Poverty Reduction Strategy Process
and
National Development Strategies in Asia:
A Report to DFID

COUNTRY STUDY
NEPAL

Authors:
Jens Lerche
and
Tulasi Neopane

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Note:
This document is solely the responsibility of the authors.

Team Leader: John Weeks
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>APP</td>
<td>Agricultural Action Plan</td>
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<tr>
<td>CSO</td>
<td>Civil Society Organisation</td>
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<tr>
<td>HMGN</td>
<td>His Majesty’s Government of Nepal</td>
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<td>IAP</td>
<td>Immediate Action Plan</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>IPRSP</td>
<td>Interim Poverty reduction Strategy Paper</td>
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<tr>
<td>FY</td>
<td>Financial Year</td>
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<tr>
<td>M &amp; E</td>
<td>Monitoring and Evaluation</td>
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<tr>
<td>MoF</td>
<td>Ministry of Finance</td>
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<tr>
<td>MTEF</td>
<td>Medium term Economic Framework</td>
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<td>NGO</td>
<td>Non-Government Organisation</td>
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<td>NPC</td>
<td>National Planning Commission</td>
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<td>PMO</td>
<td>Prime Minister’s Office</td>
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<td>PRS</td>
<td>Poverty Reduction Strategy</td>
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<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
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<td>SWAp</td>
<td>Sector Wide Approach</td>
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<td>WB</td>
<td>World Bank</td>
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Executive Summary

Introduction

The overall objective of this study is to inform DFID about poverty reduction planning in Asia. The TOR state that the aim is

...[T]o inform DFID of the complementarities and contradictions between PRSP processes and existing National Development Strategies. It will assess whether the introduction of PRSP is enhancing poverty reduction processes and whether over the medium term the process of preparing, implementing, resourcing, and monitoring a PRSP is likely to lead to stronger, more pro-poor, more accountable national planning processes.

The study concentrates more on strategic and institutional issues than on the political background for poverty reduction planning. It also does not focus on aid instruments. Other studies commissioned by DFID will concentrate on these issues. In addition to Nepal, the study covers India and Vietnam.

Nepal is highly dependent on donors as they provide most of the funding for the development budget, and more than a quarter of the overall budget. Since 1996 Nepal has endured an internal conflict and the government is no longer in control of the countryside. After the breakdown of peace talks in August 2003 the conflict has escalated, with an increasing level of human rights abuses committed by the army as well as by the guerrilla. The democratically elected government was dismissed by the King in 2002 and no elections have taken place since then.

During the 1990s, Nepal to a large extent followed the trends in international development policy. A structural adjustment facility was agreed in 1987, and during the 1990s, reforms covered almost all sectors including fiscal and monetary policy, trade policy and fiscal reform policy. Long term sector planning was also introduced, primarily in agriculture with the 20 years Agricultural Perspective Plan of 1997, but also in parts of the education and health sectors. Importantly, a Medium Term Economic Framework (MTEF) was introduced in 2002, although only for the Plan budget (investment budget) in the first instance. Donors have supported these developments, financially and technically.

In 2001, HMGN decided that its forthcoming 10th Plan (2002-07) would also be its PRSP. The process of the preparation of the PRSP included the production of an IPRSP (2001) which formed the basis for the approach paper and the main document of the 10th Plan (2003). The Plan was abbreviated to form the PRSP, and agreed by government. A positive JSA was issued in October 2003, followed by a World Bank Poverty Reduction Support Credit in November 2003.

The government’s decision to prepare a PRS may be seen as a natural extension of its existing reform agenda. According to government officials, pull factors included the increased availability of donor funds. The increased level of conflict also made government increase its efforts to solve some of the underlying poverty-related issues, and a fiscal crisis in 2002 heightened the need for long-term
fiscal planning. Finally, the room for manoeuvre accorded to reform minded bureaucrats following the dissolution of Parliament in 2002 made the process easier.

In some ways the Plan is a break with the past but there are also continuities, e.g. in the area of donor dependency, participation, prioritisation of projects, conceptualisation of poverty, poverty focus and sector policies. The overall assessment of the PRS by most observers is that it is a good Plan document, following many best practice guidelines.

However, it is the assessment of this report that there are two main problems regarding the PRS: firstly, the extent to which it will be implemented. The intensified conflict between Government and the Maoist guerrillas, and the decay of local democratic councils make the implementation of pro-poor policies difficult. This is not solely due to the obvious constraints arising from the fact that the government is not fully in control of its territory. Past pro-poor five year plans have also failed to be implemented, due to poor governance, corruption, conflict and weak donor coordination. It appears that there is a lack of political will to enter into the necessary compromises with the guerrilla and the political parties; to deal effectively with corruption; and to implement pro-poor polices against the wishes of entrenched vested interests within the middle classes and the elite.

Secondly, while the PRS does deal with the social, economic and cultural reasons for the conflict, it does not consider the specific conditions created by the conflict: poverty, vulnerability, increased violence and human rights abuses, as well as the possibility of new patterns of wealth creation and the emergence of new constellations of power – all issues well known from other conflict countries. The doubts regarding the implementation of the PRS, and regarding its conflict sensitivity, means that the many achievements of the government regarding other aspects of the PRS agenda have not been put to a pro-poor use.

**Contribution to poverty analysis**

The 9th Plan (1997-2002) adopted poverty reduction as its sole objective, as does the 10th Plan / PRSP. The 9th Plan outlined a multi-faceted poverty agenda, with an emphasis on social sectors. The PRS likewise operates with the standard international definition of poverty, with a focus on income poverty while acknowledging the multi-dimensional character of poverty, principally through additional foci on health and education. Since the early 1990s, the social sectors have experienced increases in budget allocations over and above those of the economic sectors.

The PRS contributes to the analytical understanding of poverty. It provides the first government-owned analysis taking into consideration differences across regions, rural-urban differences, gender-based inequalities and social exclusion based on socio-cultural structures, i.e. caste and ethnicity. The PRS analysis of the causes of poverty focuses on the low levels of pro-poor growth, especially within rural sectors (agriculture). Some analyses of structural reasons for this are presented, as are the economic consequences of the Maoist insurgency.
Other issues are not explored in any depth by the PRS, e.g., social structure, including employment and disempowering social relations within agriculture; migration, including distress migration of women and children. Conflict issues have also not been sufficiently considered, which is cause for concern given the recent breakdown of the cease-fire and the intensification of the conflict.

The poverty analysis was developed under the leadership of the Planning Commission. No proper participatory poverty assessment was at its disposal, and no time series of poverty data existed. Instead it drew on one-off data sets, existing poverty analyses undertaken by donors, and structured discussions with stakeholders at central level. Some NGOs were asked to provide background analyses and strategy papers regarding disempowered groups: women, low caste dalits and low ranking ethnic groups, and elements of these analyses have been included in the PRSP.

**Consultation and Participation**

The PRSP preparation and 10th Plan preparation were both undertaken in one and the same process. The preparation process was led by a PRS secretariat under the NPC (National Planning Commission), chaired by the NPC Vice Chair. The preparation relied on the existing plan preparation structure of sector working groups with line ministerial and civil society participation. The final PRSP has been endorsed by the Cabinet.

The government interacted closely with donors throughout the preparation process. Donors helped fund the PRS secretariat, and funded 20+ Nepalese consultants who were heavily involved in the preparation of the sector plans. Nevertheless, the process was NPC-led in the sense that it was under NPC leadership and drew as much as possible on normal planning procedures.

The planning process in place before the 10th Plan included some participative structures. The broad composition of the National Development Council to which the NPC reports (which involved more than 150 people from all walks of life and all political parties) was important, as was the fact that the Plan working groups providing input to sector Plans included non-government experts, academics and activists. The planning model also ensured cross-government participation, including the Ministry of Finance and the Line Ministries.

For the PRSP / 10th Plan preparation, the participatory and consultative process was developed further. A set of consultations with other stakeholders was introduced. These consultative exercises were transparent but their impact on the final document was less so. The sessions with national stakeholders (NGOs, trade unions, business) were more participative. Some of these stakeholders felt they contributed to the Plan document although on the conditions set by the government.

In recent years, the government has aimed to ensure a higher degree of donor coordination, and asked donors to align themselves with government priorities. The budget support and SWAp guidelines of the PRS model are strongly supported by government, but maybe less so by many donors. Some donors are not in a position to go down this route, while others see concerns regarding the robustness of the financial
management and control systems within government as an obstacle. CSOs do not appear to have major concerns with SWAPs and budget support, but remain sceptical that donors would align themselves to Nepalese development priorities. A perception of donors as promoting their own interests, be it political interests or personal self-interest is not uncommon among CSOs.

The PRS is very much part of a move towards a higher profile for poverty reduction which has occurred during the 1990s across political parties, governments and CSOs. The focus on poverty reduction by the international development community has contributed to this shift in Nepal. The PRS has mainstreamed poverty reduction across the government through target setting linked to the MDG across government.

The PRS model has been well received by HMG. Core civil servants attribute the government’s swift acceptance of the PRS model to two reasons: firstly, that the PRS was likely to lead to further development assistance, and secondly, a widespread acknowledgement of the need for better planning and budget discipline. The introduction of the PRS may also be seen as an extension of the government-donor relationship of the 1990s when the government developed reform plans and policies in close collaboration with the donor community.

Some NGOs concur but from a different political perspective. They argue that in the end, PRS needs the approval of the World Bank and the IMF and so need to be in line with the policies of these organisations. The in-country stakeholders tend to view the prioritisation of poverty reducing policies and the budget discipline as the main differences between the PRS and other processes. There is also widespread scepticism regarding the extent to which the PRS will change the pattern of non-implementation of Government policies due to poor governance and corruption. The ongoing and intensified conflict, of course, exacerbates this.

Changes within government

With the PRS process institutionally anchored within the NPC, and with the resulting plan being the 10th Five Year Plan, the PRS is at the very heart of policy making. This is the case not only regarding the development budget of the 10th Plan, but also regarding strategic policy reforms which the NPC are also in charge of. The PRS lists all policy reforms as well as the ministerial responsibilities for policy implementation. This is an important new strategic aspect of the Plan/PRS.

However, as is common in South Asian countries, the Plan/PRS five year budget projections only cover the Plan budget. The recurrent or non-Plan budget which forms the bulk of the government’s expenditure is not covered, except at the level of policy reform as discussed above.

Since the financial year 2002/3, the government has selected the most important reforms for a yearly immediate action programme (IAP). Progress of reforms listed in the IAP is monitored by a high-powered committee consisting of representatives of NPC, MoF and the PMO. During 2002/3, this has proved to be a highly effective mechanism. The reforms included in this programmes are mainly
those that donors view as most important, and many of them are directly linked to donor benchmarks.

A general poverty monitoring and assessment programme is presently under development. According to the PRS it should be in place by end-2003. This would be the first outcome monitoring system in Nepal but it remains to be seen if it will be effective.

The links between the PRS and the budget are facilitated through three means: an MTEF, a project prioritisation system and alternative budget scenarios. The MTEF, or rolling three year budget, was introduced for the development budget of FY 2002-03. All budget lines included in the MTEF must be linked to the four pillars of the PRS. The PRS and the MTEF were prepared concurrently by the same Line Ministerial teams, ensuring close coordination. While the introduction of an MTEF is a process, not least at sector/line ministerial levels, this represents a major step forward in facilitating proper implementation of the PRS/Plan.

Together with the MTEF a system for the prioritisation of projects has been put in place. Projects which are not seen as actively supporting the objectives of the PRS have been terminated, leading to a reduction in the number of projects from 625 to 465. The MTEF and the project prioritisation are reasonably well embedded.

The third link between the PRS and the budget is established through the provision of several budget scenarios in the PRS. Starting with a so-called ‘lower case budget scenario’, budgets may be adjusted upwards and downwards if need be, depending on funding availability over the years; budget allocations can then react according to project prioritisation model.

The division of the budget into development budget and regular budget, and the institutional set-up with two different institutions in charge of the two budgets is not conducive to a reform of the existing government sector and practices. However, the fact that the MoF and the NPC work closely together has minimised the potentially damaging fall-out of this division.

**Changes to improve implementation**

Nevertheless, it is doubtful if the PRS will have much effect on poverty levels as implementation leaves a good deal to be desired. Proper implementation of poverty reduction policies has been a main difficulty throughout the 1990s. The 10th Plan delivers strong criticism of the 9th Plan regarding underperformance, and poor governance and corruption are identified as major constraints. This is linked to the only partial implementation of governance reforms aimed at dealing with systemic weaknesses, non-transparency of fiscal transactions and weak anti-corruption law enforcement. It is not clear that the PRS process has changed this.

Implementation has been made even more difficult by the conflict. A main casualty of the conflict is the decentralised local government system set up in the late 1990s which promised a more participatory implementation policy. The elected local councils have now become defunct. The District Development Officer – a centrally
employed civil servant – is left in charge of local development, with no participative structure in place to provide direction and checks and balances at the local level. In addition, all development activities need de facto permission from the Maoists in order to take place, and run the risk of being caught up in the conflict.

It appears that government lacks the political will to enter into the necessary compromises with the guerrilla and the political parties; to deal effectively with corruption; and to implement pro-poor polices against the wishes of entrenched vested interests within the middle classes and the elite.

Conclusion

The study concludes that for the PRS to have an impact in Nepal, the issues holding up its implementation must be dealt with. There a need for governance to show political will to reach a solution on the internal conflict, curb corruption and rein in elite dominance of society.

It is recommended that donors should not support technical reforms which, while useful for government, would only be pro-poor if government is. Instead, donors need to concentrate on issues which are inherently pro-poor, and, in particular, on issues which
a) points towards a solution of the conflict,
b) curb corruption and rein in elite dominance of society
c) benefit poor people directly
d) measures the efficiency of pro-poor governance policies

It is also recommended that a more critical view of the PRS than that of the JSA be taken. Finally, it is recommended that the positive experiences regarding PRS-budget links and the reforms of Public Expenditure Management in Nepal be disseminated widely.
1. Introduction

Nepal produced its combined 10th Five Year Plan and full PRSP in June 2003. The World Bank is expected to approve the PRSP in October; a JSA report recommending the PRSP for approval is presently under production. The PRS strives towards PRS best practice as outlined by the World Bank but many stakeholders have concerns regarding a number of issues, primarily pertaining to the realism of and the implementation of the Plan.

This study is an assessment of HMGN National Development Strategy. This assessment forms part of a consultancy covering three Asian countries, with the overall objective 'to inform DFID of the complementarities and contradictions between PRSP processes and existing National Development Strategies. It will assess whether the introduction of PRSP is enhancing poverty reduction processes and whether over the medium term the process of preparing, implementing, resourcing, and monitoring a PRSP is likely to lead to stronger, more pro-poor, more accountable national planning processes.'

For Nepal, the National Development Strategy will be compared with the experience of previous Five Year Plans, and with PRS best practice. The TOR outlines the relevant areas for such a comparison. This study consists of three main sections. Chapter 3 covers the historical and institutional context of the present national Plan, while Chapter 4 compares this with PRS best practice. In Chapter 5, issues pertaining to perceptions and influences of PRS are discussed.
2. Institutional and historical context

2.1 Macro-economic and Political Context

Nepal is one of the 49 least developed countries of the world. The country’s per capita income was US$ 240 in 2001, making it the poorest country in South Asia. Depending on one’s method of calculation, between 38 percent and 51 percent of the population live below the poverty line (UNCTAD 2002). The HMGN official figure is 38 percent. It should be noted that the Nepalese poverty line is well below the international 1 $ a day line.

Agriculture dominates the Nepalese economy. Throughout the 1990s, agriculture’s share of GDP has been around 40 percent (Economic Survey 2002). The central position of this sector in poverty reduction is perhaps even better demonstrated by the fact that more than 80 percent of the country’s households cultivate some land and that more than half the country’s population derive their income from agriculture (Nepal Living Standards Survey 1997). 85 percent of the population live in the countryside, and poverty is a largely rural phenomenon.

Nepal embarked on a programme of economic reforms in the late 1980s. The overall objectives of these reforms were to stabilise the economy, to reorient production structures towards the market, to create the incentives for increased private sector involvement in economic activity, to limit state involvement in the economy and to increase openness. Growth rates of GDP were around 5 percent for each of the five year periods 1981-85 – 1996-2000 but have fallen to 2.7 percent in 2001-2002. The reforms led to macro-economic stability but they are yet to have a positive impact on the level of poverty in the country. This may well be because agricultural growth has been sluggish throughout the period, i.e. between 1.5 percent and 3.6 percent since 1990 (Economic survey, various issues), and because that the benefits of pro-poor programmes have been disproportionally captured by the middle classes.

Nepal is economically and politically dependent on India. It operates a borderless economy with India covering goods, services and people, and any economic reform initiative will need to take this into consideration. It cannot afford to upset the political interests of either India nor of China, its other big neighbour. Nevertheless, its internal politics have been free from direct political or military intervention by any of its neighbours.

The Royal Family plays an important role in Nepal’s political life. Following three decades of royal rule, multi-party democracy was introduced in 1990. The 1990s were dominated by a vibrant civil society, based mainly in the Katmandu valley, and a perhaps less vibrant parliamentary democracy, in which the two main political parties competed for power but appeared less efficient in introducing much needed pro-poor reforms. This proved fertile ground for a Maoist inspired armed guerrilla movement which since 1996 has taken control of or, at least, made unsafe, major swathes of the countryside outside the main towns and transport routes.
In 2002, the King suspended parliamentary democracy, clamped down on some elements of civil society, and allowed elected local government councils to be dissolved. This was followed by a cease-fire and slow-moving peace talks between the King’s government and the guerrillas. The peace talks and the cease-fire broke down in August 2003 and hostilities have resumed.

Subsequently the conflict escalated, with an increasing level of human rights abuses committed by the army as well as by the guerrillas. According to Amnesty International the armed forces seem to be pursuing a strategy of engineering ‘disappearances’ and carrying out extra-judicial executions as part of their counter-insurgency operations. ‘Hundreds’ of people have disappeared. The Maoists, for their part, stand accused of the abduction and killing of civilians, forced recruitment and indoctrination of school students (Amnesty International 2004). The Government is now escalating the conflict further, through a programme to arm village militias (ICG 2004).

A number of bilateral development agencies and embassies, including DFID have expressed concern about ‘the rapidly deteriorating human rights situation’ and declared there is an ‘urgent need’ for the Government and the Maoist rebels to sign a proposed Human Rights Accord (Human Rights News 2003). The view of independent international observers such as the International Crisis Group is that it is unlikely that proper peace can be established until a tri-partite agreement is reached between the King, the Maoists and the parliamentary parties sidelined by the King (ICG 2003).

The root causes of the conflict are deep-seated poverty, inequality, social and cultural exclusion, linked to deep-rooted disempowerment of social and ethnic minorities and poor governance. In spite of declared pro-poor policies since the early 1990s, none of these issues have been mitigated. Poor governance and corrupt practices appear to have ensured that the Katmandu valley based middle and upper echelons of society have been by far the main beneficiaries of policies, programmes and projects.

Without belittling the severe impact the armed conflict has on the well-being of the population, it is normally seen as a ‘low intensity conflict’, as opposed to all-out war. Nevertheless, civilians, Maoists and members of the security force do get killed practically every day, and human rights abuses are common.

During the ceasefire, economic activities and government programmes were affected but not brought to a halt. International development agencies and the government continued to work, and to plan development work in the countryside in spite of the conflict. Given the worsening of the conflict it is now less likely that the majority of government programmes pertaining to the rural areas will be implemented.

Apart from parts of the Katmandu valley, few if any areas are outside the purview of the Maoists. Only the District headquarters are under government control. Outside the district towns, the Maoists are installing a parallel administrative structure, allowing some development activities while curtailing others, and taxing all organisations and individuals which they allow to work in the areas.
2.2 The Role of Planning

National Development Planning in Nepal is often said to have been initiated in 1955 when a draft outline of the first Five Year Plan (1956-61) was produced. Since then nine Five Year Plans have been implemented, and the 10th Plan (2002-2007) which is also Nepal’s first PRSP is under implementation.

Five Year Plans, including the 10th Plan / PRSP are prepared by the National Planning Commission (NPC). The Plans cover both a) strategic policy issues and b) issues relating to the development budget. Regarding strategic policy reforms, it should first be clarified that the NPC is advisory to HMG. It is chaired by the PM, while day-to-day affairs are conducted by its secretariat, consisting of a vice-chair of state ministerial rank, and four members of junior ministerial rank.

It is closely linked to the Government and the wider public sphere as it reports to the National Development Council which is composed of all ministers, representatives from all political parties, chairpersons of different committees of the House of Representatives, secretaries of line ministries, Vice Chancellors, representatives from the private sector and academia, ethnic minorities, labour unions, women, NGOs and CBOs at the national level.

The main functions of the NPC include: to formulate basic development policies and prepare development plans; to explore internal and external resources; to formulate annual programmes and assist HMG in their implementation; and to advise HMG regarding M&E. Since 1999, the tasks of the NPC have been specified to include a role in budget preparation (involvement in policy target setting for the yearly budget), approval of projects, and advice to HMG regarding approval of foreign aid (NPC Website).

NPC and the Plan/PRSP also play an even more strategic role, regarding policy reforms. According to the NPC web site,

…[T]he NPC has emerged as a leader and principle advisor in the economic development and economic affairs of the country. Almost all economic development and economic policies and programmes come into force either at the initiative of the Commission or on its advice or recommendations.’ It has also ‘emerged as a key coordinator in the management of economic development and general economic affairs of the country’, and ‘played the role of a pioneer in policy reforms. It has successfully pioneered the formulation and implementation of economic liberalization and other reform programmes.

On the other hand, two structural factors may limit the strategic role of the NPC. Firstly, its members are political appointees, to be replaced by each incoming government. During the last three years three sets of NPC members have replaced each other. This may hamper long-term strategic planning efforts. Secondly, as is common in Nepal, it is routine to frequently transfer NPC civil servants to other government departments, sometimes even within the first year of their appointment.
Indeed, it is the view of the major donors that more than the role of the NPC, it is the relative consensus regarding economic policies bridging successive governments, and the coherence of the top civil servants across the central ministries and institutions such as the Ministry of Finance, the Central Bank and the NPC, that have facilitated the reforms and plans of the 1990s. The top civil servants have been lobbying for reforms since the 1990s, and Government has by and large taken their advice.

Without agreement between the MoF and the NPC, strategic reforms cannot be implemented. The division of the budget into a ‘regular’ and ‘development’ budget, and the related institutional responsibilities increases the need for cooperation. As in other south Asian countries government budgets are divided between ‘regular’ (recurrent) and Plan (development) budgets, with the MoF in charge of the regular budget, and the NPC in charge of the Plan budget. Any reforms outlined in the NPC but involving the existing government sector would involve changes within the regular budget and would also require a system in place to ensure their implementation. As the NPC is only advisory, it relies on the MoF and other government institutions to ensure the implementation of such reforms. Recently the development budget has decreased while the regular budget has increased, see table 1.

Table 1. Development & regular budget as share of Overall Budget (percentages)

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<th>2001/02</th>
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<tr>
<td>Development</td>
<td>50</td>
<td>33</td>
<td>40</td>
</tr>
<tr>
<td>Regular</td>
<td>50</td>
<td>67</td>
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9th Plan: Poverty orientation and Implementation

Poverty reduction has been an explicitly stated development objective since the 6th Plan (1980-85), and the 9th Plan (1997-2002) adopted poverty reduction as their sole objective. In line with international practice, it developed a multi-faceted anti-poverty agenda. An emphasis on social sectors was prevalent throughout the 1990s as budget allocations (regular) to these sectors increased more than the allocations to the economic sectors (17.0% against 10.1%, 1991-2000).

However, the 9th Plan as well as the previous Plans failed to make much of an impact regarding poverty reduction. The main reason was very weak plan implementation, due to political instability, poor public expenditure management, serious governance problems including corruption, weak service delivery agencies, weak monitoring, unsatisfactory aid disbursement performance, and, from the latter part of the 1990s onwards, conflict. In some areas, the performance was slightly better, e.g. health.
Nepal is highly dependent on donors and lenders, as they provide most of the funding for the development budget (68%), and more than a quarter of the overall budget (28%) (2003/4 budget estimates). In addition, a plethora of international NGOs (INGOs) operate in Nepal. However, Nepal is not among the worst cases regarding donor dependency internationally.

Since the latter part of the 1980s, and especially since the re-introduction of multi-party democracy in 1990, HMGN has actively engaged with the international development community. A first structural adjustment facility was agreed in 1987, and during the 1990s, the reforms covered almost all sectors including fiscal and monetary policy, trade policy and fiscal reform policy. Long term sector planning was also introduced, primarily in agriculture with the 20 year Agricultural Perspective Plan of 1997, but also regarding parts of education and health. Importantly, a Medium Term Economic Framework (MTEF) was introduced for the development budget in 2002 (FY2003). Donors have supported these developments both financially and technically.
3. Poverty Reduction in the PRS

In 2000, HMGN decided that its forthcoming 10th Plan (2003-07) would also be its PRSP. The process of the preparation of the PRSP included the production of an I-PRSP (2001) and a PRSP/10th Plan Concept Paper (2002) which formed the basis for the main document of the 10th Plan (2003). The Plan was then abbreviated to form the PRSP and agreed by government. A positive JSA was published in October 2003 and the World Bank approved a $ US 70 million Poverty Reduction Support Credit in November 2003.

The overall assessment of the PRS by most observers is that it is a good Plan document, following many best practice guidelines. In a number of important areas the Plan represents a break with the past (i.e. regarding poverty analysis and improved public expenditure management, see below) but there are also many continuities, e.g. in the area of donor dependency, participation, prioritisation of projects, conceptualisation of poverty, poverty focus and sector policies.

It is the assessment of this report that while the PRS/Plan does indeed adhere to best practice guidelines in many respects, the major difficult issue is the extent to which the Plan will be implemented. Past plans have not fared well in this regard, due to poor governance, corruption, conflict and weak donor coordination. While Plan budgeting, implementation and monitoring procedures have been improved or are about to be improved it is our assessment that this is not sufficient to alter ground realities. It is also not apparent that the political outlook of the elite has moved away from its indifference to the poor. This problem is further aggravated by the apparent lack of political will to find a solution to the insurgency and to the conflict between the King’s government and the political parties.

4.1 PRS Best Practice

This section outlines PRS best practice principles, in order to facilitate the assessment of the Nepalese PRS which follows. A PRS would ideally consist of a single development strategy for the whole of the country. It would have obtained Government agreement, through a participatory process led by the government and with the active involvement of CSOs, grassroots and Donors. The ideal strategy would be outlined in a single Plan document, and it would include all important aspects of government policies and budgets; no major issues relevant for the development process should be outside the PRS. The Plan would be supported by SWAps detailing its sector specific elements.

Typically, the PRS would be made operational through a prioritisation process, and the development of a fully costed strategy, which again would be
converted into an MTEF (Medium Term Economic Framework, e.g. a 3-5 year rolling budget plan), and output and outcome focussed annual budgets.

The responsibilities for the implementation of the various aspects of the Plan would be clearly specified, and linked to budgets. In order to enable this, a streamlining of the public sector institutions might also be undertaken. One central authority would be in overall charge of implementation (e.g., a PRS Secretariat with cross-governmental participation but situated within a powerful MoF). Donors may then line up with budget support to implement the PRSP, while individual donor project support would be scaled down. Linked to this, output and outcome monitoring would be introduced, possibly linked to performance related budgeting.

In practice, national PRSs are a good deal more complex than the above model. Political economy issues and technical issues interact and create specific national PRSs. The PRS reform agenda is enormous, much can go wrong, and compromises between different stakeholders and the art of the possible are necessary ingredients.

3.2 Was the PRS country driven?

The PRS process is rarely solely country-driven. That the PRSP is needed in order for government to access soft loans from the IFIs, and that it goes through an approval process at IFI level is likely to render it a means to an end. In the worst case scenario, the PRS process may be reduced to the government going though the motions as if it was just one more hoop to jump though in order to access soft loans. In the best case scenario, the government would be embracing the concept and be making meaningful use of it, integrating it into the local policy making and implementing environment.

Thus, we can ask the question, in Nepal of whether the preparation of the plan has been country-led and, if so, has government assumed full leadership of the planning process? The answer is complex. The PRS preparation and 10th Plan preparation were one and the same process. Therefore, the PRS preparation slotted into normal Government institutional set-up and procedures for plan preparation (with amendments), see below. This did a good deal to ensure government ownership.

The government’s decision to prepare a PRS may be seen as a natural extension of the existing reform agenda. According to government officials, pull factors included the increased availability of donor funds that it was expected to generate. The increased level of conflict also made government put more emphasis on addressing some of the underlying poverty-related issues, and a fiscal crisis in 2002 heightened the need for long-term fiscal planning. Finally, the room for manoeuvre given to reform minded bureaucrats following the dissolution of Parliament in 2002 made the process easier. Donors argue that the civil servants were given a freer hand to pursue what they considered the necessary reforms. This led to a closer collaboration and exchange of ideas with the leading donors.
The preparation process was led by a PRSP secretariat under the NPC, chaired by the NPC Vice Chair. The preparation relied on the existing plan preparation structure of sector working groups with line ministerial and civil society participation. The final PRS has been endorsed by the Cabinet. The yearly development budgets that flow from the Plan would be approved by parliament had it not been dissolved; now budgets are approved by Cabinet.

HMGN interacted closely with donors throughout the preparation process. Donors helped to fund the PRSP secretariat, and funded 20+ Nepalese consultants to work within the working groups to help prepare the sector plans. They also advised on the process, and commented on draft papers. Nevertheless, the process was NPC-led in the sense that it was under NPC leadership and drew as much as possible on normal planning procedures.

Given this background, to what extent has the government been preparing the plan in an open and participative way? The normal planning process included some participative structures. The broad composition of the National Development Council (which involved more than 150 people from all walks of life and all political parties) was important, as was the fact that the Plan working groups providing input to sector Plans included non-government experts, academics and activists. This set-up is similar to that of the Indian NCD/PC, although the contribution to the planning process by non-government actors and experts in India appears to be more institutionalised and more integrated into the process. The planning model also ensured cross-government participation, including the Ministry of Finance and the Line Ministries.

The PRS process extended the participatory process in a different direction, as it included a set of consultations with other stakeholders. This included five regional workshops and consultations with representatives from local government, business, intellectuals and professionals; parliamentarians; political parties; and separate events with women, dalits (members of the lowest, so-called untouchable castes), migrant workers, trade unions and donors. Local participants were either chosen by the district and village level councils, or by various Nepalese NGOs. Participants from areas controlled by the Maoist rebels were also included in the process although it was not possible to hold workshops in Maoist controlled areas.

These additional participative exercises were transparent but the transition from such input to the final document – and thus the value added by the process - was less so. One reason for this is that the government has so far been unable to undertake consultations on the final document, although it is still its intention to do so.

Some CSOs felt that they had not been listened to, or, at least, were unaware as to whether or not they had been heard as there had been no feedback from government. This was the case for the Nepal Congress Labour Union which, as part of the consultation process, produced their own brief strategic policy outline for the PRS. Other CSOs contributed to the Plan document although following conditions set by the government. A group of NGOs was asked to produce long-term policy documents regarding socially excluded and disempowered groups: women, low caste minorities, ethnic minorities discriminated against. In their view, however, the final document had removed the ‘empowerment’-oriented parts of their contribution.
Closely related to the participation process is the question, to what extent have participatory processes influenced the implementation of PRS? The PRS has not put in place participatory processes to influence or monitor the implementation of the PRS. In addition, existing participatory systems have fallen into disrepair, due to the conflict. Most important, government systems based on physical monitoring, and the control exerted through elected local government councils, have ceased functioning. However, some NGOs are planning to develop their own PRS monitoring unit. The remit of this unit, and how closely it intends to work with HMGN, are not clear yet.

The PRS states that it is a plan not only for government but also for the private sector and NGOs. However, proposals for aligning the NGOs with the PRS activities are yet to be detailed and implemented. Implementation is thus limited to the plan for government.

Proper implementation of poverty reduction policies has been a main difficulty throughout the 1990s. This is linked to the only partial implementation of governance reforms aimed at dealing with systemic weaknesses, non-transparency of fiscal transactions and weak anti-corruption law enforcement. It is a widely held perception that the political will to implement pro-poor and anti-corruption policies has been lacking. The view is that wide sections of Nepal’s Katmandu-based middle and upper castes and classes have benefited from the diversion of funds away from the intended target groups.

More recently, implementation of pro-poor policies has been made even more difficult by the conflict. A main casualty of the conflict is the decentralised local government system set up in the late 1990s which promised a more participatory implementation policy. The decentralisation law of 1999 gave the local elected councils (District Development Councils and Village Development Councils) an important role in planning and overseeing the implementation of development initiatives at local level. Despite uneven performance of the councils, this did open up an opportunity for local accountability, especially in villages and districts where pro-poor local leadership prevailed. However, the mandate of the elected councillors has expired, the councils have been dismissed and no new elections can be held in the present conflict situation. The District Development Officers – a centrally employed civil servant – have been left in charge of local development, with no participative structure in place to provide direction and checks and balances at the local level.

In addition, all development activities need de facto permission of the Maoists in order to take place, and run the risk of being hostage to the conflict. This has also impacted negatively on further attempts to decentralise. In accordance with the Plan, schools and local level health centres are in the process of being handed over to local committees but this has been slowed down by conflict. The extent to which this process has been further influenced by the intensification of the conflict since August 2003 is not known.

To what extent has the government drawn on existing strategies and integrated the preparation and implementation of their Plan with their core processes for policy making and program implementation, including annual budget cycles and medium-term expenditure frameworks? This is an area with major achievements as well as with major issues yet to be resolved. Formally, the PRS is fully integrated with other
policy making processes. With the PRS process institutionally anchored within the NPC, and with the resulting plan being the 10th Five Year Plan, the PRS is at the very heart of policy making. This is the case not only regarding the development budget of the 10th Plan, but also regarding strategic policy reforms which the NPC are also in charge of. The PRSP lists all policy reforms as well as the ministerial responsibilities for policy implementation. This is an important strategic aspect of the PRS. Policy reforms may emanate from the MoF, the NPC, or from Line Ministries. Donors are often involved in recommending and funding reforms. Some reforms are linked with long-term donor programmes (such as the Agricultural Perspective Plan supported by the ADB) while others are linked to World Bank milestones.

The yearly reform programme and the yearly development budget are developed against the background of the Five Year Plan. Presently there are two mechanisms in place to facilitate the implementation of reforms: All reforms are included in the yearly budget speech and monitored by MoF through budget monitoring of the development budget. Mechanisms are in place to cut tranches and reduce future budgets if reforms are not implemented. At the same time, the NPC monitors physical output, with the objective of assisting in implementation of programmes, but the NPC possesses no tools to ensure implementation. The monitoring of the MoF and the NPC is based on self-reporting by the responsible government agencies.

This system is not likely to ensure quality of reforms or policy implementation more widely as independent monitoring and incentives linked to output and outcomes are not in place. The existing system is likely to be superseded by a poverty monitoring and assessment programme with a focus on outcome monitoring. According to the PRS this should be put in place by end-2003.

The implementation of some reforms is seen as more important than others. Since the financial year 2002/3, HMGN has selected the most important reforms for a yearly immediate action programme (IAP). Progress of reforms listed in the IAP is monitored by a high-powered committee consisting of representatives of NPC, MoF and the PMO to whom all Ministerial Secretaries report. During 2002/3, this proved to be a highly effective mechanism to ensure implementation of reforms. The reforms included in this programme are mainly those that donors view of as most importance, and many of them are directly linked to donor benchmarks.

The links between the PRS and the budget are facilitated through three means: an MTEF, a project prioritisation system and alternative budget scenarios. The MTEF, or rolling three year budget, was introduced for the development budget of FY 2002-03. All budget lines included in the MTEF must be linked to the four pillars of the PRS (see below). The PRS and the MTEF were prepared concurrently by the same Line Ministerial teams, ensuring close coordination. While the introduction of an MTEF is a process, not the least at sector/line ministerial levels, this represents a major step forward in facilitating proper implementation of the PRS/Plan.

Together with the MTEF a system for the prioritisation of projects has been put in place. Each ministry has been asked to prioritise their development budget activities in three categories, in relation to their importance for achieving the objectives of the PRS, within a hard budget constraint. P1 category projects are
ensured funding; P2 and P3 will be funded if funds are available, and P3 projects should in the medium term become self-financing. Projects which are now seen as actively supporting the objectives of the PRS have been stopped, leading to a reduction in the number of projects from 625 to 465.

The government operated a project-budget prioritisation system in the mid-1990s as well. That system was however vulnerable to ministry-level changes in budget allocations, leading to budget allocations to low priority schemes in some ministries. The new prioritisation system does not allow such transfers. MTEF and P1-P2-P3 prioritisation are well embedded although issues remain regarding which projects should be put in which category. The third link between the PRS and the budget is established through the provision of several budget scenarios in the PRSP. Starting with a so-called ‘lower case budget scenario’, budgets may be adjusted upwards and downwards if need be, depending on funding availability over the years; budget allocations can then react according to P1-P2-P3 model.

Nevertheless, implementation, monitoring of implementation and performance linkages leave a good deal to be desired. The 10th Plan delivers strong criticism of the 9th Plan regarding underperformance, and governance and corruption are identified as major constraints. It is not clear that the PRS process has changed this. Governance reforms have been on-going throughout the 90s without discernable impact on level of corruption and efficiency of implementation, and it remains to be seen if the reforms proposed by the PRS will do better.

The division of the budget into development budget and regular budget, and the institutional set-up with two different institutions in charge of the two budgets is not conducive for reform of existing government sector and practices. Next financial year, the budget will move to a ‘capital’ and ‘recurrent’ classification system, and the MTEF will be extended to cover the full government budget. These are important reforms although the institutional set-up within government still follows the plan – regular division line. The fact that the MoF and the NPC work closely together has and will continue to minimise the potentially damaging consequences of this division.

3.3 Is the PRS Result-oriented with Pro-poor Outcomes?

Poverty Reduction Strategy

The PRS is based on a critique of the 9th Plan and its failure to reduce poverty. However, there is also a good deal of continuity between the two plans regarding their poverty reduction strategies. They both operate with a multi-faceted poverty concept (linked to increased health and education budgets throughout the 1990s), and a number of long-term sector policies or policies for parts of sectors (i.e., primary education; agriculture) which were put in place during the 9th Plan are basically unchanged in the 10th Plan.

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1 Some ministries would tend to put fully donor funded projects in the P2 category knowing that funding will be available for these projects irrespective of how classified
The overall objective of the PRS is poverty reduction. The PRS operates with the standard international definition of poverty, with a focus on income poverty while acknowledging the multi-dimensional character of poverty, principally through additional foci on health and education.

According to the PRS the incidence of poverty differs strongly between urban and rural areas, across ecological zones, development regions, gender and caste groups: poverty is worst in rural areas, and much worse in the Hills and the Mountains as compared to both urban areas, as well as to the (rural) Terai. A familiar pattern regarding women and increased incidence of poverty exists, and links between low caste groups and poverty also emerge. While no time series of poverty indicators exists, it appears that income poverty has not improved during the 1990s, and while some progress is being made regarding education and health (from a low base); the MDGs will not be met.

The PRS analysis of the causes of poverty focuses on the low levels of pro-poor growth, especially within rural sectors (agriculture), and especially in the Hill and Mountain zone. Some analyses of structural reasons for this are presented, e.g. issues such as land size, geography and its consequences are touched upon (e.g. the extreme inaccessibility of many parts of the country; relative political disempowerment of certain regions) as are the economic consequences of the Maoist insurgency. It also addresses some of the causes for conflict, through its poverty reduction objective.

On the basis of this, the poverty reduction strategy concentrates on
- Employment generation and income generation in the rural economy, primarily through agricultural growth through liberalisation of agriculture
- Social inclusion programmes
- Effective implementation and better delivery of economic and social services to target groups
- Narrower and better focussed public interventions in order to maximise social benefits of interventions, with greater role for NGOs and private sector, and stronger emphasis on decentralisation and community participation
- Realistic budgets and strict adherence to these, with alternate scenarios and prioritisation

The strategy proposed in the plan is comparable to proposals made in other quarters, for example, World Bank, ADB and other international development agencies. The general agreement among donors is that the Nepal PRS is a good document, in line with international best practice principles. Nevertheless, some issues are not explored properly by the PRS, e.g., social structure, including employment and disempowering social relations within agriculture; migration, including distress migration of women and children; or the poverty -environmental degradation linkages.

More important, conflict issues have not been sufficiently considered. In particular, the worst case scenario of escalated conflict which appears to be unfolding

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2 With strong donor support although also concurrently strongly critiqued by a recent UNDP funded study.
now is not considered adequately, and neither is the possibility of changing priorities among the poor, with justice and reconciliation issues possibly increasing in importance as a result of the conflict. Moreover, the impact of the conflict on the underlying analysis of poverty issues is not considered. Following the intensification of the conflict after the breakdown of the ceasefire in August 2003 it has become increasingly unlikely that HMGN will be in a position to implement the pro-poor policies of the PRS.

To what extent does the PRS have relevant targets and indicators for poverty reduction and appropriate proposals for monitoring and evaluation? The PRS has introduced a welcome focus on relevant targets, but implementation, monitoring of implementation, and performance linkages leave a good deal to be desired. The PRS sets clear and specific targets for all MDG areas. This is linked to specific alternative financial scenarios, enabling the government to adjust their targets according to the funding situation. The targets are carried through and elaborated in the sector programmes, where prioritisation of activities is linked to the need to achieve the poverty targets as well. The MTEF plays an important role here although the PRS acknowledges that improvements of the MTEF are needed for this to work optimally.

Monitoring and performance criteria links are poor, except for priority projects, see above. Development budget funds are released by the MoF upon production of proof of spending of previous budget tranche. The NPC is in charge of physical output monitoring but this has no implications for budgets or release of budget funds. Crucially, all monitoring relies on the quality of information given by the spending departments, with no mechanisms in place to ensure that quality. The monitoring also does not cover activities under the regular budget, rendering it at best incomplete.

The PRS acknowledges the need for the introduction of outcome monitoring. Presently donors are working with the Government to establish this. The intrinsic value of outcome monitoring is well known, and in Nepal it would also help to overcome the ‘regular’ – ‘development’ budget divide. The principles of the outcome monitoring and its organisational set-up are yet to be finally decided, and the extent to which the break-down of the ceasefire will prove an obstacle to it has yet to be assessed. It is also not clear if the system would provide a springboard for more efficient performance management systems. It is also not clear if the system will be ready for introduction by its December 2003 deadline, or if it will be implementable in the present conflict situation.

3.4 Constraints faced by the PRS

To what extent does the PRS clearly define, cost, and prioritise public actions that are likely to reduce poverty? The Plan is likely to be feasible in fiscal terms. This is ensured by the MTEF, the prioritisation system and the build-in budget flexibility which clearly defines, costs and prioritises public actions that are likely to reduce poverty. This is one of the most significant achievements of the reform complex related to the PRSP.
However, an economic crisis or a significant decrease in donor funding might create fiscal problems over and above what the flexible budgeting and prioritisation system can handle. This worst-case scenario will become more likely if the deterioration in the security situation continues, in which case a general re-think of the overall Plan would be necessary for other reasons as well.

To what extent have financial, institutional and political constraints facing both government and civil society adversely affected the development and implementation of previous plans, and has the PRS taken these constraints into account? The Nepalese government institutions suffer from capacity problems which are unlikely to be solved in the short to medium term. Meanwhile, donors are likely to continue to provide technical assistance which, while not solving the capacity problem, is enhancing the level at which many programmes are functioning.

The PRS is highly critical of the performance of the 9th Plan. As a consequence, it has highlighted the need for governance reforms in order to ensure proper implementation of its policies. However, it is not clear that the reforms proposed are sufficient to ensure proper implementation of the policies. It has not been spelt out how the new reforms would be more effective than previous reform attempts.

For example, some steps have been taken towards curbing corruption (e.g. through the strengthening of the Commission for the Investigation of the Abuse of Authority) and improving governance in other areas but government has yet to act decisively in these areas. For example, even though CIAA won over 40 convictions during the last fiscal year these relate to rather low level cases which do not challenge the elite.

There appears to be little incentive for government institutions and individuals to improve their performance. Various anti-corruption initiatives such as the above have been taken, and new tools of public expenditure management such as the MTEF have been introduced, but they have yet to have an impact. Wider Public Sector Reform initiatives are still in their infancy. There has also been no consideration of the extent to which the overall organisation of the public sector is the best possible for the implementation of the PRS.

Most critically, the conflict scenario and the breakdown of democratic institutions at grassroots level have weakened the incentives and controls of the performance of the implementing government institutions. It is unsurprising that the absence of elected and accountable local institutions, and the loss of effective government control over most of the countryside should have this effect.

It is unlikely that the implementation of the PRS will improve significantly until a stable political understanding has been reached between the guerrillas and the government. Even if this is achieved governance issues which hampered the implementation of previous Plans remain to be solved, something which would only happen if the present government possessed significantly more political will to stamp out corruption than previous governments have done.
3.5 Is the PRS Partnership-oriented?

Since the early 1990s, the relationship between the government and the main donors has been close. The government has developed reform plans and policies in close collaboration with the donor and lender community, and been inspired by the international development agenda with which it is well acquainted. Donors account for 28 percent of HMGN’s overall budget, and 6 percent of the development budget (budget allocations 2003-04). As the budgetary focus of the Nepalese PRSP is on the development budget, close interaction between government and donors is a condition for its success.

At present, Nepal does not receive any budget support. However, the Asian Development Bank is providing sector loans, and basket funding exists for certain programmes within the educational sector, and is presently being negotiated within the health sector. Moreover, the IFIs are likely to move towards budget support later this year. Most donors and lenders work on a project or programme basis. Donor coordination is weak. There is an unusually high number of donors involved in most sectors, making coordination difficult but also all the more necessary.

HMGN has taken a proactive stand vis-à-vis donors. Following a highly critical analysis of donor behaviour and of the lack of donor coordination, it issued a Foreign Aid Policy document in 2002, calling for donors to fall in line behind government policies, and to merge their implementation efforts with HMGN efforts. Donors have been slow to respond to this.

It is expected that many donors will align themselves behind the PRS. The ADB has followed this principle for some years already, aligning themselves with the 9th Plan. It is expected that the World Bank, the IMF, and DFID will follow shortly, and that others may follow as well. The extent to which this will lead to budget support arrangements with other donors than the multilaterals is not known.

Some donors do not expect to follow the guidelines of the PRS. USAid, for example, states that while its activities indeed fall within the broad field of poverty reduction in Nepal, the specific programme mix would be dependent on US headquarters guidelines. Other donors are also likely to be constrained in their support for PRSP policies by their own national development assistance priorities.
4. Perceptions and influences of PRSs

HMG reception of the standard PRS model

The PRS model has been well received by HMG. The PRS was introduced together with the MTEF and the new budget prioritisation system, and government stakeholders tend to see them as a whole. The NPC and the MoF have been the main promoters of the PRS. Core civil servants also attribute the swift acceptance of the PRS model to two reasons: firstly, that the PRS was likely to lead to further development assistance, and secondly, a widespread acknowledgement of the need for better planning and budget discipline. The introduction of the PRS may also be seen as an extension of the government-donor relationship of the 1990s when the government developed reform plans and policies in close collaboration with the donor community. The PRS has also been enabled by the fact that donors accepted that, in the first instance, it would be restricted to issues previously covered by the Plan, i.e. that it would not cover both Plan and non-Plan budgets, as ideally would be the case.

The different in-country stakeholders have a good understanding of what PRSs are and how they differ from other processes. The prioritisation of poverty reducing policies and the budget discipline is broadly seen as the main differences between the PRS and other processes as these are two areas of difference from before in Nepal.

Some NGOs find that the PRS is an improvement on past practices in the area of analysis of poverty in the country. In spite of the paucity of the existing data, it provides the first government-owned analysis taking into consideration differences across regions, rural-urban differences, gender based inequalities and social exclusion based on socio-cultural structures, i.e. caste and ethnicity. Other NGOs tend to emphasise the continuity with past policies: that in the end, the PRS needs the approval of the World Bank and the IMF and so cannot break radically with the international development consensus regarding market-based development, privatisation etc., which also informed the policies of the 1990s.

There is also widespread scepticism regarding the extent to which the PRS will change the pattern of non-implementation of Government policies due to poor governance and corruption. The conflict, and its intensification since August 2003, of course exacerbate this.

The PRS is seen primarily as an extension of previous Plans and planning processes. The policy direction is seen as broadly similar regarding the overall poverty orientation, and regarding many sector policies. Most but not all stakeholders acknowledge that the preparation of the PRSP involved increased consultation and participation. Among those stakeholders who have been involved in detailed poverty analysis, a number of NGOs commended the improved poverty analysis, and the acknowledgement of the poor governance record. Government officials held similar views, but in addition to this, they also stressed the improved budgeting and prioritisation tools.

For the government, one of the advantages with the PRS is that it may help to align donors to government priorities and policies. However, the major government
stakeholders (MoF, NPC, core line ministries) recognise that realistically, few donors will embark on budget support. Instead, the emphasis is on developing sector wide policies, and to encourage donors to align themselves with them, preferably but not necessarily through basket funding.

Budget support and SWAps are not major issues for NGOs and other CSOs. Some, however, supported the hesitant approach to these aid modalities taken by most donors. They warned against this kind of support until governance issues had been successfully solved.

**Changes within the Government**

The PRS preparation process did not change the relationship between central agencies and line ministries in any noteworthy way. Line ministries were involved in the Plan preparation before the introduction of the PRS and still are, in much the same way. However, the three interrelated reforms: the PRS, the MTEF and the Prioritisation (P1-P3) have changed aspects of how the ministries work and, related to this, also aspects of the interaction between central agencies and the line ministries. The changes relate to development budget activities. The line ministries must show how all their activities further the four pillars of the PRS. They must prioritise their activities according to the importance they hold for the achievement of the PRS objectives, and they must allocate a three year rolling budget to them, within overall hard budget constraints for each ministry.

This is done in negotiations with the NPC and the MoF who have the final say regarding relevance for the PRS objectives, and priority of each activity. The line ministries will receive their tranches of the budget from the Ministry of Finance based upon the production of spending certificates for previous tranches. If less that 85% of the previous tranche for a specific activity is spent, they must provide reasons for this; if less that 50% is spent, no further tranches for the particular activity will be allocated.

The anticipated Poverty Monitoring programme will, if properly implemented, further increase the levers regarding ministerial spending. The poverty monitoring could become the first tool with which the quality of the activities of the ministries could be monitored.

Overall, the position of the central agencies within government has been strengthened by the reforms as they now have the right to intervene directly in ministerial priorities and budgets, and as control of spending has increased. However, it should be noted that these changes relate solely to the development budget, except for the anticipated poverty monitoring which will look at general outcomes.

**Changes in the interaction of national & sub-national agencies**

Local government bodies at district and village levels were solely involved in the PRS preparation process through the country-wide consultation process. Apart from national organisations this process primarily involved district and village development council members. The PRS has not changed the relationship between national agencies and local government institutions. This relationship is regulated by
the Local Development Act of 1999, implemented through the Ministry of Local Development. Due to the conflict situation and the present non-existence of elected councils, the local institutions have been unable to fulfil their vital role of holding local government officials and activities accountable.

**The government’s relationship to civil society**

The PRS has not changed the general relationship between the government and civil society. Issues such as the conflict, the King’s taking power and the dismissal of parliament are more important for this relationship. It may be that the relationship between the NPC and some NGOs closely involved in the process has improved. However, the consultations and participative processes around the PRS cannot make up for the decline of democratic processes, the intensification of the conflict and the increase in the number of human rights abuses in the country. The PRS highlights the need for NGOs to align themselves behind the goals of the PRS. If the government attempts to achieve this alignment this may well lead to tension between the government and civil society organisations.
5. Conclusion

Nepal is an aid-dependent country. It has close ties to India, and policies and institutions have been strongly influenced by this big neighbour. Since the early 1990s its development policy has been largely inspired by the international agenda. It has a long history of national planning, and poverty reduction has been the main objective of the Plan since the mid 1990s. Its PRSP (which is also the 10\textsuperscript{th} Five Year Plan) was finalised in mid-2003, and a positive JSA was issued in October 2003.

Since 1996 Nepal has endured an internal conflict and the government is no longer in control of the countryside. After the breakdown of peace talks in August 2003 the conflict has escalated, with an increasing level of human rights abuses committed by the army as well as by the guerrillas. The democratically elected government was dismissed by the King in 2002 and no elections have taken place since then.

There are two main problems regarding the PRS. Of central importance is the extent to which it will be implemented. The intensified conflict between Government and the Maoist guerrillas, and the decay of local democratic councils makes the implementation of pro-poor policies difficult. This is not solely due to the obvious constraints arising from the fact that the government is not fully in control of its territory. Past pro-poor five year plans have also failed to be implemented, due to poor governance, corruption, conflict and weak donor coordination. It appears that there is a lack of political will to enter into the necessary compromises with the guerrilla and the political parties; to deal effectively with corruption; and to implement pro-poor polices against the wishes of entrenched vested interests within the middle classes and the elite.

Some steps have been taken towards curbing corruption (e.g. through the strengthening of the Commission for the Investigation of the Abuse of Authority) and improve governance in other areas but government has yet to act decisively in these areas. For example, even though CIAA won over 40 convictions during the last fiscal year these relate to rather low level cases which do not challenge the Powers That Be.

Second, while the PRS does deal with the social, economic and cultural reasons for the conflict, it does not consider the specific conditions created by the conflict: poverty, vulnerability, increased violence and human rights abuses, as well as the possibility of new patterns of wealth creation and the emergence of new constellations of power – all issues well known from other conflict countries (ODI 2003).

The doubts regarding the implementation of the PRS, and regarding its conflict sensitivity, means that the many achievements of the government regarding other aspects of the PRS agenda have not been put to a pro-poor use. These achievements include the successful preparation of the PRSP, including progress regarding participative measures in this process; the successful implementation of core budgetary reforms, including an MTEF, the linking of all activities within the yearly Plan budget to the PRS, the IAP implementation scheme, the first steps
towards a merger of the Plan and non-Plan budgets, and the first steps towards outcome monitoring.

The achievements in many of the above areas reflect a willingness by Nepalese governments throughout the last decade to promote reforms of the economy and of government systems. This may be linked to the aid dependency of the government, but it appears also to reflect a willingness to engage with the international development agenda. The government bureaucracy, and not least the NPC, have been proactive in this process throughout the 1990s. The role of the bureaucracy in the reform process has increased since the dismissal of the democratically elected government in 2001, and this may be one factor behind the recent reforms listed above.

The close relationship between the MoF and the NPC is an important reason why the government bureaucracy has been able to agree on the need for reforms. One factor in building the relationship between the MoF and the NPC is the fact that the NPC is treated in a similar manner to the ministries, with frequent transfer of civil servants between it and, for example, the MoF; and with political appointments to the NPC chairs, similar to ministerial appointments. To all intents and purposes, the NPC is part and parcel of the civil service and government machinery. Compared to the Indian context where the NPC is appointed for a fixed period (i.e. 5 years) and is seen as being outside of the ‘normal’ government apparatus, this may be a disadvantage in certain respects (e.g., regarding independence from day-to-day politics) but it does appear to have increased synergy across government.

Recommendations

For the PRS to have an impact in Nepal, the issues holding up its implementation must be dealt with. There a need for governance to show political will to reach a solution on the internal conflict, curb corruption and rein in elite dominance of society. PRS may be implemented in conflict contexts, if government is in a position to physically reach the countryside, and if it gives priority to the implementation of pro-poor policies, while seeking to reach a solution on the conflict. None of these conditions appear to be in place in Nepal at present.

It is recommended that donors should not support technical reforms which, while useful for government, would only be pro-poor if government is. Instead, donors need to concentrate on issues which are inherently pro-poor, and, in particular, on issues which

- point towards a solution of the conflict,
- curb corruption and rein in elite dominance of society
- benefit poor people directly
- measure the efficiency of pro-poor governance policies

This approach would be similar to some donors’ policies in conflict countries in Sub-Saharan Africa (e.g. in the Democratic Republic of Congo) where DFID has been hesitant to sign up to IFI policies of support to central government and related institutions (e.g. the Central Bank) as this is not seen to have any positive impact on poverty conditions in provinces outside government control.
Many existing donor initiatives would fall within the above guidelines, such as support to the strengthening of the anti-corruption authority; conflict related policies; support to any government agency or NGO which is in a position to support to outcome monitoring of the PRS and has a track record regarding implementing pro-poor programmes. Finally, it is recommended that a more critical view of the PRS than that of the JSA be taken. There is a need for the PRS to reflect more issues relating to the three points listed above. These issues are not only important for Nepal. Given the number of Asian conflict countries there is clearly a need to understand more about PRSs in conflict countries in an Asian context, similar to studies conducted in Sub-Saharan Africa.

There are also positive lessons to be learned from Nepal. While the pro-poor impact of a number of governance reforms is not clear, the vigour with which these reforms were pursued by the bureaucracy was unusual. It is recommended that the Nepalese experience regarding these reforms be widely disseminated: i.e., the introduction of an MTEF; the prioritisation of government schemes in relation to the PRS; the establishing of the contours of performance budgeting; the immediate action programme (IAP) which has ensured prioritised implementation of core reforms; and the steps towards a merger of Plan and non-plan budgets.
Appendix 1: People Consulted

Mr. Laxman Basnet, President, Trade Union Congress
Mr. Tanka Prasad Bhatta, Section Chief, Agricultural Development Bank
Mr. Keshab P. Bhattarai, Joint Secretary, M&E, National Planning Commission
Mr. Ravi Bhattarai, Section officer, Privatization cell, Ministry of Finance
Dr. Hikmat Bista, Chief Adviser, DASU/Danida
Dr. B.D. Chataut, Director General, Department of Health
Mr. Ramesh Dhungel, Vice President, Transparency International
Mr. Robin Griggs, Training Adviser, DASU/Danida
Mr. Surya Kiran Gurung, Secretary General, Parliament Secretariat
Ms. Kathie M. Julia, Deputy Country Director, ADB
Mr. Henning Karcher, UN Resident Coordinator, UNDP Resident Representative
Dr. Benu Bahudur Karki, Chief, PPIC Division, Ministry of Health
Mr. Rameshwor Khanal, Joint Secretary, Budget, Ministry of Finance
Dr. Y.R. Khatiwada, Member, National Planning Commission
Mr. V.D. Mallik, Secretary, Ministry of Education
Mr. K.R. Nepal, Secretary, Ministry of Local Development
Mr. Robin Needham, Country Director, Care Nepal
Mr. Badri Prasad Ojha, Federation of Nepalese Chambers of Commerce and Industry
Mr. Krishna Prasad Pandey, Joint Secretary, Parliament Secretariat
Ms. Meeta Sainju Pradhan, Program Development Coordinator, CARE Nepal
Mr. Prithvi R. Legal, former Vice-Chairman, National Planning Commission
Mr. Tara Nath Ranabhat, MP, Speaker, House of Representatives
Dr. Shibesh Regmi, Country Director, ActionAid Nepal
Mr. Ram Risal, Deputy Director, Helvetas
Mr. Sukhwinder Singh, IMF Resident Representative
Mr. Ghuran Thakur, Section Chief, Agricultural Development Bank
Mr. Ashish Thapa, Director, Transparency International
Mr. Raju Tuladhar, Senior Economics Officer, ADB
Ms. Shizu Upadhya, Team Leader ActionAid Nepal
Mr. Henrik Westerby, Local Governance Adviser, DASU/Danida
And DFID Nepal Advisers and Desk Officers
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