



The Economic Summit 2014 Organized in Kathmandu

The Economic Summit was jointly organized by the Government of Nepal and the Federation of Nepal Chambers of Commerce and Industries (FNCCI) on 24-26 February 2014 (Falgun 12-14, 2070) at Soaltee Hotel, Kathmandu. The International Economic Cooperation Coordination Division (IECCD) of the Ministry of Finance coordinated the entire event on behalf of the Government of Nepal. Office of the Prime Minister and Council of Ministers (OPMCM) also jointly facilitated and actively participated in the summit.

Addressing the opening ceremony on 24 February, Hon. Finance Minister Dr. Ram Sharan Mahat appreciated the efforts to initiate and organize such a big event for the first time in Nepal and assured that the Government is always with private sector to collaborate for the betterment of the country. He further shed light on importance of and potentials in Agriculture, Energy and Tourism sectors for investment that can help foster economic growth in Nepal. Hon. Minister urged to



From Left: Finace Secretary Mr. Subedi, Chief Secretary Mr. Paudyal, Hon. Finace Minister Dr. Mahat, FNCCI Chairman Mr. Vaidya, Vice Chairman NPC Mr. Shakya and President-Designate CII and Chairman Mr. Shriram

discuss and share experiences openly during thematic sessions so as to inform the policy and program of the Government. Finance Secretary Mr. Shanta Raj Subedi in his opening remarks highlighted the importance and potentials of those three sectors for both the development **Contd P7**

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Consultation Meeting Organized to explore suitable MCC Threshold Program in Nepal



Meeting Floor

On 17 February 2014, a consultation meeting for identifying MCC threshold program options was organized in the Ministry of Finance. Meeting was started with some highlights on objectives of the meeting by Mr. Narayan Dhakal, Under Secretary, IECCD and opening remarks by Mr. Madhu Kumar Marasini, Joint Secretary, IECCD. MCC **Contd P 6**



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Message from the Chief Editor



Nepal has been receiving international development assistance over the last six decades and the volume of aid has also been increasing over the years. However, there has been a large gap in the amount allocated in the budget and expenditure made in respective projects/programme. Low disbursement has been an issue since long that has been hindering for effective development results. We have not been able to rightly tackle this issue. It is really a high time to think, discuss, and find a way out to improve disbursement in our development activities.

While unveiling the mid-term review of the budget of FY 2013/14, Hon. Finance Minister Dr. Ram Sharan Mahat had expressed his dissatisfaction on not being able to achieve expected results in the six months of budget implementation, specifically in the capital budget. The overall assessment of the midterm budget review indicates that the disbursement of the development activities is unsatisfactory. Of the total budget allocated for the capital expenditure, only 13.47 percent has been spent. This shows the level of low disbursement compared to budget allocated in this fiscal year.

While talking of low disbursement, it is important to review the status of some of the large projects in the country as they carry a large volume of budget allocation. The government has classified 21 projects as national pride projects. Of them, the oldest is Babai Irrigation project, which started in 1989/90 but has not completed yet. The long awaited Melamchi Water Supply Project is back in track, but still it is difficult to predict whether it will be completed in the revised schedule of time. The Government had allocated Rs. 5.24 billion in the project but only Rs 1.04 billion is reported to have been spent in this fiscal year. Likewise, Sikta Irrigation Project is in the shadows as it is not completed even in eight years of its implementation. Only Rs 295.3 million was spent in six months out of Rs 1.14 billion allocated in the current fiscal year.

Until and unless, the implementation process is made more smooth and effective, the problem of low disbursement will not be resolved. The task of increasing the capital expenditure has been a big challenge before us. If we cannot improve our capacity of implementing large projects including those of national pride projects, we will not be able to take benefit of aid mobilisation in the country.

Mid-term evaluation report reveals the fact that the implementation effectiveness has not yet been improved despite repeated realizations in series of reviews. It has almost become a ritual to loath spending in the last few months of the fiscal year, which distorts the budgetary discipline leading to the compromise of both fiscal as well as physical qualities. There is a lack of coordination between the availability and the use of resources. Furthermore, delayed approval of program and contract award have been seen as one of the old and persistent causes to low disbursement. Timely budget announcement and authorization have yet to realize positive impact on disbursement trend.

Similarly, lack of sufficient counterpart fund, increasing modality of direct payment and technical assistance; delayed reimbursement due to financial reports not being submitted on time have exacerbated the absorptive capacity affecting severely the volume of aid disbursement.

In order to improve the capital expenditures, the Government is putting in place a number of immediate reform measures. To name a few of them; the Government is preparing for a Fiscal Responsibility Act. Public Expenditure Management Guidelines together with Action Plan is going to be announced shortly. Moreover, I am happy to share that the Ministry of Finance is putting its effort for an early budget announcement. I believe that through the institutional policy reforms, the capital budget implementation capacity will be enhanced, and we can improve the absorptive capacity significantly.

Thank you.

An Observation Tour to Kabhre, Sindhuli and Janakpur

A team led by IECCD Chief Mr. Madhu Kumar Marasini had an observation tour to different places of Kabhre, Sindhuli and Janakpur to inspect IFAD funded Leasehold Forestry and Livestock Development Project on 7-9



A Glimpse of Leasehold Forest Area in Sindhuli

February, 2014. IECCD Under Secretary Mr. Kailash Raj Pokarel was also one of the members of the team. The project handed over the degraded forest area to different groups since 7 September 2005 taking it on lease for forty years. The team found that the forest conservation activities connected to the livelihood of of Ryaletar and Khanikhola of Kavre district to be very good. The beneficiaries of these areas have increased their income through different activities like collection of fodder, firewood, and grass, plantation of herbs and trees, fisheries, animal husbandry etc.

The team also visited Hirding and Ratanpur leasehold forest areas of Sindhuli district and found the implementation status to be quite satisfactory. The naked and bare hills of the past are now filled with greeneries. Plantation of expensive herbs and their selling has benefitted the people. The forest area

has become the base for animal husbandry which can be further improved if additional financial support is provided for this.

IFAD has supported this project and the support is going to end in 30 September, 2014. The program being pro-poor is successful in



From Right: IECCD Chief Mr. Marasini and Under Secretary Mr. Pokharel in front of the bridge (under construction) at Khurkot of Sindhuli district

its operation and needs additional financial support. The technical assistance provided by Finland is also going to end in December 2014. To sustain the achievement, the program needs the support from the Government as well.

The team also observed ADB funded bridge on Sunkoshi River which is under construction at Khurkot of Sindhuli district. The technicians involved in the construction of the bridge informed that the construction will be completed within this fiscal year despite its stoppage for some time due to technical problem. The team also visited other places like the bridge in Kamala Khola and Nilgai Gaushala at Mahottari District.

Agreement with the World Bank

The World Bank has agreed to provide the grant assistance of USD 2.75 million (approximately NRs 274 million) for the implementation of Pro-poor Urban Regeneration Pilot Project to the Government of Nepal under the Japan Social Development Fund. The agreement to this effect was signed on February 10, 2010 in the Ministry of Finance.

The objectives of the Project are to contribute to improving the living conditions of poor and vulnerable households in selected wards of the historic core of Lalitpur City by piloting urban regeneration activities; and demonstrate the feasibility of an integrated urban regeneration approach to decision-makers

in the Kathmandu Valley. The project consists of four parts: (i) Participatory Action Plan for Pro-poor Urban Regeneration, (ii) Grant Facility for Pro-poor Urban Regeneration/Sub-grants; (iii) Community Awareness and Local Capacity Building for Pro-poor Urban Regeneration; and (iv) Project Management and Administration, Participatory Monitoring and Evaluation and Knowledge Dissemination. The location of the project is Lalitpur city itself.

The Project shall be implemented by Ministry of Urban Development and the project will end in September 2017.

UNDP Annual CPAP Review Meeting Held

A Country Program Action Plan (CPAP) annual review meeting was jointly organized by the Ministry of Finance and the UNDP at Ministry of Finance on 18 February, 2014. The meeting was chaired by Mr. Madhu Kumar Marasini, Joint Secretary and Chief of IECCD and attended by National Project Directors, National Project Managers, UNDP officials and other Government officials. This was the first review meeting of this kind.

Mr Marisini, while welcoming the participants, emphasized on the importance of feedback in enhancing development effectiveness. He lauded UNDP's approach in moving towards NIM

Modality. This approach according to him showed growing trust in Government's capacity, while also making Government more accountable. Mr Marasini also praised the achievement of the Aid Management Platform (AMP) in making Nepal's aid information more transparent and effective, and said that UNDP has been instrumental in making AMP work. He shared that AMP has been rolled out in 19 ministries, 40 Development Partners and 85 INGOs and the AMP public portal has been launched.

Ms. Shoko Noda, UNDP Country Director, said that UNDP and the Government have joint accountability for implementing the CPAP. She called it Nepal's CPAP, not UNDP's, saying that the implementation of the CPAP is not possible without Government leadership and ownership. She also shared that Nepal is a part of UNDP executive board. She encouraged candid discussion on the presentation and on UNDP's projects, programmes and results.

Mr. Vijay Singh, Assistant Country Director at UNDP, made a presentation on UNDP's results. Most of the

programmes under the current CPAP have just started, so achievements are limited. There are, at the moment, 19 programmes under 4 thematic areas. Central and Mid-Western regions of Nepal have high concentration of programmes. The programmes are implemented in a total of 1825 VDCs (1564 VDCs if overlaps are not counted).

IECCD Under Secretary Mr. Bhuban Karki said that



A Glimpse of CPAP review Meeting

the implementation of the AMP is a great achievement for transparency in Nepal. He said that the platform is very useful in analyzing data and refining policy. Donor mapping can be done through geo-coding, which allows creating district aid profile, he said. So far, training has been given to more than 400 staff, he said. Out of the more than 25 countries that have AMP, three have already visited Nepal to learn from Nepal's experiences.

National Project Directors and National Project Managers representing various UNDP funded projects expressed their satisfaction with the current progress of CPAP implementation.

Closing the meeting, Mr. Madhu Marasini further shared that this year was the first year of CPAP, and that he was sure that there will be more attention, discussion and results to showcase in the future. Speaking of the delivery figures of UNDP in its first year of CPAP implementation, Mr Marasini said that he was amazed that out of the allocated USD 35 million, UNDP was able to spend over 95% in the first year.

Japan Nepal Policy Dialogue Concluded

Japan-Nepal Policy Dialogue between the Government of Japan and the Government Nepal was held at the Ministry of Finance on 6 February 2014. The Nepalese Delegation was led by Mr. Madhu Kumar Marasini, Joint Secretary, International Economic Cooperation Coordination Division (IECCD) and the Japanese delegation was led by the Deputy Chief of Mission,

Embassy of Japan to Nepal, Mr. Shuich



Japanese Delegates

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Review Meeting of World Bank Funded Projects Conducted

The Review Meeting of the World Bank funded projects in Nepal, jointly organized by the Ministry of Finance and the World Bank Office in Nepal, was held in the Ministry of Finance on February 3, 2014. The

staffs, low absorption capacity and good governance.

IECCD Chief Mr. Madhu Kumar Marasini emphasized that the issues discussed in the meeting were raised in



Meeting Floor

other review meetings as well and he emphasized that there is the need of collective responsibility and accountability to effectively

meeting was chaired by Finance Secretary Mr. Shanta Raj Subedi. The meeting had intensive discussion on the current issues and recommendations on seven critical projects funded by the World Bank.

address the issues.

Addressing the meeting, Finance Secretary Mr. Shanta Raj Subedi said that the Government of Nepal is always committed to address the issues of foreign aided projects in Nepal. He reiterated that Ministry of Finance has done required coordination to resolve the issues so as to effectively implement the projects.

The major issues raised so far in the meeting were low disbursement, existing status of audit report, procurement, financial management, frequent transfer of project staffs, low capital expenditure, process delays, lack of proper coordination between different ministries, departments and offices, lack of proper action plan for effective operation of projects and so on.

Mr. Zohannes Zutt, Country Director, World Bank office Nepal, drew the attention of all stakeholders on implementation aspects especially on transfer of

In the Meeting, Mr. Bigyan Pradhan had presented the scenario of World Bank operation in Nepal. Project managers and representatives from different ministries had clarified the issues raised in the meeting.

Agreement with ADB

The Asian Development Bank has agreed to provide 23.5 million USD (approximately Rs. 2.32 billion) as a grant assistance to the Government of Nepal for the execution of the project of Building Climate Resilience of Watershed in Mountain Eco-Regions in Nepal. Mr. Madhu Kumar Marasini, Joint Secretary, International Economic Cooperation Coordination Division of the Ministry of Finance and Mr. Kenichi Yokoyama, Country Director, ADB, signed the grant assistance agreement on 20 January 2014.

Dadeldhura and Doti.

It is expected that by executing this project, the climate resilience in Nepal's mountain communities will be improved. The outcome of the



From Right: IECCD Chief Mr. Marasini and ADB Country Director Mr. Yokoyama

The project will be implemented by Ministry of Forest and Soil Conservation. For this purpose, Department of Soil Conservation and Watershed Management will be the Executing Agency. Project Management Unit (PMU) will handle the project implementation which will be based in Dadeldhura. The Project will be implemented in 6 districts of Far Western Development Region of Nepal namely Achham, Baitadi, Bajhang, Bajura,

the project is to ensure that the selected communities which are vulnerable to climate change have access to more reliable water resources. About 45,000 households are expected to be benefitted from Contd P 7

ADB QCPRM Meeting

The ADB's Quarterly Country Portfolio Review Meeting for combined 4th quarter 2013 and 1st quarter 2014 was organized in Ministry of Finance on 05 February 2014, particularly to review the performance and overall implementation status of ADB supported projects in Nepal. The meeting was chaired by Mr. Shanta Raj Subedi, Finance Secretary and co-chaired by Mr. Kenichi Yokoyama, Country Director, Asian Development Bank.



From Left: ADB Country Director, Finance Secretary, IECCD Chief, Joint Secretary IECCD and other Participants

In their opening remarks, Mr. Madhu Kumar Marasini and Mr. Yokoyama focused on the need and importance to continue the review process. Special concern was given on the increased number of actual problem projects in the 1st quarter of 2014. Mr. Marasini underscored the need of finest efforts to expedite the project implementation and achieve the optimum disbursement so as to improve the overall ADB Country Portfolio rating and thereby to increase the ADF allocation to Nepal in the years to come.

During the meeting presentation on the summary of portfolio performance and key project issues was made by Mr. Tika Limbu, Head, Portfolio Management Unit, NRM, ADB followed by discussion. The comprehensive discussion and the way forward for six actual problem projects and six potential problem projects under ADB funded projects were also done during the meeting. Project Directors and officials from concerned ministries tried to lucid the issues raised during the discussion session.

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Consultation Meeting

Chief Economist Mr. Jeremy Streatfeild presented the updates of MCC operation in Nepal. Representatives from Ministry of Energy, Ministry of Physical Infrastructure and Transport, Nepal Electricity Authority, Department of Road, Nepal Investment Board, Water and Energy Commission, Budget and Program Division of the Ministry of Finance, National Planning Commission, Road Board, Department of Road, DoLIDAR, and Department of Electricity Development have made crucial comments on issues and constraints inherent in the energy and transport sector of Nepal. Based on this consultation, the MCC team is supposed to develop threshold programs for energy and transport sectors.

MCC 2nd High-Level Steering Committee Meeting was convened on 16 January 2014 in National Planning Commission in presence of Mr. Thomas Kelly, Managing Director, Policy Evaluation Department, MCC, Washington DC and Dr. Paul J Kaiser, Director, Policy Evaluation Department, MCC and Team Lead for Nepal. The Chair of the Steering Committee Hon. Rabinendra Kumar Shakya, Vice Chair of NPC, Chief Secretary Mr. Lila Mani Poidel, Finance Secretary Mr. Shanta Raj Subedi have critically examined the usefulness and alignment of MCC program with that of Nepal's policy and priority.

Based on guidelines provided by the Steering Committee, energy and transport sectors were selected for deeper dive to identify appropriate threshold program in line with Nepal's policy, program and priority. The meeting was started with welcome remarks by Mr. Madhu Kumar Marasini, Joint Secretary, IECCD followed by a presentation on highlights of four binding constraints by Dr. Narayan Dhakal, Under Secretary, IECCD. In addition to the Steering Committee members, Dr. Beth Dunford, Mission Director, USAID Nepal and Dr. Rave Aulakh, Senior Economic Advisor, USAID Nepal were also present in the meeting.

MCC, the US Government aid agency has re-selected Nepal for 2014 MCC programs. A Joint MCC-GoN team of economists have identified four binding constraints to economic growth of Nepal- namely, policy inconsistency, lack of electricity supply, high transport costs and complex industrial relations and labor regulations. To respond to sector-level constraint corresponding to one or more binding constraints identified and agreed upon jointly by the GoN and MCC, a technical assistance known as "Threshold program" will be designed and implemented as a part of and preparation for a future larger investment through "Compact Program".

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of the country and benefit of the investors, domestic or foreign. In his special speech Mr. Ajay S. Shriram, President of Confederation of Indian Industries showed growing interest of Indian investors to invest in Nepal in Tourism, Energy and Agriculture sectors. He expressed



IECCD Chief Mr. Marasini Reading the Summit Declaration

his firm commitment to work together.

On 25 February, two full sessions- one on reform for investment and another on attractions for investment and three parallel sessions on Agriculture, Energy and Tourism were convened. The first session revolved around pursuit of appropriate reform to create investment-friendly environment in Nepal. During this session, eminent speakers like Prof. Shinji Asanuma from Japan, Mr. Asif Ibrahim, Chairman of BUILD from Bangladesh, Dato J. Jegathesan, CEO of J J Ishwara Connect SDN of Malaysia, and Mr. Rainer Heufers, Managing Director, SIAP Solutions Pte Ltd of Singapore have shared their perspectives of effective reform. Dr. Jagadish Chandra Pokhrel, Former Vice Chairman of National Planning Commission of Nepal chaired this session.

The second session chaired by Mr. Rameshore Khanal, Former Finance Secretary and Economic Advisor to the Prime Minister focused on factors that help attract investment in Nepal. Panelists of this session were eminent personalities, like Mr. Thomas Harris, Vice Chairman-Asia, Standard Chartered Bank, UK, Mr. Robert Whyte, Global Investment Promotion Specialist,

The World Bank, USA, Mr. Chandrajit Banerjee, Director General, Confederation of Indian Industry (CII), India and Mr. Shesh Ghale, Founder and CEO of Melbourne Institute of Technology in Australia and President of NRNA. The three parallel sessions on Energy, Agriculture and Tourism were also convened in the afternoon each chaired by Government Secretaries for Energy, Agriculture and Tourism, respectively. All of the discussants in these sessions were renowned personalities in the respective sectors.

The final day was rather important as Nepal's reform agenda were explored collectively by ex-Finance Ministers Dr. Prakash Chandra Lohani, Mr. Surendra Pandey and Mr. Deep Kumar Upadhyaya with their varied experiences collected during their tenure. This session was chaired by Prof. Shinji Asanuma from Japan. Three parallel sessions again on agriculture, energy and tourism were convened. Mr. Jaya Mukunda Khanal, Secretary, Ministry of Agriculture Development, Mr. Sushil Ghimire, Secretary, Ministry of Culture, Tourism and Civil Aviation and Mr. Bishwo Prakash Pandit, Secretary, Ministry of Energy chaired the sessions while Dr. Rajendra Adhikari, Mr. Purna Chandra Bhattarai and Mr. Keshav Dhoj Adhikari, all Joint Secretaries presented thematic papers outlining sector policies and positions, respectively. All discussants were renowned in their respective fields.

Keynote speech of Dr. Rajiv Shah, Administrator of USAID, Washington D.C. was one of the attractions in the closing ceremony in the afternoon followed by address of Chief Secretary of the Government of Nepal. Finally, a declaration was unveiled by Mr. Madhu Kumar Marasini, Joint Secretary of the Ministry of Finance in form of resolve of the summit. The declaration consisted commitment from both the Government and private sector which will form basis for future policy and program of the Government. March 23-24, 2014 has been slated for the Business Conclave, 2014 as a part of the Economic Summit 2014. The attraction of the Conclave will be a special address by Dr. Mahathir Mohammad, ex-Prime Minister of Malaysia and address by Rt. Hon. Prime Minister of Nepal Mr. Sushil Koirala. During this event some MOUs for investment in Nepal are expected to be signed.

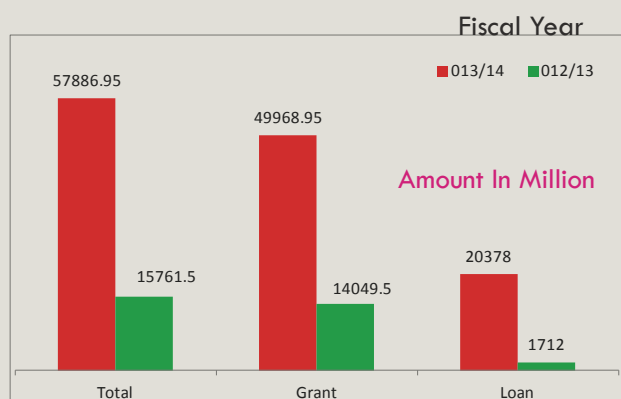
Agreement with ADB

improved water availability during the dry seasons to support domestic and agricultural uses. The spring or surface water sources are expected to become more reliable.

Starting from January 2014, the duration of the project is for six years. NDF will also provide technical assistance of equivalent to USD 4.6 million. Likewise, approximately 1.9 million USD will be borne by GON as a project support cost.

Foreign Aid Commitment

In the current fiscal year, at the end of February 2014, the new foreign aid commitment received by the GoN from DPs has reached the total of Rs. 57886.95 million (Rs. 49968.95 million as grant and Rs. 20378.00 million as loan) for the implementation of various development projects / programs. In the same period of previous fiscal year, the total commitment received by the GoN from various DPs was Rs. 15761.50 million (Rs. 14049.50 million as grant and Rs. 1712 million as loan).



ADB QCPRM

Finance Secretary Mr. Subedi showed his special concern about the frequent occurrence of common problems such as slow, low or no disbursement, slow contract awards, delaying procurements, low capital expenditure etc among the donor funded projects. He urged all the concerned officials to pay special attention to solve these problems. He indicated that vigorous exercise during the project preparation and Grant/Loan negotiation phase could help minimize the striking problems. He assured for every kind of support from Ministry of Finance to achieve improved project performances.

The meeting was attended by the secretaries of concerned ministries, Project Directors, senior level government officials and ADB NRM officials.

Japan Nepal

Sakakibara. High level officials from different line ministries of the Government of Nepal and the Embassy of Japan in Nepal and the Officials from JICA Nepal and JICA head quarter were present at the dialogue.

The Policy Dialogue was hosted by the Ministry of Finance. The dialogue was started with the opening remarks from both the delegation heads. The programme concentrated on different development programmes funded by the Government of Japan. Some candidate projects for future economic and technical cooperation of Japan to Nepal were also discussed. During the discussion, the Japanese delegation raised concerns about the ongoing projects namely, Melamchi Drinking Water Project, Tanahu Hydropower Project, Kulekhani Hydropower Project, etc., and responses were made from the concerned project officials of the Government of Nepal. In the meeting, the Japanese side informed positively about Thankot Tunnel Project and Suryabinayak - Dhulikhel Road Project requested by the Government. The Japanese delegation raised some critical points about the utilization of the KR 1 (food-aid). Representative from the Ministry of Commerce and Supplies and the General Manager of Nepal Food Corporation responded on the issue in detail.

The policy dialogue was followed after Mr. Hari Prasad Pandey's brief presentation on Nepal – Japan development cooperation. Present on the occasion were Mr. Tsutomu Shimizu, Chief of Representatives of JICA Nepal and Mr. Yoshibhumi Bito, Director, South Asia Division 4 from the JICA Head Office. Joint Secretaries including Ministry of Energy, Ministry of Federal Affairs and Local Development, as the members of the Nepalese Delegation in the Policy Dialogue.

In the concluding remarks, the Japanese side expressed its renewed commitments for the active partnership in the development of Nepal and the Head of the Nepalese delegation expressed sincere appreciation for the Japanese Government for its continued support in the socio economic development of Nepal.