



Meeting of the World Bank Group and IMF

Nepal delegates led by Finance Secretary Mr. Shanta Raj Subedi attended the World Bank and IMF Joint Annual meeting from 13-15 October 2017 in Washington DC. The meeting was attended by representatives of 189 countries including Nepal. The delegates comprised of Mr. Chiranjeevi Nepal, Governor NRB, Mr. Baikuntha Aryal, Joint Secretary, International Economic Cooperation Coordination Division (IECCD) of the Ministry of Finance, Mr. Nar Bahadur Thapa, Executive Director, Nepal Rastra Bank (NRB), Mr. Ram Prasad Mainali, Under Secretary (IECCD) of Ministry of Finance and Mr. Jiban Prakash Shrestha, Deputy Chief of Mission, Embassy of Nepal, Washington DC, USA. The joint plenary session was addressed by the President of the WB Mr. Jim Yong Kim and IMF Managing Director Madam Christian Legard. On the occasion, while delivering his speech, Mr. Subedi presented the current macro-economic scenario of Nepal. Mr. Subedi highlighted that in Fiscal Year 2016/17, Nepal attained a growth rate of 6.9 percent, the highest in 24 years, by maintaining an inflation rate the lowest in 10 years at 2.8 percent. He also emphasized that internal revenue mobilization increased significantly standing at 8 percent above the target.



Similarly, the internal capital market is strengthening, BOP is in surplus and the foreign exchange reserve is sufficient for the import of goods and services for 13 months. Similarly, Mr. Subedi also indicated substandard aspect of Nepalese economy i.e. the trade deficit continued to increase and the export import ratio has been squeezed this year as well.

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Development Cooperation Report FY 2016-17 Unveiled



Hon. Finance Minister Mr. Gyanendra Bahadur Karki recently unveiled the Ministry of Finance's annual Development Cooperation Report (DCR) 2016-17 at a function organized on 31 December 2017. While delivering his remarks, Hon. Minister Mr. Karki opined that the Report provided very comprehensive aid related information that would benefit all stakeholders including government agencies, development partners, journalists and the general public. Hon. Minister Mr. Karki briefly highlighted the

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Message from the Chief Editor



The Government of Nepal has been a adherer of the aid effectiveness agenda since the Paris Declaration. The regular publication of the Development Cooperation Report, each year since 2011, is a key part of the Government's efforts to fulfill its commitment to promote aid transparency of the use of aid funds. Ultimately, aid transparency helps to ensure that both the recipient country and its development partners are held accountable for the use of development cooperation resources. The most recent publication of the DCR, for FY 2016-17, is the seventh of its kind in the annual series. By providing extensive data and analytical information related to aid mobilization in the country, the Report contributes to the body of knowledge on development cooperation and finance in Nepal and will hopefully be a useful resource for Government, development partners and other stakeholders.

Based on data extracted from MoF's Aid Management Platform, the Report intends to bring development aid information together into one place, providing comprehensive analysis on the use and trends of development assistance in Nepal. Special effort has also been made to reflect analysis of the gender responsiveness of aid; INGO contributions; Province-wise aid disbursement; and a comparison of pledges, commitments, and disbursements for earthquake reconstruction; among others. This is an important accomplishment as this year's Report will further furnish stakeholders with critical information to continue the debate on where, why and how development cooperation has been utilized in Nepal.

I take this opportunity to encourage all development partners to diligently furnish their aid data to the AMP trimesterly according to the agreed timeline so that we are able to publish the DCR shortly after the closing of the Nepali fiscal year. In closing, I would also like to announce that our future publication of this newsletter will commence on quarterly basis.

Thank you !

ADB Agreed to Provide Loan Assistance

Asian Development Bank (ADB) has agreed to provide US\$ 150 million (approximately NRs 15.4 billion) concessional loan assistance for the implementation of Regional Urban Development Project. An agreement to this effect was signed and exchanged at the Ministry of Finance, Kathmandu on 27 November 2017. The interest rate of the loan will be 1% per annum including the grace period of eight years and 1.5% thereafter. The assistance will be utilized through on-budget mechanism.

Regional Urban Development Project supports to develop the urban infrastructure in various areas of Nepal and to enhance the effectiveness and efficiency in the delivery of urban services. The project investment will cover the eight municipalities located in southern terai and far west of Nepal that include Birgunj, Biratnagar, Siddharthanagar, Nepalgunj, Bheemdatta, Dhangadhi, Godawari and Shuklaphanta municipalities. The executing agency of the project is Ministry of Urban Development and implementing agencies are the concerned municipalities and the Kailali based office of Department of Urban Development and Building Construction. The expected completion date of the project is 31 December 2022.

The main objective of the Program is to enhance sustainable urban development and to attain balanced regional development. After the successful completion of the program, it is expected that urban infrastructure in eight municipalities will be rehabilitated, municipal capacity will be strengthened and project preparation



From Right: Finance Secretary Mr. Adhikari and ADB Country Director Mr. Khamudkhanov
capacity will be improved in line with climate resilient and sustainable designs.

The project will enhance urban infrastructure in the Terai region, reducing the flooding duration to less than an hour in those eight municipalities during monsoon. This includes the construction and rehabilitation of 200 kilometers of storm water drains, improvement of 240 km of roads, construction of at least 40 km of footpaths, building four sanitary landfills and resource recovery centers, and construction of 20 km of sewers. The agreement was signed by Mr. Shankar Prasad Adhikari, Secretary, Ministry of Finance and Mr. Mukhtor Khamudkhanov, Country Director, Nepal Resident Mission ADB on behalf of GoN and ADB, respectively.

Nepal-Japan Policy Dialogue/ODA Portfolio Review Meeting Conducted

Nepal- Japan Policy Dialogue (NJPD) and ODA Portfolio Review Meeting (OPRM) was held at Ministry of Finance on 21 December 2017. NJPD is a common mechanism that takes place regularly for improving mutual cooperation between Government of Nepal (GoN) and Government of Japan (GoJ). This special dialogue was Co-chaired by Mr. Shinya Machida, Counsellor, Embassy of Japan and Mr. Baikuntha Aryal, Joint Secretary, IECCD Ministry of Finance.



There were altogether fifty participants from Embassy

of Japan, JICA and Government of Nepal. GoN participants were from different line ministries/agencies including Ministry of Finance, Ministry of Education, Ministry of Urban Development and Nepal Reconstruction Authority (NRA), and Nepal Rastra Bank (NRB) among others.

The agendas of the meeting were to discuss about the various cross cutting issues raised in last year policy dialogue meeting, current issues on individual projects and review of different projects portfolio performance funded under Japanese ODA loans.

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MoF Organized a Interaction Program on Aid Mobilization in the Context of Federal Nepal

The Ministry of Finance initiated 'interaction programs' on the topic of aid mobilization in the federal set-up, with Government of Nepal representatives on 22 October, and with Development Partners on 10 November, respectively. The programs provided an important discussion and consultation forum to take stock of the way forward for adapting aid mobilization approaches to the new context.

Over the course of 2017, as Nepal has moved forward with the historic transition from a unitary to a federal system, attendant reforms have taken place across public sector institutions as well as in the approaches to how the Government collaborates with development partners. The Ministry of Finance's International Economic Cooperation Coordination Division (IECCD), under the leadership of Joint Secretary Mr. Baikuntha Aryal, has proactively been considering the types of reforms that will be needed to adapt the current approach of aid mobilization to the new federal set-up, and the respective roles and responsibilities of different actors at the Federal, State, and Local levels in turn.



Against this backdrop, IECCD commissioned a study on Aid Mobilization in the Context of Federal Nepal, to serve as an input and a point of reference as the Government and its partners look ahead to aid mobilization in the new context. The study takes as its point of departure the provisions of the Constitution of 2015, which states that the Federal Government will continue to take the lead in the mobilization of foreign aid. Beyond these headline provisions, however, it is recognized that systems will need to be put in place to facilitate the on-lending of loans, and 'on-granting' of grants to State and Local governments. Reforms will need to be undertaken with a view to ensuring a sound approach to capturing resource needs from a bottom-up perspective, ensuring transparency in aid management, and defining accountability mechanisms between all stakeholders to ensure that foreign aid achieves the intended results. Identifying resource needs, and allocating foreign aid must also consider issues of geographic and sectoral balance.

At the interaction program with Government representatives, which took place at Hotel Himalaya on 22 October, following opening remarks by Revenue Secretary Shishir Kumar Dhungana, Mr. Aryal made a presentation of the main findings of the study. The presentation focused on possible fiscal transfer mechanisms for foreign aid, priority areas for allocation of foreign aid resources, and roles and responsibilities of different tiers of Government and DPs in the new context. With representatives present from 12 Government ministries and agencies, there was an active discussion following the presentation. Participants raised questions about topics ranging from how to handle on-going projects, concerns about identifying appropriate jurisdictions in certain project contexts, and the complexities of managing projects which cover all three tiers of government.

The interaction program with Development Partners, held on 10 November at the Yak & Yeti Hotel, provided a platform for DPs to hear from MoF on the topic at hand and to share views from the DP perspective. Opened by Finance

Secretary Shankar Prasad Adhikari, at the forum Mr. Aryal made a similar presentation to DPs, and invited questions and open discussion to hear their ideas, concerns, and feedback. Representatives from over 15 DPs in attendance appreciated the opportunity to discuss this important topic with MoF, with one DP representative calling the program "the start of a useful and important discussion". At the same time, DPs also raised questions about how the fund flow mechanism will work in the new system, how the planning and governance autonomy of newly elected Local Governments will be maintained with respect to the Federal Government's role in aid mobilization, and the importance of intra-Government coordination and coherent messaging from different ministries on the laws and regulations going forward.

A study on Aid Mobilization in the Context of Federal Nepal has recently been published by MoF and is available on the MoF website.

Workshop on National Stakeholder Engagement Strategy Held

A National Stakeholder Consultation for the preparation of an Engagement Strategy for the Green Climate Fund was held on November 3, 2017. The meeting was hosted by the Ministry of Finance, the National Designated Authority of GCF for Nepal, and chaired by Mr. Baikuntha Aryal, Joint Secretary of Ministry of Finance. In his remarks, Mr Aryal highlighted that the five-year GCF engagement strategy will help to prioritize thematic areas for Nepal in line with the Strategic Impacts Areas of GCF. Similarly, the strategy document should also look to actively engage national institutions on going accreditation as a Direct

Access Entity with GCF.

In his presentation, Mr Benjamin Sims, Strategy Consultant for UN Environment shared that the strategy will be prepared on the basis of alignment with national and sectoral priorities of the Government of Nepal. Mr. Sims also shared the best practices for utilizing climate fund in LDCs. Mr. Shiva Sharma, the National Project Director of GCF Readiness Project, addressed to invitees and shared about the climate finance needs to address the vulnerability of targeted population.



Investment Framework for the Mountain Ecosystem of Tamakoshi Watershed

A program to share the investment framework of the mountain ecosystems of Tamakoshi watershed was organized on 20 December 2017 for the local representatives of Dolakha and Ramechhap district. The purpose of the program was to aware local representatives from those districts on climate change vulnerability of Tamakoshi Watershed and proposed investment strategies for overcoming the watershed. The workshop was attended by District Chiefs and elected representative from municipalities of Ramechhap and Dolakha along with officers from the District Forest, Agriculture, Soil Conservation and Livestock Offices. In addition, senior officials from key line ministries including Ministry of Population and Environment (MoPE), Ministry of Forest & Soil Conservation



(MoFSC), Department of Livestock Services and representative from IUCN, NGO Federation Nepal, and NDRI were also present in the program. During the workshop, experts from PwC shared the findings of the vulnerability assessment along with tools applied towards preparation of the final investment framework for the Tamakoshi watershed.

CFS Committee Brief on GCF

The first kick-off meeting of the Climate Finance Steering(CFS) Committee was held on 8 December 2017 at the MoF under the chairmanship of Mr. Shankar Adhikari, Secretary of Ministry of Finance. The Steering Committee comprises of Joint Secretary level representatives from the Ministry of Population and Environment, the National Planning Commission, Ministry of Forest & Soil Conservation and Ministry of Agriculture Development along with senior officials

from the Nepal Rastra Bank, Vice President of FNCCI, and Chairman of the NGO Federation.

The meeting served as an introductory meeting for all the members of the Committee while Mr. Baikuntha Aryal, IECCD Chief and Member Secretary of the Committee made a presentation on the Green Climate Fund and Climate Change Financing Framework (CCFF).

Consultative Workshop on Accessing and Managing Climate Change Finance for Nepal

A Consultative Workshop on Accessing and Managing Climate Change Finance for Nepal was organized by the Ministry of Finance with support from the GCF Readiness Programme on 22-23 December 2017. The meeting was facilitated by Mr. Baikuntha Aryal, Chief of IECCD and Mr. Kewal Bhandari, Chief of Budget & Programme Division.

This workshop aimed to orient the Senior Officials of the IECCD and Budget Division on Green Climate Fund and the endorsement of proposed Climate Change

Financing Framework to integrate, strategic framework to better mobilize, manage and target climate finance so as to bridge existing finance and policy implementation gaps. The meeting was chaired by Mr. Shankar Adhikari, Secretary of Ministry of Finance. Mr. Adhikari reiterated his commitments towards improving

the mechanism for accessing, managing and making efficient use of climate finance in Nepal.



Aid Literacy Training organized at Surkhet and Janakpur

IECCD organized Aid Literacy Training at Surkhet and Janakpur for the district level government officials in order to make them familiar on various aspects of aid effectiveness agenda. The courses covered included project cycle management, status of development cooperation in Nepal, key features of Development Cooperation Policy 2014, Project Monitoring in Nepal, leadership and motivation, and glimpses of MDGs and SDGs. The program held in Surkhet on 20-21, December 2017 was attended by

39 government officials representing various districts level offices under Province Number 6. Similarly, the program held in Janakpur on 26-27 December, 2017 was attended by 38 government officials representing various districts of Province number 2. The participants were also formed into group to discuss and provide feedback on Spending Capacity of capital budget in Nepal. The program was facilitated through Effective Development Finance and Coordination Project in the Ministry of Finance being supported by UNDP/DFID.

Tripartite Portfolio Review Meeting of 2017

The Third Tripartite Portfolio Review Meeting (TPRM) of 2017 was held on 31st October in Kathmandu. ADB Alternate Governor and Finance Secretary Mr. Shankar Prasad Adhikari and ADB South Asia Regional Department DDG Diwesh Sharan co-chaired the meeting. The meeting was attended by senior government officials and project staffs from agencies of 35 ADB funded projects which accounts for totals \$2.3 billion portfolio.

The TPRM mainly focused on projects on transport and communication, education, earthquake emergency, water and urban infrastructure, services, and energy sectors. The projects face critical performance issues



and systemic problems, such as delays in procurement, weak safeguards issue and project management, premature transfer of key project staffs, poor performance by the contractors and slow disbursement.

IMF Deputy Managing Director Visited to MoF

Mr. Tao Zhang International Monetary Fund's Deputy Managing Director Visited Ministry of Finance Nepal on November 5, 2017. He delivered his speech in Ministry of Finance in the presence of Finance Secretary Mr. Shankar Prasad Adhikari, Joint Secretaries of Ministry of Finance, high level representatives from National Planning Commission, Universities and Nepal Rastra Bank.

In the meeting, Mr. Zhang made a presentation about the world economic outlook, the trend of economic scenario of South Asia and particularly the economic solvency of Nepalese economy. He talked about the improvement of Nepal macroeconomic indicators despite the unfavorable conditions such as the devastating earthquake and the supply side constraints at the time of economic blockade. He highlighted the role of IMF in the sector of structural adjustment,

balance of payment, and the credit facilities such as rapid credit facilities and enhanced credit facilities.

There was discussion on different economic issues such as economic policy, monetary policy and the fiscal policies and their impact and effectiveness in the economic activities of Nepal.

During the meeting Mr. Adhikari, Secretary delivered his welcome speech. Mr. secretary thanked Mr. Zhang for the continuous support of IMF in the macroeconomic stability of Nepalese economy. He highlighted about Nepal's target towards the Middle Income Country by 2030 and the need of resources to fulfill the targets.

Mr. Zhang committed to assist Nepal in every aspect as per Nepal's need and requested for the economic improvement of Nepal.

Development Cooperation Report

major findings of the Report, while Joint Secretary Mr. Kewal Prasad Bhandari moderated the launching program. Recently promoted Secretary Mr. Baikuntha Aryal, Joint Secretaries, other GoN officials, and media representatives were present on the occasion. The Finance Minister expressed satisfaction on the progress made toward aid transparency through the publication of the DCR on an accelerated schedule as compared to previous years.

According to the Development Cooperation Report, the total volume of aid disbursement for FY 2016-17 was US\$ 1,581.14 million, of which the ODA contribution was US\$ 1,394.6 million (88 percent) and the INGO contribution was US\$ 186.5 million (12 percent). Excluding the INGO contribution, the share of bilateral and multilateral Development Partners remained 40 percent and 60 percent, respectively. The World Bank stood as the largest multilateral donor followed by the Asian Development Bank, the UN Country Team, and the EU. Similarly, the United States became the largest bilateral donor followed by the United Kingdom, Japan, India, and China. Of the total ODA disbursement, 42 percent was in the form of grants, 39 percent as loans, and 19 percent was provided as technical assistance. The Report also revealed that the top five multilateral Development Partners contributed approximately 59 percent whereas the top five bilateral DPs contributed approximately 42 percent of the total ODA disbursed

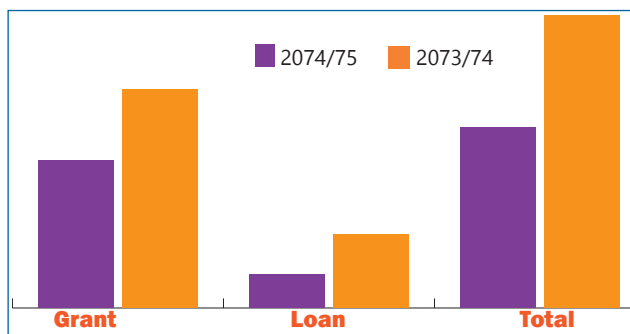
in FY 2016-17.

The World Bank Group disbursed the largest amount of assistance (US\$ 345.97 million) followed by ADB (US\$ 253.9 million). The DCR revealed that 73 percent of aid was disbursed on-budget and 27 percent off-budget. The education sector remained the largest aid recipient followed by the local development and housing sectors. For the third year in a row, the Report included a separate chapter on INGOs, noting the increase in INGO's contributions over the years. The volume of aid disbursement from INGO core funding has increased from US\$ 168 million in FY 2015-16 to US\$ 186 million in FY 2016-17. In addition, INGOs have mobilized US\$ 147 million disbursed through various resident DPs in Nepal.

At this event, the publication of two other MoF studies was also announced, namely A Study on Aid Mobilization in Federal Nepal and the Development Finance Assessment for Nepal. The Aid Mobilization study shed lights on approaches to mobilizing aid in different tiers of the Government, according to the provisions of the Constitution. The Development Finance Assessment considers opportunities for mobilizing various types of development finance. All three publications were produced with support from the EDFC project.

Foreign Aid Commitment

As of December 2017 of the current FY 2017/18, the new foreign aid commitment received by the GoN from DPs has reached the total of Rs. 94.26 billion (Rs. 76.67 billion as grant and Rs. 17.59 billion as loan) for the implementation of various development projects/programs. In the same period of previous fiscal year, the total commitment received by the GoN from various DPs had reached the total of Rs. 152.3 billion (Rs. 38.35 billion as grant and Rs. 113.95 billion as loan).



Nepal-Japan Policy

After welcoming the delegates from Government of Japan (GoJ) and other participants in the meeting, Joint Secretary Baikuntha Aryal presented a brief update on the general and cross cutting issues which were addressed in the last meeting held on 15th November 2016. Following the Joint Secretary's remarks, the representatives from GoJ and participants from different agencies provided current status and feedback on the raised issues. At last, update on the progress of the different ODA funded projects and outstanding issues to be addressed at this time were discussed.

The dialogue focused on banking arrangement, project formulation, counterpart training, Japanese NGO support, project for improvement of intersections in Kathmandu city and other issues related to development with different line ministries. As a part of OPRM, Project Managers from different four Japanese ODA funded projects (Tanahu Hydropower Limited (THL), Nagdhunga Tunnel Construction project (NTCP), Emergency School Reconstruction Project (ESRP) and Emergency Housing Reconstruction Project (EHRP)) presented on the current status of the project and actions required for the timely completion of the projects.

English Language Training Provided to MoF Officers

In order to strengthen the skills and knowledge of MoF officials in written and spoken English language, a two-week intensive English Language Proficiency Course was held in the Ministry in November 2017. The course was designed to improve participants' grammar, vocabulary, conversation and listening skills and focused on the four primary skill areas of speaking, listening, reading and writing. The course content included case studies and involved learners in a variety of task-oriented activities and practical exercises. Altogether 18 MoF officers participated the training, from IECCD as well as other divisions of the Ministry. The American Language Center conducted the training course, which was organized with support from the EDFC project.

Meeting of the

Mr. Subedi also revealed that Nepal has been able to introduce a federal budget for the first time in Fiscal Year 2017/18 after the promulgation of constitution in 2015. Approximately, 18 percent of the total budget has been transferred to the state and local level. There has been a significant increase over the previous year's budget allocation for earthquake reconstruction work. The capital budget has also been significantly increased. He further explained that Nepal is carrying out various policy reforms to overcome the several problems associated with her economy. These reforms include effective use of international economic cooperation, increasing internal revenue by broadening the tax base, increasing tax compliance and improving governance system etc. He, however, pointed out that current scale of development financing, both internal as well as external, will not be enough for Nepal in order to achieve economic development goals of achieving the status of middle-income country and SDGs by 2030.

During the meeting, Nepal's delegates also exchanged their views through several sideline meetings with representatives of various multilateral and bilateral agencies including International Finance Corporation (IFC). There was also a separate meeting for reviewing progress on post-earthquake reconstruction work attended by the officials of the WB Group and the development partners. These meetings have been realized to be helpful in resolving project-specific issues remained unsolved and thereby to contribute in completing projects in stipulated time.