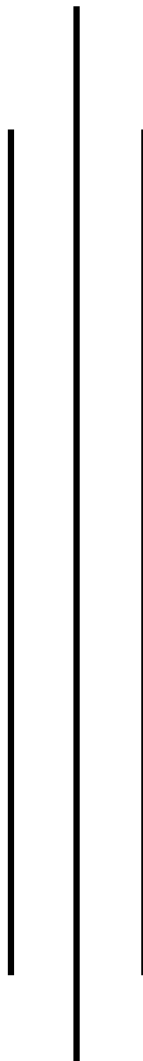


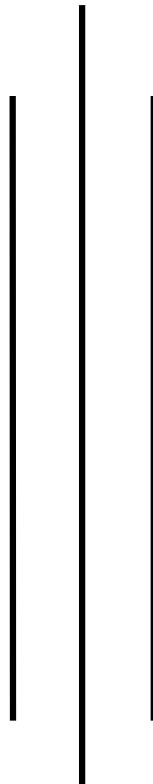
# International Development Cooperation Policy, 2019



Government of Nepal  
Ministry of Finance

(Unofficial Translation)

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Ministry of Finance  
Kathmandu, Nepal  
2019

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# Part I

## Preliminary

### 1. Background

- 1.1 For about seven decades now, international development cooperation has been contributing to the overall development efforts of Nepal. Nepal will have to utilize it to pursue high and sustainable economic growth and achieve the goal of "Prosperous Nepal, Happy Nepali". Mobilization of such cooperation can help strengthen the national economy if utilized in such a way that contributes to maintaining macroeconomic stability and formation of domestic capital. For this, the effectiveness of such cooperation needs to be enhanced so as to ensure the best value for money.
- 1.2 Government of Nepal has been participating in all high-level fora on aid effectiveness, including the Paris High Level Forum of 2005, and subscribing to the outcomes, including the Paris Declaration of 2005. With the continuation of Nepal's engagement in such global efforts, Nepal will have to continue with required policy reforms to achieve the Sustainable Development Goals and graduate to middle-income country status by 2030.
- 1.3 Mobilization and management of development cooperation will have to be synchronized with the federal governance structure enshrined in the Constitution of Nepal. As per the Constitution of Nepal, all foreign aid flowing to Nepal will have to be transparent; aligned with the national interest and priorities; and reflected in the national budget.
- 1.4 Acknowledging the contributions made by development cooperation in the overall socio-economic development of the country, Nepal will have to adopt a policy that helps gradually reduce dependency on aid by way of enhancing its effectiveness and encouraging domestic resource mobilization.
- 1.5 Political stability and constitutional direction on aid mobilization in the federal context offers a tremendous opportunity to accelerate reform initiatives for greater aid effectiveness. Common understanding of the Government and its Development Partners, that aid effectiveness can be enhanced through greater compliance with the principles of 'alignment' and 'ownership', where the recipient country owns and leads implementation of aid-supported development projects using its own national systems., needs to be translated into practice.
- 1.6 With a resource allocation policy that places 'results' at its center, the government expects to have a positive impact on the formulation, implementation and monitoring of aid-funded projects.

- 1.7 Government of Nepal is committed to implement the principle of 'mutual accountability', where the Government and its Development Partners will be accountable to each other and to their respective taxpayers for both the successes and failures of aid-funded projects/programs. For this, the existing practices of regular dialogue and interaction, progress reviews, updating of the Aid Management Information System (AMIS) and regular publication of aid-related data need to be continued.
- 1.8 Despite improvements in the alignment of development cooperation with national systems and priorities, the progress of implementation has remained mixed. Government of Nepal will have to convey the message of alignment to the provincial and local levels; improve public finance management system; and ensure international development cooperation is aligned with national systems by enhancing internal capacity.
- 1.9 Aid harmonization, which is thriving among Development Partners engaged in social sectors such as education and health, will have to be rolled out to other sectors on the basis of evaluation.
- 1.10 Development cooperation scattered across small projects and among several Development Partners working in the same sector has resulted in fragmentation. The multiple reporting requirements and high transaction costs caused by such fragmentation has imposed additional burdens on both the Government and Development Partners. To resolve this, it is necessary to improve the quality of cooperation and reduce the number of projects through division of functions among the Development Partners on the basis of comparative strengths.
- 1.11 After identifying areas where the traditional modalities of development cooperation has or has not been effective, necessary finance for development will have to be mobilized, including by public sector, private sector and also blending resources with foreign aid. Similarly, knowledge, skills and technologies which has emerged from the experiences of other aid recipient countries/organizations will have to be utilized for the socio-economic transformation of the country.
- 1.12 This policy will be oriented towards the optimum utilization of opportunities gained from mobilization of international development cooperation; fostering partnership among public, private, cooperative, community and other sectors so as to achieve national development goals; and building a robust national economy by way of enhancing effectiveness in development cooperation mobilization among the Federal, Provincial and Local levels in a coordinated way.
- 1.13 At this backdrop, the Government of Nepal has formulated this International Development Cooperation Mobilization Policy incorporating the spirit of the Constitution of Nepal; changes in the national and international contexts; and experiences and achievements gained in the past during the implementation of the Foreign Aid Policy, 2002 and Development Cooperation Policy, 2014.

**2. Definitions:** Unless otherwise explained, for the purpose of this Policy:

- a) "Grants" refers to foreign assistance to be obtained on non-refundable terms so that it does not create any financial liability to the Government in future.
- b) "International Consulting Service" refers to consulting services to be received from foreign citizens or organizations.
- c) "International Development Cooperation" refers to financial, technical and commodity assistance to be received from bilateral, multilateral, regional and global development partners for the development of various sectors.
- d) "Other Loan" refers to the loans received from Export-Import (EXIM) Banks and other similar agencies, other than concessional loans, for financing projects.
- e) "Program-based Support" refers to international development cooperation received and to be implemented under the leadership of the Government agencies, which features a comprehensive program and budget framework developed through a formal process of coordination and harmonization among Development Partners with respect to budgeting, financial management, procurement and reporting.
- f) "Turn Key" refers to a project implementation modality where Development Partners directly engage in implementation under a bilateral agreement and hand over the project to the Government of Nepal upon completion.
- g) "Project Aid" refers to international development cooperation received for implementing a separate project with pre-defined objectives, budget and outputs.
- h) "Paris Declaration" refers to the proclamation based on the joint commitment of all participating Development Partners, partner countries, and organizations at the High Level Forum on aid effectiveness held in Paris in 2005 that identified best practices for enhancing effectiveness of development cooperation grounded in the principles of ownership, alignment, harmonization, managing for development results and mutual accountability.
- i) "Province" refers to the Provinces as mentioned in Schedule 4 of the Constitution of Nepal.
- j) "Budget Support" refers to international development cooperation transferred to the Government's treasury, with or without being associated with institutional reform of a particular sector, so as to allow allocation across development priorities and programs of the Government.

- k) "Development Partners" refers to bilateral partners, multilateral organizations and global funds that provide financial, technical or commodity support for the development of various sectors.
- l) "Blended Finance" refers to a financing arrangement where resources from commercially viable private sector entities, cooperatives, charity funds or other sources of financing are pooled with traditional development cooperation resources with a view to strategically contributing to development.
- m) "Concessional Loan" refers to international development fund received at a concessional rate not less favorable than the interest rate, maturity period and grace period being offered through the concessional window of multilateral development partners, where the Government of Nepal is a member-country.
- n) "Local Level" refers to a Rural Municipality, Municipality, Sub-Metropolitan City, Metropolitan City and District Coordination Committee.
- o) "Volunteer" refers to a foreign citizen having certain academic qualifications, expertise and experience and providing services to Nepal under an umbrella agreement without receiving any remuneration from the Government of Nepal.
- p) "Sector-wide Approach" refers to result-based programmatic international development cooperation arrangements for implementing a comprehensive program and policy of a particular sector with a common approach of implementing the program under a joint financing agreement, common action plan and code of conduct.

### **3. Priorities of International Development Cooperation**

Development cooperation will be sought in the following areas of national needs and priorities:

- (a) Physical infrastructure,
- (b) Education, health, drinking water and sanitation,
- (c) Enhancement of national production and productivity,
- (d) Employment generation and poverty alleviation,
- (e) Development of science and technology and transfer,



- (f) Environmental protection and climate change,
- (g) Disaster management,
- (h) Areas identified as appropriate by the Government of Nepal to obtain foreign assistance from among the areas that are beyond the capacity of public, private, cooperative or community sectors.

## PART II

### **Vision, Objective, Goals and Strategies**

#### **2.1 Vision**

Optimum mobilization of Development Partners' capital and technology in national development efforts on the basis of national need and priority.

#### **2.2 Objective**

To mobilize international development assistance to fulfil the national aspiration of “Prosperous Nepal, Happy Nepali”.

#### **2.3 Goals**

- (a) Mobilizing resources required to graduate from Least Developed Country status within the coming three years.
- (b) Graduating to middle-income country status, while achieving the Sustainable Development Goals (SDGs) by 2030, including through utilization of international development cooperation.
- (c) Mobilizing external resources in the sectors of national need and priority as per national development policies.
- (d) Enhancing national capacity through transparent and results-oriented mobilization of international development cooperation so as to gradually reduce aid dependency.

#### **2.4 Strategies**

- (a) Mobilization of development cooperation for achieving high economic growth, increasing production and productivity, creating wider employment opportunities and promoting export-oriented production.
- (b) Focus on the balanced development of all regions, classes and communities while mobilizing development cooperation.
- (c) Promotion of exports by increasing domestic production, substituting imports, rapidly moving towards correcting trade imbalance, and developing a self-reliant economy.

- (d) Orientation of development cooperation to the areas and subjects which are considered to be prerequisites for development of the country.
- (e) Mobilization of development cooperation aligned with the national budget system and enhancement of transparency by strengthening the Aid Management Information System (AMIS).
- (f) Generally refraining from cooperation modalities where one Development Partner or agency implements on behalf of other Development Partners except in the cases of pool funding mechanisms operated in Nepal and co-financing of infrastructure projects or technical assistance programs.

## Part III

### Policy Framework

#### 3.1 Alignment with National Priorities

A robust results framework will have to be developed for the mobilization of development support through national systems as per the development priorities, policies and strategies of the country as guided by the Paris Declaration for aid effectiveness. For this, international development cooperation will be aligned with national priorities as outlined in the following paragraphs.

- 3.1.1 The sectors for mobilization of international development cooperation will be selected on the basis of provincial and local development plans formulated so as to help achieving the goals of the national periodic plan and requiring international development cooperation. Such selection will also be based on the policies and programs to be declared periodically by the Government of Nepal, considering the financing necessity and rationale of the three tiers of the Government.
- 3.1.2 The Government will accord priority to the development cooperation modalities of budget support, sector-wide approach and program-based approach with a view to addressing the development needs of all the tiers of the Government.
- 3.1.3 Priority will be accorded to mobilizing development cooperation to programs of remote areas in order to make resources available for equitable development.
- 3.1.4 International development cooperation will be mobilized in the areas which do not have any adverse impact - explicitly or implicitly - on sovereignty; national integrity; national interest; religious, ethnic and social harmony; and national security.
- 3.1.5 International development cooperation will not be sought in the sensitive areas of the nation. The cooperation extended to different organs of the government will be mobilized only through the executive and the entities thereunder.
- 3.1.6 Cross-cutting issues such as social inclusion, improving the quality of life of marginalized communities, gender equality, and the development of economically as well as socially backward areas and communities will

remain as an integral part of all projects/programs to be executed utilizing international development cooperation.

- 3.1.7 Arrangements will be made whereby both the Government and Development Partners will take accountability for development results and the private sector involved in mobilizing international development cooperation under the Public-Private Partnership modality will also take accountability for development results.
- 3.1.8 International development cooperation will be main streamed with priority to the implementation of development programmes associated with the achievement of Sustainable Development Goals by 2030.
- 3.1.9 International development cooperation will be mobilized to ensure inclusive development along with promoting healthy and efficient cooperative movement which has been rapidly advancing in Nepal along with utilizing local resources and furthering social mobilization.
- 3.1.10 The Government of Nepal will mobilize, implement, monitor and evaluate international development cooperation resources, with attention to their contribution to agricultural modernization, energy development, tourism promotion, physical infrastructure development, skill development and employment generation, increasing production and productivity, creating a private sector friendly environment for balancing trade and increasing investment, and maintaining macroeconomic stability along with rapid economic development.

### **3.2 Aid Mobilization Modalities**

Based on the principles of comparative advantage as well as competitive strength and implementation capacity of Development Partners, the Government will adopt the following modalities for the mobilization of international development cooperation:

- 3.2.1 Budget Support will be the most preferred modality of mobilizing international development cooperation. The resources to be mobilized under this modality will be utilized at the Federal, Provincial and Local levels as per national requirements and priorities.
- 3.2.2 Sector-wide Approach (SWAp) will be the second preferred modality of mobilizing international development cooperation. This cooperation modality will also have to be aligned with national needs and priorities and will be prioritized while allocating resources across the programs of the Government of Nepal. This cooperation will be made available

to the Provincial and Local levels for implementation of projects and programs after taking into consideration their requirements, capacity and resources they have already received under the revenue sharing mechanism.

- 3.2.3 Program-based Approach will be the third preferred modality of mobilizing international development cooperation. Projects and programs will be implemented by the respective Federal, Province and Local level as per their jurisdiction and implementation mechanism after the Government of Nepal concludes all the agreements with the Development Partners, including the framework/umbrella agreement and financing agreement.
- 3.2.4 Project Aid aligned with the projects incorporated into the national periodic plan will be the fourth preferred modality of mobilizing international development cooperation. Minimizing transaction costs, while promoting innovation and sustainability, will be the criteria for using this modality. Once such projects successfully introduce new technology, it will be ensured that such projects will be sustained and streamlined into national systems.
- 3.2.5 Development Partners will be encouraged to set up a pooled fund for small-sized stand-alone projects in order to minimize transaction costs and avoid delays in implementation. Arrangements will be made to reflect such assistance in the national budget and facilitate transfer these funds primarily to Provincial and Local levels for implementation of medium- and small-scale projects.
- 3.2.6 Government of Nepal may accept humanitarian assistance, including rescue and relief materials, food assistance, and medicines or medical equipment for the purpose of disaster management and may also request Development Partners for such assistance. Assistance so received will be distributed through mechanisms at the Federal, Provincial and Local levels taking into consideration their immediate needs and capacity.
- 3.2.7 The Government will prefer untied aid. In general, international consultancy services will be mobilized only when such expertise is not available in the country.
- 3.2.8 In general, all types of international development cooperation will be accepted so as to be incorporated in the national budgetary system. All on-budget development cooperation will be audited by the Office of the Auditor General of Nepal.

- 3.2.9 Development cooperation will be mobilized from the established Global Funds with a view to supporting sectors such as education, health, climate change and disaster management with grant assistance. Such cooperation will be mobilized on the basis of national priorities under the common provisions of such Funds applicable to all partner countries. The necessary framework for disaster management, environment protection and adaptation and mitigation of climate change will be prepared before receiving such cooperation.
- 3.2.10 Gender equality and social inclusion will be taken into consideration and relevant activities will be incorporated to the extent possible while developing projects to be funded with international development cooperation.
- 3.2.11 The Ministry of Finance will coordinate and take the lead in negotiations with Development Partners as and when required. The Ministry of Finance will prepare the Terms of Reference for negotiations.

### **3.3 Grant Assistance**

- 3.3.1 Sectors directly contributing to environmental protection and climate change, sustainable development, rural infrastructure development, social sector development, modernization and development of agriculture, health, education, drinking water, sanitation, poverty alleviation and human development will be given priority when mobilizing grant assistance. As far as possible, the amount of the grant assistance will be increased. Small grants are encouraged to be mobilized through Sector-wide Approach (SWAp) and pooled funds of Development Partners.
- 3.3.2 The Government may prescribe the areas suitable for mobilizing grant assistance after identifying the areas where capacity of public sector, private sector, cooperatives and communities is insufficient.

### **3.4 Concessional Loans**

- 3.4.1 Concessional loans will be utilized in sectors such as physical infrastructure (hydropower, solar and renewal energy, roads and bridges, irrigation, airports, railways, dry ports and urban infrastructure development), agriculture and tourism infrastructure contributing to high economic growth, areas contributing to skills development and job creation, and the areas contributing to the earning of foreign currency through enhancing export capacity.

- 3.4.2 Concessional loans only above US\$ 10 million per project will be accepted. This threshold will not be applicable to the concessional loans mobilized through the pooled funds and co-financing mechanisms.
- 3.4.3 Expenditures related to consultancy services and procurement of vehicles from loan assistance will be minimized. Expenditures for foreign trips from loan assistance will not be allowed.
- 3.4.4 As far as possible, untied procurement process will be adopted while developing project document. Agreements can be concluded with conditions to comply with the procurement guidelines prepared by the Development Partners for all partner countries receiving development cooperation.
- 3.4.5 The Government may accept development cooperation for high priority infrastructure projects with complex and advanced technical specifications under Engineering, Procurement, Construction and Finance (EPCF) arrangements. While mobilizing such cooperation, necessary arrangements will be made to ensure competition, transparency and cost effectiveness during the implementation of the project. Such cooperation will be mobilized on the basis of having prior cost estimation.

### **3.5 Other Loan Assistance**

- 3.5.1 The Government can also mobilize development cooperation from additional loan windows, other than the concessional loan window, for implementing projects of national need and priority. Under this window, loans can be obtained from the Export-Import Banks (EXIM Banks) of bilateral Development Partners and other agencies providing project finance loans of a similar nature.
- 3.5.2 In general, other loans will be used in the following areas:
  - (a) Hydropower generation and transmission
  - (b) Highways and bridges
  - (c) Railways
  - (d) Airports
  - (e) Dry ports
  - (f) Urban infrastructure
  - (g) Any other areas of national need and priority



### **3.6 Commercial Loans**

The Government can mobilize commercial loans for mega projects of national priority having commercial viability with a high financial rate of return. The terms and conditions and thresholds of such loans will be as decided by the Government of Nepal.

### **3.7 Technical Assistance**

Technical Assistance (TA) will be utilized in a selective way at individual level (in terms of skills, knowledge, innovation, entrepreneurship) and at organizational level (in terms of systems, procedures, technology) so as to support enhancing national capacity in alignment with national capacity development plans. Technical Assistance from Development Partners will be utilized when the technical capacity for project implementation is not available within the government system.

#### **3.7.1 Project Preparatory Technical Assistance**

3.7.1.1 The Government may request Development Partners to provide project preparatory Technical Assistance for pre-feasibility studies, feasibility studies, and for preparation of detailed project reports if requested by the concerned agency if the rationale is that there are technical complexities in project implementation and the required technical competency is not available within the country.

3.7.1.2 The policy of utilizing national project preparatory funds or internal resources for small projects will be adopted by all tiers of the Government. For this purpose, the Government of Nepal may gradually allocate resources from its treasury for large and medium scale projects on the basis of requirement and capacity.

#### **3.7.2 Technical Assistance for Stand-alone Projects**

3.7.2.1 In general, a policy of not utilizing Technical Assistance for stand-alone projects will be adopted. However, Technical Assistance can be accepted to fill the expertise gap during the implementation phase of any national priority projects upon the recommendation of respective line ministries. Development Partners will be encouraged to provide Technical Assistance through Technical Assistance pooled funds.

- 3.7.2.2 The project documents for such Technical Assistance should clearly spell out the assurance of sustainability along with mainstreaming and exit plans.
- 3.7.2.3 On basis of national needs and advantages and in coordination with the implementing agencies, international and regional Technical Assistance can be accepted.
- 3.7.2.4 Technical Assistance will be reviewed, periodically.

### **3.7.3 Other Provision Related to Technical Assistance**

- 3.7.3.1 In general, Technical Assistance will not be utilized in the form of loan assistance.
- 3.7.3.2 Prior approval of the Ministry of Finance will be required for accepting Technical Assistance.
- 3.7.3.3 Development Partners will be required to report details of all Technical Assistance to the Aid Management Information System (AMIS).
- 3.7.3.4 Prior approval of the Ministry of Finance will be required for the procurement of vehicles, machinery, equipment and for participation in foreign trips and trainings funded by Technical Assistance.

## **3.8 Mobilization of Consultants**

- 3.8.1 While mobilizing consultants, priority will be given to Nepali citizens and domestic institutions to the extent they are available and it is possible. International consultants can be mobilized only for transfer of technology and for expertise which is not available locally.
- 3.8.2 Clear limitations, conditions and Terms of Reference (ToR) for consulting services must be incorporated into project documents. Without prior approval of the Government of Nepal, expenses for consultancy services in infrastructure projects will not exceed 5 (five) percent of the total project cost. Such prior approval should be obtained before project negotiation.
- 3.8.3 The Ministry of Finance may provide concurrence to Provincial and Local levels for utilization of international consultants, if requested, based on an exit plan and the reasons why the particular service cannot be provided by a Nepali citizen.

### **3.9 External Volunteer Mobilization**

- 3.9.1 The Government can mobilize volunteers in the form of Technical Assistance from the volunteer organizations of bilateral Development Partners. These volunteers can be mobilized in different programs at Local level as per the needs of the development programs and projects and technical expertise.
- 3.9.2 For the mobilization of volunteers, the Government will identify the priority areas, and request Development Partners and volunteer organizations to send volunteers in those areas. All the entities should obtain approval from the Ministry of Finance to mobilize volunteers as per the framework agreements.
- 3.9.3 The volunteers will be attached with local counterpart organizations, agencies or communities to ensure sustainable utilization through transfer of technology, knowledge and skills.
- 3.9.4 The concerned Government agency will monitor the service of volunteers and report to the concerned line ministry, Ministry of Finance, and other agencies as required.
- 3.9.5 While working in Nepal, volunteers should work in conformity with the Nepali civilization, culture and social harmony and respect religious beliefs and faiths of Nepali citizens.

### **3.10 Community-based Organizations, National or International Non-Governmental Organizations in Mobilization of International Development Cooperation**

As directed by the Constitutional provision of Nepal to make the community-based and N/INGOs accountable and transparent, while utilizing the investment and role of such organizations only in the sectors of national need and priority, the following policies will be adopted to mobilize international development cooperation through NGOs:

- 3.10.1 International development cooperation to be mobilized through NGOs will be in line with the sectors of national need and priority.

- 3.10.2 N/INGOs should prepare the project proposals which relate to international development cooperation in coordination with the relevant sectoral ministry.
- 3.10.3 While selecting projects for implementation, N/INGOs should follow the participatory plan formulation process under the leadership of the Local level. Projects and programs should be carried out in harmony with the Local level.
- 3.10.4 N/INGOs should enter the details of each project implemented with international development cooperation into the Aid Information Management System housed in the Ministry of Finance so as to avoid duplication.
- 3.10.5 INGOs should not mobilize international development cooperation, whether directly or through NGOs, for developmental activities of religious and political organizations and in sectors of national sensitivity.
- 3.10.6 The thematic sectors and specific geographical areas of projects to be implemented through INGOs can be determined to avoid geographical and thematic duplication. Regulatory agency shall prepare a digital mapping of projects carried out by such INGOs.
- 3.10.7 The administrative expenditure of projects to be carried out by INGOs will not exceed 20 percent of the total project cost. The expenditure ceiling will be calculated on the basis of total project cost.
- 3.10.8 N/INGOs should prepare, and make public annually, a Statement of Income and Expenditure for projects as well as the details of activities, to enhance transparency. Such organizations should also conduct a third-party audit of the activities as well as a public hearing and a social audit once a year at the Local level where the project has been carried out.
- 3.10.9 N/INGOs should propose projects in such a way that they will not adversely affect the assistance amount that has already been earmarked by the Development Partner for the Government of Nepal.
- 3.10.10 While mobilizing international development cooperation through their own efforts, N/INGOs should use the window of the Social Welfare Council as per the prevailing laws. Details of such cooperation will

have to be entered into the Aid Management Information System housed in the Ministry of Finance.

### **3.11 Cooperation to be Implemented Directly by Development Partners**

Among the project agreements that have been concluded by the Government of Nepal, there is still a dearth of national capacity to implement some projects, and a need for construction completion of some projects by the Development Partners and handing over to the Government on a turn-key basis. In this context, the direct implementation approach for development cooperation can also be used. For this, the following policies will be adopted:

- 3.11.1 The direct implementation modality of development cooperation can be used for medium and large scale projects of high priority, such as construction of hydropower generation, transmission lines, highways, bridges, railways, tunnels, airports, large irrigation systems, dry ports, and for the development of special economic zones.
- 3.11.2 Projects that are implemented under the direct implementation modality should be included in the national budget system.
- 3.11.3 The details of projects to be implemented using this modality should be made available by the Development Partners on a regular basis through the Aid Management Information System stationed in the Ministry of Finance.
- 3.11.4 The implementation of development cooperation projects being directly implemented by the Development Partners will be as per the direction of the Project Coordination Committee formed under the leadership of the responsible officials of the relevant Government agency.
- 3.11.5 The periodic financial details and reports of projects implemented under this modality should be regularly submitted to the related ministry and to the Ministry of Finance by the Development Partners.

### **3.12 Disaster Management and Humanitarian Assistance**

Humanitarian assistance will be mobilized to immediately respond to disasters and to respond to humanitarian sectors such as epidemics, food insecurity, malnutrition, and refugee management by following the specified procedures. The management of humanitarian aid will be as per established international principles.

- 3.12.1 Development Partners providing humanitarian assistance will adhere and be committed to comply with the best practices to be followed for humanitarian assistance.
- 3.12.2 Development Partners providing humanitarian assistance will work closely with the Government during the phases such as preparation, response, reconstruction, and rehabilitation to prevent, mitigate, and respond to crises so as to strengthen national capacity.
- 3.12.3 The Ministry of Home Affairs will play a lead role in mobilizing and managing humanitarian assistance during disasters.
- 3.12.4 Humanitarian aid should be distributed on the basis of human empathy. It should fully respect the civilization, culture and social harmony of Nepal, and also the religious beliefs and faiths of an individual.

### **3.13 Inter-governmental Joint Economic Commission**

- 3.13.1 The Ministry of Finance will explore potential areas for economic partnerships with interested nations and international agencies. Such partnerships shall be transparent and will be determined on the basis of mutual benefit and comparative advantage. Such partnerships will be carried out through the formation of an Inter-Governmental Joint Economic Commission.
- 3.13.2 This type of partnership, by maintaining consistency with policies including the Foreign Investment and Technology Transfer Policy (FITTA), Industrial Policy, Trade Policy, and sustainable and high economic development, will be utilized for the expansion of international economic relations and promotion of national interest.

### **3.14 South-South and Triangular Cooperation**

Cooperation can be exchanged as per the concepts of South-South and North-South-South (Triangular) Cooperation on the basis of appropriateness and experience. Under this concept, mutual cooperation between two or more recipient countries of the South can be exchanged. Similarly, such cooperation may take place with the coordinative and financial involvement of traditional Development Partner countries and institutions of the North. Cooperation may be mobilized through the Inter-Governmental Joint Economic Commission in order to increase the cooperation with regional mechanisms such as the South

Asian Association for Regional Cooperation (SAARC) and Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC).

### **3.15 Partnership with the Private Sector**

The following shall be the fundamental policies for mobilization of development cooperation in the context of the private sector:

- 3.15.1 The amount received from cooperation can be mobilized so as to support the concept of Public-Private Partnership (PPP).
- 3.15.2 International development cooperation will be mobilized without having an adverse effect on private sector investments.
- 3.15.3 The amount of international development cooperation to be executed through the private sector will be mobilized for infrastructure development so as to help increase exports.
- 3.15.4 The amount received as international development cooperation can be utilized to create a conducive environment for investment by removing trade related barriers and adopting other measures for trade facilitation.

### **3.16 Blended Financing**

The government can mobilize development cooperation by blending commercial, private, non-governmental funds, and grant assistance in order to enhance the effectiveness of such cooperation and maximize concessionality of the cooperation.

- 3.16.1 Financial resources can be managed by putting all bilateral and multilateral grants and loans into one basket so as to make projects commercially viable.
- 3.16.2 While implementing national priority projects, using the Public-Private Partnership model, selected by the Government of Nepal, loans of the public sector involved in the project can be mobilized with the guarantee of the Government of Nepal as per the prevailing laws with a view to filling funding gap.
- 3.16.3 International development cooperation can be mobilized so as to allow the Government of Nepal to participate in a certain share of the equity and investment structure of national priority projects to be carried out under the lead role of the private sector.

## PART IV

### **International Development Cooperation Mobilization in the Federal Structure**

#### **4.1 Relations between the Federal, Province and Local level**

- 4.1.1 The Ministry of Finance will conclude and send financing agreements to the Province for implementation in the case of foreign grants and Technical Assistance.
- 4.1.2 The Ministry of Finance can send the financing agreement, after concluding it, to the Local level in the case of projects to be implemented at the Local level.
- 4.1.3 The amount of foreign grants which are mobilized through the budget system will be provided as a conditional grant. Similarly, the subsidiary loan agreement, with the amount of the foreign loan, interest rate and conditions of payment, will be provided to the Province and Local level where the programs are to be implemented.
- 4.1.4 The Province and Local levels which are implementing programs with foreign assistance should use the funds according to the conditions stated in the related project agreement, and should provide the statements of expenditure and physical progress, statements required for reimbursement, financial and other statements to the concerned project management office/unit within the specified period on a regular basis.

#### **4.2 Role of the Ministry of Finance in Cooperation Mobilization**

- 4.2.1 Preparing and enforcing operational guidelines regarding international development cooperation in order to bring uniformity across all stakeholders and for the purpose of the utilization of cooperation on the basis of national priority.
- 4.2.2 Carrying out activities such as correspondence, submitting requests, negotiation, and concluding agreements regarding cooperation with Development Partners.



- 4.2.3 Conclusion of project implementation agreements between the Provincial and Local level and the Development Partner, as well as facilitation on preparing documents related to project implementation.
- 4.2.4 Providing international development cooperation as a project-based loan and arranging required associated Technical Assistance to the Provincial government.
- 4.2.5 Arranging international resources required for national level projects.
- 4.2.6 Supporting on preparatory work of potential project bank that needs international development cooperation and also on related preparatory activities before project selection.
- 4.2.7 Government of Nepal will bear the liability of foreign loans accepted in the past and to be accepted in the future.
- 4.2.8 Ensuring representation of the related Provincial government in the activities such as negotiations for development cooperation, project selection, evaluation and feasibility studies of projects to be implemented by the Provincial government.

### **4.3 Role of Provincial Government in Cooperation Mobilization**

- 4.3.1 Preparing an integrated project bank after identifying feasible projects in their own Province that require development cooperation.
- 4.3.2 Forwarding the proposals to the Ministry of Finance to proceed further after identifying the need for development cooperation in feasible projects.
- 4.3.3 Coordinating and monitoring the programs implemented by INGOs in more than one Local Levels in the Province.

### **4.4 Role of the Local Government in Cooperation Mobilization**

- 4.4.1 The Local level may forward project proposal to the Provincial or Federal Government or to both for resource management after identifying the local priority projects and with the approval of the local assembly.
- 4.4.2 The programs implemented by INGOs at the Local level shall be coordinated and monitored by the relevant District Coordination Committee.

## **4.5 Role of Development Partners in Cooperation Mobilization**

- 4.5.1 Required coordination and collaboration regarding all activities related to the mobilization of cooperation shall be done only after the approval of the Ministry of Finance.
- 4.5.2 Consultation shall be done with the Ministry of Finance for all phases of project management to be implemented under development cooperation.
- 4.5.3 Necessary improvements shall be made in mobilizing new development cooperation in the future by realizing the findings of the joint review of the achievements of development cooperation mobilization.

## PART V

### Implementation, Coordination, Monitoring and Evaluation

#### 5.1 Policy Implementation Committee

A high-level "International Development Cooperation Mobilization Policy Implementation Committee" will be formed in order to provide guidance for the implementation of this policy as follows:

Finance Minister	Chairman
Vice Chairman, National Planning Commission	Member
Secretary, Office of Prime Minister and Council of Ministers (Economic and Infrastructure Sector)	Member
Secretary, Ministry of Finance	Member
Secretary, Ministry of Law, Justice and Parliament Affairs	Member
Secretary, Ministry of Foreign Affairs	Member
Secretary, Ministry of Federal Affairs and General Administration	Member
Financial Comptroller General, Financial Comptroller General Office	Member
Joint Secretary, IECCD, Ministry of Finance	Member-Secretary

5.1.1 The Policy Implementation Committee may invite high-level officials from other ministries of the Government of Nepal, representative from any agencies, representatives from Provincial government, private sector or experts as observers or invitee members in the committee based on relevance, specialization and necessity.

5.1.2 The Policy Implementation Committee shall guide the effective implementation of this policy. The Ministry of Finance shall serve as Secretariat of the Committee. The Committee shall remove difficulties, clarify any ambiguity or issues that may arise during policy implementation including interpretation of this policy as required.

## **5.2 Focal Point for International Development Cooperation Coordination**

- 5.2.1 The Ministry of Finance shall be responsible for the mobilization of development cooperation required for the Government of Nepal. Economic diplomacy, among others, will be effectively utilized for this.
- 5.2.2 Government agencies at any level, constitutional bodies, public enterprises, any organization or incorporation that is operating through a total or partial grant of the Government of Nepal must obtain prior approval from the Ministry of Finance to seek or request, propose, negotiate, provide any information, correspond about a concept paper and proposal and conclude a Memorandum of Understanding or Agreement regarding international development cooperation.
- 5.2.3 Development Partners must propose the cooperation or correspondence regarding the cooperation mobilization through the Ministry of Finance. The agencies of the Government of Nepal should receive consent from the National Planning Commission while proposing development projects. The Province and the Local levels should also obtain the concurrence of their respective project approving mechanism or agency, if constituted or designated so.
- 5.2.4 Without prior approval of the Ministry of Finance, no public official at any level or individual associated in any terms and conditions with a project funded with international development cooperation will go on a foreign visit at the expense of a development cooperation program and project, at the invitation of a national/international non-governmental organization (N/INGO), domestic or foreign consultant, or supplier or contractor.

## **5.3 Local Development Partners Meeting**

A Local Development Partners Meeting will be held generally twice a year or as and when required. This mechanism will serve as a forum for regular dialogue and coordination between the Government of Nepal and the Development Partners pertaining to issues that may arise during the implementation of this policy or in the mobilization of development cooperation.

## **5.4 Joint Sectoral Review**

Joint Sectoral Review meetings will take place between the sectoral ministries of the Government of Nepal and Development Partners for the implementation, monitoring, evaluation and coordination of sectoral plans, policies and programs. Related sectoral ministries will lead such meetings. The decisions made in the meetings should be provided to the Ministry of Finance. The Ministry of Finance will maintain an integrated record of all the decisions as received.

## **5.5 Review of Province and Local level**

- 5.5.1 A Province level mechanism comprised of Nepali representatives from governmental as well as from non-governmental sectors will be constituted to review the development projects and programs that include international development cooperation and are implemented by the Provincial government. Generally, the Provincial Ministry of Economic Affairs and Planning will lead and coordinate such reviews. The Ministry of Finance may also monitor it.
- 5.5.2 The District Coordination Committee will monitor and review the international development cooperation-funded projects and programs implemented by the Local levels.
- 5.5.3 The Ministry of Finance must be informed of any unresolved issues pertaining to aid effectiveness at the Province and Local level, to provide necessary guidance. The International Economic Cooperation Coordination Division (IEECD) of the Ministry of Finance shall issue general guidance to this end.

## **5.6 Involvement of Development Partners**

- 5.6.1 Development Partners will align international development cooperation and projects/programs to be implemented under it with the national development plan and priority.
- 5.6.2 Arrangements may be made, as required, to engage Development Partners in the coordination mechanism regarding policy implementation.
- 5.6.3 Development Partners will prioritize the provision of all types of international development cooperation in alignment with national and sectoral development frameworks. Such cooperation will be unconditional, to the extent possible, and should be targeted to achieve clear results.

- 5.6.4 Development Partners will provide all types of aid information in advance to the Aid Management Information System (AMIS) housed in the Ministry of Finance so as to ensure aid predictability.
- 5.6.5 Development Partners will provide significant support to address aid fragmentation in order to reduce transaction costs. Similarly, they will support to expand the learning from the implementation of Sector-wide Approaches (SWAp) to other sectors
- 5.6.6 Development Partners will implement programs in alignment with Nepal's national systems and organizational structures and under the leadership of the Government agencies so as to enhance local capacity and sense of ownership.
- 5.6.7 Development Partners will take forward, to the extent possible, the process of joint missions and joint analytical studies effectively.
- 5.6.8 Development Partners will channel all types of international development cooperation through the Ministry of Finance.

## **5.7 Division of Area of Cooperation among Development Partners**

Development Partners will provide assistance by dividing areas of cooperation as per mutual agreement among them based on their comparative expertise, and previous engagement. The Ministry of Finance will play a coordinating role in this initiative.

## **5.8 Commitment of the Government of Nepal for Effective Implementation of Development Cooperation**

- 5.8.1 While mobilizing development cooperation, the Government will give due importance to national needs and priorities, universal norms of human rights, democracy, rule of law, inclusive development, good governance, zero tolerance of corruption, aid transparency, and good results.
- 5.8.2 The Government will carry out programs for institutional reform and capacity development of the entities of the Government of Nepal and its associated institutions that are directly involved in infrastructure development.
- 5.8.3 The Government of Nepal is committed to collaborating with global partnership forums for aid and development effectiveness, and to participating in the implementation, monitoring and evaluation of high-level commitments.

- 5.8.4 The Government will initiate programs to minimize possible fiduciary risks and improve public financial management including procurement systems.
- 5.8.5 The Government is committed to reducing project transaction costs and maintaining sustainability by enhancing national capacity.
- 5.8.6 Implementation of cooperation will be made effective in collaboration with the Development Partners.
- 5.8.7 The Government is committed to implement the recommendations of the Public Expenditure and Financial Accountability (PEFA) evaluation.
- 5.8.8 The Government is committed to simplifying the public service delivery procedures and improving the quality of expenditure.
- 5.8.9 The Government will make public the information regarding aid which is available in the Aid Management Information System (AMIS) in order to ensure transparency and accountability.

## **5.9 Monitoring and Evaluation**

- 5.9.1 The monitoring of the implementation of this policy will be done through periodic meetings, reviews and interactions.
- 5.9.2 The Ministry of Finance can monitor the performance of projects and programs being implemented with international development cooperation. Such monitoring can also be conducted jointly with the Development Partners.
- 5.9.3 The evaluation of this policy will be conducted generally in every two years.

## PART VI

### Miscellaneous

#### 6.1 Provisions Related to Tax Exemption and Visa

- 6.1.1 In general, funds from development cooperation will not be used for the purpose of tax payments.
- 6.1.2 As per the exemption provision made in the related Agreement, an arrangement to bear the amount required for the purpose of tax will be made from internal resources.
- 6.1.3 In a situation where a tax exemption is granted in the Agreement and in the event of projects where the expenses for tax exemption could not be arranged from internal resources, a tax exemption can be granted, subject to the prevailing laws.
- 6.1.4 As the tax levied on income and profit is not considered a part of development cooperation, the prevailing tax laws will be applicable in this regard.
- 6.1.5 An arrangement will be made, as specified in the Agreement, to provide visas to foreign workers, employees, and their dependents working in projects that include international development cooperation.

#### 6.2 Repeal and Savings

- 6.2.1 Development Cooperation Policy, 2014 has been repealed.
- 6.2.2 All activities accomplished in accordance with Development Cooperation Policy, 2014 shall be considered as accomplished under this policy.
- 6.2.3 If any difficulty arises in connection with the interpretation and implementation of this policy, the Ministry of Finance can resolve such difficulty.

Date of approval by the Government of Nepal: 24 May 2019.

*Disclaimer: If the content in English and Nepali version of this policy contradicts, the latter will be valid.*