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Final Report

**TECHNICAL ASSISTANCE TO
THE KINGDOM OF NEPAL
FOR
ESTABLISHING ECONOMIC POLICY NETWORK
TA 4288 – NEP**

INCEPTION REPORT

September 2004

TA Focal Unit/ MOF

Abbreviations

ADB	Asian Development Bank
BIMSTEC	Bangladesh, India, Myanmar, Sri-Lanka, Thailand Economic Cooperation
CBO	Community Based Organization
CNI	Confederation of Nepalese Industries
DNPWC	Department of National Parks and Wildlife Conservation
DOI	Department of Industry
DOLIDAR	Department of Local Infrastructure Development and Agriculture Road
DOR	Department of Road
EAPAD	Economic Affairs and Policy Analysis Division
EPN	Economic Policy Network
FNCCI	Federation of Nepal Chamber of Commerce and Industry
HMG/N	His Majesty's Government of Nepal
IAP	Immediate Action Plan
MLD	Ministry of Local Development
MOF	Ministry of Finance
MOICS	Ministry of Industry, Commerce, and Supplies
MOPPW	Ministry of Physical Planning and Works
MOWR	Ministry of Water Resources
MOCTCA	Ministry of Culture, Tourism, and Civil Aviation
MOAC	Ministry of Agriculture and Cooperatives
MOLTM	Ministry of Labor and Transport Management
MOFSC	Ministry of Forests and Soil Conservation
MTEF	Medium Term Expenditure Framework
NCC	Nepal Chamber of Commerce
NDF	Nepal Development Forum
NGO	Non Government Organization
NPC	National Planning Commission
OPMCM	Office of the Prime Minister and Council of Ministers
SAFTA	South Asia Free Trade Area
TA	Technical Assistance
TOR	Terms of Reference
WEC	Water and Energy Commission
WTO	World Trade Organization

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1. INTRODUCTION

1.1 *Background*

Nepal is one of the poorest countries in the world with per capita GDP of about \$ 270 and poverty line at 38%. Agriculture is still the largest sector contributing 38 percent to GDP and 60 percent to employment. Poverty alleviation has been the major thrust of government planning since 1990. The Tenth Five Year Plan (2002-07) has adopted a four-pronged strategy of poverty alleviation: (i) broad based economic growth, (ii) social sector development, (iii) targeted program and (iv) good governance. Under broad based economic growth, raising income and employment in the rural areas is the main focus for which agriculture has been given the highest priority. For creating employment in remote hills and for generating foreign exchange earning to support modern investment, tourism has also received high priority. Enhancing private sector investment and establishing macroeconomic stability are other aspects prioritized by the plan for a sustainable economic growth.

Agriculture has been growing slowly at around 3 percent a year over the last decade. Low per capita growth in the rural areas and slow growth in employment opportunities have created regional imbalances leading to a situation of conflict in the country. Lack of commercialization and diversification to crops of market orientation are still typical characteristics of rural agriculture. One of the most critical constraints in developing agriculture is the poor infrastructure base of transport, communication, market places, and rural electrification to induce commercialization in the sector and connecting production pockets to market centers. Lack of infrastructure has also increased the costs of production thereby impeding the capacity to harness regional comparative advantage.

Being a small and underdeveloped country, Nepal has a small domestic market and is generally a price taker in international markets. Thus, growth in the economy is connected significantly to the global international environment. In this context, understanding international price signals and future export potential is fundamental for attaining higher growth and employment. In addition, the country has recently entered into the WTO. Nepal is also a member of SAFTA and BIMSTEC. To receive full advantage and minimize negative impacts of these entries, Nepal will have to fit herself for competition, even within the domestic market. Similarly, attracting foreign direct investment is important in modernizing agriculture, industry and the fast growing service sector.

In the context of alleviating poverty and enhancing growth and achieving a competitive environment, a sound economic policy framework is essential. Good connection of the policy between macro economic management, international trade, investment, employment, infrastructure development, tourism and regional development should be high priority areas to be addressed from an economic policy perspective. Additionally, there is need for contemporary reforms in other production and service sectors. However, the institutional base on this in the country is very weak.

With the adoption of liberal economic approach after 1990, several reforms have taken place in economic policies, industrial policies and financial deregulations. But they did not follow with adequate contemporary reforms in other sectors resulting in less

efficiency and apathetic feelings of the reforms made. Specifically second generation reforms including institutional improvement remained weak. Public-private interface or policy dialogues were also weak.

HMG/N is well aware of the weaknesses and failures of its past attempts to address economic policy reforms, and requested the ADB to assist in developing an institutional mechanism that could serve as a forum for economic policy dialogue, based on sound analysis. On the request of His Majesty's Government of Nepal (HMG/N), the Asian Development Bank (ADB) included a technical assistance (TA) for **Establishing Economic Policy Network** (EEN) in the country. The duration of the TA, as planned originally, covers January 2004 to December 2005. However, due the requirement of intensive involvement of MOF in the National Development Forum (NDF) held in May/June 2004, the TA was delayed at the request of the government. The TA is under implementation from August 9, 2004 to December 31, 2005 and is housed in the MOF.

What is an Economic Policy Network?

An Economic Policy Network is a way of describing the means of communication of economic policy ideas around the country. Such networks are not necessarily physical or even formal and include a wide range of ways in which information and dialogue about economic policy might occur between government agencies and the public at large, between different groups in society and among professional economists in the private and public sectors.

What works best for the economic policy network would vary from society to society, and over time with changes in technology. Underpinning this project is the presumption that an analytical approach and open and well informed dialogue about policy will facilitate the development and implementation of better economic policy. Networks for enhancing such dialogue could occur in a variety of ways: (i) across central government agencies; (ii) between different levels of government; (iii) among economic policy analysts working outside government; or (iv) for communication between government and private sector firms in industry and commerce.

In Nepal all these networks could be enhanced though perhaps the most significant vacuum is the lack of commentary and analysis coming from economists outside government. Nepal's economists operate largely as individual "soldiers of fortune" and there appears to be no critical mass of economists in university centers, institutes, or independent arm's length government research agencies.

1.2 Issues in Establishing an Economic Policy Network

Consensus-based economic policy reforms are crucial for achieving the poverty reduction objectives of the Tenth Plan (FY2002-2007). The need for an Economic Policy Network (EPN) to support and consolidate the reform process is more compelling now than ever in the wake of the ongoing conflict; which has brought deep-seeded divisions between the rural and urban societies and between certain regional and ethnic groups. The policy dialogue platform should focus on consensus building and creating ownership of and commitment to the economic reform process across the country.

Policy reform in the country often suffers from slippages and implementation delays. Stakeholders in Nepal have identified four reasons for it: (i) ad hoc, top-down, and supply driven economic reform agendas; (ii) inadequate consultation processes for securing commitment and consensus from other stakeholders; (iii) failure to specify appropriate implementation arrangements; and (iv) ineffective monitoring capacity. To address those shortcomings, the EPN should design a workable forum for formal analysis of the issues ensuring adequate consultation and identification of appropriate implementation mechanisms, and for monitoring the implementation of the policy reforms identified and executed.

To make policy development more participatory, it is required that the private sector and independent intellectuals be more involved in the policy dialogues. This will help in (i) correctly identifying the issues through a built in process, (ii) facilitating a better understanding with the private sector and the public on the policies formed, and (iii) making the policy framework more analytical.

Making the outputs acceptable at the political level and avoiding overcrowding or thinly spreading of efforts are important aspects of policy analysis in EPN. For this, the concentration should be on a small number of concrete and well analyzed strategic issues rather than a blanket approach touching upon many things. Small issues can be handled on a regular basis by the concerned ministries.

In line with liberal economic policies, it is necessary to be clear on the role of the central government, local bodies, CBOs, NGOs and the private sector. This is especially important in the context of decentralization, enhancing private sector participation, and changing the role of the government towards more of a facilitator in support of the private sector. In this context, it is important that the insights of the PRSP/ Tenth Plan be followed by the EPN with full respect to avoid confusions in future policy developments.

1.3 Recent Initiatives in Policy framework and reforms

Use of a macroeconomic framework and intensive public consultations have been incorporated in the formulation of the Tenth Plan. Similar efforts have also been made in the formulation of the Water Resource Strategy 2002 and National Water Plan draft 2004 by WEC and other recent initiatives such as the Foreign Debt Management Project in MOF. More public consultations have also taken place in other exercises such as Trade and Competitiveness study by MOICS, Poverty Monitoring System Design by NPC, National Development Forum exercise by HMG, and Country Strategy Design and other efforts by donors to identify the priority issues and find appropriate solutions. All these efforts are evidence of the realization for a more systematic policy framework development in close coordination with a wide range of citizens throughout the country.

There have been some efforts in economic networking by agencies outside the government for which resources have been provided by the agencies and donors. The project team needs to inform itself about these efforts and coordinate with them to further encourage the process, avoid duplications and make appropriate use of them.

The current ongoing conflict in the country has made it imperative to understand and address the disparity between planning and implementation. In response, the government has been applying a series of efforts in policy improvements such as prioritization of projects, development of an Immediate Action Plan (IAP), a Medium Term Expenditure Framework (MTEF), and intensive monitoring of the high priority (P1) projects. HMG/N has also started a Poverty Monitoring Unit at the National Planning Commission to closely monitor the progress on poverty alleviation efforts and bring improvements in future implementations.

2. ROLE OF ADB/TA IN ESTABLISHING AN ECONOMIC POLICY NETWORK

2.1 Overall Objective

The overall objective of the TA is to promote and facilitate the establishment of an economic policy network for developing and institutionalizing an open, responsive and result oriented economic policy formulation process based on sound economic analysis to support and consolidate the government's economic policy reforms on poverty reduction strategy. The process will take place through open and transparent participation of concerned stakeholders in public and private sectors to accommodate challenges and concerns. The exercise will help evolve a suitable economic policy network framework and help establish a sustainable system. Furthermore, it will lay the foundations for coordination with similar institutions at the regional and global level in the future. For policy feed back, the TA will also produce quality economic policy papers based on sound research and analysis, which will serve as a basis for policy dialogue and feedback to policymakers.

2.2 Specific Objectives, scope and Output

The specific objectives of the TA are to:

1. Identify economic policy reform agendas and develop acceptable policy reform recommendations through policy papers based on sound analysis
2. Establish improved institutional processes for transparency and public participation
3. Establish public-private monitoring and evaluation mechanisms for implementation of policy reform agendas
4. Build a constituency for economic reforms among principal stakeholders

The scope of the TA will cover (i) developing an institutional framework for economic policy dialogue and analysis; (ii) providing assistance for policy research and analysis, data collection, and information dissemination; (iii) creating a forum for policy dialogue and analysis through a vibrant partnership; and (iv) laying the groundwork for an institutionalized consultative process that will ensure continuity of the Government's economic policy reform agenda. In the process, the TA will also help develop relevant expertise within the country for economic policy analysis and networking.

The economic policy reform network is expected to produce four major outputs:

1. development of economic policy reform agendas identifying challenges and concerns for promoting private sector development, as well as specific issues requiring in-depth analysis
2. thirty two demand-driven, results-oriented economic policy papers (8 per thematic area) deriving from the policy reform agenda that will contain important findings and recommendations, backed by sound economic analysis
3. establishment of improved institutional processes for policy discourse and reform that are characterized by transparency and openness
4. establishment of a public-private modality for monitoring the implementation of economic policy reform agendas

3. THEMATIC AREAS

Based on the need to accelerate pro poor growth and other related priorities identified in the Tenth Plan, and extensive consultations with experts in the public and private sectors, four cross-cutting themes are identified for policy dialogue and analysis based on the TA design. The identified areas are (i) Macroeconomic management; (ii) Economic policy on international trade, investment, and employment; (iii) Economic policy on infrastructure development; and (iv) Economic policy on tourism, agriculture, and regional development. As an additional coverage in the TA identified thematic areas, agriculture was added in area (iv) based on the first steering committee meeting decision (minutes in annex 6). The areas identified are of direct relevance to poverty reduction. However, some sectors such as agriculture should be represented also in other thematic areas (ii) and (iii). This aspect has been addressed while designing the representation in the Advisory Committees.

3.1 Macroeconomic management

A stable and consistent macroeconomic policy framework is critical for sustainable poverty reduction and economic growth. Sound macroeconomic management will also help strengthen financial markets and stimulate private investment. The worsening conflict situation and declining revenue growth have serious implications for the national budget. Improving fiscal management, sustaining monetary and external stability, and developing the financial sector are major challenges.

3.2 Economic policy on international trade, investment, and employment

Nepal's growth potential is closely linked to the global economy. The economic policy

network will support the Government's recently approved Trade and Competitiveness Study Strategy by undertaking research on specific implementation issues and creating public awareness of the key components of the strategy. Foreign direct investment in the agriculture, industry, and service sectors, including tourism, has a critical role in this regard, as it is a principal instrument of technology transfer and improved management practices. Avenues for employment generation through medium, small, and micro enterprise development, with focus on women entrepreneurship, need to be explored.

3.3 Economic policy on infrastructure development

Poor infrastructure is a key constraint on economic growth. Integrated infrastructure development linked to balanced regional development could serve as a powerful instrument of poverty reduction given the close connection between poverty and excluded development. Improving rural infrastructure through access to transport, communications, market places, rural electrification and other infrastructure has a key role in building rural-urban linkages and alleviating poverty.

In the process of decentralization, responsibilities for infrastructures such as roads and water are being shifted from the central to the regional government bodies. It is therefore imperative that such reforms are backed by sound economic policies to ensure a harmony between regional and national interests and an equitable distribution of the benefits.

3.4 Economic policy on tourism, agriculture and regional development

The Tenth Plan identifies agriculture and regional development as the key intervention areas for broad based rural development and poverty alleviation in the country. Likewise, tourism has also been given high importance for poverty reduction by virtue of its potential for realizing multiple objectives, including increased income and employment opportunities particularly in the hills and mountain areas; strengthening and expanding of the transportation network; development of regional markets and new tourism products; and the opening up of new areas for rural tourism. Research in these areas should include studies for addressing the productivity growth in agriculture, enhancement of income and opportunity in backward regions, effects of continued conflict in the tourism sector and exploring uniformity in the approach and policies related to agriculture and tourism in various regions of the country.

The TA will establish a public-private interface for economic policy dialogue and analysis through regular meetings of related committees, seminars and workshops. Policy papers prepared under the four thematic areas will serve as the basis for policy dialogue and conclusions to be reached among stakeholders.

3.5 Technical Assistance Logical Framework

The logical framework of the TA has been presented in annex 2. Implementation agencies have also been identified in the framework. The logical framework contains goals, purpose, output, activities, and inputs in the design summary. Corresponding performance indicators, monitoring mechanisms, responsible agencies, and assumptions and risks have also been identified.

4. KEY ACTIVITIES AND APPROACHES

4.1 Public private interface

The approach would be to establish a public-private interface (see annex 5 for details of the participation) for economic policy dialogue and analysis and to catalyze constituency building and reform. The TA will be reform oriented and implemented through a partnership modality with the involvement of a wide range of stake holders- both at public and private sector. The trust of the public sector in the government could be won through this policy networking process, which will help sustain and institutionalize the network after completion of the TA.

(a) Public Sector

Various ministries and the central bank will be represented in the steering and respective Advisory Committees. The Chief Secretary will chair the Steering Committee whereas the Secretaries of the respective ministries approved as the implementing agencies on the four thematic areas will chair the four Advisory Committees. Furthermore, additional representations from other relevant ministries will be represented in the committees.

(b) Private Sector

The private sector will be involved through a multi-pronged approach, particularly through (i) participation in the Steering and Advisory Committees, (ii) participation in workshops and seminars, and (iii) access to the policy dialogues through the web and e-mail correspondence.

It is our understanding that the “private sector” represents a wide range of individuals, organizations and interest groups and every effort will be taken to ensure that the policy reforms will incorporate the interests of society at large. The following broad categories will represent the interests of the society:

- (i) Trade and business organizations: Trade and business sector organizations directly involved in the EPN process are the FNCCI, CNI and NCC. The presidents of these organizations will be members of the high level Steering Committee. Similarly two people from the private sector will be members of each of the four Advisory Committees. More importantly, the mandate for these people and indeed all members will not be to “represent” a particular group or sector, rather their task will be to represent the wider public interest.

- (ii) NGOs, social organizations and interest groups: People from NGOs, social organizations and civil society will be invited to the workshops and seminars related to their field of work.
- (iii) Experts /academia: Membership will also include experts in the Steering Committee and in each of the four Advisory Committees. Similarly, additional experts will be invited to seminars and workshops relating to their field of expertise.

4.2 Policy papers

One of the major outputs of the policy reform networking process will be the development of policy papers, which will serve as the basis for public policy dialogue among stakeholders in government, the private sector, and civil society. The policy papers, backed by sound research and analysis, will be prepared mainly by local experts, most of whom will be economists and financial analysts working outside the government, i.e., in the private sector and civil society (research institutes, firms, etc.). The policy papers will be demand driven and will address the issues relevant to the four thematic areas. The policy recommendations flowing from these papers will have a strong reform focus and will feed into the annual budget proposals, prepared in accordance with the objectives and priority actions identified in the Tenth Plan.

The papers will be developed initially as a working policy paper series and will be accessible to the general public through a website to be established for the Focal Unit of the project. The target number of policy papers to be prepared as specified in the TA is 32. The papers should be of direct relevance to both the thematic areas and the poverty reduction strategy in the Tenth Plan. About a third of the papers will be developed in more elaborated form.

Table 1: Policy Papers by Thematic Area

Thematic Areas	Implementing Agency	Number of Policy Working Papers
1. Macroeconomic management	MOF	8
2. Economic policy on international trade, investment, and employment	MOICS	8
3. Economic policy on infrastructure development	MOPPW	8
4. Economic policy on tourism, agriculture and regional development	MOCTCA	8
Number of elaborated papers to be developed among the above		12

4.3 Policy dialogue through expert technical workshops

Policy dialogue will be undertaken through regular workshops, seminars, and informal consultations with the stakeholders. The proceedings of each workshop will be put on the website for information and comments from the general public. The workshops will be organized by the respective advisory committees in co-ordination with the focal unit. The structure of the workshops will incorporate groups by thematic areas to have more focused and wider participation (Table 2).

Table 2: Proposed Workshops and expected number of participants

No. of workshops	Interval	Discussion Groups	No. of participants per workshop	Responsibility
8	One every 6-8 weeks beginning in Nov. 2004	32 (4 per workshop – 1 per thematic area)	100 – 120 (25 – 30 per group)	Implementing Agencies in coordination with Focal Unit

4.4 Inception Seminar

An inception seminar will be organized in the last week of September 2004 to discuss on the approach and possible study areas. Number of participants will range between 40-50.

4.5 National level policy seminars for stakeholders

National level policy seminars for the stakeholders will be carried out at a broader scale. Two such seminars will be held, one towards the end of November 2004 after some experience is gained, and the other towards the end of the TA. For such seminars, regional speakers will also be invited. The invitation of the regional expert will have two purposes (i) to have a regional expert view (ii) to establish regional network connections for the future sustainability of the network. The support needed for inviting the regional experts will be explored.

Table 3: National Seminar Schedule

Tentative date	Implementing Agency	Area	Participation	Expected participants
Late November, 2004	Focal Unit	National Workshop	National and regional	130-150
Late November, 2005	Focal Unit	National Workshop	National and regional	130-150

4.6 *Regional Workshops*

A total of five workshops will be conducted in each of the five development regions for dialogue with the people at the implementation level. The number of participants will be around 60 per workshop from the private sector and the general public.

4.7 *Opinion surveys with private sector firms*

This will involve small-scale local perception surveys on important issues and consensus (coalition) building discussion with the private sector. This could be outside the valley as well.

4.8 *Feedback to higher level*

The vehicle for conveying policy recommendations to the political level will be a high-level Steering Committee, chaired by the Chief Secretary.

4.9 *Economic networking website for public access*

Subcomponent of website will be created for Economic Policy Networking under the Ministry of Finance. This web site will be used for dissemination of policy papers developed and for receiving feedback.

4.10 *Finalization of modality on economic networking*

International input will be used to improve and finalize the modality of the networking. In the beginning a preliminary draft will be developed by exposing relevant international practices exercised elsewhere. Based on the feedback of the committees, a final form will be developed by the end of December 2004.

The specific details of the activity schedule are provided in annex 3.1 to 3.5.

5. IMPLEMENTATION ARRANGEMENTS

The approach developed follows the TA design, pre inception meeting and discussions held during the inception period (including the first steering committee meeting).

5.1 Implementation period

The TA will be implemented over 17 months starting August 9, 2004 to December 31, 2005.

5.2 Institutional Arrangements

5.2.1 Executing agency

The Ministry of Finance will be the major executing agency. It has also the responsibility of developing the inception report specifying the work plan and modalities for TA activities. The TA will assist MOF also in designing and finalizing the Inception Report.

5.2.2 Steering Committee

The TA activity will be supervised by a high level Steering Committee chaired by the Chief Secretary. The committee will develop a strategic vision and guide the Advisory Committees. The Steering Committee will consist of the secretaries of the four respective implementing ministries, Secretary of the NPC, Secretary of MOAC, Joint Secretary of OPMCM, Presidents of FNCCI, CNI, and NCC, academics and other subject matter specialists (TOR in annex 4.2).

5.2.3 Advisory Committees and implementing agencies

Four Advisory Committees will be established, one in each of the thematic areas. Four ministries as specified below will also assume the role of the implementing agencies in the respective thematic areas. This has already been discussed and approved during the pre inception meeting. (See annex 5 for approved membership of Advisory Committees).

Table 4: Advisory Committees and implementing agencies

S.N.	Thematic Area	Advisory Committee and Implementing Agency
1	Macroeconomic management	Ministry of Finance (MOF)
2	Economic policy on international trade, investment, and employment	Ministry of Industry, Commerce, and Supplies (MOICS)
3	Economic policy on infrastructure development	Ministry of Physical Planning and Works (MOPPW)
4	Economic policy on tourism, agriculture and regional development	Ministry of Culture, Tourism, and Civil Aviation (MOCTCA)

The task of each of the Advisory Committees is to identify specific policy research topics, commission policy studies, monitor the quality of the study commissioned, organize discussion workshops with the help of the Focal Unit and persuade the implementation of the policy reforms identified (TOR in annex 4.3).

5.2.4 Focal Unit

A Focal Unit will be set up within the Economic Affairs and Policy Analysis Division (EAPAD) of the MOF headed by the Joint Secretary of MOF. The specific responsibilities of the Focal Unit will be to (i) prepare consolidated quarterly progress reports on the activities of the implementing agencies, (ii) prepare a final report on the activities of the implementing agencies at the conclusion of the TA (iii) serve as secretariat of the Steering Committee and the Advisory Committee on macroeconomic management and (iv) be responsible for providing technical support to various Advisory Committees. In these respects, the Focal Unit will coordinate overall TA activities, submit consolidated progress reports to the Steering Committee and ADB, and disburse funds in accordance with ADB regulations.

HMG/N will support the Focal Unit with one Under Secretary and one Section Officer. Membership of the Focal Unit will consist of various Joint Secretaries of the implementing ministries and HMG/N sector experts as listed in annex 5. The Focal Unit will be assisted by TA inputs (TOR in annex 4.4).

5.3 Consultant inputs

One person month of international and 39 person months of domestic consulting services will be financed by the TA. The consultants will be individually selected and engaged in accordance with ADB's⁴ *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for the engagement of domestic consultants. The international and domestic consultants will be responsible for developing operational modalities for the networking process, based on international best practices. The domestic consultants will be responsible for preparing 32 policy working papers (a third of which will be in elaborated form) related to the four cross cutting themes (annex 4.1 for outlines of the TOR for international and domestic consultants).

5.4 Logistics Arrangements

MOF has agreed to provide one office room for the Focal Unit. Telephone lines including internet/fax connection facilities will be provided. Two counter part staff will also be assigned to the Focal Unit (one Under Secretary and one Section Officer). The TA will provide necessary secretarial supports to the Focal Unit including computer, photocopier, printer, and fax machine. The Advisory Committees will receive necessary technical support from the Focal Unit.

5.5 International Experience

The identified problems confronting policy reform in Nepal, namely a top down agenda, inadequate consultation processes, weak implementation and monitoring are not confined to Nepal. Nearly all countries, be they developed or developing, large or small face the same core challenge of economic policy. Policy reform creates both winners and losers. The winners while large in number are usually poorly organized and unaware of their gains. They have little capacity to support the reform. On the other hand potential losers stand to lose a lot individually and are usually small in number so they are well placed to oppose reform and have a strong incentive to do so. And in many countries individual ministries devoted to sectoral interests have enhanced the power of the few to impede policy reforms which would benefit the many.

An economic policy network could address this problem by:

- establishing processes to achieve a whole of government approach;
- ensuring sound analysis of the full economy-wide effect of policy; and
- following transparent procedures which enable wide public participation.

Modalities for analysis and public participation have been developed in many countries including Nepal.

Such approaches include:

- processes and information systems which facilitate horizontal lines of communication across central government agencies;
- modalities for facilitating vertical lines of communication about responsibilities and funding between different levels of government;
- industry councils and cluster groups which formally bring private sector participants to the table;
- systematic programs of regulatory review;
- establishment of independent advisory agencies to conduct transparent public scrutiny of policy and implications for the public interest; and
- nurturing of independent economic policy network agencies.

In many countries economists working outside of government provide effective commentary on public policy by way of professional articles, press writing, and media interviews. These economists may work in private research agencies such as the Brookings Foundation in the USA or in publicly sponsored independent agencies deliberately set at arm's length from government. And in many countries academics are influential commentators on policy. In the past Nepal also had centers where economists worked together in a critical mass sufficiently large to make informed and authoritative comments. But these agencies are now apparently quite weak and most of Nepal's economists work as freelancers. An EPN could be a way of harnessing this resource so that it had a more cohesive impact on policy.

In recent years Nepal's own policy development has involved extensive public participation through development of the Tenth Plan and National Development Forum along with a number of other policy development efforts. These international experiences and lessons from them which seem most relevant to Nepal's current

circumstances will be brought to the attention of the Steering Committee. Following feedback preferred international approaches will be adopted to reflect current needs within the framework of the project and long term sustainability. (Refer to appendix 15 for outline of slides on selected international experience).

5.6 Reporting Requirements

Individual consultants will report to the Focal Unit and the relevant Implementing Agencies during the consultancy. They will submit completion reports (including an electronic copy) to the Focal Unit and the Implementing Agencies upon completion of the assignments.

The Focal Unit will submit reports to the Steering Committee and ADB. As specified in the TA, reporting requirements by the Focal Unit will be the following:

1. **Inception Report:** An inception report, including a detailed work program for the TA will be submitted within 30 days of the commencement of the TA. The report will clarify the implementation aspects of the TA and will also provide the time schedule of the activities.
2. **Quarterly Reports:** The Focal Unit will submit consolidated quarterly progress reports on the activities of the implementing agencies to the Steering Committee and ADB every four months.
3. **Tripartite meeting reports:** Tripartite meetings will be held under the chairmanship of the Finance Secretary. The meeting will focus on progress made, outstanding issues, and future work plan. The report (minutes) on the tripartite meeting will be submitted within two weeks of the completion of the tripartite meeting. The meeting will be held every six month with one in September.
4. **Draft Final Report:** The draft final report containing the accomplishments of the activities, major issues and future recommendations will be submitted to the Steering Committee and the ADB one month prior to the completion of the TA.
5. **Final report:** A final report will be submitted to the Steering Committee and the ADB at the completion of the TA.

The TA will assist the Focal Unit in meeting the above reporting requirements.

6. TECHNICAL CONSIDERATIONS

6.1 External Input for TA Management

The TA on EPN has been designed to give a greater role to the implementing agency by keeping the TA administrative expenditure small. The Team leader's input is only about 40 percent (two days a week) and international input is only about one month over the

entire TA period, so the fulfillment of the expectations of the TA will depend very much on how functional the Focal Unit is made by effectively engaging the MOF senior staff time input. Similarly, good technical and administrative staff supports should be provided to the Focal Unit.

6.2 Selection of and co-ordination between studies

It is very important to choose each study carefully to make it purposefully linked to the poverty alleviation strategy and other priority areas identified by the Tenth Plan. Since the study topics are to be recommended by the respective Advisory Committees, they will need to be selected and studied in close co-ordination. To improve relevancy and avoid any duplication of efforts, the final selection of the topics should be done through the technical committee on the recommendation of the Advisory Committee. It is also important to make a brief sketch of the road map on what type of policy studies is being planned in the specified thematic area, by whom (including donors) and when, well in advance. This will help achieve cost effective use of TA resources.

6.3 Assistance to each Advisory Committee

It is suggested that the Focal Unit will provide all the required secretarial support to the respective Advisory Committees. Keeping separate secretarial units at the respective Advisory Committees may not be practical to begin with from the point of view of the activity load and resource constraint. As the activities expand, additional decisions can be made depending on the experience and resource availability.

6.4 Regional Inputs and National Seminars

There is no provision in the budget for external invitee inputs in the regional workshops. At least from the perspective of regional networking in future and sharing the experience, arrangements for the regional speakers may be worth considering. Additionally, as the system is just beginning in Nepal, exposing the key policy makers to visit and grasp the systems in neighboring countries possibly towards the middle of the TA period will of great advantage. Should these suggestions be implemented, additional resources will have to be explored.

6.5 Compressed input plan

The work plan in the current TA has been compressed from the 24 months originally proposed to 17 months due to work pressures on the MOF in the earlier months of 2004 as a result of its commitments to the NDF. The start date for this project was thus moved to August 2004. However, the finalization date remains December 2005.

The original TA design specified that 32 papers be prepared. However, in light of the compressed time, the practicality of commissioning, producing, and perhaps more importantly absorbing all 32 papers has become an issue. The number of papers

developed will need to be brief and to the point to catch the attention of the busy Steering Committee and Advisory Committee members. From the first round of commissioned papers those that are identified as the highest priority (about a third) contemporary issues could be developed into substantial reports for wider public dissemination and discussion.

7. APPROACH TO MAJOR TA OUTPUTS

The TA efforts will have four primary outputs – (i) Development of vertical and horizontal networking for identifying agenda and delivering policy reforms (ii) Policy papers (iii) Workshops for public-private dialogue on policy discourse and (iv) public-private modality for monitoring the implementation of policy reform agenda.

7.1 *Horizontal and Vertical Networking*

Horizontal networking is important at both policy formulation and implementation stages, and is generally regarded to be weak at present. Thus, networking needs to be developed within the government agencies themselves, between the government entities and stakeholders, and between the government agencies and the people. The nature of vertical networks between central, districts and lower level of government are evolving continually as decentralization proceeds. Networking by way of communication between all levels of government and the public also need improvements.

Networking cannot be considered to be complete by going only up to stakeholders at the secondary level, as they do not always reflect the real preferences of the people at large. The approach of Steering Committee, Advisory Committees and workshops could serve the purposes of both the vertical and horizontal networking. Horizontal networking at the central level will take place through the committee meetings, central level workshops and seminars and contacts with national experts in which the representations will be from various related fields.

Horizontal networking at the field level will be done through regional workshops and dialogues, where the participants will be from the government and different agencies working at the field levels including NGO, CBOs, LBOs, private sectors, interest groups and ordinary citizens. During the TA period, five such workshops will be held at the regional level.

Networking between the government and outside government research institutions (created from major public sector support) existed to some extent prior to 1990. But it got weaker there after as many institutions supported by the government could not adjust adequately to the competitive market framework. On the other hand, several new institutions have emerged spontaneously in non-governmental sectors which are gaining experience gradually by opening the potential for new opportunities for a sustainable networking in future. Networking between the government and outside government expertise in conducting studies could be done through different options like involving agencies outside the government in a formal basis or using individual experts on merit basis from the related agencies, or the individuals based on their own capacities, or the combinations. In the initial stage, it is better to keep all options open and move gradually based on experience.

7.2 Policy Papers

While the policy papers will be the main physical or material output from the TA, a less tangible but more important output will be establishment of sustainable economic policy networks. The papers themselves will, in the first instance, be brief and extended versions will be prepared depending upon the priorities set by the Steering Committee. High priority papers should be brought to wider discussions for public debates.

7.3 Workshops and seminars

The proposed workshops will be carried out through the respective advisory committees that will also be responsible for producing brief proceedings reports stating major comments and suggestions on the papers. National and regional level seminars will be conducted by the Focal Unit, which will also produce brief proceedings reports.

7.4 Public- private modality for monitoring policy implementation

The regional workshops and large-scale national level workshops can work as the public private modality for monitoring policy implementation through larger participation of private sector and general public in the workshops/seminar. The proposed web site creation will also create a forum for policy comments and feedback by the public. Supporting newspaper articles on major implementation issues can also be applied as additional tools to serve the purpose of getting feed backs and disseminating information to the public at large.

8.DONOR COORDINATION

The Focal Unit will keep a close co-ordination with the donors. Regular links with them will be established through (a) regular contacts (b) receiving their inputs through comments on the papers developed, (c) their participation in the workshops and seminars, and (d) tracking related projects being conducted with other donors.

9.MONITORING PROGRESS

- Monitoring of the overall output will be done by the Steering Committee which will meet at least every four months
- Advisory Committees will monitor the outputs of its thematic areas and meet at least every two months
- The Focal Unit will assist the technical committees in monitoring the overall activities of the TA and hold meetings with the committees at least once a month

- Tripartite meetings will be held under the chairmanship of the Finance Secretary every six months.

10. PRE-INCEPTION AND INCEPTION MEETING

A pre-inception meeting was held on June 1, 2004 under the chairmanship of Dr. Bimal P. Koirala, the chief secretary HMG/N. The meeting was attended by the mission leader, Mr. Sungsup Ra from the ADB and various secretaries and joint secretaries of HMG/N directly related to the proposed TA activities (minutes in annex 5).

Decisions were also made regarding counter part staff requirement, membership requirement for the Advisory Committees, and identification of major implementing agencies for the TA.

The Inception Meeting was held on August 16, 2004. The floor discussed the draft inception report, work modality on the four thematic areas outlined in the TA, terms of reference and workshops approach. Agriculture was suggested to be added in the fourth thematic area. The advisory committees were also given instructions to initiate their activities soon (minutes in annex 6).

11. ACTIVITIES DURING THE INCEPTION PERIOD

- Arrangements have been made to provide office space (one room) at the MOF for the establishment of the Focal Unit secretariat
- One counterpart Under-Secretary has already been assigned and decision is in process to assign one Section Officer to the Focal Unit
- Team leader has been appointed from August 9, 2004
- An international consultant has been identified and engaged

12. SUGGESTED ECONOMIC POLICY RESEARCH/ STUDY TOPICS

Various research topics have been suggested in each thematic area to facilitate Steering Committee and Advisory Committee discussions. The list is neither exhaustive nor inclusive (list of topics suggested outlined in annex 8).

13.SUGGESTED IMPLEMENTATION GUIDELINES AND TERMS OF REFERENCE

Based on the TA paper, implementation guidelines matrix has been prepared for all committees and the focal unit (table 5). The guidelines matrix contains (a) responsible entity, (b) activities to be performed (c) how to perform the activities and (d) the time frame. Correspondingly, terms of reference (TOR) for each actor has also been prepared (annex 4).

Table 5: Suggested Implementation Guidelines

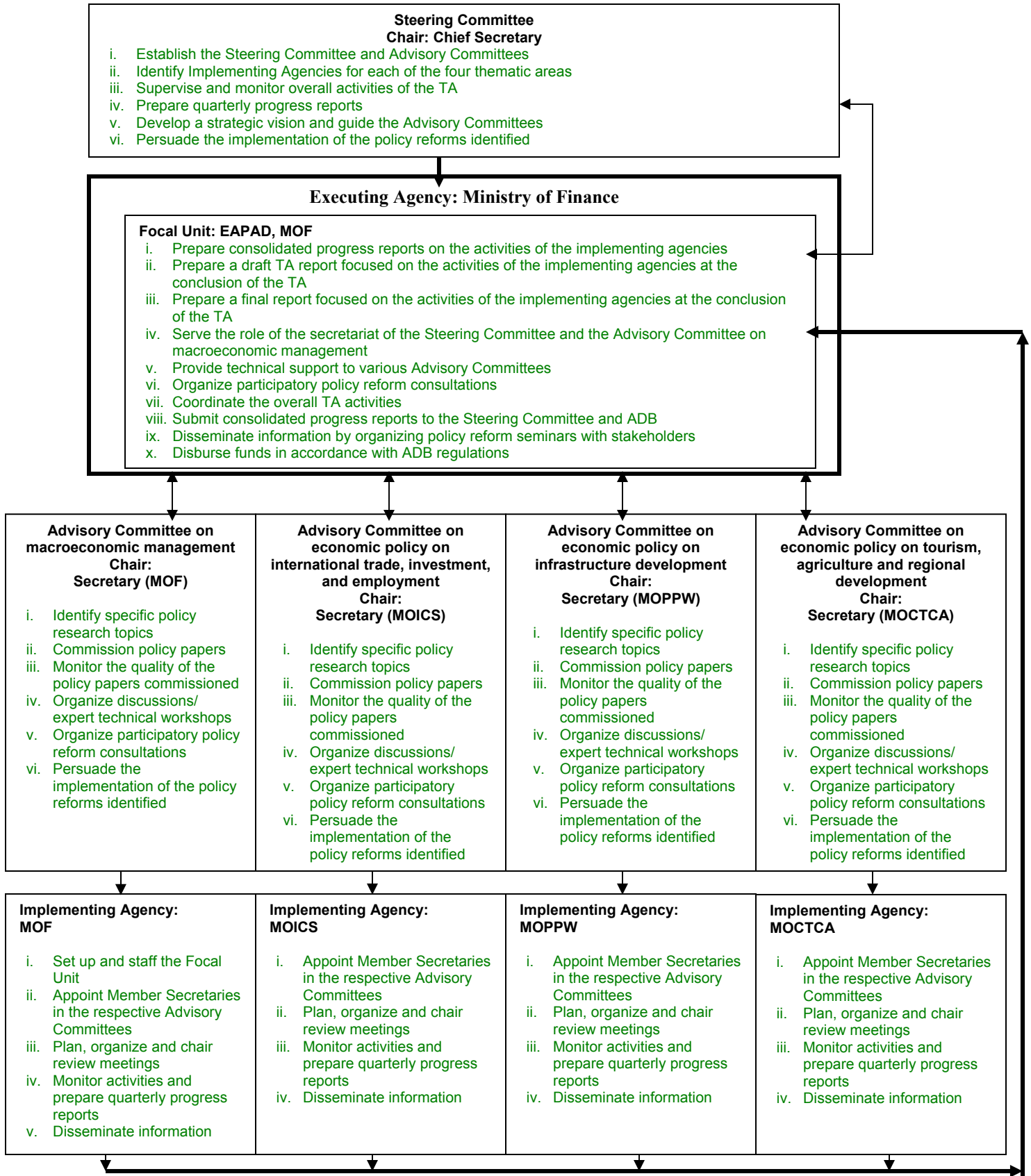
Activities	How	Time Frame
STEERING COMMITTEE		
Establish the Steering Committee and Advisory Committees	Nominate members from: (i) major implementing agencies on the thematic areas (ii) private sector and (ii) some academia.	By First Week of June, 2004
Identify Implementing Agencies for each of the four thematic areas	Pre-inception meeting	First week of June, 2004
Supervise and monitor overall activities of the TA	Hold inception meeting at the start of the TA	Before mid August, 2004
	Field the TA consultants	From August 2004
	Direct the Executing Agency to set up Focal Unit within EAPAD	Focal unit to be set up by the second week of August, 2004
	Hold inception seminar	By mid September, 2004
	Direct the Advisory Committees to hold meetings to begin their activities soon after the inception meeting	Within two weeks of the inception meeting
	Discuss and approve policy paper topics within the thematic areas	Based on recommendations by the Advisory Committees
	Ensure that the activities are carried out as planned	As specified in the time frame in the inception report approved by the committee
Prepare quarterly progress reports	Direct focal unit to prepare consolidated quarterly progress reports based on quarterly progress reports submitted by the Implementing Agencies	Quarterly (as scheduled)
Develop a strategic vision and guide the Advisory Committees	Resolve issues brought to the Steering Committee and suggest solutions	Regular basis

Activities	How	Time Frame
	Suggest additional actions as deemed necessary	Regular basis
Persuade the implementation of the policy reforms identified	(i) Discuss at Steering Committee meetings for the approach (ii) Persuade political personalities (iii) Commission articles to generate public support	As appropriate
IMPLEMENTING AGENCIES		
Set up and staff the Focal Unit	MOF appoint EAPAD Joint Secretary as Chief of the Focal Unit	By the first week of August, 2004
	MOF assign: - One Under Secretary - One Section Officer	By the first week of August, 2004
	ADB TA provide TA staff and technical support: - Team leader, - International consultant - Support Staff - Equipment - Others	By the first week of August, 2004 (Equipment as soon as possible)
Appoint Member Secretaries in the respective Advisory Committees	Appoint as approved in pre-inception Steering Committee meeting by the respective Implementing Agencies (Coordinating ministry for the thematic areas)	By the first week of July, 2004
Plan, organize and chair review meetings	Coordinate with member institutions	Periodic basis (every 6 – 8 weeks)
Monitor activities and prepare quarterly progress reports	Monitor quality and timely preparation of policy papers	Regular basis
	Prepare reports incorporating various events during the quarter (e.g. policy papers, workshops, meetings, discussions, seminars, etc.)	Quarterly (as scheduled)
Disseminate information	Prepare periodic reports	Quarterly (as scheduled)
	Organize workshops and conferences in coordination with the Advisory Committees	Periodic (as scheduled)
ADVISORY COMMITTEES		
Identify specific policy research topics	Each Advisory Committee: i. Prepare updated list of various studies carried out in the thematic areas over the last five years by the	Periodic basis (as schedule) (For the beginning quarter, this approach may be

Activities	How	Time Frame
	government, donor agencies and others ii. Get insight from current problems iii. Use inception report recommendations iv. Recommend and get the topics approved from the Steering Committee v. Prioritize issues for options vi. Identify one third of the priority issues to be studied in extended form	simplified by using personal knowledge of the committee members)
Commission policy papers	Each Advisory Committee: i. List major institutions outside the government by thematic areas ii. List relevant specialists by thematic areas iii. Identify institution /individual to commission study iv. Prepare TOR and assign study in coordination with the Focal Unit to comply with ADB rules on hiring consultants v. Receive financial support from the Focal Unit	Periodic basis (as scheduled) (For the beginning quarter, this approach may be simplified by using personal knowledge of the committee members)
Monitor the quality of the policy papers commissioned	Each Advisory Committee: i. Maintain rapport with the consultants and facilitate the support for the study papers ii. Get tentative study outline, draft and final reports iii. Determine that the commissioned studies have satisfied the TOR iv. Assign internal staff for comment v. Use independent commentators vi. Submit to Focal Unit for comment	Regular basis
Organize discussions/ expert technical workshops	Each Advisory Committee: i. Identify papers to be presented ii. Identify participants and keep the numbers within the specified limit iii. Coordinate with Focal Unit for approach and timing iv. Receive technical and financial support from the Focal Unit v. Prepare brief proceedings	Periodic basis (as scheduled)
Organize participatory policy reform consultations	Coordinate with Focal Unit	Periodic basis as required
Persuade the implementation of the policy reforms identified	i. Discuss at Steering Committee meetings for the approach ii. Persuade political personalities	Each Advisory Committees on a periodic basis

Activities	How	Time Frame
	iii. Commission articles to persuade public support	
FOCAL UNIT		
Prepare consolidated progress reports on the activities of the implementing agencies	Receive the progress reports from the member secretaries of the respective Advisory Committees and develop consolidated reports	Quarterly (as scheduled)
Prepare a draft TA report focused on the activities of the implementing agencies at the conclusion of the TA	Prepare the report based on the previous quarterly reports	November end, 2005
Prepare a final report focused on the activities of the implementing agencies at the conclusion of the TA	Prepare the report based on the comments on the draft report	December end, 2005
Serve the role of the secretariat of the Steering Committee and the Advisory Committee on macroeconomic management	i. Facilitate the committee meetings by identifying discussion agenda and suggested solution alternatives ii. Prepare minutes of the meetings iii. Prepare reports as required	Regular basis
Provide technical support to various Advisory Committees	i. Provide secretarial supports as needed for the TA activities ii. Create web site for disseminating findings iii. Arrange other technical supports	Regular basis
Organize participatory policy reform consultations	Hold opinion surveys and organize consultative meetings with the private sector	Periodic basis as required
Coordinate the overall TA activities	Use and allocate TA supports as required	Regular basis
Submit consolidated progress reports to the Steering Committee and ADB	Submit reports as instructed in the TA agreement	As required
Disseminate information by organizing policy reform seminars with stakeholders (1 inception and 2 national)	i. Arrange representation from stakeholders including private sector, civil society, and social interest groups on various thematic areas ii. Arrange international speakers to share experience iii. Produce proceedings of the seminars	Periodic basis (as scheduled)
Disburse funds in accordance with ADB regulations	Follow ADB regulations	Regular basis
TA Staff Support	Assist to and Work as per the Instruction of the Focal Unit in accordance with ADB rule	Regular basis

Annex 1: Implementation Arrangement Flow Diagram



Annex 2: TA Logical Framework Matrix

Design Summary	Performance Indicators/Targets	Responsibility	Monitoring Mechanisms	Assumptions and Risks
<p>Goal: Develop and institutionalize an open, responsive, and result oriented economic policy formulation process, based on sound economic analyses, to support and consolidate the Government's economic reforms</p>	Implementation of policy recommendations, based on sound economic analyses	Steering Committee and respective ministries	<p>Continued monitoring and quarterly progress reports by the Steering Committee</p> <p>Tripartite meeting assessment of outputs, outcomes, and participation</p>	<p>Non policy variables may adversely affect outcomes</p> <p>Policy recommendations may not be translated into reforms</p>
<p>Purpose: Establish a public-private policy dialogue and analysis network with active participation of concerned public-private stakeholders, to accommodate contemporary economic challenges and concerns</p>	<p>Establishment of the network</p> <p>Development of acceptable policy recommendations with sound economic analyses</p> <p>Wider acceptance of the economic reform agenda</p>	<p>Steering Committee</p> <p>Advisory Committees and implementing agencies</p> <p>Stakeholders</p>	<p>Continued monitoring and quarterly progress reports by the Steering Committee.</p> <p>Tripartite meeting assessment</p>	<p>Delays in establishment of the network</p> <p>Lack of demand and interest from senior policy makers and private sector participants</p>
<p>Outputs: Identification of economic policy reform agenda</p>	<p>Significance of reform agenda identified</p> <p>Acceptance of the</p>	<p>Steering Committee</p> <p>Respective ministries and</p>	<p>Continued monitoring and quarterly progress reports by the Steering Committee</p> <p>Tripartite meeting</p>	<p>Delays in identification of economic reform agenda</p> <p>Lack of acceptance of</p>

Design Summary	Performance Indicators/Targets	Responsibility	Monitoring Mechanisms	Assumptions and Risks
<p>Development of acceptable policy reform recommendations with sound economic analyses</p> <p>Establishment of improved institutional processes for transparency and public Participation</p>	reform agenda by public and private stakeholders	stakeholders	assessment	the identified reform agenda by stakeholders
	Completion of acceptable policy reform recommendations	Advisory Committees and implementing agencies	Technical workshops Continued monitoring and quarterly progress reports by the Steering Committee	Delays in completion of policy analyses Lack of acceptance by various stakeholders
	32 policy reports	Advisory Committees and implementing agencies	Tripartite meeting assessment	Inadequate consideration on implementation constraints
	Effective implementation road maps with clear timelines and implementation arrangements	Advisory Committees, implementing agencies and Focal Unit	Minutes of the steering committee and the subcommittees	Reform conditions may not be effective
Institutionalized process and modality for public-private stakeholder involvement	Steering Committee		Unwillingness of the Government policy makers to embrace views raised from other stakeholders	
Improved transparency of the policy formulation process due to active stakeholder involvement in processes	Steering Committee		Public participation might be undisciplined and raise only rent – seeking behavior	

Design Summary	Performance Indicators/Targets	Responsibility	Monitoring Mechanisms	Assumptions and Risks
<p>Establishment of public private monitoring and evaluation mechanism for implementation of policy reform agenda</p> <p>Constituency building for economic policy reforms among principal stakeholders</p>	<p>Specification of detailed monitoring and follow up arrangements for the policy recommendations</p> <p>Broader range of reform coalitions to be formed within 2 years</p>	<p>Steering Committee and private stakeholders</p> <p>Steering Committee</p>	<p>Tripartite meeting assessment comprising public and private sectors Participants</p> <p>Continued monitoring and quarterly progress reports by the Steering Committee</p> <p>Tripartite meeting assessment comprising public and private sectors participants</p> <p>Continuous monitoring and quarterly progress reports by the Steering Committee</p>	<p>Lack of commitment by policy makers for monitoring</p> <p>Reform conditions may not be effective</p> <p>Lack of acceptance of the reform agenda</p>
<p>Activities:</p> <p>Establishment of the Steering Committee and Advisory Committees for thematic priorities</p> <p>Identification of institutions and individual Experts</p> <p>Planning and review meeting of the committees</p> <p>Preparation of acceptable</p>	<p>Timely establishment of the Advisory Committees</p> <p>Identification of institutions and individual experts</p> <p>Periodic and timely holding of the meetings</p> <p>Timely preparation</p>	<p>MOF and Steering Committee</p> <p>Advisory Committee and Focal Unit</p> <p>Implementing agencies and Focal Unit</p> <p>Implementing agencies</p>	<p>Tripartite meeting assessment</p> <p>Continued monitoring and quarterly progress reports by the Steering Committee</p>	<p>Activities may be delayed</p> <p>Activities may cost too much</p> <p>Activities may take more time to complete</p> <p>Lack of interests and motivation from stakeholders</p>

Design Summary	Performance Indicators/Targets	Responsibility	Monitoring Mechanisms	Assumptions and Risks
<p>policy recommendations (review of policy agenda and constraints, formulation of policies, implementation arrangement)</p> <p>Commissioning of policy research papers</p> <p>Expert technical workshops</p> <p>Policy reform seminars with stakeholders</p> <p>Participatory policy reform consultations</p> <p>Monitoring and Evaluation of activities and follow-up of implementation</p>	<p>of acceptable policy recommendations</p> <p>Timely completion of reform oriented policy research papers</p> <p>Timely holding of workshops</p> <p>Timely holding of policy reform seminars with various concerned stakeholders</p> <p>Frequent and interactive policy reform consultations with various stakeholders</p> <p>Periodic status reports (4 per year) and follow up of the implementation of policy recommendations</p>	<p>Implementing agencies and Advisory Committees</p> <p>Focal Unit and Advisory Committees</p> <p>Focal Unit</p> <p>Focal Unit and Advisory Committees</p> <p>Steering Committee/ Focal Unit and Advisory Committees/ Implementing Agencies</p>		

Design Summary	Performance Indicators/Targets	Responsibility	Monitoring Mechanisms	Assumptions and Risks
<p>Dissemination (periodic reports, conference)</p> <p>Knowledge depository Activities</p>	<p>Periodic reports, public conference</p> <p>Compiling and collection of reports and documents</p>	<p>Steering Committee/ Focal Unit and Advisory Committees/ Implementing Agencies</p> <p>Executing agency, Implementing Agencies and ADB</p>		
<p>Inputs:</p> <p>Asian Development Bank (ADB) funding of \$200,000</p> <p>Counterpart funding by the Government of Nepal of \$ 60,000 including of the in-kind cash contributions from the government though staff input and logistic support</p> <p>ADB staff inputs</p>	<p>Provision of adequate inputs by ADB and the Government and other private sector participants</p>	<p>ADB and MOF</p>	<p>Continued monitoring and quarterly progress reports by the Steering Committee</p> <p>Tripartite meeting assessment</p>	<p>Financial inputs may cost too much</p> <p>Staff reassignment and time constraints</p> <p>Delays caused by lack of commitment on the part of the principal agencies</p> <p>Inability to expedite action during project implementation</p> <p>Delays in appointing consultants</p> <p>Lack of interest among senior policy makes</p>

Annex 3.5: Schedule of TA Consultants' Engagements

Activities	Month																																		
	Asr/Sra		Sra/Bha		Bha/Asw		Asw/Kar		Kar/Man		Man/Pos		Man/Pos		Pos/Mag		Mag/Fag		Fag/Cht		Cht/Bsk		Bsk/Jth												
	Jul (2004)		Aug.		Sep.		Oct.		Nov.		Dec.		Jan (2005)		Feb.		Mar.		Apr.		May		Jun.												
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3
Team Leader (7 Months)							
International Consultant (1 Month)							
Activities	Month																																		
	Asr/Sra		Sra/Bha		Bha/Asw		Asw/Kar		Kar/Man		Man/Pos																								
	Jul		Aug.		Sep.		Oct.		Nov.		Dec.																								
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4											
Team Leader (7 Months)			
International Consultant (1 Month)																																			

*Note: Engagement of other consultants for writing policy papers will be in accordance with scheduling for policy papers in annex 3.1.

Annex 4: TERMS OF REFERENCE (TOR)

Annex 4.1: TOR for Consultants

A. Objectives and Scope

The overall objective of the technical assistance is to promote and facilitate establishment of an economic policy network with active participation of concerned stakeholders in the public and private sectors to accommodate contemporary challenges and concerns and support implementation of the Government's Poverty Reduction Strategy. In particular, the TA will provide a forum for policy dialogue and analysis in priority areas and facilitate the development of a partnership modality for enabling the public and private sectors to work together in revitalizing the economy through policy reform.

The scope of the TA will cover

- i. developing an institutional framework for policy research and dialogue
- ii. providing assistance for policy research and analysis, data collection, and information dissemination;
- iii. creating a forum for policy dialogue and consensus reform through a vibrant partnership, involving Government, the private sector, and civil society; and
- iv. laying the groundwork for a consultative process that will ensure continuity of the Government's economic policy reform agenda.

The TA complements the Government's initiatives in the area of poverty reduction strategy formulation and implementation with assistance from the Asian Development Bank (ADB) and other development partners. The consultant inputs will be provided over a 24-month period of implementation and will help create a mechanism for policy dialogue and analysis networking. Coordination arrangements will be improved by establishing, a Focal Unit, a Steering Committee, Advisory Committees, and implementing agencies (IAs) within the Executing Agency, which will be the Ministry of Finance (MOF). The Advisory Committees will comprise a mix of public and private sector representatives, while the implementing agencies will consist of Government agencies (line ministries). The institutional basis for policy discourse will be strengthened by undertaking (i) demand-driven and results oriented policy studies on topics selected by the Advisory Committees and IAs; (ii) conducting technical workshops and seminars; and (iii) holding regular stakeholder meetings for discussing specific policy constraints affecting private sector development.

B. Consulting Services

The TA will provide consultancy services as follows:

- ii. international (1 person-month) economic policy networking specialist
- iii. domestic specialists (39 person-months: the required number of consultants will be identified by the Advisory Committees and ADB)
 - a. Economic Policy Networking Specialist (Team Leader, 7 person-months)

- b. Macroeconomic Specialists (8 person-months)
- c. Trade and Investment Specialists (8 person-months)
- d. Infrastructure Specialists (8 person-months)

C. Detailed Terms of Reference

1. International Economic Policy Networking Specialist (1 person-month)

The International Economic Policy Network Specialist will visit at the project inception work with the Steering Committee to:

- i. advise MOF on the scope and content of the TA for bringing key stakeholders together;
- ii. make a presentation at the inception meeting on the best international practices in the context of developing a demand-driven and results-oriented policy dialogue and analysis process;
- iii. hold a series of meetings with key stakeholders in Government, the private sector, and civil society to discuss the principles underlying the concept of the best international practices and modalities for incorporating them into the economic policy reform process;
- iv. clarify and develop operational modalities for economic policy networking processes based on the above;
- v. prepare a concept paper identifying relevant areas of study and policy research in consultation with the Advisory Committees;
- vi. undertake other tasks as required by the Steering Committee and ADB; and
- vii. maintain strict accountability at all times, as per contractual obligations and reporting requirements.

2. Domestic (specific policy issues and the required number of consultants will be identified by the Advisory Committees)

The domestic consultants will work with the Steering Committee, Advisory Committees and IAs in their thematic areas to (i) advise on issues related cross-cutting themes; (ii) conduct policy research and analyses identified by the Advisory Committees; (iii) develop a strategic vision for private sector development; (iv) help improve the Government's economic policy reform agenda by evaluating policy reforms and providing advice on designing and sequencing policy reforms, as well as feedback on implementation; (v) assist policy makers in analyzing and responding to regional and global economic challenges; (vi) foster a constructive policy dialogue between the Government and other institutions so as to generate a national consensus on policies and thereby enhance the credibility of reforms; and (v) assist MOF in adopting the operational modalities.

i. The economic policy networking specialist (Team Leader) will:

- a. assist the TA Focal Unit to oversee and coordinate overall TA implementation and activities and ensure timely submission of individual consulting reports to the Government;
- b. assist the international consultant in preparing a presentation on the best international practices as applied to policy reform in the Nepalese context, for the inception seminar;

- c. work with the international consultant in identifying operational modalities for developing a policy network in Nepal, using the principles of international best practices;
- d. assist the international consultant in preparing a concept paper identifying relevant areas of study/policy research in consultation with the Advisory Committees;
- e. assist the IAs in preparing detailed scopes of work for local consultants, once specific research topics have been identified under each thematic area;
- f. assist MOF in adopting the modalities at the inception stage;
- g. assist MOF in organizing a workshop for key stakeholders to discuss these modalities and initiate the policy networking process;
- h. assist MOF in organizing periodic seminars and presentations to consolidate the networking constituency;
- i. undertake other tasks as required by the Steering Committee and ADB; and
- j. maintain strict accountability at all times as per contractual obligations and reporting requirements.

ii. The macroeconomic specialists will:

- a. work with the relevant Advisory Committee in identifying key areas of monetary and fiscal policy requiring further review and analysis;
- b. conduct research on specific topics selected by the Advisory Committee and prepare draft policy papers (eight studies);
- c. assist MOF in organizing meetings, workshops, and seminars to review and discuss the findings of the reports, obtain consensus on policy recommendations, and develop action plans;
- d. assist MOF in monitoring implementation of the action plans;
- e. undertake other tasks as required by the Steering Committee and ADB; and
- f. maintain strict accountability at all times as per contractual obligations and ensure timely delivery of policy papers.

iii. The international trade and investment specialists will:

- a. work with the relevant Advisory Committee in identifying key areas of trade, investment, and employment policy requiring further review and analysis;
- b. conduct research on specific topics selected by the Advisory Committee and prepare draft policy papers (eight policy studies);
- c. assist MOF in organizing meetings, workshops, and seminars to review and discuss the findings of the reports, obtain consensus on policy recommendations, and develop detailed action plans;
- d. assist MOF in monitoring implementation of the action plans;
- e. undertake other tasks as required by the Steering Committee and ADB; and
- f. maintain strict accountability at all times as per contractual obligations and ensure timely delivery of policy papers.

iv. The infrastructure specialists will:

- a. work with the relevant Advisory Committee in identifying key areas of infrastructure development requiring further review and analysis;
- b. conduct research on specific topics selected by the Advisory Committee and prepare draft policy papers (eight policy studies);

- c. assist MOF in organizing meetings, workshops, and seminars to review and discuss the findings of the reports, obtain consensus on policy recommendations, and develop detailed action plans;
 - d. assist MOF in monitoring implementation of the action plans;
 - e. undertake other tasks as required by the Steering Committee and ADB; and
 - f. maintain strict accountability at all times as per contractual obligations and ensure timely delivery of policy papers.
- v. The tourism, agriculture and regional development specialists will:**
- a. work with the relevant Advisory Committee in identifying key areas of tourism, agriculture and regional development requiring further review and analysis;
 - b. conduct research on specific topics selected by the Advisory Committee and prepare draft policy papers (eight policy studies);
 - c. assist MOF in organizing meetings, workshops, and seminars to review and discuss the findings of the reports, obtain consensus on policy recommendations, and develop detailed action plans;
 - d. assist MOF in monitoring implementation of the action plans;
 - e. undertake other tasks as required by the Steering Committee and ADB; and
 - f. maintain strict accountability at all times as per contractual obligations and ensure timely delivery of policy papers.

Annex 4.2: TOR for Steering Committee

- Establish the Steering Committee and Advisory Committees
- Identify Implementing Agencies for each of the four thematic areas
- Supervise and monitor overall activities of the TA
- Prepare quarterly progress reports
- Develop a strategic vision and guide the Advisory Committees
- Persuade the implementation of the policy reforms identified

Annex 4.3: TOR for Advisory Committee

- Identify specific policy research topics
- Commission policy papers
- Monitor the quality of the policy papers commissioned
- Organize discussions/ expert technical workshops
- Organize participatory policy reform consultations
- Persuade the implementation of the policy reforms identified

Annex 4.4: TOR for the Focal Unit

- Prepare consolidated progress reports on the activities of the implementing agencies
- Prepare a final report focused on the activities of the implementing agencies at the conclusion of the TA
- Serve the role of the secretariat of the Steering Committee and the Advisory Committee on macroeconomic management
- Provide technical support to various Advisory Committees
- Organize participatory policy reform consultations
- Coordinate the overall TA activities
- Submit consolidated progress reports to the Steering Committee and ADB
- Disseminate information by organizing policy reform seminars with stakeholders
- Disburse funds in accordance with ADB regulations

Annex 4.5: TOR for Implementing Agencies

- Set up and staff the Focal Unit at MOF
- Appoint Member Secretaries in the respective Advisory Committees
- Plan, organize and chair review meetings
- Monitor activities and prepare quarterly progress reports
- Disseminate information

Annex 5: Minutes of the Pre-inception Meeting

Establishing Economic Policy Network: TA 4288 – NEP

Minutes of the Pre-inception Meeting held on June 1, 2004

1. The Meeting was held on June 1, 2004 at 11 AM under the chairmanship of Dr. Bimal P. Koirala, the Chief Secretary, HMG, at his office in Singha Durbar. The meeting was attended by the mission leader, Mr. Sungsup Ra, from Asian Development Bank and various secretaries and joint secretaries of HMG directly related to the proposed TA activities. The attendants in the meeting are listed below.

2. Dr Koirala welcomed the participants in the meeting. He expressed that Establishing Economic Policy Network is an important ADB TA to Nepal. He stated that the TA would facilitate a constructive policy dialogue among various stakeholders- public and private and would also assist policy makers by providing feedbacks on economic policy reforms and their implementation in the major theme areas (a) Macro Economic Management; (b) Economic Policy on International Trade, Investment and Employment; (c) Economic Policy on Infrastructure Development; and (d) Economic Policy on Tourism and Regional Development. He reminded that the TA was to be started in early January 2004, but was postponed for some period under the request by HMG due to the need for intensive involvement of Ministry of Finance policy level staff in preparing Nepal Development Forum Meeting held in May 2004. He remarked the current meeting as the 'Pre-

inception' meeting and thanked ADB for accepting the HMG request for the TA. He requested the floor to enter into the discussion by agenda and suggestions prepared for the meeting.

3. Mr. Sungsup Ra, the ADB mission leader expressed that ADB was happy to accept the TA request from HMG to an important initiative like Establishing Economic Policy Network by HMG. He remarked that the current TA is design to have enough flexibility to meet the most of the requirements of HMG in the exercise. The exercise to be supported by the TA for next two years is expected to (i) evolve and develop a strategic vision for private sector development; (ii) help improve the Government's economic policy reform agenda by evaluating policy reforms and providing feedback on implementation; (iii) recommend new ideas and policy options to policy makers; (iv) assist policy makers in analyzing and responding to regional and global economic challenges; and (v) foster a constructive policy dialogue between the Government and other institutions so as to generate a national consensus on policies and thereby enhance the credibility of reforms. He stressed that the government should assign local staff and related supports adequately to get full benefit of the TA.

4. Dr. Koirala opened the floor for the discussion and suggestions outlined on the agenda. Intensive discussion was held on the placing of the Focal Unit, staffing requirement, membership requirement for the advisory committees and identification of major implementing agencies for the TA. The members to be involved in different committees were discussed and finalized (table 6). The following decisions were made in the meeting.

1. Steering Committee will be set-up under the Chief Secretary with the representatives as outlines in (table 6).
2. Focal unit to coordinate the TA activities will be set-up at MOF and will be headed by the Joint Secretary of EPAID. HMG will staff the unit with one undersecretary and one section officer as full time to support the unit.
3. Focal unit will serve as the Secretariat of the Steering Committee.
4. Four advisory committees will be established in the related ministries as implementing agencies as outlined below:
 - (i) Macro Economic Management –Ministry of Finance
 - (ii) Economic Policy on International Trade, Investment and Employment- Ministry of Industry, Commerce and Supplies
 - (iii) Economic Policy on Infrastructure Development – Ministry of Physical Planning and Work, and
 - (iv) Economic Policy on Tourism and Regional Development - Ministry of Culture, Tourism and Civil Aviation

The committees will be chaired by the respective secretaries.

5. Focal unit will service the role of the Secretariat of the macroeconomic management committee.
6. Membership for the advisory committees and support to the Focal Unit will be as outlined (table 6).
7. For appointing the team leader, ADB will provide a roster of the possible consultants and the decision will be made jointly by ADB and the government.
8. Further procedural detail for implantation will be discussed after the draft inception report is prepared.

Table 6: Approved Membership in Committees

High Level Steering Committee	Advisory Committees				Focal Unit
	Macro Economic Management	Economic Policy on International Trade, Investment and Employment	Economic Policy on Infrastructure Development	Economic Policy on Tourism, Agriculture and Regional Development	
Chair: Chief Secretary OPMCM	Chair: Secretary, MOF	Chair: Secretary, MOICS	Chair: Secretary, MOPPW	Chair: Secretary, MOCTCA	Chief: Joint Secretary EAPAD, MOF
Secretary, NPC Secretariat	Executive Director, Research Dept., NRB	Joint secretary (in charge of industry), NPC	Joint Secretary (in charge of infrastructure) NPC	Joint Secretary (in charge of tourism) NPC	Member: Joint Secretary, MOICS
Secretary, MOF	Head, Economics Dept., TU	Joint Secretary, MOAC	Joint Secretary, MOAC	Joint Secretary MOAC	Member: Joint Secretary, MOPPW
Secretary, MOCTCA	Chairman, Economic Association of Nepal	Joint Secretary, MOLTM	Joint Secretary, MLD	Joint Secretary, MLD	Member: Joint Secretary, MOCTCA
Secretary, MOICS	Joint Secretary, OPMCM	Director General, DOI	Joint Secretary, MOWR	Director General, DOR	Invitee: Rameshwar P. Khanal, Joint Secretary, Budget and Program Division, MOF
Secretary, MOPPW	Mr. Rameshwar P. Khanal, Joint Secretary, Budget and Program Division, MOF		Director General, DOR	Director General, DNPWC	Invitee: Joint Secretary, OPMCM
Secretary, MOWR	Economists from two major political parties: Dr. Puspa Kandel and Mr. Budhiman Shrestha		President, Nepal Engineering Association	Director General, DOLIDAR	
Secretary, MOAC				Executive Director, NTB	
Joint Secretary, OPMCM					
Expert invitee: Mr. Prithvi Raj Ligal	Expert invitee: Mr. Dipendra P. Dhakal	Expert invitee: Mr. Binod Karmacharya	Expert invitee: Mr. Iswor Raj Onta Others up to (2) as required	Expert invitee: Mr. Dipendra P. Dhakal and Ms. Chhaya Sharma	
Private sector: Presidents of FNCCI, CNI, and NCC	Private sector: FNCCI official, (economic affairs)	Private sector: FNCCI, CNI, and NCC officials	Private sector : Presidents of SCAEF and FCAN	Private sector : Presidents of NATO and HAN	TA Team Leader and support staff
Member Secretary: Joint Secretary, EAPAD, MOF	Member Secretary: Joint Secretary, EAPAD, MOF	Member Secretary: Joint Secretary, MOICS	Member Secretary: Joint Secretary, MOPPW	Member Secretary: Joint Secretary, MOCTCA	Member Secretary: Under Secretary, EAPAD, MOF

List of Participants

S.N.	Name	Designation/ Organization
1	Dr. Bimal Prasad Koirala	Chief Secretary- OPMCM
2	Mr. Bhanu Prasad Acharya	Secretary- MOF
3	Mr. Lava K. Devkota	Secretary- MOCTCA
4	Mr. Tirtha Raj Sharma	Secretary- MOPPW
5	Dr. Kishor B. Aryal	Secretary- MOWR
6	Mr. Bimal P. Wagle	Joint Secretary- MOICS
7	Dr. Champak P. Pokharel	Economist
8	Mr. Janak Raj Joshi	Joint Secretary- OPMCM
9	Mr. Krishna Gyawali	Joint Secretary- MOF
10	Mr. Sungsup Ra	Senior Country Programs Specialist- ADB

Annex 6: Minutes of the Inception Meeting**Establishing Economic Policy Network: TA 4288 – NEP****Minutes of the First Steering Committee Meeting held on August 16, 2004**

1. Chaired by Dr. Bimal P. Koirala, Chief Secretary – OPMCM, the first Steering Committee meeting of Establishing Economic Policy Network (EPN) TA was held on August 16, 2004 at 3:00 pm at the Office of the Chief Secretary, Singha Durbar. The Team Leader, the International Consultant, and representatives from the ADB also attended the meeting (see pg. 45). The agenda of the meeting was to discuss on the draft inception report prepared by the Focal Unit, MOF and other aspects in relation to the TA.
2. The Chairman welcomed the participants and highlighted the importance of EPN in the country. He also instructed the Focal Unit to brief the decisions made in the pre-inception meeting to inform the new appointees in the Steering Committee. Mr. Prithvi Raj Ligal (national expert), and private sector representatives were the new members appointed in the committee.
3. Mr. Krishna Gyawali, Joint Secretary –MOF and Chief of the Focal Unit briefed the decisions taken during the pre-inception meeting held on June 1, 2004. He also briefed the list of members for the Steering Committee, Advisory Committees, and the Focal Unit decided in the meeting. However, he reminded the floor that the appointments of experts and representatives from the private sector have yet to be made by the Advisory Committees. He also introduced the Team Leader of the TA, Dr. Champak Pokharel, and the International Consultant, Mr. Sandy Cuthbertson, to the Steering Committee members.
4. Mr. Gyawali also briefed that the Focal Unit would coordinate overall TA execution. He informed the floor that a space for the Focal Unit has been provided at MOF and an Under Secretary, Mr. Mukunda P. Poudel, has already been assigned to the Focal

Unit. He also added that a decision has been made to assign one Section Officer to the Focal Unit.

5. Dr. Champak Pokharel, Team Leader presented the draft inception report on the TA covering August 2004 to December 2005. He pointed out that consultations have been increasing in recent years in the country; however, there is need for strengthening and institutionalizing vertical and horizontal networking process. Dr Pokharel also reminded that the administrative cost of the TA has been reduced by providing more roles to the Advisory Committee and the Focal Unit and thus, there is need for making the Focal Unit and Advisory Committees more functional and active.
6. Dr Pokharel pointed out that the events identified by the TA would exceed 80 including seminar, workshops (more than 30) and meetings. In addition, the policy papers planned are 32. He suggested that instead of spreading efforts in many activities, it would be better to reduce the number of workshop days by combining the events and using the approach of working groups. He also suggested that the 32 papers could serve as working papers and about one third high priority papers selected among them could be developed in more elaborated forms. He informed the participants that the draft inception report also included the potential topics for policy studies in the annex, as food for thought for the committee members.
7. Further presentation was followed on Best International Practices by the International Consultant, Mr. Sandy Cuthbertson. He highlighted the wider consequences of economic policy and reviewed relevant institutional processes in EPN in Australia, Indonesia, and Sri Lanka. He also stressed that the problems in a consultative process on policy reforms is that “those with an individually small potential to gain or lose tend to be ‘rationally disinterested’ even though the sum of their interest might be large and that the challenge is to ‘represent’ them.”
8. The Chairman thanked the speakers on their presentations and opened the floor for comments and suggestions. Main comments and suggestions received were the following:
 - Consultative process is not new for Nepal and experience has been that sometimes it has actually hindered policy reforms. Inception report should clarify how the EPN will accelerate pro-poor growth and it should trace out the approach for long-term sustainability of the EPN.
 - Membership to the Advisory Committees should be flexible and should include representatives from multiple sectors. Clarification was also sought on who finalizes the appointment of the specialists to be engaged and how the resources would be allocated across the thematic areas.
 - Perceptions of the private sector regarding policy reforms included poor identification of problems, insufficient consultative processes with them, not giving enough attention to core issues during consultation, and poorly defined implementation processes.
 - Nepal, being the least developed country in the SAARC could learn from the experiences of other members. It should also be noted in identifying the issues that the industries in Nepal have not developed into full production capacity and

are currently working only as assembly lines. Integrating different industries is needed to enhance production.

- Attention was drawn that about 200,000 people are added to the labor force annually and there is need for training and accommodating them in various sectors of industry, keeping a clear vision on employment generation and enhancement of entrepreneurship in the country.
- There is need to clarify the roles of stakeholders in the EPN. Networking is also needed between politics, social issues, vocations etc.
- The thematic areas need to be revisited. It was commented that agriculture is missing and should be given a distinct presence. It was suggested that the sector could be added together with regional development in the fourth thematic group by transferring tourism to 'international trade, investment and employment' group (no 2) or else, a separate thematic area could be added for agriculture. Other alternatives could also be explored.
- Question was raised on whether additional thematic area could be added on decentralization, social sector development and governance. Suggestion was also received to follow the four pillars of the Tenth Plan as thematic areas for more compatibility.
- There is a need to refine and focus on important issues in identifying and selecting the research areas was also pointed out. To avoid duplication of efforts, suggestion was made to establish co-ordination with the public, private and other stakeholders and review reports and papers already developed through them. It was pointed out that a considerable number of studies have been carried out by the private sector.

9. The Chairman asked for comments/ clarifications from the Team Leader and ADB on the comments/ suggestions by the floor.

- The Team Leader expressed that the suggestions were very valuable in improving the inception report. He remarked that the comment from the floor that agriculture should be made distinct in the thematic areas was a valid comment and further work would be done to explore a solution by remaining within the TA framework.
- He also clarified that it is the task of the Advisory Committees to identify and suggest research topics to the Chairman of the Steering Committee for approval and that they should also identify domestic consultants by remaining within ADB guidelines. He suggested the Advisory Committees to choose four topics in the next Advisory Committee meetings and identify the consultants to be engaged to activate the project at each committee level. He further added that other detailed approaches in choosing the topics could be followed in due course and that in choosing the consultants, institutionalization aspect should be given due attention. Regarding resource allocation, he suggested that it will be done by the Focal Unit in which the Member Secretaries of the Advisory Committees are the members.
- Mr. Sungsup Ra, from ADB expressed satisfaction on the discussions and viewed that a possibility of incorporating agriculture component could be

explored within the thematic areas. He pointed out that the problems in the agriculture sector are not pertinent within the discipline only, rather are multi-pronged and related more to weaknesses in other sectors such as infrastructure and markets. He suggested that adding more thematic areas would also add difficulty in managing them and alternatively, the issues related to various other areas pointed out by the floor could be addressed within the specified thematic areas. He reminded that the major emphasis of the TA is to focus on the areas of both public and private interest and that the policy papers identified should center around that.

Chairman's remarks and directives:

The Chairman requested the floor to discuss also on the suggested decisions on the agenda and declared the following as consensus:

1. Policy papers

- a. About one third papers falling to high priority areas should be developed in detail. Others should be brief and to the point.
- b. Some papers should address the network development and institutional arrangements such as communication arrangements across central ministries and between different levels of government and developing networks outside government such as an economic policy think tank.

2. Workshops

For manageability and not diluting efforts, workshops will be structured by consolidating various groups of workshops. For covering different priority areas in the workshops, approach of working groups will be used.

3. Advisory Committee Meetings

The meetings will be held within two weeks (of receiving the minutes) to decide on the first round of study topics and to submit them to the Chairman of the Steering Committee for a decision. Nominations in the Advisory Committees from the private sector and expert groups should also be decided soon by the respective Advisory Committees to complete the committee set-up.

4. Date for Final inception report and improvement in the thematic area.

The final inception report will be submitted by the first week of September 2004 by incorporating the comments. Thematic area no 4 will be amended as "Economic policy on tourism, agriculture, and regional development " in place of "Economic policy on tourism and regional development".

The Chairman also suggested the Focal Unit to improve the inception report by incorporating the suggestions given by the floor as far as possible, and to give due attention to making the planned project activities achievable. The Chairman thanked the members and other participants for their valuable comments and suggestions and closed the meeting at 4:30 PM.

List of Participants

S.N.	Name	Designation	Office
1	Dr. Bimal Prasad Koirala	Chief Secretary	OPMCM
2	Mr. Bhanu Prasad Acharya	Secretary	MOF
3	Mr. Mahendra Nath Aryal	Secretary	MOWR
4	Mr. Dinesh Chandra Pyakurel	Secretary	MOICS
5	Mr. Tirtha Raj Sharma	Secretary	MOPPW
6	Mr. Purna Prasad Manandhar	Secretary	MOA
7	Mr. Bhoj Raj Ghimire	Member Secretary	NPCS
8	Mr. Janak Raj Joshi	Joint Secretary	OPMCM
9	Mr. Krishna Gyawali	Joint Secretary	MOF
10	Mr. Prithvi Raj Ligal	Expert	Former Vice Chairman/ NPC
11	Mr. Surendra Bir Malukar	Private sector	NCC
12	Mr. Devakar Golcha	Private sector	FNCCI
13	Mr. Sungsup Ra	Senior Country Programs Specialist	ADB
14	Mr. Bipul Singh	Economics Officer	ADB
15	Mr. Sandy Cuthbertson	International Consultant	International Consultant
16	Dr. Champak Pokharel	Team Leader	TA Consultant
17	Mr. Arun S. Rana	Associate Project Analyst	TA support - Focal Unit/ MOF

Annex 7: Outline of Presentation on International Best Practices

Establishing Economic Policy Network Best International Practices

Presented by:

Sandy Cuthbertson

at the Inception Meeting held at the Ministry of Finance, Kathmandu, Nepal,
16 August 2004

Scope of this presentation

- Project task is to develop an economic policy network for economic policy dialogue based on sound analysis.
- Task in this presentation is to draw lessons on best international practices for Nepal from experiences in other countries.
- All countries, big and little, developed or developing, face a common challenge in implementing sound economic policy.
- This challenge flows from:
 - the indirect or economy-wide effects of economic policies which are often subtle and hidden; and
 - the scope thereby created for vested interests to manipulate policy to their advantage.

Economy-wide consequences of economic policy

- Because the second round or indirect effects of policy are not obvious, good analysis and measurement is required.
- Vested interests make sure the effects impacting on them are recognized but gloss over the impact on others.
- Need processes for bringing all stakeholders to the table.
- Institutional procedures to redress the inherent characteristics of democratic market economies need to be:
 - economy-wide;
 - transparent - with public scrutiny; and
 - independent.

Sector and not economy-wide focus tends to dominate in practice

- Most countries tend to have government ministries with a sectoral focus:
 - agriculture;
 - industry; and
 - tourism.
- Even economy-wide ministries such as finance, treasury or commerce often have narrowly defined charters.
- This individual standing feature of government structures applies across a wide range of countries and inhibits horizontal communication to achieve a “whole of government” approach.
- And tends to consolidate the power and influence of narrow interest groups.

Summary so far

Against this background consider the following general propositions which might be applied to policy making processes in any country.

- First, governments are more likely to have good policies if voters demand it.
- Second, voters are more likely to demand good policy if they understand all the effects of various policy options.
- Third, most economic policy actions involve first, second and third and so forth, round effects of which first round effects are obvious to all while subsequent or indirect effects are often obscure and therefore not well understood.
- Fourth, groups which stand to benefit from first round obvious effects have a vested interest in pushing for policies which suit them.
- Fifth, policy processes which inform the general public about indirect or second round effects of policy can be helpful in offsetting these general tendencies for misunderstanding and manipulation.
- Sixth, this reasoning gives rise to the need for a government to have access to advice which has the following features:
 - economy-wide;
 - transparent, consistent and predictable; and
 - independent.

Now let us look at the institutional arrangements in several countries with a view to judging how policy is tackled in these terms

Relevant examples of institutional processes

- Various institutional processes developed to address these inherent features.
- Australia has an independent policy review agency called the Productivity Commission.
- Indonesia for many years has had an Economic Coordinating Ministry (EKUIN).
- Sri Lanka has a Tariff Commission and has experimented with regulatory review.
- India's reforms beginning in 1991 appeared to rest on the collective decisions of a small number of economic ministers.
- Mexico has processes for regulatory review.
- WTO Trade Policy Review mechanism is an international effort at transparency.
- Nurturing of independent economic research agencies.

The Australian Productivity Commission

- The Productivity Commission advises the Australian Government on all aspects of microeconomic and trade policy.
- Its statutory functions are to:
 - hold public inquiries and report to government on matters related to industry and productivity;
 - promote public understanding of matters related to industry and productivity; and
 - initiate research on industry and productivity.
- The Commission follows three fundamental operating principles:
 - provides independent analysis and advice;
 - uses processes which are open and public; and
 - concerned for the well being of the community as a whole rather than just the interests of any particular industry or group.

Membership

- Important commission members are chosen on the basis of demonstrated competence
- They are not there to "represent" any group
- Their job is to "represent" the national interest

Productivity Commission guidelines

- The Commission's guidelines require it to:
 - improve the productivity and economic performance of the economy;
 - reduce unnecessary regulation;
 - encourage the development of efficient and internationally competitive Australian industries;
 - facilitate adjustment to structural change;
 - recognize the interests of the community generally and all those likely to be affected by its proposals;
 - promote regional employment and development;
 - have regard to Australia's international commitments and the trade policies of other countries; and
 - ensure Australian industry develops in ecologically sustainable ways.

Steps in a typical inquiry

The Commission is located within the Treasury portfolio but its activities cover all levels of government and encompass all sectors as well as social and environmental issues. A typical public inquiry might contain the following steps.

- Terms of reference drafted by the Treasury and agreed by the Cabinet.
- Terms of reference finalized and signed by the Minister and sent to the Chairman of the Commission.
- Chairman appoints Commissioners (usually 2 or 3 including possibly an outside associate commissioner).
- Chairman and Head of Office allocate staff to manage the inquiry.
- Interested parties list is compiled.
- Inquiry advertised in the national press.
- Issues paper prepared and circulated to interested parties along with a call for submissions.
- Public hearings are conducted.
- Final report is prepared and sent to the Treasurer.
- Government considers final report and releases it to the public.
- Government announces response to final report.

Indonesia's approach to economic policy networks

- Throughout the late 1980s and early 1990s Indonesian policy was led by high level ministerial teams supported by inter-ministerial technical teams.
- A strong President delegated authority to trusted technical ministers who formed a tightly knit group chaired by an Economic Coordinating Minister.
- By and large this approach was successful even though it lacked:
 - transparency;
 - public consultation;
 - economy-wide analysis; and
 - independent advice.
- But in 1998 a newly elected government saw considerable transfers of power to the Parliament, and with a new constitution to the provincial governments.
- The cohesion that bound economic ministers together is now much weaker and ministries are now inclined to pursue policy on sectoral rather than economy-wide grounds.
- In these circumstances some central economic ministries are seeking to strengthen capacities for:
 - economy-wide analysis of policy; and

- public consultation.
- Team tariff in the Ministry of Finance convenes public hearings.

Sri Lanka - policy networks at the border

- Sri Lanka like Nepal, has relatively low barriers to trade.
- This reflects a general bipartisan recognition of Sri Lanka's dependence on trade following dismal experiences with a closed and controlled economy in the 1960s and 1970s.
- But these lessons are in danger of being forgotten and barriers to trade are on the rise.
- Sri Lanka has a Tariff Commission which provides stakeholders a say in policy.
- But the Tariff Commission is weakly resourced and has little capacity for independent analysis.

Sri Lanka - economic policy for networks behind the border issues

- Sri Lanka, like Nepal has impediments operating behind the border. In 2001 the Minister for Industry Development appointed a Committee of officials, academics and private sector people to examine these impediments to competitiveness.
- The Committee embarked upon a program of research to document the costs of regulation:
 - at customs;
 - taxation;
 - labor market;
 - land markets;
 - power; and
 - ports.
- Results of this research were highlighted at conferences, newspapers and TV.
- As a result the government budget of 2002 directly responded to proposals.

Sri Lanka's experience in establishing a long term economic network

- The Committee also proposed an ongoing program of economic policy review and the government elected in November 2002 committed to a wide ranging program of regulatory review which would:
 - retain those regulations which could be shown to be in the public interest and remove those which could not; and
 - be based on sound analysis and public consultation.
- Steps for reviews to be consistent (see next slide).
- Despite bipartisan support for this approach this program of regulatory review is yet to commence.

Regulation or policy review

STEP 1

Describe the industry or activity

- output
- input
- size

Meet with producers and consumers

STEP 2

Identify nature of policy

- barriers to entry/exit
- protection/taxation

STEP 3

Clarify objectives

- employment

STEP 4

Analyze effects of policy

- on other sectors
- for consumers

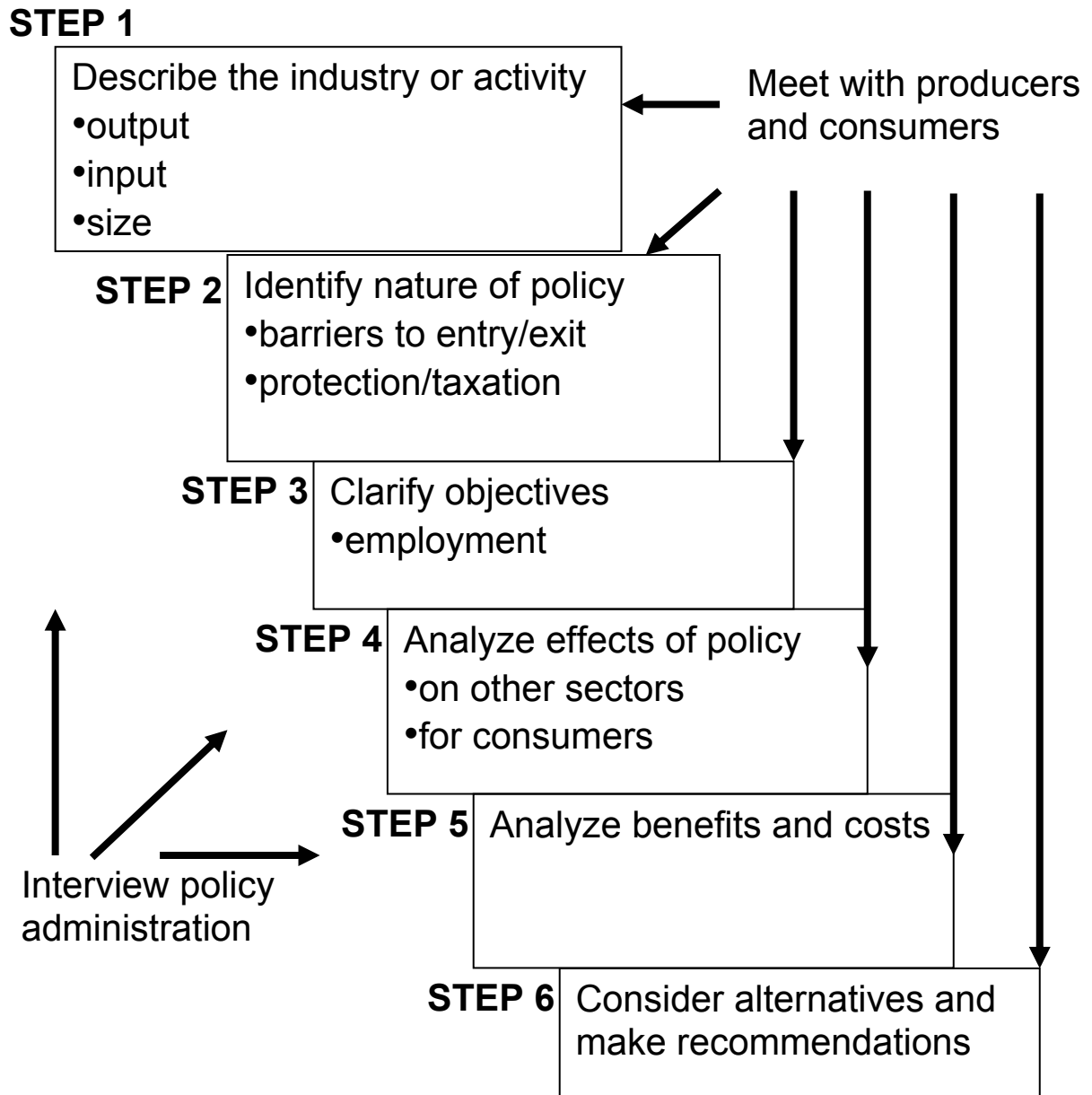
STEP 5

Analyze benefits and costs

STEP 6

Consider alternatives and make recommendations

Interview policy administration



India's 1991 reforms

- India's reforms of beginning in 1991 tended to come from the top key economic ministries/agencies.
- They followed a crisis and appeared to reflect no grand design.
- There appears to have been little formal processes to 'sell' the changes to the people.
- Reform momentum slowed after 1994.
- Options about the role of the IMF in 1991 reforms differ.

Mexico's experience

- Though the early 1990s regulatory reform coordinated by an Economic Deregulation Unit in the Ministry of Economy.
- In 1995 a more systematic reform program started isolated from political cycles, covering a wider range of regulatory activities and institutionally strong.
- Stress analysis, transparency and public consultation.
- Created Federal Regulatory Improvement Commission.
- All regulatory proposals must be sent to COFEMER 30 days before they are signed.
- COFEMER can also undertake independent reviews of existing rules.

WTO Trade Policy Review processes

- Nepal's membership of the WTO will mean that it will become involved in regular Trade Policy Reviews. These Reviews provide an opportunity to build support, economic policy networks which could make the Trade Policy Review a more effective process for better policy in Nepal.
- The Trade Policy Review Mechanism (TPRM) was introduced into the GATT in 1989 following the Mid-term review of the Uruguay Round.
- Reviews are conducted in the Trade Policy Review Body (TPRB), a high level committee of the WTO, open to all Members and to many observers (including sister organisations such as the World Bank, the IMF, UNCTAD, and others), and chaired by a senior Ambassador to the WTO.
- At the end of TPRB meetings, the concluding remarks by the Chair are made public and the Trade Policy Review Reports are published.
- The TPRM exercise does not take a legalistic approach in assessing the Members' trade policies, but instead looks at its economic and wider implications.
- Trade Policy Reviews are conducted on the basis of two reports: a detailed report by the WTO Secretariat, on its own responsibility, and a 'policy statement' by the Member under review. The Secretariat report provides an evaluation of the Member's trade policies and practices during the period concerned (2, 4 or 6 years, depending on the country). It follows a relatively well established format, containing 'summary observations' (the Secretariat's conclusions and final assessment for the review) and four chapters and covering the economic environment and the institutional environment surrounding trade policy making.
- The last (fourth) chapter analyses trade policies and practices by sector.
- An integral part of the information-gathering process by the Secretariat is a visit to the country under review for policy discussion with Government Ministries and other relevant agencies.
- The review of trade policies and practices is undertaken in the Trade Policy Review Body (TPRB), open to all WTO Members and to a number of authorised observers. Two discussants are chosen from the membership to act (on their own responsibility and not as representatives of their Governments) to stimulate the debate in the TPRB.

- The TPRM is the only forum where all aspects of trade and trade-related policies are open to discussion by the whole membership. It also provides an overview of the policies conducted in the country concerned and therefore helps to put trade policy in the wider perspective of economic development issues. It helps establishing links and examine interactions between macro and microeconomic policies (for example fiscal and tariff policies), 'external' policy-making (for example the positions adopted in international trade negotiations) and 'internal policies' (competition policy, privatisation), as well as multilateralism and regionalism. The mechanism constitutes an objective, independent evaluation and 'external audit' of the trade and economic situation of Members, as well as a forum where trade and trade-related policies can be explained and discussed frankly and openly, where information and clarification can be sought and concerns can be expressed.
- On the other hand some valid criticisms have been levelled at the process. These include:
 - the WTO resources available for the exercise are limited;
 - there is no formal economy wide analysis;
 - the national governments report is done according to a fixed formula or template — although it covers all bases it offers little or no analysis;
 - a six year cycle (for developing countries) means that there is more material to update (and it might be less assessable) than might be the case for countries on a two year cycle;
 - the lack of analysis means that the reports are shy about closing off on conclusions and developing recommendations; and
 - governments tend to do little to promote public debate about TPRM reviews and reports are often 'hidden away'.

Nurturing independent research

- Many countries rely on independent research agencies to develop and implement policy
- These agencies may be public, private or a mix
 - In the United States private foundations, e.g. Brookings play a big role
 - In Australia the government supports research bureaus covering agriculture, transport and labor
- Independent research groups exist also in developing countries
 - Sri Lanka has an institute for policy studies
 - Indonesia has the center for strategic and international studies
- Nepal's agencies seem to have become weaker in recent years with most economists operating as freelancers rather than being concentrated in units which provide critical mass and authority in public commentary.

Core issues

- How can reasoning triumph over interests?
- Mancur Olsen concerned that in stable democracies collusive lobbies tend to make economies less dynamic.
- Olsen hoped that a public educated to the harmful effects of special interests might begin to resist such behavior.
- Problem with stakeholder consultation is that only the stakeholders with significant interests show up. Those with an individually small potential to gain or lose tend to be 'rationally disinterested' even though the sum of their interest might be large.
- Challenge is to 'represent' them.

Annex 8: Suggested Policy Research/Study Topics

Thematic Area	Issues/ challenges	Potential Topics
1. Macroeconomic management	Low revenue base	1. Scoping of potential areas for expanding the tax base
		2. Prospect for expanding non-tax revenue
	As a WTO member, tariff rates need to be adjusted accordingly	3. Fiscal impacts of the adjusted tariff rates and potential for trade neutral taxes
	Narrowing the gap between savings and investment remains a difficult task	4. Scoping and systematic approach towards narrowing the saving investment Gap
	Rapidly rising foreign debt and less return on projects financed	5. Foreign dept prioritization
	Managing urban requirements is becoming difficult due to high subsidies, draining funds available for rural development	6. Prospect and approach to users pay system for the services in urban areas
	Lower tax compliance habit among tax payers	7. Mechanism for tax compliance habit and leakage control
	Developing a fully decentralized fiscal system at the local level and putting necessary mechanism in place for its effective functioning	8. Operational Mechanism for decentralized fiscal system
	Slow privatization hindering private sector growth	9. Progress, constraints and approach to enhance privatization
	With devolution and decentralization modes of communication between different levels of government are in a state of change	10. State of existing modes of communication and identify appropriate measures for improvement
	Unplanned urban development	11. Strategy for urban planning
	Foreign exchange rate impact high on reserves	12. Managing foreign exchange reserve and changing exchange rates
	Large unutilized fund in the banking and non banking institutions	13. Sustainable financing for housing, urban development and production schemes
	Need for a sustainable macroeconomic base	14. Current Macroeconomic stability factors and their sustainable management
	Considerable effort at public participation in policy yet apparent perception of exclusion still exists	15. Assess the strengths and weaknesses of recent efforts and approach for effective networking

Thematic Area	Issues/ challenges	Potential Topics	
2. Economic policy on international trade, investment, and employment	Low awareness on Competitive Strategy and need for awareness raising among stakeholders	1. Tracking of regional price and production trend systems 2. Regional trade scenario and Nepalese policies on agriculture incentives 3. Cost of production and regional comparative advantage in Nepalese agriculture	
	Public –private partnership in investment low	4. Public- private investment partnership potential areas and approaches	
	Increasing foreign remittance but low levels of pays.	5. Assess approach for enhancing the skills of the overseas labor supply for relatively higher paying jobs and	
	Need to enhance employment at private sector	6. Labor laws in the context of private sector investment	
	Accession into the WTO will make it harder for small businesses to compete	7. Current trade status and approaches to be adopted to respond to global market	
		8. Approaches to assist small businesses	
	Low growth in foreign investment	9. Problems and prospects for increasing foreign investment	
	Limited export commodities adding to high risk on trade vulnerability	10. Approach for increasing and diversifying export from short, medium and longer-term perspectives	
		11. Strategy to be adopted after quota abolished in ready made garment	
		12. Behind the border and domestic non tariff trade barriers	
		13. Trade analysis capacity building with public –private partnership for effective networking	
	3. Economic policy on infrastructure development	High leakage in electricity hindering potential growth	1. Approach for minimizing leakages in electrification
		Weak Private sector participation in Infrastructure	2. Status and options for private delivery of infrastructure in Nepal
3. Barriers to private delivery of infrastructure services			

Thematic Area	Issues/ challenges	Potential Topics
		4. Sustainable administrative arrangements for managing and regulating private delivery of infrastructure services
		5. Public private partnership in infrastructure development
	Cost of production in agriculture high due to poor infrastructure	6. Impact of road infrastructure development in reducing the cost of production in agriculture
	Infrastructure cannot be developed in every village. It is too expensive and time consuming	7. Possible voluntary relocation of settlements through planned approach
	Roads constructed through VDC fund are cost effective but are also increasing environmental hazards	8. Policy on matching funds, and other supports
	Projects completion period too long due to thinly spreading of resources	9. Approach to prioritization and resource allocation
	Lack of dependable irrigation facilities and free rider problem with inadequate contribution to maintenance	10. Reevaluate policies on AMIS and FMIS for sustainable development
		11. Promotion of low cost STW technology in Terai
	Imbalance of irrigation subsidy across the alternatives	12. Balanced support policy on irrigation infrastructure development in surface scheme and ground water development
Weak policy networking	13. Design sustainable economic policy network relating to infrastructure design and delivery	
4. Economic policy on tourism, agriculture and regional development	Conflict affecting tourism in rural areas	1. Effect of continued conflict in the tourism sector and involving more people's participation
	Equitable benefit from tourism is not flowing to the areas providing the source of income	2. Approach to equitable flow of benefits of tourism to local areas
	Regional potential not well addressed	3. Assessment study of regional potential in far western and mid western development regions
		4. Promotion of private sector to invest in remote areas

Thematic Area	Issues/ challenges	Potential Topics
	Conflict due to exclusion of people from development programs	5. Pro-poor and gender budgeting targeting income and employment opportunities
	Lack of commercialization in agriculture	6. The constraints of functional land marketing
		7. Contract farming to enhance commercial agriculture development
		8. Key policy issues in market oriented agriculture diversification
		9. Problems in pocket packet development in commercializing agriculture
		10. Modality for private sector participation in agriculture extension
		11. Approach for sustainable credit growth in agriculture
	Slow growth and lack of balanced use of chemical fertilizers	12. Approach to increase in uses and quality control of fertilizer
	Vulnerability of price and market for agriculture produces	13. Market development approach in agriculture to enhance competition
	Poor linkage between industry and agriculture	14. Improvements in Industry-agriculture linkages
Staff presence low in remote areas	15. Reevaluation of the remote area allowance and search for complementary packages (e.g. low interest rates for housing loan etc.)	
High regional imbalance in development leading to the situation of conflict	16. Potential scope for regional planning and implementation	
Potentiality of medicinal plants and high value crops not fully exploited in hill and mountains	17. Potential for commercial production of high value crops, natural fibers and medicinal plants in remote areas	

Annex 9: List of Key Persons Met

S.N.	Name	Designation
1	Dr. Bimal Koirala	Chief Secretary, OPMCM
2	Dr. Shankar Sharma	Vice-Chairman/ NPC
3	Mr. P. R. Ligal	Former Vice-Chairman/ NPC
4	Mr. Dinesh Pyakurel	Secretary/ MOICS
5	Mr. T.R. Sharma	Secretary/ MOPPW
6	Mr. Purna P. Manandhar	Secretary/ MOAC
7	Mr. Krishna Gyawali	Joint Secretary/ MOF
8	Dr. Govinda Kusum	Joint Secretary/ MOICS
9	Mr. K. K. Shrestha	Joint Secretary/ Planning Division/ MOAC
10	Mr. Mahesh Karki	Under Secretary/ MOF
11	Mr. Abullaish Thakurai	Executive Director/ CEDA
12	Mr. N. K. Basnet	Convener/ External Relations Committee/CNI
13	Mr. Rajendra Khetan	Convener/Policy Dialogue Forum
14	Mr. Narendra Bhattarai	Managing Director/ NCC
15	Dr. Govinda B. Thapa	Sr. Economic Advisor/ MOF