NEPAL PORTFOLIO PERFORMANCE REVIEW (NPPR) 2015

Implementation for Results

Ministry of Finance
Government of Nepal
11 September 2015

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September 11, 2015

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Dr. Ram Sharan Mahat
Finance Minister

Message from Hon Finance Minister Dr Ram Sharan Mahat

I am happy to learn that the Nepal Portfolio Performance Review meeting for 2015 is centered around implementation for results. Under spending of the allocated budget and weaker implementation of projects have been the major challenge to achieve the expected results. To address this problem, government has also given utmost priority in implementation by declaring the FY 2015/16 as the Budget Implementation Year. To simplify implementation processes, we have declared number of policy measures, which will allow for the quicker issuance of the budget authorization, rolling over of the budget for the multi-year projects, a mandatory surrender of unspent budget and allowing to use the unspent budget into the needy and good performing sector, among others. I am confident that through those measures, budget implementation and disbursement will be improved in the coming years.

The Government of Nepal brought a new Development Cooperation Policy, 2014, last year. The Policy is based on international best practices on aid effectiveness. A threshold on aid mobilization has been fixed to avoid aid fragmentation and augment value for money. We have asked development partners to align their assistance to Nepal with national development plans and priorities. This will ensure use of aid money in priority areas to achieve national goals as specified in the development plans.

The earthquake of April 25, 2015 has devastated many infrastructures. Government now has the additional responsibility for reconstruction in an expeditious manner. The international donors and friends have made a significant amount of pledging during the International Conference on Nepal's Reconstruction (ICNR) for the post earthquake reconstruction. The challenge lies on us to make the best use of the contributions in the task of reconstruction and improvement of people livelihood.

The focus of NPPR 2015 towards result orientation is already a step forward to reform the slow pace in project implementation. I am confident that action plans that will be agreed during this NPPR 2015 will prioritize on results rather than on process and inputs.

I thank all the development partners for their continuous association in the NPPR process. I also thank the IECCD team for their effort to establish NPPR as an integral part of portfolio review mechanism.

September 6, 2015

RSMahat

Dr. Ram Sharan Mahat

Government of Nepal
MINISTRY OF FINANCE

SINGHADURBAR
KATHMANDU, NEPAL

Finance Secretary's Message

Nepal Portfolio Performance Review (NPPR) is a joint mechanism of Development Partners and Government of Nepal established with an objectives of assessing performance of ongoing projects funded by the Development Partners. It is also an effective instrument to identify bottlenecks in the implementations of development projects so that timely action plans may be pursued to unlock them.

Increasing efficiency in public investment and achieving anticipated results is the main goal of NPPR mechanism. It emphasizes in the improvement of budget execution, along with improving portfolio performance. NPPR 2015 has selected agriculture, energy, education, local governance and transport as key sectors to be covered for reviewing the performance based on their performance in thematic areas namely, Public Financial Management, Procurement Management, Human Resource Management, Managing for Development Results and Mutual Accountability.

Under spending of the allocated budget and weaker implementation are the major challenges in the public financial management. To address this, Government of Nepal has declared current fiscal year as the "Budget Implementation Year" aiming for improvement for project implementation. A number of measure have been taken including program approval and timely issuing of the authorization to allow the implementation of the projects from the very beginning of the fiscal year.

Our joint efforts must begin towards finding best solution for problems in project implementation through international frameworks that focus on linking the resource management to results for development effectiveness and commitments with due attentions to best value for money. As outlined in DCP 2014, development efforts need to comply with the internally recognized development frameworks and practices while identifying the country specific development challenges for result management with objective indicators of monitoring and valuation. I am confident that this year's NPPR exercise will be instrumental to shift from inputs focused to results focused portfolio management.

Finally, I appreciate the leadership of IECCD for steering the institutional mechanisms to bring the Development Partners and Government of Nepal together in order to review the performance of the development project/ programs. I also appreciate the IECCD team who have contributed to coordinate this process and have materialized meeting of such forums despite their tiring engagement in the overloaded regular assignments in the Division. I would also like to thank the development partners' lead officials who are continuously engaged in this process.

September 6, 2015

Suman Prasad Sharma

Tel: Minister 4211809, Secretary 4211332, IECCD 4211371, 4211867
Fax No. 4211164, 4211165, Website:www.mof.gov.np

Government of Nepal
MINISTRY OF FINANCE

SINGHADURBAR
KATHMANDU, NEPAL

Preface

The Nepal Portfolio performance Review (NPPR) exercise has been an established mechanism to review the annual performance of projects/programs assisted by development partners. Due to devastating earthquake on April 25, 2015, the meeting of NPPR is being organized a bit late this year. However, we are committed not to make the earthquake an excuse for postponing this very important exercise. As we are aware, in the aftermath of earthquake, MOF organized International Conference on Nepal's Reconstruction(ICNR) successfully in Kathmandu and received a very encouraging pledging from the international community for the post-earthquake reconstruction. This is indeed a challenging time for us. The earthquake was very devastating in terms of casualties in the history of Nepal but it has also created a new opportunity to rebuild Nepal.

In the architecture of aid mobilization in Nepal, we have taken a significant step in 2014/15. After a long preparation, we brought out new Development Cooperation Policy (DCP), 2014. This Policy is in line with global aid effectiveness commitments and at the same time tries to address the development needs of Nepal in the context of changing circumstances of the country. While prioritizing the sectors for mobilization of aid, putting threshold to avoid aid fragmentation, new policy emphasizes the use of country system, harmonization, and country ownership and leadership while channeling the aid in Nepal. This is expected to lead for better transparency, accountability and development results. We encourage all development partners to align their assistance to Nepal based on the modalities and priorities as outlined in the DCP. Also important to note is transparency of aid data in Nepal has improved significantly in recent years, which is available to public through Aid Management Platform (AMP- http://amis.mof.gov.np/portal/) of the Ministry of Finance. We encourage all policy makers and general public to benefit from this.

The focus of this year's meeting has slightly changed as we have tried to make it more result oriented instead of heavily focusing on processes. We have streamlined NPPR actions to sector/agency for effective monitoring and ultimately delivery the NPPR results.

I would like to express my sincere appreciation to all DevelopmentPartners for their cooperation in organizing this meeting. Representatives from sector ministries, the National Planning Commission, and my colleagues at IECCD who are greatly involved in the preparation of this meeting, deserve my appreciation for their valuable contribution.

September 6, 2015

MKMarasini

Madhu Kumar Marasini

PROPOSED PROGRAM FOR

14th NEPAL PORTFOLIO PERFORMANCE REVIEW (NPPRMEETING, 2015)

Date: 11 September 2015, Friday (25 Bhadra 2072)

Theme: "Implementation for Results"

Venue: Hotel Yak & Yeti, Regal Hall, Kathmandu

OPENING SESSION

Chair	Dr. Govinda Raj Pokhrel – Hon. Vice Chairman, National Planning Commission
08:30	Registration/ Tea/Coffee
09: 00	Welcome and Opening Speech - **Mr. Madhu Kumar Marasini, Joint Secretary, IECCD, Ministry of Finance**
09.15	Progress Reporting of NPPR 2014 Action Plan - **Dr. Narayan Dhakal, NPPR Coordinator, Ministry of Finance**
09: 30	A presentation on "Transition to Results Focused Portfolio Review (NPPR)" - **Dr. Teertha Dhakal, Joint Secretary, National Planning Commission**
09:50	Remarks by Representative of Development Partners - **Mr. Kenichi Yokohama, Country Director, Asian Development Bank**
10:10	Address by Chief Guest - Hon. Finance Minister, Dr. Ram Sharan Mahat
10:25	Chairman's Concluding Remarks - Dr. Govinda Raj Pokhrel – Hon. Vice Chairman, National Planning Commission and CEO National Reconstruction Authority

Sector Leads

1. **Agriculture**
   Mr. Yogendra Kumar Karki, Joint Secretary
2. **Education**
   Dr. Lava Dev Awasthi, Joint Secretary
3. **Energy**
   Mr. Sameer Ratna Shakya, Joint Secretary
4. **Local Governance**
   Mr. Purna Chandra Bhattarai, Joint Secretary
5. **Transport**
   Mr. Bishnu Om Bade, Joint Secretary

PROGRAM FOR

14TH NEPAL PORTFOLIO PERFORMANCE REVIEW (NPPR) MEETING, 2015

10:40	Tea Break	
11:00	**Business Session**	
Chair Dr. Somlal Subedi , Chief Secretary, Government of Nepal		
	Presentations by Five SectorLeads, Joint Secretaries of related sectors **Highlights of NPPR-2015 Action Plan to improve portfolio performance in respective sectors** *(10 min. for presentation and 5 min. for discussion for each sector)* 1. Agriculture- Mr. Yogendra Kumar Karki 2. Education- Dr. Lava Dev Awasthi 3. Energy- Mr. Sameer Ratna Shakya 4. Local Governance- Mr. Purna Chandra Bhattarai 5. Transport- Mr. Bishnu Om Bade Adoption of NPPR Action Plan, 2015-16	
12:30	Feedback by Development Partners	
12:45	Remarks by the Finance Secretary - **Mr. Suman Prasad Sharma**	
13: 00	Chairman's Concluding Remarks	
13:15	Lunch hosted by the Finance Secretary	

CONTENTS

Page No

NPPR AGENDA.. **Error! Bookmark not defined.**

CONTENTS...ii

ABBREVIATIONS & ACRONYMS iv

1 CHAPTER I - INTRODUCTION 1

2 CHAPTER II - NATIONAL AND SECTORAL PRIORITIES 9

3 CHAPTER III - BRIEF PORTFOLIO ANALYSIS 18

4 CHAPTER IV - IMPROVING PORTFOLIO PERFORMANCE IN FIVE SECTORS....... 35

5 CHAPTER V - CROSS-CUTTING IMPLEMENTATION CHALLENGES AND SUGGESTED REFORM MEASURES 48

ANNEXES

Annex 1: NPPR Entities

Annex 2: STATUS OF IMPLEMENTATION OF 2014 NPPR ACTION PLAN

Annex 3: SECTORAL ANALYSIS

ABBREVIATIONS & ACRONYMS

ADB	ASIAN DEVELOPMENT BANK
ADS	AGRICULTURE DEVELOPMENT STRATEGY
AFSP	AGRICULTURE AND FOOD SECURITY PROJECT
AMP	AID MANAGEMENT PLATFORM
ASIP	ANNUAL STRATEGIC IMPLEMENTATION PLAN
BES	BASIC EDUCATION SCHOOL
CACs	COMMUNITY AWARENESS CENTERS
CADP	COMMERCIAL AGRICULTURE DEVELOPMENT PROJECT
CES	CONSOLIDATED EQUITY STRATEGY
CIAA	COMMISSION FOR INVESTIGATION OF ABUSE OF AUTHORITY
CPTC	CROSS BORDER POWER TRANSMISSION COMPANY
CSA	CIVIL SERVICE ACT
CTEVT	COUNCIL FOR TECHNICAL EDUCATION AND VOCATIONAL TRAINING
DFID	DEPARTMENT OF INTERNATIONAL DEVELOPMENT, UK
DDC	DISTRICT DEVELOPMENT COMMITTEE
DP	DEVELOPMENT PARTNER
DPC	DEVELOPMENT COOPERATION POLICY
DOTM	DEPARTMENT OF TRANSPORT MANAGEMENT
ECED	EARLY CHILDHOOD EDUCATION AND DEVELOPMENT
EFA	EDUCATION FOR ALL
EU	EUROPEAN UNION
EVENT	ENHANCED VOCATIONAL EDUCATION AND TRAINING
EWH	EAST WEST HIGHWAY
FCGO	FINANCIAL COMPTROLLER GENERAL OFFICE
FITTA	FOREIGN INVESTMENT TECHNOLOGY TRANSFER ACT
FRRAP	FIDUCIARY RISK REDUCTION ACTION PLAN
GDP	GROSS DOMESTIC PRODUCT
GON	GOVERNMENT OF NEPAL
HIMALI	HIGH MOUNTAIN AGRIBUSINESS AND LIVELIHOOD IMPROVEMENT
HMIS	HIGHWAY MANAGEMENT INFORMATION SYSTEM
HR	HUMAN RESOURCES
IBN	INVESTMENT BOARD OF NEPAL

ICB	INTERNAL COMPETITIVE BIDDING
ICNR	INTERNAL CONFERENCE ON NEPAL'S RECONSTRUCTION
IFAD	INTERNATIONAL FUND FOR AGRICULTURE DEVELOPMENT
INGOs	INTERNATIONAL NON GOVERNMENT ORGANIZATIONS
JFPR	JAPAN FUND FOR POVERTY REDUCTION
JICA	JAPAN INTERNATIONAL COOPERATION AGENCY
JPAF	JOINT PERFORMANCE ASSESSMENT FRAMEWORK
JV	JOINT VENTURE
KSUTP	KATHMANDU SUSTAINABLE URBAN TRANSPORT PROJECT
KV	KILO VOLT
LSGA	LOCAL SELF-GOVERNANCE ACT
LGCDP	LOCAL GOVERNANCE AND COMMUNITY DEVELOPMENT PROGRAM
M&E	MONITORING AND EVALUATION
MD	MANAGING DIRECTOR
MDACs	MINISTRIAL DEVELOPMENT ACTION COMMITTEES
MDGs	MILLENNIUM DEVELOPMENT GOALS
MDTF	MULTI DONOR TRUST FUND
MoAD	MINSITRY OF AGRICULTURAL DEVELOPMENT
MoE	MINISTRY OF EDUCATION
MoEN	MINISTRY OF ENERGY
MOF	MINISTRY OF FINANCE
MoFALD	MINISTRY OF FEDERAL AFFAIRS AND LOCAL DEVELOPMENT
MOGA	MINISTRY OF GENERAL ADMINISTRATION
MW	MEGAWATT
NASA	NATIONAL ASSESSMENT OF STUDENT ACHIEVEMENTS
NCB	NATIONAL COMPETITIVE BIDDING
NDAC	NATIONAL DEVELOPMENT ACTION COMMITTEE
NEA	NEPAL ELECTRICITY AUTHORITY
NER	NET ENROLMENT RATIO
NGOs	NON GOVERNMENT ORGANIZATIONS
NPC	NATIONAL PLANNING COMMISSION
NPPR	NEPAL PORTFOLIO PERFORMANCE REVIEW
NPR	NEPALESE RUPEES
NPTC	NEPAL POWER TRANSMISSION COMPANY
NVC	NATIONAL VIGILANCE CENTRE

PACT	PROJECT FOR AGRICULTURE COMMERCIALIZATION AND TRADE
PDNA	POST DISASTER NEEDS ASSESSMENT
PEFA	PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY
PFM	PUBLIC FINANCIAL MANAGEMENT
PMECs	PRIORITY MINIMUM ENABLING CONDITIONS
PPA	POWER PURCHASE AGREEMENT
PPA	PUBLIC PROCUREMENT ACT
PPCs	PRE-PRIMARY CENTERS
PPMO	PUBLIC PROCUREMENT MONITORING OFFICE
SASEC	SOUTH ASIA SUB REGIONAL ECONOMIC COOPERATION
SDP	SKILL DEVELOPMENT PROGRAM
SRN	STRATEGIC ROADS NETWORK
SSDP	SCHOOL SECTOR DEVELOPMENT PLAN
SSRP	SCHOOL SECTOR REFORM PROGRAM
SWAp	SECTOR-WIDE APPROACH
TLCs	TEMPORARY LEARNING CENTERS
TVET	TECHNICAL AND VOCATIONAL EDUCATION TRAINING
UN	UNITED NATIONS
UNCDF	UNITED NATIONS CAPITAL DEVELOPMENT FUND
UNCT	UNITED NATIONS COUNTRY TEAM
UNDP	UNITED NATIONS DEVELOPLEMNT PROGRAMME
UNESCO	UNITED NATIONS EDUCATIONAL, SCIENTIFIC AND CULTURAL ORGANIZATION
UNFPA	UNITED NATIONS FUND FOR POPULATION ACTIVITIES
UNICEF	UNITED NATIONS CHILDREN FUND
UNV	UNITED NATIONS VOLUNTEER
USAID	UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
VDC	VILLAGE DEVELOPMENT COMMITTEE
WFP	WORLD FOOD PROGRAMME
WHO	WORLD HEALTH ORGANIZATION

CHAPTER I

INTRODUCTION

Background

Nepal has carried out Nepal Portfolio Performance Reviews (NPPRs) for more than a decade. The process has helped to achieve a common understanding amongst the Government of Nepal (GoN) and its Development Partners (DPs) on various dimensions of implementation challenges and their linkages to results. Further, it has helped to identify inherent problems in programme/project execution and the way forward in overcoming those problems. However, NPPRs so far have been more input focused and short-term in nature, which may have resulted in the sub-optimal achievement in the expected results. The main intent has been to see how transformational change can be introduced to link portfolio reviews with the government's planning, budgeting and monitoring system. With the learning of past NPPRs and in order to focus on improved portfolio performance and results, both GoN and DPs felt the need to change the NPPR focus from inputs to results. The idea was also to give more ownership to sectoral ministries, who are accountable for demonstrating results through addressing implementation challenges.

Nepal Portfolio Performance Reviews (NPPRs) aim to increase public investment efficiently and effectively to achieve anticipated results. Improvement in budget execution and identification of channels to improve portfolio performance are its main intents. The NPPR platform focus is to identify key cross-cutting issues that impede portfolio execution, act and monitor jointly agreed remedial actions that could advance project completion dates and inform decision makers (internal and external stakeholders) of the status of portfolio execution that have an overbearing impact on executing the budget. The NPPR has focused on the following five cross-cutting themes:

(i) Public Financial Management (PFM)

(ii) Procurement Management

(iii) Human Resource Management

(iv) Managing for Development Results or Monitoring and Evaluation (M&E)

(v) Mutual Accountability (theme introduced in NPPR 2011).

Many of the identified generic implementation issues center around the above thematic areas. These issues include: delayed programme and budget approval processes, the delayed preparation of financial statements, delayed audits, increasing volume of irregularities, delays in procurement decisions, the frequent turnover of key project staff and the lack of compliance with legal covenants, amongst others. Addressing these systemic issues will improve investment efficacy.

The NPPR process in Nepal started with three DPs as core members (the Asian Development Bank, the Japan Bank for International Cooperation (now Japan International Cooperation Agency, JICA) and the World Bank). The process, with the UK Department for International Development (DFID) as the fourth member, is now partnered by 14 core partners, including the founding DPs, the embassies of Australia, Denmark, European Union (EU), Federal Republic of Germany, Finland, Norway, and Switzerland; the International Fund for Agriculture Development (IFAD), the United Nations Country Team (UNCT), the United States Agency for International Development (USAID). Growing DP interest in the NPPR process signifies the need for a result-oriented common portfolio review mechanism. The NPPR process is now fully internalized in the government's portfolio management system and has been continuously led by the Ministry of Finance since 2006.

Over the years, the government and the core DPs participating in NPPRs have focused on budget execution and the overall improvement in the capacity for project implementation. It is recognized that improving implementation is the mutual responsibility of government and development partners. The overall aim is to maximize the benefits from the resources provided to the government so that the delivery of core services to the people of Nepal is improved. The NPPR process involves annual portfolio reviews together with implementing agencies, DPs and other stakeholders. The resulting actions from annual reviews is then discussed and endorsed through the Cabinet or Ministerial decisions. In order to ensure effective implementation of Action Plans, the need for strengthening oversight at the highest level is necessary. It is recognized that until the process is linked with the overall planning, budgeting and monitoring system, and a focus on results, the implementation of NPPR Action Plans will not be as effective as expected.

Restructured NPPR

The NPPR preparatory meeting held in February 2015 proposed to hold the 2015 NPPR in May. A Working Committee chaired by the Joint Secretary of the Monitoring and Evaluation Division of the National Planning Commission was formed to prepare for the results-oriented NPPR. The proposed theme of the NPPR was "**Implementation for Results**". Whilst the working committee began working under the new modality aiming for a May review, the unfortunate devastating earthquakes of 25 April and 12 May occurred, followed by many aftershocks. This affected the schedule of the review. The focus and priority of the government and DPs thus shifted to relief efforts in the earthquake-affected districts, and on to establishing policies and a framework for the reconstruction and rehabilitation of structures damaged by the earthquake. As the situation began to stabilize, the government, through a meeting held on 5 August 2015 chaired by the Finance Secretary, decided to reschedule the 2015 NPPR.

The objective of the restructured NPPR is to improve budget execution backed by monitorable indicators. The overall execution of the budget for intermediate results is the focus. This will help achieve concrete outcomes from public expenditure, which is a genuine concern of Government agencies as well as the DPs. The NPPR will now focus not only on foreign-aided projects[1] but on strengthening the country's budget systems and budget processes and to integrate the government's existing budget

[1] Absorbed aid is less than 20 percent of total budget spending.

monitoring arrangements. In other words, learning from the experience of the NPPR process so far, the new approach to carrying out the NPPR will be to fully integrate it into the budget review process, to go beyond limiting it to only foreign-aided projects.

The measures to improve budget execution will consist of:

- identifying budget performance indicators to track progress towards sectoral outputs and outcomes;

- identifying sector and sub-sector budget performance intermediate and output indicators that link to planned outcomes;

- identifying budget line performance indicators that link to sector and subsector outputs; and

- establishing linkages between output and outcome indicators to actual budget execution.

The NPPR approach includes the following:

(i) Monitoring key processes —PFM, human resources, procurement, M&E and mutual accountability.

(ii) Focusing on results — budget implementation performance linked to sectoral outputs.

(iii) Aligning and linking existing government budget planning, budget execution and budget monitoring and review systems

(iv) Linking the review process with other government forums with development partners such as, Local Donor Group Meeting, Nepal Development Forum, etc.

(v) Mutually agreeing on the actions and indicators and linking them with the indicators of the National M&E framework and also with those of the Aid Management Platform.

Process progress relates to improving the investment efficacy of programmes. Past reviews have specified five process areas to intensify investment efficiency:

(i) Human resources (HR) and, within HR, stability in personnel movement, and building capacities.

(ii) The institutionalization of e-bidding, amongst others, to address procurement related issues.

(iii) Major PFM-related issues that are embedded in existing processes include bringing back budget realism, addressing the number of expenditures that are left to the last trimester, strengthening internal audits and reducing the external audit irregularities. Addressing these issues will improve overall budget implementation.

The remaining two areas are as follows:

(iv) Establish linkages between planning and budgeting and develop sectoral results frameworks to serve as a basis for monitoring and evaluation.

(v) Ensure mutual accountability for the improved management of development assistance.

The efforts directed to improve processes and systems need to be institutionalized, which calls for an evaluation process that, in itself, becomes part of the reform process. This process improvement effort is the cornerstone upon which higher level outcomes can be attained through the timely execution of budgets.

Review Modality

With the new objectives set for the NPPR, the 2015 review has shifted its focus to helping build more accountability for implementation in sectoral ministries and central agencies including the Ministry of Finance (MOF), the National Planning Commission (NPC), the Financial Comptroller General Office (FCGO), the Ministry of General Administration (MOGA) and the Public Procurement Monitoring Office (PPMO). Prior consultations have taken place in each sector amongst government and DP experts to agree on the result indicators and action plans across the five thematic areas prior to the main review (scheduled for 11 September 2015). Against this backdrop, the focus of the NPPR 2015 is as follows:

(i) **Sector:** Five sectors – agriculture, education, energy, local governance and transport – have been selected for the review of their implementation performance over the five cross-cutting thematic areas of PFM, procurement, human resources, M&E, and mutual accountability. The Joint Secretaries of the Planning Division of the respective ministries will lead these consultations. Each sector will have a development partner as co-lead with the following responsibilities: agriculture – World Bank; education – EU; energy – ADB; transport – ADB; and local governance – DFID.

(ii) **Working Report:** Instead of each DP preparing separate papers, the new approach will see a single integrated report produced with inputs from the five sectoral ministries and DPs.

(iii) **Mid-Term Budget Report:** The NPPR process will be integrated with the government's mid-term budget review.

(iv) **Input to Budget Formulation:** The findings of the NPPR process will be linked with the annual budget formulation process (mid-February) to influence and inform it as well as with budget reform announcements through the budget speech (mid-July).

NPPR 2015 focusses on the following five cross-cutting themes:

(i) PFM: Bringing back budget realism, reducing the number of expenditures that are left to the last trimester, strengthening internal audits and reducing external audit irregularities.

(ii) Procurement management: Institutionalizing e-bidding and untying development cooperation to address procurement related issues.

(iii) Human resource management: Stabilizing personnel movement and building capacities.

(iv) Managing for development results: Establishing linkages between planning and budgeting and designing sectoral result frameworks to serve as a basis for monitoring and evaluation.

(v) Mutual accountability: Aiming to hold DPs and the Government accountable in terms of transparency, performance and the reciprocity of commitments and obligations.

Implementation for Results

Many of the identified generic implementation issues center around:

- on the government side — delayed programme and budget approval processes, delayed budget authorization, delayed preparation of financial statements, delayed audits, increasing volume of irregularities, delay in procurement decisions, frequent turnover of key project staff, lack of compliance with legal covenants, absence of elected local authorities ; and

- on the part of DPs — weak predictability of development cooperation, delayed reporting or under-reporting and sometimes over-reporting of disbursements, frequent changes in sector related staff, lack of compliance with the government's Development Cooperation Policy, tendency towards direct and extra-budgetary funding.

Recognizing the importance of improved implementation, the government declared in the budget speech that FY2015/16 is a **"Budget Implementation Year".** Similarly, in order to streamline development cooperation and improve aid management, the government last year introduced its Development Cooperation Policy, 2014.

These policy announcements contained several features that focus on the five cross-cutting themes and that will contribute to improve overall implementation. The key focus of the government in FY2015/16 will be to ensure that its announced policy measures are effectively implemented. Some measures announced in the budget speech and Development Cooperation Policy are as follows:

(i) **Programme and Budget Authorization**

- Programme approval and authorization processes will be simplified.
- Spending authority to concerned agencies will be provided on the first day of the next fiscal year — that is 17 July 2016 – in order to boost capital spending.
- Multi-year projects will be automatically entitled to funds every year, which means that such projects will not have to request a budget nor require approval from the National Planning Commission every year.
- Multi-year contracting will be implemented for multi-year projects.
- Budgets for new projects or programmes will not be released for the same line agency without approved work programmes.
- The approval of new programmes/projects in the middle of the fiscal year will be stopped as will the demand and release of budgets for new programmes at the end of the fiscal year.
- A separate budget code will be assigned for the purpose of project preparation (to include analytical works and studies).
- Projects and programmes that fail to use at least 50% of their allocated funds in the first eight months of the fiscal year will be asked to surrender that budget so that such funds can be reallocated to other well performing projects that are in need of funds.

(ii) **Project Staffing and Incentives**

- The government will introduce a policy of "reward" and "punishment" in its civil service and revise its work performance appraisal methods.
- Well performing project staff (e.g. project chiefs, finance officers and other key officials) will not be transferred during the project implementation period if their performance score is above 80 percent.
- The recent amendment to the Civil Service Act has now introduced clusters for the professionalization, transfer and appointment of Government staff.
- A policy will be adopted in all national pride and large scale prioritized projects to select highly professional and technically skilled personnel from government agencies or the private sector on a competitive basis and by providing competitive salaries, based on performance.

(iii) **<u>Project Implementation</u>**

- Separate autonomous bodies like development committees, boards, and academies will not be established for regular functions and development projects that can be executed by the regular government structure.
- The National Vigilance Centre will be asked to carry out quality technical audits of large scale construction works.
- Construction works in projects will not be allowed for works for which detailed feasibility studies have not been carried out.
- The Public Procurement Act has been recently amended to simplify procurement procedures.
- The Reconstruction Authority has been made operational to oversee the fast track implementation of the post-earthquake reconstruction project

(iv) **Improved Aid Management as per the Development Cooperation Policy**

- A threshold has been proposed for mobilizing foreign grants and loans.
- Preference will be given to programme-based aid through the government's budget and treasury system as opposed to fragmented and stand-alone projects.
- The focus is on infrastructure development as articulated in periodic plans.
- Compulsory and regular reporting by DPs and INGOs on their disbursements to the Aid Management Platform is required for greater transparency and accountability.
- National consultants and experts rather than international consultants will be used as long as they are locally available.
- The use of vehicles, consultants, foreign trips and other similar activities related to capacity development will be rationalized.
- More clarity on the roles and responsibilities of the government and its development partners articulated in DCP.

(v) **Post-earthquake Reconstruction Challenges**

- The devastating earthquakes of April and May 2015 were a major setback for the Nepalese economy, which was already under stress due to the prolonged political transition. The damage caused by the earthquake is estimated to have reduced the economic growth rate from 5 percent in FY2014/15 to an estimated 3.05 in FY2015/16.

- The government has carried out a Post Disaster Needs Assessment (PDNA) to estimate the extent of losses and reconstruction needs. The PDNA estimates about $7 billion loss. On June 25, 2015, the government hosted the International Conference on Nepal's Reconstruction (ICNR), two months after the first major earthquake on April 25th. Conference donors pledged around $4 billion of assistance. The challenge now lies in the government quickly receiving the pledged funds and then implementing reconstruction projects and programmes. Addressing the issues raised by the NPPR thematic and sectoral issues will be crucial for the effective use of the pledged funds.

CHAPTER II

NATIONAL AND SECTORAL PRIORITIES

Strategic priorities of the Thirteenth Plan

The current Thirteenth Plan (2013/14- 2015/16) has a vision to graduate Nepal from the present least-developed status to a developing country status by 2022. The objective and the strategic priorities of the plan are oriented towards realizing this graduation goal. The plan also aims to bring positive changes in the living standards of the general public by reducing economic and human poverty. The strategies of the plan include:

(i) achieving inclusive, broad-based and sustainable economic growth;

(ii) developing physical infrastructure;

(iii) enhancing access to quality social services;

(iv) enhancing good governance;

(v) empowering socially and economically targeted groups and regions; and

(vi) implementing development programmes which support climate change adaptation.

The plan has targeted the following macro level results (see Table 1.1).

Table 1.1: Thirteenth Plan's Macro Targets

Indicators	Baseline 2012/13	Target 2015/16
Population below national poverty line (%)	23.8	18
Annual average economic growth rate (%)	3.6	6.0
Annual average agricultural growth rate (%)	1.3	4.5
Annual average non-agricultural sector growth rate (%)	5.0	6.7
Annual average growth rate in employment (%)	2.9	3.2

In order to realize these targets, priority sectors in the plan include developing hydro-power and other energy sources; increasing the productivity, diversification and commercialization of the agricultural sector; developing roads and other physical infrastructure; and developing the tourism, industrial and trade sectors. Promoting basic education, health, drinking water and sanitation, protecting natural resources and the environment and promoting good governance are also priorities.

The National Planning Commission, with inputs from sectoral ministries, has developed a results framework for the Thirteenth Plan. The framework defines sectoral outputs, outcomes and impact indicators, their annual targets and sources of information to track them periodically. These annual targets have served as an important basis to establish linkages between annual programmes and the periodic plan. In addition, annual targets have been useful for annual review of achievements in the sector. The framework has also indicated the potential contribution of development projects to realizing sectoral outputs and outcomes. Table 2.1 summarizes the key sectoral result targets of the plan. Details of the indicators of the selected five sectors along with their baselines and targets are included in the sectoral write-ups in Annex 3.

Table 2.1: Sectoral Result Targets in the Thirteenth Plan

Indicators	Baseline 2012/13	Target 2015/16
Life expectancy at birth (in years)	69.1	71.0
Maternal mortality rate (per100,000)	229.0	134.0
Population with access to drinking water (%)	85.0	96.25
Population with access to sanitation (%)	62.0	90.5
Net enrolment rate at the primary level (Grade 1-5) (%)	95.3	100.0
Density of mobile phones and telephones(per100 people)	71.5	100
Installed capacity of electricity generation (in MW)	758.0	1426
Population with access to electricity (%)	67.3	87.0
Irrigation (in 1000 hectares)	13,11	14,87
Forest coverage area (%)	39.6	40.0
Total length of road transport (km)	25,133	28,133
Number of district headquarters with road connectivity	73.0	75.0

The results framework indicates the contribution of projects to sectoral results and ultimately to macro-level results including GDP growth rates and below poverty line figures. Efforts have also been made to establish links between annual programmes and this framework. Commitment at the policy-making level is essential to institutionalizing the results-based approach at the macro-national level as it is a change management process. Equally important is the role of champions and capable officers to operationalize the results agenda in planning processes. A systematic and comprehensive capacity building programme is to be implemented with support from development partners to help fill capacity gaps for institutionalizing a results-based approach in development processes.

Review of achievements and challenges

Nepal has achieved most of the Millennium Development Goals (MDGs). Between 1990 and 2015 the incidence of poverty reduced by almost half[2]; infant, child and maternal mortality rates have sharply declined and life expectancy increased by 16 years. The international community recognizes these impressive achievements.

Moreover, structural improvements have been experienced in the economy due to the increased contribution of the non-agricultural sector.

Recent years have seen improvements in public expenditure management. The Public Expenditure and Financial Accountability (PEFA) assessment carried out in 2014 and completed in 2015, (which measured according to an international performance measurement framework 28 PFM indicators and 3 indicators with regards donor practices), showed improved performance compared to 2007.

Despite these achievements, there are still complex challenges in the Nepalese economy. One of the main challenges is the huge investments needed to increase the annual economic growth rate to the 8 percent that is needed to graduate the country to developing country status by 2022. Other major challenges are to create massive employment and income generating opportunities, increase agricultural productivity and stimulate the economy. Further, the capacity to absorb both internal and external resources is another prime challenges.

Historically unresolved obstacles that lead to weak implementation of and low capital expenditure in development projects include barriers to land acquisition, the consistent supply of construction materials, the timely completion of environmental impact assessments, weak procurement and public financial management, the retention of key human resources and the timely clearance of project sites.

Learning from the experiences of other earthquake stricken countries, another challenge is in the timely reconstruction of villages, cities, settlements, ancient heritage and infrastructure.

The Impact of the 2015 Earthquakes

The catastrophic earthquakes of 25 April and 12 May 2015 followed by the many aftershocks took the lives of about 9,000 people and injured 22,300 others. The destruction was widespread across residential and government buildings, heritage sites, schools and health posts, rural roads, bridges, water supply systems, trekking routes, hydropower plants and sports facilities. Rural areas in the central and western regions were particularly badly affected and further isolated due to road damage and obstructions. In the worst hit areas, entire settlements, including popular tourist destinations, were swept away by landslides and avalanches triggered by the earthquakes. The disadvantaged social groups in the poorer districts suffered the largest damage and losses. Preliminary assessments of incidence and impact

[2] However, the earthquakes of April and May 2015 are believed to have pushed an additional 2.5 to 3.5 percent of the population under the poverty line, which translates into at least 700,000 additional poor people.

suggests that the earthquakes have disproportionately affected the poorer rural locations relative to the urban and less poor areas.

The post disaster needs assessment (PDNA), which was led by the National Planning Commission with the active participation of line ministries and DPs, estimated that the total amount of damage and losses caused by the earthquakes amounts to NPR 706 billion or US$7 billion. Of this, NPR 517 billion (or 76 percent of total effects) represents the value of destroyed physical assets, and NPR 189 billion (24 percent of total effects) reflects the related losses and higher costs of production of goods and services. The earthquakes are estimated to have caused damages and losses (changes in flows) equivalent to about one third of the GDP of FY2013/14. Moreover, the earthquakes are estimated to have suppressed the earlier projection of 4.6 percent economic growth in 2014/15 by over 1.5 points. Compared to FY2013/14 when growth exceeded 5 percent, the lost momentum through foregone production in just less than three months (late April to mid-July 2015), valued at NPR 52 billion, is a major setback. The PDNA estimates the losses will continue to accumulate during 2015/16 and beyond.

Priorities of FY2015/16 budget

The government is making efforts to minimize the negative effects of the earthquakes on the economy. It plans to promote higher rates of sustainable economic growth through investment growth, employment generation, entrepreneurship development and income generation. In this context, the budget for fiscal year 2015/16 set the following objectives:

- Achieve higher economic growth by revitalizing the economy through continuation of economic reform programmes, creation of an investment-friendly environment, and the expansion of economic activities at the lowest level.

- Concentrate national resources on rehabilitation and reconstruction to restore and strengthen citizen's trust towards the state, that may have declined due to the sudden economic slowdown caused by the impact of the earthquakes,

- Qualitatively improve the livelihood of the general public and build the physical infrastructure as a national campaign.

- Improve governance for effective budget implementation and service delivery together with enhancement of the Government's institutional capacity.

- Achieve balanced development and reduce poverty by ensuring social security.

Top priority is accorded to relief, rehabilitation and reconstruction in the current year's budget with the understanding that reconstruction activities can be used to improve construction practices. The Government is moving ahead with a strong commitment to complete reconstruction work within the next five years. Integrated and organized settlements will be developed by transferring those areas that were geologically weakened by the earthquakes and where there is no possibility of resettlement. Historical settlements carrying original cultures, major tourist attractions and traditional settlements will be reconstructed in their original shape in consultation with and led by local communities. Measures will also be taken to revive Nepal as an attractive destination by restoring special features of Nepali tourism. The government has urged the private sector, cooperatives, NGOs, civil society, international community and the general public to engage in the reconstruction work.

The government aims to complete the large on-going infrastructure projects on time and in quality for which related agencies, authorities and contractors will be made responsible. The efficiency of expenditure will be increased by effective expenditure transparency and accountability, accounting, expenditure reporting, internal control, monitoring and auditing.

In order to make the public administration more responsible and accountable, attention will be given to the implementation of existing codes of conduct and legal provisions.

Sectoral priorities in FY2015/16

The priorities of the five selected sectors for 2015/16 are highlighted in the following sections:

1. Agriculture

The priorities in the agriculture sector for 2015/16 are as follows:

(i) Increasing the production and productivity of key crops, particularly rice, pulses and oil seeds as well as to contribute to import substitution.

(ii) Providing technical and institutional support to add value and find fair price markets for tea, cardamom, ginger and coffee.

(iii) Ensuring that agricultural programmes consider both food and nutrition security by means of promoting minor but nutritious crops such as buckwheat, beans, millet and soybean, accompanied by behavior change messages.

(iv) Identifying opportunities to add value to products as they move along the value chain from production to consumption, which also includes the construction of cold storage facilities, community warehouses for storing cereals and pulses, seed banks, the modernization of resource centers, and the establishment of processing centers and agro-marts.

(v) The conservation of agriculture biodiversity to prevent genetic erosion and maintain the gene pool through ex-situ and in-situ conservation programmes.

To promote good governance in the sector, the focus will be on formulating and reforming policies, rules, regulations and procedures. In addition, the delivery of agricultural services will be brought closer to farmers by making available at least one agricultural technician per village development committee (VDC) to strengthen their technical skills. Similarly, mechanization will be promoted, where possible, to address the problem of declining agricultural labour and to improve efficiency. Priority will also be given to innovative agricultural programmes that will attract and retain youth, and supporting returnee migrant workers who engage in agriculture. Finally, a human resource development plan will be adopted to ensure that technical services provided match the emerging demands of farmers.

2. Education

The first and foremost priority in the education sector is to achieve the unfinished agenda of the School Sector Reform Plan/Program (SSRP) within its last year of implementation and to initiate the implementation of the post-disaster recovery plan, thereby developing a solid evidence-based foundation for the School Sector Development Plan (SSDP), the follow-up plan which will commence in FY 2016/17. Some unfinished priority areas envisioned in the SSRP will be to further strengthen the quality and access of education at all levels.

Priority will also be accorded to rebuilding, repairing and retrofitting schools that fulfil the commitment to providing priority minimum enabling conditions (PMECs) and to adhering to the post disaster building codes. The provision of a sufficient number of temporary learning centers (TLCs) in disaster-affected districts will ensure access to education during the reconstruction period. This will remain a short term priority. As part of the quality and learning environment through PMECs, activities to strengthen the inclusive quality of teaching and learning will be undertaken. The implementation of the Consolidated Equity Strategy is also set to consolidate and target need-based strategies to accelerate the enrolment and retention of the remaining out-of-school children based on evidence of barriers and needs. The improvement of learning outcomes will also remain a primary focus. Finally, an increased focus will be on secondary education in establishing minimum enabling conditions and strengthening access and completion, including further scaling-up the secondary technical stream and focusing on skill development within education.

3. Energy

The focus of the energy sector is on generating energy, the construction of transmission lines and improving the distribution system. The following is planned for the coming year:

- In FY2015/16, GoN plans to start the construction of a 140 MW storage hydropower plant in Tanahun.

- In 2016, the government plans to complete the construction of the 60 MW Upper Trishuli 3A, 30 MW Chameliya, and 14 MW Kulekhani-III hydropower projects.

- The construction of a few ongoing projects developed by the subsidiary company of NEA including the 456 MW Upper Tamakoshi hydropower project should be ready for power generation by 2016.

- The initial phase of construction work of the Budhigandaki storage hydropower project (1,200 MW) and the detailed design of the Nalsing Gadh storage hydropower project (400 MW) will be initiated.

- The implementation of the 25 MW Grid connected solar project will be started.

- The required preparatory works for the commencement of the implementation of the binational Pancheswor multipurpose project should be accomplished very soon.

The construction of the first 400 kV Dhalkebar-Muzaffarpur inter-country transmission line should be completed in 2015. To import additional power from India during the wet season, there is a plan to build two 132 kV inter-country transmission line projects — the Parwanipur-Raxaul and the Katiya-Kushaha lines. The construction of the Kabeli, Solu Koshi, Kalingandaki and Marsyangdi transmission corridors are also a priority to connect electricity generated from upcoming hydropower plants to the national grid. GoN also plans to build transmission lines through the build and transfer method including the private sector under the National Transmission Grid Company. Community based micro-hydro plants and solar energy systems remain a priority.

GoN plans to establish an Electricity Trading Company for domestic and international electricity trade. The import and consumption of less electricity-consuming instruments will be promoted for economy in consumption of electricity. The provision of purchasing excess electricity produced by solar panels on the roofs of urban houses by fixing net meters and connecting these supplies to the national electricity grid is also envisaged. NEA's financial position will be strengthened as these projects are developed.

4. Local Governance

Realizing the importance of local road access in socioeconomic development, investment in local roads and culverts will be a top priority of the local governance sector in FY2015/16. In addition, priority will be accorded to building suspension bridges, which are instrumental in improving access to local services and promoting market linkages for local (agricultural) products. It is planned to replace all *tuin* river crossings and other conventional and risky means of transport over rivers with suspension bridges as soon as possible. The motto to fulfil this commitment is "one suspension bridge a day".

Other key priorities are to:

(i) build the institutional capacity of the 133 new municipalities;

(ii) pilot and scale up social security payments through formal banking systems;

(iii) facilitate the holding of elections to local bodies, which is a key measure to improving local governance; and

(iv) mitigate fiduciary risk in local bodies by introducing VDC accounting software in about 1000 VDCs, introduce e-bidding for procurement, develop detailed procurement plans for local bodies and implement the fiduciary risk reduction action plan (FRRAP).

The reconstruction and rehabilitation of local infrastructure damaged by the earthquakes will be the priority of the government. Damaged and destroyed public office buildings of local bodies will be rebuilt and temporary arrangements made. The support of DPs will be mobilized for the highly affected districts through a cluster-based approach. Uniform procedures and institutional mechanisms will be developed to reduce transaction costs. The reconstruction work will be guided by the 'build back better' principle. The government will focus on building disaster resilient public infrastructures.

5. Transport

Priorities in the roads sector in fiscal year 2015/16 are

(i) Build the Kathmandu-Terai fast-track highway.

(ii) Conduct feasibility of metro and monorail systems.

(iii) Build a postal highway (Hulaki road).

(iv) Complete the Midhills Highway within the next three years,

(v) Start upgrading the Surya Binayak–Dhulikhel highway.

(vi) Complete 170 on-going bridges and 1942 km of track opening including SRN and local roads.

(vii) Acquire land and build the Bardibas-Simara Sector of the proposed East-West Railway.

To expedite the implementation of road sector projects, the present legal system will be improved to address issues such as the regular supply of construction materials, the timely completion of environmental impact assessments and minimizing the delay clearing trees along the track of the road projects. In addition, the Foreign Investment Technology Transfer Act (FITTA) will be revised and an Investment Forum will be organized. Similarly, the efficiency of expenditure will be increased by promoting the transparency of expenditure and accountability, accounting, expenditure reporting, internal controls, monitoring and auditing. Ground work will be carried out for setting up an Infrastructure Development Bank.

Current M&E System of the Government of Nepal and Monitoring the NPPR Action Plan

The National Monitoring and Evaluation Guidelines, 2013 are the main framework that defines result indicators along with sources of information, reporting processes, review mechanisms and institutional frameworks in the government. The National Development Action Committee (NDAC), chaired by the Rt. Hon'ble Prime Minister, is the apex body for reviewing progress and resolving inter-ministerial and policy related problems that development projects face during their implementation. The NDAC receives its agenda from the ministerial development action committees (MDACs) of each development-related ministry, chaired by the concerned minister and represented by NPC, MOF and MOGA and higher level officials of the ministries. MDACs discuss and try to resolve problems reported to them from projects. Problems that are inter-ministerial are submitted to the NDAC through NPC for resolution. Both the NDAC and MDACs which meet in each trimester, have started discussions on the results achieved during the period with the budget actually spent in the sectoral intervention. The results framework of the thirteenth plan, M&E guidelines, NPC annual programme document and reporting formats (especially NPC's M&E formats 1 and 2) provide the basis for the gradual internalization of results-based M&E processes at the project, sectoral and national levels.

With regards to the monitoring of the NPPR action plan, NPC will advise the ministries concerned to review progress in their MDAC meetings on a trimester basis and then either resolve issues there or submit any inter-ministerial and policy-related issues to the NDAC. The national M&E guidelines recognize the NPPR process and such reviews will help to internalize NPPR within the existing GoN M&E system. In addition, since there is no access for DPs to the MDACs and NDACs, the trimester review processes in the MOF will be continued where the representatives of NPC and selected sectoral ministries will brief the development partners on the progress of the NPPR action plan along with providing information on the activities of the NDAC and MDACs. As such, there will be a close connection between the results-based NPPR process and the efforts of internalizing such approaches in the government's overall planning and M&E system.

CHAPTER III

BRIEF PORTFOLIO ANALYSIS

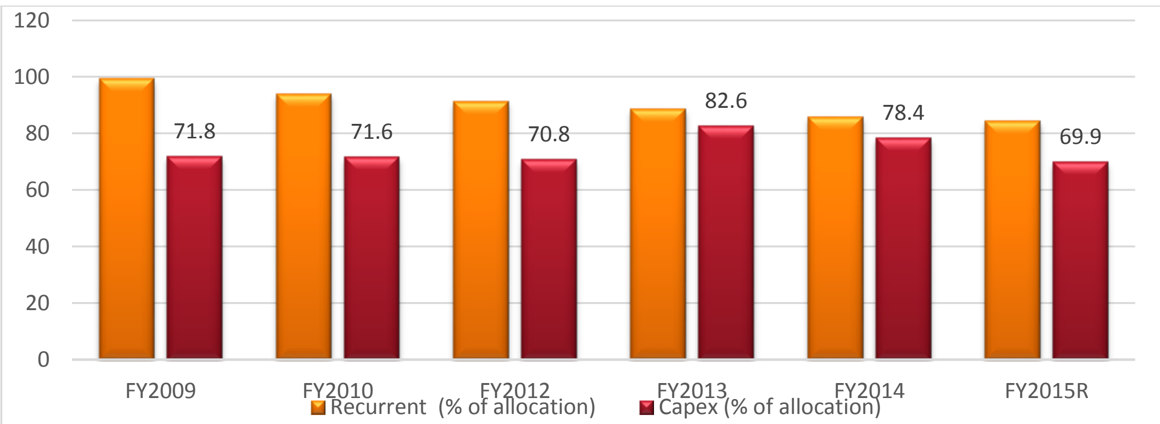
Background

The earthquakes of 25 April and 12 May 2015 severely impacted the overall performance of the portfolio. They also brought huge challenges for restoring and rebuilding back the damaged infrastructure under the sectoral ministries which were already facing challenges in their capacity for project implementation and technical oversight. Due to the damage and loss, the GDP growth projection for the country is expected to be around 3.05% in FY2015/16 compared to the pre–earthquake estimated 5%.

Capital Expenditure and Portfolio Performance

The government's estimated capital spending in FY2014/15 was only 69.9% of the approved budget, lower than the 78.4% achieved in FY2013/14 (Figure 3.1). On the other hand, the government has increased the planned capital spending in FY2015/16 by 141% over the FY2014/15 revised estimate (which is equivalent to 8.6% of GDP compared with 4.1% of GDP in FY 2014/15).[3] The post-earthquake reconstruction needs account for the larger budget. The government has announced FY2015/16 as the 'Year of Implementation'. It will however be a major challenge to fully spend the planned capital budget. Capital spending continued to be sluggish, reaching just 3.8% of GDP against 5.5% of GDP planned for FY2014/15. The persistent weaknesses in budget execution processes, lack of project readiness, and procurement-related delays explain the government's limited absorptive capacity. The damage caused by the earthquake in the last quarter of FY2014/15 significantly affected public expenditure.

Figure 3.1: Absorption Rate (% Planned Expenditure)



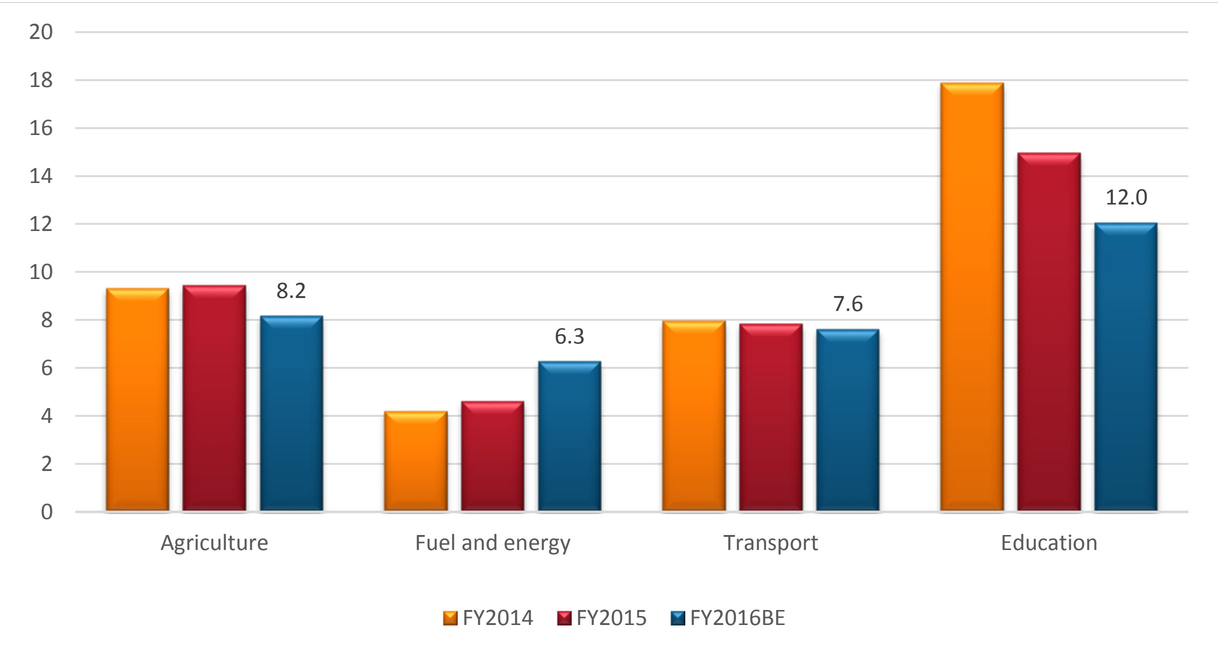
[3] The total expenditure outlay for FY 2015/16 is NPR 819 billion (an estimated 33.8% of GDP), which is 56.7% higher than the revised total expenditure for FY 2014/15. The FY 2015/16 outlay comprises NPR 484 billion for recurrent expenditure (59.1% of the total outlay), NPR 208.9 billion for capital expenditures (25.5%), and NPR 126.3 billion for financial provision (15.4%).

The government's budget earmarks:

- About 8.2% for the agriculture sector
- About 12.0% of planned expenditure to the education sector — lower than the 15.0% in FY 2014/15;[4]
- About 6.3% for the energy sector — which is higher than FY 2014/15 and is allocated mostly for building transmission lines, hydropower generation and project preparation;
- About23.8% for local development executed by the Ministry of Federal Affairs and Local Development; and
- About7.6% for the transport sector. (Figure 3.2)

About NPR 91 billion is set aside for post-disaster reconstruction activities out of the NPR 208.9 billion set aside for total capital expenditure. Civil works account for about 65% of total planned capital spending.

Figure 3.2: Key sector-wise expenditure – Comparison of FY2013/14, FY2014/15 and FY2015/16 (% of total budget)



Source: FY 2015/16 Budget Speech.

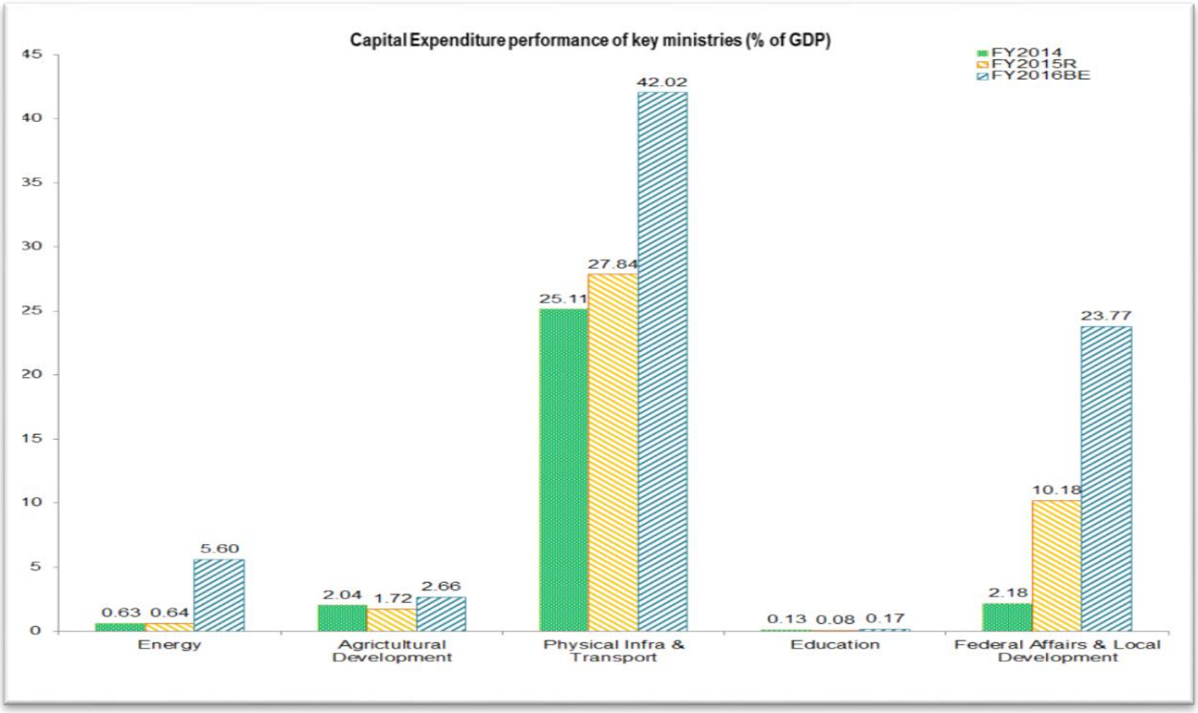
[4] In absolute terms, planned spending on the education sector has increased by $204 million, reaching $986 million in FY 2015/16, an increase of 26.2%.

The budget will be spent through the line ministries following the normal spending processes, meaning that the pace of spending will be affected by the following persistent factors:

- lack of project readiness, in terms of timely preparatory activities such as land acquisition, establishing project management offices, and preparing procurement plans;
- delays in procurement processes;
- overall weak project planning, implementation, and contract management capacity; and
- slow decision-making arising from apprehension over the autonomous anti-corruption body's investigation on the increasing number of complaints.

Although FY2015/16 is the 'Budget Implementation Year', the budget does not provide specifics on ways and means of improving implementation. However, some measures such as performance-based retention of key project staff, waiving requirements for project approval from the National Planning Commission and the Ministry of Finance after the introduction of the budget, and multi-year contracting of key road projects may ease the bottlenecks to an extent. Figure 3.3 shows that the Ministry of Physical Infrastructure and Transport and the Ministry of Federal Affairs and Local Development are the two key ministries executing the bulk of the capital budget of Government.

Figure 3.3: Capital Budget by Ministry (NPR billion)



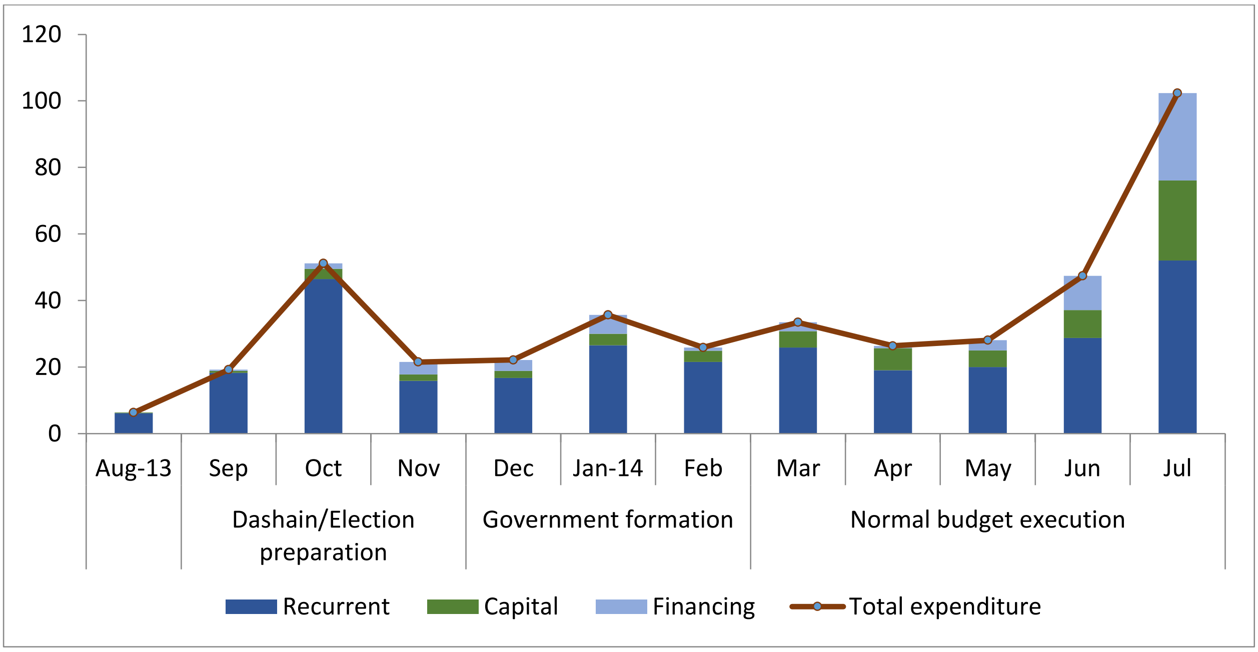
Source: FY 2015/16 Budget Speech.

A major push on project implementation including on project readiness, project administration, and further efficiency gains on budget approval and execution processes are needed to accelerate capital spending. The quality of spending — a key determinant of the sustainability of assets — is also a key concern as there is a continuing problem of the leaving of many expenditures towards the end of each fiscal year. Normally, about 60% of capital budget is spent in the last three months of each fiscal year.

Though the budget speech includes, amongst others, a performance-based provision whereby project directors, account chiefs and key staff are not transferred during the project period if they achieve more than 80% of the targeted spending, its implementation is uncertain. Furthermore, projects that did not start work until the second quarter of FY 2015/16 or achieve less than 50% progress against the target will see their budgets surrendered to MOF for reallocation to performing projects. This may partly address concerns regarding the frequent turnover of project staff and the delayed awarding of contract, but stronger enforcement is needed to realize tangible implementation progress.

As in previous years, FY2014/15 saw leaving much of the spending, especially capital spending, towards the last quarter. Almost a fourth of actual total public expenditure was done in the last month and 42.4% in the last three months. Of actual capital spending, 37.8% was spent in the last month and 58.8% in the last three months (Figure 3.4). This pattern is similar to previous years, and tends to be irrespective of the timeliness of the issuance of the budget. It raises concerns not only about absorptive capacity, but also structural issues concerning budget execution.

Figure 3.4: Monthly Spending in FY 2013/14 (NPR billion)



Source: FCGO and others

Portfolio Performance Related Issues in Key Five Sectors

This section provides an overview of the status of sectoral portfolios, performance related issues affecting performance and an assessment of key projects.

A. Agriculture Sector

The agriculture sector has made the following notable progress in the last year:

- The Cabinet approved the Agriculture Development Strategy (ADS) to guide agriculture development in Nepal for the next 20 years.
- The Multi-Sector Nutrition Plan and Food and Nutrition action plan were developed to provide direction for achieving nutritional outcomes.
- The Zero Hunger Challenge Initiatives, 2025 to ensure that every man, woman and child enjoy their rights to adequate food initiated.

The transformation of agriculture into modern, productive, and competitive enterprises, while ensuring food security and the livelihoods of the rural poor has been prioritized by many DPs, including ADB, the World Bank, IFAD, UNDP, USAID, Switzerland, EU, Germany, Norway, Denmark and JICA. The portfolio performance for the sector is rated as moderately satisfactory or satisfactory.

The implementation of most agriculture sector projects has been challenging due to difficult access to implementation sites, which are often scattered across remote areas; limited implementation capacity; and the need for intensive support for social mobilization, capacity building, and participatory implementation with large numbers of stakeholders.

The ADB-assisted High Mountain Agribusiness, Livelihood Project, Raising the Incomes of Small and Marginal Farmers Project, and Community Irrigation Project and the World Bank's Agriculture Commercialization and Trade (PACT) are all are rated on track albeit that initial implementation has often been delayed. Similarly, the recently completed ADB-financed Commercial Agriculture Development Project (CADP) has been rated successful. These four projects aim at promoting agribusiness following the value chain approach led by the private sector. The best practices and lessons learned under these projects are likely to be replicated under the proposed Agriculture Sector Development Program, which is led by ADB, pipelined for 2016, to be financed my multiple donors including ADB.

Performance of key projects in the Agriculture sector

1) Agriculture and Food Security Project (AFSP)

AFSP is funded under the Global Agriculture Food Security Program, a Trust Fund managed by the World Bank. The US$ 47.5 million project is being implemented in 19 hill and mountain districts in west and Far West Nepal. The purpose is to enhance food and nutritional security in targeted communities of Nepal. AFSP is an innovative project as: it has a health component built into it to address both food and nutrition security and it aims to bring research and extension closer together. Research agendas and topics are based on extensive consultations between researchers (Nepal Agriculture Research Council), district agriculture development offices and farmers. The project's considerable achievements have included:

- the release of eight promising crop varieties and six improved technologies for rice, wheat, maize, potato, lentil, soybean and buckwheat;
- the production of 8.3 metric tons of breeder seeds and 49.9 metric tons of source seeds;
- the importation of 129 improved goats from Australia and the USA for breed improvement;
- the establishment of 438 farmer field schools and the formation of 710 livestock farmer groups of which 91% are female; and
- the initiation of nutrition improvement programme through behaviour change communication and the establishment of nutrition-based vegetable gardens.

2) Project for Agriculture Commercialization and Trade (PACT)

PACT is arguably the largest project under the Ministry of Agricultural Development. The $60 million World Bank funded project is implemented across the country to promote rural agribusiness, to improve competitiveness of smallholder farmers and to support sanitary and phytosanitary facilities for food quality management and safety. The project has so far awarded 517 sub-projects amounting to NPR 1,495 million and established 77 collection centers, 44 store houses, 64 processing centers, 11 market sheds and 50 animal sheds and has distributed 50 milk machines, 14 tractors/power tillers, 173 pieces of farm equipment and 20 farm vehicles. Many of the sub-projects have been inspirational for agriculture commercialization and trade. Of the five farmers who received "President Awards" for outstanding performance in agriculture development this year, three are PACT supported farmers. PACT is one of the ministry's pioneer projects supporting smallholder farmers with matching grants. As a lesson learnt from its first three calls for proposals where standalone matching grants were provided, starting from the fourth call a value chain development approach was adopted where applicants for selected commodities received grants as consortiums. Two new windows have been introduced: Micro-grants to support commercialization and trade in some of the most rural districts of the country and small grants to promote integrated pest management in three highly commercialized districts in the central region. Despite its great successes PACT suffers from very low disbursement and weak contract management by the Project Management Team (PMT). This is compounded by delays at the Ministry of Agricultural Development in processing the clearances required for procurement processes.

3) High Mountain Agribusiness and Livelihood Improvement (HIMALI)

HIMALI is an ADB funded project implemented in 10 high mountain districts through the Ministry of Agricultural Development (MoAD). The $30.23 million project aims to enhance the livelihood of its targeted farmers through agribusiness development and agriculture commercialization. The project has awarded 335 agribusiness sub-projects, of which 72 have already started generating revenues. The project has considerably enhanced competitiveness in rainbow trout farming and livestock businesses, imported 30 improved yaks from Tibet and helped the establishment of the largest apple farm in Manang. It has assisted infrastructure improvements at district agriculture development offices, district livestock service offices and service centers in remote districts. However, many sub-projects suffered from the recent earthquakes, particularly in Dolakha, Rasuwa and Solukhumbu and these need additional efforts.

Conclusions

The lack of a sectoral approach and coordination issues among the multiple agencies in the sector pose difficulties in achieving common outcomes. The move to urban centres and away from rural districts of competent human resources remains a concern in this sector. An important lesson learned from the CADP suggests that the capacity of the executing agency, particularly on procurement and sub-project monitoring, should be objectively and well assessed during the project design phase.

B. Education Sector

Access to education has significantly increased at the primary level (net enrolment ratio, NER 96.2%), which has further contributed to basic (NER 87.6%) and secondary (NER 56.1%) levels. In addition to the Government achieving gender parity at all levels, disparities across districts and disadvantaged groups remain. However, resource limitations and the delay in legislation for restructuring the education system have hampered the implementation of strategies and improving the quality of school education. In Technical and Vocational Education and Training (TVET), more than 90,000 people graduate annually from various non-degree short-term and long-term degree courses (Technical School Leaving Certificate or TSLC and diploma), with a gradual increase in numbers over the years. Mechanisms have also been instituted for testing the skills of these graduates. However, the employability of TVET graduates remains low and there are challenges in responding to the market needs.

In higher education, total student enrolment increased from 173,546 in FY 2005/06 to 569,665 in FY 2012/13 representing an average annual growth rate of 14.7%. Of the total enrolment, approximately 40% are girls. The number of graduates increased from 25,900 in FY 2005/06 to 63,642 during the same period. The gross enrolment rate reached 17.1% in 2012/13, which is higher than most countries at comparable levels of economic development. Despite significant achievements over the past decade, weak relevance, low quality, internal inefficiency, inequity and inadequate financing continue to pose major challenges in higher education.

Table 3.1: Education Sector at a Glance

Sub-sector	No. of years	Share of total Education Budget	No. of Students	Type and No. of Institutions		
				Total	Public	Private
ECED/PPC	1	[a]	1,014,339	35,121	30,034[b]	5,087
School	12	82.0	7,488,248	34,335[c]	34,270	8,429
TVET	0.3–3	4.1	~90,000	421[d]	21	400
Higher	3–6	8.1	569,665	1,276	96	1,180[e]

[a] Early Childhood Education and Development)/ Pre-Primary Centers (ECED/PPC) budget is included in the school subsector.
[b] Includes school and community-based ECED centers.
[c] No. of schools are counted by levels therefore may not add up to total.
[d] Does not include many short-term training institutions registered with authorities other than the Council for Technical Education and Vocational training (CTEVT).
[e] Includes 429 community-run and 751 private campuses.

The majority of education sector assistance is provided to the government's School Sector Reform Program (SSRP) through the SWAp —with nine DPs as pooling partners. Key DPs include the World Bank, ADB, EU, Denmark, UN agencies, Norway, DFID, Australia, Finland, USAID, and JICA[5]. The major development partners supporting TVET include ADB, DFID, EU, Finland, KOICA, SDC, USAID and the World Bank with interagency coordination led by SDC. Major projects in TVET are ADB's Skills Development Program (SDP), SDC's Employment Fund and the World Bank's Enhanced Vocational Education and Training (EVENT).

The earthquakes of 25 April and 12 May 2015 destroyed or damaged about 7,000 schools and led to the complete closure of almost all schools and colleges in the highly affected districts for more than a month (26 April–30 May), and forced more than two million children and youth to stay out of education institutions for a significant period. Children from vulnerable groups are most at risk of remaining out of school. The post-disaster context has brought a need for the reconstruction of educational infrastructure on a large scale. The development partners ADB and JICA have responded with earthquake emergency assistance projects and Japan Fund for Poverty Reduction (JFPR) funded Disaster Risk Reduction and Livelihood Restoration for Earthquake Affected Communities under which affected schools will be rebuilt and upgraded in line with school reconstruction plans to disaster-resilient standards. However, at the same time, the limited institutional capacity and technical oversight of the implementing agency, the Department of Education is a concern. Strong capacity support will be required so that reconstruction takes place on time and as per approved design standards.

The education sector has reached a crucial juncture with (i) the completion of the seven year SSRP and (ii) the Education for All and Millennium Development Goals (EFA/MDGs) to be accomplished in FY2015/16. The simultaneous planning and implementation of the rehabilitation of the school infrastructure post-earthquake is a huge challenge for FY2015/16. The development of a new education sector plan (the School Sector Development Plan) should consolidate and embed the

[5] DFID and Denmark's support ended in 2014

accomplishments and achievements of the SSRP agenda and integrate the recovery plan for earthquake affected districts.

The promulgation of the amendment of the Education Act was envisioned as the major policy reform under SSRP, but this is yet to happen, thereby affecting the other envisioned reforms. It is therefore a priority to introduce the amended act in FY2015/16. Improvements in the overall governance and public financial management envisioned by SSRP are lagging behind. Challenges remain in the timely submission of implementation progress reports (that include financial monitoring reports), audit reports and improving the independent verification of flash data.

Performance of Key Projects and Programmes in the School Sector

1) School Sector Reform Plan

The School Sector Reform Plan (SSRP) is the seven-year (FY 2009/10–2015/16) strategic plan of the Government of Nepal. It was jointly appraised by the government and the development partners for a period of five years (FY 2009/10–2013/14), and has been implemented through a SWAp. The SSRP aims to

(i) expand access and equity;

(ii) improve quality and relevance; and

(iii) strengthen the institutional capacity of the entire school education system to improve system performance.

The pooling development partners include ADB, Australia, Denmark, EU, Finland, Japan, Norway, United Kingdom, United Nations Children's Fund (UNICEF), and the World Bank as well as the Global Partnership for Education (formerly the FTI)[6]. The non-pooling partners include Japan, UNESCO, UNICEF, the United States and the World Food Programme.

The Ministry of Education has accomplished the following under the SSRP:

(i) Implemented approved out of school children action plan.

(ii) Completed National Assessment of Student Achievements (NASA) for grades 3 and 5 and publicly disseminated a report; and approved a strategy and budgeted action plan to implement systemic reforms based on the analysis of NASA for grades 3, 5, and 8.

(iii) Allocated adequate funding in the Annual Strategic Implementation Plan (ASIP) and Annual Work Plan and Budget (AWPB) from FY2014/15 to implement the priority minimum enabling conditions (PMECs) in a further 20% of the basic education schools (BESs) that fail to meet at least three of the five PMECs,

(iv) Approved a budgeted comprehensive school safety action plan to scale up the activities related to improving safety in schools;

[6] DFID and Denmark's support ended in 2014 and JICA joined as pooling partner for the extension period.

(v) About 4,000 existing teachers in BESs have acquired the minimum academic qualifications set out in the SSRP Plan for BES teachers.

(vi) Implemented the comprehensive teacher management and development strategy in a phased manner.

Conclusions

The simultaneous planning and implementation of the rehabilitation of school infrastructure post-earthquake is a huge challenge in FY 2015/16. Challenges remain in the timely submission of implementation progress reports, audit reports and improving the independent verification of flash data and so on from the school sector. Resource limitations and delayed legislation for restructuring the school education system is hampering the implementation of school education reform strategies.

C. Energy Sector

Deferred investment in electricity infrastructure has caused severe power cuts compelling commercial and industrial entities to operate costly diesel generators. The import of petroleum products exceeds total exports and thereby is a major reason for the country's large trade deficit. In the absence of cost-based tariff adjustment for the last three years, the financial health of the Nepal Electricity Authority (NEA) has deteriorated making it unable to invest in infrastructure to meet the rising demand for electricity. The total losses of NEA at present have reached NPR 27 billion despite the government writing off NPR 27 billion in 2011.

Inadequate planning and investment in generation, transmission and distribution, delays in project implementation due to the lack of adequate legal and regulatory frameworks to resolve land acquisition, and rights of way and forest clearance processes have hampered the development of hydro resources, resulting in the severe underdevelopment of energy infrastructure.

The private sector is required to deal with several constraints for investing in hydropower. These include inconsistency in or absence of Power Purchase Agreement (PPA) policies, lack of comprehensive sector planning, NEA's credit and off-take risks, and difficulties in land acquisition and right-of-way. To address these issues, new acts need to be formulated and implemented particularly the Electricity Act and the Electricity Regulation Commission Act. Government programmes and budgets should provide more support to the private sector to further encourage their involvement in the energy sector.

In response to the chronic electricity shortages that have multiple and cascading impacts on economic growth, an increasing number of DPs are involved in the sector, including the World Bank, ADB, Germany, JICA, China, India, Korea, Norway, EIB/EU, DFID, and USAID. However, in most cases, their supported projects are not rated as satisfactory.

Major hindrances to the timely implementation of projects include NEA's centralized and prolonged procurement process, weak project management capacity, weak contractors, the absence of consultants and contractors to support project implementation, and land acquisition and forest clearance issues. These also lead to low disbursement and multiple project extensions.

According to information regarding ADB projects, as of 15 July 2015 ADB had six energy projects amounting to a portfolio of $449.5 million (23% of its active portfolio). The cumulative contract award of the sector is $94.1 million (21%) and cumulative disbursement is $49.5 (11%).

The sector has large uncommitted and undisbursed amounts mainly due to delays in (i) consultant selection, (ii) the awarding of contracts; and (iii) slow implementation progress. For ADB financed projects, the number of days taken from tender advertisement to contract award has increased to 304 days in 2014 from 213 days in 2013. To improve the procurement process, it is essential to delegate the central decision making authority from NEA Board to the management. This will be in line with the Public Procurement Act (PPA) and Public Procurement Regulations (PPR). The acquisition of land and delayed forestry clearance are affecting the performance of all Electricity Transmission projects. The Kali Gandaki Hydropower Project Rehabilitation Project, which is financed by the World Bank, is now a problem project. In terms of project implementation, insufficient project supervision remains an issue in NEA. NEA needs to consider engaging supervision consultants for effective project management.

Performance of Key Projects in the Energy Sector

Major hydropower and transmission line projects, including the following, have suffered severe delays in time and cost overruns:

1) Kulekhani-III

This is a 14 MW reservoir based cascade project funded by the Nepal Government and NEA, which was scheduled for completion by December 2011 and has faced major time and cost overruns. The original contract period has been extended by 44 months with a current revised completion date of 15 October 2015. By the end of July 2015, approximately 92% of civil works and only 45% of electro-mechanical works had been completed. Based on the progress, the project may be completed by March 2016.

2) Chameliya hydroelectric project

This is a 30 MW run-of the river project, jointly funded by Nepal Government, NEA and a Korean Government loan. It started in 2007 and was scheduled to be completed in 2011. The completion date was initially extended to March 2015. The project is now 94% complete and the completion date has been extended till March 2016.

3) Rahughat hydroelectric project:

This is a 32 MW run of the river project, funded by EXIM India. The civil works were contracted in November 2010 with a 42 month construction period. However, the contractor could not work due to lack of finances. Finally, the employer issued notice for termination on 18 June 2015. NEA has now decided to upgrade the capacity to 40 MW, to retender within 2015, and expects to award the contract by June 2016 with project completion by 2020.

4) Upper Trishuli 3A hydroelectric project:

This is a 60 MW run of the river project. Construction was initiated in FY 2010/11 financed by a loan from EXIM China with the contract signed in September 2011 for completion in April 2013. The project completion date has been extended by 26 months. About, 95% of headworks and about 35% of steel lining in the penstock have been completed to date. The earthquakes of April and May 2015 destroyed the access and project sites and works have yet to resume. The project is expected to be completed by 30 June 2016.

5) Upper Tamakoshi Hydropower Project:

This is a 456 MW run of the river project executed by Tamakoshi Hydropower Limited a subsidiary company of NEA and funded from domestic resources. The project has achieved overall physical progress of 76.2% with a financial outlay of 72.7% to the end of fiscal year 2014/15. As of August 2015, 85.3% of the headwork concrete has been completed. The recent earthquakes have triggered a possible delay of a year. The project may be completed by July 2017.

6) Khimti–Dhalkebar 220 kV Transmission Line:

This is a major transmission project funded by the World Bank that started in FY2004/05 aiming to construct a 220 kV double circuit line scheduled for completion in FY 2014/15. As of July 2015:

- 100% substation equipment supply has been completed;
- The bay extension work at Dhalkebar and Khimti has been completed and the stringing of the second circuit is in progress;
- 181 of the 188 tower foundations have been completed as has the erection of 178 towers; and
- the stringing of 65km out of 73 km of conductors has been completed.

7) Dhalkebar-Muzzaffarpur (D-M) 400 kV D/C Transmission Line:

The two SPV companies; the Nepal Power Transmission Company (NPTC) and the Nepal Cross Border Power Transmission Company (CPTC) are managing the construction of the 129 km long 400 kv double circuit Dhalkebar-Muzzaffarpur transmission line. The line comprised of 87 kilometers in India and 42.2 km in Nepal. On the Muzzaffarpur-Sursand (Indian side), 95% of the works on the 233 towers has been completed. On the Dhalkebar-Bhittamod section (Nepal side), 107 tower foundations and 104 towers have been erected of the total 112 towers. Of them, 32 km of stringing has been completed. The project is expected to be completed by September 2015.

As the new interconnecting substation at Dhalkebar will not be ready by 2015, it is planned to be operated at 132 kV initially for a short period connected to the old Dhalkebar substation. This line will help NEA import an additional at least 150 MW from India and to export surplus power to India in the near future.

Conclusions

The energy sector projects discussed above have suffered time and cost overruns. Slow project implementation is mostly due to NEA's centralized and prolonged procurement processes, to ghost contractors leaving work to be executed by inexperienced and technically and financially weak local contractors, low project readiness at project approval, weak project management capacity of NEA, the absence of consultants and contractors to support project implementation, and issues with land acquisition and forest clearance. This has all led to low disbursement and multiple project extensions. An inter-ministerial coordination committee should be formed at the joint Secretary level to facilitate land acquisition, right of way, resettlement and forest clearance.

D. Local Governance Sector

Projects involving local bodies and community mobilization have been greatly affected by the absence of local elected representatives. Despite the administrative mechanism being in place, the absence of elected representatives for almost a decade and a half has crippled the effectiveness of local governance. Even though the government has been managing overall administrative affairs for the day-to-day operation of local bodies, these bodies have not been fully functional in the absence of elected representatives. This has weakened the accountability of local governments. Similarly, enhancing the institutional capacity of local bodies has become a major challenge for local governance.

Key operations in the sector from DPs include rural infrastructure (including rural roads, water supplies and sanitation), and the Local Governance and Community Development Programme (LGCDP) and associated programmes. Major DPs active in the sector include ADB, World Bank, DFID, Finland, Switzerland, UNDP, Denmark, Norway, and Japan. The portfolio performance of this sector's projects is rated moderately satisfactory to satisfactory.

Performance of key projects in Local Governance sector

1) Local Governance and Community Development Programme (LGCDP)

The Local Governance and Community Development Programme (LGCDP) was designed and implemented to reduce poverty through effective service delivery from accountable local governments and community development through social mobilization. The programme supports local governance in setting policies and practices, and building institutional capabilities and accountability.

The LGCDP supports community development through community awareness centers (CACs) that mobilize the most deprived households in the most deprived parts of VDCs. Most deprived communities, who are identified through wellbeing ranking, are organized in to CACs. Local service providers provide training, orientation and support to the CACs on human rights, access to local services and responsibilities. CACs focus on the improved livelihoods of women and disadvantaged groups. There is a close link between CACs and ward citizen forums.

The first phase started in 2008 and ended in 2013. Phase II started on 16 July 2013 and runs to 15 July 2017. The ADB, European Union, DFID, Government of Denmark, GIZ, JICA, Government of Norway, SDC, USAID, and UNCDF, UNICEF, UNDP, UNFPA, UN Women and UNV support the programme. The total planned budget for LGCDP-II is $1,362 million. The Nepal Government will fund $1,126 million of this and DPs $236 million as part of a sector-wide approach (SWAp) programme.

Conclusions

Supporting the local development funding mechanisms through LGCDP, improving local PFM and oversight functions in the absence of elected body remain critical challenges. The Strengthening Public Management Program, which is co-financed by ADB, DFID, and EU, was initiated in 2013. While implementation has been initiated, there is a need to (i) strengthen the leadership and Government ownership by integrating the programme under the purview of the PFM Steering Committee, and (ii) ensuring the deployment of sufficiently qualified accountants and account assistants.

E. Transport Sector

Enhancing the connectivity of the road transport network has been prioritized by several DPs including the World Bank, ADB, JICA, Switzerland, and DFID. The portfolio performance of this sector’s projects is rated moderately satisfactory to satisfactory by DPs. As of 15 July 2015, for ADB funded nine transport projects, which are worth $369.7 million (19% of ADB’s active portfolio), had awarded contracts worth $278.3 million (75%) and disbursed $164.7 million (45%). The number of days from tender advertisement to contract award for ADB funded projects increased from 201 days in 2013 to 282 days in 2014, due to a high turn-over of key staff and also due to investigation of oversight agency like CIAA in some cases. The implementation of two flagship ADB funded projects — South Asia Sub-regional Economic Cooperation (SASEC) Roads Connectivity Project and Kathmandu Sustainable Urban Transport Project (KSUTP), has been unsatisfactory due to the suboptimal performance of contractors, weak project management capacity and weak supervision by consultants. In particular, a plan to modernize the public transport system has made little or no progress in KSUTP. The Department of Transport Management’s (DOTM) proactive role on the public transport reform process and restructuring of transport industry in Kathmandu is essential. The public transport reform process has not progressed in the absence of responsible Project Implementation Unit with sufficient staff under DOTM.

Overall, the collective ownership required to expedite and achieve the intended project objectives of KSUTP is lacking. This is also reflected in the very frequent turnover of Project Directors, who have changed three times over the past six months.

The projects involving local bodies and community mobilization have been affected by the absence of locally elected representatives. During implementation, these projects have further suffered due to delayed decisions on land acquisition affecting the timely implementation of resettlement plans thus leading to the delayed disbursement of funds. Timely procurement and transparency continues to be a major issue affecting timely project delivery. The Commission for Investigation of Abuse of Authority's (CIAA) pro-active monitoring has also delayed decision making, especially related to procurement.

Performance of Key Projects in Transport (Road) Sector

1) Postal Highway Project

The upgrading of the traditional earthen track postal road that links 20 Terai districts parallel to the East–West Highway near to the Indian border was conceptualized in the government's 20 year Master Plan 2002. The Government of Nepal signed a Memorandum of Understanding (MoU) with the Government of India on 27 June 2006 to prepare the detailed project reports (DPRs). Another MoU was signed between the two governments on 15 January 2010 for cooperation in the "Strengthening of Road Infrastructure in the Terai area of Nepal". The total length of the project is 1,792 km. The east–west road will be 1,042 km long. The total length of projected North South feeder roads is 817 km. Until now 45.6 km of road has been blacktopped and 25 km graveled. More than 150 bridges have been identified for construction of which 45 have been constructed, 58 are under construction and the rest are at the design stage.

The upgrading works are planned in two phases. In the first phase, two postal roads and seventeen feeder roads will be upgraded with a total of 607 km of roads to be completed. However, among the six contract packages awarded to Indian contractors for this work only package 1 (Lamki-Tikapur & Sati Bhajani–Dhangadi) has gone ahead while the other five packages (2, 3, 4, 5 and 6) have been terminated due to non-performance by contractors. Tender notices for upgrading twelve roads under the first phase have been published but the budget modality for the Indian grants is not clear. Similarly, roads and bridges that lie in Chitwan National Park have faced uncertainties due to non-approval by the park authority. The DPR preparation of the second phase roads has not yet started. Low funds for compensating affected home owners in urban areas and the lack of adequate manpower (engineers and sub-engineers) are major hurdles. The government has set aside NPR 3.19 billion for 2015/16. This project is targeted to complete within the period of five years starting from the current fiscal year.

2) SASEC Road Connectivity Project

This ADB-funded project aims to improve connectivity within Nepal and between Nepal and its neighbours. The main investment is an alternative route in Sunsari and Saptari districts. This will create year-round passable conditions along the East-West Highway (EWH), especially across the Koshi River. The repair of three feeder roads in the hill areas (Ramechhap, Bhojpur and Khotang) and one in the Terai (Jhapa) will improve connectivity between villages along this road system and provide better access to basic services. The project will improve the transport system in the eastern part of Nepal by upgrading 187 km of the Strategic Roads Network (SRN).

The project has five national competitive bidding (NCB) and two international competitive bidding (ICB) packages. The work progress for the five NCB packages is very slow (physical progress varied from 3.5-9.45% after more than 12 months) and the performance of all five contractors has been unsatisfactory. There is a risk that the contractors may not be able to complete the work within the contract closing dates. The five NCB contractors were not able to fully mobilize their equipment and key professionals. Poor contractor performance, weak planning, and problems in land acquisition and utilities shifting have been the major factors causing the delays. The government may consider terminating these contracts if there are no major improvements in the five NCBs. The loan closes in June 2019.

3) Midhills Highway Project (Pushpa Lal Highway)

The Government of Nepal started the Mid-hill Highway project (the Pushpa Lal Highway) in FY 2008/09 with the aim of connecting different hilly districts from the eastern border at Chiyo Bhanjyang, Panchthar district to the western border of Nepal at Jhulaghat, Baitadi district, running through different townships, settlement and places of importance. The total length of this project is 1,809 km. The aim is to upgrade the road to all weather bitumen and complete the all the necessary bridges by FY 2017/18. The project will prioritize traffic safety, environmental protection and bio-engineering works.

The western part of the project from Patibhanjyang in Nuwakot district to Jhulaghat in Baitadi started in FY 2011/12. The total length of this part is 1,120 km out of which 220 km of new track has been opened. The total estimated cost of this western part is NPR 14 billion. Overall physical progress is around 36%. Detail survey, design and the preparation of DPRs for 311 km of road has been completed.

The eastern part of the project runs from Chiyo Bhanjyang to Patibhanjyang. It was started in FY 2008/09. The total length is 689 km of which 417 km of new track has been opened. The total cost of this eastern part of the project is about NPR 19 billion. Physical progress is around 36% and 16 bridges have been completed.

The project is facing the challenges of adverse weather conditions, the remoteness of the site, negotiating rights of way, a lack of coordination and support from agencies such as forest offices, a scarcity of construction materials, and weak contractors and consultants.

Conclusions

In the transport sector, there is a need of strong enforcement of contractual provision that the original contractors work without delegating to inexperienced Joint Venture partners. The stringent monitoring of the performance of supervision consultants is also lacking. Sufficient resources must also be planned for the maintenance of road infrastructure post-completion. The frequent transfer of key project staff has been an issue in the sector. The qualification and project related experience should be regarded during the selection of project directors and finance staff who are committed to demonstrate results.

CHAPTER IV

IMPROVING PORTFOLIO PERFORMANCE IN FIVE SECTORS

The first NPPR-2015 preparatory meeting was held on 23 February 2015. It formed a five-member core team led by Dr. Teertha Dhakal, Joint Secretary, National Planning Commission. The objectives of the core team were to suggest:

- the number of major sectors to include in the review;
- modalities of discussions in the NPPR annual meeting to link themes and sectors;
- modalities of design of NPPR draft Action Plan, 2015 before the annual meeting; and
- Theme of the 2015 Annual NPPR meeting.

The preparatory meeting made the following suggestions for the NPPR 2015:

1. Sectors for review: The following five sectors were proposed:

- Agriculture
- Education
- Energy
- Local governance
- Transport

2. Result-focus: it was agreed to shift the review approach from being input-focused to results-based, linking with sector results frameworks and assessing sector performance along the five cross-cutting thematic areas (public financial management, procurement management, human resource management, managing for development results or M&E and mutual accountability)

3. NPPR Action Plan: it was agreed that the action plan is to be aligned with the government's periodic plan and programmes.

4. Action plan and themes:

- The results monitoring framework of five cross-cutting thematic areas (see above) are to be cross-referenced with the five sectors (agriculture, transport, energy, education and local governance) with regards portfolio performance issues and actions.

- The outcome indicators of the sector will be identified by the sector specialists. Such indicators may be extracted from the current 13th plan's results framework (published by NPC).

- Each theme will be led by one government agency and there will be one lead Development Partner.

5. Review process:

- The NPPR actions will be reviewed in each trimester (three times a year) at line ministry level so as to ensure ownership and accountability.

- The Ministry of Finance will conduct a consolidated review of the NPPR process every six months.

- MoF will review the NPPR action plan in its mid-term budget review.

6. Project level monitoring**:** It was suggested to select 5–10 key projects from each sector for joint monitoring.

7. Preparations:

- Under a new modality, a pre-NPPR exercise would take place with sector ministries and development partners.

- MoF and NPC participation is needed to identify key implementation challenges to achieve the desired results.

- In the sector meetings, it is suggested to invite the representatives of the lead agency assigned for the cross-cutting themes.

- Discussions will be led by the Joint Secretary, Planning/Monitoring Division of each line ministry.

- Based on the results of the pre-consultation, a combined background paper will be prepared.

The working groups of the five sectors were led by the Joint Secretaries of the Planning/Monitoring Divisions of the respective line ministries supported by the designated DP representative. These groups prepared the NPPR 2015 sectoral action plans with outcome indicators identified by sector specialists. These action plans are presented below in Tables 4.1 to 4.5.

The action plans were prepared from several rounds of the NPPR pre-consultative process and have been reviewed and agreed after cross-agency reviews.

As agreed, the Government will check and endorse the NPPR 2015 Action Plans for the five sectors. These plans will be owned by the concerned ministries, who will comply with them. Progress will be monitored and reviewed by NPC and MoF as follows:

- The progress of plan implementation will be reviewed each trimester (three times a year) at line ministry level in the MDAC meetings. If any inter-ministerial and policy related issues appear in plan implementation the ministries need to submit such issues to the NDAC so as to ensure the plan's effective implementation.

- MoF will lead consolidated reviews of the NPPR process every six months with the participation of representatives of NPC, MOGA, FCGO, PPMO and DPs.

- MoF will review the NPPR action plan as part of its mid-term budget review.

Table 4.1: Agriculture Sector Action Plan

Sector Lead: Mr. Yogendra Kumar Karki, Joint Secretary, Planning Division, Ministry of Agriculture Development

Thematic Areas	Thematic Challenge	Agreed Action	Performance Indicators	Target Date
Public Financial Management	Timely release of budget Timely flow of accounting information through field level. • Timely submission of audit reports.	➢ Timely budget authorization by ministry and departments. ➢ Use of computer based accounting system implemented	• More than 90% of budget authorized to implementation unit • More than 25% implementation units introduced computer based accounting system • More than 50% of programme budget spent by end of second trimester	September 1, 2015 June 15, 2016
Human Resource Development	• Placement/retention of staff in key positions • Weak capacity of technical manpower	➢ Compliance to the Civil Service Act and Regulations provision ➢ Human resource development prepared and implemented	• More than 95% of PDs and all chiefs and district level offices retained in the same post for a minimum of 2 years • More than 90% of agricultural extension worker positions are filled • Human resource development plan implemented • More than 25% of frontline extension workers are trained	June 30, 2016 June 30, 2016 June 30, 2016
	• Weak M & E System	Results based M&E framework developed and implemented	• Agriculture Management Information System (AMIS) piloted	July 15, 2016

Thematic Areas	Thematic Challenge	Agreed Action	Performance Indicators	Target Date
M&E/Managing for Development Results		• Three year M&E plan prepared and implemented	• All ministry M&E reports uploaded to web portal	July 15, 2016
Procurement	• Compliance with PPA and PPR	➢ Preparation and compliance of Annual Procurement Plan	• All implementation units prepared annual procurement plan	September 1, 2015
			• 100% of contracts awarded in the first trimester.	November 5, 2015
Mutual Accountability	• Weak coordination, programme duplication and harmonization	➢ TA and FDI reflected in MoF source book.	• 80% of TA to agriculture reflected in the source book • 8% of projects on-budget off-treasury submitting audit report to OAG on time.	August 1, 2016 January 15, 2016

Table 4.2: Education Sector Action Plan

Sector Lead: Dr Lava Deo Awasthi, Joint Secretary, Planning Division, Ministry of Education

Sector	Thematic challenges	Agreed action	Performance indicators	Target dates
PFM	Improving payroll system for teachers	Increase the release of teachers' salary through bank account	75 % of teachers receiving salary through bank account	April 2016
	Improving accounting and financial reporting at all cost centres	IT based SOE , fund release and reporting system is operational at DEO level	75 DEOs operating IT based system	June 2016
HR	Restructuring Ministry of Education System	Restructuring of MOE based on O and M survey	O and M survey of MoE system approved	December 2015
M&E/ MfDR	Accessibility of data for planning purposes and stakeholder awareness at all levels	FLASH data filled up in EMIS electronically and accessible at school level	Flash reports are uploaded in the DOE website	May 2016 Regular
		Monitoring reports made publicly available through the website	Monitoring reports are uploaded in the MOE/DOE website within 35 days after completion of field visit.	
	Identification of joint indicators to assess performance of Post SSRP ESP/ SSDP	Development of a Joint Performance Assessment Framework (JPAF) for the monitoring of the Post SSRP Education Sector Plan	Submitted report (s) in line with JPAF	June 2016
	Thematic challenges	Agreed action	Performance indicators	Target dates
PFM	Improving payroll system for teachers	Increase the release of teachers' salary through bank account	75 % of teachers receiving salary through bank account	April 2016

Sector	Thematic challenges	Agreed action	Performance indicators	Target dates
	Improving accounting and financial reporting at all cost centres	IT based SOE , fund release and reporting system is operational at DEO level	75 DEOs operating IT based system	June 2016
HR	Restructuring Ministry of Education System	Restructuring of MOE based on O and M survey	O and M survey of MoE system approved	December 2015
M&E/ MfDR	Accessibility of data for planning purposes and stakeholder awareness at all levels	FLASH data filled up in EMIS electronically and accessible at school level	Flash reports are uploaded in the DOE website	May 2016 Regular
		Monitoring reports made publicly available through the website	Monitoring reports are uploaded in the MOE/DOE website within 35 days after completion of field visit.	
	Identification of joint indicators to assess performance of Post SSRP ESP/ SSDP	Development of a Joint Performance Assessment Framework (JPAF) for the monitoring of the Post SSRP Education Sector Plan	Submitted report (s) in line with JPAF	June 2016
Procurement	Improving the efficiency of procurement system	Compliance of Annual Procurement Plan	Procurement plan is formulated/approved as per the existing rule and regulations	December 2015
Mutual Accountability	Development of a new education sector plan that safeguards the achievements and addresses the remaining challenges at the end of the SSRP	Development of the Post SSRP Education Sector Plan based on joint sector analysis, SSRP evaluation, and broad consultation.	Development of a credible education sector plan (School Sector Development Plan) with evidenced strategies and costed activities	June 2016

Table 4.3: Energy Sector Action Plan

Sector Lead: Mr. Sameer Ratna Shakya, Joint Secretary, Planning & Programme Division, Ministry of Energy

Themes	Thematic Challenges	Agreed Action	Performance Indicators	Target Dates
Public Financial Management	• Inadequate financial management capacity of NEA.	➢ Full roll out of Integrated Financial Management Information System (IFMIS) in NEA and personnel trained. ➢ Establish and implement a calendar for NEA annual financial auditing.	• Fully functional IFMIS at NEA corporate office. • Timely and quality submission of all audited project finance statements for DP funded projects.	July 2016 15 January 2016
	• Deficit in budget for land acquisition in power projects.	➢ Consolidate the budget against programme and approve the deficit budget for land acquisition.	• 100% projects get budget for land acquisition etc.	30 Nov 2015
Human Resource	• Inadequate human resources capacity in NEA (lack of design engineers, safeguards experts & project supervision engineers).	➢ Outsource project monitoring & supervision and safeguarding for those NEA projects without project supervision consultants ➢ At least 10 NEA engineers are trained for complex tower designs and 1 design software procured.	• Project supervision consultancy outsourced in at least 2 the transmission projects. • NEA reviews and approves tower design for at least 2 projects.	Oct 2015 July 2016
	• Delays in approval of IEE and TORs etc.	➢ Service standard guidelines for IEE approval process drafted. ➢ Inter-ministerial coordination committee at the Joint Secretary level formed to solve issues of forest clearance, land acquisition, resettlement and ROW.	• IEE and TORs for IEE are reviewed and approved within 30 days of submission. • More than 90% of pending issues resolved.	Dec 2015 July 2016
Procurement	• Slow procurement, weak project implementation, and low capital spending.	➢ NEA's Financial Management Bylaws amended in accordance with PPA/PPR (to delegate procurement authority to MD).	• NEA complies with the procurement plan for more than 90%.	March 2016 July 2016

Themes	Thematic Challenges	Agreed Action	Performance Indicators	Target Dates
		• Establish NEA's Procurement Service Standard Guidelines. ➢ Strengthen mechanism for compliance and enforcement of contractual provisions (for contractors). Effective monitoring and troubleshooting system established to achieve annual and quarterly disbursement targets by NEA.	• At least 90% of contract award value achieved against annual targets. • Employ contract management experts to review compliance in at least 2 large projects. • Monthly review meeting held for review and monitoring disbursement achievement at MD level. At least 90% of disbursement achieved against the annual targets.	March 2016 Monthly July 2016
Mutual Accountability	• Fragmented project planning and design among DPs.	➢ Enhance coordination mechanism between line ministries, DPs, NPC, IBN and other agencies. ➢ DPs report/update their disbursement in AMP in each trimester.	• Coordination meeting held at ministry on trimester basis. • Up-to-date AMP report.	Dec 2015 Trimester
M&E/Managing for Development Results	• Gap between project planning and budgeting, and achievement	➢ Establish/strengthen monitoring and evaluation functions among ministries and NPC. ➢ Performance based project manager TORs negotiated on pilot basis.	• Project review meetings held on trimester basis. • At least one project piloted	Trimester July 2016

Table 4.4: Local Governance Action plan

Sector Lead: Mr. Purna Chandra Bhattarai, Joint Secretary, Monitoring and Evaluation Division, MoFALD

Thematic Areas	Thematic Challenge	Agreed Action	Responsible Agencies	Performance Indicators	Target Date
Public Financial Management	• Timely release of authorization and budget execution • Improve accounting and reporting system at Local Level • Internal audit • Increase internal revenue of local bodies	• Timely financial reporting and budget authorization ➢ Application of IT based system in accounting and reporting • ➢ Improve internal audit system • • Improve internal revenue system of local bodies	• MoFALD, MoF and local bodies	• 40% of block grants spent by local bodies by end of second trimester • 100% of DDCs preparing and submitting trimester financial reports on time • 1000 VDCs operating VDC Accounting Software • Audit arrears of total expenditure of the ministry reduced to 5% • 100% of regular internal audit in place at DDC and Municipalities. • 10% increment in internal revenue of DDCs and municipalities	July 2016
Human Resource Management	• Retention of staff in key positions • • Capacity building	➢ Compliance to Civil Service Act and Regulation's provision • Improve capacity of CAC and WCF members	• MoFALD and MoGA	• 50% EOs and LDOs retained in same post for minimum 2 years (applied to first and second generation Municipalities [130]) • 95% VDC secretary positions filled • Additional 26,312 IPFC, WCF and CAC members trained in local level planning	July 2016
M&E/Managing for Development Results	• Result based reporting system • Improve implementation of M&E findings • Result based evaluation	➢ Application of Web Based Reporting System (WBRS) • Publish M&E reports	• MoFALD, LBFC and local bodies	• 30% of new municipalities applied WBRS • All M&E report published on MoFALD's website within 35 days of field visits.	July 2016

Thematic Areas	Thematic Challenge	Agreed Action	Responsible Agencies	Performance Indicators	Target Date
		• Revise MCPM indicators		• Result based MCPM established	
Procurement	Compliance with Procurement Act	• Preparation of and compliance of annual procurement plans of local bodies • Application of e-bidding system by DDCs and Municipalities		• 75 DDCs and 191 municipalities prepare annual procurement plans and report these via WBRS • All DDCs and 60 municipalities used e-bidding system for projects above NPR 6 million	July 2016
Mutual Accountability	• DPs' alignment to the government system	• All TA and direct funding is reflected in MoF Source Book.	• DPs and MoF	• 30% of foreign assistance for local governance is on treasury • 5 LGCDP donors directly implemented projects with social mobilisers aligned to MoFALD's Social Mobilization (SM) Guidelines	July 2016

Table 4.5: Transport Sector Action Plan (DOR, MPIT)

Sector Lead: Mr. Bishnu Om Bade, Joint Secretary; Planning, Monitoring & Evaluation Division, Ministry of Physical Infrastructure & Transport

Themes	Challenges	Agreed Action	Performance Indicators	Target Dates
Public Financial Management	• Low annual budget expenditure	➢ Timely approval of all annual programmes and redistribution/ reallocation	• All annual programmes approved by September • Redistribution/reallocation by 2nd trimester	31 September 2015 15 March 2016
		➢ Accelerate land acquisition and environment/forest clearance before contract awards	• 100% of contracts in DP assisted project have completed 75% of safeguards works at signing	31 October 2015
		Implement computer based FMIS. Training for 60 DoR financial staff on system	• 100% offices in DoR use computer based FMIS	31 March 2016
	• Weak internal control system	➢ Prepare internal control guidelines for ministry and department	• Internal control guidelines prepared and in use.	30 June 2016
Human Resource Management (HRM)	• Inadequate technical staff	➢ Permanent technical staff recruited as per O&M Survey	• 75% identified required technical staff recruited in DOR.	30 June 2016
	• High staff turnover	➢ Comply with Civil Services Act and retain all PDs and account heads for at least 2 years	• 100% of PDs, PMs and account heads retained for at least for 2-3 years	1 October 2015Ongoing
	• Weak management capacity	➢ Prepare and implement need based training programmes	• Training calendar prepared by HRD unit • Minimum 50 staff trained	15 December 2015 30 June 2016
		➢ Performance based contract (PBC) with project director/project manager initiated.	• PBC signed with PDs and PMs in 4 (priority) DP assisted projects.	31 November 2015
	• Ineffective use of M&E tools	➢ M&E tools made regular, result oriented and qualitative.	• M&E reports prepared for five selected donor funded projects	30 June 2016

Themes	Challenges	Agreed Action	Performance Indicators	Target Dates
M&E/Managing for Development Results		➢ Effective use of Highway Management Information System (HMIS)	• HMIS system improved and used.	30 June 2016
Procurement	• Delay in procurement process	➢ Prepare standard timelines for procurement	• 80% of contract awarded within stipulated target.	30 June 2016
		➢ Timely updating and publishing of master procurement plan for priority projects including DP-assisted, within one month of annual budget announcement	• 100% compliance for all priority projects	31 October 2015
		➢ Use multiyear contracting in Government funded projects	• Multiyear contracting will be carried in 5 priority projects under Government funding	31 November 2015
	• Weak contract management and enforcement	➢ Strengthening contract administration by: ○ stringent start-up control for timely contractor mobilization ○ application of LDs for time overruns caused by contractors ○ deploying trained project management staff in in project offices.	• Baseline prepared for contracts facing time overruns • Number of contracts facing time overruns reduced by 50% • LD applied to 100% contracts delayed due to contractors • 20% of senior project staff have been trained	31 December 2015 30 June 2016 Ongoing31 October 2015
Mutual Accountability	• Fragmented donor support	➢ Move towards sector-wide approach	• National Transport Policy updated	30 June 2016

CHAPTER V

CROSS-CUTTING IMPLEMENTATION CHALLENGES AND SUGGESTED REFORM MEASURES

The NPPR-2015

The focus of the NPPR shifted in 2015 from inputs to sectoral results. Key changes in the process include the following:

1. The importance of the five cross-cutting themes (PFM, procurement, human resource development, monitoring and evaluation and mutual accountability) were reviewed for achieving results in the five identified sectors (education, agriculture, transport, energy and local development). Actions were suggested across the five themes to improve implementation performance in the sectors to achieve better results.

2. Unlike in previous years, pre-NPPR consultations took place in each sector under the leadership of the Joint Secretaries of the Planning Division of the five sectoral ministries. They were supported in this by development partner experts (agriculture – World Bank, education – EU, transport and energy – ADB, and local development – DFID).

3. The agencies who are most responsible for the five cross-cutting themes (MoF, National Planning Commission [NPC], Ministry of General Administration [MOGA], Financial Comptroller General Office [FCGO] and Public Procurement Monitoring Office [PPMO] participated in all sectoral meetings.

4. The results of the NPPR will be linked with sectoral and central monitoring systems, which should lead to high level attention on issues covered by the review.

5. The review will also include nationally financed development projects.

6. The review also plans to capture examples of good practice for cross sectoral sharing and learning.

7. Technical discussions and pre-consultations were led by the Joint Secretary of the M&E Division of the NPC who chairs the core team. The members of this team are representatives of the MoF, ADB, DFID, Norway and World Bank and the Joint Secretaries from the five sectors.

Draft sectoral reports were reviewed at the consultative meetings. Participating DPs also shared their reports with the core team giving their observations on implementation challenges with suggested measures for improvement. Based on the inputs received on the five sectoral themes and from DPs, the current chapter attempts to analyze cross-cutting implementation challenges and suggested reform areas.

Recent Central Level Reforms

The government is undertaking central level reforms in each of the five thematic areas that will have cross-cutting impacts in all sectors.

- The recently concluded Public Expenditure and Financial Accountability (PEFA) assessment which is the second such assessment conducted in Nepal showed marked improvements in ratings in most PFM dimensions as compared to the first PEFA (2007). The second PEFA Assessment, which was concluded in early 2015, found that substantial progress had been made in deepening the structures and processes of PFM, particularly through the use of information technology. The commitment to change and reform PFM systems and processes by the government has produced results. Among the 28 performance indicators, 16 indicators improved, 10 indicators were unchanged, and two indicators had deteriorated. According to this assessment, Nepal's PFM performance is relatively strong as compared to other comparable countries. The improvements were largely attributed to interventions through the Multi-Donor Trust Fund (MDTF) for PFM Reforms supported by Australia, DFID, Denmark, Norway, the Swiss Confederation, EU, and USAID and administered by the World Bank. This has helped in the successful implementation of the Single Treasury System of Accounts and public sector accounting standards and in improving the budgeting and auditing systems.

- In the area of public procurement, the PEFA indicator related to public procurement improved mainly due to ongoing reforms including the launching of e-procurement. The ADB is supporting the establishment of a platform for e-procurement. The World Bank is mobilizing resources from the MDTF to support the government's request to improve the public procurement system. This is aimed at strengthening both the supply and demand sides of procurement including provisions of capacity building to implementing agencies.

- The NPC has been progressively improving the central level monitoring and evaluation system.

- While there are many challenges in civil service reform, the government is committed to making progressive improvements in human resource management. For example, the government has announced the policy in the FY 2015/16 budget speech of not transferring well performing staff (who achieve at least 80% in their performance evaluations) from projects throughout the duration of the projects.

- Efforts are underway on the part of the government and DPs to be mutually accountable for their roles and responsibilities as stipulated in the Development Cooperation Policy, 2014.

The government and DPs are committed to continuing with needed reforms. The annual review process through the NPPR is one mechanism for this. Based on pre-consultations in five sectors and based on the sharing of experiences by participating DPs, the following paragraphs highlight the challenges and mitigating measures to overcome the main challenges in the five thematic areas focusing mainly on the short-term one year period.

Public Financial Management

Sound PFM is a pre-requisite for successful project implementation and for achieving project and sectoral results. Ensuring good financial management is the responsibility of budget holders and implementing agencies. By law, secretaries are the Chief Accounting Officers accountable to ensure that funds provided to their ministries or agencies are spent for the purpose intended. If the PFM challenges are addressed, more focus can be directed towards improving technical quality for better results.

Ongoing challenges in PFM include low capital spending, the trend of heavy expenditure towards the last quarter of each fiscal year, the weak control environment, weak internal auditing, delays in financial reporting, delays in auditing, and inadequate parliamentary oversight of audits. In the five sectors under review, and according to feedback received from DPs, these continue to be the major bottlenecks for project implementation affecting the achievement of project results and slowing down disbursement.

Low capital spending and delayed budget execution — Nepal continues to suffer from low levels of capital expenditure and the underutilization of capital spending. Improving budget execution calls for the timely approval of annual budgets by the Parliament, expenditure authorization upon approval of programme/project AWPBs (including procurement plans) by the NPC, the timely processing of procurement and work execution by sector agencies, and the enforcement of trimester budget releases against planned budgets. In this context, the government has initiated the preparation of a new Fiscal Accountability and Budget Management Act to set out key milestones, timelines, and institutional arrangements to ensure sound fiscal discipline and timely budget planning and execution. There is also a need to establish linkages to project and sector-level outputs in AWPBs for individual projects and sectors. This will enable the monitoring of sector level outputs and outcomes.

Weak control environment — Most development programmes, particularly those following a SWAp , including education, health, and LGCDP, face major challenges in disbursing funds with sound internal controls due to the shortcomings in internal control, basic financial reporting, internal auditing, external auditing, and limited timely follow-up on audit recommendations. The Auditor General’s reports consistently raise the issue of the weak internal control environment in many sectoral agencies and projects. There is little evidence of major efforts in many donor-financed projects and sectoral agencies to review and implement audit recommendations. This has compounded issues and irregularities year after year.

Rapid turnover of staff and weak capacity — The rapid turnover of finance staff in projects and implementing agencies is a major challenge that impacts the timely preparation of financial statements. Due to the increasing demands on financial management (beyond pure accountancy functions), capacity building efforts need to be enhanced in financial management. A number of projects have already started to add capacity by outsourcing expertise from the market depending on the nature of the project. The market has an adequate supply of good financial management experts.

Some projects that are already adding such additional resources are demonstrating better results including the Project for Agricultural Commercialization and Trade, the Alternate Energy Promotion Centre, the Building Climate Resilience Project, and the Rural Access Project. The internal project ratings of World Bank-financed projects have flagged 4 out of 23 projects as suffering from weak financial management. This, however, has reduced from six such projects in the previous year. The government's policy announcement in relation to civil service staff and weak capacity (see Human Resource Management Section in Chapter 1) should help resolve transfer and capacity issues. Furthermore, DPs have agreed to continue to mentor finance staff and provide support for their capacity building.

Delays in financial reporting and audits — Rapid turnover of finance staff and their weak capacity contribute directly to delays in financial reporting and the timely completion of audits. As the trend of development partner financing moves towards report-based disbursement and results-based disbursement, delays in financial reporting will result in low disbursement rates. As per the loan/grant agreements of the World Bank and ADB, the certification and submission of audited project financial statements within the stipulated period is required, which is also essential to ascertain PFM performance. The submission of audit reports for FY 2013/14 has been severely delayed due to the impact of the devastating earthquakes. Normally, audit reports must be submitted within nine months of the end of the fiscal year. However, even after 13 months, a number of projects have not submitted their reports for FY2013/14 including two sector-wide programmes in the education and health sectors. If the issue of rapid staff turnover and certain measures announced by the government related to staffing are implemented, delayed financial reporting and audits are expected to gradually reduce.

Public Procurement Management

Overall procurement issues

The preparation of annual procurement plans linked with budget preparation, the regular monitoring of contracts and the supervision of contractual performance are key indicators of successful project implementation. Inherent weaknesses in many projects or sectors include one or all of these areas. While finding trained and skilled procurement personnel can be challenging, there is now increased awareness on the importance of good procurement systems for the timely initiation and completion of projects. Learning from the experience of implementing the Public Procurement Act (PPA), 2007, the government amended the act in April 2015 to address some inherent weaknesses. The following changes will help ensure a sound public procurement framework:

(a) Clearly defining the jurisdiction of PPA and Public Procurement Regulations (PPR).

(b) The provision to establish a procurement branches, sections or units in public entities based on the procurement workload.

(c) The provision of more procurement methods such as, scheduler rate contract, catalogue shopping, limited tendering and the buy-back method.

(d) Authority provided to the Public Procurement Monitoring Office (PPMO) to issue various procurement related guidelines and technical notes.

(e) Simplifying approval processes for variation orders (only 25% higher variations now will go to the Cabinet for approval);

(f) Establishing a mechanism for transactions between two public entities.

(g) Strengthening the role of the PPMO in monitoring contracts.

(h) Establishing the practice of post reviews by the PPMO.

On the request of the government, ADB and the World Bank jointly reviewed the draft amendment to the act and provided comments, most of which were duly incorporated. However, there are still five major gaps that ADB and WB observed and communicated to the government on 12 August 2015 for consideration to address when the amendment to the Act will be further discussed in Parliament for ratification. These are:

(a) the raising of the ceiling from NPR 6 million to NPR 20 million in works contracts that do not require technical experience;

(b) the provision permitting reduced bid preparation periods for re-bidding;

(c) the imposition of additional performance security in case of low bid prices;

(d) the sanctioning of bidders where bidders refuse or fail to sign the contract; and

(e) the additional imposition of unfair and impractical burdens on contractors in cases of contract termination.

If these are not appropriately addressed, ADB and WB alerted the government that they would be forced to include additional conditions in the bidding documents for National Competitive Bidding (NCB) for all ongoing projects under the current legal documents of the two Banks. Similarly, they may also be forced to either (i) include additional caveats (NCB conditions) in future legal documents or (ii) advise the government to mandatorily use standard bidding documents of the multilateral development banks to mitigate the risks posed by these shortcomings.

Project Level Procurement Challenges

The following are some key challenges at the project level experienced by DPs:

Lack of procurement manpower and weak capacity — Delayed procurement planning (for inclusion in project and sector level AWBPs, as well as master procurement plans), and the delayed processing of procurements remain major factors that delay project implementation and the timely absorption of annual budgets. Most projects have problems attracting dedicated procurement staff or staff with the required procurement capacity. Many institutions do not have dedicated procurement expertise. Procurement assessments of several implementing agencies confirm that only a few procurement experts are available in the government system. Although provision has been made to obtain procurement experts from the market, many projects do not take timely action in acquiring such experts due to budgetary issues, or a reluctance to recruit external experts, or there is a limited supply of such experts. Hence, there is a need for a strategic assessment at the broader government level to develop a phased action plan (with short, medium and long term actions) for an overall procurement capacity building programme. Given the shortage of such expertise, projects should share their procurement experts and expertise. The World Bank recently carried out a Procurement Workforce Study in Nepal which has been shared with the government and DPs. This suggests strategies to address human resource challenges in public procurement.

Performance of contractors and consultants — A related issue hampering the timely progress of development projects is the non-performance of consultants and contractors in terms of:

- delays in decision making (technical);
- weak monitoring;
- absence of lead firm personnel in project sites;
- frequent extension of contract periods;
- slow project implementation; and
- delays in the mobilization and replacement of key personnel at site and frequent replacement of personnel.

A monitoring tool is needed to review and troubleshoot the physical and financial progress of ongoing contracts as well as to review and ensure consultant performance.

Human Resource Management

The deployment of competent project directors (with technical and managerial skills), procurement experts, finance experts, monitoring and evaluation experts, and safeguard specialists is critical for successful project implementation. One of the reasons for the slow implementation of many projects is the absence of key project staff. This major implementation challenge has been raised in many previous NPPRs. Also, rapid turnover at the senior level (e.g. secretaries and joint secretaries) hampers the continuity of sector dialogue. The untimely transfer of senior government officials and project staff is a crucial challenge. In particular, strong leadership is most essential to pursue sound sector operations with institutional reforms and development, a precondition to enhance and sustain the investments in physical and human capital with quality assurance. During recent years, however, the frequent turnover of line ministry secretaries has led to the deferral of key policy decisions in many sectors:

- the Ministry of Federal Affairs and Local Development has had four changes in Secretary since 2011;

- the Ministry of Irrigation and the Ministry of Agriculture Development have had five changes of secretary in the last three years;

- the Ministry of Energy has had four changes of secretary in the last three years;

- the Ministry of Education has had six changes of secretary in the last three years;

- the PPMO has had six changes of secretary in the last three years;

- the Financial Comptroller General Office (FCGO) has had seven Financial Comptroller Generals over the last four years; and

- there have been five PEFA Secretariat coordinators in the last four years.

At the project level, many projects witnessed frequent turnover of project managers and directors and other key technical and finance staff. Last year, many managers and directors of ADB and World Bank financed projects were rotated, some within the framework of the Civil Service Act and many against the provisions of this policy. A number of projects suffered due to the untimely transfer of accounts staff. Frequent changes of project managers and accounts officers cause implementation delays. First, it takes at least six months for new incumbents to understand the project, and second, the change of the project manager or the finance officer, delays the disbursement process as it takes some time to establish new authorized signatories.

The government recognizes the need for more serious efforts and commitment to ensure the implementation and enforcement of its Guidelines for Staff Transfer issued by MOGA, which were established under the Civil Services Act. These guidelines rule out transfers within two years of appointment in a position (except for unavoidable cases such as underperformance or promotion). In view of this, the government announced in FY2015/16 budget speech the following key policy decisions regarding staffing, which if properly implemented, should overcome many challenges that have hampered project implementation:

- The government will introduce a policy of ‘reward’ and ‘punishment’ in the civil service and revise the work performance evaluation method.

- Well performing project staff (e.g. project chiefs, finance officers and other key officials) will not be transferred during the project implementation period if their performance score is above 80%.

- The recent amendment to the Civil Service Act introduces clusters for professionalization, transfer and the appointment of government staff.

- A policy will be adopted to select highly professional and technically skilled manpower from government institutions or the private sector on a competitive basis providing competitive salaries based on performance in all national pride and large scale prioritized projects.

Monitoring & Evaluation

A number of development partners are now practicing disbursement against results or specific performance indicators in projects or programmes they support. This trend is an incentive for projects and programmes that perform well. On the other hand, if agreed indicators are not achieved or certain results are not demonstrably achieved then there will be no disbursement from partners. This trend is a transition from input- to result-focused disbursement. This calls for a robust M&E system at the project and sectoral levels, which should be linked with the central level M&E system. The field of M&E therefore demands increased attention at all levels. Development partners will continue to work closely with projects or sectors to ensure that a robust M&E system is operational. Given the low recognition of the importance of M&E, there is a very limited supply of M&E experts in the government system. Depending on the project or sector, there may be a need to rely heavily on external experts.

The government has a well-defined structure and system for M&E at all levels. It has the M&E framework as articulated in the National Monitoring and Evaluation Guidelines, 2013. The challenge is to implement the system due to inadequate attention being paid to this field, the lack of expertise or knowledge and the lack of incentives.

In addition, there is absence of a culture of demanding and using evidences generated from M&E especially to resolve problems and expedite project implementation. The practice of using evidence garnered from M&E to promote accountability is virtually non-existent although such evidence is sometimes identified as lessons learned. Similarly, attention will need to be given in strengthening M&E system both at the sectoral level as well as in the central level. Chapter 2 described the M&E system at the central level and the government’s plan of integrating NPPR monitoring at the highest level of the existing system.

Mutual Accountability

International forums such as the Paris Declaration on Aid Effectiveness 2005, the Accra Agenda for Action 2008 and the Busan Commitment 2011, advocated for aid to strengthen country systems. Development partners are increasingly aligning their assistance with country systems and working with countries to help improve their systems. Many partners in Nepal have collaborated with the government to push the agenda of development aid using country systems. Successful examples of these efforts are the leadership taken by the government in managing annual NPPRs, development support through the SWAps in the education and health sectors (with more sectors being explored for this approach), support to PFM through the establishment of a MDTF, and increased efforts at sector dialogue in almost all sectors. There is now a greater realization of the need for mutual accountability for achieving results within sectors or in macro-indicators such as the Millennium Development Goals.

The Government has revised its Foreign Aid Policy, 2002 to formulate a new policy in the context of the changed national and international scenario. The new policy

— the Development Cooperation Policy, 2014 — lays out the framework for development assistance and the ground rules for mutual accountability of the government and development partners for maximizing the use of development assistance. Highlights of the policy are as follows:

- A threshold has been proposed for mobilizing foreign grants and loans.
- A preference will be given to programme-based aid through the budget and treasury system as opposed to fragment and standalone projects.
- A focus on infrastructure development (as articulated in the periodic plan).
- The compulsory and regular reporting by DPs and INGOs of disbursement to the Aid Management Platform for greater transparency and accountability.
- The use of national consultants and experts rather than international consultants as long as they are locally available.
- Rationalization of the use of vehicles, consultants, foreign trips and other similar activities related to capacity development.
- The clear definition of the responsibilities of the government and its development partners.

Conclusions

In addition to the challenges and mitigation measures discussed above under the five thematic areas, three further areas that are crucially important for project implementation are:

- **Project readiness and quality-at-entry** — It is the mutual responsibility of the government and development partners to carry out candid assessments of compliance with the Project Readiness Filters agreed between the government and respective partners. To avoid delays in project start-up (and also during implementation), it is important to ensure that critical actions identified during the preparation/design of projects are accomplished before projects are negotiated or taken forward for approval. There are some cases — mainly energy projects funded by the World Bank, where there have been excessive delays in complying with critical actions that were required to be completed prior to start-up. A significant proportion of DP-assisted projects consistently experience start-up delays, which snowball into substantial delays in implementation with slow contract awards and disbursement. These delays are often caused by the length of time taken to sign loan or grant agreements (calling for cabinet approval) and to declare readiness; and also by insufficient preparation (including the carrying out of due diligence studies and land acquisition, the establishment of project implementation units, and the appointment of project staff). Similarly, bilateral DP grant projects often face considerable delays due to slow approval processes and the late introduction of additional requirements. There has to be a firm commitment on the part of the government and development partners for all critical actions required to be undertaken prior to start-up are carried out efficiently, including the commitment on part of the government to obtain the necessary approvals for signing and declaring projects operative in a timely manner.

- **Quality of supervision** — As projects begin implementation, it is again the mutual responsibility of the government and funding partners to ensure that project development objectives are met and expected results achieved. Both the government and funding partners need to ensure that required resources, in the form of inputs such as staff, budget (including counterpart funding), technical experts (including on procurement, finance and safeguarding), are ensured. Good supervision starts with the joint engagement of the government team and development partner team from the stage of preparing AWPBs and annual procurement plans to the hiring of consultants or contractors, to the supervision of the quality of the works and services. Ensuring a good M&E framework and the timely updating of information is another key feature for quality implementation. Timely progress reporting and the timely commissioning of audits are further indicators of good project performance

- **Accelerating post-earthquake reconstruction** — The massive and urgent need for post-earthquake reconstruction means that the government needs to efficiently and rapidly implement reconstruction projects. The government needs to ensure that more than $4 billion pledged by donors for this work goes to the most critical sectors, and that these projects are well-designed and are implemented on time. The rapid operationalization of the Reconstruction Authority is of utmost importance to oversee these works.

ANNEXES

ANNEX 1: NPPR ENTITIES

1.1 Thematic Champions

S.No.	Theme	Champions	DPs Counterpart
1	Public Financial Management	**Mr. Mukunda Prakash Prasad Ghimire** Joint Financial Comptroller General /Coordinator, PEFA Secretariat	**Mr. Bigyan Pradhan** World Bank
2	Public Procurement	**Mr. Naresh Chapagain** Joint Secretary Public Procurement Monitoring Office (PPMO)	**Mr. Tika Limbu** Asian Development Bank
3	Human Resource Management	**Mr. Baburam Adhikari** Joint Secretary Ministry of General Administration (MOGA)	**Mr. Binod Lamsal** UNDP
4	Managing for Development Results	**Dr. Teertha Raj Dhakal** Joint Secretary National Planning Commission Secretariat (NPCS)	**Mr. Takakiyo Koizumi** JICA
5	Mutual Accountability	**Mr. Bhuban Karki** Under Secretary Ministry of Finance	**Ms. Anjaly Tamang** Bista DFID

1.2 Sector Leads and Co-leads

S.No.	Sector	Leads	Co-leads (DPs)
1	Education	**Dr. Lava Deo Awasthi** Joint Secretary Ministry of Education	**Ms. Wendy Fisher** European Union
2	Agriculture	**Mr. Yogendra Kumar Karki** Joint Secretary Ministry of Agricultural Development	**Mr. Purna Chettri** World Bank
3	Energy	**Mr. Sameer Ratna Shakya** Joint Secretary Ministry of Ministry of Energy	**Mr. Tika Limbu** ADB
4	Road and Transport	**Dr. Bishnu Om Bade** Joint Secretary Ministry of Physical Infrastructure and Transport	**Mr. Bhupendra Bhatt** ADB
5	Local Governance	**Mr. Purna Chandra Bhattarai** Joint Secretary Ministry of Federal Affairs and Local Development	**Ms. Neeta Pachhai** DFID

Annex 1.3 NPPR Working Committee

S.No	Name	Role
1.	**Mr. Suman Prasad Sharma** Finance Secretary	Chair
2.	**Mr. Madhu Kumar Marasini** Joint Secretary, MOF	Member
3.	**Dr. Teertha Raj Dhakal** Joint Secretary, NPC	Member
4.	**Dr. Narayan Dhakal** Under Secretary, MOF	Member
5.	**Mr. Lal Bahadur Khatri** Under Secretary, MOF	Member
6.	**Mr. Homkanta Bhandari** Section Officer, MOF	Member
7.	**Mr. Bigyan Pradhan** World Bank	Member
8.	**Mr. Tika Limbu** ADB	Member

Annex 1.4 NPPR Working Group

S.No	Name	Role
1.	**Dr. Teertha Raj Dhakal** NPCS	Chair
2.	**Mr. Bigyan Pradhan** World Bank	Member
3.	**Mr. Tika Limbu** ADB	Member
4.	**Dr. Narayan Dhakal** MOF	Coordinator

ANNEX 2: STATUS OF IMPLEMENTATION OF 2014 NPPR ACTION PLAN

Theme/ Sector	Key Result Areas	Challenges	Agreed Actions	Performance Indicators	Responsible Agencies	Target Date	Progress
1. Public Financial Management **Champion:** Mr. Mukunda Raj Prakash Ghimire Joint FCG, FCGO **Assist:** Mr. Bhuban Prasad Kafle, Deputy FCG, FCGO and Member Secretary, PEFA Secretariat	Perspective Budgeting:	Weak linkage between Planning and budgeting	• Linking budget with periodic plan	• MTEF document (for fiscal year 2015/16 budget) prepared before the Budget preparation	**NPC**	June 30, 2015	• Pending. NPC could not complete MTEF document before Budget speech. NPC is working on it and expected to be finalized soon.
	Budget Formulation and implementation process Reform : Timely budget approval Enhanced	Delayed budget process	• Timeliness of budget preparation and approval	• A Draft of Budget Management and Fiscal Responsibility Law be prepared and submitted to the Cabinet • An assessment completed to identify the root causes of low level of capital expenditure	MOF MOF/PEFA Sec./NPC	December 30, 2014 July 30, 2015	• Pending. Preliminary draft prepared by MOF Budget Division and has not yet been submitted to the Cabinet. • Completed. Assessment conducted in collaboration with IMF. Document available in MoF, Budget Division.
	Enhancing FMIS and Cash management System	FMIS not covered the Commitment system weak	• Sustaining TSA system based on the results achieved and enhanced FMIS system	• Commitment control system developed and incorporated in TSA system/ FMIS • Performance based incentive system approved for TSA district staffs(FY2014/15)	FCGO FCGO,MOF The Cabinet	September 30, 2014 September 30, 2014	• Completed. All 75 DTCOs have started Commitment recording system. If any office make agreement more than Rs 500,000then that office should submit the detail of agreement to DTCOs • Completed. Performance base incentive system (PBIS) approved from cabinet and implemented in all DTCOs
	Reporting system reform	Accounting Standards not implemented in public sector	• Strengthening of Reporting System	• Piloting of NPSAS completed in two ministries (MOPIT and MOWCSW)	FCGO	November 30, 2014	• Completed. MOPIT and MOWCSW prepared NPSAS based financial statements

Theme/ Sector	Key Result Areas	Challenges	Agreed Actions	Performance Indicators	Responsible Agencies	Target Date	Progress
	Diagnosis of PFM performance	PFM performance assessment not done for last six years	• PFM Performance Assessment: Second PEFA Assessment	• Second PEFA Assessment report completed • Second phase PFM reform action plan completed	PEFA Sec. Nepal, MOF	Sept ember 30, 2014 December 30, 2014	• Completed. Second PEFA Assessment Report completed and disseminated in July, 2015. • Pending. Delayed. Preliminary Draft prepared and shared with all stakeholders (GoN and Donor) for feedback and suggestion. This is expected to be completed by December, 2015.
	Enhancement of local level financial accounting system	Weak local PFM	• Implementing Financial accounting package in DDCs	• Piloting of DDC financial accounting management package (DDC-FAMP) completed(two districts)	MOFALD	December 2014	• Partially completed. DDC-FAMP implemented in 75 districts. Only 70 districts are operating successfully.
	Audit system reform	Weak audit system	• Audit system reform	• Internal audit system analysis report prepared • Financial Audit Manual (risk based) prepared and approved.	FCGO OAG	December 30, 2014 July 30, 2014	• Pending. Draft Internal Audit System report prepared and will be shared soon • Completed. Manual prepared and implemented in 28 Projects.

Theme/ Sector	Key Result Areas	Challenges	Agreed Actions	Performance Indicators	Responsible Agencies	Target Date	Progress
2. Public Procurement Mr. Naresh Kumar Chapagain, Joint Secretary, PPMO **Champion:**	Efficiency in procurement process	Time taking procurement process	• Preparation of comprehensive and consolidated Procurement Plan	*Outputs* • Targeted PEs (DOR, DOLIDAR, DOI, DUDBC, DWSS, NEA, DOHS) have master and annual procurement plan approved and financial authorization issued within one month of the budget announcement.	PPMO/ PEs/ MoF/NPC/	August 2014	• Completed. As part of E-GP, consolidated procurement plan is mandatory. The system itself is sufficient to cover the stated output within the system.
			• Procurement process expedited through capacity building of staff of public entities (PEs) and bidding community Standardization of procedures through preparation of standard procurement documents including Framework Agreement Contract	• Output indicator for capacity building (Conducted 13 training programs targeting 390 staffs from PEs)	Concerned Ministries/DPs	December 2014	• Ongoing. Capacity building training is continuously conducting and 391 staff of different entities have been trained.
				• Procurement Guideline/ 2 nos. Technical Notes/Framework Contract Agreement document approved.	Concerned Ministries/DPs	December 2014	• Pending. This is due to inadequate technical skills.
				Outcomes • Bid evaluation (Single stage one envelope) of international competitive bidding (ICB) completed in 45 days and national competitive bidding (NCB) completed in 30 days (baseline survey will be conducted in 2DP-assisted projects).	PPMO/ PEs PPMO	December 2014	• Pending.
	Transparency in procurement process	Unfairness and inadequate competitiveness in bidding process	• e-GP system rolled out in major infrastructure departments (DOLIDAR and DOI)	• DP-assisted projects under DOLIDAR (DRILP-AF) and DOI (CMIASP-AF) use e-GP system.	DOLIDAR/DOI	December 2014	• Completed. Rolled out in DOI/ DoLIDAR/DWSS and 350 other offices
			• Adequate human resource recruited to undertake e-GP task	• E-GP system is fully equipped.	PPMO	July 2014	• Partially completed. Installation of hardware and equipment is partially done with the TA support of ADB.
			• Action initiated to roll-out e-GP in ICBs/NCBs	• Infrastructure and procedure established for public key infrastructure (PKI)	PPMO/CCA/ MoF/MoEST	June 2015	• Pending. Strategy drafted. Not legally approved but progress is going on the basis of draft.
				• E-GP roll out strategy prepared and approved.	PPMO	December 2014	

Theme/ Sector	Key Result Areas	Challenges	Agreed Actions	Performance Indicators	Responsible Agencies	Target Date	Progress
	Compliance with procurement law	Weak compliance with procurement Act. and Regulation	• Accreditation of procurement professionals • Undertake compliance and performance studies • Undertake procurement audit system	• Accreditation framework further explored • CPI assessment initiated based on OECD/DAC benchmark • Procurement audit guidelines approved	PPMO PPMO PPMO	October 2014 December 2014 December 2014	• Pending. Concept has been introduced. No further progress. • Pending. No progress due to lack of technical skills. • Pending. No progress as the concept is unclear.
	Capacity of Public Procurement Monitoring Office (PPMO)	PPMO system and personnel constraints	• Strengthening of GIDC to support e-GP • Institutional capacity development of PPMO	• GIDC is made fully functional for e-GP . • Clarification response time by PPMO reduced substantially (within 7 working days) by providing national training and observation study tour.	PPMO/DPs PPMO/DPs	August 2014 Oct. 2014	• Partially completed. Partially done with ADB TA support. • Pending. Still exploring technical assistance from DPs.

Theme/ Sector	Key Result Areas	Challenges	Agreed Actions	Performance Indicators	Responsible Agencies	Target Date	Progress
3. Human Resource Management **Champion**: Mr. Rupnarayan Bhattarai, Joint Secretary, MOGA	Key Staff Transfer	Frequent transfer of project staff	• Implement staff transfer guidelines by line ministries.	• Transfers according to the Civil Service Act & transfer Guidelines • Develop software of transfer tracking system to control and verify irregular transfer and implement it.	Secretary, Line Ministries	Annual	• Partially completed. Standard norms for transfer have been formulated and implemented • Pending. Development of software for transfer tracking system in in pipeline.
			• Monitor implementation of staff transfer guidelines and prepare semi-annual report.	• Semi-annual report submitted to Chief Secretary regarding Transfer.	MOGA	Semi-annual	• Completed. Staff transfer information published on MoGA's website. This area is also covered by the Management audit report
			• Complete personnel database system covering (i) transfer, (ii) vacancy, (iii) scholarship/trainings; and (iv)disciplinary actions related information of all government staff	• Aggregate data updated covering (i) frequency of staff transfer, and (ii) number of vacant positions	MOGA/DOCPR	Each review meeting	• Ongoing. It has been regularly updated and number of vacant positions will be forecast by end of September to November.
			• Management audit of development projects (focusing transfer of staff) • Resolving 25% issues identified by Management audit regarding staff transfer	• Management audit report prepared and approved and put in website. • MOGA ensures Quarterly status report of compliance prepared and submitted to Chief Secretary and copy to MOGA	MOGA MOGA/Secretary, Line Ministries	October 2014 February 2015 (first quarterly report)	• Ongoing. Management audit report of 2014 have already been uploaded in MoGA's website. • Pending. Draft of prepared which is planned to be submitted to the Cabinet by end of September 2015.
			• Establish mechanism to monitor untimely/early transfer of project staff	• Record management of employees established for development projects.	MOGA	September 2014	• Partially completed. Physical database of 10 projects maintained along with position. • MoGA itself has continued to control untimely transfer following civil service act. •

Theme/ Sector	Key Result Areas	Challenges	Agreed Actions	Performance Indicators	Responsible Agencies	Target Date	Progress
	Staff Capacity Development	Incoherent capacity development programs	• Prepare Human Resource Development Plan for civil service.	• HRD plan developed.	MOGA	December 2014	• Pending. Draft of HRD plan completed in August 2015. Expected to be finalized by November 2015.
			• Training under Training for All (TFA) programs to accelerate disbursement and capital expenditures.	• 200 staff to be trained (Number of trainees reported this year and impact of training will be conducted through survey next year)	MOGA /MOF	2014 December	• Pending. Training policy 2014' has been approved by the Cabinet. TFA Guidelines prepared. Training Proposals received from Training Institutes.
	Staff Motivation	Low motivation and incentive for government staff in remote areas	• Finalize incentive plan for government staff	• Incentive plan Finalized including retention of Staff in Rural areas.	MOGA	October 2014	• Pending.

Theme/ Sector	Key Result Areas	Challenges	Agreed Actions	Performance Indicators	Responsible Agencies	Target Date	Progress
4. Managing for Development Results (MfDR) and M&E **Champion:** Mr. Teertha Dhakal, Joint Secretary, NPCS	Improving result based planning and M&E system	Weak linkages between annual program/budget with periodic plan	sults frameworks finalized d operationalized.	• RFs incorporated in the 13th plan	NPC, MOF, LMs	July 2014	• Completed. Results framework based on the current 13th Plan (2013/14 – 2015/16) has been published and operationalized since 2014/15.
				• MTEF approved along with annual program	NPC	July 2014	• Pending. NPC has been working to strengthen the MTEF process and also reviewing it by the experts.
				• Annual program/budget linked with RFs	NPC/MOF, LMs	July 2014 Ongoing	• Partially completed. Efforts has made to link program/budget with results framework from the current year's budget formulation process.
		Weak M&E	Project Performance Information System functional	• PPIS finalized and orientation conducted	NPC	December 2014	• Partially completed. PPIS developed and NPC is in the process of organizing orientation trainings to start its operationalization.
			Third party Evaluation of program/projects	• Four programs/projects evaluated	NPC	Sept 2014	• Completed. Evaluation studies of Middle Marshyangdi Hydropower; Commercial Agriculture Development. Program, Participatory Watershed Management and Local Governance Program and Integrated Women and Reproductive Health Program completed. Final reports have already been uploaded in the NPC website. NPC has also requested respective ministries to prepare management response plans to effectively implement the recommendations.

Theme/ Sector	Key Result Areas	Challenges	Agreed Actions	Performance Indicators	Responsible Agencies	Target Date	Progress
			Participatory monitoring institutionalized	• Participatory monitoring guidelines prepared and piloted	NPC	Dec 2014	• Stocktaking of participatory M&E has been completed by experts. The draft participatory M&E guideline is ready for piloting.
			Capacity building in MfDR and M&E	• Train/orient at least 150 personnel on MfDR/M&E	NPC	July 2015	• NPCS trained 165 staff this year - 65 in basic training on evaluation facilitation and 100 in RBME.
5. Mutual Accountability **Champion:** Mr. Bhuban Karki, Under Secretary, IECCD, MOF	Aid Predictability	AMP reporting requirements about transparency are not met. (Baseline: Oct 11: 35%)	• DPs report indicative planned disbursements for next Fiscal Years into AMP by July	• 80% information on projects reported;	DPs	July 2014	• Pending. Only 14.20% (Poor reporting by DPs)
			• DPs report actual disbursements 3 (Oct, Feb, Jun) trimesterly into AMP	• 80% information on projects reported	DPs	Trimesterly	• 14.02% (Poor reporting by DPs)
	Aid Predictability	Aid is less predictable (Baseline: 25 % gap between planned and actual disbursements)	• Reduce gap between planned and actual DP disbursement by end of FY	• Gap between planned and actual disbursement reporting reduced to 20% or less	DPs/MoF	Continuous 2014/15	• Pending. Gap 46% (Gap is higher because actual disbursement is very slow and planned disbursement has increased in recent times).
				• MOF submits full annual budget for 2014.15 before the end of FY 2014;	MOF	June 2014	• Completed. MOF submitted budget in mid July 2015.
				• Line ministries and NPC issue budget authorization for DP funded projects within 45 days of annual GoN budget approval.	Line agencies/ NPCS	July /Aug 2014	• Completed. (NPC and line ministries issue authorization within stipulated time).

Theme/ Sector	Key Result Areas	Challenges	Agreed Actions	Performance Indicators	Responsible Agencies	Target Date	Progress
	Increased Use of National Budget System (on budget and on treasury; on budget – off treasury)	Use of the national budget system (on budget and on treasury)	• Increased external aid using the on budget and on treasury, national systems e.g. fund flow, procurement and audit systems	• Use of national systems will be increased using on budget and on treasury system. (DPs to provide written explanation if a national system is not used at the time of MOU/approvals).	DPs/GON	Continuous	• Partially completed. Continuous Process. MOF is continuously monitoring it. There has been more use of country system in recent years. About 71% of foreign aid is channeled through on budget system in FY 2013/14.
	This links with the reforms made under the PFM theme]	Baseline: 45% of total external aid through treasury.	• Existing oversight of government system will be made more vigilant	• MOF/GON to monitor appointment of remaining positions of constitutional bodies/oversight agencies e.g. Commissioners and Public Accounts Committee.	MOF	Oct/Nov	• Completed. All vacant posts of CIAA and OAG have now been fulfilled.
			• Finalize and endorse the Development Cooperation Policy following consultation with stakeholders including clarity on use of government and non government systems.	• DCP approved; final consultation/consolidation of DCP; DCP to clearly articulate policy on use of government systems and shared to DPs.	MOF	Early May	• Completed. (DCP has been approved and issued in 2014).
	Global Partnership Commitments	Implementation of GPEDC agreements: Integrating new approaches to development to deliver effective development results	• Integration of Global Partnership commitments into DCP • Recognition of new and non-traditional development partners, including private sector actors in aid policy and fora. • Joint development of a risk management approach to the use of government systems	• MOF initiates inclusive participation of the private sector, civil society and other non-traditional partners on key development policy discussions.	• DPs/ IECCD	Continuous	• Completed. (Inclusive participation of private sector, civil society and non traditional partners are invited in policy discussion by MOF. • Pending. (No action initiated)

Theme/ Sector	Key Result Areas	Challenges	Agreed Actions	Performance Indicators	Responsible Agencies	Target Date	Progress
	Aid Harmonization	Prevalence of Aid Fragmentation	• Pre SWAP Assessment of sector policies and institutional arrangements in other areas (such as Infrastructure, agriculture, energy, and WASH). • Swaps' learning's to transfer to other ministries and sectors.	• Assessment completed and outcome shared with GON/DPs • Current SWAp (Health and Education) analysis and lesson learning-MoF to lead process to have MOHP undertake the effectiveness of SWAp and identify areas of improvement to guide the preparation and implementation of new SwAPs.	GON/DPs/FCGP (concerned sector ministries supported by related DPs)	Nov 2014	• Partially completed. A study is being planned this year by Aid management and Coordination Project of MOF)

ANNEX 3: SECTORAL ANALYSIS

3.1 Agriculture Sector

A. Introduction

Agriculture sector accounts for 33.1 % of the Gross Domestic Product (GDP) of the country, and the main source of livelihood of 83% of Nepal's population, who live in rural area, is based on agriculture. The Government of Nepal emphasizes agriculture as a means for alleviating poverty and as an engine for economic growth. Over the coming years agriculture programs will focus on: (i) increasing production and productivity of key agricultural crops, (ii) addressing both food and nutrition security, (iii)promoting agriculture commercialization and modernization for increased efficiency and farm income, (iv) local economic development through agribusiness cluster development and (v) alleviating poverty through smallholder agriculture development. Agriculture programs will be designed to enhance competitiveness, generate employment through innovative programs to engage youth, promote agricultural practices that promote environmental stewardship, and conserve agricultural bio-diversity. Emphasis is placed on initiatives that lead to import substitution and export promotion.

Agriculture sector in Nepal is subject to threats such as climatic variations (drought and flood), landslides, pest outbreaks and declining productivity due to soil erosion. This year has been a devastating one with the massive earthquakes of 25 April and 12 May and many aftershocks which have greatly impacted the agriculture sector. The quakes killed nearly 9,000 people, injuring 25,000 others and made thousands more homeless. A Post-Disaster Needs Assessment (PDNA) puts damages and losses from the earthquakes at about $7 billion, and reconstruction needs amounting to about $6.7 billion. Thus, one of the major focuses in the coming year will be on recovery of agriculture, particularly in the 24 hard hit districts. Recovery will aim at restoring the production of crop, livestock and fisheries to pre earthquake levels. Activities identified for recovery include provision of quality seeds, restocking of lost animals, distribution of agricultural implements and machineries, construction and/or rehabilitation of damaged agricultural infrastructure such as agriculture service centers, livestock service centers and livestock sheds, vegetable collection centers and community seed storage facilities.

B. Review of Agriculture Sector Including Good Practices

General Progress

Agriculture sector has made notable progress in the last year, including: (i) Cabinet approval of the Agriculture Development Strategy (ADS) which will guide agriculture development in Nepal for the next two decades, (ii) development of the Multi-Sector Nutrition Plan and Food and Nutrition Action plan which will provide direction for achieving nutritional outcomes, as envisaged by the Government of

Nepal, and (iii) the Zero Hunger Challenge Initiatives-2025 to ensure that every man, woman and child enjoys their right to adequate food.

Progress under the new and innovative programs include: (i) Rehabilitation of 400 hectares (ha) of citrus orchard, (ii) Addition of 58 ha of land under cardamom plantation, (iii) addition of land under maize and oil seeds by 25,500 and 2,000 ha respectively, (iv) distribution of 3.1 million improved seed kits, (v) establishment/ renovation of 200 collection centers, (vi) rehabilitation of 68 irrigation schemes, (vii) establishment of four seed storage and processing facilities across the country, (viii) production and distribution of 9.6 million doses of vaccine, (ix) NPR 1,551,201.82 made available under agriculture insurance, and (x) 107,000 litres of liquid nitrogen produced.

Good Practices

Smart subsidies. Subsidy on fertilizer and improved seed and their distribution through Cooperatives at local level has been instrumental in helping smallholder, resource-poor farmers increase crop production. Government's recent decision to expand eligibility for subsidy to include commercial farmers is smart as it has helped increase overall productivity of agricultural produce.

Youth focused program: One of the key concerns of the Government of Nepal is to attract and engage youth in agricultural activities. High value low volume agricultural programs such as greenhouse techniques for seasonal and off season vegetable cultivation, mushroom farming, bee keeping and trout farming have been very well received by farmers, particularly youth, evident from the increasing demand for support. The provision of matching grants have proved to be very useful and a source of motivation to engage youth. This initiative is expected to retain youth from migrating outside of Nepal in search of jobs.

Demand based programs: Ministry of Agricultural Development has initiated demand based agriculture program for agriculture commercialization and structural development for small and medium farmers through devolved programs such as agriculture mechanization, modern vegetable production and agriculture processing based on farmer needs and priorities at Village Development Committee level, Area Level and District level. This is being complemented by provision of competitive grants from donor-funded projects for medium and larger farmers and agriculture entrepreneurs

Problem/Demand -based Research and Development: Agriculture research and development has started with the new and innovative dimension of demand based research. There are technical working committees at district, regional and national level. Topics for research are jointly identified by farmers and extension agents through respective District Agriculture Development Offices and sent back to research institutions through regional authorities with necessary amendments for execution. The Agriculture Food Security Project operating in 19 districts in West and Far Western Nepal has already instituted a system of engaging farmers, extension workers and researchers in both identifying research topics and in conducting pre-varietal selection activities.

Food Quality Control: While food production is important, it is equally important to ensure that consumers are provided with safe food. The capacity of Department of Food Safety and Quality Control (DFTQC) has been enhanced to carry out regulation of food quality. Agro-enterprises and processing industries are provided access to secure services to check the quality of their produce to ensure that food products adhere to the standards recommended by the Government of Nepal.

Value Chain Support Grants: A Value chain approach has shown to be far better than a piecemeal approach as it provides avenues to fully exploit opportunities for value addition as the product moves along the chain. Projects such as Project for Agriculture Commercialization and Trade (PACT), High Value Agriculture Project (HVAP), Kisankalagi Unnat Biu-Bijan Karyakram (KUBK), Raising Incomes of Small and Medium Farmers Project (RISMFP), High Mountain Agri-business and Livelihood Improvement (HIMALI**(** Project are already providing grants (as booster) to support value chain development and have already shown positive results – e.g., establishment of chilling and processing facilities in dairy, processing and storage of ginger, potato and canning industries for tomato.

C. Development Partners Supporting the Agriculture Sector

In order to ensure aid harmonization and increase synergy the MOAD has been holding coordination events such as Food Security Cluster meetings and MOAD-led portfolio review meetings in addition to participating in coordinated field visits. Examples of good practices include joint launching of Agriculture Food Security Project and Knowledge-based Integrated Sustainable Agriculture and Nutrition (KISAN) Project and coordinated site selection between these two projects to avoid duplication of work and enhance synergy and cooperation. Other examples include consultative identification of key issues such as seeds and fertilizers. As a result, MOAD has been able to carry out studies on demand and supply side of fertilizers and organize national level seed seminar, slated for November **2015.**

D. Challenges and Gaps

While topographical, climatic and location advantages offers Nepal significant opportunity to grow seasonal and off season vegetables and crops, the productivity of this sector remains the lowest in the region. Factors impeding agriculture development include:

(a) Lack of sectoral approach and coordination issues among multiple agencies in the sector thus posing difficulty in achieving common outcomes.

(b) Inadequate investment in agriculture from both public and private sector including in research and development.

(c) Smallholder cultivation and land fragmentation which makes mechanization difficult.

(d) Logistical constraints and connectivity. Lack of power makes the establishment of cold storage and processing activities difficult and costly; lack of access roads has made transportation of agricultural produce to markets difficult; and many cultivable lands have not realized production potential due to the lack of irrigation facilities.

(e) Labor shortages in rural areas and high cost of labor especially during the planting seasons. Lack of employment opportunities, low returns from farming, lack of organized market and access to fair market price is resulting in a decline in farming population.

(f) Mismatch in types of services required and provided. Skills and knowledge of agricultural extension agents need to be upgraded from time to time to provide technical and advisory services that meet farmer needs.

(g) Centralization of technical institutions and competent human resources.

(h) Deteriorating and weak agriculture infrastructure is negatively affecting the capacity of agricultural offices to provide extension services, and

(i) Lack of enabling environment and support for agriculture entrepreneurs.

E. FY 2015/16 Priorities

Key priorities set for agriculture sector based on the existing policies and the 13thdevelopment plan are as follows:

(a) Institution of transparent and good governance

(b) Increased production and productivity of livestock, crops and horticulture aimed at contributing to agriculture sectoral growth.

(c) Recovery and reconstruction

(d) Commercialized and competitive agriculture.

(e) Enhanced competitiveness through increase in the quality and quality of food, support linkages to export opportunities and market.

(f) Financial, technical and logistical support to rebuild agriculture.

F. FY2016/17 Priorities

The following activities are identified as priorities for FY2016/17 by the Ministry of Agricultural Development:

a) Policy reform and promotion of good governance: This will include formulation of Rules, Regulation, Acts, Directives and Procedures.

b) Increasing the production and productivity of key crops, particularly rice, pulse and oil seeds. Increase in production of these crops is expected to contribute to import substitution.

c) Provide technical and institutional support to add value and find fair price markets for tea, cardamom, ginger and coffee.

d) Ensuring that agricultural programs consider both food and nutrition security. This will be done through the promotion of minor but nutrition rich crops such as buckwheat, beans, millet and soybean accompanied by behavior change messages.

e) Value chain approach: Efforts will be made to identify opportunities to add value to products at various stages as it moves along the chain (from production to consumption). This will also include infrastructure development such as the construction of cold storage, community warehouses for storing cereals and pulses, seed banks, modernization of government resource centers, establishment of processing centers and agro-marts.

f) Conservation of agriculture bio-diversity to prevent genetic erosion and maintain the gene pool through ex-situ and in-situ conservation programs.

g) Taking agricultural services closer to farmers by making available at least one agricultural technician per VDC. The technical skills of these technicians will be enhanced to be able to respond to emerging demands.

h) Promotion of mechanization where possible to address the problem of declining agricultural labor and improve efficiency.

i) Introduction and promotion of innovative agricultural programs that will attract and retain the youth, and supporting the returnee migrant workers engaged in agriculture.

j) Development of human resource development plan to ensure that technical services provided match with emerging demands from the farmers.

Details of the next fiscal year's priorities are in Table A1.

Table A1: Expected Agriculture Sector Results

Sectoral Outcomes	Output Indicators	Baseline March 2015 (in '000 Mt.)	Target July 2016 (in '000 Mt.)
Increased agricultural productivity	Food crops production increased	9266	10523
	Rice	4788.61	5213
	Maize	2145.29	2456
	Wheat	1975.62	2081
	Pulse production increased	353.5	427
	Oilseed production increased	194	207
	vegetable production increased	3629	3720
	Fruit production increased	1186	1197
	Tea production Increased	22.5	25.9
	Milk production increased	1724	1748
	Meat Production increased	300.9	317
	Fish production increased	69.4	79.8
Improved food and nutrition security status	Number of districts in food deficit	33	30

G. Implementation Strategies across the Five Thematic Areas

Key factors affecting timely and quality delivery of planned outcomes include the delay in release of budget, untimely submission of audit reports, staff turn-over, weak monitoring and evaluation system, lack of compliance with PPA and PPR, and weak coordination between various programs leading to duplication and sub-optimal resource utilization. Actions proposed to address these issues include: (i) timely authorization of budget to respective cost centers, (ii) use of computer based accounting systems to ensure timely delivery of audit reports, (iii) keeping good performing staff throughout the duration of the project, (iv) preparation and implementation of human resource development plan, (v) development and utilization of results based M&E system, and (vi) preparation of annual procurement plan.

3.2 Education Sector

A. Introduction

The education sector has reached a crucial juncture, with the completion of the 7-year School Sector Reform Plan (SSRP), the Education for All (EFA) targets, and the Millennium Development Goals (MDGs) to be accomplished in the FY 2015/16. Simultaneously, the planning and implementation in FY 2015/16 will need to address the impact in the education sector of the earthquakes of 25 April and 12 May 2015 and the many aftershocks that have affected a large part of the country . As such, the development of a new Education Sector Plan (the School Sector Development Plan) will both consolidate and further embed the accomplishments and achievements of the unfinished agenda of the SSRP and integrate the recovery plan for the earthquake-affected districts. The lessons learnt from the implementation of the SSRP will have to be taken into account to address the challenges in providing quality education for all children, and leading to relevant skills and learning. As such, the Nepal Portfolio Performance Review (NPPR) provides a platform for stocktaking of the progress observed under the SSRP against the end of project targets and identifying the priorities for the next year to achieve quality and learning outcomes at all levels of education.

B. Review of the Sector Including Best Practices

Access and Equity

Access to education has been significantly increased at primary level (NER 96.2%), which has further contributed to access at basic (NER 87.6%) and secondary (NER 56.1%) levels. In addition to the Government achieving gender parity at all levels, actions to address disparities across districts and disadvantaged groups have accelerated. Overall, the strategies implemented have been relevant and fairly comprehensive, based on a reasonable depth of analysis of what are complex barriers and issues. However, resource limitations and the delay in legislation for restructuring the education system have hampered fully-fledged implementation of these strategies. The earthquakes and aftershocks led to the complete closure of schools and colleges for about a month (26 April–30 May) in the highly affected districts, forcing more than 2 million children and youth to miss out on education for a significant period of time. Children from vulnerable groups are at risk of remaining out of school. In response, temporary learning centers (TLCs) have been established to ensure children regain access to education until their schools have been safely reconstructed under the recovery program. The Consolidated Equity Strategy for the School education sector has created scope for the further strengthening coherence, prioritization and efficiency in the conceptualization and implementation of strategies for equitable access, participation and learning outcomes. As such, the implementation of the strategy will provide a tool for balancing the Government’s response across historic disparities in access, participation and learning outcomes, and those that have emerged after the disaster. Under the strategy, initiations have been made to strengthen and align needs- based targeting of incentive schemes and to allocate additional resources to address the disparities in access and participation, faced in certain areas.

Quality and Learning Outcomes

Efforts have continued to address the main quality issues in the education sector, such as further targeting of resources for school to meet priority minimum enabling conditions (PMECs), the preparations for the roll out of the National Early Grade Reading Program (NEGRP) and the study on the medium of instruction in education and the piloting of activities to improve the relevance of secondary education through the introduction of soft skills and TEVT. With regard to the PMECs, the Department of Education (DoE) is currently revising the current number of PMECs met in schools based on the damage that resulted from the earthquakes in April/May 2015. Further building on the existing Teacher Professional Development (TPD) infrastructure is needed to create rigorous and targeted systems for both in-service training and in-school support. The main challenges in the area of quality and efficiency are to ensure sufficient resources and technical oversight in the repair and reconstruction of schools that have been damaged or destroyed and retrofitting of those that do not meet the safety standards and building codes developed as part of the post disaster recovery plan. Furthermore, in the non-affected districts, retention and completion rates in basic and secondary education levels remain low which indicates further need for quality improvements and poses efficiency issues with regards to the limited resources available.

The Education Review Office (ERO) published the results of the second round of the National Assessment of Student Achievements (NASA) for grade 8 in 2015. Together with the second round of NASA results for grades 3 and 5 that will be published in 2016, the Ministry of Education has now initiated further comparative analysis of learning outcomes to strengthen evidence-based planning and to compare learning outcomes in the pre- and post-disaster context. This is considered a major achievement as it provides Nepal for the first time with a national assessment of learning outcomes that allows analyzing trend and disaggregated outcomes for further planning. Learning outcomes remain an area of concern with the last year's SLC results showing a further decrease and similar results are seen with the recent NASA grade 8. In addition to this, the impact of the interruption of education for nearly 2 million children in the disaster-affected districts will have a negative impact on learning outcomes.

Governance and Management

Despite the fact that promulgation of the amendment of the Education Act was envisioned to be the major policy reform under the School Sector Reform Program, this is yet to happen; thereby also affecting other key reforms envisioned and remain a priority to be completed within the FY 2015/16. The post-disaster context has brought about a need for the reconstruction of educational infrastructure on a large scale in the affected areas. At the same time, the available institutional capacity and technical oversight is limited in order to safeguard that reconstruction will take place as per approved designs and building codes. Furthermore, monitoring of reconstruction that is undertaken by actors other than Government is crucial to ensure that schools will be (re)constructed in line with the building codes for safe schools. The Government leadership during the emergency response is acknowledged and has enabled a comprehensive review of the damage and needs within the sector, as well as mapping of response activities undertaken by Government and other actors coordinated through the Nepal Education Cluster.

Overall, progress is observed in strengthening governance within the sector, such as teacher redeployment within 65 districts and development of Per Child Fund (PCF) salary distribution guidelines to support schools with un-served students. However, challenges remain in timely submission of IPRs, FMRs, audit reports and improving independent verification of flash data. Positive efforts can also be seen in the improvement of fiscal discipline and the corrective measures taken. Finally, the Sector Wide Approach (SWAp) through which the Ministry of Education implements the education sector plan in partnership with Development Partners serves as a strong foundation in the management, coordination and planning of the response and (early) recovery phases within the education sector post-earthquakes in order to ensure that the negative impact of the disaster on education outcomes was minimized.

C. Sectoral Results and Priorities

The sectoral results and priorities of the FY 2015/16 are in line with those identified within the 13th Plan, the SSRP Extension Plan and the Post Disaster Needs Assessment (PDNA), which are:

Access and equity

(a) Expansion of ECED/PPCs into identified poverty pockets.

(b) Shifting priority in resource allocation to Basic (6-8) and Secondary (9-12) levels.

(c) Consolidation of scholarship programs through a one door system using the Poverty Card as the first criteria, regardless of gender or ethnicity.

(d) Scholarship to children with disabilities.

(e) Expansion of special incentive packages (including mid-day meals) to ECED and early grade children in new and deserving areas.

(f) Life-skills and income generation support to Poverty Cardholder parents.

(g) Special programs for out of school children and children with disabilities.

(h) Girls' access to tertiary education.

(i) Private public partnerships to ensure equitable access to quality education in rural and remote areas.

Quality and learning outcomes

(a) Institutionalization of facilitator training and capacity building.

(b) Priority on student learning with a focus on early grade reading (grades 1-3).

(c) Allocation of school hours to build reading habits and assignment of a teacher for language teaching in early grades.

(d) Meeting PMECs in all community schools with mandatory provision and use of library corner in all community schools.

(e) Effective teacher management, deployment/redeployment and professional development.

(f) Strengthening CAS with remedial support programs.

(g) Provision of multiple textbooks and extracurricular reading materials.

(h) Increased percentage of female teachers in basic and secondary education.

(i) Increased number of trainees receiving short-term vocational training.

(j) Number of safe classrooms constructed.

(k) Number of damaged classrooms undergone retro-maintenance.

(l) Number of (minor damaged) classrooms repaired/maintained.

(m) Number of schools retrofitted.

Governance and Management

(a) Review and restructuring of SMC and PTA roles and functions.

(b) Strengthening capacity of SMCs and PTAs.

(c) Head-teacher appointment on performance contracts.

(d) Strengthening the roles of RC/RP in teaching and learning in the classroom.

(e) Strengthening the Integrated Education Management System (IEMIS).

D. Priority Actions for FY 2015/016

The priorities for the coming year are first and foremost to both achieve the unfinished agenda of the SSRP within its last year of implementation and to initiate the implementation of the post disaster recovery plan, thereby developing a solid evidence-based foundation for the next School Sector Development Plan that will commence in FY 2016/17. As such, the status of the targets established in the 13th Plan and the SSRP Extension plan will be revised based on the impact observed in the PDNA to serve as a baseline for the SSDP. Some unfinished priority areas of the SSRP include the further strengthening of quality of and access to education at all levels.

The second priority is to reconstruct, repair and retrofit schools to fulfill the commitment in providing priority minimum enabling conditions and that c conform to the post-disaster safe building codes. To bridge the period of reconstruction, ensuring access to education through the establishment of sufficient numbers of TLCs in disaster affected districts will remain a short-term priority. As part of the quality and learning environment through PMECs, activities to strengthen inclusive quality of teaching and learning will be undertaken. The Consolidated Equity Strategy implementation will consolidate and target need -based strategies to accelerate the enrolment and retention of the remaining out of school children, based on evidence of the barriers and needs.

The roll out of the NEGRP and strategies aimed at improving learning outcomes based on the findings of the two completed NASA cycles will further direct the focus on assessment and improvement of learning outcomes. Finally, there will be an increased focus on secondary education in establishing minimum enabling conditions and strengthening access and completion, including the further upscaling of the secondary technical stream and focus on skill development within education.

The potential indicators stated in table A2 are indicators that are reflected in the 13^{th} plan, SSRP results framework and budget speech of FY 2015/016. In addition to this, some of the indicators are taken from the recommendations made in the PDNA report published by the National Planning Commission in 2015.

Table A2: Outcomes and Indicators — Education Sector

Sub-sector	Sectoral Outcomes	Output Indicators	Baseline June 2015	Targets July 2016
Access & Equity	• Education survival rate increased to 80% at basic level. • Access to secondary education and higher education increased • Ratio of female teachers increased • Learning Achievements increased in core subjects in class 3 in Math (2%) and Nepali (3%) and in class 5 in Math (1%), Nepali (5%) and English (2%).	• Grade 1 entrants with ECED experience	59.6%	64%
		• Access (NER) to secondary education (grade 9-10)	56.1%	60%
		• Access (GER) to tertiary education	17%	18%
		% of female teachers in; • Basic education • Secondary education	 34.5% 13.9%	 36% 16%
Quality and learning outcomes		• Number of safe classrooms constructed • Number of safe classroom construction initiated * • Number of damaged classrooms undergone retro-maintenance • Number of (minor damaged) classrooms repaired/maintained • Number of schools retrofitted		8,300 8,280 3,000 7,676 209
		• Availability of textbooks (within 4 weeks)	81%	100%
		• SLC pass rate increased	47%	55%
TVET	• Skilled human resource increased in the job market	• Number of trainees received short-term vocational training	31,456	39,980

*to be completed in next two years

3.3 Energy Sector

A. Background

An adequate energy supply is key to economic growth and the realization of development goals for any country. Nepal's economic and social development is being hampered due to an inadequate supply of energy. Development of hydropower can reduce poverty and bring about economic growth for Nepal. With adequate hydropower generation, the economic activities in rural and urban areas can be enhanced and Nepal can generate revenue through its exports. However, less than 1% of the potential 83,000 megawatts of hydropower is currently harnessed.

B. Review of the Energy Sector

Access to electricity. According to the national census published in 2013, about 75% of the total population of Nepal (27.5 million) is estimated to have electricity; about 60% are connected to grids and 15% are off-grid. Nepal's average annual per capita electricity consumption is about 161 kWh (CBS-2013) –one of the lowest consumptions in South Asia. Lack of access to reliable grid-supplied electricity is one of the key obstacles for lifting the people out of poverty —a country diagnostic study from ADB also identified this as a major binding constraint on Nepal's inclusive economic growth.[7]

Demand and supply gap. Peak demand of electricity in the Integrated National Power System rose to 1292 MW in the current year while the supply was just over 780 MW.[8] In addition Nepal draws about 150-170 MW power from India during peak periods. Thus, Nepal is deficit of about 340 MW including the import from India resulting in load-shedding of up to 12 hours a day. Contribution of imported electricity to the total supply reached 23% last year. Nepal Electricity Authority´s (NEA) system loss stands at 24.44% of total energy generation in 2014/15.[9]

Only 14% of the total installed capacity comes from dam storage hydropower that can be seasonally regulated. This results in significant power shortages during winter, when the run of the river plants generate significantly lower than their rated capacity. Nepal's thermal power plants (53.4 MW) with a poor record of operation do not contribute much, and the country does not have solar or wind power. This aggravates load shedding of up to 16 hours in winter.

It is forecasted that the peak demand for electricity from Nepal's power system will increase to about 2,200 MW by the end of 2020-21; whereas the expected generation addition is expected to reach about 3,000 MW by 2020-21. Thus by 2020-21, Nepal is expected to be self-sufficient in terms of power requirement. However, timely implementation of hydropower and transmission projects is our challenge.

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7 ADB, Department for International Development, and International Labour Organization. 2009. Nepal: Critical Development Constraints. Country Diagnostics Studies. Manila.

8 This includes 53.4 MW thermal plants.

9 The loss is worth around Rs 7 billion.

Generation

Total existing installed generation capacity is reported to be 787 MW of which 782.5 MW is on a grid system and the rest comes from off the grid. Summary of generation capacity is illustrated below in Table A3.

Table A3: On-grid Generation Capacity of Nepal

S.N.	Source of Generation	Installed Capacity (MW)
1	Total Hydro (NEA)	477.9
2	Total Small Hydro Isolated (NEA)	4.5
3	Total Hydro, in Grid System (NEA)	473.4
4	Total Hydro (IPPs)	255.7
5	Total Hydro (Nepal)	729.0
6	Total Thermal (NEA)	53.4
	Total Installed Capacity in Nepal	**782.4**

Transmission Network. Existing transmission system consists of 66 kV and 132 kV transmission lines and associated grid substations. NEA has a transmission system with 42 substations (28 at 132 kV level and 14 at 66 kV level) with a total transformation capacity of 2,159.6 MVA (1722 MVA at 132 kV and 438 MVA at 66 kV). There are a total of 57 lines under the transmission segment, out of which 36 lines are at 132 kV level and 21 lines at 66 kV level. There are 2,129.7 circuit-km of 132 kV transmission lines and 511.16 circuit-km of 66 kV transmission lines. The route length of these transmission lines is 1948 with 6,093 towers.

Distribution - NEA

NEA has a de facto monopoly over the distribution of electricity. It provides electricity services to more than 2.87 million consumers through its 90 distribution centers spread over the country through a distribution system of 33 kV, 11 kV and 400 V lines and associated distribution substations. In FY2012, domestic consumers accounted for 94.34% of its customer base, but only contributed to 44.78% of the total sale; industrial and other commercial consumers on the other hand accounted for only 5.66% of the consumer base, but contributed to 55.23% of total sales. Marginal reduction in audited power losses observed from the NEA systems with 24.64 in FY2013/14 to a provisional 24.44% in FY2014/15. The initiatives for loss reduction included close monitoring of distribution networks, establishment of loss reduction committees, and penal action against errant users.

Distribution – BPC

Butwal Power Company, a private entity, distributes electricity in four districts of Western and Midwestern region of Nepal – Syangja, Palpa, Pyuthan and Arghakhanchi - to approximately a 36,000 consumer base. These customers are provided a service through two distribution centers located in Galyang, Syangja and Darimchaur, Pyuthan. A total of 62 VDCs including 2 Municipalities are electrified in Galyang and Pyuthan resulting in 7800 consumers directly benefitting and 28,000 consumers benefitting through user organizations.

Baseline information of Physical Infrastructure of NEA is given in Table A4.

Table A4: Distribution System Baseline Information

S.N.	Description	Quantity
1	33 kV distribution line (KM)	3,823
2	11 kV distribution line (KM)	32,393
3	400 V distribution line (KM)	87,318
4	33/11 kV distribution Transformer-set (Nos.)	800
5	11/0.4 kV distribution transformer-set (Nos.)	21,877
6	33/11 kV Substation (Nos.)	100
7	Installed Capacity of 33/11 kV S/S (MVA)	843
8	Installed Capacity of distribution Transformers (MVA)	2030

Off-grid Electricity Services

As of July 2013, there are 1,152 community owned micro-hydro plants (MHP) with totaled installed capacity of 22,830 kW. Similarly there are about 600,000 (July 2014), Solar Home System (SHS) / Small Solar home System(SSHS), with total capacity of about 10 MW, that have been installed by individual households for lighting purposes. Alternative Energy Promotion Center develops and administers the off grid power supply.

C. Sectoral Results Framework and Challenges

Generation

The previous Three Year Plan had envisaged the completion of 281 MW in new generation and 1,743 MW in initiated generation construction. This target could not be reached due to inadequate infrastructure, including a lack of roads and transmission capacity; failure to restructure the tariff rates; and implementation issues at the local level. The ongoing Country Thirteenth Plan for FY2014–FY2016 targets the commissioning of 668 MW of new generation capacity and the start of construction for an additional 584 MW. This has compelled Nepal to increasingly import power from India.

Transmission

The lack of infrastructure to deliver energy from generation sites to load centers has been a crucial bottleneck. The previous Three Year Plan aimed to add 700 kilometers (km) of transmission lines by FY2013 to the 1,916 km existing in FY2009, but the network had been expanded by only 64 km by the end of FY2011. The absence of a clear plan for developing the country's electrical transmission system is a significant obstacle to greater investment in new hydropower development by the IPPs. Nepal also lacks sufficient cross-border transmission infrastructure. Except for certain border areas, transmission connectivity with India is limited to about 150 MW. The 400 kilovolt (kV) cross-border transmission link to enable better power exchange with India initiated in 2010 has yet to be completed. Delays in the acquisition of land have proven a major obstacle.

Sector Challenges

Deferred investment in electricity infrastructure has caused severe power cuts compelling commercial and industrial entities to operate costly diesel generators. The import of petroleum products exceeds total exports and thereby contributing to trade deficit.

Inadequate planning and investment in generation, transmission, and distribution, delays in project implementation due to lack of adequate legal and regulatory frameworks to resolve land acquisition and rights of way and forest clearance processes have hampered the development of hydro resources and resulted in the country suffering from severe power shortages.

The framework conditions and incentives for private investments in the power sector are not adequate and a non-cost-covering tariff system has deteriorated the financial health of NEA. As a government corporation, the NEA has dominated Nepal's power sector since it was established in 1985. NEA has accumulated loss that stands at about NRs26.8 billion at the end of FY2014/15 despite its financial balance sheet restructuring in December 2011.[10] In the absence of cost-based tariff adjustment for the last three years the financial health of NEA has deteriorated making it unable to invest in infrastructure to meet the rising demand for electricity.

Since the deregulation of business generation in 1992, numbers of IPPs have increased to 44. They now generate a total of 292 MW of electricity for the national grid, or 47.26% of the total electricity supply. 83 IPP projects are now under construction with generation capacity of 1521 MW. The government has also allowed the private sector to become involved in distribution. However, the private sector is required to deal with several constraints while investing in Nepal’s hydropower. These include, amongst others, inconsistency in or absence of PPA policies, lack of comprehensive planning, financial limitations, the NEA’s credit and offtake risks, and difficulty in land acquisition and right-of-way issues. The current government program and budget does not mention meaningful support to independent power producers.

At project implementation level, centralized prolonged procurement processes of NEA, weak project management capacity, weak performance of consultants and contractors, and high turnover of key project staff in the key infrastructure projects result in slow project implementation, low disbursement and multiple loan and grant extensions.

The output indicators envisaged in the annual budget FY2015/2016 includes the following:

[10] The restructuring, among other things, (i) increased the NEA’s capital share to NRs50 billion, (ii) wrote off its accumulated losses, and (iii) converted interest due by the NEA to the government to equity.

Table A5: FY 2015/2016 Planned Results Framework

	Activities	Units	Baseline FY2014/2015	Achievement FY2014/2015	As of end FY2015/2016
1	Generation addition	MW	818	600	1,418
2	Transmission lines	KM	2,640	100	2,740
3	Per-capita electricity Consumption	kWh	130	140	270
4	Consumers Access	Nos.	3,172,000	250,000	3,422,000
5	System Loss	%	24.7	(1.5)	23.2
6	33 kV distribution lines	KM	3,823	500	4,323
7	11 kV distribution lines	KM	32,393	1,500	33,893

D. FY 2015/16 Priorities

For the fiscal year 2015/16 the government announced an annual budget of NPR 819.0 billion which is 32.6% higher than the estimates and 56.8% higher than the revised estimates of the previous Fiscal Year. The energy sector has been allocated NPR 51 billion for the current fiscal year, which is about 6% of the total budget. The allocation is mostly for the construction of transmission lines, hydropower generation and project preparation.

Government plans to start construction of a 140 MW storage hydropower plant in Tanahun district from next year and has issued NPR 1.05 billion for this purpose. Similarly, NPR 4.66 billion will be used to complete the construction of 60 MW Upper Trishuli 3A, 42 MW upper Modi, 32 MW Rahughat, 30 MW Chameliya, and 14 MW Kulekhani hydropower projects. In addition, the initial phase of construction work of Budhigandaki Storage Hydropower Project (1,200 MW) is to be initiated as well as the detailed design of Nalsing Gadh Storage Hydropower Project and implementation of the Grid connect solar project of 25 MW and the Pancheswor multipurpose project (site office, land acquisition and EIA and DEMP etc.) will begin.

Nepal government has issued Rs 13.5 billion for building new transmission infrastructures. Government plans to use Rs 1.58 billion for two inter-country transmission lines projects – 400 KV Dhalkewar – Mujafarpur and 132 KV Katiya – Kushaha. Other notable projects include constructing the transmission corridors in Kabeli, Koshi, Solukhumbu, and Marsyangdi. These corridors will connect electricity generated from upcoming hydropower plants to the national grid. Government has also issued budget to conduct feasibility studies for new hydropower plants and other transmission lines.

Timely implementation of transmission line construction requires solving the problem of land acquisition and tree logging in a coordinated way. Rs12.73 billion have been allocated for the construction of transmission lines. Government also plans to construct the transmission line through the 'Build and Transfer' method, including the private sector, under the National Transmission Grid Company which was established this year.

The budget for this fiscal year stipulates that the government will give priority to community based micro hydropower plants and solar energy systems. Specifically, Rs 1.11 billion will be used to install off-grid solar systems to 125 thousand low income homes.

As a part of the government plan, the Electricity Trading Company will be established for national and international electricity trade. Import and consumption of less electricity consuming instruments will be promoted for economy in consumption of electricity. Provision of purchasing excess electricity by fixing net meter produced by solar panel on the roofs of urban houses and connected into electricity distribution system is also envisaged.

In the last few months the Government has successfully signed project development agreements (PDA) with two Indian companies regarding 900 MW Arun III and 900 MW Upper Karnali projects. GMR-Energy signed an agreement in September 2014 to build a 900 MW, $1.4 billion plant in Upper Karnali with the aim to commercially operate from September 2021 with financial closure to be completed by September 2016. The GMR Energy is also in an advanced stage of developing another large project, Upper Marsyangdi-2 (600 MW). India's state-owned power company, Sutlej Jal Vidyut Nigam, plans to construct a 900 MW Arun III hydro river project and is expected to generate electricity from 2021.

Upper Karnali and Arun III both contain free electricity clauses and have a certain equity stake in the projects. The Upper Karnali plant is expected to provide 420 GWh of free electricity (12% of installed capacity) and 27% free equity shares to NEA. Sutlej will provide 21.9% free energy, which is worth Rs 155 billion ($1.57 billion) and Rs 107 ($1.08 billion) billion more in royalties. According to NIB, Nepal is set to receive Rs 348 billion ($ 3.53 billion) in 25 years from Arun III project. NEA's financial position will be strengthened with these projects developed.

However there are also many challenges mainly in building trust and cooperation, timely execution and finding markets for surplus electricity.

Table A6: Expected Sectoral Results

Sectoral Outcomes	Output Indicators	Baseline July 2015	Targets July 2016	FY 2016 Additional
1. Per capita electricity consumption (125 kWh in July 2016 from the current level of 116 KWh)	Generation addition to grid MW	767	795	28
	Extension of transmission lines (132 kV, 220 kV and 400 kV) km	2,640	2,715	75
2. NEA System Loss reduced by 1% (from 24% to 23% by July 2016)	Extension of distribution line (33 kV, 11 kV and 0.4 kV) km	123,534	127,534	4,000
	Household connection (1000 HH)	2,850	3,100	250
	From Solar (No.)	-	125,000	125,000
	Mini/Small Hydro (KW)	26,276	31,276	5,000

3.4 Local Governance Sector

A. Introduction

District Development Committees (DDCs), Municipalities, and Village Development Committees (VDCs), which are collectively known as Local Bodies (LBs) play a vital role in inclusive socio-economic development and effective service delivery at local level. The Local Self-Governance Act 1999 and Local Self-Governance Rule 2000 are the legal foundations for the authorities and responsibilities of the local bodies. Local bodies are responsible for the identification and prioritization of local needs; planning, implementation and monitoring of development programs; mobilization of internal revenue; partnership with non-state actors; and strengthening accountability mechanisms at local level. The 14-step participatory planning process practiced by the LBs has helped institutionalize the bottom-up inclusive development process. Local infrastructure, primary health care, primary education, agricultural extension, and livestock are the areas that are devolved to local governance. In addition, LBs are also responsible for managing vital events registration (VER). However, despite the administrative mechanism in place, the absence of elected representatives in LBs for more than a decade and half has crippled the pace and vibrancy of local governance.

B. Sector Review and Best Practices

Key Achievements

There have been some noticeable achievements in Local Governance during the last fiscal year and the first half of the current fiscal year. A bill for the amendment of the Local Self-Governance Act 1999 has been drafted and submitted to the Legislative Parliament for approval. A draft of Local Bodies Revenue Mobilization Rules 2071 has been prepared. The 39 districts have prepared their Periodic District Development Plans (PDDPs). The Web-Based Reporting System (WBRS) for regular online reporting of performances has been operationalized. 133 new municipalities have been established to make local service delivery and development process more effective. Performance contracts with Local Development Officers (LDOs) of 68 districts and Executive Officers (EOs) of 127 municipalities have been signed.

Out of the total 3,276 VDCs, 2,692 VDCs are now connected with the local road network. Similarly, about 53,000 kilometers of local roads, 205 motorable bridges, and about 6,000 suspension bridges have been built, resulting in having a suspension bridge within three hours walking distance where necessary.

MOFALD and the local bodies, together with LGCDP donor partners, were able to rapidly respond to the disastrous earthquakes of April and May 2015 and the aftershocks by ensuring the allocation of emergency relief funds to the 14 most affected districts within days. This provided much needed immediate support in the areas of shelter, food, and medical supplies.

Major Challenges and Gaps

Even though the government manages the overall administrative affairs for the day-to-day operation of local bodies, the local bodies have been unable to be fully functional in the absence of elected representatives and thereby weakening the accountability of local governments. Similarly, enhancing the institutional capacity of the local bodies has become one of the major challenges in local governance. Local bodies are unable to sufficiently mobilize their internal resources and largely rely on central grants. Besides intensive social mobilization activities up to the grassroots level, the list of unmet demands and aspirations of citizens at community level has significantly increased. The trust of citizens in the government is gradually declining. Limited community ownership and maintenance of completed projects poses a serious threat to the sustainability of government interventions in the field. Adequate preparation to make local governments more viable, competent and strong in the federal context and transition management is also a challenge. Furthermore, reconstruction of community infrastructures such as local road networks (roads, bridges and culverts), drinking water and sanitation damaged by the recent earthquakes has exerted additional pressure on the government.

Best Practices

Over the period, there are some exemplary works done in the Local Governance sector. Social mobilization, participatory planning, local infrastructure development, Environment Friendly Local Governance (EFLG), Child Friendly Local Governance (CFLG), performance -based grant system and application of information and communication (ICT) based accounting and reporting in local bodies are some of the examples of best practices in this sector.

Social mobilization: The 4,289 Citizen Awareness Centers (CACs) have been instrumental in engaging economically and socially marginalized people in local level planning and decision making. 32,000 Ward Citizen Forums (WCFs) have been formed to raise peoples' voices and concerns, promote good governance, and ensure inclusion at local level. They are active in local governance and are influential in bringing social change and inclusive development.

Inclusion and pro-poor investments: In line with the spirit of the LSGA and other guiding documents, pro-poor investment is one of the major criteria for the allocation of budget and expenditure of local bodies. Targeted programs for the empowerment of Dalit, Adibasi, Janajati, Madhesi, Muslim and other disadvantaged communities is a major focus. Local Bodies have started to allocate at least 35% of their budget to these excluded groups

Participative Planning: There is a 14-step planning process that starts at the settlement level and reaches the District Council. Having at least one CAC in each VDC is helping to empower the marginalized and socially excluded whereby they encourage and ensure their active participation in the local level planning and decision making process. This bottom-up planning process has supported the prioritization of people’s needs and built ownership of the local programs. Other than government actors, private and non-government sectors working at local level are also involved in the Local Body' planning process through the Integrated Plan Formulation Committees.

Performance Based Management System: The use of Minimum Conditions and Performance Measures (MCPM) has been very effective in institutionalizing the performance based budgeting system and improving local governance. Even though, MCPM needs continuous review, updates and adjustments, it supports compliance with legal provisions and also promotes healthy competition among LBs. In addition, MOFALD has also initiated a performance based management system by signing performance contracts with LDOs and EOs.

Result based monitoring and reporting system: A web based reporting system has been operationalized at MoFALD. The monthly and other reports of LBs are now reported online. However, the reporting format needs to be modified to capture the results in line with sectoral result indicators in the result matrix of the national periodic plan.

C. Sectoral Results/Priorities

Local governance sector has set priorities in line with the goals and targets set by the 13thPlan and the indicators in its result matrix. In this regard, the key sectoral priorities of the local governance are as follows:

- Local infrastructure: Construction of local roads, drinking water and sanitation, small irrigation and micro hydropower etc. are the major focus areas. These infrastructures will be made disaster resilient.
- Service delivery: Construction of suspension bridges, agricultural roads, institutional capacity development of LBs and other development partners is equally improvement.
- Improved planning and monitoring system: Strengthening participatory planning, engaging women and disadvantaged communities in planning, implementation and monitoring etc.
- Improved public financial management: Operationalization of VDC accounting software and arrears reduction.
- Vital Event Registration and Social Protection: Development and operationalization of MIS, improved integration among various social security programs and expansion of banking system in distribution of Social Security Allowances.

D. FY 2015/16 Priorities

Reconstruction and rehabilitation of local infrastructures damaged by the recent earthquakes is the priority of the government. Reconstruction of the public office buildings of the local bodies (DDC, VDC and Municipality) is the first priority. More funds will be allocated for reconstruction to the districts with the highest impact from the earthquakes. The support of development partners will be mobilized for these highly affected districts in a cluster-based approach. Uniform procedures and institutional mechanisms will be developed to reduce transaction costs. The reconstruction work will be guided by the "Build Back Better" principle. Government will focus on building disaster resilient public infrastructure.

Local road networks (connecting VDCs by a road network) will be another major priority area for MoFALD for FY2015/16. 584 VDCs are not yet connected with the local road network. More funds will be mobilized in the construction and upgrading of local roads and suspension bridges.

Institutional capacity building of 133 new municipalities will be another important priority for local governance for the next fiscal year. The new municipalities are without adequate office buildings and other resources. Their territories lack adequate economic and social infrastructure. In addition, they have a significant challenge in addressing the growing expectations of the local community.

Safeguarding senior citizens, single women, persons with disabilities and other weaker sections of society is the welfare obligation of the state. Government provides different allowances to assure their welfare while Local Bodies provide support by delivering the same on the ground. Therefore, provisioning an adequate budget for social security allowances is another focus for local governance in the next fiscal year.

Elected Local Bodies are indispensable for the institutionalization of local governance. They will support in strengthening local level autonomy, accountability and ownership. Therefore, LB elections is another important priority for local governance in the next fiscal year.

Mitigating fiduciary risk at the sub-national level, particularly with local bodies, is a major area of focus for MOFALD. In this regard a priority is to introduce VDC accounting software in about 1000 VDCs; pilot and scale up social security payments though formal banking systems; introduce e-bidding for procurement; develop detailed procurement plans for the LBs; and implement the fiduciary risk reduction action plan (FRRAP) in the coming financial year.

Other sectoral priorities for local governance for the next fiscal year include improved peoples' participation and downward accountability; improved service delivery of Local Bodies; DP alignment with government systems; improved financial management system; improved result-based monitoring, reporting and evaluation system; better compliance with the Procurement Act; capacity building; and retention of human resources in local bodies.

E. Implementation Strategies across the Five Thematic Areas

MoFALD emphasizes increased collaboration between concerned agencies. The following broad strategies will be adopted for the successful implementation of the thematic action plan:

a) Results-based monitoring: a web-based reporting system has been established in the ministry. All the programs/ projects and Local Bodies (DDCs and Municipalities) are using this system for their reporting. Monitoring and evaluation indicators will be streamlined in line with the 13th Plan Sectoral Indicators and the Annual Program and Budget of the Government of Nepal.

b) Implementation of FRRAP: Fiduciary risk is a major challenge for both the Government of Nepal and development partners. The implementation of the Fiduciary Risk Reduction Action Plan (FRRAP) will be further expedited. Similarly, social audits and public audits will be made mandatory. The e-procurement system will be strengthened.

c) Implementation of a SWAp: Being guided by the Paris Declaration on Aid Effectiveness and other global commitments, GoN is focusing on a sector wide approach. The Local Governance and Community Development Project has brought various development partners together under a single umbrella. A SWAp is also being applied in rural transport and Trail Bridge. This approach will be further strengthened and applied to other sectors.

d) Interagency coordination and collaboration: Increased coordination and collaboration among concerned institutions is a major strategy. Coordination among MoFALD, MoF, MoGA and PSC will be strengthened for the timely fulfilment of vacant positions and retention of staff. Similarly, different forums such as NPPR, Local Donor Meetings and Joint Monitoring mechanisms will be made more functional.

Table A7: Local Governance Sectoral Results Action Plan

Sectoral Outcomes	Output Indicators	Baseline (July 2014)	Target (July 2016)
Decentralization process and local bodies (LBs) strengthened**	• Amended Local Self-Governance Act (LSGA) and Rules (LGSR) (to make local bodies more inclusive and increase the mandate of the Office of the Auditor General) to cover municipalities and VDCs).	0	
	• Number of meetings of Decentralization Implementation Monitoring Committee (DIMC).	0	2 meetings held
Improved people's participation in and downward accountability of LBs	• % of DDCs and Municipalities spent targeted 35% budget of unconditional grants according to their plan (10% for women, 10% for children, and 15% for disadvantaged groups).	NA	60%
	• % of projects included in DDC and Municipal Annual Plans recommended by Ward Citizen Forum.	46%	50%
	• % of DDCs and Municipalities conducting Annual Public Hearings.	DDCs: 100% Municipalities: 100% VDCs: 30%	DDCs and Municipalities: 100% VDCs: 70%
Improved service delivery of LBs and social protection	• No of districts with complete coverage (including VDC) using banking system for distribution of social security allowance.	3	19 (5 other and 14 earthquake affected districts - in negotiation with MoF, NRB and DPs).
	• No of social security allowance beneficiaries entered into the MIS.	384,484	584,484
Construction and expansion of local infrastructures adequate	• No of VDCs connected with local road network. • No of suspension bridges constructed	2655 6124	3276 6524
Reconstruction and Rehabilitation	• Reconstruction and rehabilitation of office buildings of LBs (9 DDC buildings, 178 VDC buildings and 159 Municipality/Ward buildings have been collapsed by the earthquake). • Reconstruction and new construction of local roads (Local road damaged by the earthquake).	0 0	225 271 km

* Government of Nepal and Development Partners univocally emphasized the urgency of the election of political representatives in LBs

** These are beyond the direct control of MOFALD

3.5 Transport Sector

A. Introduction

The transport sector has played an important role in the social and economic development of the country. Nepal's transport infrastructure mainly consists of roads and civil aviation dominated by the road subsector, which provides for the movement of approximately 90% of all passengers and freight within the country. Hence, road transport remains the most predominant form of transport infrastructure in Nepal as air service is limited and expensive for most people. It contributes to passenger movements in commercial and tourist destinations. The basic objective for the Transport Sector Development is aimed at strengthening regional integrity and reducing socio-economic imbalances by enhancing the people’s reach to basic facilities like health services, market centers and education.

According to the Economic Survey, 2015 a total of 876 km of earthen (fair weather) roads620 km of graveled roads and 467 km of black-topped roads were upgraded in FY2012/13. Similarly, by mid - March 2013/14; 334 km of earthen road, 136 km of graveled road and 151 km of black-topped road were upgraded by the Department of Roads. Likewise, regular and periodic maintenance work of 8,200 km road was completed by mid-March of fiscal year 2014/15. By the end of FY 2012/13, a total of 25,265 km long road with 10,659 km black topped; 5,940 km graveled and 8,666 km earthen (fair weather) were constructed through the Department of Roads including strategic road networks and local road networks across the country.—The length of the road network reached 25,599 km; with 10,810 km black topped and 5,925 km graveled road by mid-March of FY2013/14.

A strategic road network (SRN) comprising of highways and feeder roads is the responsibility of the Department of Roads for development and management. GoN has designated 14,900 km of roads under the SRN. As of 2014, out of 14,900 km of roads, only 12,493 km are operational and 315 km are under construction. 2,092 km of roads is planned and construction is scheduled to start at the earliest.

The road density of the SRN, which has coverage of around 75% all-weathered road, is 8.49 km per 100 sq.km. The road density is considered to the lowest amongst South Asian Countries. Out of 12,493 km, 51% of the SRN is paved while 36% is earthen and 13% graveled.

The recent earthquakes severely shook the country. The total loss for the country runs to billions if emotions and suffering is included in the cost. The total damage and loss of the transport sector (SRN) alone accounts for Rs. 5,115 million (equivalent to US$51.15 million). This is 23.15% loss for the total transport sector. The total transport sector loss accounts for 3.13% of the total infrastructure damage and loss. The PDNA carried out by the Government of Nepal in conjunction with development partners puts the transport sector recovery needs at NRs. 9,017 million (total for transport sector is NRs 28,200 million which is 4.2% of the total recovery needs).

The earthquakes have made a large impact on infrastructure with massive challenges for rebuilding or restoring services. Resulting from the damages and loss, this year's GDP growth projection is expected to be around 3.05%. Unfavourable climate for agriculture sector and adverse impact on infrastructure service delivery attribute to the low economic growth rate in the current fiscal year.

B. Review of Transport Sector

The transport sector continues to be guided by the National Transport Policy 2001 and Local Infrastructure Development Policy 2004. It recognizes the need to connect all districts of the country as well as to develop and extend a local network with the sole aim of bringing people in reach of motorable, all-season roads within a four hour walk in the hills/mountains and a two hour walk in the Terai. The development and extension of the SRN is based on the Strategic Road Master Plan, 2004 and Priority Investment Plan, PIP (2007).

Private Financing in Build and Operate in Infrastructure Act, 2063 and Regulation, 2064 provide the legal instruments for attracting private sector investment in the transport sector. Government has listed several infrastructure projects including Kathmandu Terai Fast Track to be executed under this Act, but the desired progress is yet to be achieved. A recently published white paper on Public Private Partnership[11] (PPP) has listed several constraints in ensuring private sector investment in infrastructure in Nepal.

Asian Development Bank (ADB), World Bank (WB), Japan International Cooperation Agency (JICA), Department for International Development (DFID) and Swiss Agency for Development and Cooperation (SDC) are the major development partners working in the transport sector in Nepal. On a bilateral basis, India and China have also contributed significant resources to the development of the transport sector in Nepal.

During implementation, many projects have suffered due to delayed decisions on land acquisitions affecting the timely implementation of resettlement plans thus leading to the delayed disbursement of funds. Timely procurement and transparency continues to be the issue affecting the timely project delivery.

The other major issues and challenges in the sector are:

(a) Around 50% of the SRN is yet to be paved;

(b) Two District HQs, Dolpa and Humla, are yet to be connected to the National Road Network;

(c) Roads fail prematurely due to excessive rains during the monsoon period;

(d) Under-utilization of the road network (the transport syndicate is a constraint to achieving higher traffic growth);

(e) Road safety: around 18 deaths per 10,000 vehicles (only deaths at the accident site are reported) and other damages costing the country around 2-3% of the GDP;

[11] White Paper on PPP, National Planning Commission, 2011

(f) Local roads constructed without proper engineering design, difficult to upgrade to a minimum standard when included in SRN.

C. The Current Initiative (Achievement/Progress) in Transport Sector

(a) Around 2020 river crossings are under operation. The sector has crossed a milestone after the successful completion of the Karnali 1015m length Geruwa Bridge, with 500 m by the national contractor under a Design and Build Contract, finished ahead of schedule.

(b) Out of 75 district headquarters 67 road facilities have been made all weather.

(c) Nepal Road Safety Action Plan (2013 - 2020) was prepared and implementation has started accordingly.

(d) Under the National Pride projects, the Midhill Highway Project progress is more than satisfactory with the completion of 60 Km blacktop roads and 13 bridges.

(e) Out of 847 Km of identified road length for periodic maintenance, 537 km has been maintained.

(f) Initiation of Nagdunga Tunnel (Sisne Khola to Nagdhunga total 2.45 km) under the loan and technical assistance from Government of Japan; the first tunnel project in the road sector.

(g) Completion of Banepa-Sindhuli-Bardibas Road (160 km) connecting Kathmandu to the Eastern Terai region of Bardibas curtailing the long journey time.

(h) Construction of the North-South Corridor Road to provide easy access and improve the trade between the Terai and the Himalaya Region and the Chinese border.

(i) Widening of Nepaljung-Kohalpur Road to dedicated four lane standard.

(j) Under the Trade Route Improvement Projects, progress of widening of Belhiya-Butwal, Rani-Biratnagar-Itahari to dedicated four lane standard is satisfactory and initiation of the widening of the Janakpur-Jatahi and Birjung -Pathlaiya section to the same standard with GoN funds.

D. Sectorial Results and Priorities

In the context of achieving the overstretching national objective of reducing regional imbalance and social inequality, the vision of the transport sector is to develop a safe, reliable and environment friendly national transport network, so as to:

(a) Provide easy access to agriculture, industrial and other production and service centres;

(b) Promote trade between the neighbouring countries;

(c) Provide support to the development of other social and economic infrastructure;

(d) Connect all HQs to the road network;

(e) Enhance connectivity to China and India and improve operational efficiency of ICDs;

(f) Expand and improve transport services to Kathmandu valley and other parts of the country;

(g) Improve and facilitate accessibility to the Terai and dense settlements in the hills as well as to administrative, commercial and industrial centres;

(h) Improve accessibility to transport services for the people of remote areas and extend the east-west transport facility to the mid-hills;

(i) Increase safe and reliable transport facilities through the preservation of road assets an; and

(j) Connect settlement and economic hubs and improve infrastructure quality.

E. The Plan and Programs as Highlighted in the Budget of FY2015/16

The transport sector consumes a considerable part of the overall infrastructure investment in Nepal. A major proportion of the transport sector budget is expended in the improvement and maintenance of roads. The sector has the greatest potential of not only creating additional employment opportunities but also in helping to create a conducive environment for upgrading living conditions. Road projects are now being planned and executed to support poverty reduction. Each road project is subjected to environmental screening of either full EIA or IEE depending upon the nature of the project as prescribed by the Environmental Law and donor guidelines. Monitoring for social and environmental compliance is accorded highest priority but has its own constraints due to the lack of capacity within the implementing/executing agencies.

F. Highlights and Key Allocations of the Budget for FY2015/16

(a) Large on-going infrastructure projects to be completed on time by making everyone responsible for construction;

(b) Alternative routes to link various places including the capital to be constructed;

(c) Efficiency of expenditure to be increased by effective transparency and accountability of expenditure, accounting, internal control and reporting, monitoring and auditing;

(d) Public expenditure management to be improved to become more economical and effective.

(e) Foreign Investment Technology Transfer Act (FITTA) to be revised and Investment Forum to be organized;

(f) Preliminary works for Infrastructure Development Bank to begin;

(g) Laws regarding Land Acquisition in mega projects to be reformed and effective administrative measures to be adopted to deal with land acquisition and compensation;

(h) In order to expedite infrastructure project implementation, the present legal system will be improved to address issues like regular supply of construction materials, timely completion of environmental impact assessments and minimizing the delay caused by felling of trees and local level obstacles;

(i) Construction of Kathmandu-Terai Fast-track to begin in 2015-2016. The government has allocated Rs 1 Billion in FY 2015/2016;

(j) Feasibility studies of Metro and Monorails to be completed in 2015-2016. The government has allocated Rs 800 Million in FY 2015/2016;

(k) NPR 3.19 billion for Postal Highway (Hulaki Road);

(l) NPR 1.95 billion for Mid Hill Highway with an aim of completing this highway within next three years;

(m) NPR 1.7 billion to start construction and upgrading of Surya Binayak – Dhulikhel Road;

(n) NPR 54 billion for the construction of 125 bridges of the SRN this year;

(o) 800 km of SRN track opened;

(p) 700 km of SRN road upgraded, rehabilitated and reconstructed.

G. Portfolio Issues in Transport Sector

During the implementation many projects have suffered due to delayed decisions on land acquisitions affecting timely implementation of resettlement plans, thus leading to the delayed disbursement of funds. Timely procurement and transparency continues to be issues affecting timely project delivery. Following are the common issues in the sector affecting timely completion of projects:

(a) Inadequate staff and lack of capacity;

(b) Frequent transfer of project staff;

(c) Slow procurement processes;

(d) Slow decisions on technical/contractual matters;

(e) Weak monitoring, supervision and quality control;

(f) Weak contract management;

(g) Low contractor performance;

(h) Weak control over consultants;

(i) Low project readiness (delay in land acquisition and forest clearance);

(j) Weak safeguard compliance.

Table A8: Expected Sectoral Results (Transport Sector)

Sector	Sectoral Outcomes	Output Indicators	Baseline March 2015	Targets July 2016
Transport (Strategic)	Facilitate access to all district headquarters.	Additional road linking to District HQ (nos.)	73	0
	Reduced walking time to reach road heads	Construction of additional SRN (km)	12,493	800
	Reliable and dependable transport services through upgraded road infrastructure.	Number of additional District HQ served with paved road (nos.)	67	2
		Construction of additional number of bridges (nos.)	1,700	125.
	Reliable and dependable transport services through better maintained roads.	Regular maintenance (km)	8,902	9,200
		Road upgrading, reconstruction and rehabilitation (km)	6,801	700
		Periodic maintenance (km)		850
	Facilitate access to dense populated areas, administrative, commercial, tourism and industrial centres in the hills and Terai.	Construction of north south road (km)	580 km track open (out of 831 km)	37
		Paving of Mid Hill Highway (km)	67 km blacktop completed out of 1,074 km earthen road	60
		Upgrading of Postal Highway (km)	78 km blacktop out of 1,793 km -including 2nd phase	45
		Extension of commercial corridor (km)	7.1 km completed out of 115.8 km	10.5

Ministry of Finance
Singha Durbar
Kathmandu, Nepal

Tel : 4259387
Fax : 4211164
Web : www.mof.gov.np