PREFACE

I am pleased to publish this study at a juncture when there is a great deal of interest in how foreign aid will be mobilized in the context of federal Nepal. This study was commissioned by the Ministry of Finance; its objective is to shed light on the way forward for articulating the processes, and respective roles and responsibilities of key actors, in the mobilization of foreign economic cooperation in federal Nepal. The study is intended as a point of reference for Government at different tiers, as well as for other stakeholders and actors concerned with foreign aid mobilization. Appropriately, the study takes as its point of departure the relevant provisions of the Constitution.

While the Constitution is clear on the headline provisions related to foreign aid mobilization, and stipulates that the Federal Government retains a significant role in managing international economic cooperation in the federal system, many changes will need to be made to current practice at the operational level. Systems will need to be put in place to facilitate the on-lending and on-granting of foreign assistance by the Federal Government to State and Local Governments. This requires changes to how resource needs are articulated, projects are prepared, project financing and implementation agreements are signed and enforced, fiscal transfers are made, and accountability mechanisms are understood at all levels of Government, and with Development Partners.

The complexity of Nepal's transition from a unitary to a federal system is well known, and attendant reforms will cut across many areas of governance and administration. The Government appreciates the significant support we receive from our international development partners, and acknowledges that we must continue to work together to ensure this assistance is optimally targeted to respond to development needs at various levels; utilized efficiently and transparently; and contributes to development results, including towards Nepal's goal of emerging as a middle-income country and achieving the SDGs by 2030.

The Ministry of Finance will be using this study as an input to initiate necessary revision of the Development Cooperation Policy 2014. We also know that there is much work ahead to revise existing guidelines and operational processes related to aid mobilization and management, and look forward to collaborating across Government institutions and with DPs and other stakeholders on this.

As we recognize that consultation, transparency, and open dialogue around issues of foreign aid mobilization and management is of utmost importance to maintaining strong partnerships, the Ministry of Finance has invited inputs throughout the process of drafting and finalizing this study. This included during the research and analysis stage, and a list of consultations undertaken during that stage can be found in Annex B of this document, and I express my sincere thanks to all those who offered their time and insights during the preparation of this study.

Before finalizing the study, Ministry of Finance also took the initiative to organize interaction programs, with Government and Development Partner representatives, respectively, on 22 October and 10 November 2017. These interaction programs provided an important opportunity for Ministry of Finance to present the key findings of the study, and to invite feedback and reactions in a forum of open dialogue. I would like to thank those who participated in the respective programs for their contributions. The feedback and questions raised at the two interaction programs have been summarized and included as Annex E of this study.

This study was conducted by a team of consultants from Management, Development and Research Associates (MaDRA) engaged by the Ministry of Finance, and I would like to thank them for their work: Mr. Deepak Neupane (Team Leader), Mr. Bijay Prasad Sharma, and Mr. Santosh Acharya. I also thank Dr. Ram Prasad Mainali, Under Secretary and National Project Manager of the Effective Development Financing and Coordination (EDFC) project for facilitating this study together with the entire project team, led by Mr. Tilakman Singh Bhandari.

Finally, I would like to express my thanks for the technical and financial support provided by the EDFC project. On behalf of the Ministry of Finance, let me express my appreciation for the EDFC project's facilitation of this type of analytical work which contributes to critical policy dialogue at this time of important transition in Nepal's history.

Baikuntha Aryal
December, 2017

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LIST OF ABBREVIATIONS

AAA	:	Accra Agenda for Action
ADB	:	Asian Development Bank
BS	:	Bikram Sambat
DAC	:	Development Assistance Committee
DCP	:	Development Cooperation Policy
DCPIC	:	Development Cooperation Policy Implementation Committee
DP	:	Development Partner
ERR	:	Environmental Rate of Return
FAP	:	Foreign Aid Policy
FCGO	:	Financial Comptroller General Office
FG	:	Federal Government
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
GoN	:	Government of Nepal
HLF	:	High Level Forum
IECC	:	International Economic Cooperation Coordination Division
INGO	:	International Non-Governmental Organization
IRR	:	Internal Rate of Return
LG	:	Local Government
MDG	:	Millennium Development Goal
MoF	:	Ministry of Finance
MoFA	:	Ministry of Foreign Affairs
MoFALD	:	Ministry of Federal Affairs and Local Development
MoHA	:	Ministry of Home Affairs
M&E	:	Monitoring and Evaluation
NAG	:	Nepal Aid Group
NGO	:	Non-Governmental Organization
NNRFC	:	National Natural Resources and Fiscal Commission
NPC	:	National Planning Commission
NRB	:	Nepal Rastra Bank

NRF	:	National Result Framework
ODA	:	Official Development Assistance
PDMO	:	Public Debt Management Office
PPP	:	Public Private Partnership
SDG	:	Sustainable Development Goal
SG	:	State Government
SMoF	:	State Ministry of Finance
SMoHA	:	State Ministry of Home Affairs
SWAp	:	Sector Wide Approach
SWC	:	Social Welfare Council
TA	:	Technical Assistance
UN	:	United Nations
USA	:	United States of America
VAT	:	Value Added Tax
WB	:	World Bank
WBG	:	World Bank Group
WPAE	:	Working Party on Aid Effectiveness

EXECUTIVE SUMMARY

After the promulgation of the Constitution in 2072 BS, unitary governance system has changed to federal system in Nepal with seven Provinces and 753 Local Governments (LGs). During the institutional setup of federal structure, more investment in infrastructures, institutional capacity building of governmental organizations, enhancing the absorption capacity of Government of Nepal (GoN), is required. Similarly, a fair deal of investment in social infrastructures like health and education is also needed to develop social capital. As the mobilization of internal sources alone may not be sufficient to cover the cost of infrastructures, the needed investment in them could be arranged by the means of foreign aid. The article 59(6) of the Constitution mandates the GoN to mobilize foreign resources in the national priorities. The Constitution also has clear provisions on the role of different tiers of government in foreign aid mobilization. While the LGs are not allowed to mobilize any kind of foreign aid on their own, the State Governments (SGs) can well receive foreign grants with the consent from GoN, according to the statute.

The Ministry of Finance (MoF) is developing new policy guidelines for foreign aid mobilization in three tiers of government. With the objective of developing a prudent policy guideline for the foreign aid mobilization in the context of federalism in Nepal, this study aims to design the mechanism for foreign aid mobilization in the federal setup. This study also suggests the necessary changes to be made in the existing Development Cooperation Policy, 2014.

This study is of policy relevant directive nature, and uses a descriptive methodic approach to gather information. A set of historical timelines in major shift in foreign aid mobilization in Nepal with strategies of development partners/donors along with their country strategies framework are reviewed and analyzed. Moreover, different consultative meetings were conducted with policy maker, experts and concern government officers.

As the GoN has been adopting One Window System[1] for foreign aid mobilization, the Federal Government is also in the same position to request the development partners for floating the foreign aid needed for the execution of feasible projects. While demanding foreign aid with Development Partners (DPs) for lower tiers, the Federal Government should give priority to intra-state and sub-national level mega projects and programs which help to minimize the aid fragmentation and transaction costs. As the country move forward in the path of federalism, the GoN through the MoF can coordinate with Development Partners for receiving the foreign aid with less stringent conditions.

The process of on-lending and grant transfers takes place in three ways: from Federal to State Government, Federal to Local Government and State to Local Government. A set of terms and conditions and transfer procedures will be applicable in each level. The structural readjustment of the country will reorganize

1 *Development Cooperation Report 2014/15*

aid modality, project demand and project design, which presents a challenge to each department in the implementation process. Federal Government will face immense pressure to manage costs related to the building of institutions and of new projects it chooses to accept, because under the Constitution, it will need to raise capital and resources to fund these projects.

Aid fragmentation and increasing transaction costs might be yet another challenge in federal structure as the number of local government increases. The effectiveness of foreign aid mobilization remains questionable, though development partners and recipient countries have principally agreed on mutual accountability towards the taxpayers as well as linking the outcomes of such mobilization with the National Result Frameworks (NRF).In the context of Nepal, the concerned authorities appear to be lackadaisical to develop a progress measuring mechanism on foreign aid by well considering the related aspects like the promotion of ownership, assurance of accountability and transparency, and predictability in external resources.

CHAPTER 1

INTRODUCTION

1.1 Background

The history of mobilization of official development aid and development cooperation in Nepal is about six-decades long. Foreign aid was a major source of development financing until the late 1980s. For example, in the first Development Plan (1956-60),the entire development budget was funded by foreign aid. In the early 1980s,the foreign aid used to contribute some 75 percent of the development expenditure of each fiscal year. While foreign aid used to be channelized into the country predominantly in the form of grants in the early years, it was the loans that proved dominant in the later years. With the improvement in internal resource mobilization, the share of foreign aid has been reduced in relative terms over time. However, in absolute terms, the trend is on the upward direction every year, with few exceptions. While the share of foreign aid in the annual budget was around 20 to 22 percent in FY 2012/13 to FY 2014/15 AD, it jumped to 29 percent in FY 2016/17, largely because of the post-earthquake reconstruction activities.Foreign aid is contributing around 22 percent to the current FY 2017/18. Foreign aid contributions account about 25 percent on average in the total budgetary requirement every year.

The Government of Nepal (GoN) receives foreign aid to fill the resource gap in the country. The entire aid amount is mobilized in accordance with the Development Cooperation Policy (DCP), 2014.Aidis mobilized either for the stand-alone projects, for the program support or in the form of commodity support. All types of support are subject to the formal agreements reached between the GoN and the concerned Development Partners (DPs).The Ministry of Finance (MoF) is the sole focalagency to coordinate with the DPs. The GoN has delegated its authority to the MoF for coordinating, facilitating and mobilizing the foreign aid in the country.

After the promulgation of the Constitution in 2072 BS, the governance structure has changed. The country saw a momentous political shift from a unitary governance system into a federal setup. The Constitution has clearly provisioned for 7 provinces and 753 Local Governments.These provinces will act as State Governments (SGs). In March 2017, the GoN dissolved the then local bodies (District Development Committees, Municipalities and Village Development Committees) and replaced them with four types of Local Governments (LGs) – Metropolitan Cities, Sub-Metropolitan Cities, Municipalities and Rural Municipalities.

The Article 59 (6) of the Constitution mandates the Government of Nepal to leverage the foreign resources in order to maintain macro-economic stability in the country. TheConstitution also has clear provisions on the role of Federal and State Government in foreign aid mobilization. Though the LGs are not allowed to mobilize any kind of foreign aid on their own, the SGs can receive foreign grants and assistance with the permission from the Federal Government (FG). The Federal Government can receive all kinds of foreign aid, be it the grants or the loans.

The Article 60 of the Constitution has provisions regarding the fiscal transfer from the FG to SG and LG as well as from the SG to LG. The FG transfers the resources to the lower tiers of government in four forms- Equalization, Conditional, Counterpart and Special Grants. The LGs also receive funds from their SG in the same manner. The SGs and LGs enjoy a leeway to use the Equalization Grant and Conditional Grant. When it comes to the other two remaining forms of grant, Counterpart and Special, no fund so far has been allocated. The GoN formulated the first federal budget for the current FY 2017/18 through which 18.6 percent of the total budget has transferred to the LGs.This portion contains foreign aid, as many of these programs and projects are funded by the international donors.

As per the Constitution, the SGs and LGs have clear mandates on the functions to be carried out by them. In fact, they are bound to suffer huge resource gaps while fulfilling their role and responsibilities. Although these governing entities can mobilize their own internal resources, this alone cannot adequately meet the development needs and aspirations. They may ask the FG for the required resources to execute development projects but the FG itself is not in a position to address such concerns. Therefore, foreign aid mobilization becomes necessary for carrying out development activities within their mandates. The FG needs to receive and transfer the foreign aid to fill the resource gaps. As there is no clear modality on how to mobilize the foreign aid in the federal set-up, the MoF has designed these guidelinesfor effective and efficacious mobilization of foreign aid in different tiers of the government.

1.2 Objectives of the Study

The main objective of this study was to develop a prudent policy guideline for the foreign aid mobilization in the context of federalism in Nepal. The specific objectives were;

- To draft an implementable policy for foreign aid mobilization guideline in Nepal in the context of Federal setup.
- To suggest a set of actions to implement the prescribed policy guidelines.
- To suggest the mechanism of foreign aid transfer from Federal to the State and Local Governments.
- To suggest the amendments to the current Development Cooperation Policy, wherever required.

1.3 Scope of the Study

The Constitution of Nepal 2072 BS promulgated by the duly elected Constitutional Assembly has changed the governing system of Nepal from a unitary model to federal one. In line with the provisions of the Constitution, foreign aid mobilization mechanism, with a set of actions, is to be developed, DCP, 2014 as well as Loans and Guarantee Act 1968 and other relevant policies and legal documents would have to be reviewed. Furthermore, foreign aid mobilization mechanism in those federal countries that contextualize the socio-economic characteristics of Nepal had to be reviewed.

1.4 Methodology

An analytical method, comprising of conceptualization, desk review, consultative meetings, and situation analysis and group discussion methods were adopted to carry out the study.

1.4.1 Conceptualization

As this study is much more based on policy issue, it requires a descriptive methodic approach to gather information. A set of historical timelines in major shifts in foreign aid mobilization in Nepal with development strategies of development partners/donors along with their country strategies framework reviewed and analyzed. The Constitution of Nepal has already been promulgated and is in the course of implementation. Remarkably, it brings drastic changes in the political structure and administrative operation apart from marking a paradigm shift in the entire development perspective of the country. Many polices will go through the gradual improvement in the course of Constitution implementation along with the three tiers governance system.Resource sharing, capital generation and assets regeneration structure will be redefined in each tier.

On the one hand, in linewith the DCP, 2014,the DPs continue to funnel more funds into Nepal's socio-economic endeavours. On the other, the country's concerned machineries have long been unable to properly use public funds.Such being the reality, the ownership of the resources in the management of the fund to be invested in the development sectors would of course be fundamental issues in the realm of foreign aid.

1.4.2 Desk Review

1.4.2.1 Constitutional Provision of Foreign Aid Mobilization in Nepal

The article 59 (6) ofthe Constitutiondelegates full authority to the FG to receive and mobilize foreign aid to expedite the economic development of the country.Similarly, the schedule 5 of the Constitution entitles the FG to mobilize foreign aid (loan, grant and assistance) while the schedule 6 delegates power to SGtomobilizeforeign grants and assistance with the consent of the FG.

1.4.2.2 Development Cooperation Policy, 2014

The DCP, 2014 introduced after repealingthe Foreign Aid Policy (FAP), 2002 is the prime policy guideline for the administration of foreign aid. This policyhas endorsed all the declarations of foreign aid mobilization starting from Rome(2003) to Mexico (2014) and is widely recognized as something well suited for the unitary system. This policy subjectively has accepted the need of foreign aid and the same provision will probably continue to remain in practice for some more decades to come.

The governance system of Nepal now has been changed to federal systemand thechanges made both in governance system and governing entities have to be seriously considered while developing the modus operandi of foreign aid mobilization for federal setup.

Furthermore, the declarations of the Fifth Biennial High-Level Meeting of the Development Cooperation Forum, New York (2016) and Second High-level Meeting of the Global Partnership for Effective Development Cooperation Forum, Nairobi (2016) have also to be addressed in the DCP.

Being a stakeholder of the said declarations, the country still lacks concrete and result-oriented foreign aid strategies.Similarly, lower tiers of government are not allowed to use foreign aid directly but theNRF will be based on the performance of lower tiers of government.Therefore, the DCP also needs to address such gap in order to create a suitable atmosphere for the best possible mobilization of foreign aid.

Effectiveness of the foreign aid at the local level depends on how LGs are facilitated and empowered to mobilize such aid.FGmust develop clear guidelines, mechanisms and set of actions for the best possible utilization of external assistance at the local level. So,the existing policy also needs to be revisedby considering this fact.

1.4.2.3 Review of International Declaration on Aid Mobilization

The study team reviewed the seven High-Level Forums on aid effectiveness along with the High-Level Meetings of the global partnership for effective development cooperationranging from First High-Level Forum Rome (2003) to Second High-Level Meeting of the Global Partnership for Effective Development Cooperation Forum, Nairobi (2016).

1.4.2.4 Review of International Practices on Aid Mobilization

During the study period, the foreign aid mobilization practices adopted by some federal and other relevant countries have been reviewed and the applicable aspects have been incorporated in this report. The name of the countries and their foreign aid mobilization practices have been stated in Annex A.

1.4.3 Consultative Meetings

Consultative meetings with former and in-service key policy makers, senior officers and individual expertswere organized for in-depth analysis of the technical aspects anddeveloping directives for foreign aid mobilization in the federal setup of Nepal.During the study period, the multilateral, bilateral development partners werealso consultedto acquire updated information about their aid strategies and frameworks.

Lists of individuals and institutions consulted during the study program are presented inAnnex B.

1.5 Limitations of the Study

- The foreign aid flow mechanisms and set of actions suggested by the current and retired officers of the GoN are strictly their own individual opinions that might differ with oneanother.
- The foreign aid mobilization modality, which is proposed by taking the best international practices into account, may or may not exactly represent the socio-economic characteristics of Federal Nepal.
- The study will only cover the mobilization of the Official Development Assistance (ODA).

CHAPTER 2

REVIEW OF FOREIGN AID MOBILIZATION

2.1 International Declaration on Aid Mobilization

High-Level Forums on Aid Effectiveness (HLFs) sponsored by the Development Assistance Committee (DAC) Working Party on Aid Effectiveness (WPAE) are being convenedwith an aim to assess and meet the ambitious targets set by the MDGs and SDGs. Such forums were held inRome (2003), Paris (2005), Accra (2008), Busan (2011), Mexico (2014), New York (2016) and Nairobi (2016) respectively[2]. The following is a brief summary of the principles adopted by these forums.

2.1.1 First High-Level Forum (Rome, 2003)

The Rome forum resulted in the adoption of the following priority actions, embodied in the Rome Declaration:

- that development assistance be delivered based on the priorities and timing of the countries receiving it.
- that donor efforts concentrate on delegating co-operation and increasing the flexibility of staff on country programs and projects.
- and that good practice be encouraged and monitored, backed by analytic work to help strengthen the leadership that recipient countries can take in determining their development path.

2.1.2 Second High-Level Forum (Paris, 2005)

The Paris Declaration, a product of HLF2, outlined the following five fundamental principles for making aid more effective:

- Ownership: Developing countries set their own strategies for poverty reduction, improve their institutions and tackle corruption.
- Alignment: Donor countries align behind these objectives and use local systems.
- Harmonization: Donor countries coordinate, simplify procedures and share information to avoid duplication.
- Results: Developing countries and donors shift focus to development results and results get measured.
- Mutual accountability: Donors and partners are accountable for development results.

2 *Comparative Analysis of Foreign Aid in Selected Countries. Law Library of Congress.*

2.1.3 Third High-Level Forum (Accra, 2008)

This forum was convened in order to strengthen and deepen implementation of the Paris Declaration. The Accra Agenda for Action (AAA) was centered on capacity development and it proposed improvement in ownership, partnerships, and the delivery of results. The key points agreed as part of the AAA are:

- Predictability – donors will provide 3 to 5 years forward information on their planned aid to partner countries.
- Country systems – partner country systems will be used to deliver aid as the first option rather than donor systems.
- Conditionality – donors will switch from reliance on prescriptive conditions about how and when aid money is spent to conditions based on the developing country's own development objectives.
- Untying – donors will relax restrictions that prevent developing countries from buying the goods and services they need from whomever and wherever they can get the best quality at the lowest price.

2.1.4 Fourth High-Level Forum (Busan, 2011)

The Busan Partnership for Effective Development Co-operation reinforced the principles that were adopted in the three earlier forums and specifically re-emphasized the following:

- Ownership of development priorities by developing countries
- Focus on results
- Inclusive development partnerships
- Transparency and accountability to each other.

2.1.5 First High-Level Meeting (Mexico, 2014)

This meeting played a vital role to move the Busan agenda even further. It directed to form a global partnership for effective cooperation. Major achievements of this meeting are as follows:

- • Review the global progress in making development cooperation more effective
- Agree on action to boost progress
- Anchor effective development cooperation in the post 2015 global development agenda.

2.1.6 Fifth Biennial High-Level Meeting (New York, 2016)

This meeting accentuated on effective implementation of the 2030 Agenda through development cooperation. Key messages and policy recommendations of the forum are as follows:

- Development cooperation in the 2030 Agenda and Addis Agenda;
- Aligning development cooperation to support national sustainable development strategies;
- Bridging capacity gaps and facilitating technology development and transfer;
- Strengthening the contribution of South-South cooperation to sustainable development;
- Engaging the private sector in development cooperation; and
- Strengthening monitoring and review of development cooperation for better sustainable development results

2.1.7 Second High-Level Meeting (Nairobi, 2016)

This meeting expressed commitment to effective development cooperation as a means to activate the universal and inter-related Sustainable Development Goals (SDGs). This also reaffirmed the spirit of partnership in which the unity of purpose, interdependence and respective responsibilities were recognized. The major outcomes of the meeting are as follows:

- Emphasis on ownership of the development priories by partner countries receiving support
- Focus on results
- Inclusive partnerships
- Transparency and accountability

2.2 Trend of Foreign Aid in Nepal

Right after the Rana regime, the first official budget was announced in 2008 BS. The government felt the need to have a resource planning to enter into a new era of formal financial and economic sector development. The project management tools such as expenditure procedures, reporting, disbursement and accounting of the funds were first introduced along with the introduction of budgetary system in the country. The resource gap between the budgetary spending and revenue was first realized and then it was considered as one of the prime issues to be plugged in through the injection of external resources rather than the regular resource supply through the budgetary framework.

The Colombo Plan, which was announced in 1950AD during the summit of commonwealth countries in Colombo, Sri Lanka, aims to provide foreign aid in cooperative, economic and social development to the countries belonging mainly to the Asia and Pacific regions. Nepal joined in the Colombo Plan in 1952 AD and later started to receive the grants in human capital development through the scholarship programs offered by different countries especially for the studies in the professional and technical areas. During the 1950s, Nepalese scholars pursued abroad studies under such programs envisioned by the Colombo Plan. Remarkably, this was considered a first ever multilateral development support for Nepal. In sync with this Plan, the country received grants for as vital sectors as agriculture, transport, infrastructure, hydropower, communications, education, health and industry.

The development cooperation in Nepal shifted along with the changes in development paradigms of the first world countries after the Second World War. Multilateral financial institutions were established and the developed countries aggressively came forward with development cooperation fund to assist the developing and underdeveloped ones. During the 1960s, Nepal also opted for foreign aid and bilateral grants to launch development and infrastructure projects. During the same period, Japan emerged as the largest donor to Nepal providing assistances to various infrastructure projects of the latter ranging from infrastructure to social sectors. It also assisted in the water supply, hydropower projects, highway and many other social capital assets generation projects. Other donors such as India, China and the United States lent support in the road networks, public enterprises, factories, integrated development projects apart from education and health sectors.

Moreover, in the 1960s, the amount of loans received by Nepal was higher than that of grant. The government implicitly agreed on its policy to receive foreign loan on project specific. Thus, the percent of foreign aid as a loan over the grant increased from less than 4percent between 1965 and 1970 to more than 25percent by 1988 AD.

The 1970s marked a remarkable shift in the nature of foreign assistant as the trend of categorizing the grants into "soft loan" was set in motion particularly after the full operation of the Asian Development Bank (ADB) and World Bank Group (WBG). The multilateral assistance program that received in the form of grants from the World Bank and ADB played a significant role to significantly impact the development planning and project management and implementation. This was evident with the multilateral loans on the projects and programs starting to dominate the total foreign aid amount by gradually replacing the grants.

The donor perspectives on the foreign aid was redefined when the World Bank created Nepal Aid Group (NAG) in 1976 AD in association with the multilateral and bilateral development partners actively working in the economic development of Nepal. The door was opened to every development partner to join in the NAG after a few multilateral and bilateral development partners did the same; the number had reached 32 members by 1987 AD. The NAG became a catalytic agent to organize the multiple and bilateral donors for making available official development assistants to meet the growing demand of capital expenditure required for the development projects and programs.

During the 1980s a large portion of the foreign aid came inform of grant while concessional loans accounted for small percent of such aid. In a broader sense, this can be ascribed to a major change seen in the global economic order during that time period. In the beginning of the 1960s, the net disbursement of the ODA stood at US$ 8 million. In fact, the very figure went up sharply in the mid of 1980s and reached the average disbursement of US$ 200 million annually which accounted about 7 percent of the country's total Gross Domestic Product (GDP). The total foreign aid and assistant received in 2015 was recorded at US$ 1.74 billion, that was around 86 percent, whereas 14 percent of the total assistant was received from International Non-Governmental Organizations (INGOs)[3].

Until the beginning of the 1990s, the aid modality was guided with specific investment portfolio. The external aid was mainly received in four categories and each of them had a specific development approach. The project aid mostly received in the form of loan was used in the infrastructure development such as irrigation, hydroelectricity and road projects. During the 1980s, the commodity grant was tied up with food aid program along with infrastructure development, agricultural extension and inputs such as chemical fertilizers, seeds and seed development and construction materials. Technical Assistance was also received in the form of foreign aid. Knowledge management, technology transfer and skill manpower development fell under this type of aid. The fourth category of the aid was mostly associated with the social and human capital development sectors. Until the beginning the 1990s most of the grants were received particular in health, education, water supply and sanitation. Debt as a percentage of GDP saw a rise from less than 0.1percent during1974-75 AD to almost one percent in1987-88 AD. Therefore, the outstanding debt in this period increased from Rs346 million to almost Rs. 21 billion[4].

The information provided above suggests that Nepal became heavily dependent on foreign aid. This became increasingly evident with the total amount of bilateral grants exceeding that of multilateral loans. Eleven UN agencies, eight private agencies and seven multilateral lending agencies floated loans to Nepal. Furthermore, the World Bank created the NAG in 1976 AD which comprised of sixteen countries and sixteen international agencies by 1987AD. This group initially provided Rs1.5 billion in grants in 1976-77AD, which drastically increased to Rs5.6 billion in 1987-88 AD.

Nepal continued to rely on foreign aid rather than domestic resources during the 1980s.The Debt/GDP ratio increased from less than 0.1 percent in 1974-75 AD to almost 1 percent in 1987-88AD. This caused an enormous increase in outstanding debt, from Rs346 million to Rs. 21 billion.

3 *Development Cooperation Report, 2014/15*

4 *Economic Survey, 1987/88*

Nepal has been a major recipient of the foreign aid since the 1950s. The country receives such aid mainly in the forms of Grant, Loan, Technical Assistance and Humanitarian Aid. The modes of foreign aid also vary among Cash, Reimbursement, Direct Payment and Commodity support. The historical annual aid mobilization data is presented in the Annex C.

The data shows that in the early period foreign aid was the major source of development expenditure. With the improvement in internal resource mobilization, the contribution of foreign aid slowly declined. Notably, the rate of such contribution is now more or less stable as it stands at a quarter of the total annual expenditure. Likewise, the grant was dominant in the early stages which is replaced with the loan in the later stages.

While the GoN has been putting efforts to channelize the entire foreign aid through national system, around one/thirds of the aid are off-budget. In FY 2015/16 about 63percent of ODA (US $678.65 million) was disbursed through on budget projects and 37percent (US $ 395.41 million) through off- budget projects. Of the 63percent of ODA, 74percent was channelized through the national treasury where as 26percent of the disbursement was through off treasury, though it was reflected in the Redbook. It indicates that fund providers settled the amount directly during the project implementation. Even 37percent of ODA is out of the budgetary system (it is off treasury) and it covers mostly technical type of assistance implemented under the various governmental agencies. There must be combined efforts on the part of all tiers of government to ensure that the entire foreign aid comes through the country's budgetary system.

2.3 Legal and Policy Framework

Loans and Guarantee Act, 1958 first ratified to regulate and direct the foreign loan and offering guarantee on any form of loan received from multilateral and bilateral agencies. Than after a Foreign Aid Policy 2002, a written government's policy paper was endorsed to harmonize the foreign aid in Nepal.

2.3.1 Loans and Guarantee Act, 1968

As per the Loans and Guarantee Act, 1968, the GoN has been increasing the amount of ceiling set on the inflow of foreign loans under the unitary system. In the federal structure, the federal government is required to borrow foreign loans in different forms (bilateral or multilateral; concessional or other forms of loan) to bridge the resource gap in all tiers of government. As such, this act shall set certain criteria on the mobilization on external loan assistance under the federal set-up.

The act should be more specific on the significant projects and programs rather than offering a guarantee to a few public enterprises. In federal setup, there might be state- owned enterprises in all the seven provinces. Similarly, the central government could well face the financial obligations of pursuant its guarantee to these provinces which will have a number of enterprises in their respective territories. If it happens, the chances of the national economy falling into a vicious debt trap are simply high.

2.3.2 Foreign Aid Policies of Nepal

The positive role of development partners on mobilization of resources for economic development is something that has been anticipated by the government of Nepal since the beginning of foreign aid inflow to the country. The foreign aid policy framework was formulated over the period of time in order to direct the external assistance to the desired sectors to boost up the national economy. The revision of the policy is a regular and common phenomenon as it needs to be customized according to the changing context of the international development partners and recipient countries.

The Foreign Aid Policy, 2002 AD was replaced by Development Cooperation Policy, 2014AD. The very move was gravitated towards readjusting the fundamentals of the country's foreign aid sector in sync with the shifting values of the aid philosophy in the global scenario. The political system and structure is drastically overhauled with the implementation of the Constitution in Nepal. The federalized governing power and authorities have been devolved to all the states and local governing bodies enumerating their role and responsibilities in the five to eight schedules of the Constitution. In such situation, the resource sharing will have to be clearly defined at all three levels on the basis of need, opportunity, risk and sensitivity.

Though the foreign aid has been regarded as a crucial instrument for the economic development of the country since the beginning of the fifties, the MoF had been functioning without a written policy framework on such till2002 AD. The Foreign Aid Policy 2002 AD was the first breakthrough in terms of delineating and stream lining the government's strategies in a written version on the use of external resources to help Nepal's development efforts. The policy document has covered the macro level issues associated with development partners, development activities, dysfunctional of the project and program staff along with the monitoring from the perspective of national and international development partners. The document hardly addresses the issue of the ownership of the projects in the context of the donors setting their own conditions in the country strategy frameworks.

2.4 Disbursement Pattern of Foreign Aid

The capital expenditure under foreign aid is not that much encouraging in development process in Nepal. Low disbursement of the capital expenditure of foreign aid did not improve over the years. Nepal Portfolio Performance Review, 2014 pointed out that only 74% of grants and 36% of loans disbursed against allocation in FY 2012/13 i.e. annual disbursement of foreign aid in FY 2012/13 was US$ 970 million and US$ 928 million from DPs and MoF respectively.

The reasons for low disbursement were inefficient allocation capacity, scattered allocation, more than 500 projects outside the control of monitoring and evaluation, resource dispersed on small projects, lack of result orientate projects, etc. The official data produced by the MoF shows that in 508 projects were funded by DPs in FY 2012/13, among them UN group engaged in 138 projects, EU in 76 projects, ADB in 68 projects, WB and other bilateral DPs were involved in the rest of the projects.

The other reason of inefficiency of disbursement was also due to lack of project readiness such as pre-requisites (for instance land acquisition, detailed design,) etc. are not fulfilled during the budgeting stage. And also, most of the projects were supply driven and were not linked with the periodic plan, MTEF and the annual national budget[5].

2.4.1 GeographicalArea

The distribution of foreign aid lacked uniformity in different geographical regions of the country. The data of the fiscal year 2072/73 BS shows that the Central Development Region was entitled to the highest amount of foreign aid while the Mid-Western Development Region got the least portion of it. Although the district level disaggregated data is not available, the region wise data indicates the dominancy of certain geographical areas in receiving foreign aid over the others.

5 *Capital Expenditure and Lower Disbursement in Development Projects Baikuntha Aryal Joint Secretary Ministry of Finance Nepal Portfolio Performance Review Meeting Kathmandu 23 April 2014*

Table1: Development Region-wise Foreign Aid Status (FY 2072/73)

Development Regions	Amount (US$ in million)	Percent
Eastern	79.71	13.29
Central	253.19	42.2
Western	82.78	13.8
Mid-western	108.59	18.1
Far-western	75.73	12.61
Total	600	100

Source: Development Cooperation Report 2072/73

2.4.2 Foreign Aid Management

The MoF is responsible and has authority for the coordination and mobilization of bilateral and multilateral development cooperation. The ministry is responsible for not only processing and assessing all the project documents but also responsible for coordinating in every phase of project cycle including project preparation, appraisal, negotiation and agreement, among others. Four strategic goals of the foreign aid management are as follows:

- Channeling development cooperation in prioritized sectors on the basis of demand-driven approach
- Building ownership in foreign aided projects
- Enhancing productivity of development cooperation
- Strengthening Aid Governance

2.5 Types and Aid Modality in Nepal

The Government mobilizes the foreign aid aligned with the national policy and priorities set by the National Planning Commission and MoF. That foreign aid to be used in the projects and programs are received in various forms on the basis of principal of competitive advantage. The aid modalities are discussed below.

2.5.1 Grants

Grant is one of the major forms of foreign aids that government is receiving since long time. The grant mainly mobilizes in the rural infrastructure development, social sectors such as health, education, drinking water, sanitation and human development sector as well. The GoN also gives priority to mobilize the aid in the agriculture sectors development and climate change. The grant assistance of less than US$ 5 million will not be utilized except for Sector Wide Approach (SWAp), Pool Fund, climate change, sustainable development grant, small grant for community development, small grant for rural infrastructure development, co-financial arrangements, humanitarian assistance, technical assistance, and capacity development[6].

2.5.2 Loans

The Government of Nepal currently receives concessional and non-concessional loans; however, it prefers to receive concessional loans, the most from both bilateral and multilateral development partners. In some instances, in the past the Government had provided guarantees to the private sector and public enterprises to borrow commercial loans from multilateral development partners.

6 *Development Cooperation Policy, 2014, GoN, Ministry of Finance*

The Government has categorized loan financing options to two types in their DCP, 2014.

- Concessional Loan
- Other Loans

2.5.2.1 Concessional Loans

The Government prioritizes the utilization of concessional loans but it is not possible to receive this from the DPs without meeting certain circumstances. Therefore, the Government has prioritized utilization and mobilization of such loans in more specific areas. It aims to utilize the loans in SWAp Projects, Pool fund, co-financing and physical infrastructure. Furthermore, the Government has set a benchmark for the minimum amount of loan required, which means loans below US$ 10 million will not be accepted.

2.5.2.2 Other Loans

Loans of any other kinds fall under this category, including loans from multilateral DPs. The GoN has set a separate benchmark of borrowing than the concessional loans. DPC, 2014 AD explicitly mentioned that no resources as loan below US$ 20 million will be utilized per project/program. These kinds of loans are being used in the areas including hydropower, electricity transmission, highway bridge and strategic road network, railways, airport construction and upgrades, dry port, large scale irrigation projects and the large government's prioritized projects. This policy disallowed the government to take the commercial loans and provide the guarantee for private or non-governmental sectors while accepting the loans as parse.

2.5.3 Technical Assistance

Technical Assistance is another tool of foreign aid; Nepal is receiving TAs from the very beginning of the introduction of the formal economic plan in the country. TA will be received in two levels, individual level and organizational level. It is further categorized into three specific areas; Project Preparatory Technical Assistance, Stand Alone Technical Assistance for Capacity Development, and International and Regional Technical Assistance.

2.5.3.1 Project Preparatory Technical Assistance

This type of TA is being requested from DPs and project implementation initiations for Project Preparatory TA to undertake a pre-feasibility study, feasibility study, and preparation of detailed reports. The MoF can approve TAs to fund smaller projects which can potentially upgrade and cover larger areas and multiple sectors.

2.5.3.2 Stand Alone Technical Assistance for Capacity Development

This type of TA is mainly requested from the respective and associated agencies involved in the national or sectoral capacity development plan. These types of TAs are based on the project framework documents and they use TAs to ensure sustainability after the project program completion phase.

2.5.3.3 International and Regional Technical Assistance

International and Regional TA are tied up with the project and program. The MoF should approve any kind of TA and such TA should be reported to the Aid Management Platform of the MoF. Such TA related procurement is liable to the national taxes such as VAT, excise duties, income tax and other relevant charges to be paid to the government. It should be reported and should get approval from the MoF. The MoF prepare criteria for this purpose.

2.5.4 Consultants Mobilization

Foreign Aid can also be received in the form of national or international level consultants. The MoF should provide approval to procure the consultant from the domestic or international market; however, priority will be given to Nepalese nationals. International consultants will be utilized if Nepalese consultants are unavailable in a particular field.

2.5.5 External Volunteer Mobilization

External volunteers are being provided through the TA provided by DPs. These volunteers are being mobilized to geographical spectrums where their expertise will be used most effectively to satisfy targets at the local level. Governments will priorities the need of the volunteer according to the demand side such as federal, provincial and local governments. However, the MoF will retain the power of attorney to mobilize the volunteers at various levels.

2.6 Current Practice in Foreign Aid Mobilization in Nepal

2.6.1 Project Support

The concerned line ministries develop the projects and also request the MoF for the necessary funding. The MoF either manages the fund by internal resources or initiates the dialogue with the appropriate development partner/s for managing the same. To approach the development partner, MoF follows the practice of sending the formal request to the certain development partner/s. It is after completing the project appraisal that the MoF starts to negotiate with such partner/s and seeks the cabinet approval to receive the foreign aid.Lastly, the MoF signs the agreement/s with the development partner/s.

2.6.2 Program Support

The GoN develops the programs which are supposed to be implemented by more than one agencies or cannot be implemented as standalone projects. For the purpose of program support, the MoF holds dialogue with the relevant development partner/s. Then the ministry may also allocate the resources for the concerned agencies as per the bilateral or multilateral agreement.

2.6.3 Sector Wide Approach (SWAp)

This modality employs the specific type of program based approach covering sectors like education, health and so on. This refers to the common approach of implementing a programme led by the government with the support of various development partners. Notably, the method of combined financial management is applied in the course of the said implementation.

2.6.4 Humanitarian Assistance

This approach is designed for the immediate support during or in the aftermath of natural disasters or similar untoward incidents to save lives, alleviate the sufferingsof the victims etc.

2.6.5 Policy Based Support

This type of support is mobilized for carrying out reform initiatives by different sectors. This requires a set of prior action on the basis of which MoF receives the aid and disburses it in the area that is deprived of adequate resources. This support is considered as budget support and normally treated equivalent to internal resources.

2.6.6 I/NGOs in Nepal

The Government of Nepal acknowledged the role of I/NGOs in national development, delivery of services in rural areas, enhancement of quality of life of the people and human capital development. The need of services of such institutions in the days to come is eminent; however, output and the process of operation of such institutions over the period remain debatable.

The number of Non-Governmental Organizations (NGOs) working in Nepal has grown significantly since the 1990s due to a range of factors. A total of 39,759 NGOs and 189 International Non-Governmental Organizations (INGOs) were registered in Nepal between 1977 and 2014 in various sectors, including health, agriculture, poverty alleviation, and good governance. Despite thousands of NGOs and significant amounts of foreign aid, Nepal remains one of the poorest countries in South Asia. The case of Nepal indicates that aid and donor support alone are insufficient for sustained development[7].

I/NGOs in Nepal enjoy full autonomy in implementation of the project/program and freely receive resources directly from bilateral/multilateral aid agencies and international organizations. However, aid alignment and harmonization on accountability of resources mobilization of such institutions are debatable and further evaluation and monitoring show that they are recurring concerns in projects implemented by I/NGOs in the target beneficiaries. Transparency of the I/NGOs is another issue which must be brought in to the bracket during implementation of the project and program, which is currently lacking in present context.

The Social Welfare Council (SWC), is the official institution to control all I/NGOs in Nepal, however there is shared responsibility with other line ministries. The MoF is one of the key ministries that coordinates the development cooperation fund mobilizing through the I/NGOs. While implementing the projects and programs through the civil society and I/NGOs, the projects/programs should go through the screening process of the Project Analysis and Facility Committee, however this rarely happens. Most I/NGOs bypass the local government such as Village Development Committees and Municipality, and in some extent, they do not even go through District and Local Development Offices. These gaps are prevailing in Nepal as poor Monitoring and Evaluation (M&E) processes are in practice.

I/NGOs have various income sources but are mainly classified by restricted and un-restricted resources they generate through their own efforts. These broad classifications addressed the flexibility and continuity of the resources linked with the project funding and program funding. In Nepal there are numerous INGOs registered aiming to use core fund from their own sources. Those institutions which have to sustain and operate on their own resources should not seek the non-core funding from the multi-lateral and bilateral development partners in Nepal.

7 *Rajedra Karki and Jude Compfort; Frontire in Public Health; published online 24.08.216; seen online 31.08.2017*

CHAPTER

3

FOREIGN AID IN FEDERAL SETUP

3.1 Constitutional Provision

The Federal Government takes a lead in mobilizing foreign aid received from multilateral/bilateral DPs as well as I/NGOs as provisioned in the article 59(6) and schedule 5(5) of the Constitution of Nepal, 2072. A State Government can obtain foreign grant and assistance from various DPs with the consent of Federal Government according to the Schedule 6(2) of the Constitution. Both the State and Local Governments are barred from taking foreign loan and the Local Governments, in particular, are not allowed to receive foreign grants directly.

3.2 Foreign Aid Management

The Federal Government enjoys exclusive rights when it comes to the mobilization of foreign aid. It collects bottom-up resource demands from lower tiers, categorizes the need of resources on national, sub-national and local levels, coordinates with development partners for possible funding, organizes contract negotiations and mobilizes the adopted foreign aid among all the tiers of the governments with or without the associated conditions. The State Governments can receive foreign grants from the Federal Government or the DPs directly upon the approval of the Federal Government.

3.3 Bottom-up Resource Demand

This approach would be viable in order to identify the grassroots level requirements and their associated costs. These aspects demand a great deal of attention for feasible project design. It would be better to categorize the bottom-up demand for resources with a futuristic insight in a phase wise manner. The first phase of the resource demand can well be related with institutional setup, major resources mapping, profile preparation of local governments, delivery of inevitable services, promotional activities and trainings that help in social capital formation and so on. Such factors need to be addressed without any further ado.

The second phase resource demand can well incorporate the development of infrastructures such as road, irrigation, hydropower, multipurpose government buildings for effective public service delivery etc. The State MoF will be in position to collect programs/projects from the LGs for establishing the State Project Bank under its purview. It will forward those programs/projects to respective line ministries to scrutinize before enlisting them in the project bank. A State Ministry of Finance will receive programs and projects for State Project Bank from the Local Governments. Similarly, the line ministries of the State Government will scrutinize them to establish such bank under the purview of State MoF. The project bank shall incorporate only the important and feasible programs and projects, which will be included in annual plan/programs of the SG. The SGs would manage internal resources for executing local level programs and projects. If shortages of the resources happen to implement the project programs, the SGs will request the Federal MoF through the State MoF to cover the resources gap.

In order to scrutinize the resource demands of LGs, the SG in close consultation with State MoF and other state line ministries would develop certain criteria focusing on the various stages of project management. The criteria should be clear on the concept of project/program including its objectives, financial details, schedule and so on. A State Government can reject those programs/projects which do not comply with the criteria.

The Federal Government would develop a National Project Bank under the National Planning Commission (NPC) or MoF and scrutinize the lower tiers' programs/projects based on the criteria or terms and conditions set for program/project.

The resource demands made by all three tiers of government for executing their approved programs/projects should be aligned with the national periodic plan. This can go a long way in ensuring effective resource allocation and gap management.

National Natural Resource and Fiscal Commission (NNRFC) is mandated to form, by Constitution, in order to determine existing ground and measure regarding the distribution of revenue from the federal consolidated fund to the federal, state and local governments, making recommendations according to law, on distribution of equalization grants, conditional grants and so on. Until the recommendations made by the NNRFC regarding the capacity and the distribution of resources among all tiers of government, the existing threshold of US$ 5 million for foreign grants, US$ 10 million for concessional loans and US$ 20 million for other foreign loans mobilization would be applicable on all tiers of government.

3.3.1 Demand for Foreign Aid

In process of implementation of newly restructured federal governance system, it requires enormous demand of resources on both national and sub national levels to establish and institutionalize the governance system. Primarily huge capital will be required to establish organizational structure at 753 LGs and seven SGs. The increasing demands in the country along will not cover by the domestic and internal resources; therefore, the need of foreign aid in Nepal will be increased substantially in the future.

3.3.1.1 Local Government to State Government

- Local Government should develop important local programs/projects and set priorities for the implementation. The programs/projects, which are not manageable from the local resources and regular fund transfer, should be forwarded to the State Government for funding arrangement.
- Multiple Local Governments should demand resources for intra-state (inter Local Government) programs and projects that fall under the jurisdiction of those governments.
- Local Government should come up with a proposal demanding resources for the programs/projects that generate income opportunities for the local people and also require huge investment. The proposal, to be submitted to the MoF of respective State Governments after the approval of Rural/Municipality, Sub/Metropolitan Council, should clearly mention the objectives, preliminary financial details, schedules and so on pertaining to the projects/programs.

3.3.1.2 Local Government to Federal Government

- Should make a request to review the important programs/projects as stated in the third bullet of 3.3.1.1 and not accepted by the State Government to be included in State Project Bank.

3.3.1.3 State Government to Federal Government

- •Should make responsible to the State MoF to compile the feasible projects/programs in consultation with concerned State Line Ministries and categorize them on local level stand-alone, state-pride and state level stand-alone projects/programs based on priorities and forward to the Federal MoF.
- Should make State MoF in position to forward the resource demands for those programs/projects after the approval of State Cabinet. The submitted proposals should clearly enunciate the objectives, preliminary financial details, schedules and so on.
- The aforementioned procedures should be applicable for all types of external resource demand (grant, loan and technical assistance).
- Should make responsible to State MoF to identify the areas in need of technical assistance and develop the proposals for such assistance to forward them to the Federal Government with aforementioned procedures.
- State Government through State MoF should initiate for the State Contingency Fund as the conditional support to cover unforeseen expenditures.

3.4 Prioritization of Sectors for Foreign Aid

The Government of Nepal, in the process of institutionalizing federalism, needs plenty of resources to set up the lower tiers of governments, to enhance their institutional capacity, to develop infrastructures and to develop social capital that booms the economic activities, among others. That is why the prioritization of sectors for foreign aid mobilization is necessary for effectively implementing the notion of federalism. Such prioritization also appears mandatory since the regular fund transferred by the Federal Government may be sufficient only to cover the costs involved in setting up institutions, regular administrative works, service deliveries, social welfare activities and other genuine needs and aspirations of local people.

It is essential to make a great deal of investment in national and sub-national projects, building infrastructures and developing institutional capacity of the governmental organizations. Similarly, a sufficient level of investment into the social capital development sectors like health and education is also equally necessary. As the mobilization of internal resources may alone not be sufficient for making adequate investment in the above-mentioned areas; foreign aid should be prioritized to successfully accomplish this purpose.

3.5 Federal Government to Development Partners

Federal Government shall establish a National Project Bank under the National Planning Commission or the Federal Ministry of Finance. The bank will comprise the feasible programs/projects selected as per the bottom up approach of resource demand. The programs/projects enlisted in the National Project Bank, with project readiness (land acquisition, resource planning, DPR etc. are completed) will be further categorized into national and sub-national levels. The categorization will be based on the scope of the programs/projects, fund requirements and priorities set forth by the respective governments. Generally, the national pride programs/ projects as well as those covering multiple states and demanding huge volume of investment will be considered as the national level programs/projects. As far as the funding for the state and local level stand-alone projects goes, the Federal Government should deal with DPs as per the set guidelines.

As Nepal has already adopted a 'One Window System' for the mobilization of foreign aid under unitary governing system, the Federal Government is in a position to request the DPs for mobilizing the foreign aid needed for the execution of the feasible projects enlisted in the National Project Bank. The Federal Government should give priority to the national and sub-national levels mega programs/projects while mobilizing foreign aid under its direct administration. In order to address the resource demands of lower tiers through foreign aid, the Federal Government shall prioritize the state level and intra-state programs/projects that will add significant value to the generation of economic activities in lower tiers of government.

As we move forward in the path of federalism, the Federal Government through the Ministry of Finance shall coordinate with DPs for receiving the foreign aid with less/without stringent conditions.

3.6 Top-Down Resource Supply

Mobilization of foreign aid is essential to bridge the resource gaps at the lower levels of government especially in the present context of federalism. While doing so, an in-depth review of the risks associated with the utilization and pay back procedures at all levels of government is imperative. The Ministry of Finance is in the process to draft a new Inter-Governmental Fiscal Transfer Bill to address the provisions of utilization of resources outlined in the schedule 5 to 8 of the Constitution. In the course of implementation of the Constitution, local elections in six provincial states have already been successfully completed. This indeed is empowering the local governments by duly entitling them to exercise political power along with a certain degree of financial autonomy.

All the tiers of governments are Constitutionally allowed for taxation and other local resources mobilization. While they can mobilize the internal resources by imposing specific taxes, the mobilization of external resources is still the sole responsibility of the Federal Government. Of course, the State Governments are enabled to receive foreign grants with the permission of Federal Government. But, again, both the state and local governments are barred from receiving loans directly from the DPs. Further, the local governments cannot receive the foreign grants directly.

To enable the State and Local Governments to carry out different economic and social activities, the Article 60 of the Constitution has provisioned four types of fiscal transfers - equalization grant, counterpart grant, conditional grant and special grant. Providing such grants to different levels of government on an equitable basis and also in line with the country's development priorities is simply a crucial responsibility of the Federal Government.

If the Federal Government is not in a position to cover the resource gap by mobilizing the domestic resources, it will coordinate with the DPs to obtain the needed resources in the forms of grant, loan and technical assistance. And then it will be in a position to mobilize the obtained aid among the three tiers of governments focusing on national integrity, regional parity and uplifting the marginalized/underprovided communities, among others.

3.6.1 Transfer of Foreign Grants

The Federal Government is expected to maintain a fine balance between the demand and supply sides of foreign aid. On the one hand, it looks after the national demand for foreign aid. On the other, the Federal Government itself has to play the role of a donor in mobilizing the foreign aid among all the tiers of governments for a balanced development of Federal Nepal.

3.6.1.1 Federal to State Government

- Should mobilize foreign grants obtained from Development Partners forthe feasible, state-pride and stand-alone projects, intra-state programs/projects, sectoral programs, environment related programs/

projects, sustainable development and other humanitarian assistances.

- Should authorize the state governments with/without conditions to obtain foreign grants from the Development Partners for the programs/projects as stated in the aforementioned bullet. The State Government shall comply with the set conditions throughout the program/project's lifecycle.
- Should focus on institutional capacity enhancement, intra-state programs and projects that directly impact the public service deliveries while mobilizing foreign aid during the transitional phase of federalization.
- Should prioritize infrastructure building, technology transfer and enhancement of the overall absorption capacity of the State Governments while mobilizing foreign aid in the long-run.
- Should hand over foreign grants to state governments under the conditional grants of the fiscal transfers for depositing the same into the State Contingency Fund to immediately cover the unforeseen expenditures.

3.6.1.2 Federal to Local Government

- Should mobilize grants to those stand-alone projects which is important for the development of the Local Government and that are reviewed and approved directly by the Federal Government upon the request of the Local Government, feedback of the State Ministry of Finance as well as of the Federal Line Ministry and the Federal Ministry of Finance.
- Should provide grants to multiple Local Governments directly if the major components of the projects fall under the purview of such Governments and the project is reviewed and approved directly by Federal Government as stated in the previous bullet.

3.6.1.3 State to Local Government

- Should mobilize the obtained foreign grants for those programs/projects accepted by State Government.
- Should mobilize a portion of foreign grants for local level infrastructure development, institutional capacity development and delivery of humanitarian service.

3.6.2 Grant Mobilization Mechanism for Lower Tiers

The Constitutional provision on fiscal transfer arrangement is silence when it comes to the foreign aid transfer to the lower tiers of government. Therefore, the Federal Government should adopt the below mentioned procedures in the mobilization of foreign grants.

- Should sign both financial and project agreements with the DPs and mobilize grants for both national and subnational level programs/projects that fall within the purview of multiple states. The same process can be applied in the case of national-pride programs/projects even though they fall under the jurisdiction of a Local Government.
- Should sign financial agreement with DPs on the state/local level, stand-alone projects that play a vital role in the development of national economy and facilitate the respective lower tiers government to sign implementation agreements regarding the same projects.
- Should sign financial agreements on the projects by FG or facilitate the signing of both financial and implementation agreements on the projects between DPs and multiple local governments that will be affected by the project activities.
- Should facilitate the state/local governments to sign both the financial and implementation agreements on the local/state level, stand-alone projects that directly impact the economy of the respective governments.
- Grant fund will be mobilized by the respective upper tier governments either as Counterpart Grant or Conditional Grant in line with the Constitutional provision on fiscal transfer mechanism.

3.7 Transfer of Loans

Foreign loan is the transfer of fund which requires repayment according to the conditions set by the loan agreement signed between the parties.

3.7.1 Top Down Resource Supply

Supply of loans from upper tier to lower tier government is not tantamount to the grant supply because of the several technical aspectssuch as sovereign guarantee, repayment modality, forex risks and interest rate associated with the loans received from DPs. The crucial technical aspect of sovereign guarantee can't be transferred to lower tiers of government.

3.7.1.1 Federal to State Government

As per the Constitution, State Government cannot obtain foreign loans from the DPs. Equipped with exclusive authority to obtain foreign loans, the Federal Government, however, can on-lend the loan to the State Governments. A major portion of loans should be floated to the feasible programs / projects related to infrastructure and local economic development.

In order to mobilize the foreign loans to State Governments, the Federal Government can well manage the technical aspects of loans on different levels as discussed below:

On- lending Procedures

- Federal Government should on-lend the loan borrowed from DPs to State Governments through the financing mechanism of budgetary system of the Ministry of Finance.

OR

- The fiscal transfer mechanism should be further broadened by a thorough consultation with constitutional and legal experts, by incorporating a new category 'External Aid' in it. The proposed category could further be classified in to external grants and loans and all foreign loans shall pass through the fiscal transfer mechanism.

Terms and Conditions

- Federal Government should take sovereign, loan payback, interest rate payment guarantees as well as take the foreign exchange risk with it and on-lend to state government not exceeding four percent of its original borrowing spread rate.

OR

- Federal Government should transfer payback, forex risk and interest payment guarantees to the State Government possessing the sovereign guarantee with it. In this case, the interest rate should not exceed two percent on original lending spread rate.
- The stakeholders should mutually agree to open an Escrow Account in one of the government certified commercial banks to deposit periodic installment of loan repayment, forex difference and interest amounts. This is intended to facilitate all the stakeholders to get updated information about the loan status which helps to provide repayment guarantee.
- Flexibility in lending could give rooms to default in the payment of loans and associated costs; i.e. if the interest rates of such loans are marginally lower than the internal borrowing and or market interest rates the borrower may be reluctant to pay back. If any State Government is not able to repay the loans

on time, the Federal Government should insist to cover it capping on other fund transfer. The FG should not approve any further loans for it in the future.

3.7.1.2 Federal to Local Government

Constitutionally, the Local Government is barred from obtaining foreign loans. In such condition, the Federal Government should mobilize loans to Local Governments for needy, important as well as the feasible programs and projects related to infrastructure and local economic development. In order to mobilize foreign loans to the local levels, the Federal Government will apply the following on-lending procedures and terms and conditions:

On-lending Procedures

- Federal Government should hand over the obtained loans to Local Governments as per the financing mechanism of budgetary system of the Ministry of Finance.

OR

- The fiscal transfer mechanism should follow as explained in the second bullet point under 3.7.1.1.

Terms and Conditions

- Federal Government does not only provide sovereign guarantee but also give assurance on loan payback, forex risk and interest payment. Moreover, it also on-lends the money to state government not exceeding four percent on original lending spread rate.

OR

- Federal Government should transfer payback, forex risk and interest payment guarantees to the State Government possessing the sovereign guarantee with it. In this case, the interest rate should not exceed two percent on original lending spread rate.
- The stakeholders mutually agree to open an Escrow Account in one of the government certified commercial banks to deposit periodic installment of loan repayment, forex difference and interest amounts. This is intended to facilitate all the stakeholders to get updated information about the loan status which helps to provide repayment guarantee.
- Flexibility in lending could give rooms to default in the payment of loans and associated costs; i.e. if the interest rates of such loans are marginally lower than the internal borrowing and or market interest rates the borrower may be reluctant to pay back. If any Local Government is not able to repay the loans on time, the Federal Government should insist to cover it capping on other fund transfer. The FG should not approve any further loans for it in the future.

3.7.1.3 State to Local Government

The LGs have very limited income generating activities that would not support to payback loan and associated costs on time. Therefore, the SGs should on-lend the obtained loan, with strong conditions, especially for the local infrastructures and institutional capacity development related projects/programs.

On-lending Procedures

Should take a responsibility of the associated technical aspects of loans (only repayment guarantee, interest rate and foreign exchange) obtained from the Federal Government and channelize them to local government through fiscal transfer mechanism.

Terms and Conditions

Local Governments repay the loan amount and associated costs and deposit them on a regular basis opening an Escrow Account.

OR

The LG should repay the loan amount and associated costs as articulated in the terms of reference of the loan agreement.

3.8 Transfer of Technical Assistance

TAs are normally varied according to the objectives and need, project program tied TAs will be sole under the Federal Government, however, other TAs can be received by the SG on the approval of the FG. The same procedure will be applicable in the international volunteer mobilization and hiring of international consultants. Because while hiring the manpower from the international market other than Nepalese citizens, it will require to follow the immigration procedures, tax exemption and other protocols. On the demand of the lower tiers of governments, Federal Government will deploy and forward the TA. The transfer of tied TA will follow the same procedure of loan transfer and untied TA will follow the procedure if grant transfer.

3.9 Mobilization of I/NGOs

The I/NGOs relied upon regular and flexible sources of financing for their regular operations. They are financially sustained and can operate even if project based funding are withdrawn by the DPs in Nepal. Therefore, the I/NGOs operating under core funding mechanism should bar to use the non-core fund under the Official Development Assistance in Nepal.

In order to reduce the duplication of the projects/programs, aid fragmentation, and transaction costs, the respective government should focus on following bullets:

- The projects/programs/plans of the I/NGOs should reflate with budget in the annual plan of the respective governments.
- A clear monitoring and evaluation format based on the projects/programs should be designed to review the progress of the projects and programs. These activities should be controlled by the respective governments under their jurisdiction.
- Certified and audited progress reports of the programs/projects should be submitted by the I/NGOS to the respective government. Such types of report should be submitted within the first trimester of upcoming fiscal year.
- The Ministry of Finance should retain full authority of approval and monitor of I/NGOS in federal structure of the country.

3.10 Communication Channel

The communication channel between the different tiers of government in the resource demand and supply has been architected and presented in Annex-D.

CHAPTER 4

INSTITUTIONAL MECHANISM FOR FOREIGN AID MOBILIZATION IN FEDERAL SETUP

4.1 Areas for Legal and Policy Review

4.1.1 Development Cooperation Policy 2014

Introduced during the period of political transition, the Development Cooperation Policy (DCP), 2014, is a revised version of the Foreign Aid Policy, 2002.The issue of aid effectiveness is a big challenge to the country and its development partners because of a mismatch between the demand and supply. Such mismatch has created a great deal of uncertainty about how much external assistance the country actually needs to meet its development needs and aspirations.

The policy framework should be gravitated towards making the foreign aid received by the country more effective and efficacious. This will be achievable when the development partners align their aid models in line with the development needs and aspirations of the recipient country. It goes without saying that foreign assistance will carry little meaning if it is not leveraged to help the country attain sustainable development goals. However, at the same time, the policy framework also talks about a gradual reduction in the dependence on foreign aid to upgrade the status of Nepal from a Least Developed Country to a Developing Country.

Nepal has already seen apolitical transformation from the unitary system to the federal one. Three tiers of government have been established and each tier is autonomous based on the principle of cooperation, co-existence and coordination. However, they are interrelated in some respects, including resource mobilization and resource sharing. The existing DCP has not justified the extension and rationale of foreign aid regarding the Nepalese situation and does not take into account the future needs and demands of the resources in the country.

The Government of Nepal is finding difficulties to maintain the uniform operating module incorporating all other stakeholders such as the private sector and civil societies when it comes to foreign aid mobilization. Though having conducive relationships with all DPs; productivity of the foreign aid both in capital expenditure of foreign aid component and volume of disbursement are not improving as it was anticipated. Hence, it behooves the government to set its own national and state priorities to solve them in an effective manner. It is mandatory to set such priorities in close coordination with all the concerned stakeholders from top to bottom.

New challenges, of course, have surfaced in the country's foreign aid sector over the last decade or so. Firstly, there is a need to align the foreign aid strategies in line with the changing global agenda. Secondly, and the country should attain the Sustainable Development Goals (SDGs) by 2030 AD through the financial assistance offered by international donors.

Aid fragmentation and increasing transaction costs might be yet another challenge in federal structure as the number of local government increases. The effectiveness of foreign aid mobilization remains questionable, though development partners and recipient countries have principally agreed on mutual accountability towards taxpayers as well as linking the outcomes with the National Result Framework. The concerned authorities are reluctant to develop a progress measuring mechanism to track the foreign aid and the related aspects like the promotion of ownership, assurance of accountability and transparency and predictability in external resources, among others.

The DCP was formulated right after the second Constituent Assembly in 2013. The socio-economic development was given higher priority by it since the new Constitution has envisaged about a self-sustaining, prosperous Nepal. However, the DCP is bereft of long-term vision to meet such aspirations.

The policy, formulated on the basis of historic date, needs to be analyzed and aligned with the contemporary development requirements of Nepal. Although, it is partially applicable after the implementation of the Constitution, the DCP needs to be modernized to fully align it with current requirements. At the same time, it needs to be compatible with the strategies of development aid donors. This is of paramount importance because the policy as it is now will address a few development issues that Nepal is currently facing.

It is imperative that the background information will be revised in conjunction with the prevalent Constitutional and legal provisions of the three tiers of government. The role of the Government in terms of foreign aid is still somewhat unclear because the existing rules have not yet been completely adapted to the new structure of government. The current Constitution states that the Federal Government will receive foreign aid and then distribute it to the State and the Local Governments.

The upper tiers of Government are more responsible for raising capital and providing finance to lower tiers of governments to accelerate the development activities. However, when it is unable to provide funds, foreign aid loans and grants will be distributed to local governments to bridge the resource gaps. The current system and background information need to be aligned with the systems of development partners regarding the ODA which has to be added in the policy documents to be revised. This can safely be expected to augment the volume of foreign aid in the infrastructure as well as social and human capital development projects.

The following articles/ paragraphs of the DCP 2014 need to be revised in line with the Constitution of Federal Nepal 2072:

Paragraph No	Amendments Required
1. Background	
1.2	Need to add recent commitments of the conferences and Development Partners' aid strategies.
1.3	This paragraph needs to be completely revised to be compatible with the 2072 Constitutional provision.
1.4	The recently set global agenda has caused changes in the strategy of donors, and this must be addressed in the paragraph.

Paragraph No	Amendments Required
2. Opportunities and Challenges	
2.1	Foreign aid targeting economic development in Nepal has entered a new era, and includes the restructured political and administrative units, the three tiers of governance and multiple stakeholders. The presence of all the above is equally important and necessary.
2.2	Government employees and development partners alike are unclear on the future of the ODA, therefore a clear policy guideline about effective aid distribution is required.
2.3	Although foreign aid should be mobilized at the national level, subnational stakeholders must be involved in implementation, monitoring and project planning in the development cooperation program.
2.4	The existing structure of IECCD, MOF is based on unitary governance system. It should be aligned into federal government. Moreover, management practices within division varies as perthe DPs, that should be harmonized with the country's own strategies.
2.5	Country priority and system may vary due to a change in government structure but alignments of aid management and public finance management at governance level would have to be taken into consideration.
2.7	Fragmentation of resources is unavoidable, however there will be separate autonomous project implementation units at various levels to enhance the project management capacity and multiply capital expenditure down to the grassroots level. Though a framework to minimize the transaction costs at each level is required.
2.8	Knowledge management and technology transformation mechanism down to subnational level would increase the absorption capacity of the resources. The subnational level should be taken into account to determine the level of resources required.
Part I	
1	The amendment date may be required.
2	Country's political characteristics "Federal Democratic Republic of Nepal" should be added.
4	Competent SGs should be balanced equally and resources should be distributed accordingly. Objective (b) should be updated. Objective related to the "principal of alignment"- should be introduced which was propounded by the Paris Declaration.
5	d. Review and qualify the recent development goals after 2015. There should be a timely review on the progress of development to make sure aid is being used effectively and efficiently. The distribution of aid can be altered to accommodate the changing needs.
	f. Many new issues have been raised after the Mexico High Level Meeting and conferences in Nairobi and Australia. These include the need to increase harmonization between donors to avoid doubling up of aid for the same cause. Donors and recipients must align targets and work together to achieve development goals, with recipients leading their own development plans to become self-sufficient.

Paragraph No	Amendments Required
	h. The threshold for the requirement of aid may be variable; federal states and the Federal government may require different levels of aid. This is mentioned in the rights and responsibilities of the national and sub national units in the newly implemented Constitution of 2072 BS.
	i. To align development efforts with the new Constitution and structure of government, development aid will be distributed to address development goals and needs of respective governments.
Part II: Policy Framework	
2.1 Alignment with National Policy	Local communities who are affected by aid need to have a bigger presence in the decision-making of aid expenditure. Although the establishment of "National Result Framework" is envisaged in the policy, the structure of the framework and its jurisdiction has not been defined. All the aid affected stakeholders and communities should have access to the framework if necessary. "System Alignment" only focuses on policy alignments and operational alignment for implementation is missing, therefore it is sought through the National Result Framework. Consequently, at least seven federal states must be aligned with regards to the System Alignment.
2.1.1	Federal and State Government should set their own prioritiesin line with the Constitution and comparative strength.
2.1.2	State level projects will be prepared by the respective State Government and those projects will be kept in state project banks that can be shared by the Federal Government. The projects from the private sector would be includedin the project bank under the PPP to expedite the economic development.
2.1.6	The Federal Government will evaluate proposed cooperation also in view of needs being expressed from lower tiers of government.
2.1.7	Sectoral and regional balance, federal state and local governance will be critical issues in need of analysis during and after the implementation of the 2072 Constitution. Resource planning and mapping should follow the current administrative and political changes to align the development cooperation fund and resources. Social issues like inclusiveness, conflict management, gender equality and community empowerment will be the exclusive responsibility of the respective tiers of government. Thus, the policy should address these cross-cutting social issues.
2.1.8	Including governance units and development partners, other development cooperation partners i.e. I/NGOs, private sector etc. should be mutually responsible and accountable for development results.
2.2 Aid Modality	Stand-alone projects may need to be classified into national or subnational/local. The competitive advantage of the subnational level would be that they are better informed about the types of aid needed in provinces, so local governments would be able to better classify aid requirements.
2.2.2 and 2.2.3	General and Sector Budget Support will not limit the Federal government alone, it must be defined down to the Federal to State Government.
2.2.4	The Federal Government can set up a "pool fund" for each seven State and can direct this fund from Federal level.

Paragraph No	Amendments Required
2.2.6	Humanitarian support should be channeled through the State Government. Although State Government should get authority to receive humanitarian from the Federal Government.
2.3 **Grants**	The role of the State Government should be defined in the utilization of grants. Threshold for the grant amount should increase and will vary according to the need and nature of the projects. There will be a threshold for the pool fund, and DPs can contribute even small amount to it. The Sector Wide Approach Program (SWAp) will need to review in line with the Constitution 2072, article 59 and 60 and schedules 6 to 8.
2.4.3	Threshold for concessional loan may double as projects yielding less than $10 million will not satisfy development indicators including repayment and scale of economy.
2.5 **Other Loan**	The Government should facilitate to get a loan of at least $20 million from the international commercial financial institutions for projects with high yield and return to the private sector under the Public Private Partnership mechanism. The government will take the project as security.
2.6 **Technical Assistance**	Forms and applications of TA shall be redefined and reclassified according to the prevailing Constitutional and legal provision addressing the role of federal states. However, the mechanism of utilization of the TA must be retained at Federal government level.
2.7 Consultants Mobilization	Consultant's requirements will be varied according to the needs of the Federal Government and the State Government. The authority to select consultants shall be retained at the Federal level but the demands of State Governments should be taken in account.
2.8 **External Volunteer Mobilization**	While mobilizing external volunteers the Federal Government may ask the subnational governing bodies if they need any volunteers. The subnational governing body can also request to the Federal Government external volunteers in the areas of technology transfer and knowledge management.
2.9 **Civil Society and National/ International Non-Governmental Organization**	This section needs to be revised completely, however the INGOs involvement also needs to be considered as foreign aid, therefore monitoring and control should be done under a single door. The IECCD Division's organizational structure needs to reorganize and accommodate coordination of INGOs through the division. The Local Governments should have full autonomous control over the INGOs whilst simultaneously having control of implementation and operation. The three tiers of government shall be well informed about operation, action and implementation of the projects implemented by INGOs in all levels concerned.
2.11 **Humanitarian Aid**	The 2015 earthquake exposed the failure in management of humanitarian aid and showed that a lack of co-operation between multiple interest groups was a major contributor to mix-management at the federal level. A direct lesson from the earthquake is that the State and the Local Governments must co-ordinate and be responsible for emergency aid towards disaster-related issues including food shortage, conflict, refugee management and disease epidemics.
2.12 **Inter-governmental Joint Economic Commission**	The State Government also need to be included in this Commission.

Paragraph No	Amendments Required
2.14 Partnership with Private Sector	The structure of the PPP will be changed so State Governments can develop polices according to their needs whilst being in line with the Federal Government's policy framework. They should adhere and complement the policy document of the Federal Government fully.
Part III	
3.1 Implementation and Coordination Mechanism	The structure of the "Development Co-operation Policy Implementation Committee" (DCPIC)
3.6 Government-Development Partner Joint Mechanism	Nepal Development Forum is a platform to discuss periodic plan, strategy, priority and national development frameworks. The main concern that has always remained is that all development partners hardly participate in the discussions on transparency of aid flow alignment on national priority. So, the Government has been unable to provide timely, transparent and comprehensive information on aid flow associated with the capital expenditure. The country aid strategies of the development partners are not aligned with the national development cooperation policy. There is a huge gap between the recipient and the development partners in policy compatibility directives, which should be settled. Development portfolio performance review is not undertaken periodically by the government, categories of the project with cost benefit analysis and indicators based should identified. Underperforming and costly projects should be categorized under sick projects and those should be dropped out immediately after performance evaluation. In this regard, the development partners should coordinate with the government.
3.8 Joint Local Review	The Federal Government reserves right of the foreign aid management according to the Constitution of Nepal 2072 BS, it will be pertinent to involve all the State Government in joint local review meetings.

4.1.2 Challenges to Policy Implementation

4.1.2.1 Gap in Resources and Plan

The newly promulgated Constitution of Nepal has envisioned establishing the institutions needed for effective and efficacious governance structure. National and international aid efforts need to be dovetailed to pave the path for proper reorganization of the development efforts. New infrastructures need to be established not only to enhance the modus operandi but also the overall efficiency of federal states and other institutions in the country. There will be a huge increase in demand for resources due to the ambitious plans of local governments, and the resources have to be distributed among 753 local bodies and seven states. The Federal Government will be under immense pressure to manage the costs related to the building of new institutions and execution of new development projects, among others. As per the Constitution, it is required to raise capital and resources to effectively manage such expenses.

4.1.2.2 Inconsistencies in the Government's and Development Partners' Aid Strategies

The national policy framework is prepared by the Government to accommodate all the development partners, including INGOs. The policy aims to channel all foreign aid through one stream, the national annual budget. The Paris Declaration (2005) agrees to "adopt harmonized performance assessment frameworks for country systems so as to avoid presenting partner countries with excessive number of potentially conflicting targets."

Development partner and recipient country have differing aid strategies, thus unnecessarily complicating the modus operandi of aid utilization of the recipient country in particular. In this context, the Paris Declaration advocates that both the sides should align their aid strategies for achieving the desired results. However, aligning the policy directives of each development partner with the recipient's overall national framework is still a big challenge.

In the present governance structure, development partners are unwilling to agree to the one door foreign policy framework. Similarly, they appear reluctant to channel their aid into the country through the government's budgetary system, thus triggering a grave question over the transparency and effectiveness of their assistance. Moreover, another concern raised is that development partners can access and coordinate with local governments directly without first coordinating with the Federal government. Furthermore, each development partner presents the recipient with its own set of conditions to meet. It can be extremely difficult to accommodate these conditions into the national policy as they vary from one DP to another. This, of course, is another challenge faced by the Ministry of Finance.

The I/NGOs tend to operate outside the national aid policy framework, which is controlled by the Social Welfare Council, and their contributions to the national account are difficult to estimate. The Constitution has made the implementation of federalism and fiscal budgets transparent so the activities of I/NGOs must be transparent as well. Furthermore, they should register their objectives with the Local Governments in the areas where their aid strategy is being implemented. However, this is not what is currently happening, thus triggering unwarranted conflicts between the INGOs and local governments in the implementation of development projects. Such conflicts must be fixed through further exploration of the role of Social Welfare Council and other line ministries.

4.1.2.3 Robust Supply than the Demand of the Projects

The national plan strategies with respect to time frame are changing frequently which have been impacted in completion of project cycle in the country. Although the National Planning Commission is supposed to work towards this end, it seems quite differential in this regard. As such, the international donors are enjoying carte blanche to proceed with their projects to meet their own interests. The separate tiers of government will have their own development goals and this need to be addressed in the overall policy. The project readiness process must strictly be adopted by the relevant unit or department to come up with the best solution of the planning process and implementation as well.

There is a serious dissonance when it comes to the understanding of development projects between ministers, bureaucrats, technocrats and development partners. Furthermore, most of the projects designed on ad-hoc basis rather than cost benefit analysis, and on also instructions of influential individuals and their close nexus. Therefore, the role of the planning commission has been very ineffective in the arena of foreign aid due to the self-serving influence exerted by such high-profile individuals on it. However, the new governance structure can reorganize and restructure the IECCD to accommodate the seven federal states, and the IECCD will be given new roles and responsibilities. One major role they will have is to analyze development strategies suggested by development partners and to establish and rank project banks according to their priority. However, this can only be accomplished after a thorough review of the current IECCD.

A federal-specific approach and sector-wide approach would be advisable following a review of the roles of national and subnational institutions and how they will be involved in the stand-alone, sectoral and subnational aid programs. An aid management platform should be established to make aid more effective and incorporate the role of the federal states in this regard.

CHAPTER 5

ACTION MATRIX

5.1 Institutional Framework

Roles and Responsibilities of Aid Management Institutions

Institutions	Roles and Responsibilities
Cabinet	• Authorize loans / grants as specify by the constitution
National Planning Commission (NPC)	• Advise federal and state government on developing priorities
	• Study and make strategic analysis of macro-economic and structural reform options.
	• Operate project bank
	• Make proposals for the development of multi-year rolling plans.
	• Monitor, evaluate and co-ordinate development policies, programs and projects.
	• Ensure the proper functioning of the national Monitoring and Evaluation (M&E) system and adherence by all stakeholders.
Ministry of Finance (MoF)	**Aid Management**
	• Coordinate all the activities leading to contracting of concessional lands and receipt of grants as the institution constitutionally mandate to contract for foreign aid.
	• Authorizing and signing all external financial resources aliening with the national priorities set on periodic plans
	• Developing and strengthening project bank and updating the demand to DPs on regular basis.
	• Authorize resource transfer from DPs to line ministries and to SGs and LGs.
	• Lead in all matters pertain to aid administration. Plan, collect, analyze and report used by all stakeholders on a quarterly basis.

Institutions	Roles and Responsibilities
	• Sole responsible for bilateral and multilateral debt servicing. Payback, interest rate, currency payment.
	• Maintaining aid transparency; updating and refining aid management information system; disseminating aid information.
	• Strengthen the aid management capacity of implementing agency/ government by providing training and technical support.
	• Transfer the foreign aid to state and local governments.
	Aid Coordination
	• Lead aid coordination
	• Coordinate line ministries, SGs and LGs to spearhead discussion for the identification of the specific area for external assistance
	• Spearhead all negotiations and sign the financial agreement with DPs,
	• Take a lead in grant negotiation with DPs along with SGs to project agreement.
	• Purgative rights to all foreign aid administration though there are three tiers of government.
	National Systems
	• Support NPC to enhance monitoring and reporting systems.
	• Lead in conducting due diligence and determining whether GoN is receiving value for money for aid.
	• Oversee the strengthening and use of country systems
Line Ministry	• Develop the projects
	• Detail designing of projects
	• Prepare procurement plan
	• Execute the programs and projects
Ministry of Federal Affairs and Local Development(MoFALD)	• Support to prioritize of the project
	• Assist in preparing project document
	• Coordinate the local government in the district.
	• Depute the executive officer as federal representative in the local level.

Institutions	Roles and Responsibilities
Ministry of Foreign Affairs (MoFA)	• Support MoF in exploring possible international avenues for sourcing foreign aid.
	• Represent GoN in international aid forum for a as requested by MoF.
	• Liaison between the GoN and rest of the world.
Ministry of Home Affairs (MoHA)	• Responsible for entry and exit administration for foreign nationals. Their arrival and departure, issuing of visa and their visa extension all related activities will be conducted in consultation with MoF
Nepal Rastra Bank (NRB)	• Manage the government treasury account, operate bank account for each development partner.
	• provide timely statements on all accounts to stakeholders
	• Manage foreign currency for repayment of foreign loans
State Ministry of Home Affairs (SMoHA)	• Monitor the performance of TA /voluntary assistance
	• Disseminate the activities that has been financed by foreign aid
State Ministry of Finance (SMoF)	• Mange the TA for concerned LGs
	• Collaborate with the federal finance ministry to mobilize foreign aid.
	• Responsible for maintaining accountability and transparency of the foreign aid
	• Improve on harmonization and alignment of sector programs in the state
	• Report the progress to the Federal Government
	• Disseminate the financial report submitted by the project management office
Auditor General	• Audit the use of all aid received by all tiers of government
FCGO	• Spearhead preparing donor-wise as well as project wise record of outstanding loans and interest and repayment schedule within the three months after the completion of each fiscal year.
Public Debt Management Office(PDMO)	• Keep accurate and current records of foreign loan as well.
	• Act as back office for the public debt.
	• Release the budget for individual project.
	• Maintain the accounts

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ANNEXES

ANNEX

A

International Experiences in Foreign Aid Mobilization

1. India

The southern neighbor of Nepal, India, has been gradually emerging as a donor country with a phenomenal uptick in its economic growth. It seems to be gravitated towards slowly discouraging the use of foreign aid in other sectors except health and education.

In this country, there is a practice of the Central Ministries and State Governments forwarding project proposals for external assistance to the Ministry of Finance, Department of Economic Affairs (DEA). The proposals contain Preliminary Project Report (PPR) which includes the desired development objectives, initial financial detail, project schedule and so on.

The proposals regarding the State projects are routed to the DEA through the Central Sectoral Ministry whereas the proposals related to the Central ministries/departments should be submitted with the clearance of the Indian Planning Commission.

Finally, the DEA scrutinizes the proposals, sends back the non-compliance proposals and poses the compliance proposals for external assistance. The development cooperation programs of the bilateral/multilateral development partners are aligned with the priorities of the Government of India[8]. All the loans obtained by the Government of India are deposited in the Consolidated Fund and then channeled to the State Governments by adopting required procedures.

The most important fact is that the states are not financially viable. They depend upon Centre for finance. The Centre gives grants-in-aid and matching grants to the states. But these grants are not out of strings. If the states do not obey the conditions, the Central withdraw grants from them[9].

2. Pakistan

The Economics Affairs Division (EAD)is primarily responsible for dealing with every matter pertaining to foreign assistance provided to Pakistan. The EAD executes an array of tasks like requirement assessment, program coordination and negotiation for external economic assistance. The defense, environment, and narcoticsdepartments in this country also enjoy exclusive rights in terms of dealing independently with the issue of foreign assistance. Government of Pakistan (GoP) has entitled the Law Division to scrutinize and examine all the related legal instruments and documents before striking any foreign assistance deals with the Development Partners.

8 *Guidelines for posing, implementation and monitoring of externally aided projects; File No. 3/3/4-PMU*

9 *Federalism in India – Features, Dynamics and Challenges; vle.du.ac.in/mod/book/print.php?id=13042&chaptered=29847*

According to the rules of the Government of Pakistan, provinces are not allowed to get engaged in direct negotiations or identification vis-a-vis the external assistance. Most of the developmental works fall under the purview of the provinces. As such, development partners and provinces tend to regularly talk to each other on foreign aid. Within the provinces, especially the Finance as well as the Planning and Development Departments are assigned to deal with the Development Partners[10].

3. South Korea

South Korea has been a part of the governing body of the ODA, and is a donor country to reckon with.However, in the past, it had received foreign aid to bolster its socio-economic growth. A brief scanning ofthe history of the Korean development alludes to the effective utilization of foreign aid with a strategic and balanced approach. At the earlier state, Korea leveraged theexternal assistance in expediting the growth of agriculture and textile sector and later on in bolstering its industrial development[11]. They had followed the practice of channelizing aid through a local centralized management system meant to minimize the negative side effects[12].

4. Bangladesh

Bangladesh has long been receiving and mobilizing foreign assistance to achieve economic sustainability. The country follows the practice of rigorously examining and analyzing the development costregardingall development programs / projects including the ones funded by foreign donors. Such practice is adopted by the Inter-Ministerial Programming Committee of the Planning Commission for inclusion of new projects in the Annual Development Programme (ADP).

Implementation and monitoring of the large and complex foreign aided programs / projects are outsourced to independent programme / project implementation monitoring firms. Similarly, program / project implementation committees incorporating all the concerned stakeholders at operational levelare formed.

Post implementation Program / project impact studies are also carried out by independent firms and public hearing will be organisedto collect feedbacks for new programs / projects[13].

5. South Africa

In this country, the task of managing foreign aid was previouslyhandled by the Reconstruction and Development Programme (RDP) Ministrybut later President Mbeki decided to entitle the National Treasury to look after this responsibility.South Africa allows any of its cabinet minister to sign a co-operation agreement with a foreign partner. The Department of Justice and Constitutional Development and the Department of International Relations and Cooperation (DIRCO) scrutinize such agreement to ensurewhether it complies with the South African Constitution and foreign policy.

The Treasury has tried to exert more control over development co-operation arrangements but in vain.This is becausethe donors and departments want to avoid the possible unwarranted delays caused by additional bureaucratic clearance. As a result, neither the Treasury nor the DIRCO has a full and clear overview of South

10 *Preparatory Study Regarding the Formulation of a Foreign Assistance Policy Framework for Pakistan. United Nations Development Program and Economic Affairs Division, Government of Pakistan.*

11 *Third World Quarterly, 2015. Aid and state transition in Ghana and South Korea.*

12 *Developing Country Studies, 2016. Foreign Aid Effectiveness in Korea: Bangladesh Could Learn about Economic Growth and Development.*

13 *Foreign Aid Policy of Bangladesh.*

Africa's development co-operation. This isnegatively affecting not only the ODA but also aid transparency. Although the Treasury submits regular reports to parliament on the funds that are channeled through the RDP Fund, it is not able to fully record all the off-budget technical co-operation. The Treasury has urged all departments to report the ODA funding they receive in their annual Estimates of National Expenditures. Treasury has endeavored to establish a web-based open database on aid to the country, known as the Development Cooperation Management and Information System (DCMIS)[14].

6. Rwanda

Government of Rwanda (GoR) seriously deal with the issue of foreign aid initiatives initiated by the GoR agencies with the development partners. Therefore, the GoR dwarf external financing by the national planning and budgeting processes. Ministry of Economics and Finance (MINECOFIN) is in key role, and the GoR Agency requests the MINECOFIN to mobilize resources with details of proposal. In regards to aid programme/support to districts, districts identify gaps through district planning and request through the Ministry of Local Government (MINALOC) to MINECOFIN of external financing needs. The MINECOFIN assesses aid proposals to determine its fit with national priorities and policies. They had set a time frame and strictly follow the calendar to demand and execute the external funding project. The External Finance Unit (EFU) in consultation with the National Development Planning and Research Directorate of the MINECOFIN. Their program/project must be alignment with national priorities. There is also project implementation unit for integrating and coordinating to the project management aiming to reduce the transaction costs through sharing the function assigned to the respective project unit[15].

7. Ghana

Ministry of Finance and Economic Planning (MoFEP) is in a pivotal role. All Ministries and Departments Agencies (MDA) has identified a need for aid and engage in initial discussions with interested DPs to develop the concept and examine its technical viability of the project.

The MoFEP, in consultation with the National Development Planning Commission (NDPC), will examine such documentation to ensure that the proposal fully aligns with national priorities set out in the Medium-Term National Development Policy Framework (MTNDPF) and the Ghana Aid Policy and Strategy. In addition, the MoFEP assesses the incremental recurrent cost implications of an aid proposal, ensuring its fit within the MTEF. For loans and credits, the MoFEP will assess the relative costs and risks of a proposal, evaluating its sustainability implications. After these assessments are carried out, the MoFEP will write to interested DPs to initiate preparatory work towards the provision of assistance.

When assistance is successfully negotiated, it's been recorded in writing, in the form of an "Agreement". The MoFEP presents the draft Agreement to Cabinet and, when required, to Parliament for authorization and then prepare for the signing of the document. The Minister of Finance and Economic Planning is, in his or her capacity as coordinator of all aid, sign such documentation for and on behalf of Government of Ghana (GoG). The Ministry of Foreign Affairs (MFA)signs agreements with DPs only when authorized by the Minister of Finance and Economic Planning, through a delegation of authority to sign. Copies of agreements is retained by both the MoFEP and the MFA. The MoFEPremains responsible for overseeing the fulfillment of all agreements. All information relating to aid is maintained in the MoFEP internal database[16].

14 *International Relation and Cooperation Department. Republic of South Africa.*

15 *Rwanda Aid Policy Manuel of Procedure (2011). Republic of Rwanda.*

16 *Ghana Aid Policy & Strategy (2011- 2015). Towards Middle-Income Status (Phase One). Ministry of Finance and Economic Planning. Government of the Republic of Ghana*

ANNEX

B

Detail of Consultative Meetings

I. List of Government Officers and Individual Foreign Aid Experts

Person's Name	Institution	Position
Mr. Dinesh Kumar Thapalia	MoFALD	Secretary
Mr. Baikuntha Aryal	IECCD, MOF	Joint-Secretary
Mr. Kewal Prasad Bhandari	BPD, MOF	Joint-Secretary
Mr. Lal Shankar Ghimire	NPC	Joint-Secretary
Dr. Sunil Babu Shrestha	NPC	Member
Mr. Lal Bahadur Khatri (D)	IECCD, MOF	Under-Secretary
Mr. Lal Bahadur Khatri (G)	IECCD, MOF	Under-Secretary
Dr. Ram Prasad Mainali	IECCD, MOF	Under-Secretary
Mr. Surya Prasad Pokharel	IECCD, MOF	Under-Secretary
Mr. Yug Raj Pandey	IECCD, MOF	Under-Secretary
Mr. Tek Bahadur Khatri	IECCD, MOF	Under-Secretary
Mr. Rajan Parajuli	IECCD, MOF	Section Officer
Mr. Tilakman Singh Bhandari	EDFCP, MOF	Deputy Project Manager
Mr. Keshab Upreti	BPD, MOF	Under-Secretary
Mr. Mahesh Bhattarai	FACD, MoFALD	Under-Secretary
Mr. Prithivi Raj Legal		Former VC, NPC
Dr. Shankar Sharma		Former VC, NPC
Mr. Deependra Bahadur Chherti		Former VC, NPC
Mr. Keshav Acharya		Former Advisor, Finance Minister
Mr. Tulasi Neupane		Foreign Aid Expert

2. List of Development Partners and their Representatives

Institution	Person's Name	Position
World Bank Group	Mr. Bigyan Pradhan and team	Sr. Operations Officer
Asian Development Bank	Mr. Raju Tuladhar and team	Senior Public Management Specialist (Governance)
European Union	Mr. Andreas Rottger and team	First Counsellor Head of Cooperation
DFID (UK Aid)	Mr. Gareth Rannamets	Governance Advisor
US AID	Mr. Kishor KC and team	Program Specialist
JICA	Mr. Ram Prasad Bhandari	Program Manager
Embassy of Switzerland	Mr. Dipak Elmerand and team	Deputy Head of Mission Head of Cooperation

ANNEX C

Total Foreign Aid Disbursement and its Ratio with Government Expenditure

Rs. Million

Year	Foreign Grant	Foreign Loan	Foreign Aid	Government Expenditure	Grant to Government Expenditure Ratio	Loan to Government Expenditure Ratio	Foreign Aid to Government Expenditure Ratio
1976	359.7	145.9	505.6	1913.30	18.8%	7.6%	26.4%
1977	392.5	164.4	556.9	2330.40	16.8%	7.1%	23.9%
1978	466.6	381.8	848.4	2674.90	17.4%	14.3%	31.7%
1979	599.3	390.1	989.4	3020.50	19.8%	12.9%	32.8%
1980	805.6	534.9	1340.5	3470.70	23.2%	15.4%	38.6%
1981	868.9	693.3	1562.2	4092.30	21.2%	16.9%	38.2%
1982	993.3	729.9	1723.2	5361.30	18.5%	13.6%	32.1%
1983	1090.1	985.8	2075.9	6979.20	15.6%	14.1%	29.7%
1984	876.6	1670.9	2547.5	7437.30	11.8%	22.5%	34.3%
1985	923.4	1753	2676.4	8394.80	11.0%	20.9%	31.9%
1986	1120.6	2370.9	3491.5	9797.10	11.4%	24.2%	35.6%
1987	952.6	2361.9	3314.5	11513.20	8.3%	20.5%	28.8%
1988	1984.2	3094.3	5078.5	14105.00	14.1%	21.9%	36.0%
1989	1478.2	4188.7	5666.9	18005.00	8.2%	23.3%	31.5%
1990	1798.8	4628.3	6427.1	19669.30	9.1%	23.5%	32.7%
1991	1629.9	4360	5989.9	23549.80	6.9%	18.5%	25.4%
1992	1531	6269.4	7800.4	26418.20	5.8%	23.7%	29.5%
1993	3273.9	5961.7	9235.6	30897.70	10.6%	19.3%	29.9%

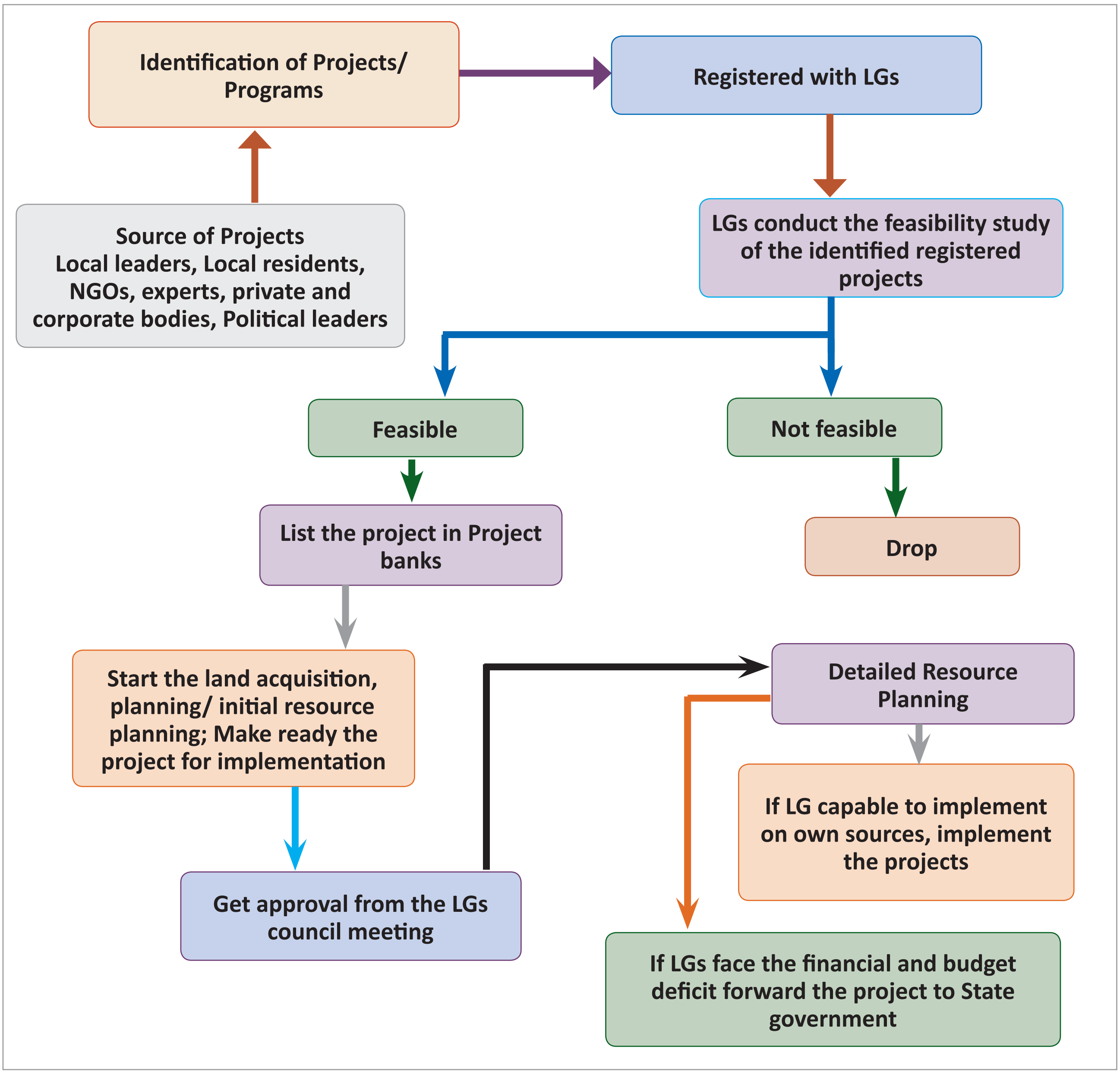
Year	Foreign Grant	Foreign Loan	Foreign Aid	Government Expenditure	Grant to Government Expenditure Ratio	Loan to Government Expenditure Ratio	Foreign Aid to Government Expenditure Ratio
1994	2393.6	9163.6	11557.2	33597.40	7.1%	27.3%	34.4%
1995	3937.1	7312.3	11249.4	39060.00	10.1%	18.7%	28.8%
1996	4825.1	9463.9	14289	46542.40	10.4%	20.3%	30.7%
1997	5988.3	9043.6	15031.9	50723.70	11.8%	17.8%	29.6%
1998	5402.6	11054.5	16457.1	56118.30	9.6%	19.7%	29.3%
1999	4336.6	11852.4	16189	59579.00	7.3%	19.9%	27.2%
2000	5711.7	11812.2	17523.9	66272.50	8.6%	17.8%	26.4%
2001	6753.4	12044	18797.4	79835.10	8.5%	15.1%	23.5%
2002	6686.2	7698.6	14384.8	80072.20	8.4%	9.6%	18.0%
2003	11339.1	4546.4	15885.5	84006.10	13.5%	5.4%	18.9%
2004	11283.4	7629	18912.4	89442.60	12.6%	8.5%	21.1%
2005	14391.2	9266.1	23657.3	102560.40	14.0%	9.0%	23.1%
2006	13827.5	8214.3	22041.8	110889.20	12.5%	7.4%	19.9%
2007	15800.8	10053.5	25854.3	133604.60	11.8%	7.5%	19.4%
2008	20320.7	8979.9	29300.6	161349.90	12.6%	5.6%	18.2%
2009	26382.8	26382.8	52765.6	219661.90	12.0%	12.0%	24.0%
2010	38546	11223.4	49769.4	259146.06	14.9%	4.3%	19.2%
2011	45922.2	12075.6	60008.8	339167.00	13.5%	3.6%	17.7%
2012	40810.3	11083.1	51893.4	358638.00	11.4%	3.1%	14.5%
2013	35229.8	11969.4	47199.2	435052.00	8.1%	2.8%	10.8%
2014	42205.8	17998.8	60204.6	531558.00	7.9%	3.4%	11.3%
2015	38291.4	25615.6	63907	601016.00	6.4%	4.3%	10.6%

ANNEX

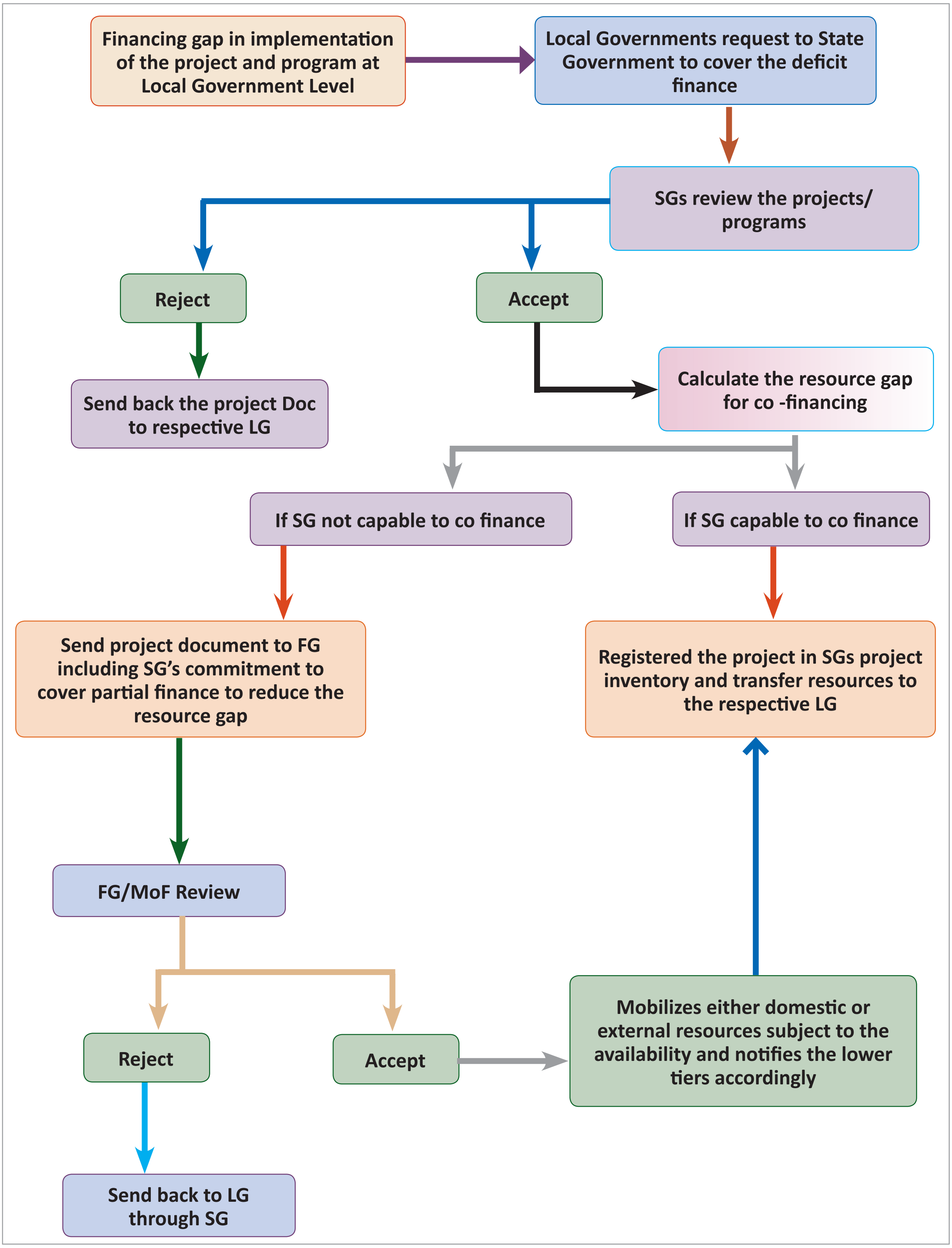
D

An Architect of Project/Program Selection

I. A Sample of Project Selection Process at Local Government



2. A Sample of Resource Flow of the Local government



ANNEX E

Interaction Programs with Government of Nepal and Development Partners to Share Main Findings of the Study and Invite Feedback

1. Overview of Interaction Programs

The Ministry of Finance organized interactions programs separately with Government of Nepal officials and with Development Partners in order to share the key findings of the draft Study and to invite inputs and feedback. These programs were held on 22 October 2017 and 10 November 2017, respectively, and the list of participants for each program can be found in Annex E2.

The agenda for each program began with opening remarks by the Revenue Secretary, in the GoN program, and the Finance Secretary, in the DPs program. Mr. Baikuntha Aryal, Joint Secretary of IECCD then made a presentation of the main findings of the Study, highlighting the Constitutional provisions related to aid mobilization in the federal structure; criteria and areas of prioritization of foreign aid allocation at different tiers of government; mechanisms for on-lending of loans and on-granting of grants; and roles and responsibilities of different actors in the new federal set-up.

The presentation was followed by a session for open discussion and questions. The content of the discussion session, and key points raised by participants in each interaction program, is summarized as follows.

Summary of Points and Questions Raised by Participants at GoN Interaction Program

- Under physical infrastructure, local infrastructure may fall under state or local jurisdiction.
- How to channel resources towards Agriculture Ministry's projects?
- Implementation modality requires changes.
- How to implement activities tied up with projects?
- Various implementation modalities exist with different donors.
- What to do for ongoing projects?
- Federal Government should do agreements.
- Inter-Ministerial Fiscal Act should be made familiar to the local level; if the actions are ignored what are the implications?
- MoFALD has prepared a draft for aid mobilization at local level; this needs to be revisited.
- How to prepare Financial Management Reports?
- While moving towards the new system, how to implement Disbursement Linked Indicators (DLI)?

- There is a problem of teacher redeployment.
- Demanding projects could be complicated as there are three tiers of government.
- Facilitation mechanisms should be clarified.
- There should be a provision for local level coordination of ongoing projects.
- As the local level is autonomous, there should be clear provisions about which kinds of aid may be taken and which cannot be taken.
- A Perspective Plan is required, covering the transitional and long term perspectives.
- Need to identify sectors, how to facilitate provincial and local level categorization?
- Increase capacity, reimbursement be put at state level.
- Local level cannot negotiate.
- If implementation is not completed on time by state level, who will bear the cost?
- SWC spends 68% for rural development, who reports the expenditure?
- Various steps required, difficulty may occur in reimbursement.
- Those projects reaching halfway through, need to start after completing tender process.
- In Schedule 5 there is no mention of loans.
- No problem in untied loan.
- Fiscal Commission could be consulted about equitable distribution.
- Project bank should be related to all aid funded as well as GoN funded projects.

Summary of Points and Questions Raised by Participants at DPs Interaction Program

- With whom should INGOs sign their projects? Will there be different approaches to signing at different levels?
- There is confusion as MoFALD is telling DPs they will deduct flat rate of 1.5% of project budget. For INGOs, there are messages that a 5% flat rate will be deducted for monitoring.
- Need to find ways that autonomy of different spheres of government, and their ability to plan, is not constrained. There is a concern that the restrictions on aid mobilization is a form of control over the lower tiers of government.
- There is a need for clarity on how the fund flow will take place in the new system.
- What will be the terms of on-lending of loans to LGs? There is a concern that LGs may not have ability to pay back loans.
- What will be the role of MoF in monitoring?
- Capacity constraints of LGs need to be assessed; how will these capacity constraints be identified?
- For projects involving more than one LG, should Development Partners consult with the SG first, or directly with the FG?
- Can DPs directly transfer funds their funds to the treasury of an LG, based on an agreement with the FG?

2. Participants at Interaction Programs

Participants at GoN Interaction Program: 22 October 2017

Name	Designation	Institution
Shishir Kumar Dhungana	Secretary	MoF
Suroj Pokhrel	Secretary	MoAD
Devendra Karki	Secretary	MoPIT
Baikuntha Aryal	Joint Secretary (JS)	MoF
Ram Saran Pudasaini	JS	MoF
Dhananjaya Paudyal	JS	MoFSC
Keshab Kumar Sharma	JS	MoPIT
Nirmal Hari Adhikari	JS	MoF
Baikuntha Pd. Aryal	JS	MoE
Toyam Raya	JS	MoINCS
Shri Krishna Giri	JS	MoH
Bishnu Prasad Nepal	JS	MoF
Rudra B. Shrestha	Sr Agricultural Economist	MoAD
Deepak Sharma	Director	DoE
Suresh Pradhan	JS	MoCPA
Arjun Pokharel	JS	MoF
Rudra Singh Tamang	JS	MoFALD
Homkanta Bhandari	Under Secretary (US)	MoF
Shiva Sharma	US	MoF
Narayan K. Shrestha	US	MoE
Suman Salikhe	SDE	MoUD
Tek Bahadur Khatri	US	MoF

Name	Designation	Institution
Mahesh Bhattarai	US	MoFALD
Narayan Raj Paudel	US	NPC
Dhruba Raj Regmi	US	MoE
Yeshoda Aryal	US	MoH
Bhakta Raj Joshi	US	MoH
Yugraj Pandey	US	MoF
Bal Krishna Adhikari	SO	MoF
Harischandra Dhakal	US	MoF
Ram Prasad Mainali	US	MoF
Tulsi Ram Panthi	SO	MoF
Janardan Paudel	SO	MoF
Om Prakash Bhattarai	SO	MoF
Ashish Aryal	SO	MoF
Churamani Aryal	SO	MoF
Naba Raj Poudyal	SO	MoF
Asha K. Shah	SO	MoF
Shyam Mani Ghimire	Computer Expert	MoF
Tilakman Singh Bhandari	DPM	EDFC/MoF
Ashley Palmer	Aid Effectiveness Specialist	EDFC/MoF

Participants at DPs Interaction Program: 10 November 2017

Name	Designation	Institution
Shankar Prasad Adhikari	Secretary	MoF
Baikuntha Aryal	Joint Secretay	MoF
YOUNG-SIK Park	Ambassador	Korean Embassy
Jorma Suvanto	Ambassador	Finland Embassy
Lasse Bjørn Johannessen	Ambassador	Norway Embassy
Peter Budd	Ambassador	Australia
Yves CARMONA	Ambassador	French Embassy
Rhodslaw Rokita	Head of Finance	EU
Odile Hunblot	Program Manager	EU
Rai Kr. Dhungana	Eov Adm	Norway
Renaud Meyer	Country Director	UNDP
Rajib Upadhyay	Senior Ext Specialist	World Bank
Sarosh Khan	Portfolio Management	ADB
Peter Malnak	Mission Director	USAID
Balboa Weyermann	Charge de'Affairs	Swiss Embassy
San Sakuma	CR	JICA
Gopal Gurung	Program Manager	JICA
Claudia Hupie	HOC/DCM	German Embassy
Yumiko Yoshino	-	Japan Embassy
Valerie Julliard	RC	UN
Rurik Marsden	Head of Office	DFID
Ainsley Hemming	Head of DC	DFAT
B. Dondle	-	World Bank
Pramila Shrestha	Financial Controller	Swiss Embassy
Prakash Regmi	SPO	Swiss Embassy
Ashley Palmer	Aid Effectiveness Specialist	EDFC/UNDP
Dharma Swarnakar	Program Analyst	UNDP