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Nepal: Poverty Reduction Strategy Paper Progress Report

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AN ASSESSMENT OF THE

Implementation of the Tenth Plan/PRSP

PRSP REVIEW 2004/05

GOVERNMENT OF NEPAL

NATIONAL PLANNING COMMISSION SECRETARIAT

Singh Durbar, Kathmandu, Nepal

June 2006

AN ASSESSMENT OF THE

Implementation of the Tenth Plan/PRSP

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Singh Durbar, Kathmandu, Nepal, June 2006

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Foreword

The Government of Nepal developed a Poverty Monitoring and Analysis System (PMAS) in May 2004. The PMAS has five components, and includes intermediate and outcome indicators. The information on intermediate indicators is collected from the management information systems at sectoral ministries and outcome indicators are obtained from household surveys conducted by the Central Bureau of Statistics (CBS). Monitoring and evaluation studies are undertaken for assessing policies, programmes and projects. Two monitoring studies, one on the Women Development Programme and another, the Hills Leasehold Forestry and Forage Development Project, were conducted in 2005. While intermediate and outcome indicators report progress against the Poverty Reduction Strategy Paper (PRSP) targets, the impact studies provide inputs in the monitoring process. The impact studies also help in linking intermediate and outcome indicators while the monitoring of targeted programmes provide feedback on ways to improve fund transfers to service providers. All of these actions, including the participatory monitoring mechanism being developed, are expected to broaden and deepen the PMAS by helping bring the voices of people into the monitoring and planning processes.

The process and activities performed under the PMAS and PRSP implementation are reported through annual progress reports. Two such reports have already been published. This document reports PRSP implementation up to mid-July 2005 in terms of the intermediate indicators.

Broadly, the results in the third year of the PRSP implementation are mixed. There has been improvement in some areas while progress has been slow in others owing largely to the conflict and political instability. Reforms that began in the late 1980s and continued throughout the 1990s have resulted in increases in both per capita income and consumption, and overall poverty has declined from 42 percent in 1995/96 to 31 percent in 2003/04. However, it has been increasingly difficult to sustain and build on the gains because of political instability and escalation of the conflict after 2001. The conflict and political instability remain major obstacles to economic growth and restoring peace, and maintaining macroeconomic stability is vital for restoring investor confidence and re-starting recovery and development.

This progress report will feed into the mid-term review of the Tenth Plan. It is believed it will also be a useful record of progress for all stakeholders and development partners interested in Nepal's development efforts.

We are grateful to all those who were involved in the preparation of this report. Sincere thanks are due to all development partners who have been supporting the PRSP and the government's efforts to institutionalise the PMAS. We also thank the United Nations Development Programme for supporting the publication of this report.

National Planning Commission Secretariat
Singha Durbar, Kathmandu
June 2006

Acronyms

ADB	Asian Development Bank
ADBN	Agriculture Development Bank Nepal
ADDCN	Association of District Development Committees of Nepal
AGO	Auditor General's Office
AMIS	Agency Managed Irrigation System
ANC	Antenatal care
APP	Agriculture Perspective Plan
APPSP	Agriculture Perspective Plan Support Programme
ARI	Acute Respiratory Infection
ARV	Anti-retroviral Therapy
ASYCUDA	Automated System of Custom Data
BEOC	Basic Essential Obstetric Care
BOOT	Build, Own, Operate and Transfer
CBS	Central Bureau of Statistics
CEAPRED	Centre for Environmental Agricultural Policy Research, Extension and Development
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
DFID	Department for International Development
DHO	District Health Office
DOTS	Directly Observed Treatment Short Course
DPP	District Periodic Plan
DTOs	District Technical Offices
DWDO	District Women Development Office
DWSS	Department of Water Supply and Sewerage
FCGO	Financial Comptroller General's Office
FMIS	Farmer Managed Irrigation System
FUG	Forest Users' Group
FY	Fiscal Year
GBBs	Grameen Bikas Banks
GDP	Gross Domestic Product
GPI	Gender Parity Index

HC	Health Centre
HDR	Human Development Report
HLFFDP	Hills Leasehold Forestry and Forage Development Project
GON	Government of Nepal
HP	Health Post
IDP	Internally Displaced People
ILO	International Labour Organization
IMCI	Integrated Management of Childhood Illness
IMF	International Monetary Fund
I/NGOs	International/National Non-Government Organisations
LBs	Local Bodies
LBFC	Local Bodies Financial Commission
LIF	Local Initiatives Fund
LSGA	Local Self-Governance Act
M&E	Monitoring and Evaluation
MDGs	Millennium Development Goals
MFIs	Micro Finance Institutions
MIS	Management Information System
MLD	Ministry of Local Development
MOAC	Ministry of Agriculture and Cooperatives
MOES	Ministry of Education and Sports
MOF	Ministry of Finance
MOGA	Ministry of General Administration
MOHP	Ministry of Health and Population
MTEF	Medium Term Expenditure Framework
MWCSW	Ministry of Women, Children and Social Welfare
NDA	Net Domestic Assets
NDDUDC	Neglected, Deprived and *Dalits* Upliftment Development Committee
NDHS	Nepal Demographic and Health Survey
NER	Net Enrolment Rate
NLSS	Nepal Living Standards Survey
NPA	Non Performing Assets
NPC	National Planning Commission
NRB	Nepal Rastra Bank
NTIP	New Technology Irrigation Programme
NVC	National Vigilance Centre
NWSSSP	National Water Supply and Sanitation Sector Policy
ORS	Oral Rehydration Solution
PAC	Public Accounts Committee
PAF	Poverty Alleviation Fund

PAN	Permanent Account Number
PMAS	Poverty Monitoring and Analysis System
PMTCT	Prevention of Mother to Child Transmission
PNC	Post-natal Care
PPA	Participatory Poverty Assessment
PPM	Participatory Poverty Monitoring
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSC	Public Service Commission
RAP	Rural Access Programme
RBM	Result Based Management
RCCC	Royal Commission for Corruption Control
RCIW	Rural Construction and Infrastructure Works
RMDC	Rural Micro Finance Development Centre
RWSS	Rural Water Supply and Sanitation
RWSSFDB	Rural Water Supply and Sanitation Fund Development Board
SAFTA	South Asian Free Trade Arrangements
SAPPROS	Support Activities for Poor Producers of Nepal
SFDP	Small Farmer Development Programme
SHP	Sub-Health Post
SIMI	Small Irrigation and Marketing Initiatives
SMCs	School Management Committees
STWSSSP	Small Towns Water Supply and Sanitation Sector Project
TDF	Town Development Fund
TEGUPD	Tribal and Ethnic Groups Upliftment and Praja Development
VAT	Value Added Tax
VDC	Village Development Committee
WB	World Bank
WSUC	Water and Sanitation Users' Committee
WTO	World Trade Organisation
WTSS	Women Technical Support Service
WUA	Water Users Association

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Section I

Introduction

BACKGROUND

Nepal began implementing the Poverty Reduction Strategy Paper (PRSP) in fiscal year 2002/03 (mid-July to mid-July). The PRSP is also Nepal's Tenth Plan. It has clear poverty reduction goals and measurable socio-economic targets, which it seeks to achieve by focusing development efforts on four strategic pillars (Box 3). This report assesses progress in the third year of PRSP/Tenth Plan (2004/05) and will also feed into the on-going mid-term review of the Plan. The government first reported on PRSP implementation for 2002/03 during the Nepal Development Forum (NDF) in May 2004. The report for 2003/04 was published in June 2005.

ORGANISATION OF THE REPORT

This report has 12 sections, beginning with a broad review of poverty. Sections I and II discuss the key elements of the poverty reduction strategy, the status of the Millennium Development Goals (MDGs) and the links of the MDGs with the Tenth Plan. The section is followed by a review of the performance of the economy.

Box 1: Distinct features of the Tenth Plan/PRSP

- The Tenth Plan is Nepal's Poverty Reduction Strategy Paper.
- The Plan aims at reducing poverty and enhancing human wellbeing, and contributes towards attaining the Millennium Development Goals (MDGs).
- The Plan recognises the role of local bodies, Community Organisations (COs) and Non-Government Organisations (NGOs) in development.
- The Plan is committed to decentralisation and functional devolution.
- The Plan uses modern planning tools to define institutional tasks and responsibilities.
- The Plan prioritises development programmes/projects (P1, P2 and P3), which are guaranteed resources; the outcomes are monitored consistently, and
- The Plan has elaborate M&E provisions including annual poverty monitoring, process monitoring and reporting.

Section IV highlights the government's efforts to realign public expenditure management to support the PRSP goals. Section V examines the progress by major sectors and also the initiatives taken by the government to improve performance. Section VI and VII review social sector performance and achievements in social inclusion and targeted programmes. Section VIII reports progress in institutional reforms and governance and Section IX deals with the strategies and policies adopted for responding to the conflict. An analysis of the mechanism to track progress is presented in Section X, which is followed by a discussion of resource needs and aid harmonisation (Section XI). Section XII summarises the report's conclusions.

Section II

Key National Objectives and Strategies

OVERVIEW

Nepal began implementing the PRSP in 2002/03, a period marked by political instability and an escalation of violent conflict. There were some improvements in the security situation in the later half of 2005 but the political situation had become more complex. The political environment had a direct impact on both policy reforms and development spending. The end of the tenure of elected local representatives in mid-2002 – and the inability to elect new representatives – resulted in a slowdown of development activities affecting the alreadyweak service delivery. Both tourist arrivals and receipts from tourism remained low in 2005. Developments in the external front caused sharp reductions in export of Nepal's main products – readymade garments and carpets – and the pass through of the increase in global oil prices caused consumer prices to rise. Therefore, preventing the economy from slowing down further, and sustaining the gains attained, remained the main challenges in 2005.

The conflict and political instability have had a lasting impact on development. Some of the direct impacts of the conflict have been:

- Destruction/damage of development infrastructures
- Low private investment
- Slowdown in development expenditure
- Weakening grassroots service delivery
- Disruption of production, trade and transactions
- Obstruction of operation of I/NGOs and development partners, and
- Increased migration to, and higher demand for services, in urban and semi-urban areas.

The political uncertainty compounded the development challenge and prevented the government from taking the bold measures needed for enhancing economic activities.

POVERTY PROFILE

The government published the second Nepal Living Standards Survey (NLSS) 2003/04 in early 2005. The results show encouraging improvements in access to basic social and economic services (Box-2) and in the living standards of people (Table 2.3). Overall, the incidence of poverty has declined by 11 percentage points between 1995/96 and 2003/04, a decline by 3.7 percent each year. In 2003/04, 31 percent of the population lived in poverty compared to 42 percent in 1995/96.

Box 2: 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, Total	35.6	48.0
Male	53.5	64.5
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

The Poverty Line is a benchmark or a yardstick for defining who is poor and who is not. In Nepal, the Poverty Line is derived by using "Cost of Basic Needs" method where nutrition of 2,124 kcal per day per capita is taken as the minimum caloric requirement for an "average" Nepali household. The non-food consumption value is determined using the "Upper Poverty Line Method".

Table 2.1: Poverty in Nepal

	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: CBS, 2005[a]

Poverty incidence in urban areas declined by more than half (from 22% in 1995/96 to 10% in 2003/04) – by almost seven percent each year. The decrease

in rural poverty was modest; it declined from 43 percent in 1995/96 to about 35 percent in 2003/04, or by 2.5 percent each year during eight years between the surveys. Rural poverty, therefore, remains a major challenge.

The depth and severity of poverty, measured by poverty gap and squared poverty gap in Table 2.1, have also decreased. But the decrease was higher in urban areas compared to rural areas.

NLSS II shows that except for the rural Eastern Hills (where poverty has actually increased), poverty has declined in all geographical regions. For example, poverty in the Western, Mid- and Far-western regions declined by 30, 25 and 36 percent, respectively. Still, there are more people under the poverty line in the Mid- and Far-western regions compared to other regions (Table 2.2). By ecological belts, poverty has declined more rapidly in the Mountain and Tarai regions compared to the Hills: the decrease was five percent and four percent per year in the Mountain and Tarai regions, respectively, whereas the reduction was only two percent in the Hills.

Table 2.2: Poverty by geographical region

Geographic Region	Poverty head count rate (%)		
Sector	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 Tarai	46.1	38.1	-17
Rural Eastern Tarai	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
Tarai	40.3	27.6	-32
Nepal	41.8	30.8	-26

Source: CBS, 2005[a]

The income, consumption and employment levels have also improved between the two NLSS periods. Although, the percentage of households having land has declined, and the parcels have been fragmented further, the share of irrigated land and the share of non-farm income have increased (Table 2.3).

The nominal per capita consumption increased from Rs. 6,802 in 1995/96 to Rs. 15,848 in 2003/04 – up by about 16.6 percent per year. Among the poorest population quintile, consumption has increased from Rs. 2,571 to Rs. 4,913, an annual increase of 11.3 percent. The share of non-farm income in household income has increased from 39 percent in 1995/96 to 52.2 percent in 2003/04 (Table 2.3).

Remittances have remained steady, and were responsible for raising non-farm income and consumption. The government's focus on rural infrastructures and the social sector also helped to improve basic service delivery and the access of people to the services (Box 2).

The relationship between poverty and growth in per capita real expenditure during the two NLSS periods shows a negative 0.6, indicating a reduction in poverty by 6 percentage points with every 10 percent increase in per capita expenditure. The estimates for the growth poverty elasticity are 1.33 for urban and 0.74 for the rural areas (CBS, 2005[a]).

Table 2.3: Selected comparative indicators of NLSS I and NLSS II

Activities	NLSS I 1995/96	NLSS II 2003/04	% Change
A. Agriculture			
1. Households with land (% of total households)	83.1	77.5	-5.6
2. Average size of agriculture land (ha.)	1.1	0.8	-27.2
3. % of irrigated land	39.6	54.3	14.7
B. Consumption (Rs.)			
1. Nominal per capita consumption			
All Nepal	6802	15848	133.0
Poorest 20%	2571	4913	91.1
Richest 20%	15243	42236	177.1
2. Share of nominal per capita consumption			
Poorest 20%	7.6	6.2	-1.4
Richest 20%	44.9	53.3	8.4
C. Income (Rs)			
1. National average HH income	43732	80111	83.2
2. National average per capita income			
All Nepal	7690	15162	97.2
Poorest 20%	2020	4003	98.2
Richest 20%	19325	40486	109.5
3. Share of farm income in household income (%)	61	47.8	-13.2
4. Share of Non-farm income in household income (%)	39	52.2	13.2
D. Employment Status			
1. Percentage employed	67.2	74.3	7.1
2. Labour force participation rate	70.6	77.2	6.8
3. Unemployment rate	4.9	3.8	-1.1
Aged 10-14 years	7.9	3.4	-4.5
Age 15-24 years	7.3	6.0	-1.3
E. Remittances and Transfers			
1. Percentage of all households receiving remittances	23.4	31.9	8.5
2. Average amount of remittances per receiving households	15,160	34,698	129.0
3. Share of remittances received by households	44.7	23.5	-21.2
4. Share of remittances in total household income among recipients	26.6	35.4	8.8

Source: CBS, 1996 and 2004

Nepal's poverty could have been reduced further had it not been for income inequality, in general, and also among different social groups. Income inequality rose from 0.34 to 0.41 as measured by the Gini coefficient between the two surveys. Also despite the overall reduction in poverty, the outcomes are not uniform among different social groups, especially women, *Dalits* (considered "untouchable") and *Janajatis* (especially among the disadvantaged indigenous nationalities). The following factors were responsible for bringing the overall poverty levels down:

- Real GDP grew by about four percent per year from 1996 to 2004 while there was a decline in population growth, fertility and household size resulting in higher per capita and per household income
- Agricultural growth remained higher than the population growth rate (2.25%) resulting in more per capita food availability
- Crop diversification and the move towards high-value crops and meat and eggs and horticulture contributed to higher incomes for farming households
- Expansion of literacy and skill training, and availability of credit at the grassroots level
- Growth of remittances by more than 25 percent annually and the increase in the number of households receiving remittances (from 23% in 1995/96 to 32% in 2003/04)
- Improved employment opportunities in the service sector, and
- Improved basic services as result of increasing government expenditures in health, education and drinking water and also higher awareness about availability of the services.

THE TENTH PLAN/PRSP

The PRSP/Tenth Plan aims to reduce poverty from 38 percent in 2001/02 to 30 percent in 2006/07. According to the NLSS 2004, Nepal has almost met this target. The PRSP is anchored on a four-pillar strategy to attain the target (Box 3). The first strategy intends to achieve high and sustained broad-based growth by promoting faster non-agricultural growth, creating an investment friendly environment through liberal economic policies and by focusing on agriculture for raising income, employment and ensuring food security in rural areas.

Box 3: The four PRSP pillars

1. High, broad-based and sustainable economic growth
2. Improvement in access and quality of infrastructure, social and economic services in the rural areas
3. Targeted programmes for social and economic inclusion of the poor and marginalised communities, and
4. Good governance to improve service delivery, efficiency, transparency and accountability.

The second pillar focuses more on improvements in access, and quality of infrastructures as well as on the availability of social and economic services. Improvements in quality and availability of better roads, electricity and communications systems are needed for achieving high and sustained growth and ensuring effective public service delivery.

The third PRSP strategy comprises of safety nets for excluded and vulnerable groups – women, Dalits, Janajatis, children and senior citizens. The fourth MTEF has introduced pro-poor and gender budgeting to ensure that development benefits reach the excluded groups.

The PRSP emphasises effective programme implementation and service delivery through governance reforms. A number of measures have been taken, including, the rightsizing of the bureaucracy and devolving more functions to local bodies, streamlining planning and budgeting, improving prioritisation of programmes and projects, introducing pro-poor and gender budgeting, improving resource mobilisation and involving local communities in development at the grassroots level.

The PRSP also stresses maintaining macroeconomic stability and implementing structural and policy reforms in key areas. The policy changes are important for meeting both the Tenth Plan objectives as well as the MDGs. Annual poverty monitoring, monitoring of other targets and processes are integral for the effective implementation of planned activities.

MILLENNIUM DEVELOPMENT GOALS

Nepal adopted the Millennium Declaration in 2000 committing to work towards attaining the Millennium Development Goals (MDGs) by 2015. The MDGs come with quantitative targets for poverty reduction, and improvements in health, education, gender equality, the environment and general human

development. The Tenth Plan/PRSP targets encompass many of the MDG targets that Nepal aims to attain over three five-year plan periods. The prioritisation of programmes and assurance of resources to priority programmes contribute towards better outcomes and poverty reduction. There is evidence of this in the Global Monitoring Report on the Millennium Development Goals (World Bank-IMF, 2006). The report says strong economic growth, backed by improved policies in developing countries and increased aid has resulted in reduced child deaths, rapid gains in primary school enrolment and reduced HIV/AIDS infection rates in some of the countries surveyed.

There is a separate mechanism for reporting progress on the MDGs. Two reports (2002 and 2005) have been produced so far and these detail the achievements and shortcomings and suggest corrective strategies. Table 2.4 shows Nepal's achievements vis-à-vis the MDGs, the Tenth Plan targets and the longer-term goals to be attained by 2015. Except for the goals set for universal primary education and combating HIV/AIDS, Nepal may be able to attain all other MDG targets.

In terms of universal primary education, while net enrolment in primary school may lag behind the MDG target, the completion of the primary cycle is attainable while meeting the enrolment targets would require greater efforts to target children from "hardcore" poor families and girls. Similar efforts are needed for attaining the other targets such as reducing maternal mortality.

The government has taken several MDG-related initiatives in recent years. These activities include scaling up programmes and resource prioritisation, capacity building, building awareness and district-level MDG-focussed periodic plans and resource prioritisation. A needs assessment study for attaining MDGs has also been completed. The study estimates a financing gap of US$ 7.9 billion during the period from 2005 to 2015, assuming a relatively quick resolution of the conflict (Annex 2.1). The government has also begun preparing district-level MDG progress report in five districts on a pilot basis. A district-level needs assessment for achieving MDGs is also underway in Rupadehi district.

Table 2.4: Millennium Development Goals 2005-2015

Goal / target	Status			Tenth plan target	MDG target	Achievement possibility
	1990	2000	2005	2007	2015	
Goal-1: Eradicate extreme poverty and hunger						
Target-1 Eradicate poverty by half						*Likely*
a. % of population below $1/day (PPP value)	33.5	NA	24.1		17	
b. % of population below poverty line	42	38	31	30	21	
Target-2 Reduce hunger by half						*Possible*
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 age 6-59 months	60	55	NA		30	
Goal-2: Achieve universal primary education						*Unlikely*
Target-3 Ensure primary schooling						
a. Net enrolments in primary education (%)	64	81	84	90	100	
b. % of pupils starting grade1 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						*Possible*
Target-4 Eliminate gender disparity in education						
a. Ratio of girls to boys at primary level	0.56	0.79	0.86	1.0	1.0	
b. Ratio of girls to boys at secondary level	0.43	0.70	0.82	1.0	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 15-24 year olds	0.48	NA	0.73		1.0	
Goal-4: Reduce child mortality						*Likely*
Target-5 Reduce U5MR by two-thirds						
a. Infant mortality rate (IMR)	108	64	61	45	34	
b. Under five mortality rate	162	91	82	72	54	
c. Proportion of 1year old immunised against measles	42	71	85		>90	
Goal-5: Improve maternal health						*Possible*
Target-6 Reduce MMR by three-quarters						
a. Maternal mortality rate (MMR)	850	415	NA	300	213	
b. % of deliveries attended by health care providers	7	11	20		60	
Goal-6 Combat HIV/AIDS, malaria and other diseases						*Unlikely*
Target-7 Reverse the spread of HIV/AIDS						
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						
Target-9 Reverse the loss of environmental resources						*Possible*
a. Area under forests	37	29	29			
Target-10 Access to safe drinking water						*Likely*
a. % of population with improved water sources	46	73	81	85	73	
b. % of population with improved sanitation	6	30	39		53	
Goal-8: Develop global partnership for development						

Source: NPC/UNDP, 2005

Section III

Macroeconomic Performance and Challenges

SUSTAINING MACROECONOMIC STABILITY

Macroeconomic stability remained a major challenge during the first three years of the PRSP/Tenth Plan due to both the conflict – and increasing pressure of security spending – and political uncertainty. However, the government did manage to maintain a sound macroeconomic balance through increased efforts to mobilise revenue and proper utilisation of resources through the MTEF. The classification of the budget, as current and capital, and the prioritisation of all programmes/projects as P1, P2 and P3 in terms of their priority, have helped guarantee funding to programmes with highest priority. As a result of these initiatives, the GDP has begun to grow – howsoever slowly – after contracting in 2001/02. Revenue collection has also remained buoyant, domestic borrowing and inflation remained low and balance of payments remained robust. Continued growth in remittances also helped the economic recovery process.

Grassroots programmes have been aided by the devolution of selected tasks and functions to local bodies that have been provided both unconditional and conditional grants. There has been progress in rural infrastructure, income generation and poverty reduction programmes carried out through participatory processes.

Overall GDP growth: The first three years of the Tenth Plan recorded lower growth than the target. The GDP grew by 3.1 percent in 2002/03, up from a contraction (-0.4) percent in 2001/02. The economy grew by 3.6 percent in 2003/04 and slowed down again in 2004/05 (2.4%). Low agricultural production – owing to the weather – and a contraction in non-agricultural activities, due to the conflict and political instability, were responsible for the slowdown.

On average, agriculture sector growth was above 3.1 percent during 2003 to 2005 but was less than target and therefore was not enough to make a major impact on poverty reduction. Non-agricultural growth was 3.4 percent during the first two years of the Plan period but declined to 2.1 percent in 2004/05.

Savings and investment: Total investment in the economy was around 25 percent of GDP during the first three years of the Plan. In 2001/02 (the base year of the PRSP), the investment to GDP ratio was 24.2 percent. The ratio rose to 25.8 percent in 2002/03 and to 26.4 percent in 2003/04. However, the ratio slid to 25.7 percent in 2004/05 (Table 3.1). Private sector investment made up more than three fourths of the total, and the gross private capital formation to GDP ratio reached 76.6 percent of total investment in 2004/05. The capital formation in the public sector has been declining since 2001/02.

Gross domestic savings remained at over 12 percent of GDP during the first three years of the Tenth Plan. It was 12.1 percent in 2001/02, rose to 12.6 percent in 2003/04 and remained at the same level in 2004/05. Gross national savings declined from 16.5 percent in 2001/02 to 14.5 percent in 2004/05.

Fiscal balance: Revenue remained buoyant during the Plan period. It rose from 11.9 percent of GDP in 2001/02 to about 13.3 percent in 2004/05. The implementation of ASYCUDA at major custom points and reforms in tax administration (making VAT and PAN registration mandatory), including the widening of the tax net, contributed to the revenue growth.

Regular expenditure increased during the Plan period. It rose from 11.5 percent of GDP in 2001/02 to 12.4 percent of GDP in 2004/05. However, development spending continued to decrease; it dropped from 7.4 percent of GDP in 2001/02 to 6.5 percent in 2004/05. The conflict and the absence of elected local bodies were reasons for the slowdown. The slow spending eased the pressure on domestic borrowing, which remained at 2 percent of GDP in gross terms (1.5% net) during the period, despite the increasing demand for recurrent expenditure.

Foreign aid rose slightly, from 3.4 percent in 2001/02 to 3.7 percent in 2004/05 and grant aid accounted for 2.1 percent of GDP in 2004/05.

Table 3.1: Performance of macroeconomic indicators in current prices (2001/02-2005/06)

	(Percent of GDP in producers prices)				
	2001/02 Base year	2002/03 Actual	2003/04 Actual	2004/05 Actual	2005/06 Budget estimates
INVESTMENT AND SAVINGS					
Total investment	24.2	25.8	26.4	25.7	
Private investment (including change in stock)	16.6	19.0	19.9	19.7	
Gross national savings	16.5	15.5	15.2	14.5	
Gross domestic savings	**12.1**	**12.0**	**12.6**	**12.6**	
GOVERNMENT FINANCE					
Government revenue	**11.9**	**12.3**	**12.5**	**13.3**	**14.1**
Total expenditure	**18.9**	**18.4**	**18.0**	**18.9**	**21.9**
Regular expenditure	11.5	12.0	11.8	12.4	12.9
Development expenditure	7.4	6.4	6.2	6.5	9.0
Current expenditure	11.6	11.4	11.2	11.8	13.1
Capital expenditure	5.9	4.9	4.6	4.7	6.4
Principal repayment	1.5	2.1	2.2	2.4	2.4
Capital expenditure (including principal repayment)	7.4	7.0	6.8	7.1	8.8
Revenue surplus	0.4	0.3	0.8	0.9	1.2
Government revenue-current expenditure	0.4	0.9	1.4	1.5	1.0
Budgetary deficit	5.4	3.6	3.2	3.5	4.6
Total foreign aid	**3.4**	**3.5**	**3.8**	**3.7**	**5.7**
Grant	1.6	2.5	2.3	2.1	3.2
Loan	1.8	1.0	1.5	1.7	2.5
Total domestic borrowings	**3.6**	**2.6**	**1.7**	**1.8**	**2.0**
Domestic borrowings	1.9	1.9	1.1	1.7	2.0
Cash balance (- surplus)	1.7	0.7	0.5	0.1	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	11.1	10.9	10.9	10.9	10.3
Imports	25.4	27.2	27.4	24.8	24.6
Current account balance (-deficit)	4.3	2.5	2.9	5.5	4.0
Remittances	11.2	11.9	11.8	12.3	12.4
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

Trade and balance of payments: There was a general slowdown in trade exports to GDP ratio fell slightly, from 11.1 percent to 10.9 percent during the first three years of the PRSP. There has been a major decline in the export of readymade garments, especially after January 2005, when quotas were phased out as part of the WTO arrangement. Imports grew during the first two years of the Plan, from 25.4 percent of GDP in 2001/02 to 27.4 percent in 2003/04 and then declined to 24.8 percent in 2004/05.

Nepal's major exports overseas have remained low. Readymade garment exports overseas declined by about 17.6 percent while that of Pashmina dropped by about 4.6 percent in the first eight months of 2004/05. The drop in garment exports resulted in loss of jobs because many factories were forced to downsize or shut down.

Nepal had a current account deficit of about 4.3 percent of GDP in 2001/02, the base year of the PRSP. The deficit narrowed in the first two years of the Plan (declining to -2.5 percent and - 2.9 percent in 2002/03 and 2003/04, respectively). However, the deficit widened to 5.5 percent of GDP in 2004/05. The current account deficit resulted from a widening trade gap and declining service receipts, including receipts from tourism. The decline in service receipts was partly balanced by transfers, mainly remittances from Nepalis working overseas. Remittances rose from 11.2 percent of GDP in 2001/02 to 12.3 percent of GDP in 2004/05.

Nepal had a balance of payments surplus during the review period. The foreign exchange reserves declined to 24.3 percent of GDP in 2004/05 from around 26.2 percent in end-2003/04. The reserves were enough to cover 11.5 months of merchandise imports. Exchange rate of the Nepali Rupee against the American dollar stabilised at about Rs. 71: US$ 1 and the real exchange rate, remained within acceptable levels during the review period.

Monetary measures: The Nepal Rastra Bank (central bank) maintained tight monetary control during the Plan period. Broad money grew from 9.8 percent in 2002/03 and to 12.8 percent in 2003/04 but declined to 8.3 percent in 2004/05. Domestic credit recorded an 11 percent annual growth during the Plan period. Private sector borrowing was around 68 percent of the total, slightly lower than the target (70%). The government borrowed less from the banking sector, largely because it was unable to speed up development expenditure. Inflation was around 4 percent (average) during the first three years of the Plan.

Table 3.2: Percentage growth of macroeconomic indicators (2002/03-2005/06) (%)

Description	2002/03	2003/04	2004/05	2005/06
GDP AT CURRENT PRICE				
GDP (at factor cost)	**7.7**	**8.5**	**7.1**	**8.4**
Agricultural GDP	6.8	7.0	6.1	8.8
Non-agricultural GDP	8.3	9.5	7.7	8.2
GDP (at producer price)	**8.0**	**8.8**	**7.4**	**8.7**
GDP AT 1994/95 PRICE				
GDP (at factor cost)	**3.1**	**3.6**	**2.4**	**4.5**
Agricultural GDP	2.5	3.9	3.0	4.0
Non-agricultural GDP	3.4	3.4	2.1	4.8
GDP (at producer price)	**3.3**	**3.8**	**2.7**	**4.7**
INVESTMENT AND SAVINGS				
Total investment	15.5	11.0	4.8	
Private investment (including change in stock)	23.8	14.0	6.2	
National savings	1.9	6.2	2.8	
Domestic savings	**6.8**	**13.9**	**7.6**	
GOVERNMENT FINANCE				
Government revenue	**11.5**	**10.9**	**14.2**	**14.9**
Total expenditure	**4.9**	**6.5**	**12.9**	**25.7**
Regular expenditure	13.1	6.4	13.3	12.9
Development expenditure	-7.8	6.6	12.1	50.1
Current expenditure	6.6	6.6	13.6	20.2
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	11.6	34.9
Revenue surplus	-32.3	204.6	28.4	41.8
Government revenue-current expenditure	161.7	63.7	19.0	-26.0
Budgetary deficit	-28.3	-3.7	17.4	41.9
Total foreign aid	**10.4**	**19.1**	**5.7**	**66.2**
Grant	69.6	-0.5	-1.0	67.3
Loan	-40.9	67.8	15.5	64.9
Total domestic borrowings	**-22.0**	**-31.0**	**19.2**	**21.3**
Domestic borrowings	11.0	-36.8	61.6	30.8
Cash balance (- surplus)	-58.4	-13.9	-72.6	-100.0
MONETARY DATA				
Narrow money supply (M1)	8.6	12.2	6.6	16.8
Broad money supply (M2)	9.8	12.8	8.3	17.3
Total domestic credit	10.2	9.9	13.5	3.6
Net foreign assets	3.4	19.0	-1.0	19.8
Inflation	2.9	4.8	4.1	4.5
BALANCE OF PAYMENTS				
Exports	6.4	8.0	8.0	3.0
Imports	15.8	9.6	-3.0	7.9
Current account balance	-36.0	25.7	100.3	-19.9
Remittances	14.0	8.1	11.7	9.8
Balance of payments (-deficit)	-230.5	360.7	-71.7	7.0
Gross foreign exchange reserves	2.2	20.3	-0.2	10.9

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

Poverty reduction growth facility: The implementation of the PRSP 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, of which Nepal drew the first tranche of US$10.6 million in November 2003. It also drew the second tranche but has not borrowed thereafter owing to delays in fulfilling "prior commitments". Nepal borrowed US$70 million from the World Bank in 2003.

Public debt management: Nepal has begun to strengthen public debt records with technical assistance from the Asian Development Bank. The assistance has included installing state-of-art computer software (CS-DRMS 2000+) at the MOF, FCGO and NRB for managing information. A macro-modelling exercise has been completed to assess debt sustainability and 37 persons have been trained on the use of the software.

NEW INITIATIVES IN ECONOMIC MANAGEMENT

The government has continued reforms for ensuring sound macroeconomic management and stability. These measures seek to maintain fiscal discipline, ensure efficiency of public resources, monetary and external sector stability, strengthen the financial system and governance, and expand the role of the private sector.

The government has broadened the MTEF to cover all ministries and expenditure items for ensuring fiscal discipline and prudent expenditure management. Actions have also been taken to improve domestic resource mobilisation by broadening the tax base, clearing and settling tax arrears, narrowing tax exemption, revising custom valuation and strengthening the tax administration.

All monetary instruments have been mobilised for controlling inflation. But the efforts have remained short of full effectiveness owing to external shocks, mainly caused by the rise in international oil prices. Efforts are also underway to attain targets for broad money supply, limiting domestic credit and government borrowing and for expanding open market operations. The government has also prepared plans for diversifying exports and for promoting foreign direct investment.

The regulatory and supervisory capability at the central bank has been strengthened and the programme for reforming state-owned banks has begun to show results. The contracts for external managers at the two commercial banks have been extended.

Nepal has simplified procedures for trade and investment. A new Labour and Employment Policy has been adopted and a draft to revise the Labour Act was prepared (and approved in early 2006). Measures have also been taken to improve and standardise accounting, auditing and reporting systems.

The Labour and Employment Policy 2006 replaced the Labour Policy, 1999. 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*, *Janajatis* and people displaced by the conflict, and to eradicate child labour.

The government has enacted ordinances for secured transactions and to amend the company law. 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; clarify ownership rules and the role of the Company Registrar's Office. The Bank and Financial Institutions Ordinance, 2005 further consolidates the finance sector, including the regulatory environment.

Section IV

Public Expenditure Management

Overview

Nepal has been a fiscally responsible state, and has progressed toward attaining the Poverty Reduction Strategy (PRS) objectives.[1] The achievements include creation of fiscal space to increase spending on pro-poor programmes, prudent macroeconomic policies, improved expenditure management, and reforms that cover, among others, the financial sector, service delivery, governance, and donor harmonisation. These are important achievements given the ongoing conflict and the political instability Nepal has had during the PRS implementation period. The reforms have been deepened to protect the gains by consolidating the initiatives through institutionalisation of the interventions. Expenditure management reform, especially the deepening of the Medium Term Expenditure framework (MTEF), is one of many initiatives underway. The MTEF has aligned resources to PRS outputs.

MTEF and fiscal performance

Macro-level government operation & aggregate fiscal discipline: In the Ninth Plan, Nepal financed expenditure, equalling almost 18 percent of GDP, through revenues (11%), foreign financing (5%) and domestic borrowing, which averaged 2.3 percent of GDP. Current expenditure was successfully limited to 11 percent of GDP (at the level of domestic revenue), allowing capital formation of seven percent. The government has been able to maintain aggregate fiscal discipline, despite the difficult development environment and a rise in security expenditure. As a share of GDP, between 2002 and 2005, the government financed its total expenditure of 19 percent of GDP through revenues (13%), foreign funds (4%) and rest through domestic borrowing, which averaged about two percent of GDP (Table 4.1).

Current expenditure is rising and it now comprises 74 percent of total expenditure (or 14% of GDP), of which, debt payment is three percent of GDP. Debt servicing is increasing with the maturity of loans taken in the early 1990s. In contrast, capital expenditure growth is on a decline; it comprised

[1] *Second PRS Progress Report (June 2005)*

Table 4.1: Government operation (As percent of GDP)

	Ninth Plan	PRS Years 2002- 2005	Actual of Fiscal Year 05	Budget 06
Total revenue	11.42	12.72	13.26	14.30
Total expenditure	18.31	18.61	19.38	22.18
Total current expenditure	11.52	13.70	14.22	15.67
o/w security	2.23	3.33	3.53	3.46
o/w principal payment	1.39	2.28	2.56	2.41
Total capital expenditure	6.79	4.91	5.17	6.51
Total external financing	4.56	3.92	4.48	5.81
Total domestic financing	2.34	1.97	1.65	2.07

five percent of GDP in 2005 compared to six percent of GDP (average) during the Ninth Plan.

Revenue, as a percentage of GDP, is growing. In 2005, revenue was 13.3 percent of GDP up from the average (11.4%) during the Ninth Plan; and, on average, aid expenditure (grant and loan) was 4 percent of GDP. Domestic borrowing, resulting from conflict related slow-down in budget use and macro framework capping levels, has been on a decline from 2.3 percent (of average GDP) in the Ninth Plan to 1.7 percent of GDP in 2005.

Nepal has maintained aggregate fiscal discipline despite a weak economy, declining aid and increasing security expenditure and debt repayment obligations. It managed competing claims on resources to avoid large fiscal deficits by sacrificing capital expenditure and lowering domestic borrowing – a cost to future growth. The government has also increased pro-poor expenditure, which averaged around 30 percent during Ninth Plan, to 34 percent – the target for 2005/06. While stabilisation targets have largely been met, it does raise a question on the role of fiscal policy – especially the stabilisation vs. growth and poverty reduction trade-off – and calls for analysis to identify ways to create fiscal space for growth.

Allocation efficiency – Inter sectoral allocation: Poverty reduction targets can be met if social sector investment for attaining meaningful outputs is raised. 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. Towards that end, social sector spending has increased, assisted mainly by two SWAPs. As a percentage of GDP, social sector spending increased from an average of 5.65 percent in the Ninth Plan to six percent in 2004/2005 and is budgeted to reach 7.5 percent

of GDP in 2005/06. Looking ahead, the availability of resources for education and health through SWAp arrangements is expected to increase the investment share of these two sectors. In nominal terms, expenditure in education increased from an average of Rs. 9.75 billion in the Ninth Plan to Rs. 16 billion in 2004/05 (estimated); and that for health rose from Rs. 3.4 billion to Rs. 5 billion in the same period (Table 4.2).

Table 4.2: Inter Sectoral Allocation (As percent of GDP)

	Ninth Plan	PRS Years 2002- 2005	Est. of Fiscal Year 05	Budget 06
Social Services	5.65	5.67	5.91	7.48
Ecucation	2.60	2.93	3.03	3.56
Health	0.91	0.85	0.96	1.30
Drinking Water & Sanitation	0.56	0.50	0.52	0.87
Local Development	1.07	0.96	0.92	1.18
Other Social Services	0.50	0.42	0.48	0.57
Economic Services	5.72	4.11	4.18	4.84
Agriculture	0.63	0.43	0.45	0.64
Irrigation	0.86	0.50	0.48	0.62
Forestry	0.34	0.36	0.35	0.32
Inddustry	0.20	0.14	0.12	0.32
Other Exonomic Services	0.45	0.45	0.50	0.73
Infrastructure				
Transportation	1.47	0.93	0.97	0.95
Communication	0.33	0.39	0.37	0.28
Power	1.43	0.92	0.95	1.20
General Administration (incl. principal payment)	5.24	7.32	7.72	7.43
Others*	1.77	1.39	1.27	1.73
Total	18.38	18.51	19.08	21.48

** Royal Palace, Constitutional Body and Miscellaneous*

However, spending in the economic sector has declined from an average of 5.7 percent of GDP in the Ninth Plan to 4.1 percent of GDP in 2004/05. The decline is due to completion of high cost investments in power and transport in early years of the Tenth Plan. Among other reasons for low investment, was the conflict related slow-down in development activities and a lower number of new projects in the pipeline.

Investments in transport and power lead spending in the economic sector. These two sectors account for half of all economic sector spending. In nominal terms, the investment in these two sectors is at the level of the Ninth Plan, averaging at around Rs. 10 billion per year. Spending on highways has declined while that on rehabilitation and maintenance has been increasing. However, spending on maintenance has not been at par with rehabilitation and this

remains a concern from the point of view of cost efficiency, and also because timely attention on the status of roads is an important outcome indicator of the PRS.

Rural development (agriculture, irrigation and forestry sectors) as percent of GDP has been on a decline from an average of 1.8 percent of GDP in the Ninth Plan period to 1.3 percent of GDP in the first three PRS years. Upon completion of the Business Plan or sector strategy, resources will be tightly aligned to meet the PRS outcomes.

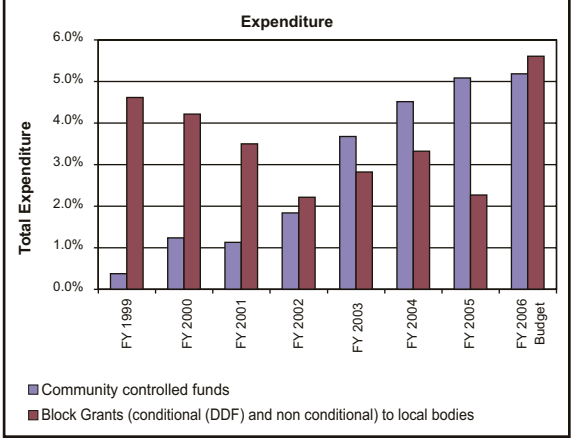
Technical efficiency – Pro-poor expenditure is increasing: One major outcome of expenditure reform, with the MTEF anchoring the PRSP, is the increase of pro-poor spending. Pro-poor expenditure as percentage of the total increased from 30 percent in 2002/03 to 31.4 percent in 2004/05 and is budgeted to increase to 35 percent in 2005/06. In nominal terms, this translates into a 78 percent increase in pro-poor expenditure (or increase of expenditure from Rs. 25 billion in FY 2002/03 to the budgeted Rs. 45 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 percent of 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: Secotral pro-poor expenditure (as percentage of total expenditure)

	PRS Years 2002- 2005	Est. of Fiscal Year 05	Budget 06
Social services	23.45	23.71	26.75
Education	13.03	13.02	13.86
Health	3.13	3.42	4.03
Drinking water & sanitation	1.34	1.54	2.08
Local development	4.76	4.40	5.27
Economic services	7.35	7.72	8.58
Agriculture	1.87	1.84	2.27
Irrigation	1.87	1.20	1.31
Forestry	0.40	.029	0.20
Infrastructure	3.07	3.61	3.45
Transportation	1.31	1.70	1.29
Power	1.76	1.91	2.17
Total	30.81	31.44	35.34

In 2004/05, the pro-poor spending in the economic sector was 35 percent of the sector's total expenditure (or 7.7 percent of total expenditure), and it is budgeted to reach nine percent of the total in 2005/06. Rural development (agriculture, irrigation and forest), 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 to maintain pro-poor expenditure at two percent of the total. Backed by a policy of providing subsidies to communities for power generation and distribution, rural electrification leads the power sector and maintains two percent pro-poor spending in the total expenditure and this is expected to continue in the future.

Fig 4.1: Community and Local Bodies



Funds controlled by communities have grown. Aware of need to involve beneficiaries to implement the programmes they pick – as articulated in the PRS – the flow of fund to such programmes has been raised from a low base of 1.8 percent of total expenditure in 2001/02 to five percent in 2004/ 05 and is budgeted to increase further in 2005/06. The level of block grants to local bodies remains at previous levels.

Towards the implementation of the government's devolution policy, from 2005/06 the Ministry of Local Development began channelling resources to communities through the District Development Fund. Prior to this the fund was channelled through line agency budget lines. In nominal terms, average annual block grant to local bodies is Rs. 2.5 billion, and absorption fluctuates with local-level implementation conditions.

The achievements in public expenditure management have resulted from the expansion and deepening of spending reforms. More reforms have been planned in the fourth year of MTEF implementation.

Box 4: Basic features of MTEF IV

- Coverage extended to total budget and expenditure has been classified into current and capital budget.
- Per unit cost of each major activity has been estimated and updated.
- Capacity-building and skill training for MTEF exercises to be done by all line ministries.
- Better prioritisation of programmes and projects.
- Programme budgeting is recommended for ensuring effectiveness of resources through better prioritisation, streamlining programmes/projects and linking output with cost.
- Initiation of pro-poor and pro-gender budgeting, and.
- Induction of sectoral business plans – for linking the MDGs, PRSP and MTEF.

Besides ensuring predictability of funds to all priority projects, the funding guarantee to PRS outputs in selected sectors (education and health) are the hallmarks of MTEF achievement in 2004/05. The fourth MTEF (2005/06–2007/08) classifies the budget as current and capital and has also introduced the concept of gender and pro-poor budgeting. The government has also completed sectoral business plans for aligning resources to PRS outcomes through continued expenditure reforms.

Section V

Broad-Based Growth Performance

AGRICULTURE

The Agriculture Perspective Plan (APP) (1995) is the core of the sector strategy. The APP 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. These are to be achieved by managing four key inputs: (i) controlled year-round irrigation, (ii) eased fertiliser supply, (iii) need-based research and extension, and (iv) linking potential production pockets with markets through rural agricultural roads and the expansion of rural electrification.

The PRSP renewed commitment to implement the APP. It embraces agriculture growth as the strategy for attaining broad-based growth. It has given highest priority to agriculture and rural development and has taken a comprehensive approach for easing constraints, by emphasising progressive private sector involvement in input and output marketing, strategic and coordinated provision of critical public infrastructure and services with stakeholder participation, partnership with private providers including NGOs, and devolution of rural services.

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

The Ministry of Agriculture and Cooperatives (MOAC) implemented 32 P1 and 10 P2 projects in 2004/05. Five P1 projects, the Agriculture/Livestock Extension Programme, APP Monitoring, APPSP, Crop Diversification Project and Small Irrigation Special Programme shared 43 percent of the development budget of Rs. 2.52 billion allocated to the sector.

Some other ongoing activities are:

- Implementation of National Agricultural Policy, 2004.
- Mobilisation of the private sector and NGOs as partner service providers on a contract basis.
- Monitoring, quality control and regulation of inputs supplied by the private sector.
- Transfer of subsidies in the form of grants on goods and services.
- Devolution of extension services to local bodies.
- Transfer of veterinary services to the private sector on cost basis.
- Study for establishment of agriculture resource centres.
- Promotion of cooperatives and contract farming.
- Involvement of cooperatives in commercial milk and vegetable production and marketing.
- Development of market centres.
- 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; and
- Implementing a special package programme for the development of the Karnali Zone.

The MOAC has reviewed APP implementation and has formulated an Implementation Action Plan through the APPSP. The basic objective of the review was to reorient the agricultural sector to create more responsive, productive and efficient services for the rural poor. Agricultural sector policies need additional reforms to fulfil commitments made to global and regional institutions such as the WTO and the South Asia Free Trade Area (SAFTA).

Table 5.1 provides information on outcomes in the food and agriculture sector in terms of intermediate indicators. There has been some increase in the expansion of infrastructures, mainly roads and electricity. However, there has been a decline in use of chemical fertilisers and improved seeds, and slow expansion in irrigation and agricultural credit.

Tabel 5.1: Major achievements in the food and agriculture sector

Outcome/ Impact indicators	Intermediate indicators	2001/02	2002/03	2003/04	2004/05	% Change over 2003/04
Food security	▪ Number of districts served by NFC	32	31	30	30	0.0
	▪ Quantity of food sold (tons.)	8,213	5,693	6,100	5,882	-3.6
Overall agricultural growth	▪ Length of rural roads (km.)	2,361	905	840	934	11.2
	▪ Number of VDCs electrified	1,600	1,800	2,000	2,200	10.0
	▪ Number of public market collection centres/market yards	31	33	750	-	-
	▪ Agricultural credit (ADB/N only - in Rs. million)	7,110	7,669	10,151	10,432	2.8
	▪ Area under irrigation (ha.)	937,722	985,546	1,128,000	-	-
	▪ Use of chemical fertiliser (tons.)	193,154	172,270	161,316	157,077	-2.6
Crop production	▪ Number of functioning farmers groups	7,508	9,383	11,272	13,118	16.4
	▪ Use of improved seeds (tons.)	2,654	2,574	5,751	2,824	-50.9
	▪ Number of pocket programmes	1,897	1,967	1,967	2,509	27.5
	▪ Crop/horticulture credit (Rs. million)	2,028	2,222	2,024	2,031	0.35
Livestock production	▪ Number of livestock farmers' groups	6,623	6,954	6,965	7,543	8.3
	▪ Number of artificially inseminated livestock	53,641	52,049	44,344	46,434	4.7
	▪ Production of milk (tons.)	1,158,780	1,195,931	1,238,000	1,274,000	2.9
	▪ Number of pocket programmes	455	455	807	816	1.1
	▪ Amount of livestock credit (Rs. million)	1,570	1,634	1,606	1,844	14.8
	▪ Production of meat (tons.)	198,895	203,899	208,412	214,817	3.1
	▪ Production of eggs (000 number)	538,420	557,361	575,565	590,137	2.5

Source: MOAC, 2005

IRRIGATION

Irrigation is a key input for raising agricultural productivity and consequently household incomes and food security. Irrigation receives high priority in both the PRSP and APP. While about 43 percent 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 percent 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 problems faced in the irrigation sector, especially in the public systems, are inadequate capacity of Water Users Associations (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, under-developed water-users' institutions, and low investment by the private sector (e.g. in conjunctive use of ground water, supplementary or non-conventional irrigation technologies).

The major objectives of the irrigation sector are to a) develop new irrigation and drainage infrastructures capable of providing controlled year round irrigation, b) attain sustainable management of existing Farmer Managed Irrigation System (FMIS) and Agency Managed Irrigation Systems (AMIS), and c) support non-conventional irrigation to channel benefits to the poor. The irrigation policy (2003) seeks to empower Water Users' Associations (WUAs) to operate and manage their irrigation systems and to involve local bodies in the development and management of small and medium-sized systems. Strengthening the WUAs by handing over small schemes or transferring management of key secondary canals in the large/medium irrigation schemes to user associations or the private sector, will represent another major policy shift.

The irrigation sector implemented 12 P1, 12 P2 and 1 P3 projects in 2004/05 with a development budget of about Rs. 2.2 billion. The government is contemplating implementation of 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 ha. of land within the Tenth Plan period (starting 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.

The Asian Development Bank (ADB) has approved a six-year irrigation project that is to be implemented in 35 districts of the Eastern and Central regions. The first objective of the project is 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, women and excluded groups. The second goal is to empower WUAs, improve irrigation facilities, expand agriculture

extension and targeted livelihood programmes for the poor, women, Dalits and Janajatis.

The government is formulating another project, the Irrigation and Water Resources Management Project. This project will be implemented with the support of the World Bank in 40 districts of the Western, Mid-western and Far-western regions. It seeks to assist the improvement and modernisation of farmer-managed irrigation systems in the Hills, Mountains and the Terai. Another project goal is to promote ground water irrigation in the plains using proven technologies and approaches for tapping groundwater. It also aims at improving services of public irrigation schemes in the Terai by transferring the management responsibility to WUAs.

The performance of medium/large scale irrigation schemes has been mixed. However, there has been improvement in groundwater irrigation through shallow tube wells. Six projects have supported the installation of 54,022 Shallow Tube wells (STWs). Two among these, the Community Ground Water Irrigation Sector Project (CGISP) and the STW programme of the Agriculture Development Bank, are still underway. Groundwater irrigation, mainly through STWs, suffered a serious setback in the early years of the PRSP implementation following the withdrawal of capital subsidy. The installation of STWs has begun to pick up again. The number of shallow tube wells installed under the CGISP has increased from 83 in 2000/01 to 2,257 in 2004/05 to a total of 4,589 thereafter. Besides, the project has also completed 87.2 km. of road under its farm-to-market road improvement activity and work is underway on another 42 km. STW installation has been increasing despite the withdrawal of subsidy.

Another significant programme is 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. Irrigation is the entry-point in the SIMI, which aims to reach about 27,000 households in seven districts of the Western and Mid-Western Development Regions.

RURAL INFRASTRUCTURE

The PRSP emphasises rural roads to link potential agricultural production pockets with markets and rural electrification for harnessing groundwater for year-round irrigation. About 934 km. of roads have been built under the rural infrastructure expansion programmes. There has been progress in the construction of the Jumla-Surkhet road as well as other key roads connecting

Kalikot, Jajarkot, Achham, Bajhang, Rukum and other mid- and far-western districts. Completion of these roads will bring significant gains in terms of access, which is vital for poverty reduction.

Road master plans have been prepared in 54 of the country's 75 districts while a 20-year road sector master plan is under preparation. Preliminary work for developing Nepal as a transit point between India and China has begun. Connecting district headquarters to the road network remains a government priority; 70 out of 75 district headquarters are to be connected by road by mid-2007. Six more districts are expected to be connected by roads by end-2006, against the target of 10 districts by 2007. A total of 3,317 km. of roads were built between 2003 and 2005 (638 km. strategic road and 2,679 km. rural roads). The pace of road-building remains slow compared to the high demand and therefore, constructing roads to link areas with high agriculture potential remains a priority.

POWER

The power sector is guided by the long-term vision (1997-2017), which emphasises pro-poor development by expanding power generation and distribution in rural areas. The sector had 18 P1, 7 P2 and 4 P3 projects in 2004/05 with a development budget of Rs. 5.5 billion.

The average per capita electricity consumption is only 68 KWh per annum. Only 40 percent (37% reported in NLSS II) of the population has access to electricity. The installed capacity of 555 MW is less than one percent of the total hydropower generation potential. A number of small hydro-plants are under construction but rural electrification remains a major issue because investors are reluctant to invest in the rural areas.

The Tenth Plan intends to develop and expand alternative energy in rural areas and reduce dependency on imported energy. Expanding the grid to rural areas requires high investment and therefore, the focus is on alternative energy.

FORESTRY

Almost 39.6 percent of the total land area of Nepal is under vegetation cover. Although over 10 percent of this is scrubland, successful community and leasehold forestry programmes have helped regenerate forests.
Some achievements in the forestry sector are:

- The Community Forestry Development Programme has benefited about

one-third of all households of Nepal by increasing their access to forest resources, such as fodder and firewood. The programme has also helped increase women's participation in user committees.

- The Leasehold Forestry Programme being implemented in 26 hill districts aims at reaching out to landless families and has proven to be an effective means to reduce poverty. It has contributed towards improving the incomes of very poor families while also helping to restore environmental health. Over 2,120 leasehold forestry groups have been formed and 227 action plans have been prepared.
- All community forestry programmes in the hill and mountain districts (especially community and leasehold forests) 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 1,062,823 ha. in 2002/03 to 1,170,896 ha. in 2004/05 (Table 5.2).
- The successful conservation programmes have helped to slowdown degradation of land and forests. The area under conservation has also been expanded through involvement and participation of people living in the buffer zones.

Table 5.2: Major achievements in the forestry

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

A recent evaluation of the Hills Leasehold Forestry and Forage Development Project (HLFFDP) suggests that the programme has been able to reduce poverty and empower low income, landless groups (Box 5). The HLFFDP began in four pilot districts in 1994 and was extended to 26 districts by end-2000. The impact evaluation was carried out in 10 of the 26 districts.

Box 5: Environmental and economic impact of leasehold forestry

The followings are some findings of the evaluation of leasehold forestry in 10 districts:

- Agriculture was the main occupation of only 45% households. Excluding wheat, productivity of all major crops had decreased over the years.
- Altogether, 88% users are engaged in group saving and credit programmes, of which 43% are involved in mobilising funds.
- Among the leasehold forestry households, cash income from agriculture has decreased, while that from livestock has almost doubled. The share of livestock products, remittance and wage earning in the average household income was 26%, 24% and 23%, respectively.
- The number of ruminant livestock has decreased but milk production increased indicating a decline in unproductive cattle.
- The expenditure pattern of leasehold households has also changed. The proportion of household spending on food decreased to 91%. Likewise, spending on education, health and clothing increased by 78%, 90%, and 99% respectively compared to 5%, 2% and 7% during the base year.
- Leasehold forestry has helped to improve the living standards of 30% poor farmers. It has also helped to build a foundation for further enhancement of their economic status through improved grass production, plantation of NTFPs, social empowerment, skill development, and improved breeds of livestock. Generally, households that received better-quality land on lease have had quicker benefits.
- There has been improvement in the crown cover and composition of forests. Almost 50% of land that had no vegetation is now covered by trees and shrubs. A total of 1,956 patches of forests have been raised on 8,037 ha. under the programme, compared to 569 ha. of land in the base year (1997). On average, there are 644 plants per ha. of leased land. Leasehold forests have increased greenery because grazing has been controlled. The promotion of the "cut-and-carry" fodder collection method has also helped to reduce erosion.
- The control of grazing has allowed natural regeneration and the vegetation has also been augmented through new plantation. More than 95% households involved in the project and control groups practice stall-feeding with less than one month of free grazing.
- There is not much change in the use of improved cooking stoves compared to the baseline value (18%). The only district where there was significant increase is Ramechhap where its use had grown by 44%.
- Group formation and forest handover processes, however, have not fully complied with the project operational guidelines. The programme has also had to face different types of conflicts. The major disputes relate to exclusion of the poor and marginalised groups, lack of clear demarcation of forest and private land and confusions relating from the overlap of community and leaseholds forests in some districts. However, inclusion of poor and marginalised households has been improving. The proportion of targeted populations (poor and marginalised households) in new groups is higher than that in old groups.
- Tamangs comprise 26% of the population in leasehold FUGs, Magar (12%) and Newar (11%). Besides, other indigenous nationalities such as the Praja, Darai, Hayu, Kumal and Thami have also benefited. But the number of people from these groups in the FUGs is low. The proportion of Brahmin and Chhetri in leasehold FUGs are 10% and 12%, respectively.
- The land leased to landless and "ultra" poor households was of poorer quality than that provided to other groups.
- Overall, the participation of men and women in leasehold forestry management is similar. However, women's participation in harvesting of forest products was higher though they had less control in selling forest products and using the income.
- A third of the leasehold FUGs were functioning well, and
- Literacy rate in the project has increased from 38% in 1995 to 69% in 2004/05; with male literacy at 77% and female literacy at 60%. The literacy rates are higher than the national average.

Source: NPC, 2005[d]

PROMOTING NON-AGRICULTURAL GROWTH

The non-agriculture sector, which contributes about 60 percent of Gross Domestic Product (GDP), plays an important role in accelerating and sustaining the overall PRSP growth targets. The Tenth Plan emphasises 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 6).

Box 6: 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 (on-going), and
- Amendment of the Foreign Investment Act (on-going).

Activities in the non-agriculture sector are mostly led by the private sector. However, the government still dominates some key areas such as, electricity, telecommunications, and drinking water and, to some extent the financial sector. Non-agricultural growth remains adversely affected by political instability and weak external and domestic demands. 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. The government has also further opened up the skies to allow more airlines to fly in and out of Nepal. Accounting standards and the regulatory environment have been improved for enhancing the efficiency of public enterprises.

PUBLIC ENTERPRISES REFORM AND PRIVATISATION

Nepal has taken major steps to dismantle public sector monopolies and inefficient public enterprises. The reforms in the telecommunications sector have been the most far-reaching. The 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. A private operator has also been permitted to provide mobile telephone services.

The government has announced a policy to involve the private sector in construction and operation of small and medium scale hydro-electricity 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 rural areas. The Nepal Electricity Authority has begun distributing electricity to rural communities through arrangements made under the policy. Nepal has approved a policy for 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.

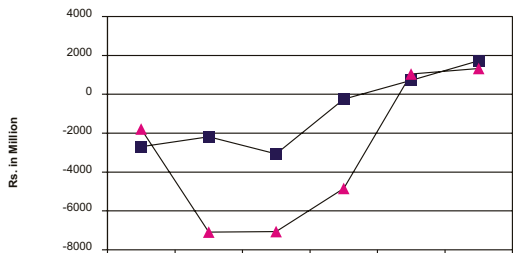
The public enterprise reform process was revitalised during the early years of PRSP implementation. A number of enterprises have been identified for privatisation, leasing, liquidation, transformation into public companies, and for introducing performance contracts. By 2003, about 23 public enterprises were privatised or liquidated. The Bhaktapur Brick Factory was leased out in 2004.

An assessment of the assets and liabilities of the Royal Nepal Airlines Corporation is underway, with a view to transform it into a public company. Besides, performance contracts have been introduced to improve 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.

FINANCIAL SECTOR REFORM

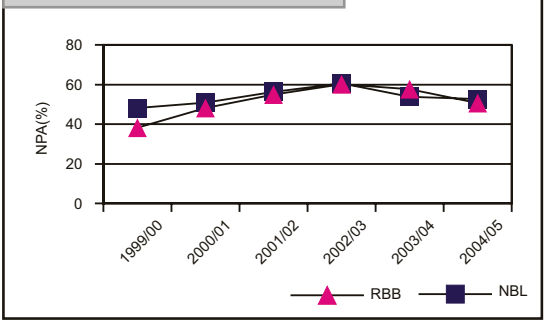
Since late 1990s, Nepal has been implementing a comprehensive financial sector reform programme with the assistance of the World Bank. The objective is to improve the financial posi-

Fig 5.1: Net Profit of NBL and RBB



	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
NBL	-2698	-2178	-3071	-252	710	1730
RBB	-1791	-7083	-7068	-4839	1040	1323

Fig 5.2: Proportion of NPA of NBL and RBB



tion of the two problematic state-controlled banks, improve accounting and auditing standards, strengthen monitoring and regulatory capacity of the Nepal Rastra Bank (NRB) (central bank), strengthen legislative and institutional framework and restructure and privatise state owned-banks. Besides, it also includes restructuring of the publicly owned Nepal Industrial Development Corporation and Agriculture Development Bank, both of which are facing serious financial problems.

Actions are underway to reengineer and restructure the NRB to enhance its capacity for regulating and supervising the financial sector. A new organisational framework has been introduced at the central bank; staff number has been reduced (571 staffs have been reduced voluntary retirement and 11 under the compulsory retirement scheme). Moreover, in order to improve the skills and efficiency, 30 staffs have been offered on-the-job training and 46 external auditors have been trained; a public relation officer has been appointed; information technology has been modernised; and the information system has been strengthened using new software and hardware. A new audit and accounting framework has been introduced and the overall capacity of NRB for supervision and regulation has been enhanced. A new law has also been enacted.

A comprehensive programme is underway to revamp two state owned commercial banks – Rastriya Banijya Bank (RBB) and Nepal Bank Limited (NBL) (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 RBB and NBL, and a series of measures have been taken to improve their performance. The banks have launched intensive debt recovery programmes, where they have had some success. However, the NPA levels still remain very high even though cash recovery from bad loans has exceeded Rs. 12 billion.

The NBL has come a long way since 1999/2000 when its net loss was Rs. 2,698 million to a profit Rs. 1,730 million in 2004/05. Similarly, RBB has also improved its finances, from a net loss of Rs. 1,791 million to 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.

Box 7: Milestones in 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 bye-laws at the NRB, NBL and RBB have been prepared and are being implemented
- The NPA of the NBL was reduced to 52.6% in 2004/05 from 60.5% in 2002/03; the management has recovered Rs. 7 billion in cash from bad debts since July 2002 to date. NPA of the RBB was reduced to 50.7% in 2004/05 from 60.1% in 2002/03; RBB has recovered Rs. 7.3 billion in cash from bad debts since January 2003
- All NPAs of the NBL and the RBB are fully provisioned
- Both the NBL and RBB registered net profits for the second consecutive year (Rs. 1,730 million at the NBL and Rs. 1,323 million at the RBB in 2004/05), and
- Computerisation at the NBL covers 74% of deposits and 85% of lending. The same is 42% and 37%, respectively, at the RBB.

In order to enhance the role of 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 has been prepared. The draft was prepared in consultation with 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 accounting, auditing and reporting systems. Box-8 summarises some milestones in financial sector reforms.

Section VI

Social Sector

EDUCATION

The education sector has performed reasonably well despite the conflict. However, the displacement of school children still remains an issue. Student enrolment in primary education has increased; the access of disadvantaged children to primary education has improved; and the primary cycle completion rate has increased. Some of these improvements have resulted from new measures to enrol and retain more children from disadvantaged communities in schools.

Enrolment: In order to extend primary education coverage, the government has launched an enrolment campaign (Welcome to School Initiative) aimed at attracting out-of-school children. The government believes that enrolment cannot be increased without reaching out to children of poor and disadvantaged communities. The Welcome to School Initiative (2005) has been effective in motivating the targeted communities to send children to school. The programme has been more effective in communities where NGOs and local leaders participated in the campaign. Two other programmes, the school outreach (for 6-8 year-olds) and flexible schooling (for 8-12 year-olds) aim at providing learning opportunities to out-of-school children by bringing them into the system. These programmes have been targeted with good effect among special groups and/or areas. The efforts to increase access to education and retain students are supported by scholarships and school feeding (midday meals) schemes. [1]

The government has recruited more female teachers (share of female teachers in primary schools is 30%) and supported construction of separate latrines for girls (now 11,341 schools have separate latrines) to make the school environment more friendly for female students. All of these efforts have led to encouraging results: net primary enrolment rate has reached 86-87 percent

[1] Process monitoring of free textbook and scholarship programmes has, however, pointed out deficiencies including under funding, delayed availability, or unavailability (For details refer to Process Monitoring of Targeted Programmes Free Textbook Distribution and National Scholarship Programmes of Doti and Banke Districts, Development Vision Nepal, 2004).

(88% was the target of 2005/06), only two percent short of PRS target.[2] The enrolment of girls has increased[3], and so has that of children from the "low" castes and disadvantaged ethnic groups. Children of former bonded labourers (*Kamaiya*) have also enrolled in notable numbers. The challenge now is to retain and enable them to complete the schooling cycle.

Some new initiatives were launched and many ongoing activities were scaled up for improving education efficiency. Teacher training packages were reviewed and revised and the facility was expanded to a network of 34 education training centres, 100 private primary teacher training centres and 80 alternative providers. An additional 10,720 teachers were trained in 2004/05 and in July 2005, there were 30,967 trained primary teachers (around 31%). According to the Economic Survey 2005, primary school teachers completing all four training packages numbered 14,992. The process of certifying teachers is almost complete and the continuous assessment system has been introduced in five districts. The private sector was involved in the distribution of free textbooks in five districts – on a pilot basis – for improving delivery.

The targeted scholarship programme has been expanded to children from disadvantaged communities (some 560,000 children form "low" castes and 635,380 girls received primary school scholarships in 2004/05). Additionally, the Early Childhood Development Centres, run by the government and I/NGOs, prepared more children for formal schooling.

Overall, the primary cycle completion rate improved from 50.4 percent in 2003/04 to 68 percent in 2004/05. The percentage of students completing the primary level also rose by nine percentage points in 2004/05. Despite these improvements, the quality of education remains a problem.

Schools transfer: An important initiative underway is the transfer of school management to communities for changing the way public schools have been run. Relevant provisions of the Education Act have been amended to enable School Management Committees (SMCs) – comprising of parents, teachers and village education committee members – to recruit teachers locally. Despite the "teething" problems and inadequate monitoring, the arrangement has enhanced local ownership of education.

[2] NLSS 2003/04, however, estimates net enrolment rate at the primary level at 72 percent.

[3] This is encouraging and desirable considering that 42 districts in terms of Gross Enrolment Rate (GER) and 50 districts in terms of NER have gender parity index (GPI) below 0.97, indicating gender imbalance (GPI data from BPEP II and Education for All, Status Report 2004, Department of Education).

The ongoing programme to decentralise school management can help to enhance education quality through close supervision and management of teachers and teaching processes by the beneficiaries. However, there are some unresolved issues about the status of teachers at such schools; another issue is assuring communities of long-term government support. The programme slowed down in 2004/05 owing to a number of factors, including the political uncertainty. Government support to community-managed schools – financial (including resource mobilisation) and pedagogic – needs to be resolved before re-starting the school transfer programme. Continued public investment in education – which is a PRS priority – can help Nepal attain the education targets of the Tenth Plan.

Adult literacy: Adult literacy (15 years and above) – another PRS focus – was 48 percent in mid-2004 (NLSS 2003/04). This increased to 55 percent in 2005. However, the average masks the wide variations in literacy rates among various social groups and geographical regions. Female literacy, for example, is only 33.8 percent; the literacy of the poorest quintile is 23.1 percent and that for the eastern rural plains is 36.5 percent.

The government expanded the adult literacy campaign significantly in 2004/05 by involving NGOs/CBOs and local bodies in delivery. There are 50 community learning centres providing adult literacy coaching, and some 702,470 people completed adult literacy classes provided under the government's programmes in July 2005. This number included 183,000 females (Table 6.1). Additionally, some 4,401 neo-literates participated in post-literacy income generating programmes. In order to make education relevant, the new literates are trained on life skills and introduced to CBO-led income generating schemes.

Technical training: In 2004/05 the Council for Technical Education and Vocational Training (CTEVT) provided short-term training to 2,309, long-term training to 2,097 and basic skill training to 1,221 persons. It also trained another 11,637 persons under the community service programme. The government has been encouraging private sector involvement in both basic and middle-level skill training, but has yet to begin the voucher system to target training to poor and disadvantaged groups.

Table 6.1: Major achievements in education

Indicators	Fiscal year				% Change over
	2001/02	2002/03	2003/04	2004/05	2003/04
Number of primary schools	25,194	26,638	26,858	26,277[4]	-2.16
Net enrolment rate of primary school	81.1	82.4	84	87	4.76
Number of certified teachers	NA	27,875	120,988	NA	-
Pupils completing primary education (%)	60	67.7	69	78	13.04
Primary cycle completion (%)	NA		50.4	68	34.92
Primary teachers trained (%)	15	15	31	35	12.9
Number of girls in primary schools receiving scholarship	151,568	120,742	224,656	635,380	182.82
Share of female teachers in primary schools (%)	21.4	22.1	21.1	30	42.18
Number of community learning centres	20	40	52	51	-1.92
Number of female completing adult education	23,942	26.733	39,262	183,000	366.09
Schools with latrines for girls	7,613	9,741	10,633	11,341	6.65
Number of schools transferred to local communities	-	90	1,500	2,091	39.4

Source: MOES, 2005

Table 6.2: Budgetary performance of the education sector

(Rs. '000)

Indicators	2002/03 Actual Expenditure	2003/04 Actual Expenditure	2004/05 Revised Expenditure	2005/06 Budget
Expenditure on education[5]	13,286,606	14,477,740	16,190,616	21,250,447
Year-on-year change	1.1	9.0	11.8	31.2
Education expenditure as % of total expenditure	15.8	16.2	16.0	16.7
Education expenditure as % of education budget	92.2	92.7	89.6	100.0
Expenditure in primary education	7,841,007	8,507,380	9,101,293	12,317,099
Annual change in primary education expenditure (%)	12.2	8.5	7.0	35.3
Share of primary education in total education expenditure (%)	59.0	58.8	56.2	63.0
Expenditure on free textbooks[6]	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	534,552	776,216
Annual change in expenditure on Food for Education programme	-0.7	19.6	40.3	45.2
Expenditure on school transfer and incentive programme	-	109,487	98,351	150,000
Annual change in expenditure on school transfer	-	-	-10.2	52.5

Source: MOF, 2005[a]

[4] The number of schools reported in 2004/05 is less than that of previous year, which could be due to the merger of schools and/or reporting based on the progress report sent by the schools and not a nation-wide survey.

[5] Spending by the Ministry of Education and Sports only

[6] This expenditure item included under Education For All programme since 2004/05.

Expenditure: In terms of spending, the education sector accounted for 16 percent of total budget allocation and around 20 percent of total allocation during 2002/03-2004/05. Education expenditure has grown from 1.1 percent in 2002/03 to 11.8 percent in 2004/05 (Table 6.2). Almost 90 percent of education expenditure is recurrent. The projected spending on primary education was about 58 percent and actual spending, was about 63 percent. Within primary education, spending on school feeding, free textbook distribution and scholarship programmes rose significantly (the latter two budget heads are now under the "Education for All" programme). In the 2005/06 of 36 projects/programmes under the education ministry, 18 have been accorded highest priority (P1) and one is under the "targeted programme" category.

Overall, there has been progress on some key indicators of primary education but the achievement in adult literacy falls far short of the PRS target. The adult literacy target (63%) and female literacy target (55%) are too wide to be bridged during the remaining years of the PRSP.

In primary education, though current performance assessment is based on official figures drawn from the poverty monitoring database, there are discrepancies in the net primary enrolment rate reported by NLSS 2003/04 and the official data. The difference is significant and beyond normal sampling errors. One explanation for the discrepancy is that many children are "technically" enrolled but not all of them attend school regularly.

The PRS envisages the transfer of at least 6,000 schools to local communities. Schools transferred to communities are provided an annual grant equivalent to the salary of two teachers plus a lump sum amount of Rs.100,000. They are also entitled to receive government scholarships. Progress in the first three years of PRS implementation is only 35 percent. Of particular concern is a sharp drop in the transfer rate, down from 1,410 schools in 2003/04 to 591 in 2004/05.

Major issues: Demand side constraints slowed down the transfer process while uneven implementation, the conflict and the lack of inputs and process monitoring, also contributed to the slowdown. There has also been some resistance to the transfer from interest groups (e.g. teachers) and there are concerns that transferring ownership could undermine the access of children from disadvantaged groups. The concerns are not unfounded because even now children from underprivileged groups are denied access even to "free" primary schooling because there are hidden costs (and also opportunity costs).

There is also the general perception that the government is trying to absolve itself from responsibility by transferring the schools to community management, which is why many communities are unwilling to take on the management responsibility. The technical capacity of the SMCs is also an issue. The government, therefore, needs to remain aware about the coercive tactics of different interest groups and to find ways for supporting communities in their endeavours. Raising the participation of Women, Dalit and Janajatis in the SMCs and Parent Teachers' Associations (PTA) are equally important. The other challenge is assisting the SMCs to mobilise local bodies support.

Education has also been affected by the conflict. Although number of schools that have been forced to shut down is small, of concern is the number of days the schools have been forced to shut down. Estimates suggest that some schools lost as many as 40-50 of the 200 days in the calendar in 2004/05. Despite problems, the school system remains more or less intact and is still functioning.

The education of displaced children remains an issue, however. A large number of students have been displaced from the conflict-affected areas and more are being forced to move every year. Most of the displaced children are in 11-15 years age group and most of them have either completed primary schooling or were in the process of completing the level when they were forced to move. These children (not all of them are from poor families) have been deprived of education. Some displaced children rejoin schools in areas where their families settle but this has caused overcrowding of some public schools. Many students have also discontinued study for other reasons such as conflict-induced trauma, families unable to afford re-admission to schools, and administrative difficulties (because they lack proper documents needed for admission).

In 2005, the Department of Education instructed schools to admit children even if they did not produce transfer certificates (which could be provided at a later date). However, the issues of trauma and the inability to pay need to be addressed separately. The issue of redeploying teachers from schools where students have migrated also needs to be resolved. The following are areas that need further improvements:

- Continue the successful Welcome to School Initiative and the non-formal education programmes with additional efficiency enhancing measures. Alongside the primary school feeding programme, targeted scholarships need to be expanded together with the increase in enrolment. There is

also need for expanding the classrooms and increasing the number of teachers in order to be able to retain students.

- Consider scaling-up private-sector involvement in textbook printing and distribution after refining the modality based on the pilot experience. Enhancing such a programme is important because more and more children from poor and disadvantaged groups have begun to enrol in primary education.
- Ensure greater focus on implementing measures to support bilingual education. Translating, printing, identifying target areas and groups and distribution of textbooks are the major tasks that need to be carried out.
- Launch VDC-wise literacy campaigns using local NGOs in partnership with local bodies (when fully reactivated). Extend programmes to increase relevance of literacy activities by providing life skills and linking up literates with income-generating activities.
- Prepare and empower local communities to assume responsibility for managing schools using successful examples as models to convince the sceptics. Meeting all government commitments and assurances under the transfer agreement is very important for confidence building. Properly managed and implemented, the school transfer programme could be an appropriate policy response for ensuring smooth functioning of schools even during the difficult times.
- Introduce process monitoring to assess the access of disadvantaged children, the functioning of SMCs and parent involvement. Consider linking transferred schools to local bodies for monitoring, guidance and support (e.g. administering school improvement plan or performance-based incentive plan), without undermining their autonomy, as part of decentralising the responsibility for primary education to local bodies.
- Implement a special package for assisting schooling of the displaced children. Proactive efforts are needed for integrating displaced students into the education system (the action should include tracing displaced children, counselling them and assisting them to rejoin schools).
- Strengthen monitoring and database management to meet the requirements of the sector-wide planning and management approach adopted in education. Investigate the discrepancy in net primary enrolment rates between NLSS 2003/04 and official estimates and finalise the database.

- Institutionalise the benefit data validation system on the implementation of different targeted programmes like the national scholarships for girls and children from disadvantaged groups.

HEALTH

There has been progress in the health sector but the basic indicators still remain poor. Inadequate access of the disadvantaged, the poor and people from remote areas to essential health care services remains a major problem. Further, infectious, maternal and prenatal diseases remain a major cause of mortality and morbidity. The occurrence of non-communicable diseases has also been growing steadily, particularly in urban areas. The government has yet to find an alternative mechanism for financing and expanding secondary and tertiary healthcare in order to be able to redirect funding for preventive and basic healthcare. Nepal still lacks appropriate policy instruments and institutional capacity for adding value and aligning health spending with outcomes.

Despite increasing use of contraceptives and other family planning measures, the population has continued to grow at an unsustainably high level. Assured public health expenditure (in the face of growing demand), funding of essential recurrent expenditures, provisioning of adequate medicines and equipment in remote areas, retention of health technicians, performance and quality of service delivery, and affordability of rising health costs are other challenges facing the sector.

Strategies: The health sector has made efforts in strategy, policy and plan formulation and information management. Nepal has sector and sub-sector strategies and implementation plans, policies for specific programme areas, and directives and guidelines for key operations. Among recent actions, the health sector strategy formulated in 2004 lays down an agenda for reform; the National Neonatal Strategy and Vulnerable Community Development Plan and Health Care Waste Management plan were developed in 2004; the Nutrition Strategy was formulated in 2005; and the Skilled Birth Attendance Policy was drafted in 2005. However, Nepal still lacks policy and strategic modalities for, a) public-private partnership, and b) a policy for decentralising health service management with a strategic roads map specifying actions to devolve and those to be managed by central agencies except for handing over a few health facilities to communities for management in order to improve service delivery.

A sector-wide approach has been adopted in planning, programming, funding, monitoring (performance review) and delivering health care services. There are still major gaps in matters of aid harmonisation and transparency in aid flows for health services. However, sector wide programme in conjunction with MTEF framework resulted in increased budget allocation to the health sector in 2005/06. A practice of joint biannual reviews – one for health sector performance against the background of agreed policy reform milestones and output indicators, and another on the outputs-based work programme and budgeting – has been initiated. Two donors have been pooling resources from 2004/05, following the adoption of the sector-wide approach and the Nepal Health Sector Programme.

Four of eight intermediate health indicators revealed lower progress in 2004/05 compared to 2003/04 (Table 6.3). Immunisation coverage has dropped significantly while there has been progress in measures to control malaria, Kala-azar, tuberculosis and leprosy. A summary of major health programmes and achievement of the health sector is given in Annex 6.1.

Implementation issues: Some difficulties encountered during programme implementation are (i) unavailability of essential drugs, vaccines and supplies due to delay in procurement and disruption of the distribution system, (ii) difficulty in assigning technical staff in remote locations and their retention, (iii) problems related to repair and maintenance of equipment and other health infrastructures (also in assessing the standard of equipment and medicines), (iv) weak coordination and cooperation with and among donors and I/NGOs, (v) inadequate capacity of local institutions to manage health facilities, and (vi) insufficient monitoring and backstopping at different levels. Given the current health status[7] greater efforts and investment are needed for achieving the sector targets. The PRS health targets include decreasing the infant mortality rate from 64 to 45 per 1,000 live births, child mortality rate from 91 to 72, maternal mortality rate from 415 to 300 (per 100,000 births), and raising life expectancy from 61.9 to 65 years.

[7] Selected national level health indicators are: infant mortality rate 61 (Nepal MDG Progress Report, 2005), U5 MR 82 (Nepal MDG Progress Report, 2005), maternal mortality rate 740 (2000, HDR 2005) and life expectancy 61.3 years (2003, HDR 2005).

Table 6.3: Major achievements in health

Indicators	Fiscal year				% Change over
	2001/02	2002/03	2003/04	2004/05	2003/04
Women receiving ANC 1st visit	-	53	66	69	4.5
Women receiving at least 4 ANC visits (%)	37.9	36.8	43.6	44.1	
Women receiving adequate PNC visits (%)	14.4	18.8	28.3	30.4	7.4
Births by skilled attendants (%)	15.0	16.1	18.0	20.2	12.2
Malnourished women (%)	15.4	14.0	12.8	10.5	
Pregnant women receiving iron tablets (%)	57	68	88	84	-4.5
Routine immunisation coverage of 1 year-olds, DPT3 (%)	80.3	86	90	80	-11.1
Routine immunisation coverage of 1 year-olds, BCG (%)	-	97	96	92	-4.2
Routine immunisation coverage of 1 year-olds, measles (%)	80.3	86.2	90.3	80	-11.4
Contraceptive prevalence rate (%)	38.9	37.8	40.0	41.7	0.8
Cumulative number of TB and malaria cases detected and treated	70,189	71,190	70,514	-	-
Number of malaria cases detected (per 10,000 population)	5.7	5.2	3.3	-	-
Number of malaria cases treated (per 10,000 population)	4.4	5.2	3.2	-	-

Source: MOHP, 2005

HIV/AIDS: HIV is a growing concern. The prevalence of HIV infections is estimated at 0.5 percent in the 15-49 years age group, with a 3:1 male-female ratio. The number of HIV infected people is estimated to be around 70,000. However, the prevalence rate among specific higher risk and vulnerable groups (such as female sex workers and injecting drug users) exceeds five percent. Therefore, Nepal is in a "concentrated epidemic" stage. Among high risks groups, seasonal labour migrants comprise 40 percent of those with HIV infection, followed by clients of sex workers. The interaction of the higher risk groups with a much larger but lower risk population through unprotected sex has the potential to turn the concentrated epidemic into a generalised epidemic. That may, within a decade, have a devastating effect on the economy because it would affect people of the economically productive age group (15-49 year-olds).

It is estimated that by the end of the decade, 100,000 to 200,000 young adults will be infected by HIV, and 10,000-15,000 may die of AIDS annually, making it the leading cause of death in the 15 to 49 years age group (MDG progress report 2005). The number of children orphaned by HIV/AIDS is about 13,000.

Nepal must urgently strengthen its response to the threat of HIV/AIDS. There have been some positive actions in the past year in terms of translating the national HIV/AIDS strategy into a broadly owned operational plan, through improved participation of and coordination among the various stakeholders. The Nepal Health Sector Programme Implementation Plan (2004-2009) emphasises that the Essential Health Care Package should also include AIDS/STD (Sexually Transmitted Diseases) control. Nepal's policy on AIDS and STD control was adopted in 1995 with 12 key policy statements focusing mainly on multi-sectoral preventive measures to be implemented in partnership with NGOs in an integrated and decentralised manner. A new national HIV strategy is currently being prepared through a participatory process to cover the period beyond 2006. The new strategy and operational plan are also expected to include a strong monitoring and evaluation framework.

In the past one year, there has been an attempt to establish a multi-sectoral, semi-autonomous entity for coordinating actions against HIV/AIDS with space for public-private partnerships. This would help towards overcoming one of the main hurdles facing the HIV/AIDS programme in Nepal, i.e. the lack of appropriate institutional mechanisms. The completion of the task would pave the way for more effective and efficient implementation of the fairly good plans and strategies that are already in place.

Community programmes: As part of the overall sector reforms, the government has been transferring health facilities to local bodies or management committees. The transfer of health institutions slowed down after 2004/05 when a total of 1,303 sub-health posts (out of 3,129), 77 health posts (out of 697) and 32 primary health care centres (out of 186) had been transferred (Table 6.4). A non-governmental organisation is managing one district hospital.

The government launched the community health insurance programme at Urlabari of Morang district and Dumkauli of Nawalparasi district. Two new hospitals also came into operation in Mugu and Dolpa districts in 2004/05.

Table 6.4: Management transfer of health facilities

Fiscal Year				2001/02	2002/03	2003/04	2004/05	% Change
Number of health facilities[8]				4,429	4,408	4,401	4,401	0.0
Region	Number of Health			Facilities handed-over by Fiscal year				
	Facilities Handed-over			2002/03	2003/04		2004/05	
	SHP	PHC	HP	SHP	SHP	PHC	SHP	HP
Eastern	361	7	15	127	234	3	-	6
Central	458	18	45	136	176	3	147	6
Western	307	2	5	160	147	2	-	5
Mid-Western	122	4	10	35	86	4	-	10
Far-Western	55	1	2	10	45	1	-	2
Nepal	1303	32	77	468	688	13	147	29

Source: MOHP, 2005

In programme terms, progress in selected areas within the Essential Health Care Services during 2004/05 is:

(i) Immunisation of more than 10 million children between nine months and 15 years against measles (second opportunity), distribution of vitamin A and de-worming tablets to six and 59-month-olds as part of the Integrated Management of Childhood Illness (IMCI) programme,

(ii) Distribution of oral re-hydration solution (ORS), albendazole tablets and IEC materials on nutrition; procurement of acute respiratory infection (ARI) sound timer, Salter scale and arm measuring tape for use in diarrhoea and ARI control,

(iii) Provision of safe delivery service by trained health workers to over 120,000 expectant mothers, procurement of delivery kits for distribution and expansion of basic essential obstetric care (BEOC) to 10 districts, and

(iv) Diagnosis and treatment of over 13,000 tuberculosis patients, spraying (twice) in districts with high malaria risk, distribution of insecticide treated nets, distribution of test kits against Kala-azar and continuous surveillance of malaria and Kala-azar affected areas, provision of anti-retroviral therapy (ARV) to 150 AIDS patients, launch of the Prevention of Mother to Child Transmission (PMTCT) programme in three hospitals, and provision of self-employment training to 20 HIV infected persons.

[8] Not included are 442 private and I/NGO run health facilities.

Table 6.5: Budgetary analysis of health sector

(Rs. '000)

Health budget and expenditure	2002/03 Actual Expenditure	2003/04 Actual Expenditure	2004/05 Revised Expenditure	2005/06 Budget
Expenditure on health[9]	3,807,672	3,915,154	4,964,137	7,555,431
Year-on-year change	-0.1	2.8	26.8	52.2
Health expenditure as % of total expenditure	4.5	4.4	4.9	6.0
Health expenditure as % of health budget	78.1	77.6	75.7	100.0
Expenditure in Essential Health Care Services (DHO, HC, HP, SHP)	1,245,767	1,488,303	1,705,340	1,958,066
Share in health expenditure (%)	32.7	38.0	34.3	25.9
Annual change in %	3.8	19.5	14.6	14.8
Expenditure in health services (Programmes: central level)	777,227	722,195	1,404,634	2,763,632
Share in health expenditure (%)	20.4	18.4	28.3	36.6
Annual change in %	-0.4	-7.1	94.5	96.7
Expenditure in health services (Programmes: district level)	311,398	299,800	206,166	811,620
Share in health expenditure (%)	8.2	7.7	4.1	10.7
Annual change in %	-11.1	-3.7	-31.2	293.7
Expenditure in hospitals	839,034	911,414	1,044,784	1,154,535
Share in health expenditure (%)	22.0	23.3	21.0	15.3
Annual change in %	-19.1	8.6	14.6	10.5

Source: MOF, 2005[a]

Expenditure: In 2004/05, MOHP spent Rs. 3.1 billion (69.2 % of the allocation) on 37 development projects, which included five district-level programmes and 21 other projects. Of the total health expenditure in 2004/05, Essential Health Care Services (DHO, HC, HP and SHP) accounted for 34.3 percent, health services (central level) 28.3 percent and hospitals management 21.0 percent.

WATER SUPPLY AND SANITATION

Access to safe drinking water and basic sanitation is a PRS priority. The PRS aims to raise water supply coverage from 71 percent[10] to 85 percent. The Tenth Plan also aims at raising availability of sanitation facilities to 50 percent of the population by 2006/07 (from 25%). The coverage of water supplywas 75 percent and that of sanitation facilities 46 percent in 2004/05[11]. However, the PRS target is unlikely to be met because many systems need to be rehabilitated[12]. The Rural Water Supply and Sanitation Fund Development Board (RWSSFDB) – that is engaged in providing Rural Water Supply and Sanitation (RWSS) services – estimates that only 86.3 percent of the PRS target will be attained during the Tenth Plan period.

[9] Spending by the Ministry of Health and Population only.
[10] This refers to the situation at the end of the Ninth Plan (FY 2001/02).
[11] Annual Progress Review, 2004/05, Ministry of Physical Planning and Works.
[12] Nepal Community-Based Water Supply and Sanitation Project Preparation Technical Assistance, Final Report, ARD/CMS/ICON, 2003.

Even though the PRS target may not be met, there is evidence of reasonable progress in the sector as a whole which is apparent in: (i) the setting of quality standards and water quality monitoring (tube wells in the Terai have been tested for arsenic and microbiological contamination); (ii) the efforts to raise service standards (targets set for "high" and "medium" standard during Tenth Plan are 5% and 10%, respectively); (iii) the emphasis on rural sanitation and hygiene; (iv) the focus on remote/interior areas and un-served populations; and (v) the recognition of water as a vehicle for social change by mainstreaming gender, caste and ethnicity.

Table 6.6: Major achievements in drinking water and sanitation

Indicator	Fiscal year				% Change
	2001/02	2002/03	2003/04	2004/05	Over 2003/04
Population with access to drinking water (%)	71.6	72.8	73.5	75.5	2.7
Households with sanitation facility (%)	20.0	26.2	39.0	46.2	18.5

Source: MOPPW, 2005

A RWSS strategy and action plan has been developed and approved and this provides a framework for rationalising sectoral institutions and community-based implementation processes in accordance with the decentralisation policy and the PRS. The National Water Supply and Sanitation Sector Policy (1998) (NWSSSP) was revised in 2004. Mainstreaming gender, caste and ethnicity is a key component of the revised policy. The government has also formulated a comprehensive sector plan that also spells out the resource needs[13].

At the implementation end, the Department of Water Supply and Sewerage (DWSS) has begun restructuring, which includes (i) handing over appropriate water supply schemes to local bodies and/or communities in the districts after undertaking necessary repairs and rehabilitation (the need for maintenance and suitability for transfer are assessed through field inspections and by classifying the schemes by their size, complexity, stage of development and existing condition), and (ii) reorganising district offices into 22 division offices. A draft law seeking to make the RWSSFDB a fully autonomous, permanent body has been prepared. Two major projects – formulated in accordance with the sector policy – are under implementation.

The Department of Water Supply and Sewerage had 13 projects and budget of Rs. 1.3 billion in 2004/05. The DWSS operates nationwide focusing on

[13] There is a National Water Plan (2002-2017) and, for some districts, district water profile(s).

rural areas (communities larger than 1,000 people) and small towns. In 2004/05 the DWSS: (i) completed 53 district-level schemes to supply water to an additional 123,600 people; (ii) extended water supply to 11,000 people of Biratnagar sub-metropolitan city (ward no. 1, 4 and 5) and Tanki Sinubari VDC (ward no. 3 and 11); (iii) completed and handed over the Manghad water supply scheme to users' committee; (iv) installed a deep tube well each in Gulariya, Topgachi and Dhulabari; (v) handed over 40 water supply schemes to users' committees after repair and rehabilitation; (vi) carried out major maintenance and rehabilitation of 80 schemes damaged by natural disasters; (viii) constructed 30,000 latrines by involving NGOs and beneficiary organisations; (ix) completed rainwater drainage in Hanuman Nagar and Gorkha towns; and (ix) tested 40,000 tube wells in the Terai for arsenic contamination. Overall, the reported physical progress (annual weighted) was 88 percent and financial progress was 64 percent.

The DWSS is implementing two projects which could have far reaching implications for the entire sector. Among them, the Community-based Water Supply and Sanitation Project (CWSSP) aims to provide rural water supply and sanitation services to 1,200 communities in 21 districts, including 12 districts from Mid-west and seven from Far-west. Similarly, the Small Town Water Supply and Sanitation Sector Project (STWSSSP) is a demand-driven project involving beneficiary ownership, cost recovery[14], participatory implementation and multi-agency involvement.

Rural Water Supply and Sanitation Fund Development: The Rural Water Supply and Sanitation Fund Development Board (also known as Fund Board) is a government agency involved in community-based rural water supply and sanitation. The Fund Board undertakes only projects included in the district development plans as a strategy to involve the DDCs in monitoring and post-construction support. The Fund Board projects place emphasis on the meaningful participation of vulnerable and excluded groups – including women, Dalits (considered "untouchable") and Janajatis. Details on the CWSSP, STWSSSP and Fund Board are provided separately (Annex 6.4).

[14] Water Users' Groups have to bear 50 percent of the capital cost (5% cash and 15 % labour/materials/cash payment as upfront contribution, and 30% loan from TDF to be paid back as monthly tariff) and the entire cost of system operation, maintenance and expansion.

Table 6.7: Budgetary analysis of the water supply and sanitation sector

(Rs. '000)

Indicators	2002/03 Actual Expenditure	2003/04 Actual Expenditure	2004/05 Revised Expenditure	2005/06 Budget Allocation
Expenditure on water supply[15]	2,152,363	2,582,874	2,732,057	4,638,031
Year-on-year change	13.0	20.0	5.8	69.8
Water supply expenditure as % of total expenditure	2.6	2.9	2.7	3.7
Water supply expenditure as % of water supply budget	57.0	74.7	76.2	100.0
Fund Board expenditure	265,000	374,755	413,661	519,439
Share of Fund Board expenditure (%)	12.3	14.5	15.1	11.2
Expenditure in community-based WSSP	0	1,388	86,082	120,373
Share of community-based WSSP (%)	0.0	0.1	3.1	2.6
Expenditure in rural drinking water projects	92,784	134,245	146,161	420,000
Share of rural drinking water projects (%)	4.3	5.2	5.3	9.1
Expenditure in small town WSSSP	69,032	122,270	312,138	717,508
Share of small town WSSSP (%)	3.2	4.7	11.4	15.5
Melamchi Drinking Water project	639,293	470,092	627,517	1,519,700
Share of Melamchi Drinking Water project (%)	29.7	18.2	23.0	32.8

Source: MOF 2005$_a$

The Fund Board completed 317 schemes serving 225,000 people and has launched another 110 new schemes after completing the pre-development and development phases in 2004/05 as against its Tenth Plan target of providing water supply and sanitation services to 813,000 people. The progress in 2004/05 includes: (i) completion of 35 water supply schemes (target: 45); (ii) commencement of construction in 110 schemes (target: 330); (iii) completion of development phase for 342 schemes (target: 360); (iv) completion of pre-feasibility study for 443 schemes (target: 360); (v) performing water quality tests in 325 cases (target: 980); and (vi) organising 25 training programmes for Support Organisation staff (target: 35). Additionally, a "vision document" has been prepared to clarify guidelines and refine policies. Among others, the vision comprises a pro-poor strategy, expansion plan (especially for remote areas and backward communities) and a sanitation programme. A working policy on water harvesting has also been prepared and the NWSSSP document has been translated in 10 ethnic languages and distributed. The inability of the Fund Board to meet its targets

[15] Spending on drinking water and sanitation by DWSS, Fund Board, Nepal Water Supply Corporation and the MLD. Expenditure by Solid Waste Management and Resource Mobilisation Centre and lending for water supply by the Town Development Fund are not included.

was largely due to difficulties of monitoring implementation in the insurgency-affected areas and delays in concluding the loan agreement with the World Bank for second phase activities (Annexes 6.3 and 6.4).

A review of the sector budget[16] reveals that water supply sector spent only 76 percent of allocation in 2004/05. The Fund Board accounts for only 15 percent of the spending and the Melamchi Drinking Water Project accounted for 23 percent of expenditure in 2004/05. The Small Town Water Supply and Sanitation Sector Project accounted for 11.4 percent of the spending[17].

[16] Several agencies, including Ministries of Education, Health, Local Development and I/NGOs and local bodies, are involved in water supply, sanitation and hygiene. The budget included in the analysis includes only that for the DWSS, Fund Board, Nepal Drinking Water Corporation and one major project of the MLD.

[17] This does not include Rs. 47.7 million lent by the Town Development Fund in 2004/05; the projected lending for 2005/06 is Rs. 299.4 million.

Section VII

Social Inclusion and Targeted Programmes

OVERVIEW

A fundamental premise of Tenth Plan/ Poverty Reduction Strategy has been the recognition that development efforts over the past 50 years have not reached and benefited all Nepalis equally. Poverty has declined by eleven percentage points between the period covering 1995/96 and 2003/04(CBS, 2004) but the decline has not been even, in terms of outcomes or different groups and regions. The data also show that some groups have benefited more than others. Hence, the incorporation of the "Inclusion Pillar" in the PRS is recognition by government that women, Dalits and Janajatis have been excluded from access to services and economic opportunities as have people living in the Mid- and Far-western regions.

The PRSP strategy for overcoming social exclusion envisages working on three mutually complementary tracks:

- Actions aimed at structural change in institutions and policies to ensure disadvantaged groups access to economic resources, social services and decisions that affect them
- Insuring access for excluded groups in mainstream programmes, and
- Targeted programmes and safety nets for those who are disadvantaged or who are especially vulnerable due to age, illness or physical/mental disability.

STRUCTURAL CHANGE AND MAINSTREAMING THE EXCLUDED GROUPS

The government has made a number of efforts to make structural changes in mainstream policies and programmes to ensure equal access to disadvantaged groups to services, economic opportunities and influence. The focus has been on removing barriers caused by geography as well as those caused by socially defined characteristics such as gender, caste, ethnicity, language or religion. Among the policy level initiatives undertaken to make public resource allocation and service delivery more inclusive are:

i) Ensuring inclusive programming in all sectors,
ii) Making poverty index basis for block grants to local bodies,

iii) Developing a framework for addressing the problems of deprived communities/regions,
iv) Eliminating legal discrimination,
v) Promoting affirmative action in public service,
vi) Strengthening social mobilisation, and
vii) Generating data at all levels and analysing them in terms gender, caste and ethnicity, and designing special mechanism in sectoral MIS systems for monitoring output/input indicators as well as development outcomes for targeted groups.

TARGETED PROGRAMMES

The targeted programmes are broadly of two types: programmes targeted to remote areas mainly for local infrastructure development and group-based programmes for social mobilisation, capacity building, income generation and empowerment. The government implemented 32 targeted programmes in 2004/05 (Annex 7.1). Among them, one of the major efforts, aimed at social inclusion is introduction of the Poverty Alleviation Fund (PAF).

Poverty Alleviation Fund: The PAF was created as an autonomous institution in August 2003 and is currently funded by the government and the World Bank. The PAF implemented its programmes in 196 VDCs, mobilising 582 community organisations (COs) of the six initial programme districts in 2004/05. It also supported eight proposals from 13 COs in other districts. Programmes of the PAF have produced quick results and were largely unaffected[18] by the political instability and conflict. The major reasons for the success are direct funding and the freedom of the communities to choose the productive activities they want to undertake. Other reasons are the rapid implementation of programmes and the visibility produced by the quick results.

The PAF is to cover an additional 19 districts in 2006/07 with an allocation of Rs. 508 million in 2006/07 (73% over the spending in 2004/05) and aims to support 1,517 group-based income generation and community infrastructure development schemes. Additionally, it is also aiming to support another 80 innovative proposals from different districts. Early outcomes of the PAF indicates its ability to become a reliable institutional modality for targeted interventions to bring excluded population groups into the mainstream of development.

[18] In one district, however, the programmes faced serious conflict-related difficulties.

Box 8: The Poverty Alleviation Fund

The Poverty Alleviation Fund (PAF) was set up under the Poverty Alleviation Fund Ordinance 2060 and is directly linked to the third pillar of the Tenth Plan/PRSP. The third PRSP pillar (Targeted Programmes) emphasises the need for special efforts to bring excluded communities into the development mainstream. The main elements of social inclusion under PAF are: (i) Addressing spatial exclusion by focusing on most deprived districts while providing services in other poverty-stricken areas as well, (ii) Reaching the poor – the targeted beneficiaries – with the services while maintaining social harmony, and (iii) Focusing exclusively on marginalised communities taking adequate care to ensure community cohesiveness and solidarity.

PAF's Social Inclusion Framework for Reaching the Target Beneficiaries

Targeting Sequence	Key Actor	Tools/Methods
Districts	PAF Management	Development Indicaors
↓		
VDCs	Service Agency Portfolio Manager	VDC Prioritization District Level Stakeholders' Consultation
↓		
Wards	Partner Organisation	VDC-Level Interaction
↓		
Settlements	Partner Organisation	Ward-Level-Interaction Settlement Level Sensitisation Social Mapping Social Assement
↓		
Community Organisations	CO	Identification of Target Households Formation of COs Registration of COs
↓		
Target Beneficiaries	CO	Project Development Community Action Plan Project Implementation

PAF has adopted a demand-led, community-based approach to poverty alleviation where the targeted communities are given full decision-making authority to prepare, implement and manage their sub-projects. PAF's targeted beneficiaries include the very poor, women, Dalits and Janajatis and at least 80% of Community Organisation (CO) members are from among the targeted groups. The PAF also requires at least 50% CO members to be women and that the office holders in the COs (Chairperson, Secretary and Treasurer) are from the targeted groups. PAF provides direct support to the COs for implementing the programmes they propose as a strategy to ensure efficiency, transparency and ownership. The Partner Organisations (POs) comprising of Non-governmental Organisations (NGOs), private sector organisations and local government bodies (DDCs/VDCs) support community organisations through social mobilisation, technical assistance and capacity-building in organising, planning, implementing and managing the sub-projects. The four major programme components of PAF are: (i) social mobilisation (ii) income generation (iii) small community infrastructure development, and (iv) capacity-building.

The PAF sub-projects originate at the grassroots and therefore, the demand for such projects is very high. The beneficiary communities have not only demonstrated interest to undertake the sub-projects but have also made contributions towards meeting the programme costs. The PAF's main challenge now is to strike a balance between rapid implementation and institution-building for enhancing the capacity of the community organisations. Some issues related to the sustainability of PAF interventions are:

- Establishing linkages with markets for sustaining income-generating activities
- Providing appropriate technology support for different activities including building links with existing service structures
- Building safety nets through insurance, particularly for livestock
- Exploring alternative to livestock-based activities for the landless, and
- Building community capacity for managing the revolving funds.

Food-for-Work: The Food-for-Work (FfW) is another ongoing targeted programme[19]. The FfW is a self-targeting programme that provides seasonal wage employment to poor families in rural areas. The programme – implemented in the food-deficit districts – has made a continuing contribution towards food security in terms of both availability and access (ideally, without distorting local food markets[20]). Food aid is used as incentive for building local infrastructures such as mule tracks and roads, which further contribute towards food security by improving access. The Rural Community Infrastructure Programme (RCIP) built about 132 km. village roads and 47 houses (for ex-bonded labourers) in 2004/05. It also carried out river training works on about one kilometre of river bank. However, the progress is lower than that attained in 2003/04. The conflict was one of the reasons for the slowdown.

Programmes targeted to women: Several agencies are implementing different programmes that reach out to women. The largest all-woman programme is the Women Development Programme (WDP) being implemented by the District Women Development Office (DWDO) of the Ministry of Women, Children and Social Welfare (MWCSW). The programme covers all the 75 districts. A total of 4,497 women groups were mobilised for income generation under the programme in 2004/05, and 161 women cooperatives were provided with Rs. 6.29 million as "seed money" in 41 districts. Even though seed money tends to encourage dependency, if used carefully, it can provide vulnerable groups the vital start-up support. Therefore, a plan to phase out such support is as important as is the compulsion to have a head start to produce quick results.

A WDP monitoring study (NPC, 2005_e) in three districts has revealed that (i) the WDP generally suffers from inadequate budget, particularly for funding programmes, as well as from procedural delays in the release of funds; (ii) there is an apparent lack of process vision and the DWDO staff do not possess adequate knowledge and skills to identify critical processes in WDP implementation; (iii) the programme is monopolised by the elites comprising of women with access to markets, while the participation of disadvantaged groups especially Dalits remains low; (iv) though women have generally benefited through participation in the WDP, there are imbalances in the distribution of its services to beneficiaries; (v) The WDP has generally helped to improve the social and economic status of participating women and the level of beneficiary satisfaction with WDP service delivery has been rated

[19] Besides the Food-for-Work programme, there are other food-based interventions targeted to different groups such as the primary school feeding programme and mother and child healthcare support programmes.

[20] This aspect is important considering the lack of a sound food monitoring system and the tendency to rush food aid based on perceived shortages and demands of interest groups.

between "moderate to good" on a 4-point scale; and (vi) overall, the DWDO has been trying to maximise outputs despite operating with limited physical, financial and human resources.

The government has introduced a Gender Responsive Budgeting (GRB) framework and has formed a committee at the Ministry of Finance (MOF) to institutionalise the idea for making allocations with a special focus on the needs of women. The NPC has also introduced a classification system of programmes/projects using the gender code, and gender budget audits have been completed in the Ministries of Agriculture, Health, Education, Local Development and Women, Children and Social Welfare. Also in place are gender disaggregated indicators; and a monitoring mechanism is being put in place to measure the outcomes.

A National Plan of Action for gender equality and women empowerment was approved by the government in September 2004 and gender focal points have been appointed in key sectoral ministries and at the district level (i.e. DWDOs). The 2005 amendment of the Civil Service Act includes a provision for formulating affirmative action policies for women, Dalits and disadvantaged Janajatis in government service and has exempted the age bar for temporary women staff wishing to apply for positions advertised by the Public Service Commission (PSC). Coaching classes and capacity-building trainings were also held to prepare eligible women candidates for PSC and other examinations: 19 were coached for taking joint- and under-secretary level examinations, 166 for taking examinations for entry level officer positions and another 51 for taking other entry level examinations.

Kamaiya rehabilitation: The programme to liberate and rehabilitate Kamaiyas (formally, bonded labourers) is another successful targeted programme. The Kamaiya system was abolished in July 2000 and several government and non-government agencies, including donors, have implemented various programmes to rehabilitate former Kamaiyas in five Terai districts of Mid- and Far-western Development Regions. Some 12,019 former Kamaiyas were given 1,575.6 ha. of land for resettlement by end-2004/05 and 8,000 were provided support for building houses at the rate of Rs. 10,000 per family. Additionally, another Rs. 16.7 million has been distributed to 827 former Kamaiya groups through Nepal Government/ILO revolving fund and identity cards have been issued to about 12,000 former Kamaiyas. Different government agencies have provided skill training to 6,114 former Kamaiyas – at least one person from each family. Another 17,000 former

Kamaiyas received 23 types of skill-based training through ILO assistance. The government has established a Land Bank with a view to providing land to the landless, including former Kamaiyas.

Despite the success, some programmatic deficiencies do remain and these relate to inclusion of only Kamaiyas identified originally for support, poor quality of land received, inadequacy of skill training, unavailability of good income-generation opportunities, domination of labour-based occupations (among employment options), continuation of the practice of using free labour or paying them below minimum wage and wage discrimination (between men and women, etc.). These issues need to be addressed in order to assist the integration of the former Kamaiyas in society. The Ministry of Land Reform and Management has plans to deal with some of these issues under its programmes for 2005/06.

Despite shortcomings, the outcomes related to rehabilitating former Kamaiyas so far is proof of the ability of society to root out deeply entrenched social evils – where there is the will. It was possible through efforts of both government and non-government agencies, including donors – a modality that has to be the core of all inclusive and targeted programmes.

Micro-finance: The micro-credit programme is another successful intervention that targets the rural poor, especially women. Many organisations provide micro credit services in different parts of the country, some in conjunction with other social interventions. Many micro finance institutions (MFIs) have also begun adopting international best practices.

However, coverage of micro-credit is still limited[21] and the conflict has also affected the people's access to loans. Also important is the need to expand micro-finance outreach, especially to the very poor sections of the population, and to further enhance the capacity and governance of the MFIs. The government is pursuing a three-pronged approach to develop MFIs: provisioning fund for lending and capacity building, improving the regulatory framework, and restructuring and rationalising public institutions engaged in rural finance. In 2004/05, the government provided Rs. 185.2 million to the Rural Micro Finance Development Centre (RMDC), which provides bulk loans and capacity-building support to MFIs. The government also lowered the re-financing rate to the RMDC from four to two percent in October 2004. The RMDC disbursed Rs. 320.6 million and trained 1,146 MFI staff and 44,506 MFI clients in 2004/05.

[21] NLSS 2003/04 indicates that only 10.1% of total household loans of the poorest quintile came from banks and other formal sources.

The government enacted the Bank and Financial Institutions Ordinance in April 2004 and brought MFIs under the regulatory oversight of the central bank. Likewise, the Agriculture Development Bank (ADBN), Small Farmer Development Bank (SFDB) and Grameen Bikas Banks (GBBs) are also being restructured.

Projects targeted to Dalits and disadvantaged Janajatis: Twelve ministries implemented another 31 projects/activities under Targeted Programmes in 2004/05. However, most of these programmes had limited funding, and therefore, reach. These programmes include the Tribal and Ethnic Groups Upliftment and Praja Development (TEGUPD) programme and the Neglected, Deprived and Dalit Upliftment Development Committee (NDDUDC).

The following activities were undertaken under the TEGUPD in 2004/05: (i) ten research studies; preparation of the lexicon in 10 languages; literacy programme in two languages; and distribution of scholarships to 400, school dress to 1,000 and text books to 1,000 students from the Praja community. Similarly, the following were the achievements of the NDDUDC: excellence awards to 12 students in higher education; and 52 radio programmes were produced and broadcasted to raise awareness on about exclusion and the need to be inclusive. Several income generation and skill development activities were also conducted.

Generally, the outcome of the Targeted Programmes can be enhanced through proper planning of the interventions with clear inclusive strategies and adequate funding. The Targeted Programme portfolio also needs to be reviewed for incorporating the findings of more recent literature on exclusion, and for setting measurable targets. These activities would help to further consolidate the Targeted Programmes. The government has already reduced the activities from 37 projects/programmes in 2002/03 to 32 in 2004/05.

Other programmes: The Decentralised Local Governance Programme (DLGSP) and Decentralised Action for Children and Women (DACAW) are some other pro-poor programmes, even though they are not grouped as "Targeted programmes". UNICEF is supporting the DACAW programme in 23 districts, including nine in the Mid- and Far-western Development Regions. The programme focuses mainly on women and children. The DACAW programme's main goal is to demonstrate how local-level planning and people's participation in decision-making can help to enhance local capacity. The DACAW also contributes to both the poverty alleviation objectives and the MDGs. It promotes strengthened community-based ownership, particularly by forming

federations and paralegal committees for empowering communities to increase the participation of disadvantaged households. The DACAW has also made efforts to address the effects of the conflict on local development activities.

The DLGSP programme is being implemented by the MLD with UNDP support. The Village Development Programme (VDP) is the major component of the DLGSP, which covers 442,819 households of 662 VDCs in 60 districts. The programme is implemented by the DDCs and stresses social mobilisation. It is funded through Local Development Fund (LDF) and has a stated policy to support women, Dalits and other disadvantaged groups.

Funding for Targeted Programmes

In 2004/05 Rs. 275.9 million was allocated to 32 Targeted Programmes which amounts to only 2.5 percent of the total budget. While a larger amount of the allocated budget was spent this year (79% compared to only 66% in 2003/04), the allocation to these programmes declined in 2004/05. In terms of financing, foreign assistance (loans and grants) remains restricted to just four or five programmes/projects. It is also evident that Targeted Programmes alone will not be sufficient to end social exclusion. Instead, the needs and priorities of women, Dalits and Janajatis must be factored into the planning and design of the mainstream development programmes across all sectors.

Table 7.1: Targeted programmes (Rs. '000)

	2002/03	2003/04	2004/05	2005/06
Targeted Programme (TP) budget	2,144,184	2,979,150	2,759,801	3,179,870
TP budget as % of total	2.6	2.9	2.5	2.5
TP budget as % of development budget	5.5	7.1	5.9	-
Year-on-year change (%)	-	38.9	-7.4	15.2
Foreign assistance to TP	-	-	-	2,084,062
Foreign assistance as % of TP budget	-	-	-	65.5
Share of 4 projects in foreign assistance under TP (%)	-	-	-	75.8
TP expenditure	1,296,081	1,964,242	2,177,135	-
Expenditure/budget ratio	0.60	0.66	0.79	-
Number of targeted programmes/projects	-	32	32	31
Priority rating P1	-	*22*	*19*	*21*
Priority rating P2	-	*8*	*10*	*9*
Priority rating P3	-	*2*	*3*	*1*

Source: MOF, 2005[a]

Section VIII

Governance

Overview

Good governance for improving service delivery, efficiency, transparency and accountability comprises the fourth pillar of the Tenth Plan/PRSP. Improving governance is critical for attaining the Plan's overall poverty reduction target, and therefore, cuts across all sectors and programmes. Within government, the thrust is on making public services efficient, inclusive and accountable. The main strategies towards better governance focus on public service reform, decentralisation (including fiscal devolution), and corruption control and judicial reforms.

Civil service reform

The government has initiated several reforms aimed at making the civil service responsive, efficient, accountable and inclusive. The measures are in different stages of implementation. In July 2005, the government had eliminated 7,334 vacant positions (almost all non-gazetted and non-technical) in an effort to right-size the bureaucracy. The government has also capped recruiting Class III and Class IV non-gazetted staff, while taking care not to affect the hiring of technical and officer-level staff. It has also prepared a report – based on stakeholder feedback – for improving the curriculum, question-setting and testing for public service examinations. The aim is to introduce merit-based recruitment and promotion. Staff transfers have also been greatly reduced and personnel at key ministries are being trained in new skills and procedures for enabling them to function better in a decentralised context.

Personnel database: A computerised database of government employees has been developed and an internet-based Personnel Information System (PIS) is now operational. Work to link the database to approved positions, retirements, transfers and payrolls is underway. A database of government teachers is also in the process of being computerised; it already has records of 60,000 permanent teachers. The PIS is being implemented in three pilot ministries (agriculture and cooperatives, education and sports, health and population) and will be expanded to local development, and land reform and management and eventually to all ministries.

Table 8.1: Selected civil service reform indicators

Indicators	Fiscal year 2001/02	2002/03	2003/04	2004/05	% Change over 2003/04
Number of positions eliminated	-	7,000	160	184	15
Number of women, ethnic and disadvantaged candidates benefiting from coaching classes	-	-	670	350	- 47.7
Number of applicants to Public Service Commission from disadvantaged groups:	24,581	55,232	38,247	43,590	14.0
Women	21,247	25,174	16,014	22,310	39.3
Dalits	135	1,028	810	991	22.3
Janajatis	3,199	29,030	21,423	20,289	-5.3

Source: MOGA, 2005

A performance-based management system is being piloted in three ministries: the MOAC, MOES and MOHP, which are main service delivery institutions. Some progress has been made towards the preparation of performance improvement plans, with indicators, based on client service standards for the agriculture offices at Bara and Kavrepalanchok districts. Progress, however, was constrained by inadequate fulltime staff, poor management, funding and facilities in the "change management units" of the participating ministries. Implementation of the management development programme – senior executive management training, leadership training, and in-service training – has progressed according to plan and efforts are underway for creating a performance incentive fund for rewarding good performance. A permanent body has also been established to review the salary structure and policy. This body will recommend periodic salary increases based on the consumer price index (CPI). The government has also introduced a contributory pension scheme to make the system sustainable.

The Civil Service Act was amended through ordinance in July 2005 for institutionalising the governance improvement measures. The amendment includes several reform-oriented features including affirmative action for disadvantaged social groups (for five years), succession planning of senior civil servants, targeted, voluntary, early retirement, transparent annual personnel assessment, permanent pay commission, performance incentive fund, staff insurance plan and a contributory pension scheme. The government has begun to prepare necessary rules – with stakeholder consultations and in accordance with the governance reform programme – for implementing the new provisions. A governance act has also been drafted.

Affirmative action: The government is preparing the mechanism for affirmative action to include more women, Dalits, Janajatis and the disabled in government service. The main challenge is to put a system in place that would not undermine the merit-based structure of the civil service while creating space for social groups who have so far been largely excluded. The government also runs coaching classes to prepare candidates from excluded groups for the Public Service Examinations.

DECENTRALISATION

Nepal has taken major strides towards decentralisation since the enactment of Local Self-Governance Act 1999 and its regulations, in 2000. The process has, however, slowed down since July 2002 when the tenure of elected local bodies ended. Elections have not been held since then but successive governments have attempted to place several arrangements to keep the local bodies functioning. After the political change in February 2005, the government nominated chairpersons, vice-chairpersons and members in all DDCs but village level bodies remain without local leadership. After experimenting with various modalities for operating local bodies, there is now realisation that no alternative arrangement can replace elected representation. The conflict has also had a toll on decentralisation because many of the village development committee (VDC) secretaries have been forced to abandon their posts.

The government continued policy and programme measures to foster the decentralisation process. In 2005 it amended the Local Authorities Financial and Administration Regulations (1999). The amendment seeks to rationalise fiscal rights of local bodies, reclassify DDCs and VDCs, introduce poverty and social mapping, streamline financial procedures and improve revenue sharing arrangements. The Local Bodies Financial Commission (LBFC) has developed a formula (that accounts for various needs and poverty status) for the allocating block grants to local bodies.

Devolution: Under sectoral devolution, the management of a number of agriculture extension offices, sub-health posts, health posts and primary schools have been handed over to communities as envisaged in the Decentralisation Implementation Plan (DIP). The government has decided to devolve full responsibility and provide conditional grants for education, health, agriculture extension and local infrastructure to local bodies in 14 districts in 2005/06. A related decision involves assigning line agency officials involved in carrying out the devolved functions at the concerned DDCs until the district bodies make alternative staffing arrangements. These are major initiatives towards functional

devolution and, if properly implemented, they can set the stage for full-fledged decentralisation.

As a measure to reinforce local bodies, the District Technical Offices (DTOs) have been reorganised as technical units of the DDCs, and their roles and relationships are being redefined and strengthened under an action plan. A Local Service Act has been drafted and is being finalised in consultation with stakeholders. This provision seeks to enable local bodies to acquire and manage their own staff and move towards building locally accountable employees. Some additional initiatives have been taken to improve governance (such as, introduction of citizen charters in all 75 districts; selective management audits; public hearings; complaint boxes and help desks; and the assignment of an officer to hear and redress complaints).

A partial expenditure analysis by the government has indicated that on average, seven district-level programmes/projects in the MLD portfolio accounted for around 53 percent of total expenditure between 2002/03 and 2004/05. These programmes/projects are mainly government-funded and are directly implemented by local bodies. Based on the expenditure analysis, it can be generally inferred that local bodies have broadly been able to improve their performance. This has been possible largely because they are now better equipped with periodic plans, technical capacity, operating systems and operational processes.

Table 8.2: Selected MLD programmes on decentralisation

(Rs. '000)

Programmes/projects	2002/03 Actual expenditure	2003/04 Actual expenditure	2004/05 Revised expenditure	2005/06 Budget
District Development Committee grant	780,662	984,237	789,994	1,010,000
Village Development Committee grant	1352,945	1,833,927	1,297,567	1,956,500
Municipal grant	240,901	151,744	200,000	176,000
Decentralised Financing and Development Programme	-	-	103,752	83,000
Decentralised Local-Self Governance Support Programme	-	-	145,556	275,899
Rural Development Programme	117,116	978	11,523	35,000
People's Participatory Development Programme	-	-	400000	400000
Total expenditure (seven programmes)	**2,491,624**	**2,970,886**	**2,948,392**	**3,936,399**
Total MLD expenditure	4,569,002	5,490,132	6,103,388	8,169,860
Seven programmes total expenditure / Total MLD expenditure	**0.55**	**0.54**	**0.48**	**0.48**

Source: MOF, 2005[a]

An outstanding issue related to local self-governance is the different interpretation of decentralisation by agencies executing similar programmes/ projects. There are various reasons for this anomaly, including expediency to

respond to the difficult situation on the ground; lack of confidence in public sector governance and capacity at the local level (particularly skills for working in partnership with CBOs/NGOs and/or outsourcing); emphasis on quick service delivery (and not on process or institution building); project orientation; entrenched desire to retain central control); and disregard of the broad oversight and residual role (not necessarily, an implementation role) of local governments. There are also confusions at the implementation level that need to be coordinated at the policy level in order to promote and execute effective decentralisation.

CORRUPTION CONTROL

Nepal had put in place major laws aimed at controlling corruption before parliament was dissolved in May 2002. These include the Corruption Prevention Act 2002, CIAA Act 2002 (Second Amendment), Impeachment Act 2002 and Act to Regulate Financing of Political Parties 2002. Other new laws to prevent money laundering and protecting whistleblowers are being drafted. The laws have provided a basis for prosecuting those guilty of misusing public funds. But enforcement remains problematic and corruption control remains a challenge. There has, however, been increased awareness on the need to control corruption at both policymaking and operational levels.

The Commission for the Investigation of Abuse of Authority (CIAA) is the investigative and prosecuting agency. It has extensive authority to investigate and prosecute suspects. The CIAA gained both effectiveness and visibility after it began prosecuting those accused of amassing illegal wealth by the Judicial Commission for Property Investigation. It has had a conviction rate of 86.3 percent.[22] Strong commitment, formulation and implementation of necessary laws have helped to create an effective organisation for corruption control. The CIAA now has the legal framework, investigative procedures, IT facilities and a committed workforce working to ensure accountability at all levels.

Despite the apparent success, there are questions on the ability of the CIAA to deter corruption at all levels. Delays in litigation[23] have also delayed justice. The CIAA has also not been able to absolve itself of allegations of being politically-motivated while prosecuting certain cases. More importantly, fear of prosecution is also said to have deterred government officials from taking

[22] Out of the 530 cases filed at the Special Court, in early December, 2005, the court had found the accused guilty in 290 cases.
[23] 194 cases were pending at the Special Court as of December 4, 2005.

decisions, particularly procurement-related, resulting in delays in infrastructure works. The government formed another anti-corruption body in February 2005 - the high-level Royal Commission for Corruption Control (RCCC) - with powers to investigate, prosecute and punish suspects. There were questions on the constitutionality of this body from the day it was formed and the Supreme Court annulled both the RCCC and its decisions in early 2006.

Table 8.3: CIAA activities and outcomes

Indicators	2001/02	2002/03	2003/04	2004/05
Number of complaints received	2,000	3,687	3,732	4,759
Number of cases field/registered	61	147	98	113
Number of case adjudicated	-	55	129	106
Number of full convictions	-	47	120	97

Source: CIAA, 2005

The National Vigilance Centre (NVC) works on preventive and awareness-building measures against corruption. The NVC has carried out awareness-raising activities; networking between government, private and non-government organisations; monitoring of property statements of public officials and the service delivery of governmental organisations; complaint handling, and technical audit of development activities. However, the NVC needs to be adequately funded, equipped and staffed.

JUDICIAL SECTOR REFORMS

Nepal's Constitution has established an independent judiciary with the Supreme Court as the apex body. The Supreme Court serves as the highest court of appeal, though it also hears litigations, especially those related to constitutionally guaranteed rights and provisions.

The foremost problem facing the judiciary is the disposal of a huge backlog of cases. The judiciary has prepared a strategic plan to make the interventions needed for enhancing justice delivery by upgrading its capacity and resources (Box 9).

Various committees were formed to study different areas of reforms in the judicial sector and most of them have completed their reports. A High-level Steering Committee has also been formed to expedite the reforms. This

Box 9: Strategic plan of the judiciary (2004-2008)

The Supreme Court has adopted the Strategic Plan of the Judiciary 2004-2008. The plan is an effort to link the judiciary with the national planning process. The plan clarifies the mission and vision of the judiciary and also the actions that need to be taken to attain its goals. Its mission is to impart fair and impartial justice in accordance with the Constitution, laws and universally recognised principles of justice. Likewise, its vision is to establish a system of justice that is independent, competent, inexpensive, speedy, and accessible and worthy of public trust. The values set for the Supreme Court are: allegiance to the Constitution, independence and autonomy, duty towards society, accessibility of justice, competent justice, high ethical standards, and representation.

The plan has identified four core functions of the judiciary – adjudication, advisory, supervision and monitoring and court management. It has also identified the following 16 strategic areas of intervention: (1) streamline and strengthen its management capacity, (2) pursue for increased budgetary allocation and financial autonomy, (3) develop infrastructure and logistical support to improve court environment, (4) streamline the number and geographical distribution of courts and review existing jurisdiction, (5) strengthen the capacity of the judiciary, (6) develop and implement an autonomous transparent, accountable and efficient recruitment and promotion system, and work to improve the efficiency of human resources, (7) review relevant laws and simplify court procedures, (8) ensure judicial autonomy for making its own rules to conduct business, (9) strengthen communication, coordination and interaction with institutional and other actors, (10) develop and implement Court User's Charter, (11) strengthen the investigative and disciplinary mechanisms within the system to make it more transparent and accountable, (12) strengthen mediation and encourage consensus building, (13) improve court security – for judges, employees and users, (14) develop a scientific central archive for the courts, (15) develop and implement an effective case management system to reduce delay and case overload, and (16) institutionalise the legal aid programme for disadvantaged groups.

committee is aided by two sub-committees; one is responsible for the implementation of the strategic plan and the other for coordinating the reforms.

The National Judicial Academy (NJA) was established under an ordinance issued in 2004. Its main function is capacity enhancement of legal professionals. The academy has organised a number of training programmes and workshops for individuals and institutions. Its services are aimed at a client base comprising of about 1,000 judges and officers and 10,000 lawyers.

The judiciary is establishing a Legal Information Centre (LIC) for disseminating information and to introduce computers at the courts. The introduction of computers has helped to speed up record keeping and hearings. Besides, efforts to establish a separate bench to hear commercial disputes are also underway.

Following the introduction of the strategic plan, the judiciary has also reviewed and amended many court procedures. The judiciary also oversees the work of the Debt Recovery Tribunal and other quasi-judicial bodies.

The judiciary has provisions for providing Free Legal Aid Services to the needy. The Supreme Court employs two lawyers, and other courts one lawyer each, to provide such services (which are also provided by other NGOs, the Nepal Bar Council and the Nepal Bar Association. These groups also have programmes aimed at raising awareness about the rule of law).

Section IX

Conflict and Development

OVERVIEW

Since February 1996, the government has had to confront an armed conflict. The conflict escalated in November 2001 and has so far caused about 13,000 deaths. Its impact on the economy is also more visible now. Delivery of basic services (health, education, for example) has been disturbed and there has been a slowdown in spending on development activities, especially in the conflict-affected areas[24]. Many development infrastructures, including VDC buildings, schools, health posts, roads, bridges and communication facilities, have been damaged and reconstruction has been delayed by insecurity and inadequate funding. The conflict has also triggered migration to the cities and abroad, and most of those moving out are young men and women[25].

Economic performance has remained below the estimates of the Tenth Plan owing to a number of factors, mainly the conflict[26]. Though the GDP has not contracted and the macroeconomic situation has remained stable, GDP growth remains below the average of the 1990s. Many grass-root development activities such as the Food-for-Work and infrastructure-building programmes (RCIW, RAP), community development, and basic services in health, education, drinking water, agriculture and forestry have continued to function, but not at the levels in which they would have if there had been peace and security. Generally, the programmes that have managed to continue during the conflict are those that involve communities. Such programmes are demand-driven, have strong community support, provide direct benefits, employ local staff, and are perceived to be transparent, accountable and non-partisan.

The third strategic pillar of the Tenth Plan stresses Social Inclusion and Targeted Programmes, which is recognition by government that exclusion and deprivation are factors that contribute to conflict. The government attempted to resolve the conflict through negotiations twice (August –

[24] To an extent, the increased spending on security has also crowded out development expenditure.

[25] The lost rural income seems to have been partly compensated by remittances but there are other problems related with migration of the workforce, which remain to be assessed.

[26] A study has estimated that "lost" GDP growth will be about 1.7 percent per annum (average) during the period 2005 to 2009 if development expenditure declines at the current rate (4.2 %) (Sungsup and Singh, 2005).

November 2001 and January-August 2003) but the efforts did not lead to a resolution. Faced with the choice of waiting for peace or continuing to do what is possible, it then resorted to the second option. The peace through development approach is backed up with special implementation mechanisms that involve community participation. The Integrated Internal Security and Development Programme is also a part of this initiative.

Development approach: The focus of development in conflict-affected areas has been to try and transform the dynamism and debate associated with the discord for creative endeavours. This approach entails recognising that not all conflicts are destructive and devising ways to harness the collective energies for development. One approach has been reaching out to the poor, the excluded communities and letting them take decisions on what they want to achieve and how. In terms of programmes, the approach translates into taking on projects that are local (decentralised), participatory and address to the basic needs of the poor and the excluded (income generation, delivery of basic services, etc.).

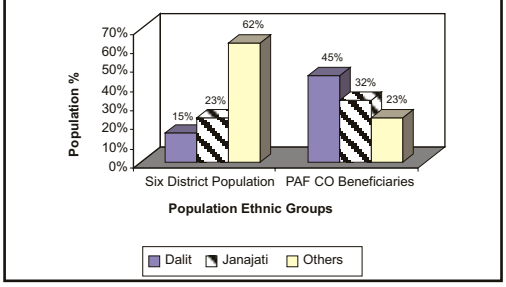
At the macro-level, the government has begun devolving services of some sectors that are very important to rural populations and the plan is to move towards full decentralisation in 14 of the country's 75 districts. In policy terms, the government has begun releasing all funds for local development directly to the DDCs in the form of conditional and unconditional grants. The availability of resources and space for local decision-making for selecting and implementing programmes is expected to improve both development performance and fund disbursement.

The government has identified rural unemployment, low wages and landlessness as some major issues facing the poor and excluded groups. These groups are generally illiterate and do not have access to basic services provided by the public sector. They also lack skills needed for benefiting from opportunities that are available and many are forced to migrate in search or work as manual labourers. The challenge is to help these population groups to acquire the skills, capital and other support to take up activities that would help them escape from the cycle of deprivation that has been passed on through generations – which also fuels conflict.

The Poverty Alleviation Fund (PAF) in conflict-affected districts: The PAF was set up in 2004/05 with the aim of organising poor communities to prepare, implement and manage their development activities. The programme is underway in 582 Community Organisations of six PAF districts (Darchula,

Mugu, Pyuthan, Kapilbastu, Ramechhap and Siraha), all severely affected by the conflict. Additionally, the PAF is implementing special "innovative" programmes with 13 COs in Baglung, Rasuwa, Makwanpur and Nawalparasi districts.

Fig 9.1: Percentage of Ethnic Groups in total six districts population and in total PAF beneficieries



Of 22,000 beneficiary households that are members of Community Organisations, 61 percent belong to very poor groups, 24 percent are of the "medium poor" category, and 15 percent households fall under the "poor" category. A majority of group members are from Dalit and Janajati (45% and 32%, respectively) households and 56 percent beneficiaries are women.

The PAF implements income-generating and infrastructure sub-projects. The income generation sub-projects include (i) agriculture and agro-forestry, (ii) livestock raising, (iii) manufacturing/cottage industry, (iv) trade, and (v) serv-

Table 9.1: Growth of micro-hydro electricity generation

Year	Total		Community-owned and managed		
	Scheme (No.)	Generation (kW)	Scheme (No.)	Generation (kW)	Households benefited
Up to 1994	310	2010.0	2	150.0	-
1995	128	316.2	9	95.5	-
1996	144	377.5	11	136.2	-
1997	100	406.1	11	166.2	-
1998	125	615.5	21	313.5	1040
1999	148	613.0	21	325.5	2432
2000	152	933.0	39	667.6	2409
2001	86	972.2	44	618.5	4118
2002	95	505.0	66	486.1	4340
2003	133	934.0	116	925.9	7871
2004	101	561.6	65	388.0	3560
2005	67	585.5	38	407.3	2972
Total	**1589**	**8829.6**	**443**	**4680**	**28742**

Source: MOEST/AEPC, 2005

ices. The infrastructure sub-projects of choice include micro-irrigation, village link roads, culverts, bridges, micro-hydroelectricity systems, water supply, sanitation, and extension/ rehabilitation of school and health post buildings.

COMMUNITY PARTICIPATION

Social mobilisation and community participation are emerging as the most-conflict resistant models of development in Nepal. There is now evidence suggesting that development activities, which are demand-driven and have the community participation are acceptable even to the parties in conflict. Community participation is very high in infrastructure programmes, including hydroelectricity (including micro-hydro), roads and drinking water. Such infrastructures benefit entire communities and can be designed to accommodate the needs of people from poor and excluded groups.

Box 10: Kara Irrigation Project, Dang

The Kara irrigation scheme was planned in 1995 but construction began only in 2005. The project follows the agency/CBO model – the project was identified jointly by the agency and the users and is being built by the agency with users contributing the labour. The project aims to irrigate 6,520 ha. of land in two municipal wards and nine VDCs.

The canal is to be about 16 km. long and will have a 1.2 meter span. The total estimated cost is Rs. 9.9 million where the government is contributing Rs. 9.4 million. The community contribution is Rs. 500,000 (5% cash and remaining Rs. 407,000 as labour). A management committee oversees project implementation.

The Water Users Group (WUG) comprises 11 members including one woman. Two WUG members were selected from the two municipal wards and the remaining from the nine VDCs. A local contractor is building the project funded by the Mid-western Irrigation Division Office and the WUG supervises the construction. The WUG also mobilises labour contributions when needed.

Rural micro-hydro project: The government has been promoting community participation in rural electrification through micro-hydro schemes. As of the first half of 2005, community-run micro-hydros were generating 8,830 kW of electricity through 1,589 projects. The projects and number of beneficiaries have been increasing every year. There were 443 community-run and managed micro-hydro projects in 2005, up from two in 1994. In all 28,742 households were benefiting from these schemes in 2005. Communities contribute 60 percent of the cost (in cash and kind) for building micro-hydros and the government provides the remaining 40 percent as subsidy. The number of community-managed schemes has increased after 2001.

Irrigation: The participation model also extends to irrigation. The Irrigation Policy (2003) aims at increasing user participation at all levels – from development, including project identification, design, and construction to operation and management. The policy also seeks to transfer operation and maintenance of small and medium irrigation systems to user groups (Box 11). Firm data are not available but government estimates suggest that farmer groups have repaired and maintained canals irrigating about 12,500 ha. in the three years of the Tenth Plan.

Health: Community management of health facilities was extended to 28 districts in 2004/05. The total health institutions handed over to communities for management reached 1,412 by the end of 2004/05, including 1,303 sub-health posts, 77 health posts and 32 primary healthcare centres. The government's main strategy is to hand over the management of health services to promote community ownership and oversight. Nepal does not have elected bodies since July 2002, and therefore, the reform has been limited to handing health facilities over to local Health Management Committees (HMC). Nonetheless, this arrangement has increased community oversight.

Box 11: Community transforms hospital

The Lamjung District Hospital has transformed after its management was taken over by the community. When the hospital was managed by government, it was a hospital in name only. Basic services were not available and the patients had to travel to Pokhara, Bharatpur and even Kathmandu for minor services – like getting an X-ray. No maternity service was available.

There has been noticeable change after the community took over the management responsibility. Apart from preventive services, the hospital has begun providing many curative services in general medicine, surgery, gynaecology, and maternal and child health, treatment for TB and leprosy, and physiotherapy. This is the first government hospital whose management has been transferred to the community. (Today) people from the surrounding districts, namely, Manang, Gorkha and Tanahu, have also started seeking services from this hospital. The hospital has set aside 10% of its annual income for providing services to the very poor. It was what made it possible for Shanti Pariyar, a Dalit, to receive free treatment valued at about Rs. 42,000.

Source: Kantipur, March 6, 2005.

The handover of service outlets to community management demands more participation from HMC members in particular and the people in general. In many cases community-managed health facilities have been instrumental in diversifying services. One such case is the Suda SHP in Kanchanpur district (Box 12).

Community involvement has also been very encouraging in the Community Health Insurance Scheme. In 2004/05, the MOHP expanded the programme in six districts: Urlabari of Morang, Chandra Nigahapur of Rautahat, Gaighat

of Udayapur, Damkaulli of Nawalparasi, Tikapur of Kailali, and Lamahi of Dang district.

Box 12: Diversification of health services

Suda SHP in Kanchanpur district is managed by the Sub Health Post Management Committee (SHPMC). The Suda SHP introduced basic laboratory tests after seeking the approval from the DPHO. The SHP management committee has also recruited a lab technician and the Village Development Committee has agreed to pay the salary of the technician through its resources. The Committee approached to DPHO to provide a microscope and essential supplies following which the department provided training to the lab technician. The SHP charges a fee for the lab services, which includes routine examination of blood and urine and tests for malaria, pregnancy, tuberculosis and typhoid. The SHP charges Rs. 10 for each service.

Source: Ligal et al, 2004

The government has also expanded the Community Drug Programme to 25 districts. Under the programme it provides seed money for procuring essential drugs to which the community also contributes. The number of people visiting the SHPs has increased after the implementation of the programme. Generally, the service-seekers benefit because they are able to purchase drugs at rates cheaper than the market and community management of the scheme ensures that the service is always available.

Drinking water: Community participation has been exemplary in rural drinking water projects. All the major projects in the sector – the Community-based Water Supply and Sanitation project, Small Town Water Supply and Sanitation Sector Project, and Rural Water Supply and Sanitation Development Board – focus on a demand-driven, participatory cost-sharing approach. The projects are implemented by NGOs and CBOs (Annex 6.4, 6.5 and 6.6).

The government's efforts to continue development activities during the conflict have had a positive impact. However, the programmes benefit small population groups and therefore, have to be replicated and scaled up for greater impact. These measures are only stop-gap and therefore, do not provide an alternative to peaceful conflict resolution, because only then can Nepal implement the Tenth Plan with the zeal and in the scale needed to attain the poverty reduction objectives. There is also no doubt that stability in Nepal hinges on the state's ability to institute inclusion at all levels, which is a pre-requisite for lasting peace. However, in the event the conflict prolongs, there is no alternative but to continue with the special programmes, if only as a measure to make it easier for the poor to cope with the disruptions.

Section X

Poverty Reduction Strategy Monitoring

Overview

The National Planning Commission (NPC) began putting in place a comprehensive Poverty Monitoring and Analysis System (PMAS) in 2004. The PMAS has a set of intermediate and final indicators for effective monitoring and reporting annual progress on the implementation of the Tenth Plan/PRSP. Different monitoring and reporting tools and processes have been developed, field-tested and disseminated to facilitate the monitoring of inputs, outputs and outcomes/impacts. Periodic national surveys have also been streamlined for providing coherent national household-level data. Alongside the PMAS, the government has also expanded Nepal Info, a database that includes both PRSP and MDG indicators and is updated annually. The most recent Nepal Info datasheet contains 197 PRSP and MDG indicators.

In 2004/05, the NPC took further actions to develop and institutionalise the PMAS at both the central and district levels. This included orienting officials from the NPC, CBS, and the monitoring and evaluation divisions at line ministries in participatory poverty analysis and other technical skills. Exchange visits were also organised to familiarise government officials with poverty monitoring and analysis systems abroad.

A model District Poverty Monitoring and Analysis System (DPMAS) has also been finalised and published. The process involved stakeholder feedback from all 75 districts and some central level agencies. The development partners have shown an interest to pilot the DPMAS in 14 districts where the government is planning full decentralisation. Over 300 officials from the NPC, line ministries and NGOs have been briefed on the indicators on Nepal Info, starting in 2004. The annual PRS report draws information from all of these databases, MIS data of sectoral ministries and also the various monitoring and evaluation studies conducted by the NPC and other stakeholders.

POVERTY MONITORING AND ANALYSIS SYSTEM (PMAS)

The main objective of the PMAS is to coordinate, consolidate, harmonise and analyse data from existing poverty monitoring systems and communicate results in a manner that feedback and continuously help to refine the policy process. The PMAS has the following five components or functions:

- Implementation (or input/output) monitoring,
- Outcome or well-being monitoring,
- Impact assessment,
- Poverty management information system, and
- Communication/advocacy.

Implementation monitoring: Implementation monitoring relies primarily on input, process and output indicators. This involves monitoring of budget allocation, process/activity of policies and programmes, and the achievement of output targets of the PRSP policies and programmes. The government has been monitoring the performance of P1 projects and has tied budget release with performance. Sample expenditure tracking surveys are also performed annually to track budget allocation and use by different programmes. So far such tracking has been done in the education, health and transport sectors. A monitoring mechanism for tracking public expenditure and service delivery has also been developed. The tracking was piloted in two Targeted Programmes in 2004, and one the Women Development Programme in 2005.

Outcome monitoring: Outcome monitoring tracks changes in overall well-being or impacts over time. The goal is not to attribute outcomes to specific programmes or policies but to focus on impact indicators, or a subset of closely related indicators. The PMAS tracks both the intermediate and outcome indicators. In order to generate data for outcome monitoring, the government has begun to rely on the Nepal Living Standards Survey (NLSS) and the Nepal Demographic and Health Survey (NDHS) conducted at five year intervals for household data. The NLSS and NDHS produce data for most of the socio-economic indicators. In order to generate data to meet the PMAS requirements, additional questions relating to literacy and education are also being incorporated in the NDHS 2006.

Impact assessment: Impact analysis establishes linkages between input/output and outcomes/impacts of a programme/project. Impact analysis has two main objectives: (i) assess the effect of a specific policy, programme/project on poverty

or some other well-being outcome, and (ii) assess the efficiency of different policies/programmes in achieving a given well-being outcome.

In 2005, the government assessed the impact of the HLFFDP – a major poverty alleviation programme. The HLFFDP, supported by IFAD, covers 26 districts. The project, underway since 1992/93, has two main objectives – maintaining ecological balance and improving living standards of the poor by offering them degraded forest land on long-term lease. The Department of Forest, Department of Livestock Services, National Agriculture Research Council and the Agricultural Development Bank Nepal implement the project. The impact evaluation covered 10 of 26 project districts (Box 5).

PARTICIPATORY MONITORING

Participatory monitoring complements information generated by the PMAS. The participatory monitoring tools used include citizens' report cards, social audits, budget reviews by civil society groups and parliamentary reviews of programme and policy performance.

The government has developed a Participatory Poverty Monitoring (PPM) mechanism for institutionalising participatory monitoring. The PPM has outlined several tools and details the process of two tools, the Citizen Report Card (CRC) and Participatory Poverty Assessment (PPA). The CRC is a monitoring instrument that measures service delivery and the PPA has been designed to serve both planning and monitoring purposes. The PPA is expected to assist the formulation of the Eleventh Plan.

The CRC has been piloted to monitor government services in 10 areas including schools, health, vital registration and land revenue collection. The service deliverywas assessed by collecting feedback from the people on seven areas including awareness, access and sustainability of the services. Some of the findings are given in Box 13.

POVERTY MANAGEMENT INFORMATION SYSTEM (PMIS)

The PMAS envisages that data generated through various monitoring efforts including the sectoral MIS and surveys is "warehoused" in a central repository. Until that is done, the Nepal Info at the CBS serves the purpose by bringing together data on PRSP and MDG indicators. Nepal Info is updated annually.

Box 13: The people speak

Different participatory monitoring methods, including household surveys and focus group discussions, were used to collect information for the CRC. The survey was conducted in two districts, Rasuwa and Kanchanpur, in December 2005. The survey covered 200 households of Kanchanpur and 75 households of Rasuwa district. Questionnaire and checklists were developed to cover seven themes and the status of service delivery was assessed in 10 areas/sectors. The information from the survey and focus group discussion was then compiled to produce a compact CRC. Some findings were:

- The communities rated the importance of the 10 sectors in the following order: local health services, primary education, vital registration, land tax, electricity, livestock services, citizenship, agriculture services, drinking water and forest.
- Out of the seven themes on which people's perception were scored, awareness was rated as the highest across all sectors. The rating of all other themes was in the following order: inclusion, access, attitude and behaviour, cost, quality and timeliness, accountability and sustainability. This indicates that awareness of government services is high.
- Interestingly, the rating of inclusion and access at second and third positions also implied that exclusion in government-provided services is not as high as it is perceived to be. The findings were also supported by information from focus group discussions among the different social groups including women, Dalits and Janajatis.
- However, accountability and sustainability had the lowest ratings, suggesting that greater focus was needed for making government staff more accountable, and to make the services sustainable.

Source: NPC, 2005[f]

Its latest version Nepal Info 3, released in mid-2005, has information on 197 indicators. The government has plans to further expand the information database with additional poverty-related indicators.

District Poverty Monitoring and Analysis System (DPMAS)

The DPMAS was drafted in 2003. It was shared with all 75 DDCs at four regional workshops and with some central-level stakeholders, including Ministry of Local Development (MLD) and Association of District Development Committees of Nepal (ADDCN), in 2004. The DPMAS was refined based on the feedback and was finalised and published in Nepali in June 2005. Five regional workshops were held to disseminate the DPMAS.

Results-based Management and Monitoring

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.

Section XI

Resource Needs and Aid Harmonisation

The Gross Domestic Product (GDP) grew by three percent (average) during the first three years of Tenth Plan. The growth was below the PRS "lower case" target of 4.3 percent. Government spending on development was also 9.7 percent less than the target. Revenue rose significantly during this period, but most of the increase went to finance the salary of government employees and the security bill. Foreign assistance made up about 58 percent of the total allocation for development programmes in 2004/05. The grant component of foreign aid rose significantly in 2002/03 but has stabilised. Total foreign assistance – both grants and loans – added up to Rs. 19.9 billion.

Table 11.1: Summary of income and expenditure (Rs. '000)

	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Revised
Total expenditure	**79,835,097**	**80,072,290**	**84,006,081**	**89,442,593**	**100,937,300**
Regular	42,769,195	48,590,047	54,973,061	58,451,621	66,552,300*
Development	37,065,902	31,482,243	29,033,019	30,990,971	34,385,000*
Financing sources (Excluding domestic borrowings)					
Revenue	48,893,561	50,445,491	56,229,790	62,331,027	71,332,200
Foreign grant	6,753,425	6,686,139	11,339,146	11,283,395	11,170,000
Foreign loan	12,044,026	7,698,708	4,546,423	7,628,998	8,814,000

** Estimate*
Source: FCGO and Budget Speech, 2005

Adequacy of aid: Adequacy of aid is not the issue in Nepal. However, what is an issue is the low absorption of available aid, especially after the escalation of the conflict, and slow disbursement in donor-funded projects. Nepal has been under tremendous pressure for funding competing priorities, despite remarkable growth in revenue collection. The government is, therefore, in need of assistance that is both flexible and quickly available, especially for funding programmes that seek to produce quick results. Disbursement of

some project loans was stalled in 2005, which added to the fiscal pressures. Nepal's debt servicing obligations are also growing with the maturity of more loans.

Aid effectiveness: Improving aid effectiveness is another concern. Nepal has made some progress in aid coordination and harmonisation at the overall programme, sectoral and financial management levels. The harmonisation has been made possible by clear plans, management tools and action strategies (PRSP, IAPs, MTEF, sectoral business plans, joint portfolio performance review, PRS monitoring, and Financial Management Information System). There are several programmes in selected sectors that have common operational and financial modalities and are jointly funded by multiple donors. 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 to reduce reporting and other transaction costs. The political situation after February 2005 resulted in disruptions in aid flows and management. The resulting unpredictability also affected development planning and execution.

Section XII

Conclusions

Many conclusions of the second PRS progress report are relevant in the third year also, because there has been no major shift in the overall development strategy. The situation on the ground also remained unchanged because the conflict continued throughout 2004/05. The political situation took a turn in February 2005, following which several donors suspended funding for some on-going programmes.

Achievements: Overall, the achievements in the third year of the Tenth Plan/PRSP implementation were satisfactory, given the difficult development environment resulting from the violent conflict and continued political instability. Nepal's macro-level indicators remain stable, despite growing pressure on the government budget. Development spending remained low, and ironically, provided a cushion to the growing demands for recurrent expenditures, including the costs of maintaining security. The government remains fully committed to take all necessary measures to maintain macroeconomic stability.

The government has broadened and deepened many of the reforms associated with the Tenth Plan/PRSP. It was necessary for protecting the gains of the past and for preventing a possible reversal. There is no doubt that Nepal has to continue with bolder reforms and development measures but that would be possible only in an environment conducive to development work.

Nepal has little choice but to continue the policy and development management reforms for enhancing development effectiveness because otherwise, the inequalities that are there in Nepali society will continue to grow and fuel conflict. Continued conflict could cause greater damages on development infrastructures depriving more people – and mainly the poor and excluded – of basic services, and further delay the recovery and reconstruction.

Conflict and development: Conflict resolution has to be matched by quick-yielding, inclusive development and reconstruction programmes in order to ensure lasting peace. The reforms in public service delivery would have to be

scaled up through new measures that would put people in charge of their own development. In policy terms, this means devolving and decentralising more and more tasks and functions to local bodies and community organisations in order to encourage the widest possible participation of stakeholders in all stages of programme implementation. The role of the government is also changing from that of implementer to that of a facilitator.

The government acknowledges that there are gaps between what has been planned and the achievements, but the story-line remains unchanged: The government is pursuing social and economic reforms in accordance with its commitments in the Tenth Plan. Nepal's development partners can help this process by stepping back and letting the government take full charge of the development process. The donors can also help the process by finding ways to make aid flows more predictable and readily available for addressing the fast-changing needs on the ground, while also moving towards aid harmonisation.

Restoring peace and an environment favourable for full participation by all stakeholders is urgent, especially in the context of devolution of management of basic services to communities for bringing greater efficiencies in rural education, health care, agriculture and livestock extension services and for building rural infrastructures. Nepal also needs to begin planning eventual reconstruction, and rehabilitation of people affected by the conflict, in order to be able to quickly respond to the situation when peace is established.

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ANNEXES

Annex 2.1

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 inverstment 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**	**4,070**	**16,380**	**28,696**	**5,608**	**23,088**	**227,185**	**44,592**	**182,593**
Education	19,509	11,172	8,338	25,827	14,294	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
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
Gender	410	235	176	1,646	492	1,154	2,258	876	1,382	17,964	5,725	12,238
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

Annex 4.1

Macroeconomic performance during the first three years of PRSP/Tenth Plan (Rs. million)

Description	2001/02 Base Year	2002/03 Actual	2003/04 Actual	2004/05 Actual	2005/06 Allocation
GDP AT CURRENT PRICE					
GDP (at factor cost)	**406138.0**	**437546.0**	**474919.0**	**508691.0**	**551486.0**
Agricultural GDP	160144.0	171104.0	183117.0	194363.0	211460.0
Non-agricultural GDP	245994.0	266442.0	291802.0	314328.0	340026.0
GDP (at producer price)	**422807.0**	**456675.0**	**496745.0**	**533578.0**	**579787.0**
GDP AT 1994/95 PRICE					
GDP (at factor cost)	**279169.0**	**287689.0**	**298023.0**	**305232.0**	**318929.4**
Agricultural GDP	108752.0	111471.0	115774.0	119212.0	**123980.5**
Non-agricultural GDP	170417.0	176218.0	182249.0	186020.0	**194949.0**
GDP (at producer price)	**291241.0**	**300914.0**	**312267.0**	**320717.0**	**335790.7**
INVESTMENT & SAVING					
Total investment	**102174.0**	**118020.0**	**130993.0**	**137257.0**	
Private investment (including change in stock)	70131.0	86792.0	98950.0	105134.0	
National saving	69656.0	70972.0	75341.0	77477.0	
Domestic saving	51281.0	54778.0	62386.0	67113.0	
GOVERNMENT FINANCE					
Government revenue	**50445.5**	**56229.8**	**62331.0**	**71182.0**	**81816.6**
Total expenditure	**80072.2**	**84006.1**	**89442.6**	**100937.3**	**126885.1**
Regular expenditure	48590.0	54973.1	58502.7	66266.5	74844.7
Development expenditure	31482.2	29033.0	30939.9	34670.8	52040.4
Current expenditure	48863.9	52090.0	55552.1	63117.3	75850.0
Capital expenditure	24773.4	22356.1	23095.6	25165.1	37233.9
Principal repayment	6434.9	9559.5	10794.9	12654.8	13801.2
Capital expenditure (incl. principal repayment)	31208.3	31915.6	33890.5	37819.9	51035.1
Revenue surplus	1855.5	1256.7	3828.3	4915.5	6971.9
Government revenue-current expenditure	1581.6	4139.8	6778.9	8064.7	5966.6
Budgetary deficit	22940.7	16437.2	15828.2	18585.3	26381.6
Total foreign aid	**14384.7**	**15885.5**	**18912.4**	**19984.0**	**33218.5**
Grant	6686.0	11339.1	11283.4	11170.0	18686.9
Loan	7698.7	4546.4	7629.0	8814.0	14531.6
Total domestic borrowings	**15242.0**	**11890.8**	**8199.2**	**9771.3**	**11850.0**
Domestic borrowings	8000.0	8880.0	5607.8	9060.0	11850.0
Cash balance (- surplus)	7242.0	3010.8	2591.4	711.3	0.0
MONETARY DATA					
Narrow money supply (M1)	77156.2	83754.1	93969.5	100205.8	117033.0
Broad money supply (M2)	223988.3	245911.3	277305.9	300440.0	352525.0
Total domestic credit	207323.0	228443.8	251088.9	285032.1	295314.0
Net foreign assets	88419.1	91407.0	108804.6	107744.4	129032.0
BALANCE OF PAYMENT					
Exports	46944.8	49930.6	53910.7	58236.2	59982.0
Imports	107389.0	124352.1	136277.1	132186.8	142600.0
Current account balance	18161.0	11614.7	14598.0	29243.3	23424.0
Remittances	47536.0	54203.3	58587.6	65416.0	71858.0
Balance of payments (-deficit)	-3343.0	4363.5	20101.3	5679.4	6078.0
Gross foreign exchange reserves	105901.0	108229.4	130205.1	129898.7	144015.0

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

Annex 4.2

A. Prioritisation criteria of general administration/regular expenditure

The following criteria have been followed in MTEF IV for prioritising general administrative or current expenditures:

a) *Expenditures for providing direct services to people:*
1. Citizenship certificate and passport related works
2. Primary and basic health care services
3. Land management services
4. Water supply and sanitation services
5. Communication services such as radio, television, telephone and postal services
6. Public transportation services
7. Education
8. Social security
9. Works related to providing justice

b) *Expenditures for maintaining good governance:*
1. Work related to promoting public accountability and transparency
2. Work related to enhance economy and efficiency in mobilizing public resources and effectiveness of government agencies
3. Work related to ensuring increased transparency and clarity in administrative, financial and managerial procedures
4. Work that support maintaining rule of law/ prevailing laws
5. Work related to discouraging discretionary working style
6. Work related to identifying weaknesses and suggesting practical measures on the existing procedure, working modalities and legal system
7. Work related on rewarding good governance and actions against wrongdoers including corruption control
8. Work related to maintaining law and order

c) *Contribution to raising revenue:*
1. Offices collecting tax revenues
2. Work related to collecting non-tax revenues

d) *Contribution to developmental work:*
1. Work of institutions/agencies contributing to poverty alleviation
2. Work of institutions/ agencies involved in rural developmental work
3. Work of institutions/ agencies involved in infrastructure development
4. Work related to tourism promotion
5. Work related to industrial services

e) *Others - human resource development, environmental conservation, regional balance, etc.*
1. Work related to increasing people's participation in development, management and conservation of land and forest resources
2. Work related to the conservation of environment, biological diversity, historical diversity, flora and fauna

cont'd...

3. Work providing benefits to local people from biodiversity and tourism development.
4. Work related to scientific exploration, excavation, research, analysis, conservation, promotion, and publication of historical, cultural and archaeological heritage
5. Training and capacity building
6. Work related conserving and promoting Nepali culture and state, including those of ethnic and linguistic groups, in the national and international arenas

Note: Under Priority 1 up to 80% of the budget can be proposed. The rest are to be included under second and third priority. However, this provision will not apply to agencies with single budget sub-heading.

B. Prioritisation criteria of development expenditure

Following are the criteria used for classification of development expenditures in MTEF IV:

1. Contribution to fulfilment of national goal of poverty alleviation (20 points)
2. Contribution to sectoral goals/ objectives (15 points)
3. Contribution to regional balance (10 points)
4. Role of the government (10 points)
5. Participation (20 points)
   - Peoples' or civil society participation
   - Local bodies' participation
   - Participation of organizations (public enterprises, autonomous bodies, etc.)
   - Enhancement of the private sector
6. Project status (15 points)
   - Age of the project (to be counted from starting year)
   - Previous performance
   - Completion stage
7. Certainty of funding (10 points)

Annex 6.1

Summary of the major programmes and achievement in health - 2061/62 (2004/05)

S.N.	Programmes	Progress/performance
1.	National population programme	▪ Awareness raising activities through various media and NGOs ▪ Participatory programmes with DDC to integrate the population activities with local development ▪ Adolescent population programme
2.	Sukraraj Tropical and Communicable Disease Hospital	▪ Programmes to control communicable and tropical diseases ▪ Purchase of medicines and addition of doctors' quarter
3.	Family Planning and Maternal Child, and FCHV programme	▪ Awareness raising activities ▪ Treatment services ▪ Training to health personnel, including FCHV, and ▪ Promotion of FCHVs to ANMs
4.	Nutrition programme	▪ Awareness raising activities ▪ Vitamin 'A' distribution
5.	Tuberculosis control programme	▪ DOT's programme ▪ Free medicine to patients
6.	National AIDS and STD Control programme	▪ Awareness raising activities on HIV/AIDS and STDs ▪ Self-employment training to 20 HIV infected persons ▪ ARV purchase and free distribution ▪ ARV medicines to 150 persons ▪ PMICT programme in 3 hospitals
7.	National Immunization Programme	▪ Polio drops to children below 5 years ▪ Immunization of more than 10 million children ▪ Purchase of BCG vaccine, Hepatitis 'B' vaccine
8.	Diarrhoea and ARI Control and Nutrition Programme	▪ Printing of mother's counselling cards, nutrition IEC material ▪ Purchase of ARI sound timer, Salter scale, Abendazol, and arm measuring tape
9.	Epidemiology, Malaria, Kala-azar Control and Disaster Management Programme	▪ Purchase, supply of snake bite venom medicine, and training ▪ Spraying (twice) in two Malaria prone districts ▪ Purchase of emergency medicines and supply in natural disaster-affected districts ▪ Purchase of anti-mosquito nets
10.	National Health Education, Information and Publicity Programme	▪ Printing and distribution of IEC materials ▪ Awareness raising through radio
11.	National Health Training Programme	▪ Training to more than 500 health personnel ▪ Pre-service training to more than 100 staff ▪ Supply management training to more than 800 staff ▪ Training on capacity development, family planning, nursing and management, bio-medical, and training to FCHV
12.	Vector Born Disease Control, Research and Training Programme	▪ Orientation training on early warning reporting system Distribution of test-kits against Kala-azar, ▪ Research on Japanese encephalitis ▪ Training on malaria
13.	Health Social Security Programme	▪ Health insurance programme in three districts ▪ Mobile clinics in 19 districts

Annex 6.2

Basic information on health facilities, 2005

Health facilities	Number
Hospitals	89
District Public Health Offices	75
Primary Health Care Centres	186
Health Posts	697
Sub-health Posts	3,129
PHC/ORCs	14,710
EPI Clinics	16,099
FCHVs	48,164
TBAs	15,341
I/NGO, Private Health Facilities	442

Source: MOHP, 2005

Annex 6.3

Fund Board target Vs progress

Particulars	No. of schemes	Total beneficiaries (Population)	Remarks/ present status
Target for Tenth Plan period	**1260**	**813,000**	
Progress to date:			
Schemes completed under Batch- IV	339	205510	Construction completed
Carried over schemes of Project-I	18	5580	Construction on-going. Expected to be completed within 2 months.
Schemes to be completed under Batch-V	338	230534	Out of 338 schemes, implementation phase has been started in 241 schemes. Other schemes to enter into implementation phase within two months.
Schemes to be completed under Batch-VI	400	260225	Feasibility study has been completed in 443 schemes; of these 400 schemes are to be completed within 10th Plan period.
Achievement to date	**1095**	**701849**	
Achievement %	**86.9**	**86.3**	

Source: RWSSFDB, 2005

Note: For Batch - VII Schemes Pre-development phase activities (SO Selection) are underway. Under the Tenth Plan, Development Phase activities will be completed in around 400 schemes of this Batch.

Annex 6.4

The Fund Board and its projects

The Rural Water Supply and Sanitation Fund Development Board has been supporting communities in the implementation of water supply and sanitation schemes through demand-led, community-based and integrated approaches to service delivery with full emphasis on community ownership and responsibility. The board mainly implements small rural water supply schemes using simple technology (gravity-flow and ground water). However, depending on community demand and the local situation, it also considers with comparatively advanced technical options (e.g. lift schemes with or without boring). These schemes need skilled human resources and close supervision, and significant resources for construction, operation and maintenance. However, experience of the Board shows that where there is real need for water and the beneficiaries are committed, they can build and operate even more sophisticated schemes. The Sattipipal (Karnekhola) scheme in Gorkha district is one such example.

Sattipipal: A community-managed double-stage pumping scheme

The Sattipipal scheme covers ward numbers 2 and 4 of the Prithvi Narayan municipality of Gorkha district and serves 296 households with 1,715 members. The beneficiaries come from different ethnic groups i.e. Gurung, Newar, Tamang and Magar. The user group also includes 17 Dalit households. The total cost of the scheme was Rs. 7,744,000 of which the community contributed 25.5 percent.

The scheme is a lift system that involves two-stage pumping and was built two years ago under the Batch–IV programmes. There are 174 taps including 10 public taps (for low income groups who cannot afford private taps). All private taps are metered. An eleven member water user's committee (including 4 women) was involved in the construction of the scheme and is now responsible for its operation.

The user committee has five paid staff (4 technical and 1 administrative) to look after the day-to-day operations and for financing the operation costs (e.g. electricity for pump operation, office/administrative expenses and salary of caretakers/plumbers) from water tariffs. The user committee's monthly expense is Rs. 43,500 and it has an income of Rs. 49,500. It saves Rs. 6,000 each month which is used for operation and maintenance.

The water users committee meets once every month. It has its own office building, which is reasonably furnished. It also maintains a supply of spares.

The users have also made significant achievement towards the construction of sanitary latrines and to engage women from the community in income generation activities, under the Women Technical Support Service (WTSS) program.

(Adapted from the Fund Board's records.)

Annex 6.5

Participation of poor and disadvantaged groups in urban projects

This case depicts how a conventional town water supply project has started paying attention to the needs of the poor with the knowledge that the cost recovery rules could deny the poor access to water supply.

Generally, the STWSSSP aims to support about 40-50 emerging townships in water supply and sanitation. It aims to benefit about 600,000 people, of whom 34% live below the poverty line. Ninety-five% of proposed investment is to be spent on water supply, on an equal community cost-sharing basis. Local contribution for public sanitation comprises 20% of the cost. The project provides up to 50% grants in-kind to the very poor for building toilets at home. The government has used the services of national-level NGOs for community mobilization.

The project hopes that improved water supply and sanitation will significantly reduce the costs borne by the urban poor in terms of purchase, treatment and storage of water, medical expenses to treat waterborne diseases, and the time spent on fetching water. It also provides employment opportunities for low skilled labourers.

The STWSSSP has made special efforts to collect information on poor population groups residing in the project towns and monitors their inclusion in the activities. This allows it to constantly assess the ability of the very poor and excluded groups to contribute to the cost sharing mechanisms, including their ability to repay loans obtained from the TDF. The project has proposed the following mechanisms for greater inclusion of excluded groups:

- Users shall be categorized as non-poor; poor, urban poor or ultra poor (low income household); and squatters (disadvantaged).
- Registration fees, connection charges and water tariffs will be lower for the ultra poor.
- Contribution of the 5% up-front cash for the ultra poor may be eased by allowing them to pay in instalments, increasing number of instalments and reducing the instalment amount.
- Building community taps for use by the poor.
- The WSUC may opt to pay the required up-front cash from their funds, which the very poor may be allowed to reimburse through easy instalments.
- Savings from the proposed reduction of interest rates from 8%, if approved, may be used to encourage the participation of the very poor. The fund could be used for paying the up-front contributions, making up for lower registration or membership fees for them and also to cover the costs for lower connection charges they may offer to groups that cannot pay normal charges.
- Simplification of water tariffs, with lower rates for community connections.
- The interest earned on the amount deposited (5% upfront payments) may be used to facilitate payments by the poor to participate in the schemes.
- Communities are encouraged to seek financial help from local bodies, NGOs and INGOs to support the very poor households.
- Charging additional tariffs to those that can pay for covering the cost of supplying water to the very poor, and
- Depending on the capability of users and the nature of work, it may also contract work to the very poor groups to enable them to earn money to pay for services (mainly tasks such as excavation and refilling).

These efforts, where they have been tried out, have already produced positive results in some subprojects. At Manipur the WSUC has taken the following initiatives to support the very poor:

- The very poor were given opportunity to pay easy instalments for tap connections (but they picked community taps).
- There is no connection charge for community taps.
- In order to cater to poor households, only groups of 3 or 4 households can seek a private connection, not one for each household.
- The tariffs and connection rates are different for urban and rural residents, because most of the urban poor live in rural parts of the service area (For rural connections, the connection charge is Rs. 5,000; it is Rs. 10,000 for urban connections).
- The project has provided subsidised construction material for building 225 toilets in very poor households.

(Based on information provided by the DWSS.)

Annex 6.6

Water supply projects underway

DWSS is implementing two major projects which would have far reaching implications for both the department and the sector:

The **Community-based Water Supply and Sanitation Project** (CWSSP) aims to provide sanitation facilities to 1,200 communities in 21 districts, including those in conflict affected areas – 12 in the Mid-west and seven in the Far-west. The project blends locally-proven best practices (demand-driven, cost-sharing, community-implemented and NGO-facilitated) into the central government and local bodies with clearly defined roles (DWSS, as executing agency, and DDCs, as supporting agencies) and a milestone-based fund flow mechanism. Another unique project feature is the mainstreaming of gender, caste and ethnicity into implementation process through proportional representation in decision-making[27] . The project was launched in April 2004 and the recruitment of central project implementation consultants has been completed; nine DDCs[28] have entered into project agreements committing themselves to contribution, staffing, auditing and reporting, which is a requirement.

The **Small Town Water Supply and Sanitation Sector Project** is a demand-driven project that includes beneficiary ownership, cost recovery[29] , participatory implementation and multi-agency involvement. Properly implemented – the role and performance of the DWSS is crucial – the STWSSP approach could emerge as a model for the development of water supply and sanitation in semi-urban areas. Under the project, 33 subprojects have been selected for implementation using agreed screening criteria and specified procedures, and implementation of 32 subprojects is underway. Four of the first batch subprojects and five from the second batch are expected to be completed by 2005/06. The project is behind schedule and also faces the issue of exclusion of the very poor. An Asian Development Bank (ADB) study to assess if the cost recovery requirement affected the participation of the poor in the subprojects reported a general lack of "recognition of the poor"[30]. The study also found that the main factor responsible for the non-participation of the poor and disadvantaged was the upfront contribution of five percent initial cash and the connection cost. It has recommended that easing the upfront payment burden for the very poor would be a way to ensure them access to the services[31].

The Rural Water Supply and Sanitation Fund Development Board (also known as Fund Board) is a government agency involved in community-based rural water supply and sanitation. It has completed the first phase of the World Bank-funded Rural Water Supply and Sanitation Project Phase I, and is now implementing Phase II of the project. The Fund Board has programmes in 60 districts in all five development regions. The board has been moving programmes into the conflict-affected areas and remote villages. The Fund Board has adopted a policy to only take up schemes approved in the district development plans as a strategy to involve DDCs in monitoring and post-project support. It also emphasises meaningful participation of excluded groups, including women, Dalits and Janajatis.

[27] A condition of funding a scheme is that beneficiary communities will have to form water user and sanitation committees with proportional representation of poor, Dalits and ethnic minorities and with at least 50 percent women executive members.

[28] Includes Pyuthan, Baitadi, Dadeldhura, Kapilbastu, Rukum, Rolpa, Baghang and Doti.

[29] Water users' groups have to bear 50 percent capital cost (5% initial cash and 15% labour/materials/cash payment as upfront contribution, and 30% loan from TDF to be paid back as monthly tariff) and the entire cost of system operation, maintenance and expansion.

[30] There has been some improvement in this respect and NGOs have identified and documented poor and ultra poor households in the subprojects.

[31] Small Town Water Supply and Sanitation Sector Project: Review of Project Implementation with special Reference to Exclusion.

Annex 7.1

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	P1	335800	P1	185200	P1	0
Under Privileged Group Special Programme - Women, Tribal and Dalit	P1	40000	P1	40975		
Poverty Alleviation Fund			P1	83246	P1	150
Gender Equality and Women Empowerment Programme	P2	36000			P2	0

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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	P1	508099				
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, 2005$_a$ and NPC, 2005$_b$

Annex 10.1

Poverty Monitoring Key Indicators

Sector/ theme	Outcome/impact indicators	Intermediate indicators	Fiscal Year			
			2001/02	2002/03	2003/04	2004/05
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	3.1	3.6	2.4
		▪ Agriculture (real) % p.a.	2.2	2.5	3.9	3.0
		▪ Non-agriculture (real) % p.a	-1.9	3.4	3.4	2.1
		▪ Per capita income growth (real) % p.a.	-2.8	1.0	1.3	0.3
Macro economic stability	Fiscal Balance	▪ Revenue/GDP ratio (%)	11.9	12.3	12.6	13.5
		▪ Development Exp./Total Exp. ratio (%)	39.4	34.4	25.8	24.9
		▪ Regular expenditure/GDP ratio (%)	11.5	12.1	12.6	12.4
		▪ Development Exp. /GDP ratio (%)	6.4	6.4	4.7	4.8
		▪ Domestic borrowing/GDP ratio (%)	3.6	2.6	1.7	1.6
	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
		▪ Gross reserves (Rs. billion)	105.9	108.2	130.2	129.9
		▪ Current account balance (Rs. billion)	18.16	11.61	14.6	29.2
	Monetary stability	▪ Broad money growth (%) p.a.	4.5	9.8	11.8	12.0
		▪ Domestic credit growth (%) p.a.	10.4	10.2	9.5	14.2
	Inflation	▪ Consumer prices (%) p.a.	2.9	4.8	4.1	4.5
	Efficiency of public spending	▪ Prioritisation (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
		▪ Budget release to P1 against allocation to P1 (%)	NS	73	91	100
		▪ Trimester reporting of outputs for P1 projects done for every trimester	✓	✓	✓	✓
		▪ Number of enterprises privatised/liquidated	1	7	1	1 completed 7 under way
		▪ Proportion of pro-poor spending to total spending (%)	27.1	-	-	31.1
	Health of financial sector institutions	▪ Capital adequacy ratio	12	11	11	11
		▪ Non-performing assets ratio	30.4	28.8	28.9	-
		▪ Completion of on-site inspection (number) of commercial banks				
		- Corporate Level	7	7	9	15
		- Branch Level	30	26	24	9
Agriculture	Food security	▪ Number of districts served by NFC	32	31	30	30
		▪ Quantity of food sold (tons)	8,213	5,693	6,100	5882
	Overall agriculture growth	▪ Length of rural roads (km)	2,361	905	840	934
		▪ Number of VDCs electrified	1,600	1,800	2,000	2,200

Cont'd...

		▪ Number of public market collection centres/market yards	31	33	750	-
		▪ Agricultural credit (ADB/N only; Rs. in million)	7,110	7,669	10,151	10,432
		▪ Area under irrigation (ha.)	937,722	985,546	1,128,000	-
		▪ Use of chemical fertiliser (mt.)	193,154	172,270	161,316	157,077
	Crop production	▪ Number of functioning farmers groups	7,508	9,383	11,272	13,118
		▪ Improved seeds (mt.)	2,654	2,574	5,751	2,824
		▪ Number of pocket programmes	1,897	1,967	1,967	2,509
		▪ Crop/horticulture credit (Rs.million)	2,028	2,222	2,024	2,031
	Livestock production	▪ Number of livestock farmers groups	6,623	6,954	6,965	7,543
		▪ Number of Artificially Inseminated (AI)	53,641	52,049	44,344	46,434
		▪ Production of milk (mt)	1,158,780	1,195,931	1,238,000	1,274,000
		▪ Numbers of pocket programmers	455	455	807	816
		▪ Livestock credit (Rs.million)	1,570	1,634	1,597	1,844
		▪ Meat/Egg production (mt.)	737,060	761,250	783,760	590,131
Irrigation	Area under year round irrigation	▪ Number and hectare of STW, DTW				
		- STW	-/9,969	657/1905	1,430/485	2,397/7572
		- DTW	-/29,586	44/1592	58/320	10/385
		▪ Surface irrigation schemes with conjunctive use of STW/DTW (No. & ha.)	-	16/3,071	17/6,851	10/2,556
		▪ Area under year round irrigation(ha.)		-	465,402	474,381
	Management transfer to WUAs.	▪ Number of rehabilitated and handed over schemes	5	50	-	29
Power	Percentage of population with ecectricity services. Increased rural consumption	▪ Installed capacity(mw)	584	606	609	613
		▪ Percentage of system losses(%)	24.6	23.6	22.9	24.83
		▪ Households electrified(%)	40	43	48	49
		▪ Per capita rural electricity consumption	-	-	-	-
		▪ Number of VDCs covered	1,600	1,800	2,000	2,200
Forestry and soil conservation	Area under intense forest coverage	▪ Area under community forest (ha.)	1,028,473	1,062,823	-	1,170,896
		▪ Area under leasehold forest (ha.)	4,378	7,061	-	9,838
		▪ Number of households under leasehold forest	9,070	10,027	-	15,122
		▪ Area under national parks/protected area (%of total land)	18	18.3	18.3	18.6
		▪ Area under forest cover, including shrub land (%)	39.6	39.6	39.6	39.6
	Income from forestry	▪ Income generated by FUGs (CFUGs only; Rs. in million)	129	124	-	NA
Industry, Trade and Tourism	Expansion of industrial production	▪ Growth rate (%) p.a. - Industry	-2.9	2.2	1.8	0.7
		- Services	-1.3	3.1	4.2	2.1
		▪ Share in GDP - Insdustry	22.8	22.7	22.3	22.2
		- Services	38.2	38.4	38.7	38.6
		▪ Credit to industrial and services sectors	-	-	-	-
		▪ FDI (Rs. million)	1,210	1,794	2,765	880
		- Additional employment	3,731	3,572	2,194	5,660
	Additional employment in SMEs	▪ Number of training course an trainees	-/14,272	139/13,615	118/13,259	566/9,132
		▪ Number of industries registered				
		- Total	9,890	5,225	6,035	8146
		- Cottage & Small	-	5,116	5,958	8103

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		- Medium & Large	-	109	77	43
		▪ Additional employment generated	-	-	-	83176
	Trade promotion	▪ Average Tariff rates (%)	12.9	11.5	10.7	9.6
		▪ Number of trade and industrial fairs	11	7	16	27
Labour	Remittances	▪ Number of Nepali workers employed overseas	104,739	105,055	106,000	139,696
		▪ Proportion of skilled migrant workers	-	-	-	-
Tourism	Tourism contri contribution	▪ Number of tourist arrivals				
		-total	275,468	338,132	385,297	NA
		-by air	218,660	275,438	297,335	131,210
		-by road	56,808	62,694	87,962	NA
		▪ Number of promotional activities outside Nepal	19	22	30	33
		▪ Number of seats available on international flights (per week)	42,000	46,000	50,000	50,214
		▪ Length of stay of tourists (days)	12	7.9	9.5	13.5
		▪ Number of flights outside Kathmandu (per week)	-	70	118	113
		▪ Number of beds available outside Kathmandu	13,666	14,795	15,192	39,384*
		▪ Number of star hotels	104	108	108	110
		▪ Foreign exchange earning from tourism (Rs. Million)	7,799	10,369	-	13,140
		▪ Share of tourism in GDP	2.1	2.6	1.5	NA
Roads	Increased road access	▪ Number of district HQs connected	60	61	61	61
		▪ BOT projects (selected)	-	10	-	-
	Reduced transport costs	▪ Length of additional road constructed (km)	283	306	234	295#
Environ-ment	Environment Improvement	▪ Proportion of traditional fuel in total energy use	87.4	87.4	86.8	-
		▪ Energy per capita use (Ton. of oil equivalent)	-	-	-	-
Decentrali-sation	Improved service delivery	▪ Number of service delivery facilities transferred to local bodies				
		- Agriculture extension (Districts)	-	75	75	75
		- Health facilities	-	468	1,114	1,303
		- Rural roads (km)	-	-	-	1,2000
		- Primary and secondary	NS	90	1,500	2,091
		▪ Number of local body officials trained	-	-	578	2,091
		▪ Number of districts completing and updating DPPs	-	52	52	52
		▪ Number of districts (DDC) with Citizen Charters	-	43	54	75
		▪ Proportion of conditional grant in toal development budget (%)	1.6	2.1	2.0	4.1
Information and comm unication	Telephone penetration per thousand inhabitants	▪ Private sector entry	-	1	2	3
		▪ Number of telephone lines	219,000	422,183	608,084	712,333
		▪ Number of VDCs with telephone facility	1,761	1,761	1,959	2245
	Access to radio/	▪ Coverage (% of population) radio				

** including non-star, # including 197 km of rehabilitation road*

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	TV services	and television services	90/50	90/60	100/62	100/65
		▪ Number of new television and radio providers (to increase intensity)				
		- Radio	-	30	56	56
		- Television	2	3	5	7
Education	Improved access	▪ Number of primary schools	25,194	26,638	26,858	26,277
		▪ Net primary enrolment rate	81.1	82.4	84	87
		▪ Proportion of population more than 1/2 hours walk to primary schools	-	-	91.4	91.4
	Quality of education	▪ Number of certified teachers	NA	27,875	120,988	NA
		▪ Percentage of pupil completing primary level	60	67.7	69	78
		▪ Share of age 5 children in school	-	-	-	NA
		▪ Primary teachers trained (%)	15	15	31	35
		▪ Secondary teachers trained (%)	-	46.2	48	50
		▪ Proportion of vacant teachers' positions	NA	NA	NV	NV
		▪ Number of schools tranferred to communities	-	90	1500	2091
		▪ Primary cycle completion	-	-	50.4	68
	Adult literacy (15+1)	▪ Number of community learning centres	20	40	52	51
		▪ Adult literacy rate	44	-	48	48
		▪ Share of adult education expenditure in total education expediture %	0.9	0.5	0.5	1.3
	Female adult literacy (15+1)	▪ Number of programmes for women literacy (class)	1,400	1,600	1,745	38,974
		▪ Adult female literacy rate	-	-	33.8	33.8
		▪ Number of people completing adult education	23,942	26,733	39,262	183,000
	Girls' enrolment	▪ Share of female teachers in primary schools (%)	21.4	22.1	21.1	30
		▪ Number of girl students receiving scholarships (pl)	151,568	120,742	224,656	635,380
		▪ Schools with separate latrines for girls	7,613	9,741	10,633	11341
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
		▪ Number of sub-health posts transferred	-	468	1,114	1,303
		▪ Proportion of population within 30 minutes walk to health facilities/ outreach clinics	-	-	62	62
	Improved quality	▪ Expenditure on medicine for health centres (Rs.)	80,000	80,000	80,000	75,000
		▪ Number of health facilities where 15 of the most essential drugs are available	-	1568	-	4012
	Infant mortality rate	▪ Percentage of women receiving at least 4 ANC visits	37.9	36.8	43.6	44.1
		▪ Percentage of women receiving adequate PNC (post natal care) visits	14.4	18.8	28.3	30.4
		▪ Infant mortality rate (per thousand live births)	64	-	-	-
	Child mortality rate	▪ Percentage of one year olds receiving				

NV= Not Vacant

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		DPT3 against target diseases	80.3	86.2	90.3	80
		▪ Child mortality rate (per thousand)	91	-	-	-
	Maternal mortality rate	▪ Percentage of births by skilled attendants	15	16.1	18.0	20.2
	Improved in general health	▪ National health expenditure/per capita	1,102	1,251	1,351	-
		▪ Number of health centres, PHC and hospitals upgraded.	4	1	-	4
	Reduced populatin growth	▪ Condom use by 15-49 year olds	3.2	2.2	2.4	2.31
	Incidence of TB/ Malaria	▪ Contraceptive prevalence rate	38.9	37.8	40.02	41.73
		▪ Number of TB and Malaria cases detection and treatment	70,189	71,190	70,514	NA
		Detection of				
		- TB	-	-	-	NA
		- Mal. (per 10,000 population)	5.73	5.23	3.30	NA
		- Treatment - Mal. (per 10,000 population)	4.41	5.20	3.20	NA
	Incidence of anaemic cases	▪ Propertion of malnourished women	15.4	14	12.8	10.5
		▪ Percentage of pregnant women receiving iron tablets	57	68	88	84.3
Drinking water and sanitation	Acess to safe and sustainable drinking water	▪ Proportion of population served with access to safe drinking water	71.6	72.8	73.5	75.5
		▪ 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
Social incl-usion and Targeted programmes	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
		▪ Grants allocation to DCCs bodies on poverty based formula (Rs. in million)	810	810	842.5	810
		▪ Number of districts covered by PAF	-	-	6	6
	Access to education of women, Dalits and Janajatis	▪ Number of Women, Dalits, Janajatis benefited from scholarships and training				
		- Scholarship	-	-	-	-
		- Training	2,818	3,068	4,945	3,474
		▪ Number Women, Dalits and Janajatis receiving scholarships for higher ecuation				
		- 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

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	Percentage of women, ethnic and disadvantaged groups in civil services	▪ Number of applications from women, ethnic and disadvantaged groups: - Women - Dalits - Janjatis	 21,247 135 3,199	 25,174 1,028 29,030	 16,014 810 21,423	 22,310 991 20,289
Anti-corruption	Corruption cases reduced	▪ Number of corruption cases: - Registered/filed - Adjusted - Convicted (fully)	 61 - -	 147 55 47	 98 129 120	 113 106 97
Human rights	Reduced human rights violations	▪ Number of human rights complaints filed/registered	-	483	1,083	1,782