

Nepal: Poverty Reduction Strategy Paper Progress Report

Poverty Reduction Strategy Papers (PRSPs) are prepared by member countries in broad consultation with stakeholders and development partners, including the staffs of the World Bank and the IMF. Updated every three years with annual progress reports, they describe the country's macroeconomic, structural, and social policies in support of growth and poverty reduction, as well as associated external financing needs and major sources of financing. This country document for Nepal, dated December 2006, is being made available on the IMF website by agreement with the member country as a service to users of the IMF website.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: <http://www.imf.org>

Price: \$18.00 a copy

**International Monetary Fund
Washington, D.C.**

AN ASSESSMENT OF THE
Implementation of the
Tenth Plan/PRSP

PRSP REVIEW 2005/06

GOVERNMENT OF NEPAL
NATIONAL PLANNING COMMISSION

Singh Durbar, Kathmandu, Nepal
December 2006

AN ASSESSMENT OF THE
Implementation of the
Tenth Plan/PRSP

©Government of Nepal
National Planning Commission
Singh Durbar, Kathmandu, Nepal
December 2006

Design & Layout: Pranaya Sindurakar, 9841 324249
Printed at: Pioneer Offset Printers Pvt. Ltd., 4415687

Foreword

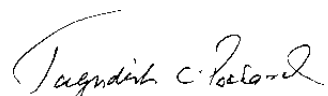
Ever since the introduction of the PRSP, the government has been making its best efforts to reduce poverty and achieve both social and economic development. In order to measure the progress thus attained, by using data and information related with the intermediate indicators from the MIS of the sectoral agencies, the government has been continuously monitoring the progress. Where possible, data and information from household surveys serve as the basis for measuring the outcome of the development efforts. In this context, this fourth progress report has been prepared. However, due to the absence of disaggregated data in terms of gender, ethnicity and disadvantaged community, the progress made in this respect has been difficult to report. Hence, efforts to this effect will be made in future publications.

As per the findings of this report, the results of the progress achieved have been mixed. Until mid 2006, due to the prolonged conflict, it was still difficult to carry out development activities in areas outside Kathmandu. However, after the re-instatement of the democratic government, supported by the cease-fire and accompanied by peace agreements and developments in the political sphere, the development activities have resumed.

The results of the second Nepal Living Standards Survey, made public in late 2005, indicated a significant fall in poverty. Furthermore, significant reductions in infant mortality, child death and fertility rate, as indicated by the provisional findings of the Nepal Demographic and Health Survey 2006, have given further impetus for ensuring sustenance of the development attained so far.

While these indicators point out areas where the country can expect positive developments, there are other areas where the nation has to make concerted efforts to ensure a satisfactory level of development. This progress report has come at a time when the country is preparing a three-year plan with a perspective for a new Nepal. In this sense, this publication has come at the right time and, thus, will provide much input for preparing a realistic plan. It will also help indicate the amount of energy required to fill in the gaps in the development divide. Therefore, it is hoped that this publication will be helpful for the policymakers, planners and development partners to understand the ground reality. It is also hoped that by learning from the experience in the field, all the responsible parties will be able to gear their work towards achieving the required development while enabling the people to build a modern, prosperous and just Nepal.

Finally, we take this opportunity to thank the UNDP for providing support throughout the process of this publication.



Jagadish Chandra Pokharel, Ph.D.
Vice-Chairman

Acronyms

ADB	Asian Development Bank
ADB N	Agriculture Development Bank Nepal
ADDCN	Association of District Development Committee of Nepal
AGO	Auditor General's Office
AMIS	Agency Managed Irrigation System
ANC	Ante-Natal Care
APP	Agriculture Perspective Plan
APPSP	Agriculture Perspective Plan Support Programme
ASYCUDA	Automated System of Custom Data
BOOT	Build, Own, Operate and Transfer
CBS	Central Bureau of Statistics
CIAA	Commission for Investigation of Abuse of Authority
COs	Community Organisations
CSC	Citizen Score Card
CTEVT	Council for Technical Education and Vocational Training
CWSSP	Community based Water Supply and Sanitation Project
DADF	District Agricultural Development Fund
DDC	District Development Committee
DEO	District Education Office
DFID	Department for International Development
DHO	District Health Office
DOE	Department of Education
DOI	Department of Irrigation
DOLIDAR	Department of Local Infrastructure Development and Agricultural Roads
DPP	District Periodic Plan
DTMP	District Transport Master Plan
DTO	District Technical Office
DWDO	District Women Development Office
DWSS	District Water Supply and Sanitation
EDR	Eastern Development Region
EFA	Education For All
EHCS	Essential Health Care Services
EIA	Environmental Impact Assessment
FCGO	Financial Comptroller General's Office
FMIS	Farmer Managed Irrigation System
FUG	Forest Users' Group
FWDR	Far Western Development Region
FY	Fiscal Year
GBB	Grameen Bikash Bank
GDP	Gross Domestic Product
GPI	Gender Parity Index
GoN	Government of Nepal
HDR	Human Development Report
HP	Health Post

HQ	Headquarters
IAP	Immediate Action Plan
ICT	Information and Communication Technology
IMF	International Monetary Fund
LB	Local Bodies
LIF	Local Initiatives Fund
LSGA	Local Self-Governance Act
MoF	Ministry of Finance
MDGs	Millennium Development Goals
MDG NA	Millennium Development Goals Needs Assessment
MIS	Management Information System
MMR	Maternal Mortality Rate
MOHP	Ministry of Health and Population
MOLD	Ministry of Local Development
MOWR	Ministry of Water Resources
MTEF	Medium-Term Expenditure Framework
MWDR	Mid-western Development Region
NDA	Net Domestic Assets
NFC	Nepal Food Corporation
NGO	Non-Government Organisation
NLSS	Nepal Living Standards Survey
NPC	National Planning Commission
NRB	Nepal Rastra Bank
NVC	National Vigilance Centre
O & M	Operation and Maintenance
PAC	Public Accounts Committee
PAF	Poverty Alleviation Fund
PE	Public Enterprises
PMAS	Poverty Monitoring and Analysis System
PMEU	Programme Monitoring and Evaluation Unit
PNC	Post-Natal Care
PO	Partner Organisation
PRGF	Poverty Reduction Growth Facility
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Strategy Credit
PRSP	Poverty Reduction Strategy Paper
PSO	Private Sector Organisation
RWSSFDB	Rural Water Supply Sanitation Fund Development Board
SEZ	Special Economic Zone
SHP	Sub-health Post
SMC	School Management Committee
TFR	Total Fertility Rate
VDC	Village Development Committee
WB	World Bank
WDR	Western Development Region
WUA	Water Users' Association

Table of Contents

FOREWORD

ACRONYMS

Section I: INTRODUCTION	1
Background	1
Report Structure	2
Section II: KEY NATIONAL OBJECTIVES AND STRATEGIES	3
The national situation	3
Poverty profile	4
Millennium development goals	7
Section III: MACROECONOMIC PERFORMANCE AND CHALLENGES	11
Sustaining macroeconomic stability	11
New initiatives in economic management	17
Section IV: PUBLIC RESOURCE AND EXPENDITURE MANAGEMENT	19
Overview	19
MTEF and fiscal performance	19
Section V: BROAD-BASED GROWTH PERFORMANCE	25
Agriculture	25
Irrigation	28
Infrastructure	33
Power	35
Forestry	36
Promoting non-agricultural growth	37
Public enterprises reform and privatisation	38
Financial sector reform	40
Section VI: SOCIAL SECTOR PERFORMANCE	43
Background	43
Health	51
Drinking water and sanitation	57
Section VII: RURAL ACCESSIBILITY AND SERVICE DELIVERY	61
Rural infrastructure	61
Service delivery in rural areas	62

Section VIII: SOCIAL INCLUSION AND TARGETED PROGRAMMES	65
Overview	65
Social inclusion initiatives and performances	66
Targeted programmes	67
Section IX: GOVERNANCE	73
Progress in judiciary reforms	73
Decentralization	75
Progress in governance reforms	75
Progress in anti-corruption	76
Section X: CONFLICT AND DEVELOPMENT	77
Overview	77
Development initiatives in conflict-affected areas	78
Rehabilitation and community participation	80
Section XI: POVERTY MONITORING	81
Section XII: RESOURCE NEEDS AND AID HARMONISATION	85
Resource needs and aid utilisation	85
Initiatives for effective aid utilisation and aid harmonisation	86
Section XIII: CONCLUSIONS	89
REFERENCES	91
ANNEXES	93

LIST OF TABLES

2.1	Poverty measurement, 1995/96 and 2003/04	5
2.2	Poverty by geographical region	5
2.3	Comparison of DHS 2001 and 2006	7
2.4	Millennium development goals and status 2005	8
3.1	Performance of macroeconomic indicators in producer's prices (2001/02-2006/07)	14
3.2	Percentage growth of macroeconomic indicators (2002/03-2006/07)	16
4.1	Government finance (as per cent of GDP)	20
4.2	Inter sectoral allocation (as per cent of GDP)	22
4.3	Sectoral pro-poor expenditure 2002/03-2006/07 in percentage of total expenditure	23
5.1	Major achievements in the food and agriculture sector	27
5.2	Physical targets of irrigation facilities in Tenth Plan	29
5.3	Irrigation development in the Tenth Plan	30
5.4	Major achievements in the forestry	36
6.1	Education sector physical targets of the Tenth Plan	44
6.2	Major achievements in the education sector	45
6.3	Districts covered and number of schools transferred to SMC by level, 2002/03-2005/06	48
6.4	Budgetary performance of the education sector	50
6.5	Health sector physical targets	51
6.6	Major achievements in health	53
6.7	Number of health facilities handed over to LMC by type of health facilities, Nepal (2002/03-2005/06)	54
6.8	Budget allocation and expenditure in health	56
6.9	Major achievements in drinking water and sanitation	58
8.1	Dimensions and basis of exclusion in Nepal	66
8.2	Distribution of targeted programmes by sector and priority type	68
8.3	Budget and expenditure in targeted programmes	70
8.4	Annual budget allocation and expenditure in PAF programmes	72
12.1	Summary of income and expenditure	86

LIST OF BOXES

1.1	Distinct features of the PRSP (Tenth Plan)	1
2.1	NLSS results	6
4.1	Basic features of MTEF V	24
5.1	Private sector development initiatives	37
5.2	Milestones in financial sector reforms	42
6.1	Management transfer and resource mobilisation: A vivid case of community participation	49
6.2	Community managed insurance: a cushion for the poor	55
6.3	Drinking water project and alternative use of time saved	60
7.1	Improving service delivery in agriculture	63
8.1	Benefits from PAF programme	70
8.2	Poverty alleviation fund (PAF)	71

LIST OF FIGURES

4.1	Community and local bodies	23
5.1	Net profit of NBL and RBB	40
5.2	Proportion of NPA of NBL and RBB	41

Introduction

BACKGROUND

With the implementation of the PRSP/Tenth Plan in fiscal year (FY) 2002/03, the Government of Nepal is committed to bringing out an annual performance review of the plan to its people and to those who take keen interest in the development of Nepal. The plan was actually a Millennium Development Goals (MDGs)-centred Poverty Reduction Strategy Paper (PRSP) focussing on four strategically important areas, namely, broad-based sustained growth; improvement in the access and quality of infrastructure, social and economic services in the rural areas; targeted programmes for social and economic inclusion of the poor and marginalised communities; and good governance to improve service delivery, efficiency, transparency and accountability. The distinct features of PRSP are listed in Box 1.1.

This report, therefore, is the fourth in the series of reports it has brought out annually. The present report presents the fourth year progress report of the plan as well as the achievements of the plan in the last four years of its implementation and the key issues that it confronted during its implementation. The detailed review of PRS implementation will be undertaken in the next years progress report.

Box 1.1 Distinct features of the PRSP (Tenth Plan)

- The Tenth Plan prepared and implemented as a full fledged Poverty Reduction Strategy Paper (PRSP);
- Consistent with the MDGs, the Tenth Plan targets to reduce the level of poverty and enhance social and human well-being of the people;
- Due recognition of the role of community organisations (COs) and non-government organisations (NGOs) in the development process;
- Commitment to decentralisation and functional devolution;
- Use of log-frame as measure to institutionalise results based management in planning; to define institutional tasks and responsibilities;
- Prioritisation of development programmes/projects in terms of P1, P2 and P3, guaranteeing resources and intensive monitoring; and
- Elaborate monitoring and evaluation provisions, including a commitment to annual poverty monitoring, process monitoring and reporting.

REPORT STRUCTURE

The entire report has been organised into 13 sections. The report begins with a broad review of the status and challenges of Nepal's poverty reduction strategy and the MDGs. It is followed by the assessment of the economy and new initiatives taken to manage the economy. Section IV highlights the government's efforts to mobilise revenue and realign public expenditure management in support of the PRSP and MDGs. Section V examines the performance in the economy for broad-based growth by major sectors and also the initiatives taken by the government in improving its performance, particularly the much-hyped status of financial sector reform and the status of privatisation of public enterprises (PEs). Section VI reviews performance in the social sector, particularly in education, health and safe drinking water. Section VII reports the performance in rural infrastructure and service delivery in the rural areas. Section VIII discusses performance in the social inclusion initiatives and the targeted programmes. Section IX deals with the performances in institutional reforms, especially the progress in the civil service reforms and good governance. This section also makes an assessment of the performance in the decentralisation and devolution of the central government tasks to the local units as well as the performance in the judicial reforms and anti-corruption measures. Section X assesses the conflict situation and its effect on growth as well as on development activities. The section also highlights the initiatives taken by the government in resolving the conflict and rehabilitating the people affected by the conflict. Section XI reports the status of poverty monitoring, both at the centre and the district level. This section also highlights the sectoral initiatives taken towards performance monitoring. Section XII assesses the resource needs and the progress made in aid utilisation. It also discusses the initiatives taken in aid harmonisation. Lastly, section XIII sums up the conclusions of the report.

Key National Objectives and Strategies

THE NATIONAL SITUATION

Fiscal Year 2005/06 saw major developments in the political scenario of the country. The elected government was scrapped, parliament dissolved and a new government was formed by partially suspending the constitution. However, the security situation remained grim, with development activities remaining at a standstill. The local bodies remained devoid of elected officials, and the chief officers of the local bodies were given the authority to run the day to day works. Service delivery at the grass root level was, thus, severely disrupted. The Maoist armed insurgency continued unabated. The main political parties joined hands to fight against the direct rule and to restore democracy in the country. The political parties formed coalition with the Maoists to restore a democratic system.

Economic activity during the year remained at its lowest. Recurrent expenditures remained high due to the high military and security expenditures. Development works came to a complete halt as the security in the districts was not conducive. Government revenue stagnated, and borrowings exceeded the budgetary target. As most of the bilateral donors temporarily suspended their development assistance, the government faced a serious fiscal problem. Trade and investment growth remained at its lowest, and GDP growth continued at a lower level.

In this context, rescuing the economy from this difficult situation and sustaining the gains for achieving socio-economic targets, as outlined in the PRSP document, remain a major challenge. The current development process in Nepal has been rendered extremely difficult by the domestic peace and political situation. The ongoing conflict and a

turn around in the political situation in the reporting period have the following implications on the national economy:

- Loss in infrastructure affecting service delivery and constraining economic activities,
- Reducing business confidence and discouraging private sector investment,
- Restricting government development expenditure,
- Weakening service delivery at the grassroots level,
- Affecting production, trade and transactions,
- Obstructing operations of NGOs and other development partners, and
- Pressure on urban utilities and mass migration.

The political uncertainty has compounded the problems, giving rise to fears of more instability in the future.

POVERTY PROFILE

NLSS 2003 shows very encouraging results, reporting a significant decline in poverty incidence from 42 per cent in 1995/96 to 31 per cent in 2003/04. Analysis of the dynamics of poverty and poverty profile, by comparing NLSS I and II, shows the decline in poverty is higher in the urban areas than in the rural areas; poverty declined in all the regions except in the rural eastern hills; and inequality increased at the upper end of the income distribution. However, the decline in poverty in the mid and far-western hills and mountains was not enough to bring it at par with the national average. Still, the level of poverty in these regions is far higher than the rest. Besides, comparative analysis shows improvements in the access of basic social and infrastructural services.

An in-depth analysis of the factors behind the decline in the level of poverty between the two survey periods shows such factors as increases in migration and remittances, diversification in agriculture - particularly the wave in commercial farming of agricultural products, such as off-season vegetables, horticulture and dairy products, poultry and other animal products, targeting the urban needs - to be the main reason for the improvement in the level of income in the rural areas, where poverty is concentrated. The expansion of rural credits through rural credit institutions, both in the government and non-government sector, the technical support and social mobilisation campaign by different non-governmental agencies and poverty reduction programmes

in the government have helped improve employment opportunities in agriculture, resulting in a better life of the common people. The improvement in accessibility to the basic social and economic services, improvement in literacy and health-related indicators, including the decline in the level of fertility, can be regarded as another important and strong factor for the improvement in the poverty situation during the period.

Table 2.1 Poverty measurement, 1995/96 and 2003/04

	Head count rate (P0)			Poverty gap (P1)			Squared poverty gap (P2)		
	1995/96	2003/04	Change %	1995/96	2003/04	Change %	1995/96	2003/04	Change %
Nepal	41.76	30.85	-26	11.75	7.55	-36	4.67	2.7	-42
(Standard error)	(1.09)	(0.93)		(0.4)	(0.3)		(0.21)	(0.14)	
Urban	21.55	9.55	-56	6.54	2.18	-67	2.65	0.71	-73
(Standard error)	(2.87)	(1.13)		(1.02)	(0.32)		(0.51)	(0.13)	
Rural	43.27	34.62	-20	12.14	8.50	-30	4.83	3.05	-37
(Standard error)	(1.15)	(1.06)		(0.43)	(0.35)		(0.23)	(0.17)	

Source: Poverty Trends in Nepal Between 1995/96 and 2003/04

Table 2.1 shows head count poverty, poverty gap and squared poverty in Nepal, exhibiting the population living below the poverty line, depth of poverty and the inequality among the poor, respectively. All three indicators show not only a consistent decline in poverty, but also a more rapid decline in poverty and inequality in Nepal over the eight-year period from 1995/96 to 2003/04.

All these measures of poverty show poverty in the urban areas declining faster than in the rural areas, both in terms of depth and severity of poverty. This confirms that poverty in Nepal is more a rural phenomenon.

Table 2.2 Poverty by geographical region

Geographic Region Sector	Poverty head count rate (%)		
	1995/96	2003/04	% Change
Urban	21.6	9.6	-56
Rural	43.3	34.6	-20
NLSS regions			
Kathmandu	4.3	3.3	-23
Other urban	31.6	13.0	-59
Rural Western Hill	55.0	37.4	-32
Rural Eastern Hill	36.1	42.9	19
Rural Western Terai	46.1	38.1	-17
Rural Eastern Terai	37.2	24.9	-33
Development region			
Eastern	38.9	29.3	-25
Central	32.5	27.1	-17
Western	38.6	27.1	-30
Mid-Western	59.9	44.8	-25
Far Western	63.9	41.0	-36
Ecological belt			
Mountain	57.0	32.6	-43
Hill	40.7	34.5	-15
Terai	40.3	27.6	-32
Nepal	41.8	30.8	-26

Source: Poverty Trends in Nepal Between 1995/96 and 2003/04

A comparison of NLSS I and II shows that the basic indicators contributing to poverty has undergone a significant improvement during the two periods (Box 2.1). Indicators, such as the percentage of households reporting less than adequate food consumption, clothing, health care, schooling have all gone down in NLSS II as compared to NLSS I, indicating improvements in the situation between the two periods. Similarly, marked improvements are noted in the health, education and other infrastructural access contributing to the decline in the level of poverty during the period.

Poverty by ecological belts, during the two NLSS surveys, shows that it has gone down more rapidly in the mountain and Terai regions than in the hilly regions. Poverty in the mountain region went down annually at a rate of 5 per cent plus during the period. The declining rate in the Terai was about 4 per cent per annum, whereas, it has gone down by only 2 per cent per annum in the hills.

A comparison of NLSS I and II clearly shows that there have been some improvements in the access to the basic services of the people over these years.

The study has shown that poverty in Nepal ascribes to a combination of many factors, such as high illiteracy, poor health and sanitation, low productivity of food grains, high child malnutrition, poor access to basic services and a feudal social structure. The lower caste and the ethnic groups, as well as

Box 2.1 NLSS results

Percent of Households Reporting Less than Adequate		
	NLSS-I	NLSS-II
Food consumption	50.9	31.2
Housing	64.1	40.6
Clothing	57.6	35.6
Health Care	58.7	28.3
Schooling	45.4	21.4
Total Income	72.6	67.0
Adult literacy (15+),		
Male	35.6	48.0
Female	19.4	33.8
Net Enrolment in Primary School		
Female	46.0	66.9
Children fully immunized	36.0	59.4
Access to electricity	14.1	37.2
Access to piped water	32.8	43.9
Access to toilet facility	21.6	38.7
Household access to facility within 30 minutes		
Primary school	88.4	91.4
Health post/Hospital	44.8	61.8
Agriculture centre	24.5	31.9
Commercial Banks	20.7	27.8
Paved road	24.2	37.2
Motorable road	58.0	67.6

Source: CBS, 1996 and 2004

women in the remote areas, bear the major brunt of this high poverty profile. The levels of improvement would not only have sustained but also would have had spiralling effects on other spheres had the political/security situation in the country been normal. The insurgency and the political uncertainty have obviously negated some gains. Further achievements would, thus, depend very much upon the resolution of the conflict and improvements in the political scenario.

On the other hand, there have been some improvements in health sector. The preliminary findings of the new Demographic Health Survey 2006 have recently been made public. A comparison has been made in the following table between DHS 2001 and 2006, and the change experienced in the basic health indicators is assessed. Comparison of the survey results illustrates the significant changes in the fertility rate, mortality and contraceptive use rate between 2001 and 2006. The results present a very encouraging trend (Table 2.3).

Table 2.3 Comparison of DHS 2001 and 2006

Demographic Indicators	DHS2001	DHS2006
TFR	4.1	3.1
CBR	33.5	28.4
CPR Any Method	39.3	48.0
CPR Any Modern Method	35.4	44.2
Neonatal Mortality	39	34
Post Neonatal Mortality	26	16
Infant Mortality Rate	64	51
Child Mortality	29	15
Under-five Mortality	91	65

** Refers to MMR of 1996*

Source: Nepal Demographic and Health Survey 2001 and 2006

MILLENNIUM DEVELOPMENT GOALS

As a signatory of the Millennium Declaration in September 2000, the Government of Nepal is committed to achieving the MDGs by 2015. The MDGs set quantitative targets for poverty reduction, and improvement in health, education, gender equality, the environment and other aspects of human development. The paucity of data makes it difficult to assess the performances so far made by Nepal on the MDGs. However, available data on the school enrolment ratio as well as the percentage of people having access to safe drinking water are encouraging (Table 2.4). Similarly, the results of

Table 2.4 Millennium Development Goals and Status 2005

Goal / target	Status			MDG target
	1990	2000	2005	2015
Goal-1: Eradicate extreme poverty and hunger				
<i>Target-1 Eradicate poverty by half</i>				
a. % of population below \$1/day (PPP value)	33.5	NA	24.1	17
b. % of population below poverty line	42	38	31	21
<i>Target-2 Reduce hunger by half</i>				
a. % of population below minimum level of dietary energy consumption	49	47	NA	25
b. % of underweight children aged 6-59 months	57	53	NA	29
c. % of stunted children aged 6-59 months	60	55	NA	30
Goal-2: Achieve universal primary education				
<i>Target-3 Ensure primary schooling</i>				
a. Net enrolment in primary education (%)	64	81	89	100
b. % of pupils starting Grade 1 and reaching Grade 5	38	63	76	100
c. Literacy rate 15-24 year olds	49.6	70.1	73	100
Goal-3: Promote gender equality and empower women				
<i>Target-4 Eliminate gender disparity in education</i>				
a. Ratio of girls to boys at primary level	0.56	0.79	0.86	1.0
b. Ratio of girls to boys at secondary level	0.43	0.70	0.82	1.0
c. Ratio of girls to boys at tertiary level	0.32	0.28	NA	1.0
d. Ratio of literate women to men of age group 15-24 years	0.48	NA	0.73	1.0
Goal-4: Reduce child mortality				
<i>Target-5 Reduce U5MR by two-thirds</i>				
a. Infant mortality rate (IMR)	108	64	51	34
b. Under-five mortality rate	162	91	65	54
c. Proportion of 1 year olds immunised against measles	42	71	85	> 90
Goal-5: Improve maternal health				
<i>Target-6 Reduce MMR by three-quarters</i>				
a. Maternal mortality rate (MMR)	850	415	NA	134
b. % of deliveries attended by health care providers	7	11	20	60
Goal-6: Combat HIV/AIDS, malaria and other diseases				
<i>Target-7 Reverse the spread of HIV/AIDS</i>				
a. HIV/AIDS prevalence among 15-49 year olds (%)	NA	0.29	0.5	
b. Contraceptive prevalence rate	24	39	NA	67
Goal-7: Ensure environmental sustainability				
<i>Target-9 Reverse the loss of environmental resources</i>				
a. Area under forests	37	29	29	-
<i>Target-10 Access to safe drinking water</i>				
a. % of population with improved water sources	46	73	81	73
b. % of population with improved sanitation	6	30	39	53

Source: NPC/UN Country Team of Nepal, 2005

Nepal Demographic and Health Survey (Preliminary findings) 2006

NLSS II also show significant improvements in the head count level of poverty, food availability and consumption and health and nutrition related indicators. However, difficulties in continuing the grassroots level development activities and the worsening service delivery due to poor security caused by the insurgency, coupled with the deteriorating political situation, are threatening the gains so far made, leading to a big gap in the MDG targets and actual attainment to be made by 2015.

It is obvious that long-term poverty reduction needs sustain economic growth. Therefore, technological advancement and capital accumulation, including human and social capital, are required. However, as noted earlier, the political scenario so far and the heightening insurgency that prevailed throughout the country threatened capital accumulation, besides leading to a decline in social capital. Similarly, large scale migration of educated youths is posing a serious threat to the available human resource. If all these are not corrected soon, they will pose a great threat to the attainment of the MDGs in Nepal.

A recent review of the progress towards the MDGs suggests that Nepal may be able to attain all of the MDGs except for the goals related to universal primary education and combating HIV/AIDS. It notes that bringing women and the disadvantaged population (Dalits, Janjatis) into the development mainstream is the key to accelerating progress towards the MDGs. While the achievements of Nepal in poverty reduction and improvements in the human development indicators are commendable, the diagnostics of the challenges ahead are uneven, with some sections more candid than others (IMF, 2006). The conflict situation is posing a great challenge in achieving the MDGs. The government will have to scale-up its efforts in the years to come. This will require more resources and unconventional but proven approaches. The lessons learnt by Sri Lanka and other conflict regions will be of great help to Nepal in meeting the MDGs.

A study on the MDGs Needs Assessment estimates the total financial requirements for attaining the selected MDGs and rural infrastructure target to be US\$ 16.4 billion at 2004/05 prices for 2005-2015. The study estimates that out of the total financial requirements, about US\$ 3.8 billion is expected to be borne by sources other than the public sector. Similarly, out of the total public sector requirement of US\$ 12.6 billion, \$ 4.8 billion will be borne by domestic resources and the rest will have to come from external assistance. That is an annual amount equivalent to US\$ 800 million (at 2004/05 prices)

will have to come from external bilateral donors and multilateral agencies if Nepal is to attain the MDGs. This calls for an increase of almost two times the present level of assistance Nepal is receiving.

Further in an effort to localize the MDGs, district level MDG progress reports have been prepared in five districts viz. Morang, Chitwan, Bhaktapur, Banke and Kanchanpur. These reports have clearly identified the status of the districts in terms of progress towards MDGs. Through consultative processes the district level targets have been set which has clearly led out the gaps to be addressed by 2015. Therefore, this exercise have been instrumental for finding ways to mobilise the governmental and non-governmental resources. A short note on the findings in Bhaktapur district has been presented in Annex 4. Similarly, MDG Needs Assessment was carried out in Rupandehi district and report has been already published. It has clearly highlighted the programmes and the resources required to attain the MDGs in Rupandehi by 2015.

Macroeconomic Performance and Challenges

SUSTAINING MACROECONOMIC STABILITY

Achieving macroeconomic stability by maintaining fiscal discipline was the main objective of the macroeconomic management policy of the PRSP/Tenth Plan. However, the armed conflict exerted pressure on the government to allocate more resources for security purposes. The deteriorating growth performance reduced revenue growth during the review period. Even though the government made efforts to use the available resources more efficiently and effectively by adopting the MTEF as a tool, it could not increase the capital expenditure due to poor resource mobilisation and increased conflict.

The classification of the budget into current and capital, and the prioritisation of all programmes into P1, P2 and P3, and unit cost exercise have helped allocate the budget to priority sectors and to use the funds more effectively.

Economic growth: The economic growth rate, on average, remained less than targeted during the first four years of the PRSP. During this period, only 3.3 per cent GDP growth, on average, was achieved as against the low target of 4.3 per cent enunciated in the PRSP. Because of improved economic management, better agricultural performance and a recovery in the world economy, a positive growth was observed in the first year of the PRSP. The GDP at factor cost recorded 3.1 per cent growth in FY 2002/03 as against a negative growth of -0.3 per cent in FY 2001/02. A favourable monsoon, prudent economic policies containing inflation, recovery in tourism, and growth in trade, construction and service sectors helped to increase the GDP to 3.6 per cent in FY 2003/04. However, due to the re-intensification of the conflict and negative growth in the construction, trade, restaurant and hotels sectors, the GDP could only see 2.4 per cent growth in FY 2004/05. Similarly, low agricultural production due to bad weather conditions and a contraction in non-agricultural activities, due to the conflict and political instability, were responsible for the low growth of GDP (2.4 per cent) in FY 2005/06. Capitalising on cessation of insurgency and demonstrated

resilience of Nepalese economy in peace time, economic growth is projected at around 5 per cent in the current FY 2006/07.

During the first four years of the PRSP, economic growth, on average, remained at 3.3 per cent contributed by growth in the agriculture sector at above 3.1 per cent and in the non-agricultural sector at 3.4 per cent.

Savings and investment: The investment to GDP ratio has increased annually from 24.2% in FY 02 to 30.3% in FY 06. The average of investment to GDP ratio during the first four years of the PRSP was 26.5% (Table 3.1). Of the total investment, private investment (including changes in stock) to GDP ratio has increased from 16.65% in 2001/02 to 24.6% in 2005/06 resulting into decline in public investment to GDP ratio. Similarly, the Gross National Savings (GNS) has also been declining in this period. The GDS to GDP ratio has declined from 16.5% in 2001/02 to 13.3% in 2005/06.

Gross Domestic Savings (GDS) remained at over 12 per cent of the GDP during the first three years of the Tenth Plan and declined to 11.1 per cent in 2005/06. (Table 3.1). The reason for not encouraging growth in savings may be attributed to more expenditure on consumption and low saving habits of the Nepalese people, even though more saving avenues have emerged during this period. This clearly implies that, if the level of savings cannot be increased in the remaining period of the Plan, the saving target of the Plan will not be achieved.

Government Finance: Government finance statistics show that during the first four years of the Plan period, regular expenditure increased by 0.9 per cent of GDP. It increased from 11.5 per cent of GDP in 2001/02 to 12.4 per cent in 2005/06. But the development expenditure shows a declining trend. The development expenditure to GDP ratio declined from 7.4 per cent in 2001/02 to 6.8 per cent in 2005/06. The total expenditure to GDP ratio increased from 18.9 per cent to 19.2 per cent in 2005/06. More budget allocation to security was the main reason for the sharp increase in the regular expenditure, whereas the conflict and political instability were the main reasons for the declining trend in development and capital expenditure.

On the revenue front, it seems that revenue remained buoyant in the first three years of the PRSP. During this period, it increased from 11.9 per cent of GDP in 2001/02 to 13.4 per cent of GDP in 2004/05. However, its ratio to the GDP declined in 2005/06. The main reason behind this decline can be attributed to political instability, reduction of tariff rates on certain commodities

in the middle of the fiscal year, and also *bandhs* and curfews imposed during the people's movement, and the low economic growth.

Foreign aid during the first four years of the PRSP period rose slightly. Foreign aid to GDP ratio rose from 3.4 per cent in 2001/02 to 4.4 per cent in 2004/05. However, this ratio decreased to 4.0 per cent in 2005/06.

The slow increase in total expenditure and some growth in revenue and foreign aid have helped reduce the fiscal deficit from 3.6 per cent of GDP in 2001/02 to 1.7 per cent of GDP in 2004/05. However, it increased to 2 per cent in 2005/06 due to decrease in revenue and foreign aid growth.

Trade and balance of payments. Since 2002/03, a positive growth trend has been observed in the foreign trade front. Exports increased by 6.4 per cent in 2002/03 against a decline of 15.6 per cent in 2001/02. However, exports increased only by 4.2 per cent in 2005/06, compared to an increase of 8.9 per cent in 2004/05. As components of the GDP, exports accounted for 10.5 per cent in 2005/06 compared to 11 per cent in 2004/05. Of the total exports, export to India increased only by 5.4 per cent in 2005/06, compared to a high growth of 26.4 per cent in 2004/05. The decline in exports to India was due to imposition of an additional 4 per cent countervailing duty by India in March 2006. Exports to other countries rose by 1.8 per cent in 2005/06, in contrast to a significant decline of 14.5 per cent in 2004/05.

But imports increased significantly by 17.1 per cent in 2005/06, compared to a 9.7 per cent increase in 2004/05 as a result of the upsurge in imports, both from India and overseas. The imports to GDP ratio rose to 30 per cent in 2005/06 from 28 per cent in 2004/05. Out of the total imports, imports from India increased sharply by 23.3 per cent. The higher growth in imports as compared to exports has led to a significant increase in the trade deficit. However, a surplus in the current account has been observed, primarily because of the high growth in the inflow of remittances. In 2005/06, remittance income increased by 48.2 per cent and reached Rs. 53.46 billion. This had a positive impact on poverty reduction and in the balance of payments. The balance of payments in 2005/06 posted a significant surplus.

The gross foreign exchange reserves (as of mid-July 2006) increased by 27 per cent in comparison to a decline by 0.2 per cent (as of mid-July 2005). The main reason behind this increment was the consistent increase in workers' remittances. In terms of the GDP ratio, however, it has declined to 24.8 per cent in 2005/06 from 25.05 per cent in 2001/02.

Table 3.1 Performance of macroeconomic indicators in producer's prices (2001/02-2006/07)

	(Percent of GDP at producer prices)					
	2001/02 Base year	2002/03 Actual	2003/04 Actual	2004/05 Actual	2005/06 Revised estimates	2006/07 Budget estimates
INVESTMENT AND SAVINGS						
Total investment	24.2	25.8	26.4	28.9	30.3	
Private investment (including change in stock)	16.6	19.0	20.1	23.1	24.6	
Gross national savings	16.5	15.5	15.2	14.4	13.3	
Gross domestic savings	12.1	12.0	12.6	12.4	11.1	
GOVERNMENT FINANCE						
Government revenue	11.9	12.3	12.6	14.3	12.6	13.19
Total expenditure	18.9	18.4	18.0	19.2	19.2	22.24
Regular expenditure	11.5	12.0	11.7	12.3	12.4	12.3
Development expenditure	7.4	6.4	6.2	6.9	6.8	9.9
Current expenditure	11.6	11.4	11.2	11.6	11.9	12.9
Capital expenditure	5.9	4.9	4.6	4.7	6.4	6.4
Principal repayment	1.5	2.1	2.2	2.4	2.4	2.4
Capital expenditure (including principal repayment)	7.4	7.0	6.8	7.7	7.4	9.3
Revenue surplus	0.4	0.3	0.8	0.8	0.2	0.9
Government revenue-current expenditure	0.4	0.9	1.4	1.6	0.8	0.3
Budgetary deficit	5.4	3.6	3.2	3.4	4.3	5.4
Total foreign aid	3.4	3.5	3.8	4.4	4.0	6.3
Grant	1.6	2.5	2.3	2.7	2.4	3.7
Loan	1.8	1.0	1.5	1.7	1.6	2.6
Total domestic borrowings	3.6	2.6	1.7	1.7	2.0	2.8
Domestic borrowings	1.9	1.9	1.1	1.7	2.0	2.8
Cash balance (- surplus)	1.7	0.7	0.5	0.1	0.0	0.0
MONETARY DATA						
Narrow money supply (M1)	18.2	18.3	18.9	18.8	20.2	
Broad money supply (M2)	53.0	53.8	55.8	56.3	60.8	
Total domestic credit	49.0	50.0	50.5	53.4	50.9	
Net foreign assets	20.9	20.0	21.9	20.2	22.3	
BALANCE OF PAYMENT						
Exports	18.2	18.3	18.9	18.8	20.2	
Imports	53.0	53.8	55.8	56.3	60.8	
Current account balance (-deficit)	49.0	50.0	50.5	53.4	50.9	
Remittances	20.9	20.0	21.9	20.2	22.3	
Balance of payments (-deficit)	-0.8	1.0	4.0	1.1	1.0	
Gross foreign exchange reserves	25.0	23.7	26.2	24.3	24.8	

Sources: CBS, 2005_b and 2006; NRB, 2005; NPC, 2005_a; and NPC, 2005_b

The foreign exchange reserves in 2005/06 was enough to cover 12.2 months of imports of goods. During the review period, the foreign exchange rate of the Nepali rupee vis-a-vis the US dollar depreciated slightly.

Monetary Situation: Even though the central bank (Nepal Rastra Bank) tried to use a tight monetary policy during the PRSP period, money supply (M1) and (M2) has shown steady increase except in 2004/05. Narrow money supply (M1) grew from 9.3 per cent in 2001/02 to 12 per cent in 2005/06. However, there was higher growth in broad money supply (M2). M2 grew from 4.4 per cent in 2001/02 to 13.5 per cent in 2005/9. Domestic credit grew very slowly in the first four years of the PRSP. It grew from 10.4 per cent in 2001/02 to 12 per cent in 2005/06.

The inflation rate was below 5 per cent during the first three years of the PRSP, but in 2005/06, it increased by 8 per cent. The reason for this higher percentage increase in the price level was increment in the price of petroleum products by 35.7 per cent, which also led to further increase in the prices of household goods and services as well as that of transportation services.

In FY 2005/06, the central bank made 64 interventions in the foreign exchange market. A total liquidity of Rs. 55.9 billion was injected through the purchase of the US dollar and Rs. 655 million was mopped up through the sale of the US dollar in FY 2005/06. Similarly, the central bank mopped up net liquidity equivalent to Rs. 18.7 billion through the treasury bills on a turnover basis in 2005/06. The government issued treasury bills worth Rs. 10.8 billion, 10-year development bonds worth Rs. 750 million and citizen certificates worth Rs. 250 million in 2005/06 to manage the liquidity of banks and other financial institutions.

Poverty Reduction Growth Facility: Since FY 2002/03 Nepal has been implementing the PRSP, which made Nepal eligible for borrowing from both the Poverty Reduction Growth Facility (PRGF) of the International Monetary Fund (IMF) and the Poverty Reduction Support Credit (PRSC) of the World Bank. In November 2003, Nepal began borrowing under the PRGF and also obtained a PRSC credit from the World Bank. The PRGF allows credit of up to US\$ 73.9 million from the IMF, out of which Nepal drew the first tranches of US\$ 10.6 million in November 2003. It also drew the second tranches. However, it has not borrowed thereafter owing to delays in meeting the “prior commitments” by the government. Nepal borrowed US\$ 70 million from the World Bank in 2003.

Table 3.2 Percentage growth of macroeconomic indicators (2002/03-2006/07) (%)

Description	2002/03	2003/04	2004/05	2005/06	2006/07
GDP AT CURRENT PRICE					
GDP (at factor cost)	7.7	8.5	7.1	9.7	10.9
Agricultural GDP	6.8	7.0	6.1	9.5	9.0
Non-agricultural GDP	8.3	9.5	7.7	9.8	12.0
GDP (at producer price)	8.0	8.8	7.4	9.3	11.2
GDP AT 1994/95 PRICE					
GDP (at factor cost)	3.1	3.6	2.4	2.4	5.0
Agricultural GDP	2.5	3.9	3.0	1.7	3.5
Non-agricultural GDP	3.4	3.4	2.1	2.8	6.0
GDP (at producer price)	3.3	3.8	2.7	1.9	5.2
INVESTMENT AND SAVINGS					
Total investment	15.5	11.0	17.7	14.5	
Private investment (including change in stock)	23.8	14.0	6.4		
National savings	1.9	6.2	6.7	0.1	
Domestic savings	6.8	13.9	7.6	-2.5	
GOVERNMENT FINANCE					
Government revenue	11.5	10.9	12.5	4.8	16.2
Total expenditure	4.9	6.5	12.9	11.0	28.4
Regular expenditure	13.1	6.4	13.3	9.2	10.0
Development expenditure	-7.8	6.6	12.1	50.1	50.1
Current expenditure	6.6	6.6	11.0	12.0	21.3
Capital expenditure	-9.8	3.3	9.0	48.0	
Principal repayment	48.6	12.9	17.2	9.1	
Capital expenditure (including principal repayment)	2.3	6.2	20.6	5.2	39.8
Revenue surplus	-32.3	204.6	0.7	-70.5	405.5
Government revenue-current expenditure	161.7	63.7	24.4	-47.5	-63.7
Budgetary deficit	-28.3	-3.7	3.8	50.8	40.5
Total foreign aid	10.4	19.1	25.1	-1.8	75.0
Grant	69.6	-0.5	27.5	-4.1	71.8
Loan	-40.9	67.8	21.5	1.6	79.6
Total domestic borrowings	-22.0	-31.0	10.9	-138.5	-611.4
Domestic borrowings	11.0	-36.8	59.4	32.63	51.1
Cash balance (- surplus)	-58.4	-13.9	-93.9	-100.0	-100.0
MONETARY DATA					
Narrow money supply (M1)	8.6	12.2	6.6	12.0	12.5
Broad money supply (M2)	9.8	12.8	8.3	13.5	14.1
Total domestic credit	10.2	9.9	13.5	12.0	13.5
Net foreign assets	3.4	19.0	-1.0	13.0	18.5
Inflation	2.9	4.8	4.1	8.0	6.0
BALANCE OF PAYMENTS					
Exports	6.4	8.0	8.9	4.2	16.5
Imports	15.8	9.6	9.7	17.1	26.0
Current account balance	-36.0	25.7	-20.9	13.0	13.9
Remittances	14.0	8.1	11.9	8.0	8.5
Balance of payments (-deficit)	-230.5	266.7	-135.9	-343.7	5.0
Gross foreign exchange reserves	10.4	11.5	12.0	12.1	12.2

Sources: CBS, 2006; NRB, 2006 nad NPC, 2006

Public Debt Management: The public debt repayment amount is increasing each year in Nepal. More than 20 per cent of the total current budget has been allocated for repayment or debt servicing (principle plus interest) of domestic as well as foreign debts in 2006/07. Therefore, to manage this public debt, the government has initiated a macro modelling exercise to assess debt sustainability and provide a mechanism to keep updated records of source-wise and sector-wise public debts. It has also helped to estimate the debt repayment amount.

NEW INITIATIVES IN ECONOMIC MANAGEMENT

Initiatives in public expenditure management: Continued efforts have been made by the Government of Nepal to achieve macroeconomic stability. Various measures have been undertaken in the public expenditure management sector to ensure efficiency of public resources, and monetary and external sector stability, strengthen the financial system, governance and private sector development, and maintain fiscal discipline. Internalisation and institutionalisation of the MTEF exercise have been given more emphasis to ensure fiscal discipline and prudent expenditure management.

Action has also been taken to improve domestic resource mobilisation by broadening the tax base, clearing and settling tax arrears, narrowing tax exemption, revising customs valuation and strengthening the tax administration.

Reforms in monetary policy implementation: In the process of implementing the monetary policy, the bank rate and open market operations (OMOs) have been taken as key instruments. More indirect monetary instruments have been used to control inflation. On the basis of liquidity monitoring and forecasting framework and the monetary targets and direct purchase and sale, the Repo and Reserves Repo Auction System was introduced in 2004/05 as a secondary market. Moreover, a Standing Liquidity Facility to the commercial banks was also introduced to make available short term loans. The government has also prepared plans for diversifying exports and promoting foreign direct investment.

Initiatives in Financial Sector: The regulatory and supervisory capability of the central bank has been strengthened, and a programme for reforming state-owned banks has begun to show results. The contracts for external managers at the two commercial banks have been extended. The Bank and Financial Institutions Ordinance, 2005 further consolidates the finance sector, including the regulatory environment. The Central Bank Act has been revised.

The government has enacted ordinances for secured transactions. The Secured Transaction Ordinance makes it possible for securing credit against moveable property. Under the old provisions, only immovable assets (land and buildings) could be used for the purpose. The amendments in the Company Act simplify investment procedures and clarify ownership rules and the role of the Company Registrar's Office.

Initiations in Foreign Trade Sector: To enhance foreign trade, the treaty between Nepal and India was renewed on April 1, 2006. New provisions, protocol on implementation and memorandum have been added in the treaty. Similarly, an agreement was signed with China for customs free export of Nepalese goods to China on March 15, 2006. Moreover, preliminary work has been initiated towards making Nepal a transit point between India and China. Nepal has simplified procedures related to trade and investment.

Following the membership of the WTO, Nepal has amended some acts, and it is in the process of amending more acts, laws, policies, rules and regulations to make them more transparent in line with the multilateral trading system. To fulfil the provisions of the WTO, the Ordinance for amending Some Nepal's Acts, Export and Import (Control) Act, Patent Design and Trademark Act and Copy Right Act have been amended and brought into effect in this process. Similarly, Competition Law, Anti-dumping Law, Counter-veiling Law and Intellectual Property Rights Law have been drafted. Moreover, acts relating to botanical resources, hereditary sources, conservation of botany, NSI Mark and New Industrial Policy have been drafted and discussed.

Initiations in Labour Sector: A new Labour and Employment Policy, 2006 replacing the Labour Policy, 1999 has been adopted. Its long-term objective is to create a favourable investment climate by enhancing workforce productivity, generating decent and productive employment opportunities, and ensuring worker rights. The policy also highlights the importance of generating additional jobs by setting up special economic zones and export-oriented industries. The policy also seeks to increase access for women, Dalits, Janjatis and people displaced by the conflict and to eradicate child labour. The Labour Act was approved in early 2006.

Public Resource and Expenditure Management

OVERVIEW

Public Expenditure Management (PEM) has been the main concern and priority of the Government of Nepal. Various fiscal measures and reforms have been undertaken by the government to manage public expenditure for the achievement of the targeted goals in the past. A major breakthrough was made after the implementation of the Poverty Reduction Strategy Paper (PRSP) and Medium-Term Expenditure Framework (MTEF) simultaneously in FY 2002/03.

The main objective of the PRSP was to reduce poverty from 38 per cent to 30 per cent in the five-year time period of the PRSP/Tenth Plan, whereas the objectives of the MTEF were a) developing a consistent and realistic budgetary framework for achieving macroeconomic stability, b) improving budget allocation to PRSP priorities among and within sectors through close inter-linkages of projects/programmes, c) providing adequate fund to P1 projects with funding guarantee, d) increasing incentives for effective and efficient use of resources by implementing agencies and e) making the development budget more result-oriented by reducing low priority programmes/projects.

MTEF AND FISCAL PERFORMANCE

The MTEF has been instrumental in improving budget allocation to the priority sectors. Even in a situation of political instability and armed conflict, important achievements have been made in the field of public expenditure management by using the MTEF tool. During the first four years of the PRSP, the implementation of the MTEF has helped to align resources to PRS outputs. Moreover, it has also helped increase budget allocation to pro-poor programmes and projects, and to maintain fiscal discipline as well. However, public expenditure management reform by institutionalising and internalising the MTEF remains one of the major challenges in this process.

Fiscal Discipline and Macroeconomic Stability: Implementation of the MTEF helped to maintain macroeconomic stability in the first four years of the PRSP by improving fiscal discipline despite the political instability and armed conflict situation prevailing in the country.

During the Ninth Plan period, the total expenditure, on average, was 18.3 per cent of the GDP. Of this, the current expenditure, was 11.5 per cent of GDP. Security expenditure was 2.23 per cent and 1.39 per cent of principal payment. The capital expenditure was 6.79 per cent of GDP. The sources of financing the total expenditure were domestic revenue, foreign assistance and domestic borrowings. During the Ninth Plan period, the total expenditure was financed through domestic revenue (11.4%), foreign assistance (4.56%) and domestic borrowings (2.34%) of the GDP. During the plan period the current expenditure was limited to 11.5 per cent of GDP, which was at the level of domestic revenue.

Total expenditure as a percentage of GDP is static: After implementation of the MTEF and during the first four years of the PRSP, the total expenditure as a percent of the GDP, on average, increased only by 0.30 per cent and reached 18.6 per cent of GDP. The current expenditure was 11.5 per cent of GDP and the capital expenditure 7.21 per cent. The total expenditure was financed through revenue (12.65%), foreign assistance (3.9%) and domestic borrowings (1.3%) of GDP (Table 4.1).

Table 4.1 Government finance (as per cent of GDP)

	Ninth Plan	PRS Years 2002-2006	Actual expenditure of Fiscal Year 06	Budget 07
Total revenue	11.42	12.65	12.61	13.19
Total expenditure	18.31	18.64	19.23	22.24
Total current expenditure	11.52	11.50	11.85	12.95
Total capital expenditure	6.79	7.21	7.38	5.29
Total external financing	4.56	3.93	3.98	6.28
Total domestic financing	2.34	1.34	1.65	2.77

Current expenditure as a percentage of GDP in increasing trend: The current expenditure, during the first four years of the PRSP, increased and now comprises 74 per cent of the total expenditure (11.8% of the GDP). Of which, debt payment is 2 per cent of GDP. Debt servicing is increasing with the maturity of loans taken in the early 1990s.

Capital Expenditure as a percentage of GDP in decreasing trend: Capital expenditure growth is on the decline; and it comprised 7.4 per cent of the GDP in 2006 as compared to 6.8 per cent of GDP on average during the Ninth Plan.

Revenue as a percentage of GDP increasing: In 2006, revenue was 12.6 per cent of GDP, up from an average of 11.4 per cent during the Ninth Plan; and aid expenditure (grants and loans) was 4 per cent of GDP.

After implementation of the MTEF, domestic borrowing as a percentage of GDP declined from 3.6 per cent in 2001/02 to 1.7 per cent in 2004/05 and made up less than 15 per cent in 2005/06. The over draft has been reduced significantly, resulting from conflict-related slow-down in budget use.

In FY 2006/07, the goal is to finance the total expenditure through domestic revenue of 13.3 per cent, foreign assistance of 6 per cent and domestic borrowings of 3 per cent of GDP.

Despite low economic growth, declining aid and increasing security expenditure and debt repayment, the government has maintained aggregate fiscal discipline during the PRSP period. The MTEF has been instrumental in operationalising the PRSP by prioritising projects and programmes according to resource availability. The government also increased pro-poor expenditure, which averaged around Rs. 21 billion in the Ninth Plan, to Rs. 37 billion in FY 2006 and is budgeted to be Rs. 54 billion, doubling of pro-poor expenditure in PRS. In FY 2005/06, the government has piloted the MTEF in three districts by providing trainings and preparing three district-level MTEFs.

Allocative efficiency – Improvement in inter-sectoral allocation: After the implementation of the MTEF, the allocation efficiency has also improved. The PRSP has emphasised increasing the budget allocations in the social and agricultural sector to achieve the poverty reduction objective. During the first four years of the PRSP, investment in the social sector increased. Investment in the social sector – education, health and drinking water/sanitation – is important for achieving the Tenth Plan objectives of reducing poverty and improving human development.

Social sector spending increased from 5.58 per cent of GDP in 2001/02 to 6.30 per cent of GDP in 2005/06 and is budgeted at 8.05 per cent of GDP in 2006/07 (Table 4.2). The two Sectorwide Approach (SWAs) in education and health sectors are expected to increase the investment share of these two sectors. In this period, per project allocation in priority projects has increased significantly. Per project development expenditure allocation increased from NRs. 66,427 thousand in 2001/02 to NRs. 126,619 thousand in 2005/06.

Compared to the social sector expenditure, spending in the economic sector has decreased from 4.9 per cent of the GDP in 2001/02 to 4 per cent of GDP in 2005/06. The decline is due to the completion of high-value investments in power and transport sectors in the early years of the PRSP/Tenth Plan. Among other reasons for the low investment was the conflict related slow-down in implementation of development projects and limited large quick spending investment projects.

Table 4.2 Inter sectoral allocation (as per cent of GDP)

	10th Plan					Average of PRS Years
	Actual 2002/03	Actual 2003/04	Actual 2004/05	Actual 2005/06	Budget 2006/07	
Social Services	5.58	5.52	5.94	6.30	8.05	5.83
Education	2.88	2.88	3.21	3.28	3.54	3.07
Health	0.80	0.80	0.88	1.00	1.44	0.87
Drinking Water & Sanitation	0.47	0.52	0.37	0.53	0.96	0.47
Local Development	1.06	0.91	0.98	0.99	1.46	0.98
Other Social Services	0.37	0.40	0.50	0.50	0.65	0.44
Economic Services	4.12	4.03	4.30	4.05	5.21	4.13
Agriculture	0.43	0.41	0.44	0.49	0.61	0.44
Irrigation	0.51	0.50	0.44	0.49	0.62	0.48
Forestry	0.36	0.36	0.37	0.32	0.31	0.35
Industry	0.18	0.12	0.10	0.09	0.09	0.12
Other Economic Services	0.32	0.53	0.42	0.65	0.81	0.48
Transportation	0.90	0.91	0.87	0.85	1.20	0.89
o/w Air Transportation	0.00	0.00	0.00	0.01	0.01	0.00
Communication	0.56	0.25	0.29	0.21	0.26	0.33
Power	0.86	0.96	1.37	0.95	1.31	1.03
General Administration	2.01	1.86	2.01	2.19	1.84	2.02
o/w Police	1.36	1.27	1.38	1.40	1.22	1.35
Defence	1.62	1.72	2.06	1.97	1.61	1.84
Others*	5.06	4.88	4.91	4.71	5.63	4.89
Total	18.40	18.01	19.22	19.23	22.35	18.71

Source: Based on Budget Books

Although there is a general decline in economic sector investment, investments on transport and power have been increasing. Because of the conflict, the spending on highway construction has declined, while that on rehabilitation and maintenance has increased.

Rural development (agriculture, irrigation and forestry sectors) as a percentage of the GDP has been on the decline from an average of 1.8 per cent of the GDP in the Ninth Plan period to 1.3 per cent of GDP in the first four years of the PRSP.

Technical efficiency: Pro-poor and pro-gender budget is increasing. The main objective of the Tenth Plan is to achieve the poverty reduction target. To this end, the Plan has envisaged increasing pro-poor budget allocation. With the implementation of the MTEF, pro-poor spending has been increasing every year. Pro-poor expenditure as a percentage of the total expenditure has increased from 28 per cent in 2002/03 to 33 per cent in 2005/06 and is budgeted to increase to 38 per cent in 2006/07. The pro-poor expenditure, in nominal terms, increased from NRs. 23.84 billion in 2002/03 to NRs. 54 billion in 2005/06. In sectoral terms, pro-poor expenditure is increasing in the social sector. In 2004/05, the share of pro-poor social sector expenditure

was 76 per cent of the total social sector spending, led by education (81% pro-poor expenditure in total education expenditure) and health (69% pro-poor expenditure in the total health spending). These two sectors have SWAp funding focused on increasing investment on primary school enrolment and expansion of essential health care services (Table 4.3).

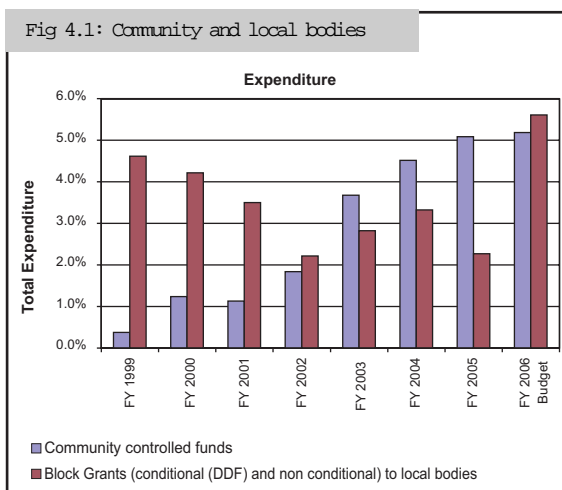
Table 4.3 Sectoral pro-poor expenditure 2002/03-2006/07 in percentage of total expenditure

	Actual 2002/03	Actual 2003/04	Actual 2004/05	Estimate 2005/06	Budget 2006/07	Average of PRS Years
Social Services	2201	2310	2435	2576	2846	2380
Education	12.94	13.04	14.01	14.25	13.17	13.56
Health	2.99	3.06	3.07	3.54	4.88	3.16
Drinking Water & Sanitation	1.15	1.31	1.10	1.70	2.27	1.31
Local Development	3.84	4.52	4.72	4.86	6.34	4.49
Other Social Services	1.10	1.15	1.46	1.41	1.81	1.28
Economic Services	636	755	745	704	907	710
Agriculture	1.82	1.84	1.79	1.89	2.08	1.83
Irrigation	1.36	1.31	1.08	1.14	1.41	1.22
Forestry	0.50	0.39	0.39	0.21	0.17	0.37
Industry	0.19	0.18	0.26	0.21	0.21	0.21
Other Economic Services	0.45	0.28	0.48	0.69	1.42	0.48
Transportation	0.75	1.49	1.43	1.20	1.51	1.22
o/w Air Transportation	0.00	0.00	0.00	0.00	0.00	0.00
Communication	0.00	0.00	0.00	0.00	0.00	0.00
Power	1.30	2.06	2.03	1.71	2.25	1.77
General Administration	001	001	001	001	001	001
Total	2838	3065	3181	3281	3753	3091
Government Expenditure Total	1000	1000	1000	1000	1000	1000

Source: Based on Budget Books

In 2005/06, the pro-poor spending in the economic sector was 35 per cent of the sector's total expenditure (or 7.7% of the total expenditure), and it is budgeted to reach 9 per cent of the total in 2006/07. Rural development (agriculture, irrigation and forest) and transport and power sectors lead in the pro-poor

expenditure category within the economic sector. Although declining, income-generating activities (cash crops, poultry and livestock rearing) have helped



the agriculture sector maintain pro-poor expenditure at 2 per cent of the total. Backed by a policy of providing subsidies to communities for power generation and distribution, rural electrification leads the power sector and accounts for 2 per cent of the pro-poor spending in the total expenditure, and this is expected to continue in the future.

Funds controlled by the communities have grown. Aware of the need to have beneficiaries implement the programmes they pick – as articulated in the PRS – the flow of funds to such programmes has increased from a low base of 1.8 per cent of the total expenditure in 2001/02 to 5 per cent in 2005/06 and is budgeted to increase further in 2006/07. Block grants to VDC is doubled but based on performance.

The Ministry of Local Development began channelling resources to communities through the District Development Fund for the implementation of the government’s devolution policy from 2005/06. Prior to this, the fund was channelled through the line agency budget lines. In nominal terms, the average annual block grant to the local bodies is NRs. 2.5 billion.

Box 4.1 Basic features of MTEF V

- Per unit cost of each major activity has been estimated and updated.
- Software was developed to prepare MTEF V, and capacity-building for internalising and institutionalising the MTEF exercises has been given main focus.
- Prioritisation criteria have been further clarified particularly in terms of understanding and interpretation.
- Programme budgeting is recommended for ensuring effectiveness of resources through better prioritisation, streamlining programmes/projects and linking output with cost.
- Pro-poor and pro-gender budget classification has also been continued.
- It has also incorporated sectoral plans/business plans that have linkages with both the MDGs and PRSP.

Besides ensuring predictability of funds to all priority projects, the funding guarantee to the PRS outputs in selected sectors (education and health) are the hallmarks of the MTEF’s achievements in 2005/06. The Fifth MTEF (2006/07–2008/09) continues the gender and pro-poor budget classification. The government has also completed sectoral “Business Plans” for seven sectors, namely, agriculture, irrigation, water supply and sanitation, education, health, rural roads and electricity sectors for aligning resources to the PRS outcomes through continued expenditure reforms.

Broad-Based Growth Performance

AGRICULTURE

Agriculture is a major sector of the Nepalese economy. It contributes about 38 per cent to the total GDP of Nepal. Therefore, the agriculture sector has been given priority in the Tenth Plan which recognises that agricultural growth is essential for attaining broad-based growth. To achieve the targets of the agriculture sector of the Plan, the Agriculture Perspective Plan (APP) has been taken as the core strategy. The APP has put emphasis on the following five aspects:

- (i) Controlled year-round irrigation,
- (ii) Easing fertiliser supply,
- (iii) Expanded provisions of modern inputs and need-based research and extension,
- (iv) Linking potential production pockets with markets through rural agricultural roads, and
- (v) Expansion of rural electrification.

The APP has also given emphasis to stronger private sector involvement in the delivery of inputs, services, research and marketing, and increased involvement of communities, farmer groups and cooperatives in the management of infrastructure and assets. It also envisages diversification and commercialisation of agriculture by raising cereal production in the Terai and the output of fruits, high-value crops including Non-Timber Forest Products (NTFPs) and livestock in the hill and mountain regions.

In the Tenth Plan, the production systems were to be more diversified, and agricultural growth was envisaged to increase by 4.1 per cent per annum and livestock by 4.9 per cent. Food insecurity and malnutrition were to be reduced. Market access for agricultural products as well as farmers' incomes and consumption levels were to increase. However, the achievement made in the agriculture sector during the PRSP period of 2002/03-2005/06 has been less than targeted. In spite of the high priority laid on this sector, its annual growth has been 2.8 per cent, which is the major factor for the low growth rate of the country during this period.

In 2005/06, the Ministry of Agriculture and Cooperatives (MOAC) implemented 33 P1 and 11 P2 projects. The share of P1 projects, in terms of the development budget allocation, was 87.91 per cent. Among the P1 projects, five projects, namely, the Agriculture/Livestock Extension Programme, APP Monitoring, APPSP, Crop Diversification Project and Small Irrigation Special Programme shared 43 per cent of the development budget allocated to the sector

The District Agricultural Development Fund (DADF) is now underway in 20 districts, which is a new institutional approach under the Agriculture Perspective Plan Support Programme (APPSP). The selection of districts for APPSP implementation was based on the poverty and deprivation index. The District Extension Fund (DEF) and the Local Initiatives Fund (LIF) are two components of the DADF.

During the first four years of the PRSP, some important achievements have been made in the agricultural sector. The National Agricultural Policy, 2004 has been formulated and put into practice. Similarly, the following policies have been adopted to enhance the agricultural sector:

1. Mobilisation of the private sector and NGOs as partner service providers on a contract basis.
2. Monitoring, quality control and regulation of inputs supplied by the private sector.
3. Transfer of subsidies in the form of grants on goods and services.
4. Transfer of veterinary services to the private sector on cost basis.
5. Devolution of extension services to local bodies.
6. Involvement of cooperatives in commercial milk and vegetable production and market.

Moreover, various activities have been carried out in this sector, such as:

- Study for establishment of agriculture resource centres.
- Promotion of cooperative and contract farming.
- Integration of irrigation and micro-irrigation with agricultural intensification for commercialising agriculture.
- Empowerment of women and disadvantaged groups through targeted programmes.
- Strengthening institutional capacity to meet the WTO requirements;
- Development of market centres, and
- Implementing a special package programme for the development of the Karnali Zone.

With the objective of reorienting the agricultural sector to create more responsive, productive and efficient service delivery to the rural poor, the MOAC has reviewed APP implementation and has formulated an Implementation Action Plan through the APPSP. However, to fulfil the commitments made to global and regional institutions, such as the WTO and the South Asia Free Trade Area (SAFTA), further reforms are required in agricultural sector policies.

The outcomes in the food and agriculture sector, in terms of intermediate indicators, during the first four years of the PRSP are given in Table 5.1 below. The intermediate indicators for food security show that the quantity of food sold increased by 25.03 per cent in 2005/06 compared to 2004/06.

Outcome/ Impact indicators	Intermediate indicators	2001/02	2002/03	2003/04	2004/05	2005/06	% Change over 2003/04
Food security	▪ Number of districts served by NFC	32	31	30	30	30	0.0
	▪ Quantity of food sold (tons.)	8,213	5,693	6,100	5,882	7354	25.03
Overall agricultural growth	▪ Length of rural roads (km.)	2,361	905	840	934	NA	-
	▪ Number of VDCs electrified	1,600	1,800	2,000	2,200	NA	-
	▪ Number of public market collection centres/market yards	31	33	750	-	33/853	-
	▪ Agricultural credit (ADB/N only - in NRs. million)	7,110	7,669	10,151	10,432	12,881	23.48
	▪ Area under irrigation (ha.)	937,722	985,546	1,128,000	1,012,732	1,017,198*	-
	▪ Use of chemical fertiliser (tons.)	193,154	172,270	161,316	157,077	127,691	-18.71
Crop production	▪ Number of functioning farmer groups	7,508	9,383	11,272	13,118	13,928	6.2
	▪ Use of improved seeds (tons.)	2,654	2,574	5,751	2,824	3,495	23.76
	▪ Number of pocket programmes	1,897	1,967	1,967	2,509	1,556	-37.98
	▪ Crop/horticulture credit (NRs. million)	2,028	2,222	2,024	2,031	1,155*	-
Livestock production	▪ Number of livestock farmer groups	6,623	6,954	6,965	7,543	9,822	30.2
	▪ Number of artificially inseminated livestock	53,641	52,049	44,344	46,434	73,673	58.7
	▪ Production of milk (tons.)	1,158,780	1,195,931	1,238,000	1,274,000	1,312,131	3.9
	▪ Number of pocket programmes	455	455	807	816	851	4.3
	▪ Amount of livestock credit (NRs. million)	1,570	1,634	1,606	1,844	1,323*	-
	▪ Production of meat (tons.)	198,895	203,899	208,412	214,817	219,180	3.1
	▪ Production of eggs ('000 number)	538,420	557,361	575,565	590,137	597,950	2.5

Source: MOAC, 2006, *Status of first eighth months.

Similarly, the number of functioning farmer groups and use of improved seeds increased by 6.2 per cent and 23.76 per cent, respectively in 2005/06. Moreover, livestock production also increased. However, there has been a decline in the use of chemical fertilisers.

Progress in the implementation of the Agriculture Perspective Plan has, thus, remained uneven. Although agriculture has been given highest priority in the poverty reduction strategy, budget allocations to agriculture and irrigation have decreased. There are discrepancies in the APP and the APP support programme, which gives importance to the small farmers. Given the role of agriculture in poverty reduction, it is important that the government give more importance to the implementation of the programmes as underlined in the APP, including more allocation to agriculture and rural roads.

IRRIGATION

For agricultural growth, irrigation is the key element. Agricultural productivity increases the income of the households and provides food security. Therefore, irrigation has been accorded high priority in the APP as well as in the PRSP.

In the PRSP/Tenth Plan, the main objectives of the irrigation sector are:

- To promote year round irrigation facilities on arable land of the country,
- To ensure the sustainable management of developed irrigation systems and
- To support non-conventional irrigation to channel benefits to the poor.

While about 43 per cent of the country's net cultivated area of 2.64 million hectares is said to have access to irrigation, most systems are of the run-of-the-river type, and largely provide supplemental irrigation. Only about 40 per cent of these systems are capable of providing limited year-round irrigation. There is considerable pressure on irrigation systems resulting from structural and operational weaknesses, while there is also an urgent need to increase agricultural growth through higher yields, cropping intensities and diversification to high-value crops.

The Tenth Plan and the Agriculture Perspective Plan both have placed high priority to irrigation for increasing agricultural productivity, thereby, helping to reduce poverty. The long-term vision of the Tenth Plan in the irrigation sector is to increase agricultural production and productivity by extending irrigated land to 1,686,000 hectares by the end of the Twelfth Plan through the development of year-round irrigation systems.

Physical Targets

Under a normal scenario, the Plan set a target of providing irrigation facility to an additional 241,000 hectares of land towards the end of the Plan period. The physical target under different irrigation systems is shown in Table 5.2 below.

The main strategies adopted by the Plan to achieve these objectives are to expand new irrigation facilities with focus on the APP where year-round irrigation is feasible and to rehabilitate and strengthen public and community-based irrigation systems focusing on the preservation and full utilisation of the existing irrigation systems. In the Plan, the expected outcomes envisage that 50 per cent of the total irrigated land will receive year-round irrigation facilities by 2005, while farmers/WUAs will be able to manage irrigation systems of up to 500 hectares during the same period.

Table 5.2 Physical targets of irrigation facilities in Tenth Plan

S.No	Projects	Physical targets (ha.) (Normal case)
1.	New and ongoing schemes	
	❖ Surface irrigation projects	42600
	❖ Groundwater irrigation projects	77000
	❖ Promotion of modern irrigation system	10,000
2.	Program conducted by ADB (New)	38000
3.	Program conducted by MOAC (New)	10000
4.	Sustainable management of existing irrigation system	(280710)
	❖ Sustainable joint/handover of management of existing irrigation system	(27000)
	❖ Reconstruction and maintenance of irrigation facilities constructed by Dept. of Irrigation	(33780)
5.	Expansion and maintenance of farmer canals	64000
	Total	241600

Source: Tenth Plan (2002-2007), NPC 2002

Note: Achievements include data of DOI only

Status of Irrigation Development

The Table 5.3 below shows the current status of irrigation development in the country. In the fourth year of the plan period, irrigation facilities had been made available to an additional 17,960 hectares of land. This data refers to the facility developed by the government only and do not include the irrigation facility provided by the ADB/N. It has been estimated that by the end of the fourth year of the current plan, a total of 1,168,144 hectares of land are irrigated. Up till the end of the fourth year, only 59,239 hectares of additional land have been irrigated as against the target of 241,600 hectares (only 25% of the target) by the end of the Plan period. If we add up the facility developed by the ADB/N, the total may go up a little. The progress will still be far

Table 5.3 Irrigation development in the Tenth Plan

Programs	End of Ninth Plan (ha)	Irrigation development in the Tenth Plan (ha.)					
		2002/03	2003/04	2004-05	2005/06	Tot upto IV yr. of 10 th Plan	By the end of the IVth of 10 th Plan
I. With Government agency effort							
<i>A. Surface Irrigation</i>							
(i) New Irrigation		3071	6846	2556			
(ii) Farmers Canal Repair		4223	3113	5200			
<i>Total</i>	614947	7294	9959	7756	7571	32580	647527
<i>B. Development of Groundwater Irrigation</i>	205559	3133	5180	7957	10389	26659	232218
II. Farmers Managed	300935						288399
Grand total	1121441	10427	15139	15713	17960	59239	1168144

Source: Department of Irrigation, GoN/ MoWR, 2006

short of the target and will be impossible to meet the Tenth Plan target. Current estimates of irrigated land indicate that only 44.3 per cent of the country's net cultivated land of 2.64 million hectares have access to irrigation. Most of the facilities are of the run of the river type and largely provide supplemental irrigation. Only about 41 per cent of these systems are capable of providing limited year-round irrigation. Disaggregated information about the share of different institutional models of irrigation is lacking. Hence, it is very difficult to attribute the share of different irrigation systems operating in the country. Statistics show that in 2004/05 alone, 29 irrigation schemes were rehabilitated and handed over for management to the WUAs. The total transferred schemes were 84 by the end of the third year of the current plan No such data were available for 2005/06.

In continuing with the development and implementation of small surface irrigation facilities in the hills and surface and groundwater irrigation facilities in the Terai during 2005/06, irrigation facilities were provided on an additional 9,793 hectares of land from 2,906 shallow tube wells (STW); 596 hectares from 16 deep tube wells (DTW) and 7,571 hectares from 46 surface irrigation schemes.

Though the government has a plan to initiate private sector management of large/medium scale GoN managed irrigation systems, no concrete measures could be taken towards this direction. Similarly, the government was committed to increasing the involvement of the NGOs and the private sector in irrigation development and management. But so far, not even a single scheme has been initiated by the NGOs and the private sector.

The problems faced in the irrigation sector, especially in the public systems, are:

- ♦ inadequate capacity of the WUAs,
- ♦ below-capacity performance of systems (only two-thirds of the total command area benefits from irrigation and 40% has year-round irrigation),
- ♦ physical and technical deficiencies in irrigation systems,
- ♦ low-water use efficiency,
- ♦ poor operation and maintenance,
- ♦ negligible cost recovery (less than 5%),
- ♦ inadequate maintenance funds (less than 50% in most cases), weak management, and
- ♦ low investment by the private sector (e.g., in conjunctive use of groundwater, supplementary or non-conventional irrigation technologies).

The government is contemplating implementing non-conventional schemes using micro-irrigation technologies, which are both pro-poor and pro-environment. For this, a separate unit - New Irrigation Technology Programme (NITP) - has been established. The NITP intends to irrigate an additional 10,000 hectares of land within the Tenth Plan period (starting in 2005). A NITP feasibility study has been completed. Some INGOs had used non-conventional irrigation technologies in the past, but their interventions were of a scattered nature.

A six-year irrigation project, which has been approved by the Asian Development Bank (ADB) will be implemented in 35 districts of the Eastern and Central regions. The objectives of the project are:

- To improve agricultural productivity and sustainability of existing small and medium-size farmer managed irrigation systems that have low productivity and high incidence of poverty and to enhance the livelihoods of poor men and women and excluded groups.
- To empower water users' associations, improve irrigation facilities, expand agriculture extension and targeted livelihood programmes for the poor, women, Dalits and Janajatis.

The Irrigation and Water Resources Management Project is being implemented with the support of the World Bank in 40 districts of the Western, Mid-western and Far-western regions. It seeks to assist in:

- Improvement and modernisation of farmer-managed irrigation systems in the hills, mountains and the Terai.
- Promoting groundwater irrigation in the plains using proven technologies and approaches for tapping groundwater.
- Improving services of public irrigation schemes in the Terai by transferring the management responsibility to WUAs.

Groundwater irrigation through shallow tube wells had achieved some targets. Six projects have supported the installation of 54,022 shallow tube wells (STWs). Two among these, the Community Groundwater Irrigation Sector Project (CGISP) and the STW programme of the Agriculture Development Bank, are still underway. Groundwater irrigation, mainly through the STWs, suffered a serious setback in the early years of PRSP implementation following the withdrawal of capital subsidy. The number of shallow tube wells installed under the CGISP has increased from 83 in 2000/01 to 1,501 in 2005/06 leading to a total of 6,090. Besides, the project has also completed 126 km. of roads under its farm-to-market road improvement activity. The STW installation has been increasing despite the withdrawal of subsidy.

Institutional Models and Role of Farmers/Water Users

The role of farmers in the development and management of irrigation systems in Nepal has been clearly documented, and its history is as old as rice cultivation in the country. Evidences show that farmers in Nepal organise themselves to invest in the construction and maintenance of their own irrigation systems. Planned irrigation development in the country began only after 1951 with the formation of the Department of Irrigation in 1952. A major change in the government approach to irrigation development came with the Seventh Five-Year Plan (1985-1990) that emphasised people's participation in irrigation development and management. The irrigation working policy introduced in 1988 provided a new direction by mandating the participation of users at all levels of irrigation development from project identification, design and construction to operation and management.

The Irrigation Policy 2052 has been reformulated with necessary modifications, and a reformulated policy has been announced as the new Irrigation Policy 2060. The new policy seeks to increase users' participation at all levels of irrigation development. The policy further seeks to transfer operation and maintenance of small and medium irrigation systems under government management to the users' group. The policy also highlights the need to enhance the capacity of the users' group through community mobilisation.

The Small Irrigation and Marketing Initiatives (SIMI) jointly promoted by Winrock International, International Development Enterprises, SAPPROS and CEAPRED in 2003 for providing integrated agricultural services seeks to reach out to about 27,000 households in seven districts of the Western and Mid-western Development Regions. In 2005/06, the irrigation sector implemented 15 P1, 7 P2 and 1 P3 projects with a development budget of about NRs. 2.44 billion. The share of P1 projects in terms of development budget allocation for FY 2005/06 was 88.08 per cent.

Currently, different institutional models prevail in the irrigation sector. Studies have documented the CBO-managed system, popularly known as the Farmers Managed Irrigation System (FMIS), as the best performer in terms of process evaluation while the NGO/CBO collaboration model as the best in terms of performance evaluation (NPC/SAPPROS/IFAD, 2002). This has been revealed by an assessment study carried out in 14 Terai and 32 hill and mountain districts of the country. The findings were based on the case studies of 26 projects from 14 sampled Terai districts and 35 cases from 32 sample hill and mountain districts. The findings further revealed that the unit cost of the CBO model of NRs. 16841/ha. is far less than the unit cost of NRs. 178,953/ha. in the agency managed system. The strength of the best performing model is the high level of participation of the users in various project steps, low establishment and operational cost, quality structure and the provision of adequate O&M funds. In another evaluation study of 150 irrigation systems in Nepal, the performance of the CBO managed system was found better than the agency managed system (Lam, 1998). It is estimated that about 20,000 CBOs are involved in managing community irrigation systems in the country.

Some of the pertinent issues emerged during the reporting periods have been summarised hereunder.

In small irrigation schemes, pre-feasibility and feasibility studies of the project should be done rigorously. Some irrigation projects where community involvement is significant have remained non-functional due to shortage of water.

In many irrigation projects, community involvement is confined to maintenance alone. Their role in the construction stage has been minimal. Therefore, there should be full partnership of the beneficiary community in all stages of project design and service delivery.

The success of community-owned and managed programmes depends on the village context. Research findings have shown that communities having homogeneous groups have a higher success rate (Rao, 2002). Furthermore, the design should be sensitive and scaled to local realities, and the government should be committed to the projects. All these are likely to make the project more successful.

INFRASTRUCTURE

Infrastructure development plays an important role in the development of the country. Therefore, in the Tenth Plan, the government has given priority to strategic road networks, maintenance of major roads and highways

and expansion of electricity and national communication infrastructure. However, in the medium term, it has been spelled out that a policy will be adopted to gradually reduce government involvement, especially in the areas where the private sector can increasingly take over, including roads, telecommunications and hydroelectricity, among others. The PRSP emphasises rural roads to link potential agricultural production pockets with markets and rural electrification for harnessing groundwater for year-round irrigation.

The main objectives of the road sector in the Plan are to develop and manage the road transport network to support the socio-economic development efforts and to promote private sector participation in the construction of new road networks and their maintenance. The major outcomes of the Plan are:

- Adding an estimated 1,025 kms of roads.
- An additional 10 district headquarters (HQ) to be connected by roads, and
- Active private sector participation in the construction and maintenance of roads.

During the first four years of the PRSP, only one additional headquarter has been connected by a road network. Thus, 61 district headquarters are now connected to the road network. In 2005/06, 219 kms of additional roads were constructed, and the total length of additional roads constructed reached 987 kms against a target of 1,025 kms in the PRSP.

In pursuance of the policy of handing over the local level infrastructure to the local bodies, the process has been initiated for handing over district roads to the local bodies through the DOLIDAR. Similarly, urban roads, except for the roads of the local bodies and strategically important roads are to be handed over to the concerned municipalities. With the objective of involving directly the users of the roads in their maintenance, a Road Board has been established through which regular maintenance of roads is being implemented for faster, safer and credible transport service with the tax levied on the road users.

In the Tenth Plan, in the information and communication sector, all the VDCs will have access to telecom services with penetration rising to 40 lines per 1,000 inhabitants. Broadcasting services will be available to all, and ICT services will be available in various urban areas. In the first four years of the PRSP, the number of new telephone lines distributed has increased from 219,000 in 2001/02 to 1,346,290 in 2005/06. Similarly, the number of VDCs with telephone facilities has decreased from 1,761 in 2001/02 to 1,386 in 2005/06 with 5.2 per cent penetration only. The total coverage of radio and television services has reached 100 per cent and 65 per cent, respectively.

POWER

The key objectives in the power sector in the Tenth Plan are to (i) expand electricity coverage in a sustainable and environment friendly manner by generating low cost power, (ii) accelerate rural electrification to promote economic growth and improve the living standards in the rural areas, and (iii) develop hydro power as an important export item.

The major expected outcomes of the Plan are:

- Proportion of people having access to electricity will increase from 40 per cent to 55 per cent by the end of the Plan period, and
- Adequate power will be supplied as needed to support economic growth.

The power sector is guided by a long-term vision (1997-2017), which emphasises pro-poor development by expanding power generation and distribution in the rural areas. The Tenth Plan intends to develop and expand alternative energy in the rural areas and reduce dependency on imported energy.

The percentage of households with electricity has increased from 40 per cent in 2001/02 to 48 per cent in 2005/06. Similarly, the number of VDCs covered by electricity has increased from 1,600 VDCs in 2001/02 to 2,000 VDCs in 2005/06. The installed capacity has reached 611 MW in 2005/06, which is less than 1 per cent of the total hydropower generation potential of the country. The total supply of electricity is expected to reach 2784.8 GWH, including production of 2464.8 GWH of hydropower, 20 GWH of thermal power and 300 GWH to be imported from India. Out of the total available power supply, internal consumption is estimated to be 2005.48 GWH and export to India 140 GWH.

Private sector participation in the production of electricity was encouraging in 2005/06. Projects constructed by the private sector have been commissioned and have come into operation. A number of small hydro plants are under construction. The upgrading and strengthening of the existing power grids have continued. The expansion of Electrification is being carried out in Kailali and Kanchanpur districts, while an additional 27 districts are being electrified under the Rural Electrification and Distribution System Strengthening Project. The sector had 15 P1 and 15 P2 projects in 2005/06 with a development budget of Rs.7.06 billion. In this sector, P1 projects shared 77.96 per cent of the development allocation to this sector in FY 2005/06.

FORESTRY

Forests are important assets/resources of the country. The development of the forestry sector is important for promoting livestock, making compost fertiliser, conserving the environment and for watershed management by conserving groundwater resources. About 39.6 per cent of the land area, including 10 per cent shrub land, is under forest cover. The success of the community and leasehold forestry programmes has helped regenerate forests.

The Community Forestry Development Programme has benefited about one-third of all households of the country by increasing their access to forest resources such as fodder and firewood. The programme has also helped increase women's participation in the user committees. All community forestry programmes in the hill and mountain districts (especially community and leasehold forest) have been effective in increasing women's participation, raising access to forest resources for household use, and for conserving the environment and generating income. The area under community forests has increased from 1,028,473 hectares in 2001/02 to 1,187,184 hectares in 2005/06 (Table 5.4).

Table 5.4 Major achievements in the forestry

Outcome/ Impact indicators	Intermediate indicators	2001/02	2002/03	2003/04	2004/05	2005/06
Area under intense forest coverage	Area under community forest (ha.)	1,028,473	1,062,823	-	1,170,896	1,187,184
	Area under leasehold forest (ha.)	4,378	7,061	-	9,838	11,807
	Number of households under leasehold forest	9,070	10,027	11,253	15,122	18,971
	Area under national parks/protected area including buffer zone (% of total land)	18.0	18.3	18.3	19.7	19.2
	Area under forest cover, including shrub land (%)	39.6	39.6	39.6	39.6	39.6
Income from forestry	Income generated by FUGs (CFUGs only; NRs. in million)	129	124	-	NA	NA

Source: MOF, 2006

The Leasehold Forestry Programme being implemented in 26 hill districts is aimed at reaching out to landless families and has proven to be an effective means of reducing poverty. It has contributed to improving the income of very poor families, while also helping to restore environmental health. The area under leasehold forests has increased from 4,378 hectares in 2001/02 to 11,807 hectares in 2005/06. Similarly, the number of households under leasehold forests has increased from 9,070 in 2001/02 to 18,971 in 2005/06.

The successful conservation programmes have helped to slow down the degradation of land and forests. The area under conservation has also been expanded through the involvement and participation of people living in the buffer zones.

The Ministry of Forest and Soil Conservation implemented 16 P1, 13 P2 and 2 P3 projects with the development budget of NRs. 651.7 million. The P1 projects' share was 64.9 per cent of the total development allocation to this sector for FY 2005/06.

Evaluation of the Hills Leasehold Forestry and Forest Development Project (HLFFDP) suggests that the programme has been able to reduce poverty and empower low income, landless groups. The HLFFDP began in four pilot districts in 1994 and was extended to 26 districts by 2000 end. An impact evaluation was carried out in 10 of the 26 districts.

PROMOTING NON-AGRICULTURAL GROWTH

The growth of the non-agriculture sector is very important in accelerating and sustaining the overall growth of the economy. Even though some structural changes have been achieved during the first four years of the PRSP, the change observed has been very minimal. The non-agriculture sector contributes about 62 per cent to the Gross Domestic Product (GDP).

The Tenth Plan has emphasised continuation of transparent, simple and private sector-friendly economic policies in order to create a supporting environment for non-agriculture sector growth. The actions have focused on overall policy reform, including reforming the financial sector and other private sector development initiatives (Box 5.1).

After the adoption of liberal and market oriented policies by the government, activities in the non-agriculture sector have become mostly dependent on the private sector. Moreover, the

Box 5.1 Private sector development initiatives

- Labour Ordinance
- Secured Transactions Ordinance
- Securities Ordinance
- Company Ordinance
- Liquidation, Merger and Bankruptcy Ordinance
- Implementation of accounting and auditing standards
- Simplification of trade and investment procedures (ongoing), and
- Amendment of the Foreign Investment Act (ongoing).

private sector led growth strategy adopted in the Tenth Plan has given more responsibility to the private sector in the overall development of the country. However, the government still dominates some key areas such as roads, electricity, telecommunication, drinking water and, to some extent, the financial sector.

The growth of the non-agriculture sector has been adversely affected by political instability, armed conflicts and external shocks during the first four years of the PRSP. The slowdown in development activities - and other economic activities, in general - has caused domestic demand to fall sharply. The government has taken steps to enhance industrial security and has introduced new policies - including the Build-Operate-Own and Transfer (BOOT) - for raising private sector participation in infrastructure building. However, the achievement so far has been very negligible. Moreover, the government has also taken steps to further open up the skies to allow more airlines to fly in and out of Nepal, which has helped to increase the connectivity and inflow of tourists to Nepal.

PUBLIC ENTERPRISES REFORM AND PRIVATISATION

Since the early '90s, when the government started adopting an economic liberalisation policy, the privatisation of public enterprises (PEs) has been the main concern of the government. The main objectives of privatisation of the PEs are to increase productivity of the privatised company, minimise the administrative and financial liabilities of the government, and to increase participation of the private sector in the economic development of the country.

Nepal has taken major steps to dismantle public sector monopolies and inefficient public enterprises. During the early years of the PRSP's implementation, the public enterprise reform process was revitalised. A number of enterprises were identified for privatisation, leasing, liquidation, transformation into public companies, and for introducing performance contracts.

By 2005/06, 26 PEs had been either privatised or liquidated. Among the privatised PEs, 3 PEs were privatised by assets and business sale, 10 PEs by sale of equity, 9 PEs were liquidated and dissolved, the management of 1 PE was contracted out, and 3 PEs were privatised by assets sale and rental basis.

In FY 2005/06, the Lumbini Sugar Factory was given to the private sector to operate. Similarly, the land and building of Nepal Rosin and Turpentine Ltd. has also been leased out for 10 years and its assets have been sold. The agriculture limestone production plant, machineries and spare parts of the

Agriculture Limestone Industry has been handed over to Hetauda Cement Industry, and a liquidator has been appointed to liquidate it.

The privatisation of Nepal Industrial Development Corporation (NIDC) by selling its equity has been approved by the government in principle. Moreover, the NIDC has been converted into a company as per the Company Ordinance, 2062, and it has been registered as a “B” class PE.

A Voluntary Retirement Scheme has been introduced in some of the PEs with a view to minimising the financial burden. Such schemes are to be introduced in other PEs gradually in the future.

Reforms in the telecommunications sector have been the most far-reaching. Nepal Telecommunication Corporation was converted into a public company in April 2004. A joint venture private operator has been allowed to provide basic telephone services in Kathmandu, and another private operator has been selected to provide telecommunication services in 534 VDCs in the Eastern region. Moreover, a private operator has also been permitted to provide mobile telephone services.

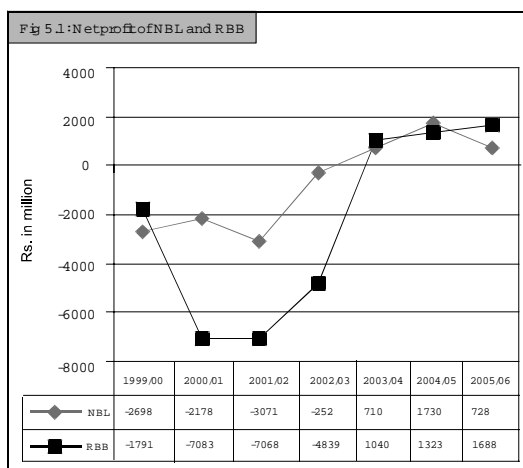
The government has announced a policy of involving the private sector in the construction and operation of small and medium scale hydroelectricity projects. Such projects would be supported through the Power Development Fund established in 2003. Also being implemented is a policy to involve communities and cooperatives in electricity distribution in the rural areas. Nepal Electricity Authority has begun distributing electricity to the rural communities through arrangements made under the policy.

Nepal has also approved a policy of involving the private sector in the import and distribution of petroleum products. Arrangements are also being finalised for handing over operations of the Nepal Water Supply Corporation in Kathmandu to a private operator.

An assessment of the assets and liabilities of Nepal Airlines Corporation is underway, with a view to transforming it into a public company. Besides, performance contracts have been introduced to improve the management at some public enterprises, including two large cement factories at Udayapur and Hetauda. The government has been focussing on updating the audit of public enterprises prior to privatisation. The accounts of 24 public enterprises were audited in 2003/04. Accounting standards and the regulatory environment have been improved in order to enhance the efficiency of public enterprises.

FINANCIAL SECTOR REFORM

Financial sector reforms were initiated in the late '90s in Nepal. The reforms have been one of the important components of the economic reform programme to provide healthy, competitive, effective and professional financial services. The Government of Nepal adopted a Financial Sector Strategy Programme on November 22, 2000. It is financed through grants and loans of the World Bank and



DFID. It has three major components: 1) Strengthening Nepal Rastra Bank (NRB), 2) Restructuring Nepal Bank Limited (NBL) and Rastriya Banijya Bank (RBB), and 3) Capacity building of financial institutions.

Besides, it also includes restructuring of the publicly-owned Nepal Industrial Development Corporation and the Agriculture Development Bank, both of which are facing serious financial problems.

Achievements in restructuring NRB

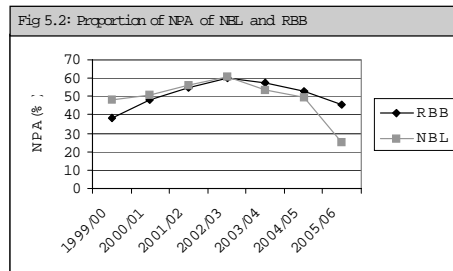
Actions are underway to reengineer and restructure the NRB to enhance its capacity for regulating and supervising the financial sector. Following are the main activities implemented or completed in the reform of the NRB.

- In order to make the NRB more efficient by increasing productivity of the employees, a new organisational framework has been introduced at the central bank.
- 571 staff have been retired under the voluntary retirement scheme and 11 under the compulsory retirement scheme.
- New Human Resource By-laws 2005 have been introduced.
- In order to improve the skills and efficiency of the staff, 30 of them have been offered on-the-job training, and 46 external auditors have been trained; a public relations officer has been appointed; information technology has been modernised; and the information system has been strengthened by using new software and hardware.
- A new audit and accounting framework has been introduced, and the overall capacity of the NRB for supervision and regulation has been enhanced. A new law has also been enacted.

- An integrated regulatory framework of international standards has been implemented. Similarly, off-site supervision manual has also been prepared and implemented.
- A public relation officer has been appointed to regularly communicate and disseminate information regarding the performance of financial sector reform programme.
- In order to modernise IT in the Bank an international IT consultant has been appointed to facilitate in the establishment of NRB IT Platform.
- Under the Financial Sector Restructuring Project, 4 Bank Examination Experts, 2 Non-Bank Examination Experts, and an off-site supervisor have already been appointed.

Achievements in Restructuring NBL and RBB

- A comprehensive programme is underway to revamp two state-owned commercial banks – the Rastriya Banijya Bank and the Nepal Bank Limited (partially owned) – by lowering their Non-Performing Assets (NPA) to acceptable levels, streamlining staff and injecting modern management techniques.
- As per the programme, international consultants were hired to manage the NBL and the RBB, and a series of measures have been taken to improve their performance.
- The management contract of the NBL was extended on July 22, 2005 for two more years. Likewise, a similar contract for the RBB was renewed on January 16, 2005 for one year. Again on January 16, 2006 for two more years after its expiry. The banks have launched intensive debt recovery programmes, which have helped to reduce the NPA level. However, it still remains very high even though the NBL has been able to recover Rs. 7.61 billion and the RBB Rs. 6.79 billion.
- The NBL has come a long way since 1999/2000, when its net loss was Rs. 2,698 million, to make a profit of Rs 1,730 million in 2004/05. Similarly, the RBB has also improved its finances, from a net loss of Rs 1,791 million to make a profit of Rs. 1,323 million, during the same period. Both banks have also reduced staff numbers by almost half after the reforms began.



In order to enhance the role of the private sector in economic activities, the government has simplified procedures on trade and investment. A labour and employment policy has been formulated, and a revised draft of the Labour Act

Box 5.2 Milestones in the financial sector reforms

- Unified prudential regulation has been issued,
- New bank supervision/inspection manual has been prepared,
- Bank and Financial Institutions Ordinance-2004 has been enacted,
- Insolvency and secured transaction laws have been enacted,
- Debt Recovery Tribunal has been established,
- Voluntary Retirement Scheme (VRS) at the NRB led to reduction of 983 staff. Staff size has been reduced from 5,269 to 2,979 at the NBL, and from 5,402 to 3,369 at the RBB,
- Personnel by-laws at the NRB, NBL and RBB have been prepared and are being implemented,
- The NPA of the NBL was reduced to 25.11 per cent in 2005/06 from 60.5 per cent in 2002/03; The NPA of the RBB was reduced to 45.34 per cent in 2005/06 from 60.1 per cent in 2002/03,
- All NPAs of the NBL and the RBB are fully provisioned
- Both the NBL and RBB registered net profits for the third consecutive year (NRs. 728 million at the NBL and NRs. 1688 million at the RBB in 2005/06), and
- Computerisation of the NBL covers 42 Branch Offices and RBB in 15 Branch Offices.

has been prepared. The draft was prepared in consultation with the stakeholders and seeks to introduce provisions for allowing easy entry and exit.

Two ordinances on secured transactions and the company law have been enacted. Nepal has also taken measures to improve and standardise the accounting, auditing and reporting system. Box 8 summarises some milestones in financial sector reforms.

Problems in restructuring of the NBL and RBB

The problems of Nepal Bank Limited (NBL) are as follows:

- Implementation of capital plan has not completed yet,
- Operational manual has not fully implemented,
- More efforts needed to achieve the NPA targets,
- Live operation activities under computerisation of banking transactions have not completed yet,
- It is still challenging task to complete preparatory activities for privatisation, and
- Preparation and implementation of successor plan.

Similarly, following problems were observed with Rastriya Banijya Bank:

- More efforts needed to achieve the NPA targets,
- Computerisation work not satisfactory,
- Implementation of capital plan has not completed yet,
- Operational manual has not fully implemented,
- Expediting the restructuring of credit, and
- It is still challenging to complete preparatory activities for privatising the bank.

Social Sector Performance

BACKGROUND

Education is a basic need of the people. The right to education has been enshrined in the interim constitution 2063 (yet to be promulgated) as well. In order to ensure this right, the country has launched a variety of educational programmes and policies over time. In pursuance of this principle, the government in its current Tenth Plan has introduced the “Education For All” campaign with a view to universalising primary education in the country. Major policy guidelines and strategies of the plan have been guided by this principle. Accordingly, priority was focused on this programme in the Plan, and a National Plan of Action 2001-2015 has been prepared.

Education in the Tenth Plan is guided by the Ninth Plan long-term vision of increasing access to education especially of the disadvantaged groups of people, raising the quality of education, decentralising educational services to the local communities, ensuring gender equality in education, and providing employment-oriented education. It is against this backdrop that the education policies and strategies were formulated in the Tenth Plan.

The major objectives of the education sector in the Tenth Plan are to (i) utilise education as the strengthened means for economical and social development for the eradication of poverty by developing human resources; (ii) make primary education easily accessible; (iii) develop and expand quality education in consonance with the needs of the country’s development; (iv) make all levels and programmes of education cost effective and qualitative; (v) generate medium level manpower and prepare for higher education by developing and expanding quality higher secondary education; (vi) supply the basic and medium level skilled technical manpower required for the country; and (vii) generate high level capable manpower that can compete internationally and contribute to the national economy for the overall development of the country.

The Tenth Plan fixed physical targets on a year-to-year basis. The targets are shown in Table 6.1

Table 6.1 Education sector physical targets of the Tenth Plan

S.No	Indicators	10 th Plan Target
1.	Literacy	
	a) Literacy rate (6 yrs +)	70
	b) Literacy rate (15 yrs +)	63
	c) Literacy gender parity index	0.8
2	Pre-primary education (including Early Childhood Development/ECD)	
	a) Gross enrolment rate	32
3	Primary level	
	a) Enrolment rate with pre-primary education	40
	b) Gross enrolment rate	110
	c) Net enrolment (%)	90
	d) Girls' enrolment (%)	47
	e) Trained teacher - including partially trained (%)	100
	f) Female teacher (%)	30
4	Lower secondary level	
	a) Gross enrolment rate	65
	b) Girls' (%)	45
	c) Trained teachers-partially trained (%)	100
5	Secondary level	
	a) Gross enrolment rate	45
	b) Girls (%)	45
	c) Trained teachers - partially trained (%)	100
6	Higher secondary level	
	a) Gross enrolment rate (including proficiency certificate)	23
	b) Number of higher secondary schools (government)	205
7	Technical and vocational education	
	a) Regular training	7100
	b) Short-term training	23,555
	c) Annex programme	75
	d) Skill certification	4,000
8	Higher education	
	a) Gross enrolment rate	6
	b) Open university	1
	c) Phasing out of proficiency certificate level	all
9	Youth and sports	
	a) Youth mobilisation for community development	3,000
	b) Youth rehabilitation	1,000
	c) Youth and Sports Development Centre	70
	d) National level prize	1750

**Based on Population Census, 2001 and estimates for the end of the Ninth Plan.*

Due to the conflict situation, the education sector in the country has suffered a lot. The displacement of families put heavy pressure on enrolment in some schools, while in other schools, in other areas, the case was the reverse. Despite the conflict situation caused by the Maoist insurgency, the education sector has performed reasonably well. Access to education has improved. As a result of this, the enrolment has increased. The primary cycle completion rate in 2005/06 has, however, remained the same as that of the previous year. Achievement figures for all physical targets set in the Tenth Plan are lacking. Data are available

for a few selected indicators. The achievements made in 2005/06 together with the previous years are shown in Table 6.2

Table 6.2 Major achievements in education sector

Indicators	Fiscal year				
	2001/02	2002/03	2003/04	2004/05	2005/06
Number of primary schools	25,194	26,638	26,858	26,277	27,525
Net enrolment rate of primary school	81.1	82.4	83.5	84.2	86.8
Number of certified teachers	NA	27,875	120,988	NA	299,489
Pupils completing primary education (%)	60	67.7	69	78	78
Primary cycle completion (%)	NA		50.4	68	68
Primary/Secondary teachers trained (%)	15	15	31	35	45
Number of girls in primary schools receiving scholarship	151,568	120,742	224,656	635,380	643,982
Share of female teachers in primary schools (%)	21.4	22.1	21.1	30	31.1
Number of community learning centres	20	40	52	51	150
Adult literacy rate	44	-	48	48	48
Number of programmes for women literacy class	1400	1600	1745	38,974	42,474
Number of female completing adult education	23,942	26,733	39,262	183,000	249,500
Schools with latrines for girls	7,613	9,741	10,633	11,341	NA
Number of schools transferred to local communities	-	90	1,500	2,091	2,338

Source: MOES, 2005

Enrolment

With a view to encouraging out of school children to enrol in schools, the GoN introduced a Welcome to School initiative. This initiative has been quite effective in motivating the targeted communities to send children to school. School outreach and flexible schooling are two other programmes which have been very supportive in bringing out of school children into the formal education system. These two programmes target special groups and areas. The results have been quite encouraging. Special scholarship programmes and school feeding schemes (mid-day meals) are also contributing a lot in increasing enrolment. It has been reported that educational interventions such as scholarships, student grants, free textbooks, and enrolment campaigns have contributed to universal participation in education and gender equity. It has been further observed that these programmes have resulted in a 22 per cent rise in enrolment in Grade 1 in the school year 2005 (DOE, 2006). Primary school enrolment has grown from 4,030,045 in 2004 to 4,502,697 in 2005 with an annual increase of 5 per cent. The enrolment of girls at the primary level has increased from 1,865,012 in 2004 to 2,134,646 in 2005, definitely an impressive growth (DOE, 2006). The annual growth rate of primary school enrolment in 2004/05 is higher for girls (7%) than for boys (4.6%).

One of the reasons that could be attributed for the rise in the enrolment of girls is the provision of female teachers at the primary level. The MOES has introduced a policy of recruiting at least one female teacher in primary schools. As a result of this, the share of female teachers at the primary level has increased, though marginally, from 30 per cent in 2004/05 to 31.1 per cent in 2005/06, attaining the Tenth Plan target ahead. The Ministry has also supported the construction of separate latrines for girls. Schools having separate latrines for girls are estimated to have reached 11,341 in 2004/05. The number for 2005/06 is not available. Thus, the provisions of female teachers and separate latrines for girls have created a friendlier environment for girl students, leading to higher enrolment.

One of the goals of the EFA programme is to improve gender enrolment in education at all levels across the country. At the primary level, the gender parity index (GPI) in terms of gross enrolment rate (GER) was estimated at 0.86 in 2003, and in 2005 it reached 0.95, indicating almost equal enrolment between boys and girls. But at the lower secondary level, the GPI in the GER was 0.83 in 2003, which decreased to 0.81 in 2005. This indicates that more needs to be done to boost the enrolment of girls at the lower secondary level.

Data on the net primary enrolment rate reveals that it further increased in 2005/06. In 2004/05 the net primary enrolment rate was recorded at 84.2. In 2005/06, it reached 86.8. Yet it is 1.2 per cent short of the 2005/06 target of 88 per cent. With this trend it will be difficult to attain the Tenth Plan target of net primary enrolment of 90 per cent.

Scholarship Programme

The EFA programme has different scholarship programmes targeting different groups. They include Dalit scholarships; girls' scholarships; scholarships for disabled children and martyrs' children; and support to street children at the primary level. Besides, the DOE/MOES has also introduced different scholarships. In 2005 alone, 401,932 scholarships were awarded, half of them to girls, and 454,572 children received Dalit scholarships and included 171,380 girls. Similarly, 851 children received martyrs' and conflict scholarship that included 454 girls. Likewise, 2,937 disabled children, including 383 girls, received scholarships.

The EFA programme has also introduced booster scholarships to bring children of parents with no primary schooling. This is an one time grant of NRs. 500 per child and is limited to primary school. The grant is provided to

parents. Available statistics show that in 2005, 34,715 Dalits (49.3% girls), 29,926 Janjatis (58.2% girls) and 13,676 others (55.9% girls) received booster scholarships.

Cycle Completion Rate

The primary level cycle completion rate (the proportion of students enrolled in Grade 1 who eventually graduate to Grade 5) although recorded an impressive rise from 50.4 per cent in 2003/04 to 68 per cent in 2004/05, it has stagnated at 68 per cent in 2005/06. The percentage of students completing the primary level also remained unchanged at 78 per cent in 2005/06. These two performance indicators raise serious issues about the efficiency of primary education in the country.

Some other noteworthy achievements during the last one year is a three fold increase in the number of community learning centres - from 51 in 2004/05 to 150 in 2005/06. Similarly, the number of certified teachers has increased from 120,988 in 2003/04 to 229,489 in 2005/06. Those participating in women literacy classes reached 42,474 in 2005/06 as compared to 38,974 in 2004/05. An additional 66,500 females completed adult education in 2005/06. Furthermore, 9,095 neo-literates participated in post literacy income generating programmes. The literacy campaign has been expanded though increased involvement of CBOs/NGOs/LBs. It is, however, interesting to note that despite such improvements in the adult literacy programme, the adult literacy rate and adult female literacy rate have not increased in the last one year.

Another noteworthy improvement is in the area of teachers' training. The percentage of trained primary teachers reached 45 per cent in 2005/06, a 10 per cent increase during the last one year. This rate is, however, quite low as compared to the Tenth Plan target.

Community Managed Schools

The role of the community in the development of education cannot be overemphasised. Communities have always been active and supportive of the development in education. However, the policy changes in the education sector gradually undermined the role of the community. This was more so after the introduction of the New Education Plan in 1971 where a number of measures were adopted. This heralded an era of state intervention in the school system. The state began to intervene in every sphere, thus weakening the community's role in education.

Of late, there has been a realisation that the nationalisation of community schools was a mistake and that the community's role in schools is a must. The government has, therefore, initiated the transfer of the management of willing schools to the community of parents and teachers. The government has been promoting this policy through various incentive schemes. Table 6.3 presents the status of the management transfer of community schools in the country.

Table 6.3 Districts covered and number of schools transferred to SMC by level, 2002/03-2005/06

Year	District covered	Primary Level	Lower Sec. Level	Secondary Level	Total
2002/03	15	-	-	-	1500
2003/04	50	-	-	-	2091
2004/05	59	1887	276	106	2269
2005/06	62	1951	278	109	2338

Source: DOE, Sanothimi, 2006

The ongoing programme to decentralise education through the management transfer of schools to the SMC is expected to improve the quality of education through close monitoring and supervision and management of schools by the beneficiaries. Though the process picked up momentum initially, afterwards it slowed down after 2004/05. Some positive impact of the programme has been experienced:

- Local guardians have become active in the schools wherever the management of schools has been transferred to the communities. SMC members have become pro-active in their roles towards reforming their schools. Teachers have taken the change positively and have become more regular in school. Teaching - learning has gained some momentum;
- School custodians living in the proximity have begun visiting the transferred schools to understand the pros and cons of management handover;
- Increased concern has been shown by parents towards the schools their children attend. Parents have begun raising funds for their schools;
- Teachers have become more regular to school and have stopped squandering their time by indulging in their household chores and party meetings. Compared to the past, they are also teaching better. They have also realised that they can no more act as in the past since they could lose their job;
- Overall, parents' concern about education and the awareness level have undergone a dramatic change. As one SMC chairman noted, "Compared to the past, parents have become more vigilant and pro-active towards the school's activities and their children. But this change came only after the management transfer of schools."

Box 6.1 Management transfer and resource mobilization: a vivid case of community participation

A religious rite was organised at Sitaladevi Primary School in Kaski shortly following its management transfer. This was done to generate funds for the transformation of the school, which was about to collapse. The idea was well conceived. The school generated NRs. 4.2 million. According to Tika Bahadur Kakri, chairman of the SMC of the school, NRs. 700,000, out of the NRs. 4,200,000, was spent on organising the programme and NRs 3,500,000 has been deposited in a bank as School Fund.

With the balance in the bank, the SMC has formulated a "Master Plan" to convert his school into a model school in Nepal. Plans are underway to provide English-medium education to pupils in this school from the next academic year. Plans are also underway to upgrade the school to secondary level.

Teachers themselves came forward to transform this school. Headmaster Mr. Tulsi Prasad Adhikari says overwhelming concern was shown by the parents, teachers and concerned stakeholders that without community participation they would head nowhere. So they came forward to manage their own school.

Source: Education Journalists' Group, 2003

However, there are some unresolved issues. The teachers are more concerned about their status once the management is transferred to the SMC. Secondly, the SMC is skeptical about long-term government support for such schools. These issues need to be resolved soon.

Regarding the quality of education, especially primary education, training packages have been reviewed and rationalised. The one-month teachers' training package for primary school heads and lower/secondary/ school head teachers has been revised. The law relating to the recruitment of local teachers has been amended. The liberal promotion policy in Grade 1 has been implemented. This policy is expected to enhance the students' learning process.

Expenditure in Education Sector

The education sector accounted for 16 per cent of the total budget allocation in FY 2006/07. This shows a decrease as compared to the 17.2 per cent budget the previous year. The education expenditure has grown from 9 per cent in 2003/04 to 19.3 per cent in 2004/05 and declined subsequently to 11.9 per cent in 2005/06 (Table 6.4). If one assumes that all the allocated budget will be spent then the annual rate of expenditure in education will further increase to 19 per cent in the current fiscal year. More than 90 per cent of the education expenditure goes to recurrent expenses.

On the whole, there has been progress on some key measurement indicators. Some indicators, however, fall short of the PRS target as in the net enrolment rate at the primary level and in the adult literacy rate, and the proportion of trained teachers at the primary level.

Table 6.4 Budgetary performance of the education sector

(Rs. '000)

Indicators	2002/03	2003/04	2004/05	2005/06	2006/07
	Actual Expenditure	Actual Expenditure	Actual Expenditure	Revised Expenditure	Budget
Expenditure on education	13,286,606	14,477,740	17,269,888	19,331,523	23,005,525
Year-on-year change	1.1	9.0	19.3	11.9	19.0
Education expenditure as percent of total expenditure	15.8	16.2	16.8	17.2	15.98
Education expenditure as percent of education budget	92.2	92.7	89.6	90.9	-
Expenditure in primary education	7,841,007	8,507,380	10,207,632	11,269,048	12,959,001
Annual change in primary education expenditure (%)	12.2	8.5	19.98	10.4	14.99
Share of primary education in total education expenditure (%)	59.0	58.8	59.1	58.3	56.3
Expenditure on free textbooks	122,688	265,014	-	-	-
Annual change in expenditure on free textbooks (%)	32.6	116.0	-	-	-
Expenditure on Food for Education programme (primary school)	318,413	380,901	410,221	564,830	1,030,994
Annual change in expenditure on Food for Education programme	-0.7	19.6	7.69	37.68	82.53
Expenditure on school transfer and incentive programme	-	109,487	104,091	100,897	101,000
Annual change in expenditure on school transfer	-	-	-4.92	-3.06	0.10

Source: MOE, 2005 *This expenditure item included under Education for All Programme since 2004/05

The school feeding programme has been suspended temporarily in a few districts due to the low quality of food supplied. It has been reported that suspension of this programme has badly affected the attendance and regularity of students in schools.

Confusion prevails among the community regarding management transfer of community schools. The DOE should immediately act in resolving the confusion so that community support could be spontaneous. Assessment studies have revealed that the incentive scheme of NRs. 100,000 is the only motivating factor for the community to go for the management transfer. Such understanding may prove counter productive in the long run. Furthermore, there has been some resistance to this programme from teachers' associations, thereby, hindering the process of school transfer.

There is a problem of overcrowding in some public schools due to the displacement of families. If this problem continues, it may create problems in improving the quality of education. Discontinuation and school dropout are other issues confronting the education sector. This is basically due to the conflict situation.

HEALTH

In the 1970s, the WHO led a global effort to achieve “Health for All” by the year 2000. The historic Alma Ata Declaration of 1978, of which Nepal is also a signatory, wholeheartedly expressed their commitment to attaining the goal. More than 27 years have elapsed since the Alma Ata Declaration, but Health for All remains an elusive goal. The human and societal costs of ill health are immense. Several findings reveal that the link between health, poverty reduction and economic growth is very significant. The main thrust of developing the health services is, therefore, to support poverty eradication by providing essential health care services to all. The overarching national objective of the health sector in the current Tenth Plan is to reduce the magnitude of poverty substantially and make it sustainable by developing and mobilising healthy human resource. The objectives of Tenth Plan are to (i) improve the quality of health services, extend the access of the poor and backward people of the rural and remote areas to these services and (ii) to systematise the rising population, and extend the access of reproductive health and family planning services to the rural areas extensively in consideration of maternal health services.

It is in this context that the present section will assess the progress made in health care delivery with the focus mainly on last year. Attempts are being made to relate them with the physical targets of the Tenth Plan.

Physical Targes of Tenth Plan

The Tenth Plan has set the following physical targets for the Plan period (Table 6.5).

Table 6.5 Health sector physical targets

S.N.	Health Indicators	10 th Plan Targets
1	Availability of essential health services (%)	90
2	Availability of stipulated essential medicines in the specific institutions (%)	90
3	Provide essential health services with all health workers required (%)	80
4	Per cent of women receiving prenatal service four times	18
5	Women of 15-44 age group receiving TT vaccines (%)	50
6	Birth attendance by trained health workers (%)	18
7	Contraceptive prevalence rate (%)	47
8	Use of condoms for safe sex (14-35 years) (%)	35
9	Total fertility rate (women of 15-49 years)	3.5
10	Crude birth rate (per 1000)	30
11	Maternal mortality rate (per 100 thousand)	300
12	Newly born infant mortality (per 1000 live birth)	32
13	Infant mortality (per 1000 live birth)	45
14	Child mortality (below 5 years old) (per 1000 live birth)	72
15	Crude mortality rate (per 1000)	7
16	Life expectancy at birth (years)	65

Major Achievements

The poverty monitoring indicators associated with the health sector are presented in Table 6.6. Before one analyses the trends, the data need to be verified, as some of the indicators show unexpected growth. Given the reliability of the data, the indicators shown in the table illustrate that there has been an impressive improvement in some important health indicators. The IMR has been reduced remarkably from a level of 64 per 1,000 live births in 2001/02 to 51 in 2005/06. This took place within a span of four years, and this is a very impressive growth. Maternal mortality has come down, crude birth rate has declined, and the overall life expectancy of the people has also increased. But, especially during the last one year between 2005 and 2006, the health sector does not portray a very encouraging picture.

Access to health care services has not improved as desired as the proportion of the population living within a 30-minute walk to a health facility/outreach clinic has remained constant (62%) during the last three years. As regards quality of service, though, there has been almost a threefold increase in the number of health facilities having 15 essential drugs during 2002/03 and 2004/05. However, in the subsequent year, it has remained at the same level. If one relates the current status with the targets set in the Tenth Plan, a few indicators have already reached the targets one year ahead, while other indicators are far behind. The value of the indicators, like the number of health institutions where essential drugs are available, total fertility rate (TFR), child mortality rate, and births by skilled health attendants reveal that the targets have already been attained, while the CPR is very close to the target. With the current trend, one can expect this target will also be met. The IMR is estimated at 51, and the maternal mortality rate is 539. Both the indicators at the present are far behind the set targets.

Some other noteworthy achievements during last year are the upgrading of primary health centres and hospitals. This process was initiated in FY 2004. By the end of 2005/06, 23 HPs and 2 SHPs have been upgraded to PHCs. In the area of training and upgrading of health personnel during the last four years of the Plan period, a total of 15,338 health personnel were trained, and their knowledge and skills upgraded. In 2005/06 alone 3,423 personnel were trained.

Since 2003/04, there has been an reorientation/refocus of the district programmes in the Ministry of Health on the basis of the HDI. This has resulted in better absorption of the allocated budgets in the districts.

Table 6.6 Major achievements in health

Indicators	2001/02	2002/03	2003/04	2004/05	2005/06
Access to health					
❖ Number of PHC, HP, SHP & district hospitals	4429	4408	4401	4401	4375
❖ Proportion of population within 30 minutes walk to health facility/outreach clinic	-	-	62	62	62
Improved Quality					
❖ Number of health facilities where 15 of the most essential drugs are available	-	1568	-	4012	4012
Infant Mortality Rate (IMR)					
❖ Women receiving at least 4 ANC visits (%)	37.9	36.8	43.6	44.1	44.1
❖ Women receiving adequate PNC visits (%)	14.4	18.8	28.3	30.4	30.4
❖ Infant Mortality Rate (per '000 live births)	64	-	-	-	51
Child Mortality Rate (CMR)					
❖ Routine immunisation coverage of 1 year olds DPT3 (%)	80.3	86	90	80	80.0
❖ Child mortality rate (per thousand)	91	-	-	-	65
Maternal Mortality Rate (MMR)					
❖ Births by skilled health attendants (%)	15.0	16.1	18.0	20.2	20.2
Improvement in general health					
❖ National health expenditure/per capita	1102	1251	1351	-	-
❖ Number of health centres, PHC & hospital, upgraded	4	1	x	4	31
Reduced Population Growth					
Condom use by 15-49 year olds	3.2	2.2	2.4	2.3	2.3
Contraceptive prevalence rate (CPR)	38.9	37.8	40.0	41.7	44.2
Incidence of Anemic Cases					
Malnourished women (%)	15.4	14.0	12.8	10.5	11
Pregnant women receiving iron tablets (%)	57	68	88	84	84
Total Fertility rate	4.1	-	-	-	3.1

Source: MOHP, 2005

Decentralisation of Health Facilities

The government started transferring the management of the basic health services to the local bodies (LBs) under the Local Self Governance Act (LSGA) 1999 from 2001/02. One of the services that was selected for devolution was health services. Since then, the government has been promoting its policy of transferring the management of health service outlets (SHP/HP/PHC) to the local management community. Table 6.7 presents the current status of management transfer of the health service outlets in the country by development region and the type of health facilities.

The devolution programme of the health facilities has been extended to 28 districts by the end of 2005/06. The total number of health institutions handed over to the community has reached 1,424. The process could not gain the required momentum in 2005/06. Out of the 4,375 health facilities in the

Table 6.7 Number of health facilities handed over to LMC by type of health facilities, Nepal 2002/03-2005/06

Number of Health Facilities	2002/03		2003/04		2004/05		2005/06			Total		
	4408		4401		4401		4375					
Development Region	SHP	PHC	SHP	HP	SHP	PHC	HP	SHP	PHC	HP	SHP	
EDR(6)	127	3	234	6	-	8	13	-	11	19	361	
CDR (9)	136	3	176	6	147	16	41	-	19	47	459	
WDR (6)	160	2	147	5	-	-	-	-	2	5	307	
MWDR (4)	35	1	86	2	-	3	8	-	4	10	121	
FWDR (3)	10	1	45	2	-	-	1	-	1	3	55	
Total	468	10	688	21	147	27	63	-	37	84	1303	

Source: MOHP, 0000

Note: Figures in parenthesis refer to the number of districts covered in each development region.

country, only 1,424 facilities have been handed over so far. This is less than one-third of the total, and the districts covered has remained unchanged. The target is to cover all the districts by the end of the Plan.

The government's main strategy is to promote decentralisation of power for health service delivery from the centre to local governments and to promote community oversight. Since there are no elected bodies, the devolution of service outlets in health has been limited to transferring the management to the local management committee in the district and village council. One significant outcome of the devolution process is the increased ownership of health facilities by the local communities. Handover of service outlets to the management committee obviously demands more participation from the committee members, in particular, and the people, in general. In many cases, devolution of the health services has proved instrumental in diversifying health services through community involvement.

The devolution guidelines are not very clear in terms of the powers and responsibilities of the management committee. In order to make the community pro-active in the functioning of the service units, the guideline should be clear. Manuals and guidelines should be carefully developed to avoid ambiguity.

The MOHP under the decentralised operation and management is seriously considering giving authority to recruit health personnel at the local level. The guidelines/framework for local recruitment are being developed and implemented. Similarly, the government is authorising district level health facilities to procure drugs.

Strategies

One of the important strategies of the MOHP is to recruit, depute and retain the trained health personnel in the rural areas. Towards this end, the ministry has been devising a mechanism to encourage health workers to work in remote and rural areas. Vacant positions are also being advertised, and the process of filling up those positions is taking place. Terms and conditions of recruitment and transfer have been made transparent.

Health facilities in the country experience inadequate supply of essential drugs. This has resulted in under utilisation of the services in several health service outlets. In order to address this problem, the MOHP has introduced the Community Drug Scheme, which has been expanded. Its coverage has now reached 45 districts by the end of 2004/05. Various evaluation studies have shown that the programme is performing well. The government has provided seed money for essential drugs. The community has also contributed. Since the implementation of the programme, client flow has increased in the SHP. People have benefited, as they are able to purchase the drugs at a relatively lower price. Because of better management from the community, the sustainability of the programme has increased. It should, however, be noted that in many cases, the committee faces an uphill task of identifying the ultra poor households, as they are provided free drugs under the scheme.

The Community Health Insurance Scheme is yet another programme of the MOHP where community involvement has been found quite encouraging. In 2004/05, the ministry further expanded the programme in six districts: Urlabari in Morang, Chandra Nigahapur in Rautahat, Gaighat in Udayapur, Damkaulli in Nawalparasi, Tikapur in Kailali and Lamahi in Dang. Detailed data on this scheme is available for Morang and Nawalparasi. In Morang, the scheme covered 26,000 people of one VDC. Likewise in Nawalparasi, the scheme covered 88,040 people from eight VDCs. One case of community health insurance, which has proved a cushion for the poor, is presented.

Box 6.2 Community-managed insurance: a cushion for the poor

Poor people in Dulari VDC of Morang district are less worried these days. Illness in the family no longer necessitates borrowing and the strong possibility of falling into a debt trap. Now VDCs and SMCs have entered into a partnership with the B.P. Memorial Hospital in Dharan for insured treatment. Experience over the last year indicates high success rates. This model calls for replication so as to attain the health related MDG. SMC can serve as an effective vehicle for scaling up, which will require the government to instruct all hospitals to build linkages with VDCs and SMCs.

Source: UNDP, 2004

Recently the MOHP issued a position paper. The paper focuses on the policy and programmes in the health sector, together with the working guidelines of the ministry. A list of 27 programmes and budget allocation for each of the programmes has been made public.

Budget Allocation and Expenditure Pattern in the Health Sector

The data presented in the table show persistent and high growth in health care spending. Between 2004/05 and 2005/06, the annual increase in health expenditure is 23.6 per cent. The rate demonstrates a very high annual increase in health expenditure. The annual rise for 2006/07 shown in the table 6.8 is, however, not strictly comparable, as one is revised expenditure and the other is allocation. Yet the estimated per capita health spending of NRs. 1,351.00 (US\$ 19) in 2004/05 is well short of the US\$ 30 - \$ 40 per person estimated by the WHO to constitute the minimum level of health spending to cover essential interventions. The table further reveals that the share of essential health care services in the total health budget has declined significantly from 33 per cent in 2005/06 to 21.2 per cent in 2006/07. This is serious matter, indicating the need for rationalising the budget allocation modalities.

Indicators	2002/03	2003/04	2004/05	2005/06	2006/07
	Actual Expenditure	Actual Expenditure	Actual Expenditure	Revised Expenditure	Budget
Expenditure on health	3,807,672	3,915,154	46,17,019	57,09,665	92,30,152
Year-on-year change	-	2.8	17.9	23.6	61.6
Health expenditure as percent of total expenditure	4.5	4.4	4.5	5.1	6.4
Health expenditure as percent of health budget	78.1	77.6	70.5	75.6	-
Expenditure in Essential Health Care Services (DHO, HC, HGP, SHP)	1,245,767	1,488,303	1575423	1885321	1958309
Share of EHCS in health expenditure (%)	32.7	38	34.1	33	21.2

Source: MOF, 2005

Challenges

The government is facing several challenges in fulfilling the health care needs of the people. The spread of HIV/AIDS is a growing concern. It is estimated that by the end of the decade, 100,000 to 200,000 young adults will be infected by HIV and 10,000 to 15,000 may die of AIDS annually, making it the leading cause of deaths. The MOHP must urgently strengthen its response to the threat of HIV/AIDS. Huge resources and external assistance have been channelled for controlling the spread of the disease and its management. The progress, however, is far from satisfactory. Socio-economic disparities in health have been worsening. The gaps need to be minimised so that access to quality health service could be extended to the poor people.

The extent of malnutrition among children below five is quite high, making them vulnerable to many diseases. This again is associated with poverty prevailing in the country. Yet another challenge is the rapid growth in population resulting from high fertility. Although the country has been experiencing demographic transition, where fertility has declined significantly to 3.1 children per woman of reproductive age, the CPR has shown a significant rise, and fertility is high as compared to other neighbouring countries. Development efforts have been neutralised due to the high fertility. It is, therefore, essential to manage the rapid growth in population through more concerted efforts.

The implementation and management capacity of the MOHP is considered to be weak. Due to this, many programmes have suffered. The implementation and management capacity of the ministry needs to be strengthened. Another big challenge is the problem of placing and retaining the health personnel in remote rural areas where health care services are grossly inadequate. Incentive schemes, together with better physical facilities and logistics in the health delivery units, may help to resolve this problem.

DRINKING WATER AND SANITATION

Drinking water and sanitation facilities are a basic need of human beings, and the provision of providing safe drinking water to all is the declared commitment of the government. Lack of such facilities will result in the outbreak of water borne diseases. Studies have documented that unsafe drinking water and poor sanitation are behind the high incidence of communicable diseases in the country, especially in the poor rural communities. Increased access to safe drinking water and improved sanitation will help control water borne and other communicable disease, thereby, reducing child mortality. Therefore, better provision of safe drinking water and sanitation facilities would contribute to the attainment of the Millennium Development Goals.

In view of its significance, the Tenth Plan has assigned high priority to water supply and sanitation schemes. The Rural Water Supply and Sanitation National Policy and Strategy was revised in January 2004. One of the strategies outlined in the revised policy documents is to further strengthen the community-based approach adopted in recent years, which has proved sustainable and effective. The government has been encouraging community participation in decision making, cost recovery of operation and maintenance expenses and involving women and disadvantage groups in benefit sharing as well as in decision making.

The Tenth Plan Target

In the '90s, the water supply and sanitation sector saw reforms. Towards the end of the Ninth Plan, 71.7 per cent of the population had access to safe drinking water, and 25 per cent of the households had sanitation facilities. The current Tenth Plan aims at providing 85 per cent of the population with safe drinking water and 50 per cent of the households with sanitation facility. The additional population to benefit by the new drinking water projects during the end of the Tenth Plan is targeted at 4,591,000. Thus, the total population provided with safe drinking water would be 22,680,000 by the end of the plan. Similarly, the Plan set a target of providing an additional 7,421,000 people with sanitation facilities by the end of the Plan. Several goals were also set for 2005/06, such as the arsenic reduction programme in 21 districts, repair and maintenance of completed projects in 69 districts, construction of 152 deep/shallow tube well and artisan wells in 16 districts under the Rural Drinking Water Programme and the construction of vessels/ponds in 18 district for the collection of rainwater (MoF , 2005/06). But detailed data on the progress of these are not available.

Major Achievements

The poverty monitoring support programme has identified two indicators related to drinking water and sanitation. Table 6.9 presents the achievements made in this service during the last four years of the Tenth Plan. In 2005/06 the proportion of the population with access to safe drinking water reached 77 per cent, a mere 1.4 percentage point increment over 2004/05. In sanitation, there has been no progress at all. Assessment of the trend over the last four years indicates that it will be difficult to meet the water supply coverage (85%) and sanitation coverage (50%) target of the Tenth Plan. The reason for such slow progress in the coverage has been attributed to the growing need for the rehabilitation of the previous schemes.

Table 6.9 Major achievements in drinking water and sanitation

Indicator	Fiscal Year					Tenth Plan Target
	2001/02	2002/03	2003/04	2004/05	2005/06	
Population with access to drinking water (%)	71.6	72.8	73.5	75.5	76.9	85%
Households with sanitation facility (%)	20.0	26.2	39.0	46.3	46.3	50%

Source: MOPPW, 2006

The Rural Drinking Water and Sanitation Project, with the sole investment of the government, has been implemented in all 75 districts. A total of NRs. 42 million was allocated in FY 2005/06 for this programme. The Tenth Plan aimed at providing safe drinking water to an additional 3,300,000 people. According to statistics provided by the Department of Water, Sanitation and Sewerage (DWSS), about 600,000 people have been served by the end of the fourth year of the Plan period. The progress is far short of the target of the DWSS.

Some other accomplished activities are as follows:

- ❖ A National Water and Sanitation Policy 2004 has been developed and put in place. Mainstreaming gender, caste and ethnicity is a key component of the new policy;
- ❖ The government has promoted sanitation and health education programme as an integral part of water supply projects. Each new water supply scheme now includes the sanitation component;
- ❖ A working policy on rain water harvesting, water quality test policy and environmental management action plan (IEE and EIA) has been developed;
- ❖ Continuous rehabilitation of rural water supply schemes have been undertaken, and such schemes have been handed over to the community for management;
- ❖ A substantial number of latrines have been added;
- ❖ An urban water supply and sanitation policy is being prepared;
- ❖ National drinking water quality standards/guidelines have been developed and approved;
- ❖ The water supply and sanitation sector initiated some reform measures. There has been a shift from the supply driven approach of service delivery to a demand driven approach;
- ❖ The involvement and partnership of the local bodies, NGOs and the private sector on the basis of their feasibility have been adopted;
- ❖ Participatory decision making in rural water and sanitation service delivery has been adopted. In addition, community participation shifted from voluntary labour contribution to community empowerment and management;
- ❖ Community-based drinking water and sanitation projects have been implemented in the districts that are lagging behind in drinking water and sanitation facilities and HDI.

Rural Water Supply Sanitation Fund Development Board

The Rural Water Supply Sanitation Fund Development Board (Fund Board) was created on March 14, 1996 to promote sustainable and cost effective demand led rural water supply and sanitation services.

The Fund Board has successfully completed its first phase of the project (1996-2003) and entered into the second project (2004-2009). The Fund Board has programmes in 60 districts. The Fund Board has been moving programmes into conflict-affected areas and remote villages. Physical progress upto July 2006 reveals that 47 schemes under Batch IV and 178 schemes under Batch V have been completed, benefiting 27,715 households with a population of 16,6831. The implementation phase of another 140 scheme is in progress. This scheme is expected to serve 104,505 people from

17,123 households. As of July 15, the Fund Board has spent a total of Rs. 213,700,648 under various expenditure heads (RWSSFDB, 2005).

Evaluation studies carried out three years after the scheme was completed show that 82 per cent of Batch I and 89 per cent of Batch II schemes are fully functional and well sustained by the committees (RWSSFDB, 2004). Against this background, four schemes from on site visits and one from secondary sources are presented to document the success stories of the community managed drinking water scheme.

The problems and issues noted are (i) Owing to price rise of non-local materials, the scheme cost has significantly increased, resulting in insufficient funds to meet the target under the RWSSFDB; (ii) Uncertainty in securing DFID support as committed earlier has adversely affected the project activities; and (iii) There was delay in the completion of the Batch V scheme due to the conflict situation.

There is a problem of institutional stability in the RWSSFDB. The Fund Board is to be a regular sector institution in implementing the rural water supply and sanitation schemes. The Draft Bill to establish the RWSSFDB has yet to be passed by the parliament to ensure its stability and long term vision.

Box 6.3 Drinking water project and alternative use of time saved

Setidevi Charuwa Drinking Water Project, in Methinkot VDC of Kavre, offers a glaring example of the use of time saved in fetching water. Prior to the project, local women had to walk one-and-a-half hours to fetch water. But now potable water is available near their doorstep, making their lives a lot easier. Thanks to the Shree Shantijanadarsh Sewa Club, that has been instrumental in solving the problem of water in the village. The construction cost of the project was partly supported by the Fund Board and partly by the community. The community contributed in arranging labour for installing pipelines. Community households formed the groups and divided the construction work.

The community people were highly enthusiastic, resulting in the completion of the project earlier than the scheduled date. A reservoir of 12,000 litres per RNT has been built. Now the community owns the programme. A 15-member Users Committee, comprising five women members, has been formed. The committee monitors the condition of water source, distribution and utilisation of water supply. A population of 1,062 from 182 households have benefited. The project has plans to serve seven households per tap. The project has recently been completed, so the tariff rate has not been fixed yet. The O&M Fund has been created from the contribution by the community for financing operation and maintenance.

At the moment, the programme is very useful to the local community. It has been yielding a series of benefits: it has increased access to drinking water, the time that used to go to fetch water has been saved and the surplus time is being used in other economic activities, the community is now able to grow vegetables and sell the surplus in the local bazaars, women are involved in many income generating activities and they are also engaged in the adult literacy programme. The sanitation situation of the locality has significantly improved. As per the Rural Water Supply and Sanitation National Policy and Strategy 2004, the committee has invested in the O & M Fund at the community level which is expected to further strengthen the O&M situation of the project.

Source: Field Visit

Rural Accessibility and Service Delivery

RURAL INFRASTRUCTURE

Rural infrastructure refers to the development of programmes that help improve the infrastructure of the rural areas. The programme mainly includes: rural roads, agriculture roads, suspension bridges, preparation of road master plans and small scale irrigation and micro hydroelectricity projects. In the area of rural infrastructure, the Tenth Plan set a target of constructing 20,000 km of rural and agricultural roads, build 500 new suspension bridges and the comprehensive repair of 1,200 bridges, and minor maintenance of 2,000 suspension bridges.

Rural Roads

DOLIDAR, under the Ministry of Local Development, is responsible for the technical supervision of rural and agricultural roads in the districts. Mostly, these roads are identified and constructed as per the District Transport Master Plan (DTMP). Most of the districts have already completed preparing this master plan as a companion volume to the District Periodic Plan. Currently, MoLD is carrying out a number of rural infrastructure programmes. Some of the important programmes which have been implemented are the RCIW, RIDP, RAP, DRSP, RIP, the Local Development Fund Programme and Rural Agricultural Road and Local Development Programme (RARLDP). In 2005/06 about 1,442 km of rural (seasonal) roads were constructed, and 546 km of roads were gravelled. Altogether 2,147 km of rural roads underwent regular repairs and 1,052 km of rural roads underwent periodically repaired and maintained. Similarly, 535 km of rural roads were rehabilitated, while 663 km of earthen roads were constructed.

At the policy level, a 20-year Road Master Plan has been prepared for 54 districts. With the purpose of monitoring and evaluating the maintenance and rehabilitation of roads and bridges, the a Programme Monitoring and Evaluation Unit (PMEU) has been established and is in operation. Likewise, with the policy of involving the local people directly in the construction of rural roads, the Road Building Group (RBG) and local Community Based Organisation have been formed.

Suspension Bridge

Considering the topography of the country, construction of suspension bridges is vital for accessibility to the rural areas. Based on the trail route and the length of the suspension bridge, the Suspension Bridge Division under MoLD constructs these bridges directly under its supervision, or through local participation. In 2005/06, about 144 new suspension bridges of different lengths were constructed throughout the country. Large scale repair and maintenance have been carried out on 129 suspension bridges, while 294 suspension bridges saw regular repair and maintenance.

Micro-hydro Projects

Community micro-hydro projects with a total generation capacity of 576 KW were constructed in 2005/06.

Of the total annual budget of Rs. 673 million for 2005/06 for rural infrastructure, Rs. 494 million was spent, which accounts for 73 per cent of the total allocation.

SERVICE DELIVERY IN RURAL AREAS

In a regime of political uncertainty, it is difficult to enhance capital accumulation and make service delivery effective. In such a situation, a non-conventional method of service delivery and direct income transfer have to be found to retain at least the existing level of people's well-being. This has been the mechanism that the GoN has been increasingly relying on in recent years. The GoN has accepted decentralisation as a means of sustainable development at the grassroots level and effective service delivery to the people. Experience in Nepal and elsewhere has shown that local governments know better about their citizens' preferences and are better prepared to meet their needs. However, they can be efficient in providing services if responsibilities are assigned with clarity and adequate authority and funding is available to them. Since 2001/02, the GoN is devolving more and more task and functions to the local bodies and communities. The management responsibility of the primary schools, sub-health posts and agriculture and livestock extension has already been devolved.

Encouraged by the success in service delivery through devolution of basic services and given the difficulties in providing these services through the central agencies in an unsecure situation caused by the armed insurgency, the GoN has further devolved the responsibilities for local infrastructure development,

Box 7.1 Improving service delivery in agriculture

The Ministry of Agriculture and Co-operatives (MOAC) has initiated and implemented a decentralised service delivery system in 20 remote districts of Nepal by establishing a District Agriculture Development Fund (DADF) through the Agriculture Perspective Plan Support Programme (APPSP) financed by DFID. The Fund consists of two sub-funds, namely, the Local Initiative Fund (LIF) and the District Extension Fund (DEF). The LIF is meant for quick impact generating projects for the poor and the excluded population of geographically remote areas, and the DEF is for expansion (increasing coverage) of agriculture services, to the remote sections and the hitherto excluded farming households in the districts. Over three years time, the DADF has managed to fund over 3,000 projects benefiting over 124,311 households. The following table reveals that beneficiaries of the projects are mainly the poor and the excluded farming households.

Beneficiary households by social group (2003 to August 2006)

Social Groups	Male	Female	Total	%
Dalit	21100	20057	41157	33
Disadvantaged Janajati	13333	11166	24499	20
Disadvantaged non-Dalit groups	4334	3828	8162	7
Advantaged Janajati	1416	839	2255	2
Religious minorities	549	524	1073	1
Non-disadvantaged castes	24288	22877	47165	37
Total	65020 (52%)	59291 (48%)	124311 (100%)	100

The projects supported by the DADF are mainly from the remote areas in the districts. The following table presents the distribution of projects across the various geographical areas.

Geographical coverage of the projects in the districts (% projects)

Area	DEF	LIF
Near / District Head Quarters	21	37
District HQ surrounding VDCs	23	20
Remote VDCs	56	43
Total	100	100

The salient features of the system include transparency, demand driven nature, public private partnership and quick impact.

The system is transparent as it is implemented by the District Agriculture Development Committee (DADC) drawing members (18) from the various government and non-government agencies in the districts. What is unique about the system is its monitoring mechanism. The Beneficiary Monitoring Committee, formed for each of the projects, regularly monitors the projects to ensure transparency, accountability and service quality. In addition to this, the system also carries out public auditing that includes all stakeholders and civil societies in the district.

The DADF has generated ample income generating opportunities in the districts contributing to mitigate the conflict. The system has proven its robustness as it is least affected by the conflict and could be a model for the ongoing peace building endeavour. In the meantime, the system has generated a vast reservoir of disaggregated data/information, which could be a valuable resource for policy formulation for similar other projects and programmes.

At the central level, the programme also supports the MOAC in the areas of institutional development (Human Resource Development and Management, Monitoring and Evaluation, etc.), policy formulation and review across different sectors and sub-sectors of agriculture policy issues.

Source: APPSP, 2006.

such as small irrigation schemes, rural drinking water programmes and rural roads construction, to the local bodies. Rapid devolution of such tasks and functions to the local bodies and communities, as well as the reliance on participatory approaches to development, are some of the new approaches that the GoN is pursuing to make service delivery at the grassroots level more effective.

However, handing over schools to the community is not smooth, and it faces some hurdles, which need to be addressed soon. Teachers and their associations are reluctant to give supervisory role to the community; the political groups and local bodies are interested in bringing schools directly under the local bodies; and the DEO has been promoting de-concentration and delegating management responsibilities on its own terms. The SMCs do not have the authority and are hesitant to shoulder the overall responsibility. The VDCs' role is totally overlooked. The Maoists have opposed the school handovers on ideological grounds (i.e. state responsibility on education cannot be dispensed in any form at all). A need to find a consensus among these stakeholders of education on key components of devolution is very urgent (Pokhrel, 2005).

Social Inclusion and Targeted Programmes

OVERVIEW

Poverty has been an overriding concern in Nepal. However, in more recent years, the country has experienced significant reduction in poverty. The results of NLSS II conducted in 2003 reveal this. A comparison of the results of the present survey with that of the previous one conducted in 1996 has shown a decline in the national poverty level from 42 per cent to 31 per cent during 1996 to 2003. Urban poverty declined by 12 percentage points (from 22% to 10%) and rural poverty by 8 percentage points (from 43% to 35%). The findings have further revealed a considerable reduction in the poverty gap and poverty intensity. It should, however, be noted that during the same period, the consumption gap between the poor and rich widened, resulting in the rise in the Gini-coefficient from 0.34 to 0.41. Disparity, thus, seems to have further widened causing more inequality in the distribution of the development returns among different groups and regions.

Certain castes, ethnic and religious groups, especially the hill Janajatis, Dalits and Muslims have a poverty level above the national average. Women, Dalits and Janajatis and people of remote areas are the most disadvantaged. Similarly, the Mid-western and Far-western regions are the most disadvantaged areas. The prevailing situation of inequality and exclusion in the country is presented in Table 8.1

The need of special programmes for such groups and areas has been increasingly realised. In recognition to this fact, the PRSP/Tenth Plan has clearly stated that social inclusion and targeted programmes are the third strategic pillar. The idea behind this strategy is that while the targeted programmes reach out to the excluded, inclusive development will provide access to mainstream development, and, thereby, offer equal opportunities for development.

In order to overcome the problem of social exclusion as indicated in the Table 8.1, the Tenth Plan envisages working on three mutually complementary tracks:

Table 8.1 Dimensions and basis of exclusion in Nepal

Excluded Groups	Economic Status	Services	Social Status
Caste/ethnicity (Dalits, Janajatis, other minorities)	Lower incomes and fewer opportunities-shaping human and physical assets (education, nutrition, land, livestock).	Language-based exclusion in education system, isolation due to remote locations (for Janajatis), less ability to pay for private services when public services fail.	Lower self-perceived status (due to lack of respectful treatment or co-operation with other groups); restricted access to public places; very low representation in legislature, executive, judiciary, and civil service; lack of local political influence.
Gender (Women and girls)	Lower initial human capital, unequal asset ownership and property rights. Restriction on the rights to migrate for employment.	Households favour boys' education; female specific services (maternal and reproductive health) often under funded.	Limited rights in household decision making (control over fertility, self-earned income); domestic violence; restricted mobility (need for permission to travel alone).
Location (Remote areas)	Few economics of scale, few markets, high costs due to poor connectivity	Higher unit cost of provision because of remoteness and low population density.	Poor representation (power is centralised in Kathmandu), effects of civil conflict).
Income Poverty (The vicious circle)	Low assets, less ability to manage income volatility, less access to credit, fewer opportunities.	Poor publicly provided services, little purchasing power to buy services in the private market.	High cost of political and judicial institutions.

Source: Adapted from *Resilience Amidst Conflict: An Assessment of Poverty in Nepal 1995-96 and 2003-04*, CBS/World Bank/DFID/ADB, September 2006.

- ❖ Structural change in institutions and policies to ensure disadvantaged groups' access to economic resources, social services and decisions that affect them;
- ❖ Ensuring access of excluded groups to mainstream programmes; and
- ❖ Targeted programmes and safety nets for those disadvantaged, or who are vulnerable due to age, illness or physical/mental disability.

SOCIAL INCLUSION INITIATIVES AND PERFORMANCE

Several efforts have been made in recent years to make structural changes in mainstream policies and programmes to ensure equal access of the disadvantaged groups to services, economic opportunities and influence. Social,

legal, economic and other barriers in empowering women have been removed. The initiatives taken toward this direction are:

- ❖ Inclusive programme in all sectors;
- ❖ Framework for addressing the problems of deprived communities/ regions has been developed and already implemented;
- ❖ Provision of production loan and social mobilisation for women;
- ❖ Incentives to increase proportion of girls in education (As of July 15, 2006, 643,982 girls have received scholarships);
- ❖ Special health care services for women to reduce maternal mortality;
- ❖ Coaching classes and alternative actions to increase women in teaching and civil service (A total of 761 women were provided coaching classes - for joint secretary and under secretary level - 50, section officer - 308 and junior assistant - 403);
- ❖ Legal discrimination is gradually being eliminated. An act has been promulgated giving equal property rights to women. This has also been mentioned in the interim constitution as well;
- ❖ Legal and other changes to prevent violence against women (18 Community Mediation Committees at local level formed to provide services to abolish violation against women, untouchability and discrimination; Kalimati Female Police Cells provided services and assistance in 284 cases);
- ❖ Action Plan for gender mainstreaming developed and implemented;
- ❖ Special scholarship programme for women for higher education (Scholarships to 10 poor and backward girls from remote districts provided to pursue higher education on Women Studies) ;
- ❖ Gender disaggregated indicators; and a monitoring mechanism put in place to measure the outcomes;
- ❖ Affirmative actions to increase the proportions of people recruited in teaching and public service;
- ❖ Grant allocations to local bodies with poverty based formula has started;
- ❖ Budget allocation for deprived communities/areas has increased in all sectors.

TARGETED PROGRAMMES

The objectives of the targeted programme as per the Tenth plan document are to sustain and enhance the productive capabilities of marginalised (deprived, disadvantaged, remote and isolated) communities. The targeted programme is basically of two types: (i) Geographical area based targeted programme and (ii) group targeted programme. The former targets remote areas and

areas prone to natural disasters, particularly floods and landslides. The latter includes programmes for targeted groups on the basis of gender, caste and creed, occupational and income level and status of access to resources. This basically focuses on social mobilisation, capacity building, income generation and empowerment.

The government implemented 35 targeted programmes in 2005/06. To name a few, they are the Poverty Alleviation Fund (PAF) (Box 8.2), Karnali Zone Agriculture Development Project, Rural Micro Credit Project, Women Empowerment Programme, Food for Education and Remote and Small Area Development Programme. The distribution of the targeted programmes by major sectors during the last three years is presented in Table 8.2. The details of the targeted programme are presented in Annex 3.

Table 8.2 Distribution of targeted programmes by sectors and priority type

Sectors	2003/04		2004/05		2005/06	
	Number of targeted programmes	Priority Type	Number of targeted programmes	Priority Type	Number of targeted programmes	Priority Type
Agriculture, Forestry, Irrigation and Land Reform	3	P1	3	P1	3	P1
Women, Children & Social Welfare	9	P1/P2	8	P1/P2	8	P1/P2
Industry	2	-	2	-	5	P1
Supplies	2	P1	2	P1	2	P1
Employment Promotion & Child Labour Elimination	2	P1	2	P1	2	
Education	2	P1/P2	1	P2	1	P2
Local Development	6	P1/P2	7	P1/P2	7	P1/P2
Other Social Services	4	P1/P2	6	P1/P2	5	P1/P2
Total	30		31		35	

Geographical area-based targeted programmes

Out of the 35 programmes 10 fall under this category. These programmes aim to improve the living standards of the people of the remote districts and geographical regions. Karnali zone special agriculture development programme, hills leasehold forestry programme, food for education programme, special area development programme and western hill poverty alleviation programme are some of these targeted programmes. Major activities under these programmes include income generation, training, education, health services and building small infrastructures in the remote areas.

Major outputs and progress of these programme are, construction of 10 drinking water schemes, survey of 60 different projects, construction

of 11 suspension bridges/trust, construction of 37 km trails in the remote areas. Similarly, these programmes trained local people to develop their skills in livestock and agriculture activities, enterprises development, group management and other income generating skills.

Group-based targeted programmes

A total of 25 programmes/projects were implemented to directly benefit poor and disadvantaged communities in FY 2005/06. The main programmes include Kamaiya rehabilitation, nutrition programme, Women Empowerment, Empowerment of indigeneous and dalit communities. Women skill development, women income generation, programmes for disables, rural micro-finance, children welfare etc.

Six programmes were directly targeted for women. In 2005/06 the progress of these programmes include; training to 270 women for the preparation of Public Service Commission examination, scholarship distribution to girls, publication of women empowerment journal, income generation trainings, awareness against girls-trafficking, social mobilization, group formation and book-keeping trainings to women.

Under dalits empowerment the progress in this year include scholarship to 16 students in higher education, income generation trainings for 22 dalits, professional computer trainings for 15 persons, Public Service Commission examination preparation training for 50 person, and professional driving trainings for 15 person, among others.

Programme for indigeneous people provided more than 100 scholarships in higher education including 3 doctoral scholarships, conducted 3 workshops on linguistics, and capacity development trainings.

Moreover, skill development and professional trainings were provided to disabled, awareness made against child labour and social security schemes provided to senior citizens in the year.

Major issues identified in targeted programmes are as mentioned hereunder:

- ❖ There is lack of clearcut criteria to identify and define targeted programmes.
- ❖ Reporting of the targeted programmes include mainly input and process indicators, thus, it is not possible to review the outcome of these programmes to the beneficiaries.
- ❖ Different implementation modalities are adopted by different programmes and hence lack uniformity in their implementation. This has made difficulty to identify which modality is more effective and is replicable.

Financial Progress of Targeted Programmes

In fiscal year 2005/06, Rs. 3402 million was allocated to 35 targeted programmes which amounts to 2.5 per cent of the total budget (Table 8.3). The share of targeted programme allocation out of total development budget is 6.54 per cent. Out of the allocated amount 77 per cent was spent which is slightly lower than the last FY 2004/05 of 79 percent. In the current fiscal year 2006/07 budget allocation in targeted programmes increased significantly reaching 3.13 of the total budget allocation for the year.

Table 8.3 Budget and Expenditure in targeted programmes

Budget/ Expenditure	2002/03	2003/04	2004/05	2005/06	2006/07
Targeted Programme (TP) budget (Rs. in million)	2144.1	2979.2	2759.8	3401.8	4502.0
TP budget as per cent of total TP Expenditure (Rs. in million)	2.6	2.9	2.5	2.5	3.13
Expenditure/budget ratio	0.60	0.66	0.79	0.77	-

In 2004/05, 30 targeted programmes amounting to NRs 2759 million were implemented. The share of the targeted programmes in the total budget was 2.5 per cent. This proportion has increased to 3.13 per cent in 2006/07 with the allocation reaching NRs. 4502 million. Though the share of the targeted programme in the total budget allocation is gradually increasing, still it is inadequate, considering the severity of the problems the targeted population is experiencing.

Box 8.1 Benefits from PAF programme

The study team visited Kapilvastu, an initial PAF district, to assess the impact of the PAF programme. The study team interacted with one partner organisation (PO) and visited two programme sites, one related to income generation and another to Small Community Infrastructure Development. The primary school established under this programme has been functioning well. Students' enrolment of about 300 is quite encouraging. Previously, the nearest school was at a walking distance of about an hour, and children were reluctant to go to school. Now with the opening of the school in the village, it has begun attracting students. Parents are very appreciative of this support.

The CO engaged in income generation activities has been well managed. Almost 90 per cent of its women members are Dalits or belong to other disadvantaged groups. The programme has been able to advance loans for vegetable farming, livestock rearing and small enterprise businesses. Repayment was good with a few exceptions. Members whom we interacted with stated that the programme has been a big help to them, as it was instrumental in generating income for them.

Source: Field visit.

Box 8.2 Poverty Alleviation Fund (PAF)

The PAF established through the Poverty Alleviation Fund Act 2063, is directly linked to the third pillar of the PRSP/Tenth Plan of the Government of Nepal, i.e., it is a targeted programme which emphasises the need for a special programme to bring the excluded communities in the mainstream of development.

The PAF has adopted a demand led community-based approach to poverty alleviation, keeping the target communities on the driving seat with decision-making authorities to prepare, implement and manage their sub-projects. The PAF's Social Inclusion Strategy includes having: (i) targeted beneficiaries as poor women, Dalits and Janajatis, (ii) at least 50 per cent of the community organisation (CO) as women; (iii) at least 80 per cent of the COs members from targeted beneficiaries; (iv) the office bearers (chairperson, secretary, and treasurer) of the COs from among Dalits, Janajatis and women.

The Primary elements of social inclusion in the PAF programme are:

(i) Addressing spatial exclusion by focusing on the most deprived districts, but at the same time providing services in other poverty stricken areas as well; (ii) Reaching out to the poor - the targeted beneficiaries, and at the same time ensuring social harmony; (iii) Focusing on marginalised communities and ensuring community cohesiveness and solidarity.

The PAF provides funds directly to the COs for the implementation of the programmes proposed by them, and, thereby, expects to bring efficiency and transparency in the work and ensure community ownership. The Partner Organizations (POs) such as NGOs, Private Sector Organisations (PSOs) and Local Government Organisations (DDCs/VDCs) provide support to the community organisations through social mobilisation, technical assistance and capacity building to organise, plan, implement and manage the sub-projects by the communities themselves. The four major programme components the PAF is supporting are: (i) Social mobilization, (ii) Income generation, (iii) Small community infrastructure development and (iv) Capacity building.

In 2005/06, the PAF implemented its programmes in six districts - Darchula, Mugu, Pyuthan, Kapilvastu, Ramechhap and Siraha - as well as in the newly added set of 19 special districts and other innovative programme districts across the country. Besides working in these 25 project districts, the PAF is implementing innovative programmes in other districts as well under the special innovative window programme to capture replicable innovative initiatives to reach out to the poor. So far, the innovative window programme covers 19 additional districts.

Out of the 1,928 COs formed and registered with the PAF during 2005/06, agreements were reached with 1,664 COs (of which 1,127 are from the PAF initial districts, 357 from the 19 special districts and remaining 180 from innovative window programme districts.

Among the beneficiaries who are members of the COs, about 68 per cent of the households fall in the hardcore poor category, 22 per cent in the medium poor and 10 per cent in the poor category. A caste/ethnicity based analysis indicates that Dalits and Janajatis constitute 45 per cent and 31 per cent, respectively, of the beneficiary households. Likewise, 60 per cent of the CO members are women. In order to facilitate the community, 214 POs are working across the country (73 in the six initial districts, 118

in the special programme districts and 23 in other districts under the innovative window programme, including 12 POs under the Nepal development marketplace - 2005). The total beneficiaries to date are about 72,000 poor households spanning 356 VDCs.

Coordination with the DDCs/VDCs has been maintained from the very beginning of programme implementation. The PAF is building partnerships with various organisations working in its areas of operation at the village, district and national level in order to ensure holistic development intervention to bring about discernable impact on poverty reduction and in scaling up the programme in considerably less time.

The annual budget allocation and expenditure on the PAF activities are presented in Table 8.4.

Fiscal Year	Budget Allocation	Actual Expenditure	Expenditure/ Allocation Ratio
2003/04	400000	188474	0.47
2005/06	508099	436022	0.86

In 2002/03, the budget allocation to the PAF was limited to NRs. 170 million. There has been almost a threefold increase in the allocation during the last three years. This is, no doubt, a significant rise. The allocation and expenditure trend reveal that the absorptive capacity of the PAF has also gone up. Expenditure allocation ratio was merely 0.34 in 2002/03 which climbed to 0.86 in 2005/06.

The challenges faced by the PAF are:

- Linkages with market for sustaining income generating activities;
- Providing appropriate technology support for different activities including linkages with existing service structure;
- Availing an insurance safety net particularly for livestock;
- Exploring an alternative to livestock-based activities for landless poor;
- Building community capacity to manage a revolving fund.

It is necessary to work with diversified groups of poor communities that support each other, and network for linkages and collaborations with other programmes and line agencies to support communities in different areas of strength of this programme. Further, legal institutionalisation of the COs and establishment of strong linkages with the DDC/VDCs are also important for sustainability and long term support to these community groups.

Governance

PROGRESS IN JUDICIARY REFORMS

The Judiciary Reform Programme was initiated in 2001 with the basic objective of enhancing the competence and efficiency of the judiciary in Nepal. Besides, the programme aims to enhance justice delivery and provide the court users qualitative, speedy and less expensive justice through the operation of pilot courts, legal reforms and capacity building of judges and court staff.

The programme has been implemented in partnership with the Supreme Court and other partners, including the Ministry of Law, Justice and Parliamentary Affairs, National Judicial Academy, NGOs and private sector organisations.

The programme supported Kaski, Chitwan, Siraha, Kapilvastu, Banke, Morang and Kathmandu districts to operate separate civil and criminal benches as per the provisions made under the third amendment of the District Court Rules in 2003. The programme supported the courts to install local area networking and introduced the counter system.

- A study on modernisation of case flow and court administration (including record keeping, case assignment) in the District Courts.
- Final copy of the Civil Code has been printed.
- The programme supplied stationery, physical facilities (172 computers, 60 printers, 11 fax machines, 19 photocopiers and 7 scanners) to the pilot courts and related Appellate Courts. Furniture (computer/office tables, chairs, cupboards, filing cabinets, bookshelves and open racks) were provided to all the pilot District Courts and the counter for the Kathmandu District/Court.
- EPABX (telephone intercom system), software and local area networking, including lightning arrestor facilities, provided to the pilot courts.
- The programme provided support in linking the Supreme Court and the Kathmandu District Court with optic fibre.

- Completed the renovation of the court buildings and construction of waiting sheds in Kaski, Chitwan and Kathmandu District Courts.
- The programme provided human resource (16 computer operators) support in all the pilot courts, including the Supreme Court, for data entry of the current year as well as that of the previous years.
- Conducted a human resources development survey in the districts where the pilot courts were located.
- Provided basic support (including presentation and recommendations) to the Supreme Court for preparation and adoption of the fourth amendment to the District Court Rules.
- Worked jointly with the Supreme Court to prepare, print and distribute the Civil Procedure Guidelines and Court Administrative Manual.

Capacity Building of Judges and Court Staff

The programme with a view to enhancing efficiency in justice delivery carried out the following activities:

- Provided training on court management to 69 judges and 31 court officials (abroad), 143 court staff (in the country), 50 judges and 49 court staff (two batches) on land survey, 179 judges and court staff and training on Forensic Medicine and Forensic Sciences to 126 judges.
- Provided training on office equipment/maintenance to 24 court staff (non-gazetted) in two batches.
- Carried out interaction for the finalisation of the forms and formats used by the pilot courts (15 participants) for maintaining uniformity in all the pilot courts.
- Organised training on civil law and judicial administration to 55, and on record keeping to 30 non-gazetted court staff.
- Organised workshop on “Implementation of Information and Communication Technology (ICT) Strategy of Courts and Briefing on Pilot Courts” for chief judges of seven Appellate Courts, judges, registrar, *shrestadar*, *tahasildar*. The workshop had the participation of 60 persons. It was an opportunity to gain basic knowledge about the importance of ICT within the judiciary. It also concentrated on the demonstration of different types of software like the Personnel Management System, Store/Procurement Management System; Documents Management System; and *Misil* (Case Records) Management System implemented within the judiciary.

DECENTRALIZATION

Local Self-Governance Act 1999 and its regulation 2000 have been milestones in Nepal's efforts on decentralization. Despite several attempts, local bodies have remained devoid of elected representatives for many years. Yet as mentioned below there are some notable developments in this regard.

- 52 districts have prepared their periodic plans,
- 74 districts have prepared their Transport Master Plan which have laid clear direction in this regard,
- Efforts were made to improve revenue management system of local bodies by forming Revenue Advisory Committees at the local level and by making tax rates and its area broad,
- Provision has been made to form a Joint Committee where there is need for two or more local bodies to work together,
- Strategies were developed and implemented to create an environment where governmental and non-governmental agencies can work together,
- Efforts were made in support of LSGA by making reform in grants provided to local bodies.

The issues encountered in this regard were (i) absence of elected representatives, (ii) absence of amendment in laws and acts that contradict the LSGA, (iii) inability to constitute local service cadre, (iv) absence of common Basket Fund system for ensuring donor harmonization, and (v) lack of improvement in efforts made for strengthening of revenue collection and resource mobilization.

PROGRESS IN GOVERNANCE REFORMS

The institutionalisation of a Personnel Management database, piloting a performance-based management system, making amendments to the Civil Service Act through ordinance for institutionalising the governance improvement measures, and passing of a Governance Act are some of the important initiatives taken under the governance reform measures during the assessment period. Initiatives have also been made for affirmative actions to include more women, Dalits, Janajatis and the disabled in the civil service.

PROGRESS IN ANTI-CORRUPTION

The commission for the Investigation of Abuse of Authority (CIAA) as an investigative and prosecutive agency has extensive authority to investigate and prosecute suspects in the country. In the PRSP period, CIAA has strengthened its institutional capacities by means of new legal provisions, investigative procedures, IT facilities and capacity building measures of its staffs. This has contributed to improve its efficiency and increase conviction rate in the recent years. For instance, out of 530 cases filed at the special court, in early December 2005, the court had found the accused guilty in 290 cases. In 2005/06 114 cases were adjudicated and 109 cases were fully convicted.

In the field of anti-corruption, the review period saw the commissioning of a separate three-member Royal Commission for Corruption Control, bypassing the Commission for Investigation of Abuse of Authority (CIAA). As the body was created with political motive some action were taken against some political figures, charging them for the abuse of authority. The CIAA, on the other hand, continued to function as mandated. It was argued that as the CIAA's institutional strength and reach did not allow for effective control of corruption, more authority and professionals were needed to make any dent in the anti-corruption drive.

Conflict and Development

OVERVIEW

The conflict situation in Nepal, which started in 1996, had grown to a full-scale arms movement by the end of the decade and expanded to other parts of the country. There are many underlying causes for the conflict, some of which are political and ideological in nature. Poverty and its manifestation (in terms of regional, gender, ethnic and caste related inequalities) as well as poor governance, corruption and the failure to adequately deliver essential social services and infrastructure to the rural communities and marginalised groups are other causes that contributed to the intensification of the conflict in the country.

With the expansion of the armed conflict, the security situation in most of the districts worsened, and the governance system weakened. Government offices were bombed and destroyed, infrastructure damaged and work in the infrastructure sector was hampered. Economic activities in the conflict-hit areas came to a standstill, and large-scale displacement of people occurred. More than 13,000 people have also lost their lives. Many more have been maimed or wounded.

The growing insecurity and the absence of government officials have made it difficult to carry out development activities in the affected areas. Development programmes have been adversely affected. As a result, income and employment generating activities, as well as the delivery of basic services (health, education), have been disturbed severely. The destruction of VDC buildings, bridges, schools, health posts and communication facilities, and intimidation and subsequent absence of local officials have considerably weakened the productive capacity and infrastructure base for maintaining essential service delivery to the people, especially in the rural areas.

A macro level analysis of the performance of the economy during the period shows a mixed but clear pattern. While the high economic performances during the first few years after the restoration of democracy can be attributed to a stable government and the new and far reaching economic policy, the economic performances in the mid 1990s show political and the resultant instability in the government and less commitment towards continuing the policy reform agenda initiated earlier. The economic performance in the late '90s, as well as in the early 2000s,

however, clearly exhibits the impact of the unstable political situation and the intensification of the armed movement in the country.

The economy during 2000-2006 shows under performance due to the unbridled armed insurgency and political uncertainty. The less than potential performances in the non-agriculture sector, particularly the low performance of industry due to security threats and *bandhs*, disruption of movement of goods and services, low plying of the transport system, breakdown in communication networks, destruction of infrastructure and mass displacement of the people, hampered productive activities, new private investment and low public investment. There was low revenue performance and difficulty in grassroots level income transfer activities. All these factors have affected the economy.

DEVELOPMENT INITIATIVES IN CONFLICT-AFFECTED AREAS

Besides its effect on the economic performance, the conflict also forced the government to initiate new policies and programmes in the middle of the Plan period. These initiations were made to smoothly carry out the development activities and provide better service delivery, particularly in the conflict areas.

As the insurgency affected infrastructure construction and service delivery in the conflict-affected areas, the government decided to initiate a programme that took development and security together - continuing development activities under the protection of the security forces. This programme was called the Integrated Security and Development Programme and was launched initially as a pilot programme in five conflict affected districts of Gorkha, Rukum, Rolpa, Salyan and Pyuthan. The programme was later extended to 11 other districts, including some in the central and eastern hilly districts. Security agencies were involved in implementing and protecting the identified programmes. Respective departments and ministries were instructed to ensure that all the vacant positions in the districts were filled. Strategic infrastructure programmes, such as roads, irrigation structures, drinking water schemes, educational and health-related activities, income and employment generating activities, were identified under the programme to be implemented in the conflict-affected districts. Priority was given to budget allocation, and quick disbursement of the budget was ensured. A central programme approval and monitoring committee along with district level monitoring and supervision committees were formed to ensure the success of the programme. Nominal budget was also sanctioned to carry out programmes relating to the maintenance of school buildings

and health offices, irrigation and drinking water projects to win the hearts of the local people by improving service delivery.

As most of the conflict areas of the Mid-western Region were remote and inaccessible, decisions were taken to involve the security forces in the construction of strategic roads, linking the remote mountain district headquarters with the southern plains. The rationale was that with the construction of roads, new economic opportunities would be created, generating employment opportunities that would provide income to the people. Secondly, with the construction of roads, other development activities would follow. A number of inter-district roads, such as Surkhet - Jumla, Manma - Kalikot, Chhinchu - Jajarkot, Sitalpati - Musikot - Salyan, Salyan - Dhorpatan - Baglung, Devasthal - Karendanda - Chourjhari, Jajarkot - Dunai (Dolpa) were initiated in the Mid-western Region alone. Besides, a number of inter-district roads in other parts of the country were also taken up.

The frequent absence of government officials in the conflict districts had badly affected the implementation of development activities. Thus, to better prioritise the programmes, a local level committee under the chairmanship of the DDC was formed and authorised to allocate budget to the identified programmes and implement them. A monitoring committee was also formed with the respective district parliamentarians serving as coordinators to supervise development activities in the districts. The initiation has opened the door for full scale devolution of government tasks to the local bodies in the subsequent years.

A host of other programmes relating to poverty, income transfer and safeguarding industrial districts have been initiated to minimise the threat of the insurgency and safeguarding the lives of the people. Besides these initiatives, policy initiations were also made to strengthen the fiscal and budgetary management of the country. A Mid-Term Budget Review and Medium-Term Expenditure Framework were initiated to better prioritise projects and programmes and to ensure timely completion by guaranteeing resources to high priority projects. Measures were also taken to improve the government revenue situation. The Poverty Alleviation Fund was instituted to coordinate and channel funds to activities related to poverty reduction. The National Development Volunteer System was introduced to provide technical support to the VDCs and DDCs in carrying out a host of development activities and social sector programmes, including education, health and population, and mass awareness. The volunteer service has fulfilled the shortage of technical personnel, mostly in the conflict affected districts.

Some of the schools, primary health care system, agriculture and livestock extension services, small irrigation and drinking water schemes and rural roads have been handed over to the local bodies and community to improve the service delivery system affected directly by the conflict situation.

REHABILITATION AND COMMUNITY PARTICIPATION

The most challenging task before the government is the reconstruction of social and economic infrastructure destroyed by the violent activities and rehabilitation of the conflict victims by carrying out various income generating programmes. The government has launched a project of reconstruction and rehabilitation by allocating a reasonable amount in the annual budget. Under this programme, different roads have been constructed and upgraded. Based on the demand from the local community, many destroyed and damaged physical infrastructure projects have been reconstructed and rehabilitated. In this respect, initiative was taken to reconstruct the physical infrastructure destroyed in the district headquarters of Palpa, Bhojpur and Dhankuta. Likewise, other local infrastructure, such as government buildings, telephone towers, drinking water projects, electricity, roads, bridges, and community buildings were also reconstructed. The fund allocated under this project was also spent in the construction of the Armed Police Hospital, and the expansion of the Birendra Police Hospital. The Professional Training Centre of the Nepal Army was also built.

Furthermore, 160 children orphaned by the conflict were rehabilitated in Banke and Kailali districts. Camps have been established in selected places across the country to rehabilitate internally displaced families due to the conflict. Former insurgents are also being rehabilitated. Besides shelter in the specially guarded camps, they are provided food and other amenities. Literacy-cum-training programmes are also conducted in these camps to provide minimum skills. Arrangements are also being made to send the ex-insurgents home should they desire.

In a bid to provide local employment and income at the grassroots level, construction activities, mainly roads connecting the district headquarters have been carried out - with or without direct supervision and security protection - with community participation.

In 2005/06, the estimated revised expenditure in the reconstruction and rehabilitation programme was NRs. 251 million, and for 2006/07, NRs. 1.10 billion has been set aside for the purpose.

Poverty Monitoring

The government has been institutionalizing the Poverty Monitoring and Analysis System (PMAS) framework for the last four years. During this period, household survey system has been streamlined, processes had been initiated to strengthen management information systems, particularly the Education Management Information System (EMIS), a draft version of participatory poverty monitoring (PPM) mechanism has been drafted, district poverty monitoring and analysis system (DPMAS) has been prepared and is in the process of institutionalization. Similarly, efforts have been made to institutionalize management for development results (MfDR) practices in the government systems. In addition, some measures have been adopted to enhance capacities of the concerned staff at the central and regional level.

The household survey system has been streamlined and realigned in a way that supports the PRSP monitoring. In this process, the Nepal Demographic and Health Survey (NDHS) has been conducted in 2006 by using refined demographic and health indicators. The Survey also captures key education indicators as well. Unlike the previous NDHS processes, National Planning Commission (NPC) and the Central Bureau of Statistics (CBS) were heavily involved in NDHS 2006. The Steering Committee was chaired by a NPC member and NPC and CBS representatives participated in the Steering and Technical Committees, among others. In addition, the Ministry of Health and Population coordinated and facilitated the NDHS process involving relevant personnel and experts. These all have contributed to enhance capacities within the government systems in demanding for, facilitating in and understanding about this important survey.

The government is also committed to improve the reliability and credibility of Management Information System (MIS) and administrative data for tracking indicators of the PRSP. In this process, strengthening of the EMIS has already been initiated. The Ministry of Education and Sports has already decided to up-load all EMIS data including the raw data in the web. It has been envisaged that this will

contribute to ensure transparency of the monitoring systems and acts as one of the measures to crosscheck the EMIS data. Moreover, the ministry has also decided to capture the information and data of all schools including the private schools. Further, it has initiated a process to refine the EMIS questionnaire and format in order to avoid duplication with other information systems under the ministry, especially the Teachers Management Information System (TMIS).

The purpose of DPMAS is to support the district level planning processes and get feedback at the central level. The DPMAS, among others include indicators to track intermediate output and outcomes as well. It has made mandatory that all line agencies and other local level development actors report to the DDCs in a periodic basis. The DDCs will establish/strengthen the “District Information and Documentation Centres” and record and process all the data and information received in the district. National Planning Commission and Ministry of Local Development are expected to support the DDCs by providing technical backstopping to institutionalize the system. Such technical supports include capacity building to the staff and providing equipments such as computers, printers etc. DPMAS was extensively used while identifying indicators for preparing district MDG progress reports.

In addition, as the other sub-set of the PMAS, a Participatory Poverty Monitoring (PPM) mechanism has been drafted to complement the quantitative data generated from household surveys, administrative records and MISs. The PPM was developed based on consultation with and suggestions from different stakeholders. It has included two participatory tools namely, Participatory Poverty Assessment (PPA) and the Citizen Report Card (CRC). PPA provides participatory information and feedbacks for planning processes and the CRC is envisaged to use in acquiring people’s perception in quality services delivery and also use as a measure to enhance accountability. The PPM has been piloted in two districts (Gorkha and Saptari) this year. This piloting exercise used citizen report card as a tool to capture people’s perception on the delivery of education, health, agriculture extension, livestock and drinking water and sanitation services. Since the piloting covered only some villages in two districts, it is not appropriate to generalize the findings of the study. However, the findings has questioned the presumptions regarding the accessibility, quality and equity aspects of the service delivery at the local levels.

Nepal has adopted a Results-based Management (RBM) approach to improve development effectiveness. RBM is a management tool that provides a coherent framework for planning, implementing, monitoring and learning by shifting attention from inputs and activities to results and impacts. It emphasises effective service delivery, transparency and participation. Simultaneously, it builds on clarity of goals and objectives; systems aiming to provide measures of performance and results; a learning culture grounded in evaluation; beneficiary participation at all stages of programme design and implementation; clear accountabilities in a decentralised framework; and links between planning, resource allocation and results.

The institutionalisation of RBM in different levels of the government demands capacity and also learning culture of result orientation in each process of development. The government is focusing on developing capacities of concerned officials both at the central and the district levels. Moreover, efforts have been made to refine and update results matrix of the PRSP and the PMAS while developing the PRSP sectoral business plans. Further, efforts have already been initiated to institutionalise RBM at some sectoral ministries and also in the districts where DPMAS is planned to be piloted at the first phase.

Resource Needs and Aid Harmonisation

RESOURCE NEEDS AND AID UTILISATION

The PRSP/Tenth Plan has projected the financial needs and sources of financing required for the Plan period. The PRSP has estimated that out of the total development expenditure, 67.1 per cent and 57.5 per cent will be borne by external assistance in the lower growth target and normal growth target scenario, respectively. The rest will be borne through domestic resources. Similarly, the recently published MDG Needs Assessment for Nepal Report has estimated that the total public sector investment required for achieving the MDGs and rural infrastructure targets is NRs. 884.9 billion (US\$ 12.6 billion) at 2004/05 prices. Out of this, NRs. 332.9 billion (US\$ 4.8 billion) is to be met through domestic resources, and the remaining NRs. 552.1 billion (US\$ 7.9 billion) is to be mobilised through external sources. The financing gap of US\$ 7.9 billion implies almost doubling of the present level of foreign assistance. Furthermore, the 10-year conflict has damaged a lot of infrastructure which must be reconstructed to normalise the service delivery of the government and to create an investment friendly climate. Against this backdrop, foreign aid has to be increased not only in the social sectors but also in the reconstruction and rehabilitation sectors.

During the first four years of the PRSP/Tenth Plan, the GDP grew, on an average, by 3.3 per cent, which was 1 per cent less than the PRS “lower case” target of 4.3 per cent. Moreover, government spending on development was also 10.1 per cent less than the target. However, revenue rose significantly during the first three years of the PRSP, but in the fourth year, the growth in revenue was small. Much of the increase went into financing the salary of government employees and security expenditure.

In 2005/06, total foreign assistance made up about 58.48 per cent of the total allocation for development programmes. Of this, foreign grants comprised 59.45 per cent and loans 40.55 per cent (Table 12.1). The growth rate of foreign grants is higher than the growth of foreign loans during the

first four years of the PRSP. The foreign aid commitment increased in 2004/05 by 60.7 per cent compared to 2003/04. Similarly, in 2004/05, aid utilisation increased by 25.1 per cent compared to 2003/04. However, the utilisation level of foreign aid compared to the commitment is low. Moreover, the low absorption capacity of available foreign aid, especially after the escalation of the conflict, and slow disbursement in externally funded projects have reduced the mobilisation of foreign aid during the PRS period.

Table 12.1 Summary of income and expenditure (Rs. '000)

	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Actual	2005/06 Actual	2006/07 Budget
Total expenditure	79,835,097	80,072,290	84,006,081	89,442,593	102,560,471	112,074,700	143,912,300
Regular	42,769,195	48,590,047	54,973,061	58,451,621	65,832,067	72,364,342	79,635,342
Development	37,065,902	31,482,243	29,033,019	30,990,971	36,728,404	39,710,358	64,276,958
Financing sources (Excluding domestic borrowings)							
Revenue	48,893,561	50,445,491	56,229,790	62,331,027	70,122,742	73,500,000	85,375,800
Foreign grant	6,753,425	6,686,139	11,339,146	11,283,395	14,391,170	13,807,900	23,728,600
Foreign loan	12,044,026	7,698,708	4,546,423	7,628,998	9,266,129	9,416,600	16,907,900

Source: FCGO and Budget Speech, 2006/07

INITIATIVES FOR EFFECTIVE AID UTILISATION AND AID HARMONISATION

The MTEF has provided a credible framework for development partners to support the development endeavour of Nepal. In the two NDFs, 2002 and 2004, the government expressed its interest in aid harmonisation. At NDF 2004, the government presented a plan to rationalise aid with a three-tiered harmonisation framework. They are: a) overall alignment of aid with government strategies and priorities b) harmonisation at the level of sectoral programmes and c) financial harmonisation, including a shift towards more programmatic support from development partners endorsed government's reform agenda based upon the policies and programmes of the PRSP.

In the area of aid harmonisation and making aid more effective, the Paris Declaration has been taken as an instrument. It has helped to change aid practices and to advance the contribution of development assistance to national development goals. In relation to ownership, alignment, harmonisation, managing development results and mutual accountability, the five principles of the Paris Declaration, Nepal has made some progress in

fulfilling its commitment to it. To increase ownership of foreign aid, Nepal has prepared the PRSP, IAP, MTEF, sectoral Business Plans, and Foreign Aid Policy and conducted Nepal Development Forum Meetings.

In a bid to align the donor system with the national system a new Public Procurement Law has been drafted which has incorporated some best practices of international standard in procurement. Similarly, a Country Assistance Strategy has been prepared by various development partners to align donors' priority with those of Nepal. There are several programmes in selected sectors that have common operational and financial modalities and are jointly funded through external support. Two SWAPs are underway in the education and health sectors, and common financing and project operation modalities are being prepared in the water supply and local development sectors. These activities are expected to better align aid with national priorities, systems and processes and help reduce reporting and other transaction costs.

To coordinate and harmonise aid at the programme, sectoral and financial management levels, and to manage development results, Nepal has been conducting joint portfolio performance review meetings and monitoring and evaluation of programmes and projects at all levels. PRS monitoring and a performance-based budget release system for P1 projects have also been introduced. Moreover, to increase mutual accountability, consultation with the civil society in the formulation of policies is encouraged.

However, to implement the Paris Declaration, a systematic programme is needed to localise aid effectiveness commitments, developing national action plans, setting baselines and introducing more effective monitoring systems. Moreover, country ownership is the fundamental principle for improved aid effectiveness, and a stronger government capacity is a precondition for effective country leadership of the development process.

Conclusions

The present report is the fourth in the annual performance review of the PRSP/Tenth plan. As noted earlier, implementation of the PRSP/Tenth Plan began in 2002/03 in troubled times - amidst an extremely adverse political and economic environment in the country. Although some positive development has been noticed by people at large, in terms of MTEF and expenditure prioritisation, the formulation of some sectoral Business Plans clearly charts the course of its priority and the strategy to achieve it. However, the fluid political situation has constrained the development of the country. The less than favourable external situation, particularly due to market contraction for garments and the increasing prices of products in the international market, an uncertain domestic business environment caused by frequent *bandhs*, harassment of the business community, forced closure of manufacturing establishments and labour unrests have had serious ramifications on the overall performance of the economy.

The absence of an elected local body and the fluid security situation constrain development activities at the grassroots level, resulting in low development budget expenditures and a weak service delivery. This has resulted in contraction of business activities and mass migration to the urban centres. In this context, rescuing the economy from this difficult situation and sustaining the gains to achieve the socio-economic targets as outlined in the PRSP document are a major challenge.

Bandhs and strikes escalated and foreign assistance, mainly from the bilateral development partners have been suspended. Some have even pulled out their assistance from the high priority project such as the Melamchi Drinking Water Project, making it's future uncertain. The weak revenue performance and the suspension of foreign assistance have resulted in a chaotic situation on the resource front. This has affected the development expenditure and constrained regular/recurrent expenditures.

During the review period, some initiation was taken in governance reform through an ordinance. However, it has never materialised. Similarly an Immediate Action Plan was implemented to boost the economy. Considering the high international price, prices of petroleum products were adjusted upwards to contain the loss of Nepal Oil Corporation. Attempts were made to increase revenue and external assistance, but in vain.

It is now more than clear that Nepal needs peace and political stability to sustain the reduction in the level of poverty and achieve social sector development. Attainment of the MDGs requires scaling up of resources and priority allocations in the respective sectors. Devolution of more tasks and functions to the local bodies and communities is needed for effective service delivery at the grassroots level. Governance reform is needed for more transparency in the functioning of the government and containing corruption.

REFERENCES

- CBS.(1996). Nepal Living Standards Survey 1995/96. Kathmandu: Central Bureau of Statistics.
- _____(2004). Nepal Living Standards Survey 2003/04. Kathmandu: Central Bureau of Statistics.
- _____(2005_a). Poverty Trends in Nepal (1995/96-2003/04). Kathmandu: Central Bureau of Statistics.
- _____(2006). National Accounts. May, 2006.
- CIAA.(2006). Annual Progress Report.
- DOE. (2005). Status Report of BPEP II and Education for All. Bhaktapur: Department of Education.
- GoN. (2006). Reports on Annual Targets and Achievements of the Programmes Launched by Different Ministries.
- IMF. (2006). Nepal : Poverty Reduction Strategy Paper, Annual Progress Report.
- Ligal *et al.* (2004). Diversification of Health Services.
- Ligal *et al.* (2006), Fiscal Decentralisation in Nepal : Status and Way Forward, DASU/DANIDA.
- MOAC. (2006). Annual Progress Report.
- MOES. (2006). Education Management Information System. Kathmandu: MOES.
- MOF. (2006). Annual Budget (Red Book). Kathmandu: MOF.
- _____(2006). Economic Survey. Kathmandu: MOF.
- MOHP. (2006). Health Management Information System. Kathmandu: MOHP.
- MOPPW. (2006). Annual Progress Review.
- NPC/Bhaktapur DDC/UNDP. (2006). Bhaktapur Millennium Development Goals Progress Report, Kathmandu: NPC/Bhaktapur DDC/UNDP
- NPC. (2002). Tenth Plan. Kathmandu: NPC.
- _____(2003_a). Poverty Reduction Strategy Paper. Kathmandu: NPC.
- _____(2003_b). Medium-Term Expenditure Framework. Kathmandu: NPC.
- _____(2004_a). Medium-Term Expenditure Framework. Kathmandu: NPC.
- _____(2004_b). First PRSP Progress Report. Kathmandu: NPC.

- ____ (2004_q). Poverty Monitoring and Analysis Framework. NPC.
- ____ (2005_p). Assessment of Delivery of Government Services, Kathmandu: NPC.
- ____ (2005_g). District Poverty Monitoring and Analysis Framework. Kathmandu: NPC.
- ____ (2006). Medium-Term Expenditure Framework. Kathmandu: NPC.
- ____ (2006). PRSP Progress Report (2004/05). Kathmandu: NPC.
- NPC/Rupandehi DDC/UNDP (2006). A Needs Assessment Study on Attaining the MDGs in Rupandehi District, Kathmandu: NPC/Rupandehi DDC/UNDP.
- NPC/UN Country Team. (2005). Nepal Millennium Development Goals Progress Report. Kathmandu: National Planning Commission / United Nations Country Team, Nepal.
- NPC/UNDP. (2006). MDGs Needs Assessment for Nepal, Kathmandu: NPC/UNDP.
- NRB. (2005). Macroeconomic Indicators. Kathmandu: Nepal Rastra Bank.
- Pokharel *et al*, (2005), Decentralisation and Sector Devolution in Nepal.
- RWSSFDB. (2005). Annual Progress Report.
- UNDP. (2005). Human Development Report. New York United Nations Development Programme.
- WB (2004). Nepal Development Policy Review: Restarting Growth and Poverty Reduction. Washington DC: The World Bank.
- WB/IMF. (2006). Global Monitoring Report 2006: Strengthening Mutual Accountability-Aid, Trade and Governance.

ANNEXES

Annex 1

Poverty Monitoring Key Indicators

Sector/ Theme	Outcome/Impact Indicators	Intermediate indicators	Fiscal Year				
			2001/02	2002/03	2003/04	2004/05	Progress up to July 15, 2006
Income/ Consumption Poverty	- Population below poverty line	- Percentage of population below poverty line	38	-	30.85	-	-
		- Share of poorest quintile in national consumption	-	-	7	-	-
		- Gini coefficient	0.341	-	0.414	-	-
Economic Growth	- Faster Economic Growth	- Overall GDP growth (real) % p.a.	-0.6	3.2	3.5	2.4	1.9
		- Agriculture (real) % p.a.	2.2	2.5	3.9	3.0	1.7
		- Non-agriculture (real) % p.a.	-1.9	3.2	3.1	2.1	2.8
		- Per capita income growth (real) % p.a.	-2.8	1.0	1.3	0.3	-0.25
Macro Economic Stability	- Fiscal Balance	- Revenue/GDP ratio (%)	11.9	12.3	12.6	13.5	12.4
		- Development Exp./Total Exp. ratio (%)	39.4	34.4	25.8	24.9	20.2
		- Development Exp./GDP ratio (%)	6.4	6.4	4.7	4.8	3.5
		- Domestic borrowing/GDP ratio (%)	3.6	2.6	1.7	1.6	2.8
		- Balance of payments	- Exports/GDP ratio (%)	11.1	11.0	10.7	11.0
		- Workers' remittances/GDP (%)	11.3	11.9	12.6	12.4	16.7
		- Gross reserves (Rs billion)	105.9	108.2	130.2	129.9	165.0
		- Current account balance (Rs. billion)	18.16	11.61	14.6	11.5	13.8
	- Monetary Stability	- Broad money growth (%) p.a.	4.5	9.8	11.8	12.0	15.6
		- Domestic credit growth (%) p.a.	10.4	10.2	9.5	14.2	7.9
- Inflation	- Consumer prices (%) p.a.	2.9	4.8	4.1	4.5	8.0	
- Efficiency of public spending	- Prioritization (P1, P2, P3) in place (%)	NS	P1=59 P2=33 P3=8	P1=72.5 P2=23.3 P3=4.2	P1=76.1 P2=21.2 P3=2.7	P1=79.2 P2=18.8 P3=1.9	
	- Budget release to P1 against allocation to P1 (%)	NS	73	91	100	100	
	- Trimesterly reporting of outputs for P1 projects done for every trimester	√	√	√	√	√	
	- Number of enterprises privatized/ liquidated	1	7	1	1	4	
				completed 8	completed 7	completed 5	
				underway	underway	underway	
	- Proportion of pro-poor spending to total spending (%)	-	-	-	31.1	55.33	
- Health of Financial Sector Institutions	- Capital adequacy ratio	12	11	11	11	11	
	- Non-performing assets ratio	30.4	28.8	22.7	18.7	14.1	
	- Completion of on-site inspection (number) of commercial banks						
	- Corporate Level	7	7	9	15	17	
	- Branch Level	30	26	24	9	76	

Cont'd...

Agriculture	- Food security	- Number of districts served by NFC	32	31	30	30	30
		- Quantity of food sold (mt.)	8,213	5,693	6,100	5882	7354
	- Overall	- Length of rural roads (km)	2,361	905	840	934	987
		- Agricultural growth					
		- Number of public market collection centers / market yards	31	33	750	-	33/853
		- Agricultural credit (ADB/N only ; Rs in million)	7,110	7,669	10,151	10432	12881
		- Area under irrigation (ha.)	937,722	985,546	1,128,000	1,012,732	1,017,198 [*]
	- Crop production	- Use of chemical fertilizer (mt.)	193,154	172,270	161,316	157077	127691
		- No. of functioning farmers groups	7,508	9,383	11,272	13118	13928
		- Improved seeds (mt.)	2,654	2,574	5,751	2824	3495
		- Number of pocket programs	1,897	1,967	1,967	2509	1556
		- Crop/horticulture credit (Rs million)	2,028	2,222	2,024	2031	1155 ⁺
	- Livestock production	- Number of livestock farmers' groups	6,623	6,954	6,965	7543	9822
		- Number of Artificially Inseminated (AI)	53,641	52,049	44,344	46434	73673
- Production of milk (mt.)		1,158,780	1,195,931	1,238,000	1,274,000	1,312,131	
- Numbers of pocket programs		455	455	807	816	851	
- Livestock credit (Rs. million)		1,570	1,634	1,597	1843	1323 ⁺	
	- Meat /Eag production	737,060	761,250	783,760	590,131	597,946	
Irrigation	- Area under year round irrigation	- Number and hectare of STW, DTW					
		STW	-/9,969	657/1,905	1,430/485	2397/7572	2906/9793
		DTW	-/29,586	44/1,592	58/320	10/385	16/596
		- Surface irrigation schemes with conjunctive use of STW/DTW (Number & ha.)	-	16/3,071	17/6,851	10/2556	46/751+
	- Area under year round irrigation (Hac.)	-	-	465,402	474,381	478,896	
	- Management transfer to WUAs.	-	-	-	-	-	
Power	- Number of rehabilitated and handed over schemes	5	50	-	29	-	
	- Percentage of population with electricity services.	584	606	609	613	611	
	- Percentage of system losses (%)	24.6	23.6	22.9	24.8	24.7	
	- Households electrified (%)	40	42	44	46	48	
- Increased Rural consumption	- Per capita rural electricity consumption (KWH)	-	-	-	-	30	
	- Number of VDCs covered	1,600	1,700	1800	1900	2000	
Forestry and Soil Conservation	- Area under intense forest coverage	- Area under community forest (ha)	1,028,473	1,062,823	-	1,170,896	1,187,184
		- Area under leasehold forest (ha.)	4,378	7,061	-	9,838	11,807
		- Number of households under leasehold forest	9,070	10,027	-	15,122	18,971
		- Area under national parks/ protected area (% of total land)	18	18.3	18.3	18.6	19.2
		- Area under forest cover including shrub land (%)	39.6	39.6	39.6	39.6	39.6
	- Income from forestry	- Income generated by FUGs (CFUGs only; Rs. in million)	129	124	-	NA	NA

^{*}Status of first eight months of the fiscal year.

⁺ Some diesel plants are closed.

+ Surface and ground water schemes.

Cont'd...

Industry, Trade and Tourism	- Expansion of industrial production	- Growth rate (%) p.a. - Industry	-2.9	2.2	1.8	0.7	2.5
		- Services	-1.3	3.1	4.2	2.1	3.0
		- Share in GDP - Industry	22.8	22.7	22.3	22.2	21.8
		- Services	38.2	38.4	38.7	39.76	40.00
	- Additional employment in SMEs	- Credit to industrial and services sectors	-	-	-	-	-
		- FDI (Rs million)	1,210	1,771	2,713	880	1886
		- Additional employment	3,731	3,572	2,128	5660	6805
		- Number of training course and trainees	-/14,272	139/13,61	118/13,25	566/9132	-/15,613
		- Number of industries registered	-	-	-	-	-
		- Total	9,890	55,225	96,035	8146	7,141
	- Trade Promotion	- Cottage & Small	-	5,116	5,958	8103	-
		- Medium & Large	-	109	77	43	-
		- Additional employment generated	-	-	-	83176	36,000
		- Average Tariff rates (%)	12.9	11.5	10.7	9.6	-
Labour	- Remittances	- Number of trade and industrial fairs	11	7	16	27	-
		- Number of Nepali workers employed overseas	104,739	105,055	106,000	1,39,696	177,576
Tourism	- Tourism Contribution	- Number of tourist arrivals	-	-	-	-	-
		- total	275,468	338,132	210,535 #	NA	NA
		- by air	218,660	275,438	167,413	131,210	121458
		- by road	56,808	62,694	41,322	NA	NA
		- Number of promotional activities outside Nepal	19	22	-	33	35
		- Number of seats available on international flights (per week)	7,994	6,884	-	50,214	54814
		- Length of stay of tourists (days)	12	7.9	9.5	13.5	9.1
		- Number of flights outside Kathmandu (per week)	-	70	-	113	947
		- Number of beds available outside Kathmandu	13,666	14,795	-	39,384	15240
		- Number of star hotels	104	108	108	110	110
		- Foreign exchange earning from tourism (Rs Million)	7,799	10,369	-	13,140	NA
Roads	- Increased road access	- Share of tourism in GDP	-	2.6	-	NA	NA
		- Number of district HQs connected	60	60	60	60	61
		- BOT projects (selected)	-	10	-	-	-
Environment	- Reduced transport costs	- Length of additional road constructed (km)	283	306	234	295	219
		- Environment Improvement	-	-	-	-	-
Environment	- Environment Improvement	- Proportion of traditional fuel in total energy use	87.4	87.4	86.8	86.6	86.7
		- Energy per capita use (Ton. of oil equivalent)	-	-	-	-	-

* Including non-star.

¹ Includes 67 km of rehabilitation road

Cont'd...

Decentralization	- Improved service delivery	- Number of service delivery facilities transferred to local bodies					
		- Agriculture extension (Districts)	-	75	75	75	75
		- Health facilities	-	468	1,114	1,303	1424
		- Rural roads	-	-	-	12,000	-
		- Primary and secondary schools	-	90	1,500	2,091	2,326
		- Number of local body officials trained	-	-	578	2,091	-
		- Number of districts completing and updating DPPs	-	52	52	52	52
		- Number of districts (DDC) with Citizen Charters	-	43	54	75	75
		- Proportion of conditional grant in total development budget (%)	-	-	-	40.79	57
		Information and Communication	- Telephone penetration per thousand inhabitants	- Private sector entry	-	1	2
- Number of new telephone lines	219,000			1,761	608,084	7,12,333	1346290
- Number of VDCs with telephone facility	1,761			422,183	1,959	2245	2386 (5.2% penetration)
- Access to radio/ TV services	-			-	-	-	-
Education	- Improved Access	- Coverage (% of population) radio and television services	90/50	90/60	90/62	100/65	100/65
		- Number of new television and radio providers (to increase intensity)					
		- Radio	-	30	56	56	56
		- Television	2	3	5	7	8
	- Quality of Education	- Number of primary schools	25,194	26,638	26,858	26,277	27,525
		- Net primary enrolment rate	81.1	82.4	84	87	87
		- Proportion of population more than 1/2 hours walk to primary schools	-	-	91.4	91.4	91.4
		- Number of certified teachers	NA	27,875	120,988	NA	229,489
		- Percentage of pupil completing primary level	60	67.7	69	78	78
		- Primary/secondary teachers trained (%)	15	15	31	35	45
- Secondary teachers trained (%)		-	46.2	48	50	65	
- Adult literacy (15+)	- Number of schools transferred to communities	-	90	1500	2091	2326	
	- Primary cycle completion	-	-	50.4	68	68	
	- Number of community learning centres	20	40	52	51	150	
	- Adult literacy rate	44	-	48	48	48	
- Female adult literacy (15+)	- Share of adult education expenditure in total education expenditure %	0.9	0.5	0.5	1.3	1.20	
	- Number of programs for women literacy (class)	1,400	1,600	1,745	38,974	42,474	
	- Adult female literacy rate	-	-	33.8	33.8	33.8	
	- Number of people completing adult education	23,942	26,733	39,262	183,000	249,500	

Cont'd...

	- Girls' enrolment	- Share of female teachers in primary schools (%)	21.4	22.1	21.1	30	31.1
		- Number of girl students receiving scholarships (pl)	151,568	120,742	224,656	635380	643982
		- Schools having separate latrines for girls	7,613	9,741	10,633	11341	NA
Health	- Access to health	- Number of primary health centers, health posts, sub-health post and district hospitals	4,429	4,408	4,401	4,401	4,375
		- Number of sub-health posts transferred	-	468	1,114	1,303	1,424
		- Proportion of population within 30 minutes walk to health facilities/ outreach clinics (National Average)	-	-	62	62	62 #
	- Improved Quality	- Expenditure on medicine for health centers (Rs.)	80,000	80,000	80,000	75,000	-
		- Number of health facilities where 15 of the most essential drugs are available	-	1568	-	4,012	4,012 *
	- Infant mortality rate	- Percentage of women receiving at least 4 ANC visits	37.9	36.8	43.6	44.1	44.1
		- Percentage of women receiving adequate PNC visits	14.4	18.8	28.3	30.4	30.4
		- Infant mortality rate(per thousand live births)	64	-	-	-	51+
	- Child mortality rate	- Percentage of one year olds receiving DPT3 against target diseases	80.3	86.2	90.3	80	80.0
		- Child mortality rate (Per thousand)	91	-	-	-	66+
	- Maternal mortality rate	- Percentage of births by skilled attendants	15	16.1	18.0	20.2	20.20
	- Improvement in General Health	- National health expenditure/per capita	1102	1251	1,351	-	-
		- Number of health centres, PHC and hospitals upgraded.	4	1	-	4	31
	- Reduced population growth	- Condom use by 15-49 year olds	3.2	2.2	2.4	2.31	20.31
		- Contraceptive prevalence rate	38.9	37.8	40.02	41.73	41.3
	- Incidence of TB/ Malaria	- Number of TB and Malaria cases detection and treatment					
		- TB - Detection	-	-	-	70	70
		- TB - Treatment	-	-	-	88	88
		- Mal. (per 10,000 population) - Detection	5.73	5.23	3.30	NA	NA
		- Mal. (per 10,000 population) - Treatment	4.41	5.20	3.20	NA	NA
	- Incidence of anemic cases	- Proportion of malnourished	15.4	14	12.8	10.5	11
		- Percentage of pregnant women receiving iron tablets	57	68	88	84.3	84.3
Drinking Water and Sanitation	- Access to safe and sustainable drinking water	- Proportion of population served with access to safe drinking water	71.6	72.8	73	74.8	76.9
		- Proportion of unaccounted for water (%)	40	38	-	-	-
	- Incidence of water-borne and water washed diseases	- Proportion of households with sanitation facilities %	20	26.2	39	46.3	46.3

* PHC = 186, HP = 697 and SHP = 3129

+ DHS 2006, Preliminary report. # Urban 89 and Rural 57

Cont'd...

Social Inclusion and Targeted programs	- HDI of Far-West and Mid-West development regions	- Budget allocation for Far west/ Mid west regions (Rs. million)	5,013.3	3,869.5	4,368.1	5,694.3	6,468.2
		- Grants allocation to DDCs bodies on poverty based formula (Rs in million)	810	810	842.5	810	1010
	- Access to education of women, Dalits and Janajatis	- Number of districts covered by PAF	-	-	6	6	25
		- Number of Women, Dalits, Janajatis benefited from scholarships and training	-	-	-	3,474	-
		- Number Women, Dalits and Janajatis receiving scholarships for higher education					
		- Women	403	403	-	-	-
		- Dalits	-	-	-	-	-
		- Janajatis	-	-	-	-	-
		- Ratio of girls to boys in primary levels	-	-	-	-	-
	- Proportion of women, Dalits and Janajatis in political activities and public positions	- Number of women, Dalits and Janajatis in teaching	-	-	-	-	-
		- Number of Women, Dalits and Janajatis in civil service					
		- Women	8,008	8,042	-	-	-
		- Dalits	-	-	-	-	-
		- Janajatis	-	-	-	-	-
Governance							
Civil Service Reform	- Rightsizing bureaucracy	- Number of positions abolished	-	7000	7160	7344	7344
	- Percentage of women, ethnic and disadvantaged groups in civil service	- Number of applications from women, ethnic and disadvantaged groups:					
		- Women	21,247	25,174	16,014	22,310	-
		- Dalits	135	1,028	810	991	-
		- Janajatis	3,199	29,030	21,423	-	-
Anti-corruption	- Corruption cases reduced	- Number of corruption cases: Registered/filed					
		- Adjudicated	61	147	98	113	114
		- Convicted (fully)	-	55	129	106	109
		- Convicted (partially)	-	43	120	97	-
Human Rights	- Reduced human rights violations	- Number of human rights complaints filed/registered.	-	483	1,083	1,782	2,331

Poverty Monitoring Key Indicators - PMAS-I

Annex 2

Public investment requirements; available government resources under the reduced security expenditure scenario and the financing gap (2005-2015) (Rs. million)

MDG Sector	2005			2010			2015			2005-2015		
	Public investment requirement	Government resources	Financing gap	Public investment requirement	Government resources	Financing gap	Public investment requirement	Government resources	Financing gap	Public investment requirement	Government resources	Financing gap
Hunger	13,244	2,429	10,816	20,450	2,840	17,610	28,696	3,505	25,191	227,185	32,003	195,182
Education	19,509	11,172	8,338	25,827	13,063	12,764	34,833	16,124	18,709	289,655	147,213	142,443
Gender	410	235	176	1,646	275	1,372	2,258	3,39	1,919	17,964	3,094	14,870
Health	8,827	4,048	4,780	13,254	4,733	8,521	17,709	5,842	11,867	146,240	53,338	92,902
Drinking water and sanitation	6,838	1,255	5,583	9,522	1,467	8,055	12,639	1,811	10,828	105,530	16,535	88,995
Rural transport and electrification	7,820	1,133	6,687	9,021	1,325	7,696	8,877	1,636	7,242	98,370	14,935	83,436
Total	56,650	20,271	36,379	79,721	23,703	56,018	105,013	29,257	75,756	884,943	267,116	617,827
Total (US\$ million)	809	290	520	1,139	339	800	1,500	418	1,082	12,642	2,553	8,826

Source: NPC/UNDP, 2004

Annex 3

List of Targeted Projects/Programmes 2003/04 - 2005/06

Projects/programmes	2005/06 Budget		2004/05 Revised expenditure		2003/04 Actual expenditure	
	Priority code	Amount	Priority code	Amount	Priority code	Amount
Nepal Food Corporation	P1	260000	P1	209923	P1	188900
Goitre Control Project	P1	70000	P1	50000	P1	50000
Karnali Zone Agriculture Development Project	P1	25525	P1	73149	P1	63875
Rehabilitation Programme - Ganeshman Singh Peace Campaign	P1	55000	P1	167932	P1	76097
Land Reform Programme and Rehabilitation of Freed Bonded Labour	P1	61299	P1	11501	P1	7805
Women Empowerment Programme	P1	3684	P1	21332	P1	2249
Social Welfare Programme Including Senior Citizen Health Programme	P1	7853	P1	7482	P1	4615
Special Area Development Programme	P1	40000	P1	46826	P1	24968
Jagariti - Women Income Generation Programme			P2	40066	P2	47408
National Federation of Disabled Nepal - including Association of Disabled	P1	2900	P3	2469	P1	2877
Child Welfare Programme	P1	6612	P1	5012	P1	30
Women Development Programme	P1	176115	P1	86440	P1	12135
Forestry Programme for Livelihood	P1	55810	P1	64784	P1	108497
Institutional Development for National Volunteer Services	P1	50200	P1	19132	P1	136
Targeted Group Upliftment Development Committee	P1	21700	P1	21250	P1	11167
Tribal/Racial Upliftment, Including Praja	P1	33000			P1	21267
Woollen Carpet Child Labour Elimination and Child Labour Reform Project	P2	84750	P3	3156	P3	2449
Western Tarai Poverty Alleviation Project	P1	16543	P1	81395	P1	81432
Western High Hill Region Poverty Alleviation Project	P1	84186	P1	48211	P1	36563
Rural Micro Credit Project Under Privileged Group Special Programme - Women, Tribal and Dalit	P1	335800	P1	185200	P1	0
Poverty Alleviation Fund		40000	P1	40975		
			P1	83246	P1	150

cont'd...

Gender Equality and Women Empowerment Programme	P2	36000			P2	0
Drug Abuse Control Master Plan	P2	6785	P2	5476	P2	4718
Women Development Programme	P2	36876	P2	8209	P2	92705
Women Skill Development Programme	P2	3000	P2	4457	P2	3628
Food For Education Programme - Primary School Nutritious Food	P2	776216	P2	534552	P2	380901
Monastery Management and Development Commission	P2	10000	P2	7490		
Remote and Special Area Development Programme	P2	138700	P2	117760	P2	121040
Decentralised Action Plan for Children and Women	P2	215717	P2	161772	P2	146225
Sports, Youth and Extra Activities	P3	11500	P3	2429	P3	1638
Women Education					P1	126092
National Scholarship Programme					P1	79661
Free Text Books					P1	265014
Poverty Alleviation Fund Immediate Relief Programme for Conflict Affected Child	P1	6000				
Women Self Reliance and SNIP Programme			P2	9535		
Fellowship for Exploited, Dalit and Children of Martyrs including Fund for Girl Education			P2	55974		
	Number	Amount	Number	Amount	Number	
Amount	P1	21	1860326	18	1223790	22
1163530	P2	9	1308044	10	945291	8
796625	P3	1	11500	3	8054	2
4087						
Total	31	3179870	31	2177135	32	1964242

Source: MOF, Red Book, 2006/07

Progress in Millenium Development Goals in Bhaktapur District

A recent study on the performance of MDGs at the Bhaktapur district shows some interesting results. The MDGs progress report of Bhaktapur district shows some encouraging sign of achieving most of the MDGs target in the district by 2015. In most of the indicators, the district is already close to the target. The following table summarises the status of the district as of 2006 vis a vis the MDGs target of 2015.

S.N.	Goals/Indicators	1990	2000	2005	2015 Target
Goal 1 Eradicate Poverty and Hunger					
Target					
1	Percentage of population below \$1 per day (PPP value)	NA	NA	NA	
2	Percentage of population below national poverty line	NA	NA	8.8	
3	Poverty Gap	NA	NA	0.06	
Target 2					
1	Percentage of underweight children aged 6 to 59 months (> -2S.D)	NA	NA	1.3	
2	Percentage of stunted children aged 6 to 59 months (> -2S.D)	44.4	1.3		
3	Percentage of population below minimum level of dietary energy consumption	NA	NA	NA	
Goal 2 Achieve Universal Primary Education					
Target 3					
1	Net enrollment rate in primary education (%)	71.02	88.2	91.5	100
2	Proportion of pupil that start grade and reach grade 5 (%)	NA	NA	NA	100
3	Literacy rate of 15 to 24 years olds (%)	NA	86.0	84.8	100
				94.6	
Goal 3 Promote Gender Equality and Empower Women					
Target 4					
1	Ratio of girls to boys at primary level	0.89	0.96	0.97	1
2	Ratio of girls to boys at secondary level	0.55	0.86	0.88	1
3	Ratio of women to men at tertiary level	NA	NA	NA	1
4	Ratio of literate women to men from 15-24 years old (%)	NA	0.89	0.99	1
5	Share of women in wage employment in the nonagricultural sector (%)	NA	27.4	37.59	0.5
6	Proportion of seats held by women in the house of representative	0	0	0	0.5
Goal 4 Reduce child Mortality					
Target 5					
1	IMR (per 1000)	NA	80	61.5	34
2	U5MR	NA	102.3	24.1	12
3	Proportion of one year olds immunized against Measles	86.7	83.5	90.5	>95
				63.8	
Goal 5 Improve Maternal Health					
Target 6					
1	Maternal Mortality Ratio (MMR) per 10000 births	539	415	NA	215
2	Percentage of deliveries attended by trained health workers (Doctors, Nurses and Auxiliary, Nurse Midwives)	3.92	6.27	13.7	60
3	Contraceptive Prevalence	43.4	71.1	67.9	80

cont'd...

Goal 6 Combat HIV AIDS, malaria and other diseases				
Target 7				
1	HIV prevalence among 15 to 49 years of age (%)	NA	0.29	0.5
2	CPR including condom use (%)	43.4	73.1	67.9
Target 8				
1	Prevalence rate associated with Malaria (No of cases per 100000 people per risk)	NA	NA	None
2	Proportion of population in malaria risk areas using effective malaria prevention measures	NA	NA	None
3	Slide positive rate (SPR)	NA	NA	None
Goal 7 Ensure Environmental sustainability				
Target 9				
1	Area under forest (%)	14.41	14.41	14.41
2	Area protected to maintain biological diversity (sq km)	0	0	0
3	Energy use per unit of GDP (TOE/mRs)	NA	NA	NA
4	Proportion of population using wood as their main fuel (%)	64.2	25.07	48.8
5	Commercial energy/GDP (TOE/mRs)	NA	NA	NA
Target 10				
1	Proportion of population with sustainable access to an improved water source (%)	NA	82.4	67.1
	Rural	NA	34.8	85.5
	Urban	NA	86.7	51.2
2	Proportion of population with sustainable access to an improved sanitation (%)	NA	NA	NA
	Rural	NA	NA	NA
	Urban	NA	NA	NA

Source: NPC/UNDP, 2006.

Annex 5

Resource Estimation for MDGs Components in Rupandehi District (2006-2015)

The implementation of MDGs interventions in Rupandehi district would require a total allocation of NRs 35.75 billion over the 10 years period beginning 2006 to 2015. The highest share amounting to NRs. 12.95 billion is estimated for education followed by NRs. 9.2 billion for poverty and hunger. The table below estimates the resource requirements by sector in the district for attaining MDGs.

Sector/Goals	2006	2010	2015	Total (2006-2015)
Hunger	636,240	887,097	1,241,947	9,280,499
Education	787,392	1,192,328	1,933,631	12,955,837
Gender	15,264	47,085	58,445	462,008
Child Health	24,224	57,854	124,431	679,480
Maternal Health	86,468	105,114	139,581	1,104,018
Malaria Treatment	33	38	43	383
Malaria Prevention	2,756	3,357	4,174	34,474
Health system	185,276	248,090	326,722	2,559,680
Drinking Water and Sanitation	247,243	347,457	474,925	3,609,170
Infrastructure	512,166	558,868	632,502	5,744,366
Cumulative Total	2,474,845	3,391,443	4,813,984	35,750,435

Source: NPC/UNDP, 2006.

Annex 6

Public investment requirements, available government resources under the current pattern of allocation and the financing gap (2005-2015) (Rs. million)

MDG Sector	2005			2010			2015			2005-2015		
	Public investment requirement	Government resources	Financing gap	Public investment requirement	Government resources	Financing gap	Public investment requirement	Government resources	Financing gap	Public investment requirement	Government resources	Financing gap
Hunger	13,244	2,429	10,816	20,450	2,840	16,380	28,696	5,608	23,088	227,185	44,592	182,593
Education	19,509	11,172	8,338	25,827	13,063	11,534	34,833	18,227	16,606	289,655	159,802	129,853
Health	8,827	4,048	4,780	13,254	5,964	7,290	17,709	7,945	9,764	146,240	65,927	80,313
Gender	410	235	176	1,646	492	1,154	2,258	876	1,382	17,964	5,725	12,238
Drinking water and sanitation	6,838	1,255	5,583	9,522	2,717	6,805	12,639	3,938	8,701	105,530	29,321	76,208
Rural transport and electrification	7,820	1,133	6,687	9,021	2,556	6,465	8,877	3,739	5,139	98,370	27,524	70,846
Total	56,650	20,271	36,379	79,721	30,093	49,628	105,013	40,333	64,680	884,943	332,892	552,052
Total (US\$ million)	809	290	520	1,139	430	709	1,500	576	924	12,642	4,756	7,886

Source: NPC/UNDP, 2004