Did local governments organize participatory processes at their levels?
- b) What have been the main achievements/problems in terms of participation of local governments?
- c) Was the capacity of local government an issue in terms of participation?
- d) Compared with previous national development processes, did the participation of the local governments get stronger or weaker?

For the current TYP approach paper, NPC organized consultations at regional levels with participation from representatives of all local bodies (DDCs, Municipalities and VDCs). Similarly, representatives of government line agencies, political parties and their sister organizations, women's organizations, civil society organizations, federations of indigenous people and people with disabilities participated in the consultation process.

Local governments organize participatory processes during plan formulation under the Local Self Governance Act (LSGA). The LSGA prescribes fourteen steps to be followed for ensuring stakeholder participation in planning processes. These mandatory legal provisions greatly helped enhance local level participation in the planning process

One problem encountered was the absence of duly elected representatives of the local government bodies. Most participants were found to be articulate and their participation was substantive. The fragile political and social environment created by the past insurgency and in some parts, on-going sectoral violence have badly impacted fair and open-minded participation at local level. Coercion and intimidation for and against particular policy stances is another great challenge for local participation in planning processes.

The capacity of local governments is an issue in terms of participation but it can be addressed with time and specific programmes to enhance their capacity. The participatory process itself is a stimulator of capacity. The more one participates the more he or she learns in a sustainable way.

At institutional level, participation of the local stakeholders in planning process is stronger than in the past, which can be attributed to the LSGA provisions and guidelines. However, the absence of elected local body jeopardized this enthusiasm and conflict and post-conflict panic discouraged individual level participation.

Q6. Did the social partners (private sector and unions) participate in the formulation/monitoring of the national development strategy? If yes, please describe how ?

Guiding questions

- a) Specify by type of representation from private sector (Business organizations, Chamber of commerce, Agricultural producer, Individual economic operators) or from unions (National Trade Union Centers, Sector Unions).
- b) Is there a social dialogue process launched? If yes, how is it related with the national development strategy?
- c) Are unions and private sector participating in a similar level? If not, specify the differences.
- d) If the case, which important private sector actors or unions did not participate and why?
- e) Compared with previous national development processes, did the participation of the private sector get stronger or weaker?

Private sector stakeholders participated during the regional consultations as well as national level consultations. In many cases they were invited in thematic group meetings. They also were asked to provide their inputs in written form where possible. Though there is no prescribed type of representation from private sector in the formulation and monitoring of the national development strategy, the diversity (women, dalit, madhesi, janajati etc.) from among the private sector is a major concern.

Similarly, the business community, chamber of commerce, industries associations and trade unions were invited in the participatory process. The Constitutional Assembly process has adopted a proportional membership system with some representatives from the private sector, so their voice and views are recognized and heard in Parliament. Chamber of commerce and industries have networks at national and SAARC level. After the peace negotiations, private sector became stronger and influential. Business membership associations have provided vision for the new constitution preparation and they are part of the national policy dialogue.

Social dialogue is going on to introduce reforms in labor legislation. It is more focused on sectoral development strategies rather than the national one.

As compared to previous consultations, the participation level has increased but the quality of participation remains more or less the same.

Q7. Did civil society participate in the formulation/monitoring of the national development strategy? If yes, please describe how?

Guiding questions

- a) What is the profile of the civil society participant stakeholders?
- b) Specify by sector, type of representation (Service delivery organizations, Lobby/Advocacy organizations, Member-based organizations, Individual organizations...), representational capacity and geographical coverage
- c) If the case, which important civil society actors did not participate and why?

- d) How did the coordination amongst civil society stakeholders happen (level of dialogue or consensus within civil society)?
- e) Was the capacity of the civil society an issue in terms of participation?
- f) Compared with previous national development processes, did the participation of civil society get stronger or weaker?

The development process in Nepal is mainly driven by the government. The role of civil society and the private sector has increased in recent years with the adoption of liberal and market oriented policies after 1990, but structures for collaboration and consultation remain weak. DP support for NGOs strengthened their role in service delivery and this was extended during the conflict when non-state services were given more support. As a consequence advocacy and accountability is still emerging as a civil society function.

There is a mandate to appoint members from different sectors, classes and communities, who have contributed to national development in their life in the National Development Council. The body is responsible for preparation and approval of the national development strategy at the NPC.

Civil society is one of the major stakeholders in Nepal and the NPC does not exclude this segment in any type of participatory/consultative mechanism. Representatives from the civil society participated during the regional consultations as well as national level consultations. In many cases they were invited in thematic group meetings. They also were asked to provide their input in written form where possible. Mostly civil society participation is sought through their representative federations. Civil society activists are articulate and they can participate in substantive ways.

Types of representation in the participatory discussion were from:

- Service delivery organizations: Teachers and lecturers, NGO, CBO, service delivery organizations / private companies
- Lobby and advocacy organizations: Activist, politicians, media, journalist and lawyers
- Member based organizations: Cooperatives, CBOs, chamber of commerce, association, religious groups unions and club
- Individual organizations: private business companies, intellectuals and social leaders

The survey team did not observe any specific case of an important civil society organization that was interested to take part in the discussion, being excluded from the participatory mechanism.

Civil society is relatively well capacitated in Nepal. Their organizational networks cover the whole country from grassroots level to the national level.

Federations and associations have ample say in the national development strategy. They are invited in participatory mechanisms. They hold separate meeting for coordination and collaboration and provide strategies for the national development plan from their perspectives as well.

Civil society actors also felt that their place within development discourse was limited by the emphasis given to ownership by government in the Paris Declaration. However, in Nepal, national policies and plans continued to provide greater space to civil society. The role of civil society was enhanced in the Accra Agenda for Action with the focus on the concept of 'inclusive/democratic ownership'.

Consultation with lower tiers of government has been limited during the conflict period and has yet to be established. Consultation with civil society and the private sector has only been seriously pursued at sector level. Even here consultation has mainly focused on shared implementation rather than more openness to demand side consultation for users and community groups. Because of this inadequate consultation process, ownership of development programmes by civil society is sometimes weak.

However there have been some important developments. Civil society has created a separate working group to focus more on results (MfDR) and, since Accra, the notion of country ownership has promoted more civil society interest. As a consequence civil society is now raising its voice in ownership and there is an increased sense of ownership among a wider range of stakeholders. The government has been promoting the Public Private Partnership (PPP) model for development programmes, hence the participation of civil societies are in increasing trend.

The capacity of CSOs in general is not an issue in terms of participation. However, it was found that their views are confined to their limited knowledge and surrounding. Their ideas are very much specific, selective, self-centred and local situation based. In average, it is difficult to get suggestions for the broader framework and national level issues.

Participation of civil society is stronger as compared with previous national development processes. Civil society has become more and more strong, open and wider; hence its participation is becoming more crucial, valuable and influential.

Q8. Were other stakeholders (than the previous mentioned) involved?

Guiding questions

- a) Examples of possible other stakeholders: traditional authorities, academics, advisory committees, provincial/regional councils, etc.
- b) Did some stakeholders express their disapproval towards the invitation to participative through the institutionalized participation mechanisms?

Representatives of indigenous people, dalit organizations, organizations of people with disability, academics also participated in the process of formulation. Disapproval was not noted with regards to the process.

Q9. Has the national strategy (its formulation, follow-up or implementation) been the subject of a broad public debate?

Guiding questions

- a) Which were the key actors leading this public debate?
- b) Did the public debate influence the setting of priorities of the national development strategy? If yes, how?
- c) Which role did the press and media play in these public debates (allowing stakeholders to express their concerns, provide analytical frameworks to understand the challenges, by putting "water on fire", etc.)?
- d) How did the press and media assess the role and influence of the donors on the national strategy?

Public debate on various thematic areas is often an ongoing process. With regard to the national development strategy no such debate was organized.

Public media carried news and stories on different aspects of the strategy. Media and some CSOs are key actors to bring the issue of formulation, monitoring and implementation of the plan to the public through public hearings, interactions etc. Media play an influential role in Nepal. They stimulate voices against social absurdities that the plan and policy should address.

There was no noticeable assessment made public by the media regarding the role and influence of donors in national development strategy formulation.

Q10. Are there official policies and practices to promote the capacity of different stakeholders to take an active participation in the national development strategies?

Guiding questions

- a) Did the government identify areas where there is a need to strengthen the capacity to design, implement and monitor the national development strategy? Who were the key leaders to invest in this process?
- b) Are the capacity needs of other stakeholders, apart from the government identified? What are these needs?
- c) Are there policies to support capacity development, including technical assistance, training and educational scholarships? If so, are they implemented and monitored? Are lessons learned from this process shared more broadly?
- d) Are these policies implemented?

The Government of Nepal has not yet prepared specific strategy to develop the capacity of the stakeholders for national development strategy. Need assessment of capacity of non-state stakeholders has not been done so far by the government.

Q11. How have donors supported stakeholder participation in the formulation/monitoring of the national development strategy?

Guiding questions

- a) Are donors supporting stakeholder participation? If yes, describe how.
- b) Are donors also supporting the government to implement the national development strategy?

Donors are supporting stakeholder consultations in two ways. First they are supporting the whole process of developing the national development strategy through technical assistance. This includes consultations as well. Secondly, they are also getting involved at sector or sub-sector levels according to their specializations in developing sector or sub-sector plans. They are also providing support to the government to implement the development strategy.

Donors also participate in the consultation process and their project/ programme staff participate in the regional and grassroots level consultations. Donors share their international experience to expedite the strategy.

III. OVERALL ASSESSMENT OF BROAD BASED OWNERSHIP

Q12. Are there signs of a general consensus around the adopted national strategy?

Guiding questions

- a) Would you say that the national strategy translates a shared vision of the stakeholders involved in its formulation? What are some signs that this is the case?
- b) Does the national strategy take into account the main needs and concerns expressed by civil society, social partners (private sector and unions) and other actors?
- c) How do this compare with previous national development processes?

Once the national development strategy is endorsed by the National Development Council it is assumed that it is a consensual national document and it represents the shared vision of the stakeholders. Substantive opposition is not heard from any quarters. Besides, efforts were made to incorporate all useful inputs provided by stakeholders including civil society and social partners.

Q13. What have been the main outcomes of the participation process?

Guiding questions

- a) To what extent would the national development strategy be different with more or less involvement of the Parliament, the local governments and the other stakeholders?
- b) What have been the positive/negative effects of the discussion about the national development strategy?
- c) After this process, would you say that the quality of dialogue between the State, the Parliament, the local governments and the others stakeholders has changed?
- d) Did the participation process lead to more representation and coordination amongst the groups involved?

The participation of parliamentarians, local government and other stakeholders definitely improves the quality of the document by making it inclusive through a democratic deliberative process. It helps planners to understand and appreciate different views, opinions and positions.

The discussion has a positive effect on the national development strategy, making it more contextual, reality based, demand based and in line with national priorities, while the negative effect of such discussions are time requirements, and indecisiveness due to varied unrealistic demand of varied stakeholders. When participants try to become too dogmatic and stick to ideological positions, sometimes it becomes difficult to navigate to consensus. Political and ideological positions often cause heated discussions. The role of planners is to take a middle path in such situations by synthesizing and harmonizing positions as much as possible. Generally, discussions are helpful to bring in new perspectives and insights into the planning process. It improves the sense of belonging and ownership.

The level of representation and coordination is also being improved over time. The participatory process has helped to open up discussion, explore opportunities and increase access to information as well as making planners more accountable and responsive towards the nation.

Q14. According to the definition below, please select the score that reflects in your own assessment the current situation in your country most adequately:

Inclusive participation of national stakeholders in the development processes: The government involves stakeholders in an open and systematic dialogue on development strategy formulation and implementation. Parliament and local authorities are routinely involved in strategy formulation and in implementation, consistent with their constitutional mandate. CSOs, private sector and others (research institutes, media ...) provide systematic feedback to the government

on strategy formulation and implementation. This feedback is taken into consideration by government, or a rationale is provided for non-consideration. As a result, a broad number of stakeholders take active part in the national development processes.

Not applicable: There is no national development strategy implemented or currently in discussion in the country	
Little action: The national development strategy is designed, implemented and monitored by the government, with no relevant participation from other stakeholders.	
Element exist: There are some efforts from the government side to provide information related to the national development strategy to different stakeholders and to receive some feedback from them. However, the active participation of different stakeholders in the process is still very limited.	
Action taken: Some stakeholders are involved in the formulation, implementation or monitoring of the national development strategy. However, other important ones are still not involved and / or the level of participation is still very limited.	√
Largely developed: Most of the stakeholders are actively involved in the formulation, implementation and monitoring of the national development strategy	
Sustainable: The inclusive participation of all national stakeholders in the formulation, implementation and monitoring of the development strategy is established and sustainable.	

Please give a short explanation of your choice:

Representatives from Civil Society have scored on action taken because some of them were involved in the formulation, implementation and monitoring process of the national development strategy. However, there are still some areas where meaningful participation can be improved.

There is a practice of participation and inclusion in plan/policy dialogue but no dedicated rules of the game to guide contents and process of participation. At present it is based on the expertise of the individual consultants/experts which may not always be consistent. There lacks consistency in participatory mechanisms across the sectors/agencies. Despite this, participatory mechanisms have become part of the life of the planner. There is still a long way to go to identifying the most important stakeholders. Only then, the level of inclusion can be determined. Some actions towards better inclusion have been taken.

Participation is not a panacea for all the problems the country is faced with. Participation has its own problems and limitations. So what is more important is the quality of participation. Much of participation has been ritualistic, some kind of 'talking shop', and sometimes it has been a forum to show off individual achievements. Invited representatives do not always turn up and send lower level representatives. The selection of invitees is also problematic as it is difficult to evaluate if they truly represent society. The structure of the consultation process can sometimes be defective and the quality of participation remains low in many cases. By extension it is difficult to assume that the views expressed during consultations or synthesized afterwards really are an expression of the 'general will'. So the challenge is to ensure that the

outcomes of such consultations really help the planners to address the problems of the majority of people and not that of selected elites who reflect mostly their own interests. Many times the 'important' stakeholder is invisible and those we think important do not represent society. Another complex issue is to decide how much participation is enough.

Annex 3: Nepal Country Chapter as drafted by OECD-DAC

INTRODUCTION

Nepal is a low-income country with a gross national income (GNI) of USD 440 per capita (2009) which has grown at an average rate of 2% per annum since 2005 (WDI, 2011). It has a population of 29 million, 55% of whom (approximately 16 million people) currently live under the 1.25 dollar-a-day income poverty line (WDI, 2011).

Nepal emerged from a decade long conflict in late 2006. An elected government has not been in place since 2003. A new constitution for Nepal is currently being drafted. Political instability has affected the discussion and adoption of strategic policies, including the Foreign Aid Policy.

Net official development assistance (ODA) to Nepal in 2009 totalled USD 855 million. Since 2005, net ODA has averaged 22% of GNI and 34% of central government expense (WDI, 2011). The top five donors provided 62% of Nepal's core ODA.

SUMMARY OF PROGRESS

Table 1: Baselines and targets for 2010

	Indicators	2005 Reference	2007	2010 Actual	2010 Target
1	Operational Development Strategies	C	C	D	B or A
2a	Reliable Public Financial Management (PFM) systems	3.5	3.5	2.5	4.0
2b	Reliable Procurement systems	Not available	Not available	Not available	No Target
3	Aid flows are aligned on national priorities	--	74%	98%	85%
4	Strengthen capacity by co-ordinated support	--	15%	48%	50%
5a	Use of country PFM systems	--	68%	62%	No Target
5b	Use of country procurement systems	--	56%	35%	No Target
6	Strengthen capacity by avoiding Parallel PIUs	--	106	68	No Target
7	Aid is more predictable	--	47%	55%	No Target
8	Aid is untied	96%	95%	96%	More than 96%
9	Use of common arrangements or procedures	--	23%	31%	66%
10a	Joint missions	--	23%	21%	40%
10b	Joint country analytic work	--	28%	47%	66%
11	Results-oriented frameworks	C	C	B	B or A
12	Mutual accountability	Not available	N	Y	Y

Progress on the Paris Declaration indicators depends on improvements by both donors and partner governments. In 2010, three out of ten indicators with applicable targets were met. Five other indicators have progressed since 2007, five have seen setbacks, and one - untying aid has remained at a consistently high level. Ownership deteriorated in 2010, but managing for results and mutual accountability improved, achieving targets. Performance on alignment has improved slightly, yet no targets have been met with the exception of aid alignment to national priorities. Indicators on co-ordinated technical co-operation and untied aid are very close to meeting the target, while the use of country PFM and procurement systems has declined. No targets for harmonisation indicators have been met, although there has been some progress on the use of common arrangements or procedures and joint analytic work since 2007.

In principle all donors working in Nepal prioritise aid effectiveness principles in their respective aid policy/strategy/programmes for the nation. In practice, attitudes towards aid effectiveness commitments vary significantly within the donor community.

LEARNING FROM SUCCESS and CHALLENGES**Table 2: Learning from success and challenges**

	Achievement or <i>challenge</i>	Lesson or <i>priority action</i>
Ownership	<i>Challenge:</i> There is currently no national development strategy (NDS) in operation, nor is there a long-term vision guiding national development strategies. Major challenges in developing the NDS relate to current political instability and delays in drafting a new constitution. Progress has been made, however, in enabling stakeholder participation in the formulation of the NDS, although challenges remain. There are also some challenges in ensuring the quality of stakeholder participation in the formulation of the NDS.	<i>Priority action:</i> Ensure a national development strategy (NDS) and long-term vision are formulated and implemented, resolving current political impasses and ensuring the systematic participation of civil society actors and marginalised groups in the process.
Alignment	<i>Challenge:</i> The reliability of country PFM systems has declined since previous years, and donors are channelling less aid through PFM and procurement systems.	<i>Priority action:</i> Ensure PFM and procurement systems are strengthened and that the capacity of government agencies is increased to engender greater trust and use of country systems among donors.
Harmonisation	<i>Challenge:</i> Programme-based approaches (PBAs) are limited and very few missions or analytical works are co-ordinated.	<i>Priority action:</i> Increase government capacity to manage and develop concrete measures to institutionalise PBAs. On the donor side, donor headquarters should allow country offices more flexibility in channelling aid through PBAs.
Managing for results	Achievement: A results-oriented framework is in place. The M&E framework sets out clear institutional responsibilities and co-ordination for the most part, including at the sector level. However, significant capacity challenges remain and the overall quality of reporting in the results framework is not yet up to standards.	Lesson: The National Planning Commission is the central co-ordination agency for the overall monitoring of the periodic plans. Planning/Monitoring & Evaluation Divisions of sector ministries are responsible for monitoring at the sector level. There is a need to scale-up capacity development efforts in this area to ensure the results reporting meets the required standards.
Mutual accountability	Achievement: Mutual accountability reviews are in place in SWAp sectors and efforts are being made to do the same at	Lesson: The Nepal Portfolio Performance Review exercise currently looks at a set of indicators for government performance. It is

	the national level through NPPR.	planned to also include indicators for donors in this process, starting in 2011-12. Parliament and civil society are not involved in the progress review in a systematic way.
--	----------------------------------	---

About the Survey

This chapter assesses progress against the quantitative indicators provided by the Survey on Monitoring the Paris Declaration, drawing on data provided by the government and donors, the OECD and the World Bank. In addition to this, it draws on qualitative evidence submitted to the OECD by the national government which incorporates feedback from donors and other stakeholders. Stakeholders note that it is possible that in places definitions and concepts were interpreted differently by survey respondents in 2011 compared with previous years. A degree of caution should be taken when analysing the trends shown by some of the indicators. The 2011 survey responses cover 19 donors and 91% of Nepal's core ODA.

The 2011 Survey was conducted by a team led by the Foreign Aid Co-ordination Division, Ministry of Finance. The UK Department for International Development and the United Nations Development Programme were the donor focal points. China and India, significant providers of aid to Nepal did not participate in the survey. Qualitative data was drawn from secondary sources. Nepal also voluntarily conducted two optional modules on gender equality and inclusive ownership. The consultation process for the survey and the two optional modules involved civil society organisations.

OWNERSHIP

Aid is most effective when it supports a country-owned approach to development. It is less effective when aid policies and approaches are driven by donors. In the context of the Paris Declaration, ownership concerns a country's ability to carry out two, inter-linked activities: exercise effective leadership over its development policies and strategies; and co-ordinate the efforts of various development actors working in the country.

INDICATOR 1: Do countries have operational development strategies?

Indicator 1 assesses the operational value of a country's development strategy. In particular, it looks at the existence of an authoritative country-wide development policy (*i.e.* a unified strategic framework), the extent to which priorities are established, and whether these policies are costed and linked with the budget. All of these features are important to harness domestic resources for development, and to provide a basis for the alignment of aid to development priorities. Each country has provided evidence against these criteria, and this has been translated into a score by the World Bank using the same methodology as in the 2006 and 2008 surveys. A five-point scale runs from A (highest score) to E (lowest score). The Paris Declaration targets 75% of partner countries achieving a score of A or B by 2010.

In 2010 Nepal received a D rating on the operationality of its national development strategies, a setback since the 2008 Survey when the score was C, and below the 2010 target of A or B. Nepal's current national development strategy (the Three Year Interim Plan 2007-2010) elapsed in 2010 and a new 'Three Year Plan 2010-13 Approach Paper', has been finalised cantering around a core theme of 'employment-centric inclusive development' and serves as a reference for development programmes. Although there are links between the national development strategy (NDS) and sector strategies, it is unclear how these work in practice and whether they are formal or informal. Although policy makers use the NDS, it is unclear to what extent the NDS serves as a reference point for decision making and policy formulation. Major challenges in developing the NDS relate to political instability and delays in drafting a new constitution. Since Nepal is in the process of drafting a new constitution, a long-term

vision guiding national development strategies (NDS) has not been formulated. However, sector ministries (such as health, education, agriculture *etc.*) have also developed their long-term visions, which are directly linked with the NDS. District Periodic Plans are prepared by District Development Committees (DDC) and municipalities.

The NDS is linked to the budget through a medium-term fiscal framework (MTFF) and there have been preliminary efforts to link the sector strategies to the budget process through the MTEF. The national development strategy does not prioritise targets or lay out a strong mechanism for achieving them. This is largely done through the medium-term expenditure framework (MTEF). First priority projects identified by the MTEF are assessed for their performance quarterly and this assessment is linked to the next disbursement tranche. The MDGs and cross-cutting themes are integrated with the national development strategy on a basic level. However, although the MDGs are linked to the NDS, the link is not strong and there is no evidence of tailoring the MDGs to Nepal's context. The NDS tentatively addresses cross-cutting themes, but these themes are not mainstreamed throughout the strategic approach. Gender equality and female empowerment issues are notably grounded in the national development strategies. A performance orientation has been established in the budget process and is being further institutionalised.

In recent years, Nepal has given a high priority to participation and inclusion issues. They are at the heart of the recent development strategies and participatory mechanisms have also been put in place at all levels. A key challenge remains in improving the quality of participation, especially at the local level and for disadvantaged groups, and in ensuring that the participatory process truly captures the voices of beneficiaries and is not hijacked by a select number of groups with higher capacity. Inconsistencies in participatory mechanisms across sectors/agencies make it difficult to identify the most important stakeholders and determine their level of inclusion. The quality of participation is another aspect to be considered so that the outcomes of the consultations address the problems of the majority, rather than selected individual interests. Participants are selected based on their stake in the issue at hand. Normally the Parliament is invited to participate in information sharing and consultation in various forums. The private sector, unions and civil society participate in regional- and national-level consultations, often in thematic group meetings and provide inputs if necessary. The National Planning Committee organises consultation at regional levels, which involves the participation of representatives from all local governments, government line agencies, political parties, and gender and minority groups.

Nepal's development plans, policies and strategies have evolved with the discourse on women and development since the Sixth National Plan (1982). The approach paper of the current Three-Year Plan aims to provide equal opportunities to all by ending all forms of discrimination and inequalities. Women's role in the sustainable peace and development process will be strengthened by socially, economically and politically empowering women of all castes, social classes and regions. Gender mainstreaming and women empowerment programmes have been built in the sectoral plans to improve the capacity of women to claim their rights and their position in society, and opportunities to generate employment and income. Government has taken a two-pronged strategy in budgeting for gender equity and equality. First, it has allocated a budget for women's empowerment through the Ministry of Women, Children and Social Welfare. Secondly, the government has established gender responsive budgeting. Introduced in FY 2007/08 by the National Planning Commission (NPC) and Ministry of Finance, the new system requires all line ministries and departments to code their programmes/budget along three categories based on their gender responsiveness. The Government of Nepal allocated approximately 18% of its total budget for direct support to women in the 2010/11 budget.

ALIGNMENT

Aid that is donor driven and fragmented is less effective. For aid to be effective, it must make use of

national development strategies and use and help strengthen capacity in national systems, such as those for procurement and public financial management. The Paris Declaration envisions donors basing their support fully on partner countries' aims and objectives. Indicators 2 through 8 of the Paris Declaration assess several different dimensions of alignment.

Alignment has generally improved, yet no targets have been met. The recording of aid on budget is above target; however the average donor ratio and the comparatively lower scores among major donors indicate that this overall result is a misleading assessment of progress. Co-ordinated technical co-operation and untied aid are very close to meeting the target, while the reliability of PFM systems has declined, as has their utilisation by donors. Use of country procurement systems has significantly declined since 2007. However, the government has adopted reforms in recent years, including substantial reforms in PFM and procurement, the adoption of an Aid Management Platform that allows for more comprehensive tracking of ODA flows, the active promotion of the use of country systems. Notable challenges remain in the lack of implementation capabilities in government agencies, in the development of clear capacity development strategies at the national and sector level, in donor reservation to use the national systems, and in aid conditionality.

INDICATOR 2: Building reliable country systems

Indicator 2 covers two aspects of country systems: public financial management (PFM) and procurement. Do these systems either adhere to good practices or are there plans for reform? If countries have reliable systems, donors are encouraged to use them for the delivery and management of aid. This helps to align aid more closely with national development strategies and enhances aid effectiveness.

INDICATOR 2a: How reliable are country public financial management systems?

Indicator 2a of the Paris Declaration assesses whether PFM systems meet broadly accepted good practices or whether credible reform programmes are in place. The assessment is based on the World Bank's Country Policy and Institutional Analysis (CPIA) score for the quality of PFM systems, which uses a scale running from 1 (very weak) to 6 (very strong).

To score highly, a country needs to perform well against all three of the following criteria: a comprehensive and credible budget linked to policy priorities; an effective financial management system to ensure that the budget is implemented as intended in a controlled and predictable way; and timely and accurate accounting and fiscal reporting, including timely and audited public accounts with effective arrangements for follow up. Meeting the global 2010 target requires half of partner countries to move up at least one measure (*i.e.* 0.5 points) between 2005 and 2010.

Nepal received a score of 2.5 regarding the indicator on reliable public financial management (PFM), a setback from the 2007 score of 3.5 and below the 2010 target of 4.0. According to the Nepalese government this rating "does not reflect the significant efforts made by Nepal... to improve PFM and fight against corruption since the last survey.

In order to address PFM shortcomings, the government has established a Public Expenditure and Financial Accountability Steering Committee and Secretariat to oversee the implementation of reforms, and approved a PFM Reform Programme. A number of initiatives are ongoing to strengthen the PFM systems at national and sub-national levels, enhance information technology capacity, put in place the legal and institutional infrastructure, train staff, functionalise oversight agencies and conduct social audit and public hearings. Donors have expressed concern that there has been no stable leadership of key accountability/ anti-corruption bodies. To address PFM weaknesses, reform efforts need to go beyond technical fixes and consider political economy factors.

The PEFA assessment in 2008 concluded that the fiduciary risk in Nepal continued to be "high" as indicated by some of the key features of PFM benchmarks. Although the budget is considered

credible, and aggregate outputs and revenue are good, the Nepalese PFM system is not comprehensive or transparent, and budget execution lacks predictability and control. Requirements for improvement include policy-based budgeting, accounting, recording and reporting, and concerted efforts to convince development partners to use national procedures.

INDICATOR 2b: How reliable are country procurement systems?

Indicator 2b was first measured in 2008 by 17 countries. The process is one of self-assessment, using the Methodology for the Assessment of National Procurement Systems developed by the OECD-DAC Task Force on Procurement. The methodology includes baseline indicators to compare a country's systems to internationally-accepted good practice, as well as a new set of indicators. These indicators assess overall performance of the system, compliance with national legislation and standards and whether there is a reform programme in place to promote improved practices. The results are expressed as grades on a four-point scale running from A (the highest) to D (the lowest). The 2010 target is for a third of partner countries to move up at least one measure (*i.e.* from D to C, C to B or B to A) although not all countries will perform an assessment.

No assessment was made on the reliability of country procurement systems in 2010. However, the government has initiated a governance reform programme for effective public service delivery, of which public procurement is a key focus. As a part of this reform agenda, the government promulgated the 'Public Procurement Act and Regulations' in 2007. Anti-corruption laws have also been put in place and a Commission for Investigation of Abuse of Authority and National Vigilance Centre is functional. Efforts are currently ongoing to develop locally trained human resources to improve procurement planning and implementation. However, challenges remain in enforcing procurement law.

INDICATOR 3: Aligning aid flows on national priorities

Comprehensive and transparent reporting on aid, and its use, helps ensure that donors align aid flows with national development priorities. When aid directed to the government sector is fully and accurately reflected in the national budget it indicates that aid programmes are well connected with country policies and processes. This also allows partner country authorities to present accurate and comprehensive budget reports to their parliaments and citizens.

As a proxy for alignment, indicator 3 measures the percentage of aid disbursed by donors for the government sector that is included in the annual budget for the same fiscal year. The indicator reflects two components: the degree to which aid is aligned with government priorities, and the extent to which aid is captured in government's budget preparation process. Budget estimates can be higher or lower than disbursements by donors and are treated similarly for the purpose of measuring indicator 3 despite the different causes.

The 2010 target is to halve the proportion of aid flows that are not currently reported on government budgets, with at least 85% of aid reflected in the budget.

Table 3: Are government budget estimates comprehensive and realistic?

	Government's budget estimates of aid flows in 2010	Aid disbursed by donors for government sector in 2010	2005		2007		2010 *		Total aid disbursed through other donors
	(USD m)	(USD m)	(for reference)		(for reference)		(%)		(USD m)
	a	b					c = a / b	c = b / a	
Asian Dev. Bank	182	157	--		79%			86%	0
Australia	5	13	--				39%		9
Canada	0	0	--				--		4
Denmark	16	34	--		41%		48%		0
EU Institutions	43	20	--			0%		46%	0
Finland	8	15	--		30%		53%		3
France	--	--	--			0%	--		0
GAVI Alliance	4	7	--			68%	54%		0
Germany	22	44	--		14%		50%		0
Global Fund	7	6	--			43%		90%	1
IFAD	7	5	--			61%		78%	0
Japan	62	50	--		66%			81%	5
Korea	17	6	--		0%			36%	1
Netherlands	3	2	--		24%			80%	0
Norway	14	28	--		37%		51%		0
Saudi Arabia	--	--	--			56%	--		0
Switzerland	8	22	--		18%		35%		0
United Kingdom	47	56	--		96%		84%		3
United Nations	28	74	--			74%	38%		0
United States	11	41	--		77%		28%		2
World Bank	212	130	--		88%			61%	0
Average donor ratio			--		46%		58%		
Total	695	710	--		74%		98%		27
									v.29-Apr-2011
(*) Ratio is c = a / b except where government's budget estimates are greater than disbursements (c = b / a).									

The 2010 target is to halve the proportion of aid flows that are not currently reported on government budgets with at least 85% of aid reported on the budget. Ninety-eight percent of Nepal's aid was reported on budget in 2010, an increase from 74% in 2007 and exceeding the target. Of major donors to Nepal, the Asian Development Bank scores highest with 86% of its funds accurately estimated, while the World Bank scored relatively low at 61%. Overall, the average donor ratio of 58% and comparatively lower scores among major donors indicates the overall figure of 98% is a misleading assessment of progress.

The main reasons for discrepancies between estimates and actual disbursements include: (1) exclusion of technical assistance and NGO and directly executed (donor) projects, scholarships and debt-relief funds, and donors' direct funding from the budget, (2) differences in the recording process (fiscal year, terminologies), and (3) government's weak absorption capacity.

Almost all donors show commitment towards aligning their strategies with the national frameworks. However, some donor headquarter policies fail to delegate adequate authority to their country offices on this issue. Gaps in estimates can be narrowed by regular interaction on public financial management issues and gradual confidence-building measures, and additional consultations with donors to reach the broadest possible consensus on foreign aid policy.

INDICATOR 7: Providing more predictable aid

For many countries, aid is a vital source of revenue and resources. Being able to predict aid disbursements – both in terms of how much aid will be delivered and when – is important to enable countries to manage public finances and undertake realistic planning for development. The Paris

Declaration calls on donors to provide reliable, indicative commitments of aid over a multi-year framework, and to disburse aid in a timely and predictable manner according to agreed schedules.

Indicator 7 examines the in-year predictability of aid for the government sector by measuring the proportion of planned disbursements (as reported by donors) that are recorded by governments in their accounting system as having been disbursed. Indicator 7 therefore assesses two aspects of predictability. The first is the ability of donors to disburse aid according to schedule. The second is the ability of government to record disbursements for the government sector as received in its accounting system. Indicator 7 is designed to encourage progress in relation to both, with the aim of halving the proportion of aid not disbursed (and not captured in the government's accounting system) within the fiscal year for which it was scheduled by 2010. The ultimate goal is to improve not only the predictability of disbursements, but also the accuracy with which they are recorded in government systems – an important element to support ownership, accountability and transparency.

Table 4: Are disbursements on schedule and recorded by government?

	Disbursements recorded by	Aid scheduled by donors for	2005		2007		2010 *		For reference: Aid disbursed by	For reference: % of scheduled aid	
	(USD m)	(USD m)	(for reference)		(for reference)		(%)		(USD m)	(%)	
	a	b					c = a/b	c = b/a	d	e = d/b	e = b/d
Asian Dev. Bank	93	107	--		48%		87%		157		68%
Australia	5	13	--		0%		39%		16		85%
Canada	0	0	--				--		0	--	
Denmark	9	18	--		22%		48%		19		96%
EU Institutions	0	23	--				0%	1%	24		95%
Finland	2	17	--		9%		14%		16	91%	
France	--	--	--				0%	--	--	--	
GAVI Alliance	3	11	--		52%		24%		7	59%	
Germany	10	32	--		9%		31%		38		84%
Global Fund	2	3	--		85%		58%		8		40%
IFAD	6	6	--		69%			97%	4	65%	
Japan	21	64	--		75%		33%		64	100%	
Korea	13	6	--					43%	6		92%
Netherlands	1	0	--				0%	0%	2		0%
Norway	3	14	--		20%		20%		20		70%
Saudi Arabia	--	--	--				0%	--	--	--	
Switzerland	1	18	--		10%		8%		22		84%
United Kingdom	27	17	--		42%			60%	67		25%
United Nations	20	99	--		38%		20%		85	86%	
United States	0	41	--		56%		1%		41	100%	
World Bank	145	175	--		76%		83%		176		100%
Average donor ratio			--		32%		37%				74%
Total	362	664	--		47%		55%		769		86%
											v.29-Apr-2011
											(*) Ratio is c=a/b except where disbursements recorded by government are greater than aid scheduled for disbursement (c=b/a).
											(**) Ratio is e=d/b except where disbursements recorded by donors are greater than aid scheduled for disbursement (e=b/d).

In 2010, 55% of disbursed aid to Nepal was recorded in public accounts, a slight increase from the previous survey of 47%. Of the major donors the government sector, the Asian Development Bank and World Bank are the highest scoring donors at approximately 85%, whilst the United States, United Nations and Japan score significantly lower. The apparently slow progress, however, should not be taken at face value as technical assistance and NGO-executed projects are not statutorily reflected on budget (but are recorded elsewhere), as confirmed by an analysis of in-year predictability in donor systems. Gaps between disbursed aid and that recorded in public accounts is due to a number of reasons, such as delays caused by conditionality issues, complicated and uncoordinated donor reporting requirements and disbursement processes, and the fact that one third of all on-budget aid to Nepal does not flow through the national treasury. In order to make progress on aid predictability and

accounting, the government has reformed administrative and budget processes to execute projects timely and disburse funds, adopted programme-based approaches and an aid management platform, and discouraged off-budget funding in order to fully capture of disbursement in accounting systems. According to donor records, 86% of aid flows scheduled to the government are disbursed. Donors have listed late financial reporting or auditing as reasons for delays in disbursements. Information on annual commitment and disbursement is largely provided timely and fully (although this varies between donors).

The Accra Agenda for Action commitments have not been explicitly referenced in formal agreements in Nepal. Donors participating in sector-wide approaches (SWAs) have started preparing medium-term rolling expenditure plans, but without clear co-ordination with the government. In 2011, the Government of Nepal implemented an aid management platform, a national online database on ODA which includes information regarding planned disbursements per fiscal year for both on and off-budget projects.

INDICATOR 4: Co-ordinating support to strengthen capacity

Capacity constraints present significant challenges to development and poverty reduction efforts and their sustainability. These relate both to aid management capacities (the ability of the government to capture, co-ordinate and utilise aid flows more effectively) and also to broader capacities for the design and implementation of policies and service delivery.

Under the Paris Declaration donors committed to providing technical co-operation that is co-ordinated with partner country strategies and programmes. This approach aims to strengthen capacities while also responding to the needs of partner countries. Successful capacity development is led by the partner country.

Indicator 4 focuses on the extent to which donor technical co-operation (an important input into capacity development) is country-led and well co-ordinated. It captures the extent to which technical co-operation is aligned with objectives articulated by country authorities, whether country authorities have control over this assistance, and whether arrangements are in place to co-ordinate support provided by different donors. The Paris Declaration target is for 50% of technical co-operation flows to be implemented through co-ordinated programmes that are consistent with national development strategies by 2010.

Table 5: How much technical co-operation is co-ordinated with country programmes?

	Co-ordinated technical co-operation	Total technical co-operation	2005	2007	2010
	(USD m)	(USD m)	(for reference)	(for reference)	(%)
	a	b			c = a / b
Asian Dev. Bank	3	3	--	0%	100%
Australia	0	7	--	9%	0%
Canada	0	5	--	0%	0%
Denmark	1	1	--	36%	100%
EU Institutions	0	0	--	0%	0%
Finland	0	6	--	0%	0%
France	--	--	--	--	--
GAVI Alliance	0	0	--	--	--
Germany	16	16	--	14%	100%
Global Fund	0	0	--	--	--
IFAD	0	0	--	72%	21%
Japan	11	11	--	77%	100%
Korea	2	3	--	99%	94%
Netherlands	1	3	--	0%	30%
Norway	0	0	--	5%	--
Saudi Arabia	--	--	--	--	--
Switzerland	10	14	--	0%	73%
United Kingdom	0	31	--	9%	1%
United Nations	26	64	--	24%	41%
United States	22	41	--	0%	53%
World Bank	13	17	--	55%	79%
Total	105	220	--	15%	48%

Forty-eight percent of technical co-operation was co-ordinated in 2010, significantly more than the 2007 figure of 15% and almost meeting the 2010 target of 50%. Of the larger donors to Nepal in this regard, Germany, Japan, Switzerland and the World Bank co-ordinate the largest proportion of technical co-operation (TC), while the United Kingdom and the United Nations score relatively poorly.

In Nepal, technical co-operation in most cases remains implemented through parallel systems. Performance on this indicator reflects a base level of co-ordination of technical co-operation (alignment on national needs), but it does not reflect the fact that implementation modalities (such as pooling of technical co-operation or placing technical co-operation under effective government management) are relatively less developed. The education and health sector SWAps account for a large proportion of co-ordinated technical co-operation, although clearer strategies have now been developed in several other sectors and can serve as references for the co-ordination of technical co-operation. However, technical co-operation remains more supply-led than other aid modalities, causing aid fragmentation and impeding further harmonisation.

A key challenge for the government is to develop clear capacity development strategies at national and sector levels. On the donor side, commitments to improve the co-ordination of technical co-operation have yet to be fully realised. Other challenges in technical co-operation include the lack of a comprehensive information system on technical assistance, co-ordination in the distribution of technical co-operation, and the provision of technical co-operation to sectors of donor preference rather than government priority sectors. To identify and communicate clear objectives and strategies for capacity development, the Foreign Aid Policy and the periodic plan of the Nepalese government

outline national priorities, and line ministries convey their priorities to donors during project negotiations. The National Planning Commission and Ministry of Finance leads on the preparation of budgets and programmes, while the Ministry of General Administration prepares an overarching human resource development plan for the civil service and supports the plan of line ministries. Most donors agree to co-ordinate and integrate under country programmes, but realisation of these commitments has proved difficult. One notable successful initiative is the Nepal Peace Trust Fund, a multi-donor fund that pools resources for capacity building among other peace and reconstruction objectives.

INDICATOR 5: Using country systems

Donor use of a partner country's established institutions and systems increases aid effectiveness by strengthening the government's long-term capacity to develop, implement and account for its policies to both its citizens and its parliament. The Paris Declaration commits donors to increase their use of country systems that are of sufficient quality, and to work with partner countries to strengthen systems that are currently weak. Indicator 5 is directly linked to indicator 2 on the quality of public financial management (PFM) and procurement systems.

Table 6: How much aid for the government sector uses country systems?

	Aid disbursed by donors for government (USD m)	Public financial management						Procurement			
		Budget execution (USD m)	Financial reporting (USD m)	Auditing (USD m)	2005 (for reference)	2007 (for reference)	2010 (%)	Proc. systems (USD m)	2005 (for reference)	2007 (for reference)	2010 (%)
		a	b	c	d			avg(b,c,d) / a	e		
Asian Dev. Bank	157	157	157	157	--	96%	100%	157	--	96%	100%
Australia	16	9	9	9	--	--	58%	9	--	--	58%
Canada	0	0	0	0	--	--	--	0	--	--	--
Denmark	19	17	17	11	--	100%	79%	11	--	100%	58%
EU Institutions	24	24	24	24	--	--	100%	0	--	--	0%
Finland	16	5	0	11	--	100%	33%	5	--	100%	30%
France	--	--	--	--	--	--	--	--	--	--	--
GAVI Alliance	7	0	0	0	--	33%	0%	0	--	0%	0%
Germany	38	22	22	22	--	20%	57%	22	--	60%	57%
Global Fund	8	2	8	8	--	100%	77%	0	--	0%	0%
IFAD	4	4	4	4	--	100%	100%	0	--	100%	0%
Japan	64	12	12	12	--	26%	19%	12	--	26%	19%
Korea	6	0	0	0	--	0%	0%	0	--	0%	0%
Netherlands	2	0	0	0	--	0%	0%	0	--	0%	0%
Norway	20	10	20	8	--	95%	63%	13	--	84%	65%
Saudi Arabia	--	--	--	--	--	0%	--	--	--	0%	--
Switzerland	22	7	7	7	--	25%	30%	7	--	0%	30%
United Kingdom	67	19	27	27	--	100%	36%	30	--	100%	44%
United Nations	85	4	8	7	--	7%	7%	0	--	1%	1%
United States	41	1	0	0	--	2%	1%	0	--	0%	0%
World Bank	176	176	176	176	--	98%	100%	0	--	25%	0%
Total	769	468	489	481	--	68%	62%	266	--	56%	35%

INDICATOR 5a: Use of country Public Financial Management systems

Indicator 5a measures the extent to which donors use partner country PFM systems when providing funding for the government sector. It measures the volume of aid that uses partner country PFM systems (budget execution, financial reporting and auditing) as a proportion of total aid disbursed for the government sector. The 2010 target is set relative to indicator 2a on the quality of PFM systems. For partner countries with a score of 5 or above on indicator 2a scale the target is for a two-thirds reduction in the proportion of aid to the public sector not using the partner country's PFM systems. For partner countries with a score between 3.5 and 4.5 on indicator 2a, the target is a one-third reduction in the proportion of aid to the public sector not using partner country's PFM systems. There is no target for countries scoring less than 3.5.

Between 2007 and 2010, there was a slight decline in the proportion of aid using country PFM systems from 68% to 62%, however, no target is applicable. Of the major donors to the government sector, the United States, the United Kingdom, United Nations and Japan used country systems the least, while the World Bank, Asian Development Bank, and European Institutions notably channelled all their aid through country systems. National PFM systems are in use both for budget support and project support, which are mostly funded by multilateral donors and a limited number of bilateral donors. Generally, donors who do not use country systems (PFM or procurement) perceive country systems as ineffective and cumbersome, with fiduciary risks regarding corruption and weak capacity. However, reasons for not using country systems are not always communicated clearly by donors. Donors have also highlighted the negative impact of high staff turnover on national PFM capacities, including at the highest levels where stable leadership is lacking for key institutions.

INDICATOR 5b: Use of country procurement systems

Indicator 5b follows a similar graduated target to indicator 5a which is set relative to indicator 2b on the quality of procurement systems. For partner countries with a procurement score of ‘A’, a two-thirds reduction in the proportion of aid for the public sector not using the country’s procurement systems and for partner countries with a procurement score of ‘B’ to reduce the gap by one-third.

Since 2007, the proportion of aid using country procurement systems has declined substantially. Only 35% of disbursements to the government sector made use of these systems in 2010 compared to 56% in 2007. Relevant institutional establishments (*i.e.* the enactment of Procurement Act and Rules) have strengthened the credibility of the procurement system, but doubts remain among donors on the efficiency and effectiveness of the system. Uneven implementation of procurement legislation and the lack of legal action against those violating the laws remain major concerns. The Procurement Act and Rules 2007 provide common (internationally based) standards for the country procurement systems beyond general or sector budget support. However, most donors use their own oversight mechanisms or procurement guidelines.

INDICATOR 6: Avoiding parallel implementation structures

When providing development assistance, some donors establish dedicated project management units or implementation units (PIUs) - to support development projects or programmes. A PIU is said to be “parallel” when it is created by the donor and operates outside existing country institutional and administrative structures. In the short term, parallel PIUs can play a useful role in establishing good practice and promoting effective project management. However, in the long run, parallel PIUs often tend to undermine national capacity development efforts, distort salaries and weaken accountability for development.

To make aid more effective, the Paris Declaration encourages donors to “avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes.” Indicator 6 counts the number of parallel PIUs being used in partner countries. The target is to reduce by two-thirds the number of parallel PIUs in each partner country between 2005 and 2010.

Table 7: How many PIUs are parallel to country structures?

	Parallel PIUs		
	2005 (for reference)	2007 (for reference)	2010 (units)
Asian Dev. Bank	--	0	0
Australia	--	0	2
Canada	--	8	3
Denmark	--	2	1
EU Institutions	--	1	1
Finland	--	3	5
France	--	0	--
GAVI Alliance	--	0	0
Germany	--	0	0
Global Fund	--	0	0
IFAD	--	0	0
Japan	--	0	0
Korea	--	0	0
Netherlands	--	0	0
Norway	--	2	0
Saudi Arabia	--	0	--
Switzerland	--	15	10
United Kingdom	--	12	9
United Nations	--	32	19
United States	--	31	18
World Bank	--	0	0
Total	--	106	68

The number of recorded parallel project implementation units (PIUs) dropped from 106 in 2007 to 68 PIUs in 2010. Given the total volume of aid to the government sector increased significantly from 2007 (65%), this is a notable reduction. While an increase in sector-wide approaches (SWAs) and the move away from traditional project-based approaches have been slower than initially planned, these figures remain encouraging and illustrate efforts on the part of most donors to better co-ordinate among themselves and align with national management systems.

PIUs are utilised in Nepal mainly due to the lack of trust among donors regarding the capacity and effectiveness of government systems. The number of PIUs decreased after the adoption of SWAs in the education and health sectors, but phasing out PIUs in the coming years primarily requires a transition from the current project-focused support to sector-wide approaches and other PBA modalities for capacity development in the public sector. To avoid creating new parallel PIUs, the government and donors have adopted various capacity development measures across different ministries. Donors are committed to opt for PIUs only where national capacity is not sufficient. Donors tend to bring government staff in PIUs and pay top-up salaries, but government policy against salary top-ups discourages donors from diverting human resources from within the government system.

INDICATOR 8: Untying aid

Aid is “tied” when restrictions are placed on the countries that goods and services may be purchased from, typically including the donor country and/or another narrowly specified group of countries. Untied aid not only improves value for money and decreases administrative burdens, but also supports the use of local resources, country systems and the harmonisation of donor support provided through pooled or joint aid instruments and approaches.

Data on the extent to which aid is tied are based on voluntary self-reporting by donors that are members of the OECD's Development Assistance Committee (DAC). The Paris Declaration target is to continue progress towards untying all aid between 2005 and 2010.

Table 8: How much bilateral aid is untied?

	Total bilateral aid as reported to the DAC in 2009	Untied aid	2005 (for reference)	2007 (for reference)	Share of untied aid
Australia	7.1	7.1	0%	100%	100%
Austria	1.2	1.0	59%	54%	81%
Belgium	0.5	0.5	--	100%	100%
Canada	0.9	0.9	36%	59%	100%
Denmark	45.5	45.5	100%	100%	100%
Finland	32.5	32.5	100%	100%	100%
France	0.3	0.3	100%	62%	100%
Germany	6.1	5.6	76%	99%	92%
Ireland	1.2	1.2	100%	100%	100%
Italy	0.3	0.1	0%	--	21%
Japan	56.3	56.3	100%	100%	100%
Korea	0.6	0.5	--	3%	90%
Luxembourg	1.3	1.3	100%	100%	100%
Netherlands	1.8	1.8	7%	100%	100%
New Zealand	0.9	0.9	100%	100%	100%
Norway	65.1	65.1	100%	100%	100%
Portugal	0.0	0.0	--	100%	--
Spain	47.8	47.6	0%	11%	100%
Sweden	1.2	1.2	100%	100%	100%
Switzerland	25.0	25.0	100%	94%	100%
United Kingdom	82.4	82.4	100%	100%	100%
United States	79.3	63.1	83%	91%	80%
Total	457	440	96%	95%	96%
Source: OECD Creditor Reporting System					v.29-Apr-2011

In 2009, 96% of aid to Nepal was untied, almost meeting the target, but approximately the same as in previous surveys. Most of donors untie 100% of their aid to Nepal, with the notable exception of Italy at 21% and the United States at 80%. Modalities accounting for the relatively high proportion of untied aid include: budget support; untied pooling and non-pooling partners in the education and health SWAs donors; a shift to programmatic approaches. Generally, there is a willingness to respect the principles of aid effectiveness in this regard, and government and civil society advocacy for untied aid over previous years have had an impact.

Conditionality

Although donors understand the need to agree on limited and streamlined conditionalities as much as possible, they have not made specific efforts on this during the survey period. In Nepal conditionality cannot be completely abolished, but streamlined and reduced by adopting such measures as: (1) forwarding foreign loans and grant project documents to the Cabinet for approval; (2) conducting foreign loans and grant agreement ceremonies publically and in front of the press; (3) issuing a press release on the day of agreement; (4) making public all conditionalities attached to the loan and grants and allowing for civil society's discussion; (5) facilitating public access to information on development projects and relevant documents.

HARMONISATION

Poor co-ordination of aid increases the cost to both donors and partner countries and significantly reduces the real value of aid. Harmonisation of aid delivery procedures and the adoption of common arrangements help reduce duplication of effort and lower the transaction costs associated with aid management. The Paris Declaration focuses on two dimensions of aid as a proxy for assessing overall harmonisation: the use of common arrangements within programme-based approaches (PBAs) and the extent to which donors and partner countries conduct joint missions and co-ordinate analytic work.

INDICATOR 9: Using common arrangements

Aid effectiveness is enhanced when donors use common arrangements to manage and deliver aid in support of partner country priorities. A good mechanism for aid co-ordination can be described as one that has shared objectives and integrates the various interests of stakeholders. Indicator 9 assesses the degree to which donors work together – and with partner governments and organisations - by measuring the proportion of total ODA disbursed within programme-based-approaches (PBAs). In practice, there are many different approaches and modalities which can use PBAs and harmonisation takes place at various levels.

At one level, the partner country is responsible for defining clear, country-owned programmes (*e.g.* a sector programme or strategy) and establishing a single budgetary framework that captures all resources (both domestic and external). At another level, donors are responsible for taking steps to use local systems for programme design and implementation, financial management, monitoring and evaluation. Finally, partner countries and donors are jointly responsible for donor co-ordination and harmonisation of donor procedures. The 2010 target is that two-thirds of aid flows are provided in the context of PBAs.

Table 9: How much aid is programme based?

	Programme-based approaches			Total aid disbursed (USD m) d	2005 (for reference)	2007 (for reference)	2010 (%) e = c / d
	Budget support	Other PBAs	Total				
	(USD m) a	(USD m) b	(USD m) c = a + b				
Asian Dev. Bank	30	0	30	157	--	14%	19%
Australia	9	0	9	16	--	0%	56%
Canada	0	4	4	5	--	0%	82%
Denmark	19	3	22	30	--	50%	72%
EU Institutions	21	0	21	32	--	0%	64%
Finland	0	5	5	16	--	42%	30%
France	--	--	--	--	--	0%	--
GAVI Alliance	0	0	0	7	--	22%	0%
Germany	2	10	12	38	--	14%	33%
Global Fund	0	8	8	19	--	73%	40%
IFAD	0	0	0	4	--	0%	0%
Japan	7	0	7	64	--	3%	11%
Korea	0	0	0	7	--	0%	0%
Netherlands	2	3	5	6	--	0%	90%
Norway	0	13	13	38	--	39%	34%
Saudi Arabia	--	--	--	--	--	0%	--
Switzerland	3	9	11	24	--	14%	47%
United Kingdom	22	3	25	95	--	32%	26%
United Nations	0	13	13	102	--	14%	13%
United States	0	22	22	41	--	2%	53%
World Bank	0	63	63	176	--	44%	36%
Total	114	156	269	875	--	23%	31%

In 2010 the use of programme-based approaches (PBAs) was relatively limited in Nepal at only 31% of total aid. Although some progress has been made since 2007, performance falls short of the 2010 target of 66%. Among major donors to Nepal in this regard - the Asian Development Bank, World Bank, Japan, United Kingdom and United Nations – all score less than 37%. The number of PBAs has not increased as much as initially envisaged. Progress thus reflects higher levels of donors' investment in some sectors, rather than a significant expansion in the number and scope of PBAs across the board. However, there is strong willingness to lead and promote PBAs by country authorities, and a corresponding commitment to expand the use of the PBAs by an increasing number of donors. The major challenges in channelling a greater portion of aid in support of PBAs are the weakening of government capacity due to political instability and insufficient capacity in some line ministries to lead a more harmonised approach, a lack of concrete measures to institutionalise the PBAs, the lack of appropriate incentives among donors and restrictions on PBA participation among some bilateral donor headquarters.

INDICATOR 10a: Joint missions

A common complaint of partner countries is that donors make too many demands on their limited resources: country authorities spend too much time meeting with donor officials and responding to their many requests. The Paris Declaration recognises that donors have a responsibility to ensure that, to the greatest extent possible, the missions and analytical work they commission are undertaken jointly – *i.e.* that the burden of such work is shared. The 2010 target is that 40% of donor missions to the field are conducted jointly.

Table 10: How many donor missions are co-ordinated?

	Co-ordinated donor	Total donor	2005*	2007*	2010*
	(missions)	missions	(for reference)	(for reference)	(%)
	a	b			c = a / b
Asian Dev. Bank	10	43	--	11%	23%
Australia	8	9	--	33%	89%
Canada	0	4	--	44%	0%
Denmark	5	10	--	75%	50%
EU Institutions	0	10	--	43%	0%
Finland	3	10	--	100%	30%
France	--	--	--	--	--
GAVI Alliance	1	2	--	100%	50%
Germany	9	12	--	25%	75%
Global Fund	1	7	--	0%	14%
IFAD	0	5	--	33%	0%
Japan	0	12	--	0%	0%
Korea	0	7	--	33%	0%
Netherlands	0	0	--	--	--
Norway	0	4	--	18%	0%
Saudi Arabia	--	--	--	--	--
Switzerland	0	2	--	0%	0%
United Kingdom	5	8	--	100%	63%
United Nations	26	99	--	80%	26%
United States	4	5	--	14%	80%
World Bank	39	92	--	35%	42%
Total	72	341	--	23%	21%
					v. 29-Apr-2011
* The total of coordinated missions has been adjusted to avoid double counting.					
A discount factor of 35% is applied.					

Twenty-one percent of donor missions in Nepal were co-ordinated in 2010, a slight setback since the 2007 number of 23% and considerably below the 2010 target of 40%. Significant differences remain among donors on this indicator, with nearly half reporting no, or very few, co-ordinated missions or analytical works. Various joint mechanisms have been developed by donors to further strengthen harmonised approaches in the health, education, peace and local governance sectors. However, joint assessments and reviews are more *ad hoc* in other sectors. Joint annual reviews are mostly undertaken under sector-wide approaches.

INDICATOR 10b: Joint country analytic work

Country analytic work is the analysis and advice necessary to strengthen policy dialogue, and to develop and implement country strategies. It includes country or sector studies and strategies, country evaluations and discussion papers. The Paris Declaration foresees that donors should conduct analytic work jointly where possible as it helps curb transaction costs for partner authorities, avoids unnecessary duplicative work and helps to foster common understanding. Indicator 10b measures the proportion of country analytic work that is undertaken jointly. The 2010 target is that 66% of country analytic work is carried out jointly.

The share of co-ordinated analytical works in Nepal in 2010 was 47%, an increase from 28% in 2007, but below the 2010 target. Of donors who co-ordinated a significant amount of analytic work in 2010, the United Nations (accounting for half of all analytic work) co-ordinated 50%, the United Kingdom

(100%), Germany (62%) and the World Bank and Asian Development Bank approximately 20%. Joint analysis in Nepal is becoming more frequent at the sector level. In addition to the joint strategic planning in the health and education SWAs, there has been joint analysis by donors and the government over roads and rural infrastructure. Unfortunately, however, sharing of country analytic works and policy discussions are often not followed by co-ordinated implementation.

Table 11: How much country analytic work is co-ordinated?

	Co-ordinated donor analytic work	Total donor analytic work	2005*	2007*	2010*
	(units)	(units)	(for reference)	(for reference)	(%)
	a	b			c = a / b
Asian Dev. Bank	1	5	--	0%	20%
Australia	2	2	--	100%	100%
Canada	0	1	--	--	0%
Denmark	1	1	--	100%	100%
EU Institutions	0	0	--	--	--
Finland	0	2	--	--	0%
France	--	--	--	--	--
GAVI Alliance	0	0	--	--	--
Germany	8	13	--	50%	62%
Global Fund	1	3	--	60%	33%
IFAD	0	2	--	50%	0%
Japan	0	0	--	--	--
Korea	0	0	--	--	--
Netherlands	0	0	--	--	--
Norway	0	0	--	20%	--
Saudi Arabia	--	--	--	--	--
Switzerland	0	0	--	--	--
United Kingdom	0	2	--	100%	0%
United Nations	35	50	--	33%	70%
United States	13	13	--	9%	100%
World Bank	1	4	--	60%	25%
Total	47	98	--	28%	47%
					v. 29-Apr-2011
* The total of coordinated missions has been adjusted to avoid double counting.					
A discount factor of 25% is applied.					

Aid Fragmentation

Fragmented aid - aid that comes in many small slices from a large number of donors - creates high transaction costs and makes it difficult for partner countries effectively to manage their own development. Aid fragmentation also increases the risk of duplication and inefficient aid allocation among donors. A pilot analysis on fragmentation of country programmable aid carried out at the country level by the OECD in collaboration with the Deutsche Gesellschaft für Internationale Zusammenarbeit reveals that aid fragmentation increased from 2005-09 alongside an increase in country programmable aid (OECD 2011).

In order to decrease aid fragmentation and improve division of labour, the government has clearly indicated its preference for programme-based approaches, and small and fragmented projects are discouraged - as reflected in the new draft of the Foreign Aid Policy and aid management platform.

MANAGING FOR RESULTS

INDICATOR 11: Do countries have results-oriented frameworks?

Both donors and partner countries should manage resources according to well-defined, desired results, measuring progress toward them and using information on results to improve decision making and performance. Achieving this implies strengthening capacity to undertake such management and emphasising a focus on results. Countries are expected to develop cost-effective and results-oriented reporting and performance assessment frameworks, while donors commit to use them and refrain from requiring separate reporting.

Indicator 11 assesses the quality of a country's results-oriented frameworks. In particular, it considers the quality of the information generated, stakeholder access to information, and the extent to which the information is utilised within a country level monitoring and evaluation system. The government provides evidence against these criteria through the survey, and this is translated by the World Bank into a score running from A (highest score) to E (lowest score).

The Paris Declaration 2010 global target is to reduce the proportion of countries without transparent and monitorable performance assessment frameworks by one-third.

Nepal has achieved the target score of B for its result-oriented framework, an improvement from C in 2007. The national development strategy (NDS) of Nepal incorporates a monitoring and evaluation (M&E) framework to track progress. The M&E framework sets out clear institutional responsibilities and co-ordination for the most part, and is supported by a strong and comprehensive data collection system. However, only 25% of indicators have baseline data, and the main data sources have inadequate frequencies. Stakeholder access to public expenditure data and information on the NDS is provided through a variety of dissemination process.

The National Planning Commission is the central co-ordination agency for the overall monitoring of the periodic plans. Planning/Monitoring & Evaluation Divisions of sector ministries are responsible for monitoring at sectoral level. All sector ministries are preparing results-based frameworks for the NDS. Outcome and impact level indicators of the NDS contribute to the Millennium Development Goals. Most of the MDG targets are included in the NDS. In regard to co-ordinated country-level monitoring and evaluation, institutional responsibilities and co-ordination are mostly clearly explained and understood. The M&E framework tracks input, output, and outcome indicators for each activity under each sector, and line ministries and policymakers use M&E reports in order to inform policy formulation.

Collection and reporting of data disaggregated by sex and socially excluded groups is improving, through, for example, the Health and Education Management Information Systems (HMIS, EMIS) and census reports. However, it is not possible to say to what extent data disaggregated by sex are in fact used for decision making.

Major challenges in the implementation of managing for results in Nepal include: a lack of knowledge on results-based management and monitoring/evaluation, a lack of a human resources regarding development planning on results-based management, the absence of a robust data management system, resource constraints. A relatively solid results-based framework is in place but

capacity to implement remains limited. As a result, the overall quality of results reporting is not yet up to standards and quality varies significantly between sectors.

MUTUAL ACCOUNTABILITY

INDICATOR 12: Mutual accountability

Strong and balanced mechanisms that support accountability are required at all levels for aid to be most effective. Donors and partner country governments should be accountable to their respective publics and to each other for implementing their commitments on aid, its effectiveness, and the results to which it contributes.

Indicator 12 examines whether there is a country-level mechanism for mutual assessment of progress on partnership commitments, including on aid effectiveness. There are three criteria that must all be met: the existence of an aid policy or strategy agreed between the partner country government and donors; specific country-level aid effectiveness targets for both the partner country government and donors; an assessment towards these targets undertaken by both partner and donors in the last two years, and discussed in a forum for broad-based dialogue.

The 2010 target is for all partner countries to have mutual assessment reviews meeting these criteria in place.

Nepal was assessed to have functional mutual accountability mechanisms in 2010, improving the situation from 2007 where there were no mechanisms and therefore meeting the target. A local donors meeting held regularly at Ministry of Finance is one notable mechanism. Moreover, there have been mutual assessments of progress through the Nepal Portfolio Performance Review exercise, which initially focused on four donors but is now being expanded. Despite this, a national action plan on aid effectiveness has not yet been fully endorsed due to political transition, and there is no mechanism to regularly follow-up on commitments made in the draft plan. The NPPR process is at the moment focused on monitoring a number of indicators on the government side, but there are plans to introduce some indicators for donors in 2011-12, in line with the draft National Action Plan on Aid Effectiveness. With regard to specific donors, periodic joint reviews and assessments of the Asian Development Bank funded projects are being conducted annually. Line ministries also host periodic joint reviews with respect to World Bank projects. Health and education SWAps conduct mutual assessments of progress through Joint Assessment Reviews.

However, parliament and civil society are not involved in the progress review in a systemic way. Nepali civil society actors most often complain that the Paris Declaration has mostly revolved around donor-government relationships in enhancing aid delivery and management, with civil society excluded as active stakeholders, this has led to serious implications in aid disbursement and implementation. Local government is involved in mutual assessment through a local level progress review. Furthermore, there have been many instances in which gender equality and women's empowerment are reviewed, but there is no formal system for mutual review and assessment.

References

OECD (2011), Country aid fragmentation tables. Pilot analysis of aid fragmentation at the partner country level drawing on evidence sourced from the OECD-DAC Creditor Reporting System. WP-EFF Task Team on Division of Labour and Complementarity, OECD, Paris.

World Development Indicators, The World Bank Group, 2011. Available at <http://data.worldbank.org/indicator>, accessed 23 May 2011.

References and Bibliography

Asian Development Bank (2010) Asian Development Bank's Aid Effectiveness Report 2009 and the Way Forward, ADB.

Acharya Meena (2008) *Mapping Foreign Aid in Nepal (A Case Study in Nepal)*, SAHAVAGI

Central Bureau of Statistics (CBS) (2009) *Nepal Labour Force Survey Report*, Government of Nepal, Kathmandu: Government of Nepal (GoN)

Eriksson et al. (2009) Evaluation of the Paris Declaration Phase 2 Approach Paper, 25 May 2009

Government of Nepal (GoN) (2007) *The Interim Constitution of Nepal*, Kathmandu: GoN

GoN (2008) Nepal PEFA – An Assessment of the Public Financial Management Performance Measurement Framework (as of FY 2005/06), February 2008, GoN: Kathmandu

MoF (2008a) Nepal Country Report: 2008 Survey on Monitoring the Paris Declaration, March 2008, Kathmandu: MoF.

MoF (2008b) Draft Foreign Aid Policy, 2008, http://www.ndcm2008.gov.np/pdf/fap_2008.pdf

MoF (2010a) Economic Survey, Kathmandu: GoN

MoF (2010b) Nepal Portfolio Performance Review NPPR 2010, Kathmandu: GoN

MOF (2010c) Joint Evaluation of the Implementation of the Paris Declaration, Phase II, 2010, GoN

MoF/Office of the Auditor General/Financial Comptroller General Office (2008) PEFA An Assessment of the Public Financial Management Performance Measurement Framework, Kathmandu: GoN

Government of Nepal, National Planning Commission (NPC) (1997) Ninth Plan (1997 to 2002), Kathmandu: GoN

NPC (2002) Tenth Plan (2002 to 2007), Kathmandu: GoN

NPC (2007a) Three-year Interim Plan, 2007-2010, NPC, 2007

NPC (2007b) Three-Year Interim Plan (2007 to 2010), Kathmandu: GoN

NPC (2010) Three-Year Plan: Approach Paper (2010/11 to 2012/13), Kathmandu: GoN

NPC/UNDP (2010) Nepal Millennium Goals: Progress Report 2010, NPC/UNDP

NGO Federation of Nepal (2008) Civil Society and Aid Effectiveness – How Can the Aid Be More Accountable and Effective? Report on the National Consultations in Nepal

Organisation for Economic Co-operation and Development (OECD) (2005). Paris Declaration on Aid Effectiveness, HLF. Paris, Feb 28-March 2 2005.

OECD (2008) 2008 Survey on Monitoring the Paris Declaration: Making Aid More Effective by 2010, <http://www.oecd.org/dataoecd/25/42/41952035.pdf>

World Bank (2006) Aid Effectiveness Profile – Nepal, World Bank [Online]

World Bank (2007) Nepal Public Sector Accounting and Auditing: A Comparison to International Standards Country Report, World Bank and GoN

World Bank (2008) Nepal at a Glance, http://devdata.worldbank.org/AAG/npl_aag.pdf